CHAPTER FIFTEEN

From Silos to Synergy—Harnessing the Organization[1]

All progress is initiated by challenging current conceptions and executed by supplanting existing institutions.
—George Bernard Shaw

Structure follows strategy.
—Alfred Chandler, Jr.

Those that implement the plans must make the plans.
—Patrick Hagerty, Texas Instruments

In 1922, Alfred Sloan, a legend in management history, instituted a divisional structure at GM with Chevrolet at the low end, Cadillac at the high end and Pontiac, Oldsmobile, and Buick in between. The divisions had distinct offerings and no price overlap. His admonition at the time was that "The responsibility of the CEOs of each operation should be in no way limited." In no way limited!! Total autonomy. The business world now had a method to deal with the emerging complexity of multiple product lines. Since that time, decentralization has refined and became the dominant organization form. Nearly every organization, from Nestlé to HP to Bank of America to Nissan to Stanford University prides itself on being decentralized with autonomous organizational groups termed silos, a metaphor for a self-contained entity.

There is good reason why silo units, usually defined by products or countries, are widely used—they have enormous inherent advantages. The managers are close to the market and can therefore understand customer needs. They are also intimate with the product or service and the underlying technology and operations, and thus can make informed offering and operational decisions. Being empowered to act quickly means no delays in making and implementing strategic decisions, an attribute that is vital in dynamic markets. Also, because distinct business units can be held accountable for investments and results, business performance will be known in a timelier and less ambiguous manner. The most impressive feature of decentralization, however, is that it fosters incredible energy and vitality. Managers are empowered and motivated to innovate, to gain competitive advantage by providing superior value propositions to the customers.

SILO DRIVEN PROBLEMS—THE CASE OF MARKETING

Relying on an unfettered decentralized organization with highly autonomous silo units, even with all its attributes, is no longer competitively feasible. Looking at silos from the marketing perspective, six specific problems or missed opportunities can be associated with the silo structure as shown in Figure 15.1. They provide a rationale not necessarily for eliminating silos but for finding ways to harness the silo energy so that both business and marketing strategies can emerge and succeed. It is important to understand these problems not only to motivate change but to provide a change target. The marketing set of problems may be the most severe but there are serious problems, some virtually identical, that face other functions such as manufacturing, operations, or IT. Further, the potential source of competitive advantage, synergy across silos, is put into jeopardy when the silos cannot be spanned.

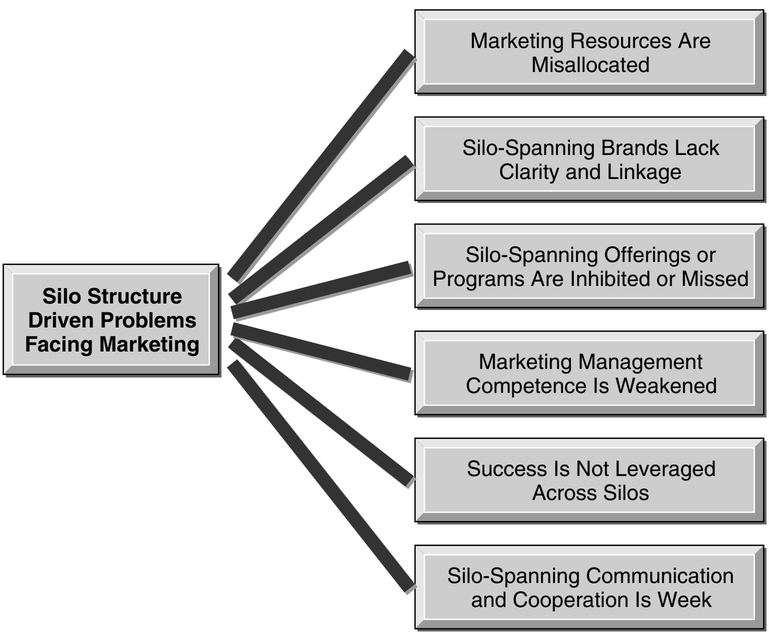

Figure 15.1 Silo Structure Driven Problems Facing Marketing

Marketing resources are misallocated. The silo structure nearly always leads to the misallocation of resources across product and country silo units, functional teams, brands, and marketing programs with smaller units getting underfunded even when strategically important. Silo teams are organizationally and psychologically unable to make these cross-silo judgments. They only want more for themselves and view other silo units as competitors. Further, such judgments require a hard nosed, objective analysis of the potential of the business using cross-silo data plus specialized frameworks and methods that will seldom be developed outside of a central marketing unit.

Silo spanning brands lack clarity and linkage. Too often a master brand, perhaps even the corporate brand, is shared by many, sometimes all, silo groups. Each silo is motivated to maximize the power of the brand without any concern with the brand's role in other business units. Especially when there is overlap in markets, inconsistent product and positioning strategies can damage the brand and result in debilitating marketplace confusion. Having a mixed brand message also makes it hard to convince the organization that the brand stands for something, and it is worthwhile to have discipline in being true to that message.

Silo spanning offerings and programs are inhibited or missed. Silo barriers often prevent marketing programs being shared. The result is that the most effective marketing programs that require scale—such as the World Cup sponsorship or even a national advertising campaign—are not feasible. Further, silo barriers can seriously inhibit the development of cross-silo offerings in part because the execution of cross-silo collaboration may not be in the DNA of the silos, and in part because autonomous silo units tend to look at the market with a narrow perspective and can often miss changes in the marketplace that are making their silo's offering less relevant. Yet many customers are drawn to silo-spanning offers. The movement from products to systems solutions has become a tidal wave. Global customers are increasingly demanding global services and offerings.

Marketing management competencies are weakened. The quality of marketing talent, specialized support, and management sophistication tends to be dispersed and weak when silos are running their business autonomously at a time in which specialized capability is needed in multiple areas such as digital marketing, CRM programs, marketing effectiveness modeling, social technology, blog management, sponsorship management, PR in an Internet world, and on and on. Further, redundant marketing staff results in costly inefficiencies and limits opportunities for career opportunities and specialty growth.

Success is not leveraged across silos. With a multi-silo organization, pockets of brilliance may result but they will tend to be isolated and rarely leveraged. It is not enough to have a success here and there. "Maybe" and "occasionally" is not good enough. The key to moving from good to great is to develop an organization that will identify marketing excellence within the silos and be nimble enough to leverage that excellence.

Cross-silo communication and cooperation is weak or nonexistent. The lack of communication and cooperation between silos is a basic problem that can directly impact organizational performance. When insights into customers, marketing trends, channels, or technologies that could impact strategy are not shared, an opportunity may be lost. When cooperation is not considered or is difficult to implement, successful synergistic programs are unlikely to emerge. Further, communication and cooperation failures are an underlying cause of many of the other silo-driven problems. Fixing them requires not only methods and processes but changing the culture that inhibits.

ADDRESSING THE SILO MARKETING ISSUES—CHALLENGES AND SOLUTIONS

Simply going to a centralized organizational form by getting rid of silos is not an option. First, managing a large complex multi-silo organization centrally is not feasible. Second, as noted above, silos are there because they provide accountability, vitality, and intimacy with customers, technology, and products so eliminating them would not generally be wise. The solution, rather, is to replace competition and isolation with cooperation and communication so that the overall business strategy will succeed and organization synergy will emerge. In the process, it is likely that some selective centralization of some activities and decisions will be useful. This is a tough assignment that is usually given to a new or revitalized CMO (chief marketing officer) slot.

Efforts by a CMO and his or her team to gain credibility, traction, and influence represents a formidable task in the face of silo indifference or, more likely, resistance. Succeeding and even surviving in this effort is at best uncertain. As result, the tenure of new CMOs is short; it was found to average 23 months.[2] The amazing short window reflects the difficulties of the new CMO's job even when the assignment is labeled as a strategic imperative.

In a study, over 40 CMOs were asked what works in terms of addressing the silo problem[3]. Three headlines:

Realize that nonthreatening roles can be powerful change agents. The CMO can take control of elements of strategy and tactics from silos, and that can be the right course in certain circumstances. However, there are other less threatening roles with reduced risk of failure that can have significant influence on strategy and culture while building credibility and relationships. In particular, the CMO can assume the role of facilitator, consultant, or service provider. In a facilitator role, the CMO team can establish a common planning framework, foster communication, encourage and enable cooperation, create data and knowledge banks, and upgrade the level of marketing talent throughout the organization. In the consultant role, the CMO would become an invited participant in the silo strategy development process. As a service provider, the silo business units would "hire" the CMO team to provide marketing services such as marketing research, segmentation studies, training, or marketing activities such as sponsorships or promotions.

Aim at the silo-driven problems. The all too common instinct of forcing centralization and standardization on the organization can be dysfunctional, even resulting in a flame-out of the CMO team. Reducing silo authority, making the organization more centralized, and moving toward more standardized offerings and marketing programs is often warranted and useful. In fact, there is a strong trend in that direction for good reason. However, these changes should not be goals in themselves but, rather, one of the routes to a set of goals. The goal rather should be to make progress against the silo-driven problems, improve communication and cooperation, and therefore create stronger offerings and brands and effective synergistic marketing strategies and programs.

Use organizational levers: structure, systems, people, and culture. Each of these involve powerful routes to change an organization. They are not only key to organizational change but also the basis for strategy implementation.

ORGANIZATIONAL LEVERS AND THEIR LINK TO STRATEGY

Organizations can be conceptualized as having four components—structure, systems, people, and culture. Their relationship to strategy and its implementation is summarized in Figure 15.2. The organizational components need to be informed by the strategy. For any business strategy to be successful, the right structure, system, people, and culture need to be in place and functioning. Further the four components need to be congruent with each other. If one of the components is

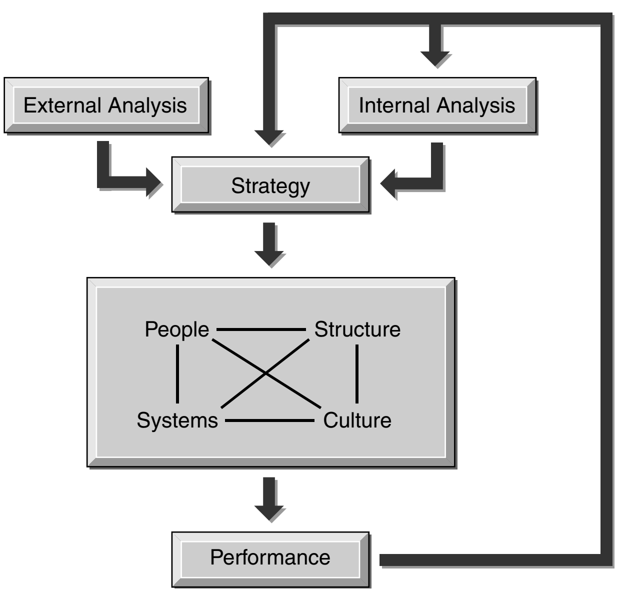

Figure 15.2 A Framework for Analyzing Organizations

inconsistent either with the rest or with the strategy, success will be a casualty even if the strategy is brilliant and well-timed.

The Korvette story illustrates. Korvette's started as a luggage and appliance discounter selling name brands at one-third off regular price from a second-floor loft in Manhattan. The firm dramatically expanded both the number of stores and the number of cities served, expanded its product line by adding fashion goods, furniture, and grocery products, and added more store amenities. This was a defensible growth strategy but one that was not supported by the people, structure, systems, or culture. Korvette's personnel lacked the depth to staff the new stores and the expertise to handle the new product areas. The centralized structure did not adapt well to multiple cities and product lines. The management systems were not sophisticated enough to handle the added complexity. The culture of casual management with low prices as the driving force was not replaced with another strong culture that would be appropriate to the new business areas. Only four years after it had been lauded by a retailing guru, it faced death.

The Korvette story graphically illustrates the importance of making the organization internally congruent and capable of supporting the strategy. The assessment of any strategy should include a careful analysis of organizational risks and a judgment about the nature of any required organizational changes and their associated costs and feasibility.

Each of the four organizational components can be used to address any organizational problem. In the balance of this chapter, we discuss how the organizational structure, systems, people, and culture can be employed to address the silo problem. In doing so, each of the four components will be examined and illustrated. The exercise will also illuminate the levers that an organizational designer can use to address other problems such as silo issues facing the IT group, how to cultivate innovation, or how to make the organization more customer centric. At the close of the chapter, an overview of strategic market management will be presented.

STRUCTURE

The structure of the organization, which includes the lines of authority and the way people and units are grouped, can encourage cooperation, sharing, and communication.

Centralize Selectively

There are a host of marketing modalities and potential tasks facing the CMO including advertising, promotions, sponsorships, call centers, packaging, PR, digital marketing, brand strategy, visual presentation, market research, and marketing program performance measurement. One issue is: Which of this set should be centralized? Of those that merit centralization, what parts should be centralized? For example, it might be wise to centralize the advertising strategy and not media or creative (those who actually create ads).

In making the judgment as to what, if anything, to centralize, the CMO must carefully balance the needs of the silo units with the program to be centralized. The silos should have the necessary flexibility to succeed in the marketplace. Decisions as to what should be centralized will be based on questions such as:

- What programs or potential programs span markets? To what extent is coordination a key to making them effective? A major sponsorship such as the Olympics or the World Cup can be an ideal vehicle to create an acceptance of cross-business teams because they are so obviously needed and worthwhile in such cases.
- Where is functional expertise best developed? Can redundancy be reduced? It is far better to have one group with a depth of competence in an area such as advertising or sponsorships than many groups with shallow talent and capacity.
- What brands span markets? Does market adaptation compensate for a dilution of the central message? GE Money resisted the "imagination at work" theme at first, then ultimately came to believe that the value of the corporate effort was worth taking advantage of.
- What truly requires local knowledge and management? Are there positions and programs that work across products and markets? Pringles, for example, requires different flavors in different markets, but most of the social and functional benefits work everywhere.
- What deviations in budgets, reporting lines, and authority can be tolerated? What fights are worth winning? In the case of Visa, the integrity of the brand had the highest priority—the energy to fight battles was devoted to avoiding product offerings (such as charging for converting currency) that would compromise the brand promise.

Use Teams and Networks

The CMO should look toward employing some of the available organizational devices that will advance cross-silo communication and cooperation, such as teams and networks. Teams or councils such as Chevron Global Brand Council, HP's Customer Experience Council, Dow Corning's Global Marketing Excellence Council, IBM's Global Marketing Board, or P&G's Global Marketing Officer's Leadership team are powerful vehicles to create consistency and/or synergy. Perhaps more important, teams also provide vehicles for cross-silo communication and opportunities for relationships to develop.

Formal and informal networks, another key organizational tool, can be based on topics such as customer groups, market trends, customer experience contexts, geographies, or functional areas like sponsorship or digital marketing. The network members are motivated to keep in contact with counterparts in other countries to learn of intelligence around customer strategies and programs that work in their stores. A formal network will have assigned membership, a leadership structure, and a supporting infrastructure such as knowledge banks.

Use Matrix Organizations

A matrix organization allows a person to have two or more reporting links. Several business units could share a sales force by having the salespeople report to a business unit as well as to the central sales manager. A silo advertising manager could also report to a central advertising or marketing group. An R&D group could have a research team that reports both to the business unit and to the R&D manager. As a result, the silo salespeople, advertising managers, and research team are each supported by a critical mass of employees and infrastructure that allows them to excel while still being a part of the business unit. The concept of dual reporting requires coordination and communication and often appears to be the ideal solution to a messy situation. However, matrix structures can be unstable and subject to political pressures. Thus, they can create a solution that is worse than the problem.

The Virtual Organization

The virtual organization is a team specifically designed for a particular client or job. The team members can be drawn from a variety of sources and might include contract workers who are hired only for the project at hand. Communication firms have used virtual teams to provide an integrated communication solution involving talent from different modalities. The chances of success are greater when the people are drawn from the same organization such as a full service agency like Dentsu, Y&R, or McCann Erickson. When different companies are involved, success is more elusive.

WPP, the large communication holding company, founded a virtual organization, Enfatico, to handle all the communication needs of Dell. The logic was that the new company would access the best talent throughout the WPP world, which included dozens of top communication and support firms of all modalities. Seemed like an ideal solution to a vexing problem. Just one year later, the entry was folded into Y&R, a major WPP agency. Enfatico had a difficult time delivering top creative work. Getting people from very different backgrounds to work as a team was challenging. Further, it proved difficult to attract a CEO and top talent to a single client firm with the associated risk involved. The Enfatico experience illustrates that asking people to leave a home discipline and firm to go with a new fragile organization without an established culture will be difficult.

SYSTEMS

Several management systems are strategically relevant. Among them are the information, measurement and reward, and planning systems.

Information System

Creating or refining a silo-spanning information system, a system that facilitates communication and stores knowledge, is the most basic and nonthreatening element of the CMO's potential initiatives. The system can share market information regarding customer insights, trends, competitor actions, technology developments, and best practices and well as internal information about processes and methods, new products and technologies, best internal practices, and strategies and programs. Nonthreatening though it may be, such a system can be complex, affected by organizational issues, and difficult to manage so that the participation is widespread. There are a host of ways that communication can be fostered across silos such as:

Knowledge sharing sessions. Formal and informal meetings not only result in information exchange but create channels of personal communication that can operate after the meetings. Personal links can create a comfort level allowing colleagues to have frank discussions about proposed programs or problems that need to be addressed. Such conversations can stave off a disaster or encourage an initiative. Most companies have in-person meetings that can vary from once a quarter to once every two years. These are often supplemented with telephone meetings. Dell, in fact, has all its global teams (e.g., laptops for business or servers for large businesses) have a conference call every two weeks. Such meetings are a big part of Honda's communication program.

A market university. Frito-Lay sponsors a "market university" about three times a year where 35 or so marketing directors or general managers from around the world come to Dallas for a week. The purpose is to involve the silos in the language and models of the central marketing group, to promote brand concepts, to break down the "I am different" trap, and to seed the company with people who "get brands." During the week, case studies are presented on tests of packaging, advertising, or promotions that were successful in one country or region and then applied successfully in another country. These studies demonstrate that practices can be transferred even in the face of a skeptical local marketing team. At Crotonville, the GE university site, executive programs around case studies of silo units have long been a key to the GE communication system.

Knowledge hub. An organized repository of data, experience, case analyses, and insight can provide a sustainable asset by making useful information readily available to all silos. It has the potential to make information handling and exchange productive, easy-to-use, and efficient. MasterCard, a firm that was early in its appointment of a "knowledge-sharing facilitator" to identify and disseminate best brand practices, credited the program with leveraging the very effective "Priceless" advertising campaign across country silos.

Center of excellence. Within a central marketing team a group will focus on a particular issue that spans silos such as a customer trend, an emerging product subcategory, or a technology. The center could be staffed by a single person or a group of dozens. The charge would be to gain deep insights into the issue and to stay abreast of developments. The center should actively reach out to the silo teams in order to both receive and disperse information and thus provide a catalyst for communication and information flow. Nestlé USA has several centers of excellence around topics such as mom and kids, the Hispanic market, and major customers such as Tesco and Wal-Mart. In each case, they formed an advisory council with members from the silos for which the topic would be relevant. The council provides silo-based information and participates in insight meetings.

Measurement and Reward System

Measurement can drive behavior and thus directly affect strategy implementation. The key to strategy is often the ability to introduce appropriate performance measures that are linked to the reward structure.

One concern is to motivate employees to cooperate, communicate, and create synergy. The reward system can operate at two levels. At the level of the individual performance review, the ability to be collaborative and to initiate and participate in cross-silo initiatives could be measured. In fact, the central marketing group at IBM evaluates people in silo groups in terms of how collaborative they are. At the organization level, rewards that are based too closely on a business unit's performance can work against this motivational goal. As a result, many companies deliberately base a portion of their bonuses or evaluations on the results of a larger unit. Prophet, a brand strategy consulting firm with seven offices, encourages cross-office support by making its bonuses conditional on firm-wide performance. Another business may focus on divisional performance because synergy across divisions is not realistic.

It is also helpful if the rewards are balanced with a long-term perspective as well as short-term financials. Thus, measures such as customer satisfaction, customer loyalty, quality indicators, new products brought to market, or training program productivity may be useful to gauge the progress of strategic initiatives.

Planning System

A standardized brand and/or marketing program, one that is virtually the same across country or product silos, is rarely optimal. What is optimal is to have both a business and marketing planning process, including templates and frameworks, and a supporting information system that are the same everywhere. Having a common planning process provides the basis for communication by creating a common vocabulary, measures, information, and decision structures. It also leads to an elevated level of professionalism throughout the silo units. Unless there is a clear, accepted planning process with understandable and actionable components, every unit will go its own way and, as a result, some will be mismanaged strategically and tactically.

There should be a process that adapts brands to silo contexts. To avoid having a brand that spans silos becoming confused and inconsistent, a best practice organization will have brands that are adapted to silo contexts while still maintaining consistency of the brand character. ChevronTexaco, for example, has a core brand identity that consists of four values—clean, safe, reliable, and quality. The silo markets are free to interpret the core elements in their marketplace. So what is quality in the context of a convenience store? Or in a lube business? Or in Asia? In addition, the silo business units have the flexibility to add one additional element to the four-element core identity. The lube business could add "performance" and the Asian group "respectfully helpful." The result is more ability to link with the silo customer.

PEOPLE

A key to overcoming silo issues is to have a strong CMO team that is staffed with quality talent. Any visibly weak link can be damaging. One CMO reported that an advertising manager who lacked competence set back the group a full year by interacting with silo organizations and making naive recommendations. Who is added, and even more important, who is asked to leave will be closely observed. Adding people who are respected can give the group a lift while retaining people who do not fit the role can be debilitating.

The problem is that the qualifications needed by the central marketing group are extraordinary. Collectively, the group needs to be knowledgeable about marketing, branding, markets, products, and their organization. In addition, the group needs to have a strategic perspective and be collaborate, persuasive, a change agent, and, especially for a global firm, multicultural. Thus, people need to be sought who have as many of these characteristics as possible.

Knowledgeable. An effective central marketing management team will need collectively to have a breadth of knowledge. Achieving that breadth can involve a mix of generalists with insight, specialists, and outside resources but it needs to create competence in the following:

- **Marketing knowledge**—marketing strategy, communication tools including new media, measurement, and marketing programs and their management.
- **Brand knowledge**—brands, brand power, brand equity, brand roles, brand portfolio strategy, and brand building programs.
- **Market knowledge**—markets, country cultures, market trends, competitor dynamics, customer segmentation, and customer motivation.
- **Product knowledge**—product or service attributes and their underlying technology plus the innovation flow that will define future products and services.
- **Organizational knowledge**—the organization, its culture, strategies, values, and formal and informal influence and communication structure.

Strategic perspective. The CMO team needs to be able to strategize, to move beyond being proficient in a set of tactics to being involved in marketing strategy. Because they will be dealing with a dynamic marketplace, they will also need to be comfortable with adapting strategy to reflect those dynamics. Without a strategic flair, the team will not be capable of devising cross-silo marketing strategies that should be a major goal and will not be a candidate to sit at the strategy table.

Change agent. The CMO team will need to be a change agent. That means that there needs to be the capability of generating the feeling and substance of being creative and innovative. There should be a sense of energy and purpose. Life will not go on as before. Change will happen. There is a fine line between being a loose cannon and a positive catalyst for change, however; the change message should be surrounded by professionalism. To be a change agent, at least some team members need to be persuaders with communication and leadership skills. Collaborative skills are also necessary especially when the incentives are silo oriented.

Multicultural. When the global overlay is added, the ability to work with different languages and cultures is added. Particularly, in a culturally homogeneous country like Japan, where few citizens are proficient in other languages, it is necessary to build a team that is culturally sensitive with adequate language skills. One route, used by Schlumberger, the oil field services firm, is to deliberately source the whole firm with nationals from around the world. The result is one of the few companies that can say they are truly multicultural. Another is to rotate people around the globe, as Nestlé and Sony do, creating the absence of country specific people. Still another is to explicitly train people in cultural knowledge, market insights, etc. so that their limitations can be reduced. But it will remain a challenge for the firm with global aspirations.

Sourcing: Insiders vs. Outsiders

A basic decision is whether the CMO and his or her staff members should be outsiders or insiders. There is usually a sharp trade-off. The insider will be more likely to know the organization, its culture and systems, will have a network of colleagues to tap for help, and will know the actors behind the formal organization chart—who are the real keys to getting things done. The insider will thus be low risk. However, the insider may also lack the marketing skills and credibility to know what to do and how to do it. He or she may also be unwilling or unable to create the needed organizational change.

An outsider with the needed functional expertise, experience, and credibility can serve as a change agent in part because he or she is less tied to past decisions, relationships, and political pressures. The problem is that he or she will often lack a feel for the culture and an established network throughout the firm to draw on. This is the riskier route but one that might be more likely to make a difference when the organization is in need of change. The risk goes up when the outsider is changing industries (e.g. from package goods to business-to-business marketing) and facing new and different marketing challenges. Sometimes, team members from outside the firm can be more effective change agents than insiders.

The trade-offs between the inside vs. outside source suggest staffing routes for the CMO slot. An insider with a proven record as a change agent who has or could obtain credibility in marketing and brands may be available. Or an outsider who has demonstrated an ability to adapt to organizations may be a target. Sequencing the marketing manager is possible as well. An insider might get started and gain some momentum, providing an outsider with a platform poised for more rapid change. In other situations, an outsider who shakes up the organization would be followed with an insider to channel and broaden the momentum.

One way to reduce the tensions is to form a blended team of outsiders and insiders, as GE and others have done. An outsider playing a leadership role will be surrounded by insiders, and when an insider is asked to lead change, he or she will be supported by whatever outside talent is needed. Another is to change the culture in order to make a new strategy viable and the task of a change agent more tractable.

Upgrading the Marketing Staffs

For several reasons a strong marketing team is needed throughout the organization, not just in the central marketing group. First, a strong marketing presence in the silos will reduce the need to justify brand and marketing strategy. The conversation can be elevated. Second, whatever level of central control is achieved, silo organizations will still have a design and implementation role that will require talent.

Dow Corning has a Global Marketing Excellence Council that leads in building up the marketing capability of the firm. It detects capability gaps and develops initiatives to fill them by outside hiring, training initiatives, and mentoring programs. They sponsored, for example, a "lunch and learn" program around lunch events. At GE, the CMO has a program of identifying potential marketing talent through the firm and influencing their career paths.

Training and upgrading people is a key part of the equation. They will need to learn general marketing, skills in functional areas of marketing, the process models and information system, and the brand and marketing strategy and the rationale for it. The first step is to understand the gaps of knowledge for each member of the marketing team. One role of a CMO may be to evaluate the marketing talent in the silo organizations and get involved in their career paths, including guiding them into the right training program.

STRATEGY AND PEOPLE DEVELOPMENT AT GE

Jack Welch, the legendary former GE CEO, created a system and culture to develop both strategy and people throughout his twenty-year tenure. Five elements were involved:[4]

- Each January, the top 5,000 GE executives gathered in Boca Raton to share best practices and set major business priorities. (In the past, priorities included e-commerce, globalization, and six-sigma quality.) Webcasts of the event were available to the whole organization.
- Each quarter, top executives met in two-day retreats facilitated by Welch and focused on initiatives related to the agenda set in Boca Raton. This was a key place for future leaders to emerge, earn respect, and demonstrate growth.
- Twice a year, Welch and others focused on personnel needs for each business, such as how to handle each unit's top 20 percent and bottom 10 percent of employees.
- In addition, biannual sessions (one in the spring and one in the fall) looked at each business over a three-year horizon.
- The entire effort was supported by the GE social architecture of informality, candor, substantive dialogue, boundaryless behavior, emphasis on follow-through, and making judgments on qualitative business dimensions.

CULTURE

The organizational culture drives behavior and is the glue that holds everything together. If cooperation and communication between silos are to replace competion and isolation, the culture will usually need to change. As suggested by Figure 15.3, an organizational culture involves three elements: a set of shared values that define priorities, a set of norms of behavior, and symbols and symbolic action. Each has a key role to play in getting people to work together across silos.

Shared Values

Shared values, or dominant beliefs, underlie a culture by specifying what is important. In a strong culture, the values will be widely accepted, and virtually everyone will be able to identify them and describe their rationale.

Shared values can have a variety of foci. They can involve, for example:

- A key asset or competency that is the essence of a firm's competitive advantage: We will be the most creative advertising agency.
- An operational focus: SAS focused on on-time performance.
- An organizational output: We will deliver zero defects, or 100 percent customer satisfaction.
- An emphasis on a functional area: Black & Decker transformed itself from a firm with a manufacturing focus to one with a market-driven approach.
- A management style: This is an informal, flat organization that fosters communication and encourages unconventional thinking.
- A belief in the importance of people as individuals.
- A general objective, such as a belief in being the best or comparable to the best.

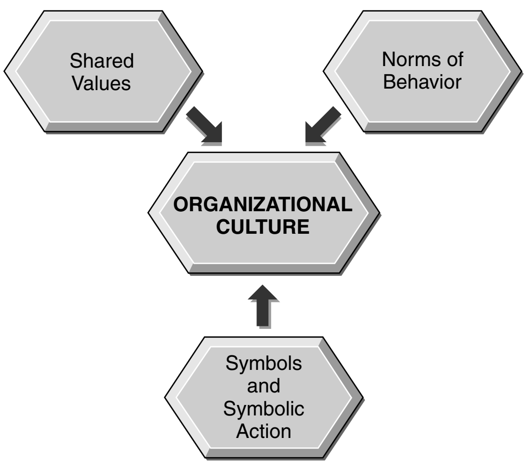

Figure 15.3 Organizational Culture

For an organization to make progress on silo problems, cooperation and communication will need to become one of the shared values. That means that all employees and partners need to both know about the priority and believe in it.

Norms

To make a real difference, the culture must be strong enough to develop norms of behavior—informal rules that influence decisions and actions throughout an organization by suggesting what is appropriate and what is not. The fact is that strong norms can generate much more effective control over what is actually done or not done in an organization than a very specific set of objectives, measures, and sanctions. People can always get around rules. The concept of norms is that people will not attempt to avoid them because they will be accompanied by a commitment to shared values.

Norms can vary on two dimensions: the intensity or amount of approval/disapproval attached to an expectation and the degree of consensus or consistency with which a norm is shared. It is only when both intensity and consensus exist that strong cultures emerge.

Norms encourage behavior consistent with shared values. Thus, in a quality service culture, an extraordinary effort by an employee, such as renting a helicopter to fix a communication component (a FedEx legend), would not seem out of line and risky; instead, it would be something that most in that culture would do under similar circumstances. Furthermore, sloppy work affecting quality would be informally policed by fellow workers, without reliance on a formal system. One production firm uses no quality-control inspectors or janitors. Each production-line person is responsible for the quality of his or her output and for keeping the work area clean. Such a policy would not work without support from a strong culture.

With a culture around cooperation and communication, people would instinctively reach out and communicate across silos. Teaming would become natural. Those engaging in behavior that was silo centric and detrimental to the organization as a whole would feel uncomfortable or worse.

Symbols and Symbolic Action

Corporate cultures are largely developed and maintained by the use of consistent, visible symbols and symbolic action. In fact, the more obvious methods of affecting behavior, such as changing systems or structure, are often much less effective than seemingly trivial symbolic actions.

A host of symbols and symbolic actions are available. A few of the more useful are discussed next.

The Founder and Original Mission

A corporation's unique roots, including the personal style and experience of its founder, can provide extremely potent symbols. The strong culture of L.L. Bean is due largely to its founder's involvement in the outdoors and his original products for the hunter and fisherman. The concept of entertainment developed by Walt

Disney, the customer-oriented philosophy of J. C. Penney, the innovative culture at HP symbolized by the garage used by Don Hewlett and David Packard, the personality of Virgin's Richard Branson, and the product and advertising traditions started by the founders of Procter & Gamble continue to influence the cultures of their firms generations later.

Modern Role Models

Modern heroes and role models help communicate, personalize, and legitimize values and norms. Lou Gerstner became a symbol of the new marketing-focused culture at IBM that replaced a country and product silo centric organization with a customer centric one. Other examples are the managers at 3M who tenaciously pursued ideas despite setbacks until they succeeded in building major divisions such as the Post-it Notes division, and the Frito-Lay workers who maintained customer service in the face of natural disasters.

Rituals

Rituals of work life, from hiring to eating lunch to retirement dinners, help define a culture. One of the early success stories in Silicon Valley was a firm with a culture that was based in part on a requirement that a person commit before knowing his or her salary, and considerable pride in a Friday afternoon beer-bust ritual that served to break down product and functional silo barriers and create communication channels.

The Role of the CEO and Other Executives

The way that a CEO and other executives spend their time can be a symbolic action affecting the culture. An airline executive who spends two weeks a month obtaining a firsthand look at customer service in country silos sends a strong signal to the organization that programs need to be shared. Patterns of consistent reinforcement can represent another important symbolic activity. For example, a firm that regularly recognizes cross-silo activity accomplishments in a meaningful way with the visible support of top management can, over time, affect the culture. When a type of question is continually asked by top executives and made a central part of meeting agendas and report formats, it will eventually influence the shared values of an organization.

Given that the CEO is crucial in culture development, how do you get the CEO on board with respect to enhancing a culture of cross-silo cooperation and communication? Three suggestions from the CMO study:[5]

- The problems need to become visible; too often they are ignored as part of the way it's always been done. If some of the inefficiencies and missed opportunities can be quantified, there will be a worthwhile problem for which cooperation and communication is part of the solution.
- The CMO needs to become credible so that there is buy-in as to his or her role. One approach is to align the role of marketing with that of the CEO's

REPRESENTING CULTURE AND STRATEGY WITH STORIES, NOT BULLETS

Research has shown that stories are more likely than lists to be read and remembered. Nevertheless, most business strategists rely on bullet points to communicate both culture and strategy. 3M is one firm that has based its culture on classic stories—how initial failures of abrasive products led to product breakthroughs; how masking tape was invented; how a scientist conceived of Post-it Notes when his bookmarks fell out of a hymnal, and how the Post-it-Notes team, instead of giving up in the face of low initial sales, got people hooked on the product by flooding a city with samples. These stories communicate how innovation occurs at 3M and how its entrepreneurial culture operates.

At 3M, business strategy is also communicated via stories rather than the conventional bullets, which tend to be generic (the goal of increased market share applies to any business), skip over critical assumptions about how the business works (will increased market share fund new products, or result from new products?), and leave causal relationships unspecified (if A is done, B becomes effective). A strategic story will involve several phases—setting the stage by describing the current situation, introducing the dramatic conflict in the form of challenges and critical issues, and reaching resolution with convincing stories about how the company can overcome obstacles and win. Presenting a narrative motivates the audience, adds richness and detail, and provides a glimpse into the logic of the strategist.[6]

priority agenda by focusing growth objectives instead of brand extensions, efficiency and cost objectives instead of marketing synergy or scale, and building assets to support strategic initiatives instead of brand image campaigns.

- Get easy wins. These early successes often involve identifying organizational units that will support (or at least not oppose) change because they need help to address a meaningful problem or opportunity. They can also involve programs that can be implemented "under the radar." For example, at Cigna, a real estate manager who needed artwork for a building was persuaded to use brand visuals. The CEO of a major division saw the result and promptly decided to extend the idea to all buildings.

A RECAP OF STRATEGIC MARKET MANAGEMENT

Figure 15.4 provides a capstone summary of the issues raised in both strategic analysis and strategy development/refinement. It suggests a discussion agenda to help an organization ensure that the external and internal analysis has the necessary depth, breadth, and forward thinking and that the strategy creation and refinement process yields winning, sustainable strategies.

CUSTOMER ANALYSIS

- Who are the major segments?
- What are their motivations and unmet needs?

COMPETITOR ANALYSIS

- Who are the existing and potential competitors? What strategic groups can be identified?
- What are their sales, share, and profits? What are the growth trends?
- What are their strengths, weaknesses, and strategies?

MARKET/SUBMARKET ANALYSIS

- How attractive is the market or industry and its submarkets? What are the forces reducing profitability in the market, entry and exit barriers, growth projections, cost structures, and profitability prospects?
- What are the alternative distribution channels and their relative strengths?
- What industry trends and emerging submarkets are significant to strategy?
- What are the current and future key success factors?
- What are the strategic uncertainties and information need areas?

ENVIRONMENTAL ANALYSIS

- What are the technological, consumer, and governmental/economic forces and trends that will affect strategy?
- What are the major strategic uncertainties and information-need areas?
- What scenarios can be conceived?

INTERNAL ANALYSIS

- What are our strategy, performance, points of differentiation, strengths, weaknesses, strategic problems, and culture?
- What threats and opportunities exist?

STRATEGY DEVELOPMENT

- What are the target segments? What is the product scope?
- What value propositions will be the core of the offering? Among the choices are superior attribute or benefit, appealing design, systems solution, social programs, customer relationship, niche specialist, quality, and value.
- What assets and competencies will provide the basis for an SCA? How can they be developed and maintained? How can they be leveraged?
- What are the alternative functional strategies?
- What strategies best fit our strengths, our objectives, and our organization?
- What alternative growth directions should be considered? How should they be pursued?
- What investment level is most appropriate for each product market—withdrawal, milking, maintaining, or growing?

Figure 15.4 Strategy Development: A Discussion Agenda

KEY LEARNINGS

- Decentralization with powerful silo groups can inhibit synergy and efficiency. For marketing, it leads to misallocation of resources, confused brands, inhibited cross-silo offerings and programs, weak marketing staffs, the failure to leverage success, and inadequate cooperation and communication.
- In dealing with the problem, CMOs should consider nonthreatening roles such as facilitator and service provider consultant, and should not have as an objective to centralize and standardize.
- The organizational levers are structure, systems, people, and culture. Each of these needs to be congruent and support the business strategy.
- The organizational structure lever provides the option to centralize selectivity, use teams and networks, use matrix reporting structures, and employ a virtual organization.
- Management systems involve the information, measurement and reward, and planning systems that can all promote cooperation and communication.
- People on the CMO team, who can be sourced internally or externally, need to be knowledgeable about marketing, brands, markets, products, and the organization in addition to being strategic and serving as change agents.
- Culture involves shared values, norms of behavior, and symbols and symbolic action. The CEO is a key driver of the culture, and it is important to get him or her on board.

FOR DISCUSSION

1. What are the advantages of decentralization? Some people argue that more centralization is needed to develop and implement strategy in these dynamic times. Express your opinion, and illustrate it with examples. When would you recommend that the central team use a facilitative role, rather than impose its advice?
2. The Korvette concept was started and run by one person and his group of friends. How could its failure have been avoided? Was the problem one of strategy (overexpansion), or was it organizational? Why?
3. How would you go about changing the culture of an organization to improve the level of cooperation and communication?
4. If you were assigned to be the new CMO of a firm like General Mills with silo issues, what would you do in the first 100 days?

5. If you were the CMO of HP with dozens of product units in over 100 countries, how would you decide which elements of advertising to centralize—what elements of media, creative, account management, strategy? Of brand strategy?
6. What do you believe would be the best way to get a finance oriented CEO to support marketing and its efforts to get silos to work together on offerings, brands, and marketing programs?
7. Consider PowerBar, the strategy for which is summarized in the PowerBar case. What implications for the culture, structure, systems, and people would you suggest given the nature of the product and the company. Would this change when it was purchased by Nestlé?

NOTES

1. This chapter draws on the material in David Aaker, *Spanning Silos: The New CMO Imperative*, Boston: Harvard Business Press, 2008.
2. Greg Welch, "CMO Tenure: Slowing Down the Revolving Door," Spenser Stuart Blue Paper, 2004.
3. Aaker, op cit.
4. "GE's Ten-Step Talent Plan," *Fortune*, April 17, 2000, p. 232.
5. Aaker, op cit.
6. Gordon Shaw, Robert Brown, and Philip Bromiley, "Strategic Stories: How 3M Is Rewriting Business Planning," *Harvard Business Review*, May–June 1998, pp. 41–50.

Strategic Repositioning

HOBART CORPORATION

While Hobart Corporation, a manufacturer of equipment for the food service (restaurants and institutions) and retail (grocery and convenience stores) sectors for more than a century, had developed a solid reputation for high quality and extremely reliable products, it wasn't necessarily seen as an industry leader. It had credentials, however. In addition to being the largest firm in terms of sales, it also had broad coverage of the industry and its product categories and a respected service network, with some 200 locations and over 1,700 service vans. The better competitors excelled in a particular product category (refrigeration, for instance) or were well known in one of the industry sectors but lacked Hobart's breadth of offerings.

Hobart was concerned with less expensive competing products that were made overseas. Most customers were continuing to buy Hobart products, but the threat was growing. Further, it was hard to create advertising and trade show material that would break out of the clutter. Breakthrough products that would attract attention were not easily generated.

In response to these concerns, Hobart sought to establish a different customer-facing brand that would be the "thought leader" in the industry, not just the product leader. It wanted to be known for the best quality, "plus more." The driving idea was to offer solutions to everyday issues its customers faced in their businesses—things like finding, training, and retaining good workers; keeping food safe; providing enticing dining experiences; eliminating costs; reducing shrinkage; and, for some, enhancing same-sales growth. The firm systematically marshaled a knowledge base in order to address these problems.

This driving idea of solving everyday concerns led to a powerful brand-building program around the tagline, "Sound Equipment, Sound Advice." One element was a customer magazine called *Sage: Seasoned Advice for the Food Industry Professional* (later made available via the Internet at Sage Online). Sage's in-depth, objective treatment of customer problems and issues made it feel more like a newsstand publication than a corporate promotional tool. At industry trade shows, the Hobart company booth had an "Idea Center" where people could approach industry experts for sound advice about the problems they faced in their businesses. Hobart conducted seminars using leading experts; "The State of Collegiate Dining" was one topic. Internally, the leadership message was reinforced at department and company-wide meetings and through internal newsletters.

Hobart also offered useful content about key issues on its Web site, hobartcorp.com. Visitors could find papers, question-and-answer sessions with industry experts, briefing documents, and other material updated on a weekly basis. This program grew to over 100 papers on technology, saving labor, reducing shrinkage, productivity, improving food safety, growing sales, and cost management. The brand lived on the Web and in other places as well, thanks to the strategic placement of Hobart content on many other sites frequented by people in the industry. Select elements of this Web content were converted to printed pieces and disseminated broadly.

Hobart shared more sound advice through speeches at key industry shows, events like the Home Meal Replacement Summit, and articles for trade magazines (for example, "Cold War: Smart Refrigeration Arms Restaurateurs Against Food-Borne Illnesses" in *Hotel Magazine*). The goal of public relations became idea placement, rather than product placement. Hobart also changed its approach to new product releases to emphasize how each product helps the customer deal with key business issues. For instance, rather than emphasize specific features like the recessed nozzles on the Hobart TurboWash, the firm communicated how easy it made the task of scrubbing pots and pans, thereby creating happier restaurant and food service employees.

Print advertising, once the prime brand-building tool, played a lesser but still important role, focusing on key customer issues. For instance, one ad showed a sign at a bathroom sink reading, "Employees Must Wash Hands Before Returning to Work." The text underneath the picture asked, "Need a more comprehensive approach to food safety?" and then described the solutions recommended by Hobart.

FOR DISCUSSION

1. Why do chefs buy Hobart for their kitchens?
2. What was the value proposition before the "Solid Equipment, Sound Advice" program? How did it change?
3. What functional strategies did Hobart pursue?
4. The new program soaked up resources, thereby reducing the effort to communicate new product innovations. Was that a wise decision? Which approach is more likely to support a quality image?
5. How could competitors position themselves against Hobart's value proposition?

Source: Adapted with the permission of the Free Press, a division of Simon & Schuster Adult Publishing Group from *Brand Leadership*, by David A. Aaker and Erich Joachimsthaler.

Leveraging a Brand Asset

DOVE

In 1955, Unilever (then Lever Brothers) introduced Dove, which contained a patented, mild cleansing ingredient, into the soap category. It was positioned—then and now—as a "beauty bar" with one-fourth cleansing cream that moisturizes skin while washing (as opposed to the drying effect of regular soap). Advertisements reinforced the message by showing the cream being poured into the beauty bar. In 1979, the phrase "cleansing cream" was replaced with "moisturizer cream."

Also in 1979, a University of Pennsylvania dermatologist showed that Dove dried and irritated skin significantly less than ordinary soaps. Based on this study, Unilever began aggressively marketing Dove to doctors. Soon about 25 percent of Dove users said they bought the brand because a doctor recommended it, greatly enhancing the bar's credibility as a moisturizer. By the mid-1980s, Dove had become the best-selling soap brand and commanded a price premium.

The first effort to extend the Dove brand occurred in 1965. The extension, into dishwashing detergent, survives but has to be regarded as disappointing. Because the leading competitor at the time, Palmolive, promised to "soften hands while you do dishes," the hope was that the Dove cleansing-cream message would translate into a competitive benefit. Instead, customers felt no reason to change from the well-positioned Palmolive, and since Dove's reputation for moisturizing and beauty did not imply clean dishes, there was simply no perceived benefit. After receiving weak market acceptance for the extension, Dove lowered the price, creating another source of strain on the brand. Fifteen years after its launch, the brand languished at a rather poor seventh in the U.S. market, with a share of around 3 percent. The dishwashing detergent not only failed to enhance the Dove brand, it also undoubtedly inhibited Dove from extending its franchise further for decades.

In 1990 the Dove soap patent ran out, and arch-competitor P&G was soon testing an Olay beauty bar with moisturizing properties, a product that rolled out in 1993. One year later, Olay body wash appeared and soon garnered over 25 percent of a high-margin product category. Blindsided, the Dove brand team belatedly recognized that theirs was the natural brand to own the moisturizer body wash position. The firm had apparently missed the chance to be a leader in this new subcategory.

In response to Olay, the firm rushed Dove Moisturizing Body Wash into stores. The product did not live up to the Dove promise, however, and a reformulation in 1996 was only a partial improvement. In 1999, though, Dove finally got it right with the innovative Nutrium line, based on a technology that deposited lipids, vitamin E, and other ingredients onto the skin. The advanced skin-nourishing properties provided enough of a lift to allow Dove to charge a 50 percent premium over its regular body wash. Later, Dove introduced a version of Nutrium with antioxidants (which have been linked to reduced signs of aging), which helped Dove to pull even with Olay in the body wash category. By leveraging strong brand equity, pursuing innovative technology, and being persistent, Dove was able to overcome a late entry into the market.

The Dove body wash efforts influenced the brand's soap business, which was flat until the mid-1990s (and, in fact, declined in 1996). The introduction of the body wash corresponded to a 30 percent growth surge in Dove soap from the mid-1990s to 2001, evidence that the energy and exposure of the Dove brand helped even though the product was somewhat waning during much of that period. In addition, the Nutrium subbrand, established in the body wash category, was employed to help the soap business. In 2001, Unilever introduced a Dove Nutrium soap (positioned as replenishing skin nutrients) that was priced about 30 percent higher than regular Dove.

Another battlefield, entered in 2000, was the rather mature category of deodorants—even though dryness, the key benefit, seemed contradictory to the Dove promise of moisturizing, and the target segment was younger than the typical Dove customer. Despite these apparent risks, Dove introduced a deodorant line with uncharacteristically bold advertising (for example, one tag line was "Next stop, armpit heaven"). As it turned out, the deodorants were named as one of the top ten nonfood new products in 2001, garnering over $70 million in sales with close to 5 percent of the market, making Dove the number two brand among female deodorants. The "one-quarter moisturizing lotion" positioning, effectively communicated as protecting sensitive underarm skin, generated a Dove spin on dryness that differentiated the product line.

In spite of this win, P&G's Olay again beat Dove to a new market in the summer of 2000, this time with disposable face cloths infused with moisturizers. It took Dove about a year to respond with its Dove Daily Hydrating Cleansing Cloths. With the body wash success behind it, however, the Dove brand was well suited to compete in this category.

The next product extension was Dove Hair Care, whose moisturizing qualities were directly responsive to one of the top two unmet needs in the category. The product's branded differentiator, Weightless Moisturizers, is a set of fifteen ingredients designed to make the hair softer, smoother, and more vibrant without adding any extra weight. After achieving top-selling status in Japan and Taiwan, Dove Hair Care entered the U.S. market in early 2003 with a massive introduction campaign, joining a product family used by nearly one-third of American families. Two years later it introduced Dove Body Nourishers Intensive Firming Lotion, formulated with collagen and seaweed, intended to give the user firmer skin after two weeks.

These extensions contributed to a dramatic sales success. The brand's business grew from probably around $200 million in 1990 to over $3 billion in 2005 (the bar itself was doing $330 million in 2003) to close to $4 billion in 2008. Geographic expansion also contributed. Dove had a presence in eighty countries in 2008, far more than in 1990, with particular strength in Europe (where it gained 30 percent of the cosmetics and toiletries market), Asia-Pacific (25 percent), and Latin America (11 percent).

In 2005, with no major geographic expansion or brand extension in sight, Dove looked to another route to add energy. The result was an advertising campaign (first created in the United Kingdom) featuring "real women" with real dress sizes instead of ultra-thin models. Dove branded campaigns to educate and inspire girls to adopt a wider definition of beauty and to achieve a higher self-esteem level supplemented by the advertising. The new direction for the brand was based in part on a global study involving 3,200 interviews that revealed that only 2 percent of women thought themselves beautiful, 50 percent of women thought their weight was too high (60 percent in the United States), and two-thirds of women felt that the media and advertising set an unrealistic standard of beauty. The campaign received enormous exposure in the media with over a thousand stories, most but not all positive (some felt it would be ineffective, others pointed out that Unilever was still using models for its other products, and still others thought Dove was promoting obesity). It generated a 10 percent sales boost.

In addition, Unilever has a men's product named Axe (called Lynx in some countries), which was introduced into the United States in 2002 as a spray deodorant and now covers shampoo, shower gels, after shave, and other products. The Axe brand was built around the humorous premise that beautiful women would go crazy over a man (or even a male manikin) if the Axe spray had been used. The advertisements and promotions were widely perceived as sexist and even degrading. Some pointed out that Unilever was hypocritical to claim some kind of feminine champion when they have the Axe brand so blatantly being the opposite of the "real women" concept.

FOR DISCUSSION

1. Why was Dove dormant for so long?
2. What were the keys to the success that Dove achieved in building its brand into a $4 billion business? What were the roles of success momentum and of branded differentiators?
3. What was the role of a vigorous competitor? Would Dove have gotten there without P&G pushing (or, more accurately, pulling) the brand?
4. Why were Dove soap sales affected by the other Dove successes?
5. What does this case tell you about first-mover advantage?
6. What is your opinion of the "Real Beauty" campaign? Does the existence of the Axe brand affect your views?

Source: Adapted with the permission of the Free Press, a division of Simon & Schuster Adult Publishing Group from *Brand Portfolio Strategy: Creating Relevance, Differentiation, Energy, Leverage, and Clarity*, by David A. Aaker. Copyright © 2004 by David A. Aaker. All rights reserved.

Competing Against the Industry Giant

COMPETING AGAINST WAL-MART

Wal-Mart is the most successful retailer ever. In 2009, at $450 billion in sales, it was by far the world's largest retail company. Its 2009 sales represented over 11 percent of the total U.S. retail volume. And its share of the total market in some categories, such as disposable diapers and hair care products, was well over 25 percent. Wal-Mart regularly appears on *Fortune*'s list of the most admired companies in America.

Wal-Mart was founded in Arkansas by Sam Walton in 1962. Six years later it expanded into neighboring states, and in the 1970s it ventured beyond the South. Over time it added products such as jewelry and food, as well as pharmacy and automotive departments. By 2009, there were some 900 Wal-Marts, over 2,600 Wal-Mart Supercenters, and 150 neighborhood markets in the United States. Over 90 percent of Americans live within fifteen miles of a Wal-Mart store. In 1983, Wal-Mart went into the wholesale club business under the Sam's Club brand name; this concept grew to over 500 stores within two decades and in 2009 had over 600 stores. In 1991, it began its international quest by opening a store in Mexico. In 2009, Wal-Mart had nearly 3,600 stores in 15 markets outside the United States and was the leading retailer in both Mexico and Canada.

For its first thirty years, Sam Walton was the heart and soul of Wal-Mart. An inspirational and visionary influence, he created strategies, policies, and cultural values that fueled the firm's success. He would spend much of his time visiting stores and meeting customers and "associates" (employees). The visits would always result in customer and merchandising insights, pats on the back for workers, and suggestions for improvement. He would summon managers back to the headquarters in Bentonville, Arkansas, for Saturday morning meetings that kept the firm focused and provided a pervasive work ethic. He also enjoyed celebrating successes, once keeping a promise to do the hula on Wall Street if the company achieved an 8 percent pretax profit. For employees and customers alike, Sam Walton *was* Wal-Mart.

In 1962, Walton started his firm with three basic beliefs—respect for the individual employee, exceptional customer service, and a striving for excellence. He developed a host of rules for associates. He challenged them to engage in "aggressive hospitality," to be ready with a smile and assistance to all customers. The "ten-foot rule" decreed that whenever an associate was within ten feet of a customer, the associate was to look that customer in the eye and ask if he or she needed help. His "sundown rule" meant that any task that could be done today would be not put off until tomorrow—especially if the task involved customer service. Exemplifying his belief in empowerment, Walton instituted the Volume Producing Item (VPI) program, in which an associate would pick an item, design a merchandising effort for it, and monitor and communicate the results.

In his 1992 book *Made in America*—a title that reflects Wal-Mart's positioning strategies in the early 1980s, as well as a comment on the founder's career—Sam Walton listed ten key factors that he felt were key to his success. One was to appreciate your associates and their contribution; a second item was to share your profits with them. A third factor was to talk to the customer and listen to what that customer is saying. Another item was to exceed your customer's expectations ("satisfaction guaranteed" really meant something to Sam Walton). Still another factor was to control your expenses better than your competition; Walton prided himself on having a number-one ranking in the ratio of expenses to sales.

Sam Walton offered strategies as well as charisma. One basic early strategy was to bring discount stores to cities of roughly 50,000 people. While the large discount stores of the day were fighting for prime spots in large cities, Wal-Mart had the smaller metropolitan areas to itself. Second, because of the location of its early stores and its headquarters site, Wal-Mart had an employee cost advantage from top to bottom. Third, by setting up distribution centers, Wal-Mart from the outset gained operational and logistic efficiencies. Over time Wal-Mart relentlessly innovated in warehousing, logistics, information technology, and operations to create more and more savings. In part, this innovation was done in partnership with suppliers like P&G.

Wal-Mart continued to prosper after 1992 when Sam Walton passed away. Although his strategic flair and connection with employees and customers was missed, many of his ideas had become institutionalized. Aggressive merchandising led by empowered associates and the trademark greeters, for example, remained part of the Wal-Mart profile. In addition, there was a focus on energy-adding "Retailtainment," including live concert broadcasts in the home entertainment departments, exclusive promotional events around video releases, and exhibits by local organizations. Equity was built into private-label brands, such as Ol' Roy dog food (which has surpassed Purina as the world's top-selling dog food), White Cloud tissues and diapers, and the Sam's Choice and Great Value product lines.

Low prices and cost containment have continued to be the focus—some say the obsession—of Wal-Mart management. The customer promise of "Low Prices, Always" drives the culture and the strategy. Suppliers are continuously and aggressively challenged to reduce costs. Wal-Mart will set demanding cost reduction goals, on occasion showing suppliers how to achieve them. Operations are continuously made more efficient. The resulting cost savings are passed on to customers, as Wal-Mart does not support suppliers' premium-price brand policies. The firm's private-label lines are often sourced directly from foreign factories, creating significant cost advantages and disrupting price norms in many categories. Wal-Mart views itself, first and foremost, as the customer's purchasing agent, and its goal is to reduce prices. By some estimates, Wal-Mart saves consumers $20 billion a year.

Wal-Mart has significant detractors as well. One set of arguments, summarized in a *Business Week* cover story questioning whether Wal-Mart is too powerful, relates to jobs. Wal-Mart has been accused of hastening the move of jobs abroad, as its focus on costs led the company to buy over $27 billion in goods from China alone in 2006 (some 11 percent of the U.S. trade deficit with China). Some even argue that suppliers, in order to meet Wal-Mart's cost targets, are forced to move jobs to China and elsewhere. In addition, it is estimated that for every supercenter that Wal-Mart opens, two supermarkets will close. When Wal-Mart went into Oklahoma City, for example, thirty supermarkets closed. Because of the loss of local businesses, many communities have resisted Wal-Mart's entry. Even the jobs that Wal-Mart adds are said to be inferior, as the company's antiunion, low-pay policy has been hypothesized to hold down wages in retail America and throughout local regions. On average, a Wal-Mart sales clerk in 2001 made less than $14,000, which was below the poverty line for a family of three. Labor costs have been estimated to be 20 percent less than competing unionized supermarkets because fewer employees receive benefits. Dozens of lawsuits related to overtime pay and sex discrimination have been filed against the firm. Sam Walton's values of "Made in America" and "respect for the individual" seem to some a distant memory. The Wal-Mart green initiatives, described in Chapter 6, are intended in part to counter this negative publicity.

Wal-Mart also faces some more intangible concerns. Because it controls over 15 percent of all nonsubscription magazine and video/DVD sales, some fear that the firm wields an unwelcome and arbitrary influence on culture. Wal-Mart elects to stock some magazines while banning or hiding the covers of others (a nearly naked woman on the cover of *Rolling Stone* is acceptable, but not on the front of *Glamour* and *Redbook*), and it sells only videos that meet family-friendly standards. As a result, some movie producers have felt compelled to create a "Wal-Mart version" of their films. Further, Wal-Mart's market power is so high that some people fear it has an inordinate influence on product design (for example, a particular design direction may be deemed by Wal-Mart as too costly for its customers). In a wide variety of product areas, manufacturers cannot afford to deviate from specifications set by Wal-Mart.

Wal-Mart has plans to expand dramatically. The primary vehicle for this growth will be Wal-Mart Supercenters, often located in malls where sites are available at distressed prices, face fewer zoning issues, and precipitate less neighborhood opposition. The obsession with low prices, costs, and efficiency will not change. In fact, suppliers have been given a deadline to attach radio-frequency identification tags to all packages and pallets in order to create a new level of efficiency. There will be an increased emphasis on the growth of private-label goods, such as the great value line. A program to upgrade Sam's Club by adding pharmacy, optical, one-hour photo, fuel, and other services is under way.

FOR DISCUSSION

1. Grocery stores and general merchandise stores must look forward to more intense challenges from Wal-Mart in the future. Such firms need to understand Wal-Mart and how it competes. What Wal-Mart strategies led to success? What was the role of Sam Walton?
2. What is the company's likely future direction beyond its stated intentions? Would it make sense for Wal-Mart to extend its brand into stand-alone grocery stores (such as Safeway) or convenience stores (for example, 7-Eleven)?
3. Is Wal-Mart positive or negative for consumers? For suppliers? For employees? For communities? For the United States?
4. What impact have the Wal-Mart green programs described in Chapter 5, page 86, had on its image?

   Consider two competitors, Costco and Wegmans, that must design a strategy that will lead to success in the Wal-Mart environment.

Wegmans

There are seventy Wegmans Food Markets in New York, Pennsylvania, New Jersey, and Maryland. Wegmans has seen sales (including same-store sales) grow steadily over the years to around $4 billion dollars with very healthy margins and sales per square foot—numbers that are much higher than other supermarkets. The newer stores have an enormous prepared food section, a wide selection of organic foods, some 500 cheeses with a staff knowledgeable about them, a fresh bakery, a bookstore, child play centers, a photo lab, a florist, a wine shop, a pharmacy, and an espresso maker. Shopping becomes an event. Wegmans' passion for food shows. They sponsor classes on cooking, wine selection, and other food topics and have a catering service with an extensive menu. Their Web site has an "Eat Well, Live Well," section and weekly comments on food from their senior vice president for consumer affairs.

The staff is friendly, helpful, and committed. Several times Wegmans has been one of the top five firms in *Fortune*'s list of best companies to work for. They hire only people who share their passion about food and provide wages and benefits much higher than competitors. As a result the employees don't leave and are enthusiastic about their mission to delight customers. Their bakery chef once worked at the French Laundry at Napa, one of the world's top restaurants. Their customer set includes many devoted fans and their influence spills over to new stores. A Dallas store attracted 15,500 shoppers on its first day.

However, Wal-Mart looms. Many of the Wegmans stores are within twenty miles of a Wal-Mart Supercenter.

FOR DISCUSSION

1. What are the strengths and weaknesses of Wal-Mart from the perspective of Wegmans?
2. What strategies should Wegmans avoid?
3. What strategies will allow Wegmans to thrive or at least survive in the face of Wal-Mart's strengths?
4. How should Wegmans exploit the Wal-Mart resentment factor?

Costco

Costco started in 1981, just a few years before Sam's Club appeared. In 2008, it had 512 stores doing $71 billion in sales, with some 57 million individual members, 5 million business members, and more than $1.2 billion in net profit. Annual growth is in the 6 to 10 percent range, and per-store sales have risen from $77 million in 1996 to $138 million in 2006—performance far better than Sam's Club, the Wal-Mart entry. Unlike Sam's Club, which focuses on price, Costco offers upscale brands such as

Callaway golf clubs, Starbucks coffee, and expensive jewelry, and thus it attracts a different kind of shopper. Costco prides itself on providing "treasure hunt" experience for their clients who can search for that special item among the ever changing selection. Sam's Club is attempting to attack Costco by adding upscale brands and integrating more closely with Wal-Mart in order to achieve more buying power and logistical efficiencies.

FOR DISCUSSION

1. What are the strengths and weaknesses of Sam's Club from the perspective of Costco?
2. How should Costco react to the Wal-Mart threat?

Sources: Wal-Mart, Costco, and Wegmans company Web sites in 2008; Wal-Mart annual report for 2008; Anthony Bianco and Wendy Zellner, "Is Wal-Mart Too Powerful?" *Business Week*, October 6, 2003, pp. 100–110. "Wal-Mart Celebrates Its Growing Market Share," *Fortune*, June 8, 2009.

Creating a New Brand for a New Business

CONTEMPORARY ART

Contemporary art, often defined as nontraditional art from the 1970s, can sell for incredible amounts. Damien Hirst, currently one of the world's most expensive living artists, commissioned a shark to be killed and preserved floating in formaldehyde in a large glass case. The display is titled "The Physical Impossibility of Death in the Mind of Someone Living." It is now in the Metropolitan Museum of Art and is said to be worth $12 million. Hirst also creates a square array of colored dots that sell for up to $1,500,000. Hundreds of these have been made and sold. While still unknown, Hirst sold a work to Charles Saatchi, the advertising executive and prominent collector, that consisted of flies being hatched and attracted to a decaying cow's head only to be zapped by a bug zapper along the way. It was called "A Thousand Years" and was said to depict life and death. Saatchi, who owns over 3,000 contemporary artworks, is generous about loaning them to museums if they agree to display other pieces (so that they can be said to have been displayed in the museum).

There are dozens of artists who command high prices. Some samples:

- On Kawara paints a date such as Nov 8, 1989 on a canvas. There are some 2,000 in existence and one was sold for around $500,000 in 2006 at a Christie's auction. Christies and Sotheby's are the two most prestigious auction houses. It has been estimated that a painting will get 20 percent more if sold at one of these two auction houses in part because of their brand.
- Felix Gonzalez-Torres obtained 355 pounds of individually wrapped blue and white candies, piled them in a rectangular shape, and called the result "Lover Boy." It was sold for $450,000 in 2000.
- Christopher Wool sold a painting of some fifteen stenciled letters that spelled Rundogrundogrun for $1.24 million in 2005.
- In 2008 a seven-foot Mark Rothko painting that had been owned by David Rockefeller (who bought it in 1960 for $8,500) sold at Sotheby's for $72.8 million, nearly three times more than the previous high for a Rothko.
- In the late 1950s Leo Castelli opened a New York gallery and proceeded to sponsor some young artists with personality including Jasper Johns, Robert Rauschenberg, and Cy Twombly. He bought an early controversial Johns work that consisted of nine wooden boxes in one of which was a green plaster cast of a penis for $1,200. He sold it to the collector David Geffen for $13 million in 1993 and it is now said to be worth over $100 million.
- Jeff Koons, famous for making vacuum cleaners an art object, sold a sculpture of Michael Jackson and his pet monkey for $5.6 million despite the fact that there were two other copies of the piece. The fact that the other copies were owned by the San Fracisco MOMA and a prominent collector actually enhanced the value of the third piece.

- Tracey Emin established a brand and the premium prices that go with it by creating a bad girl image. For example, she posed nude for commercials, created a tent embroidered with names of her past lovers, and apparently appeared on television so drunk that she had no memory of it.

Why these prices? One hypothesis is that this art is objectively exceptional and its high quality merits a premium price. That is demonstratively false. Consider the following.

- A person named Eddie Sanders mounted a shark, framed it, and offered it for only $1 million, one-twelfth of the price of the Hirst piece. There were no takers even though objectively it was aesthetically similar.
- There was a painting of Joseph Stalin, worthless until Damien Hirst painted a red nose on the subject and signed his name—it then sold for $250,000.
- A Jackson Pollack look-alike painting was bought at a flea market. A series of experts could not ascertain if it was an authentic Pollack or not. The same painting was either worth a few thousand or tens of millions depending on whether it was deemed authentic. One Pollack sold for $140 million in 2006, the highest price ever paid for a contemporary art piece.
- An authenticity board attempts to ascertain whether Andy Warhol actually saw and approved a piece of art. If so the piece goes from worthless to highly valued.

An auction professional once said, "Never underestimate how insecure buyers are about contemporary art, and how much they always need reassurance."

What makes these prices even more puzzling is the fact that several of the top artists do not do their own work. Andy Warhol famously did little of his own artwork. Hirst has a staff of 20 or so who do all of his work including the colored spots. And Jeff Koons, who keeps a staff of 80 busy, was quoted as saying that he is the idea person and is not physically involved in the production of art because he lacks the necessary abilities.

So the question is why do these artists attract such prices? And more basically, how does a painter create a brand that will command fantastic sums?

These questions are more general than they might seem. There are many businesses for which it is not possible to objectively know the value of the product or service. Most customers lack the information and often the expertise to evaluate service firms. There are also products, such as motor oil, for which it is not possible to judge the quality. Even products such as cars or computers are difficult to evaluate because they are complex and specifications do not tell the whole story. Further, even if a person took the time to pour through *Consumer Reports*, it is not clear that its recommendations will reflect the right decision criteria.

FOR DISCUSSION

1. Why might the demand for contemporary art increase?
2. Why do people buy contemporary art?
3. How does an artist develop a brand? What is the role of an art dealer in brand development?
4. Is Damien Hirst famous because of his work and its shock value, because of Charles Saatchi, or because he is famous?
5. How would you develop a brand if you were a new investment advisory service? Can you use any of the techniques that artists use?

Source: This case draws on material in Don Thompson, *The $12 Million Stuffed Shark: The Curious Economics of Contemporary Art*, London: Aurum Press, 2008.

Barriers to Innovation

SONY VS. iPOD

A vivid example of the silo problem, the failure of autonomous product and functional silos to cooperate, comes from Sony's incredible miss of the iPod. The iPod was a natural for Sony, it was theirs to lose. Sony has long been the leader in portable music from the Walkman to portable CD players to the mini-disc. And Sony, unlike Apple, had a big presence in music. More generally, Sony has excelled at transformational innovation from the Trinitron in 1968 to the BetaMax in 1975 to the camcorder in 1985 to the VAIO in 1997 to the Blu-ray Discs of 2003. Further it has been the miniaturization company ever since the "transistor radios" of the 1950s and no firm has been better at creating new categories than Sony.

There are several reasons why Sony missed the iPod opening. Their hope that the analogue world, where Sony had a significant investment and competitive edge, would hang on inhibited their commitment to digital. This despite the pronouncement by Nobuyuki Idei, the new Sony CEO in 1995, that Sony would be the company of Digital Dream Kids—aspirational, having fun, exciting products, and being part of the digital revolution. Another reason was their long-term tendency to avoid industry standards in favor of creating products they could own. This policy was risky—sometimes it did not work, as when Betamax lost the battle for VCR standard. But sometimes Sony won—Blu-ray did become the DVD standard. The main reason Sony missed out on the iPod was that silos paralyzed it at exactly the wrong time. It was not from lack of innovation.

At the huge Las Vegas Comdex trade show in the fall of 1999, Sony introduced two digital music players, two years before Apple brought the iPod to the market. One, developed by the Sony Personal Audio Company, was the Memory Stick Walkman, which enabled users to store music files in Sony's memory stick, a device that resembled a large pack of gum. The other, developed by the VAIO Company, was the VAIO Music Clip, which also stored music in memory and resembled a stubby fountain pen. Both were flawed but provided the bases for a new product category. Each had 64 megabytes of memory which stored only 20 or so songs and were priced too high for the general market. Both also featured a Sony proprietary compression scheme called ATRAC3. Software to convert MP3 files to the Sony standard was not convenient and, worse, resulted in slow transfers. There is little question that, over time, Sony had the potential to improve the products to address these limitations. However, the fact that Sony promoted two different devices created by two fiercely independent silos confused the market as well as the Sony organization.

There was a third silo involved—Sony Music, an entity that owes its origin to the purchase of CBS records in 1988. Along with Sony Pictures, it is part of a Sony strategy to bring content to digital convergence, the effort to tie together all the digital components delivering entertainment. Firms representing computers, cable networks, telephone networks, electronic games, consumer electronics, and computers were all vying to be the captain of the digital home. Sony believed that having content would be an advantage in that race.

Sony Music in 1999 turned out to be a handicap instead of an advantage for the Sony digital music players because it was preoccupied with avoiding piracy and freeloading. The success of the new digital products was not a priority. As a result, it inhibited the products' ability to provide access to a broad array of music and led to the use of the cumbersome uploading process which turned out to be a burden.

Sony's three silos thwarted the efforts by Sony to create a new category and preempt Apple's iPod, which sold around 200 million units in its first nine years. It is likely that a product that combined the energies, resources, and customer insights of the three silos and was improved over time would have been successful and that the iPod opening would not have materialized.

Sony has begun the process of changing the silo culture so that cooperation and communication replaces competition and isolation and Sony can return to its innovation heritage, avoid other iPod misses, and liberate synergy potential. Ironically, Mr. Idei in 1995 also called on all employees to "collaborate with team spirit." The task is not easy, however, because silo issues are embedded in entrenched organizational structures and cultures. These are difficult but not impossible obstacles to overcome. Chapter 15 elaborates on silo issues and how to address them.

FOR DISCUSSION

1. What are the advantages of proprietary products like Sony and Apple employ vs. open source products like IBM or Dell advocate? How and under what conditions do proprietary products pay off? Consider two consulting companies. One publishes all its intellectual property in books and articles and the other has a set of back boxes. Which model is better?
2. Why was Sony slower at going digital than its stated strategy and aspirations would suggest?
3. The holy grail of consumer electronics is digital convergence, to own the digital command center. Do you agree that owning content, movies, music, and TV shows is a big advantage in that race?
4. Why did two competing Sony products get into the market at the same time? How could that happen? How could it be prevented? Would it happen in another company?
5. What should Sony have done to correct the silo problem? How could Sony Music have been motivated to be a helpful member of the team?

Sources: Sea-Jin Chang, *Sony vs. Samsung*, New York: John Wiley & Sons, 2008, and from the Sony History section of the Sony Web site, 2009. For more on silo problems and how to address them, see David A. Aaker, *Spanning Silos: The New CMO Imperative*, Boston: Harvard Business School Press, 2008.