Fundamental Changes in Marketing Organization: The Movement Toward a Customer-Focused Organizational Structure

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There has been growing interest in the future of marketing and changes in marketing's organization and role within the firm. However, there has not been research that holistically explores key changes in marketing organization. The authors draw on qualitative interviews with 50 managers in the United States and Germany and argue that changes in marketing organization that have been discussed in isolation are part of a more general shift toward customer-focused organizational structures. They initially discuss two specific changes related to the overall shift: changes concerning primary marketing coordinators and increasing dispersion of marketing activities. They then introduce the concept of a customer-focused organizational structure that uses groups of customers as the primary basis for structuring the organization. They identify typical organizational transitions as firms move toward a customer-focused organizational structure and discuss the challenges firms face in making this transition. They conclude with implications for academic research, managerial practice, and business school curriculum.

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There is growing evidence in the business press that the way firms are organizing their marketing activities is subject to major changes. As an example, many companies have changed their organizational structures to become more responsive to customer needs (George, Freeling, and Court 1994). In this vein, there have been some voices questioning the adequacy of classical organizational forms in marketing, especially product or brand management (e.g., "Death of the Brand Manager" 1994; Sheth and Sisodia 1995; Thomas 1994). Additionally, as firms focus on reengineering their organizational structure around core processes, the question has been raised whether a marketing department should exist at all in the firm (Hulbert and Pitt 1995; Montgomery and Webster 1997).

There have recently been a number of articles that consider innovative ways of organizing marketing activities. Achrol (1991), focusing on the effect of increasing environmental turbulence on marketing organization, argues that a higher level of organizational flexibility is needed and suggests two ideal forms that he refers to as the marketing exchange company and the marketing coalition company. Webster (1992) discusses changes in marketing's role within the firm and argues that "managing strategic partnerships and positioning the firm between vendors and customers in the value chain" (p. 1) will become the focus of marketing. Day (1997) claims that "firms will increasingly evolve toward a hybrid or hypertext form of organization—combining the best features of horizontal process and vertical functional forms—in order to get closer to their customers" (p. 93).

While these studies provide important insights, we observe that this research is primarily conceptual with a focus on innovative ways of organizing but with little attempt to study the extent to which the changes described are broad based. Given the interrelated nature of many of the changes occurring, there is a need for systematic research looking at common themes and relationships underlying the changes in organization. Additionally, prior research has not provided propositions that can be tested.

Against this background, our study has five primary objectives. First, we seek to identify fundamental changes taking place in marketing organization. Second, we explore the interrelatedness of these changes in search of common themes underlying the changes. Third, we seek to provide in-depth description of specific organizational changes. Fourth, we seek to understand implementation issues related to the major organizational changes. Articles on changes in marketing organization have not emphasized implementation challenges, and it is important to realize that each fundamental change in an organization may create additional problems that are new to the organization. Finally, we aim to develop testable hypotheses related to the issues under investigation. Our study is based on qualitative research across a broad range of industries and two countries (United States and Germany). We feel that analyzing different industries and different countries is especially important in this context since they are subject to different environmental demands that may affect the way that firms organize their marketing activities (cf. Workman, Homburg, and Gruner 1998).

Our article is organized as follows. In our literature review section, we first identify organizational design dimensions and then summarize the key changes in marketing organization discussed in recent articles. In the following two sections, we describe the methodology of our study and identify two specific changes in marketing organization. We then introduce our holistic theme that a shift toward customer-focused organizational structures is the major development underlying the changes we observed. We discuss the nature of this shift and provide a discussion of organizational transitions taking place in this change process. We then discuss challenges firms face in implementing customer-focused organizational structures. We conclude by providing research and managerial implications as well as implications for management education.

LITERATURE REVIEW

In this section, we initially draw on research in organization theory to develop a structured approach for systematically examining aspects of marketing organization.[1] We then consider some of the more widely discussed changes taking place in marketing and sales organization.

Dimensions of Organizational Design

Following the work of the Aston Group (Blau and Schoenherr 1971; Pugh, Hickson, Hinings, and Turner 1968), writers on organizational design (e.g., Galbraith 1973; Pfeffer 1978) and marketing organization (Workman et al. 1998) have described a range of dimensions that allow comparisons of organizations. Following Scott's (1992) review of organization theory, we consider structure, coordination, culture, and power as the most important comparative dimensions. These dimensions are not part of a single theory of organizational structuring and are not exhaustive of all possible design decisions. However, we believe that decisions about structure, coordination, culture, and power encompass most of the major decisions about how firms organize.

One of the most widely studied organizational variables is that of organizational structure (cf. Pfeffer 1982; Scott 1992). Earlier marketing research on this topic was descriptive, focused on the extent to which firms had adopted or implemented the marketing concept, and considered the types of organizational arrangements used (e.g., Carson 1968; Webster 1981). The earlier work also tended to focus on the product manager (Ames 1971; Buell 1975). There have also been efforts to understand and explain the extent of involvement and responsibility of marketing groups for various marketing activities (Hutt and Speh 1984; Piercy 1985; Tull, Cooley, Phillips, and Watkins 1991). More recently, interest has shifted beyond the boundary of the firm to consider the organization and structuring of activities in interfirm networks (Achrol 1991; Doyle 1995; Webster 1992).

A second fundamental design issue revolves around coordination of activities. Such coordination can be achieved through a range of mechanisms including hierarchical reporting relationships, information systems, cross-functional teams, matrix structures, and coordinator positions (Galbraith 1977; Lawrence and Lorsch 1967; Nadler and Tushman 1988). Within marketing, the product manager often performs a key role of coordinating activities related to specific products and has been widely studied (see Low and Fullerton 1994 for a list of 31 studies on the brand management system). There has also been extensive research on coordination between marketing and R&D during the new product development process (cf. Griffin and Hauser 1996).

A third organizational design issue that has received increased attention since the early 1980s is organizational culture. Part of the reason for the increased interest were claims that successful companies had strong cultures that supported their business mission (Deal and Kennedy 1982; Peters and Waterman 1982; Wilkins and Ouchi 1983). Deshpandé and Webster (1989) define organizational culture as "the pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with norms for behavior in the organization" (p. 4). Within marketing, the majority of the research related to organizational culture has focused on market orientation, which has been shown to positively affect business performance (Deshpandé, Farley, and Webster 1993; Jaworski and Kohli 1993; Slater and Narver 1994).

A fourth aspect of organizational design concerns the distribution of power and influence within and between organizations (Pfeffer 1981; Piercy 1987). Political theories of organization focus on power, conflict, coalitions, and the dynamic interplay between groups within the organization (Anderson 1982). While most research in marketing related to the issue of power has studied the construct in a channels (cf. Gaski 1987) or organizational buying context (e.g., Kohli 1989), recent work by Homburg, Workman, and Krohmer (1999) has considered power in the context of subunits within the organization and has empirically tested hypotheses that systematically relate marketing influence to external, internal, and institutional determinants.

The four organizational dimensions above are aspects of organization design that can be used to compare variations in marketing organization and role across organizational settings. As we will show later, prior research on marketing organization has tended to focus on individual dimensions in-depth without considering relationships among them. However, our position is that these factors are related and cannot be studied in isolation.

Changes in Marketing Organization

During the 1990s, there have been a number of articles that reflect on the future of marketing and identify significant changes taking place (e.g., Achrol 1991; Berthon, Hulbert, and Pitt 1997; Cravens 1995; Day 1997; Doyle 1995; George et al. 1994; Webster 1992, 1997). In Table 1, we provide summaries of key studies and indicate the organizational dimensions they have emphasized. In the remainder of this section, we consider key themes that appear in this work.

The first general theme is that functional boundaries are declining and firms are increasingly accomplishing their work through cross-functional teams (Achrol 1991; Day 1997; George et al. 1994; Montgomery and Webster 1997). Achrol (1991) argues that "the firm of the future will need to be very permeable across its departments. Its departments and hierarchy will be fuzzily defined, hierarchy will be minimal and indirect, and individuals will have much more autonomy" (p. 80). The rise of teamwork and decline of functional boundaries has been attributed to the need to create new knowledge within the firm (Sinkula 1994; Slater and Narver 1995), to share information across functional boundaries (Jaworski and Kohli 1993; Narver and Slater 1990), and to respond more rapidly to changes in the market (Achrol 1997; Griffin 1997).

A second general theme is that relationships and alliances with external partners are more important (Achrol 1997; Day 1997; Walker 1997). The types of relationships include vertical relationships through the value chain (e.g., supplier-manufacturer, manufacturer-retailer) as well as co-marketing and co-branding alliances (e.g., Barclay and Smith 1997; Bucklin and Sengupta 1993). One of the consequences of a greater emphasis on external relations for marketing organization is that it is common for people in more functional areas to interact with external partners. Thus, in many cases marketing is no longer the primary boundary spanner responsible for interpreting the market (Achrol 1991; Day 1997). While this may lead to a diminished role for marketing (Workman 1993), it often leads to a greater focus on understanding the firm's core capabilities and then strategically aligning the firm in the value chain (Day 1994; Webster 1992).

A third general theme revolves around the importance of developing intangible organizational factors such as market orientation (Hunt and Morgan 1995), organizational learning (Sinkula 1994; Slater and Narver 1995), and market-sensing capabilities (Day 1994), which may provide the basis for a sustainable competitive advantage. Hunt and Morgan (1995) define resources as "the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment or segments" (p. 6). An organizational implication of this focus on intangible organizational factors is that structures, coordination mechanisms, and cultures need to be developed that encourage flexibility, adaptability, and cross-functional sharing of information.

While research in this area has been very useful for fostering debates about the future of marketing, there are several ways of extending these studies. First, while marketing researchers have long argued that firms should get closer to their customers and be customer oriented, there has been little inquiry into which organizational dimensions companies are changing to be more customer oriented.[2] Second, to the best of our knowledge, there are no holistic studies on major changes in marketing organization. Rather, much of this research has focused on specific perspectives (e.g., Achrol's 1997 network perspective) and organizational dimensions or has advocated a certain organization form that may be innovative (e.g., Day's 1997 hypertext form) but may not be representative of widespread changes. While Workman et al. (1998) provide an integrative framework for thinking about marketing organization and identify structural and nonstructural

TABLE 1
Research on Changes in Marketing and Sales Organization

Comments	*Author(s) Focus*	*Organization Primary Dimensions*	*Design Support*	*Basis of Summary*
Achrol 1991	Marketing organizational forms appropriate for turbulent environments	Structure, coordination	Conceptual	Argues that "unusual forms of marketing organization (that are ambidextrous and highly flexible) are needed in complex and dynamic environments." Describes two such forms.
Berthon, Hulbert, and Pitt 1997	Future of brands and brand management	Structure, coordination	Conceptual	Consider functions brands provide for sellers and buyers; consider pressures for change of brand management; present three scenarios of future of brand management.
Cravens 1995	Changing role of the sales force	Structure, coordination, skills	Conceptual with many examples	Argues three major changes are changing selling: flatter organizations with multifunction teams, market segments as basis for sales organization, more specialized sales forces.
Day 1997	Marketing's role in new organizational forms	Structure, coordination	Conceptual	Considers role of marketing in horizontal, process-oriented structures as well as in hybrid structures that combine business processes with integrating and specialist functions.
Doyle 1995	Considers key tasks of marketing in the future	Structure, skills, career paths	Conceptual with examples	Argues marketing has focused on tactics at the brand level and does not contribute to fundamental strategic issues within the firm; explains differing career paths in marketing.
George, Freeling, and Court 1994	Changes in how firms organize for marketing	Structure, coordination	McKinsey consulting clients	Emphasize roles of specialists and coordinators in process-based organizations, emphasize teams and process managers, consider changes in roles of product managers in consumer goods firms.
Webster 1992	Marketing's role within the firm	Structure, coordination	Conceptual	Emphasizes changes in marketing's role as firms move along a continuum from transaction to network-based relationships.
Webster 1997	Future role of marketing within the firm	Structure, coordination	Conceptual	Considers strategic, tactical, and cultural aspects of marketing; considers changes in marketing organization and role due to increased customer focus, information technology, globalization, relationships, interfirm networks.

organizational dimensions, their research does not directly address the issue of how marketing organization may be changing. Third, given that all of the prior research of changes in marketing organization is conceptual (see Table 1), there is a need for field research on changes in marketing organization. Finally, implementation issues have not been systematically studied. While many of the ideas for changing marketing organization are innovative, there is a need to better understand the implementation challenges firms face.

METHOD

Given our objectives of identifying the main changes taking place in marketing and sales organization and of identifying the principal issues in the implementation of these changes, we decided to use field interviews that systematically explored major changes in each of a number of different domains. Qualitative studies have been recognized as an appropriate means of knowledge production in those cases where the subject area is broad and complex (Bonoma 1985; Eisenhardt 1989; Zaltman, LeMasters, and Heffring 1982). We verified the appropriateness of our qualitative methodology through a thorough review of qualitative work in the *Journal of Marketing* and the e *Journal of Marketing Research* since 1984. After exclusion of studies whose qualitative data were coded and statistically analyzed (e.g., Anderson and Coughlan 1987; Szymanski and Churchill 1990) and of articles using network analysis in single organizations (e.g., Hutt, Reingen, and Ronchetto 1988), we were left with six articles. Among these, our approach comes closest to those of Kohli and Jaworski (1990) and Workman et al. (1998) in that we do not primarily take an ethnographic (Workman 1993) or grounded theory approach (Drumwright 1994, 1996; Gilly and Wolfinbarger 1998), but rather seek to develop a primary organizing theme with supporting propositions.

Many of the statements about changes in marketing organization are based on observations in leading-edge companies and examples from certain industry sectors that are not representative of more broad-based changes across the general business community. Therefore, we selected firms from a range of industry sectors including service and manufacturing firms, with the manufacturing companies encompassing both industrial goods and consumer goods companies.[3] We additionally included firms from more recently deregulated industries such as telecommunications and public utilities. Within the firms, we interviewed managers in charge of marketing and/or sales to reach someone familiar with major changes occurring in marketing and sales organization. To get additional perspectives across industry sectors, we interviewed marketing academics in the United States and Germany familiar with organizational issues as well as "industry observers" such as management consultants and marketing specialists for major business publications. Altogether, the composition of the sample was 30 managers from 30 companies, 12 academics,[4] and 8 industry observers.

Potential informants were identified from industry directories, references, and personal knowledge and were contacted by an advance letter or fax. Informants stated their agreement to participate and their preferred time on an enclosed answer sheet. Fifty telephone interviews (evenly split between the United States and Germany) were arranged and were conducted by the second author in the United States and by the third author in Germany. The interviews averaged 30 minutes in length and were done in the native language of the informant.

The first part of the interview was semistructured around the general organizational design dimensions identified in our literature review (structure, coordination, culture, and power). Within each area, the authors asked for the most important changes and used follow-up questions to explore the goals of the change, the factors driving the change, and the key challenges in implementing the change. Such use of follow-up questions in qualitative research is consistent with the "laddering approach" (Durgee 1986) and the "narrative approach" (Mishler 1986) advocated by other qualitative researchers. In the second part of the interviews, we asked about changes in four important topical areas that are classically marketing and sales related: the role of product managers, the management of key accounts, the development of new products, and the interaction of the marketing and the sales function. At the end of the interview, informants were asked for additional comments and for an assessment of which two changes they viewed as the most important. Systematic notes were taken during the interviews, and full transcripts were completed shortly after the interview.

The field research data were then organized in the following way. First, the transcript of each interview was reviewed to identify (a) the most important changes, (b) the primary drivers of the changes, and (c) implementation challenges for each of the areas covered in the interviews (the four organizational design dimensions and the four topical areas mentioned above). Summary statements of the key changes were then organized in text files, and key quotations and examples were stored with these summary statements to allow for discussion among the authors.

Since the goal of this research was to look for integrative themes that could encompass changes that heretofore have been discussed in isolation, we went through a highly iterative process to identify such themes. We initially discussed the most frequently mentioned changes within each of the eight structured areas of the interview and then narrowed these down to the most broad-based and significant changes. Informants often used different terminology for the same general change, so we identified which individual changes could be categorized under a more general theme. Our initial attempt to develop a holistic framework involved the identification of five changes we viewed as most frequently mentioned significant changes and identification of the factors leading to these changes. We then discussed the interrelationships among these determinants and changes to develop a more holistic perspective. The integrative theme of movement toward customer-focused organizational structures emerged from this analysis and synthesis of our field data. This iterative analysis of qualitative data to develop holistic themes is consistent with that recommended by a number of qualitative researchers (e.g., Belk, Sherry, and Wallendorf 1988; Eisenhardt 1989; Hirschman 1986) and utilized by researchers in marketing (e.g., Drumwright 1994; Workman et al. 1998), consumer research (e.g., Schouten and McAlexander 1995), and management contexts (e.g., Hargadon and Sutton 1997; Leonard-Barton 1992).

DESCRIPTION OF SPECIFIC CHANGES IN MARKETING ORGANIZATION

Changes Concerning Primary Marketing Coordinators

To relate changes in coordination roles in marketing and sales, we introduce the concept of a primary marketing coordinator. We define a primary marketing coordinator as an individual who is the most influential coordinator for marketing and sales activities carried out by different people or subunits within an organization for a specified set of products or customers.

Changes With Respect to Key Account Managers

One of the more significant organizational changes identified in our field research is an increasing emphasis on key account management and the establishment of customer segment managers within the sales organization. We define key account management (KAM) as the designation of special personnel and/or performance of special activities directed at an organization's most important customers. An important implication of the increased importance of KAM is that key account managers and/or customer segment managers (such as industry segment managers) are increasingly taking on the role of a primary marketing coordinator.

This increased importance of KAM is reflected by two trends in relation to personnel working with key accounts. First, we observed that more senior people are assigned to key accounts. For example, a German steel industry manager commented:

> Top-level meetings are not new, but they used to be much more informal. . . . In the past, one could make deals on the lower sales levels ("You'll get some more tons next time"). This is impossible today as purchasing policy is subject to much tighter controls. . . . Ten years ago, our salespeople had enormous hospitality expenses.

Similarly, the automobile industry provides many examples of top managers being involved in procurement negotiations, which had previously been conducted on the operational level.

Second, we observed an increasing assignment of cross-functional teams to major accounts. For example, a U.S. consumer goods manager noted:

> All of our big customers now have a dedicated team that includes demand-side sales types as well as supply-side people. They live in the city where the customer headquarters is. That has been an outgrowth of the acceptance of this is the way you do business. . . . These teams represent all of our brands.

This is a direct response to the need of multifunctional expertise when collaborating closely with individual customers. It seems to be a widespread approach to foster interaction between equivalent functional specialists in the buying and selling organizations.

Based on our interviews, we infer that two primary factors are driving the increased importance of KAM. First, many companies are pursuing the goal of developing closer relationships with their most important customers and view KAM as one way of achieving this goal. While this tendency was actively promoted in some companies, it also represented a reaction to requirements on the part of customers. For example, a U.S. consumer goods consultant said:

> Starting about 1986 there was a dramatic shift of information being better at the reseller and retailer than the supplier. That brought about a change in the power base. . . . The major chains got tired of dealing with executional, lower level sales people. They got tired of what I call the "Deal of the Month" club, they got tired of conflicting policies from different operating divisions in the same corporation. . . . This has clearly been driven by retailers saying to suppliers, "You better call on me holistically, I'm not going to spend the time to talk to 3 or 4 divisions."

Typically, business customers' emphasis on economies in purchasing operations led to the desire to establish closer relationships with a limited number of suppliers to carry out joint process optimization activities. Between consumer goods firms and retailing companies, this trend manifests itself in efficient consumer response (ECR) projects, while between industrial suppliers and buyers just-in-time (JIT) arrangements may be established. The common trait of these trends is the desire on the part of the customer to develop a closer relationship with a supplier to create efficiency. This development is paralleled by increasing customer concentration and customer power in many industries.

A second reason for the increased emphasis on KAM is increased centralization of purchasing decisions. Customers increasingly coordinate purchasing across locations and involve more senior managers and people from more functional areas in procurement decisions. It is difficult to be successful in such cases when using geographically based sales personnel who call on local purchasing managers. Thus, many firms establish KAM programs with the goal of coordinating sales resources across regions, calling on the customer at higher levels, and using people from multiple functional areas. A special case of this challenge of coordinating sales efforts across geographical areas occurs when firms sell to customers who operate on a multinational basis. In this case, there is a need to coordinate marketing and sales policies across country boundaries and in particular to coordinate pricing decisions. International or global KAM teams are one way in which such coordination is achieved across countries. As an example of this trend, a marketing manager in a German chemical firm noted:

> We need international leverage in the face of international customers. While our customers made decentralized purchasing decisions in the past, they wish to be addressed in a coordinated way today.

Changes With Respect to Country Managers

For firms operating in more than one country, a primary marketing coordinator has historically been the country manager (one informant referred to them as "country kings") who coordinates the firms' activities for customers within their geographic region. We observed that their role (particularly country managers in Europe) is generally diminished, with a shift of power and resources away from individual countries to organizational units that span country boundaries.

Changes With Respect to Product Managers

Historically, the product manager has had an important role as primary marketing coordinator (cf. Low and Fullerton 1994), coordinating the activities of marketing, advertising, sales, R&D, manufacturing, and other functional groups in the firm for a given product (or set of related products). In consumer goods firms, we observed a trend of decreasing importance of product management. In general, there was a shift of people and dollars to the sales organization. For example, a German academic noted:

> The responsibility of the brand manager is more and more curbed and overlayed by key account management, category management, and regional sales management. He is not the decathlon athlete of the past anymore, because he has lost his access to retailers and key accounts. Also his influence over brand policy is limited.

The typical justification for this tendency was the greater role of the sales organization in partnering with major accounts and adapting programs for these accounts. We additionally observed a shift of focus in product/brand management in many consumer goods companies. More specifically, there is a stronger focus on managing a set of brands within a product category rather than managing the individual brand. This development has led to the use of the term "category management" in many consumer goods firms. The fundamental explanation for this change seems to be that the customers of consumer goods firms (retailers) increasingly think in terms of profitability of product categories rather than sales of individual brands. The shift in focus in product management reflects an attempt to better think in terms of the categories of the direct customers whose power has increased. This involves a loss of influence of product managers in charge of individual brands. As one German marketing academic noted:

> Companies are increasingly sending employees who are supposed to work in marketing later, to the selling front for a number of months. They also voice vis-à-vis the universities that they should improve the education with respect to selling management and selling negotiation.

Similarly, a U.S. academic noted that the major consumer packaged goods companies recruiting MBAs tell them: "You're going to spend two years on the Wal-Mart team or whatever, before you move into category management."

While the role of product managers is changing, our evidence indicates they continue to be central to the marketing organization. Thus, in contrast to those who have proclaimed the "death of the brand manager" ("Death of the Brand Manager" 1994), we found no evidence that product management is going to disappear. None of the companies interviewed that had established a product management organization had disbanded it, nor did any of the interviewed persons predict this. However, we found that the importance and roles of product managers varied significantly by industry.

In most industrial goods companies, contrary to consumer goods firms, product management is gaining increasing organizational legitimacy. Historically, a significant number of industrial and technology-based firms had product managers reporting to R&D or operations rather than marketing. However, most of the industrial firms we interviewed had product managers established as a central and influential part of the marketing organization. For example, in one U.S. Fortune 500 computer company, the informant indicated:

> In the past, the product manager had responsibility for development and manufacturing. Now they have full P&L responsibility for all of the elements of brand value. It is the offering, the terms, fulfillment, support, distribution, and communication.

A related trend within these firms was to give these product managers more power and a greater ability to represent customer needs. For example, a German chemical industry manager noted:

> The tasks of the product manager have undergone tremendous change during the last five years. Having been a product administrator in the past, he is now carrying more holistic responsibility and is more customer-driven.

In service firms, there is an increased recognition of the importance of systematic product management. We observed that service firms are increasingly introducing product managers into their organizational structures to help make and implement decisions about customer segmentation, development of product lines, branding of service offerings, and standardization versus customization of service offerings.

Propositions

To summarize the observations reported above, we have organized key relational statements as propositional statements. Proposition 1 is related to antecedents of changes in the relative importance of key account management, while Proposition 2 consists of organizational consequences of an emphasis being placed on KAM.

Proposition 1: The relative importance of key account management increases
- as firms seek to establish closer relationships with their customers.
- as the extent of coordination of logistics between buyers and sellers increases.
- as buyers reduce the number of suppliers.
- as decision making is centralized hierarchically within customer organizations.
- as multinational customers centralize purchasing decisions across countries.

Proposition 2: As a greater emphasis is placed on key account management,
- more senior personnel are assigned to manage key accounts.
- cross-functional teams are more likely to be used.

the relative power of product managers decreases.
people in the sales organization are more likely to be primary marketing coordinators.

Increasing Dispersion of Marketing Activities

Another significant change in marketing organization is the increasing dispersion of the marketing effort. One U.S. consultant generally noted that "more and more of the actual activities that we associate with marketing are not part of the marketing organizational structure per se." To clarify the concept of increased dispersion of marketing activities, we initially provide an example and then provide a classification scheme for different types of dispersion. A limited form of dispersion occurs when marketing retains responsibility for an activity but seeks greater involvement from other functional groups, often through cross-functional teams. For example, a marketing manager in a German industrial machinery firm said:

> We have founded a so-called MTS-circle [marketing-technical-sales] which meets every 2-3 weeks. . . . This is how we manage to have engineers accompany sales and marketing people on their customer visits. . . . In the old days, a salesman in the field organization who noticed a customer problem had to look for someone at the plant who felt responsible for that problem. . . . With today's MTS circles, salespeople know the product better and there are clear responsibilities for problem solving.

We view this as a case of limited dispersion in the sense that neither personnel nor responsibility are reassigned. In the remainder of this section, we describe four types of dispersion that we encountered in our field research.

Dispersion to a Temporary Team

In this case, there is a transfer of responsibility for an activity to a temporary team. Such teams are typically composed of members from multiple functional areas and have a team or project manager. The team is now responsible for the decision with personnel sometimes reporting in a dotted line fashion to the team manager and sometimes being fully assigned to the team. Common examples of this type of dispersion include new product development teams and temporary task forces for issues such as customer satisfaction.

Dispersion to a Permanent Team

The distinction between this type of dispersion and the former is the permanence of the change. Many firms increasingly think of their business in terms of cross-functional business processes (Day 1997; George et al. 1994; Webster 1997). Once firms have identified their key business processes, there is often a movement of key marketing activities and personnel to process teams responsible for activities such as order fulfillment, customer service, and logistics. As a manager in a German steel company pointed out:

> In order to foster communication, we are establishing order handling centers, which combine commercial and technical activities. Imagine one big room where all are sitting next to one another. This reduces interfaces.

Dispersion to an Existing Organizational Unit

Another form of dispersion occurs when responsibility and personnel are transferred from marketing to another existing functional group. Keeping in mind that marketing and sales usually are distinct organizational entities, we observed the greatest shift in direction of marketing activities has been from marketing to sales. As one U.S. marketing academic noted:

> Activities traditionally done by marketing people are getting done now by the sales force or staff people in the sales force area. They're just closer to the customer.

A marketing vice-president at a U.S. packaged goods firm provided an example of such a reassignment of marketing personnel:

> We have marketing and sales people serving on dedicated, cross-functional teams working in the field supporting accounts. . . . The cross-functional members of those teams have hard reporting relationships into sales now and dotted-line into the rest of the business.

Dispersion to a New Organizational Unit

Another form of dispersion occurs when a new unit is established with responsibility for a marketing activity that reports directly to a general manager. This is most commonly observed when a marketing activity becomes so strategically important that it merits special attention. For example, in some industries it is common for the pricing function to be taken out of the marketing unit (e.g., airline and telecommunications industries). Other firms have created new organizational units to focus on customer information, worldwide brand image, and customer service. In Germany, many firms are establishing a new high-level pricing manager to ensure coordination of pricing structures across Europe, due to the approaching common currency.

Propositions

There seem to be two general reasons for the increased dispersion of marketing effort. First, many firms move activities out of the marketing department to get closer to customers and to provide additional value to customers.

One example is by making customer-related business processes smoother and more responsive to customer needs. A second reason for increased dispersion is to obtain the necessary specialization and expertise needed to perform certain marketing activities. Based on these and related statements made in our interview, we make the following propositions concerning dispersion:

Proposition 3: Dispersion of marketing activities will be greater
in firms that pursue the goal of being close to their customers.
as the need for specialized marketing expertise increases.

CUSTOMER-FOCUSED ORGANIZATIONAL STRUCTURES AS AN INTEGRATIVE THEME

The Concept of a Customer-Focused Organizational Structure

As we discussed in the methodology section, the integrative theme that emerged from our data analysis is the interpretation that the changes in marketing and sales organization are interrelated and are embedded in a general movement toward customer-focused organizational structures. The changes in organizational design relate to the basis on which business units are established. According to Cespedes (1989), there are three main bases for defining strategic business units—product groups, geographical regions, and customer groups. We define a *customer-focused organizational structure* as an organizational structure that uses groups of customers related by industry, application, usage situation, or some other nongeographic similarity as the primary basis for structuring the organization. A *product-focused organizational structure* is an organizational structure that uses groups of related products as the primary basis for structuring the organization. A *geographically focused organizational structure* is an organizational structure that uses geographical territories as the primary basis for structuring the organization. While elements of product groups, customer groups, and geographical location are present in all organizations, our definitions aim at the primary organizational structuring mechanism.

There is a difference between the idea of a customer-focused organizational structure and the idea of a market-oriented organization. Conceptualizations and operationalizations of a market orientation have emphasized cultural and behavioral aspects rather than structure (Deshpandé and Farley 1998; Jaworski and Kohli 1993; Narver and Slater 1990). We view a customer-focused organizational structure as an antecedent to and as a facilitator of "market information acquisition and dissemination and the coordinated creation of customer value" (Narver and Slater 1990), that is, market orientation. To clarify this structural means of moving closer to customers, consider the comment of a U.S. chemical manager:

> The basic philosophy is to organize around markets, have a lot more focus on what drives markets, what markets need in terms of products and services, and put ourselves in a position so that we can change our products and services so we can change and adapt more quickly.

While researchers have long argued for making the customer the focus of the firm's efforts (e.g., Drucker 1954; Levitt 1960), it was clear from our data that managers are still in the process of trying to implement organizational changes which will increase their focus on customers. As one informant noted, "More often you are seeing sales organizations organized along industry lines and less by geographies." Similarly, a U.S. marketing manager at a Fortune 500 high-tech firm noted:

> Six years ago we had our sales organizations aligned by geography. Today, we have our sales organization aligned by customer business type—mainly along industry lines.

Thus, while the trend is toward customer-focused organizational structures, these two examples indicate that many firms have only recently moved in this direction.[5] As a number of researchers have argued, the actual implementation of the marketing concept and the implementation of organizational structures, processes, and systems that facilitate a focus on customers are still problematic (Anderson 1982; Bonoma 1985; Cespedes 1995; Webster 1981; Workman et al. 1998).

It is important to consider customer-focused organizational structures in the context of competing orientations for organizational structure to understand where companies are coming from and not only where they are trying to go. We observed that many firms that traditionally tended toward product-focused definitions of business units and that structured their sales units around geographies (typically regions in the United States or countries in Europe) are redefining their business units from a customer perspective. While this does not mean completely abandoning the traditional orientations, their relative importance is diminishing. Hence, as shown in Figure 1, the shift toward a customer perspective has two facets: a de-emphasis of the product-focused perspective and a de-emphasis of geographical regions.

The shift from product-focused to customer-focused organizational structures is motivated by the need to come closer to the problems the customer is trying to solve. Within a product-focused organizational structure, sales people are essentially product specialists and are typically assigned to a single product-focused strategic business unit (SBU) selling to all customers of that SBU. The new organizational form seeks to enable sales people to better assess the industry value chain including the customer's customers and to differentiate offerings on the basis of this knowledge. Within such a customer-focused organizational structure, it is common to find the sales force selling all of the product lines of the firm while being assigned to a single customer group. A manager in a U.S. telecommunications firm noted:

> We have been restructured over the years away from product silos and more toward customers. Sales is organized by customer and they are able to sell the entire product line of the corporation. . . . We try to sell to the customer whatever they need end to end to meet their requirements.

Another way of moving toward a more customer-focused structure is to add market or customer segment managers who act in coordinating and liaison roles and represent the needs of given customer segments, typically within the marketing organization.

The shift from geographically focused to customer-focused organizational structures is the second aspect indicated in Figure 1. One way of accomplishing this is to reorganize sales people based on the type of customer they sell to rather than their geographic location. As a business magazine editor in the United States noted, "Firms don't want a generalist who will sell to everyone in the New York area, they want a financial person who will call on Dean Witter, Goldman Sachs, Saloman Brothers." In an international context, firms operating in multiple countries have typically had subsidiaries that were fairly autonomous with a strong influence of local management. One German manager in the chemical industry noted:

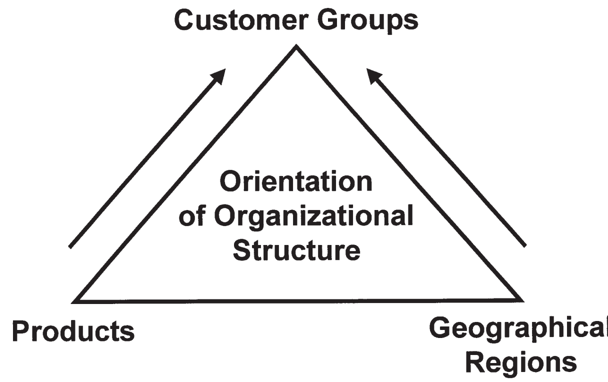
> Until recently we left each affiliated company on its own, they basically reported sales numbers. Now regions that face the same problems, are clearly grouped together.

Another German manager from an industrial supply firm noted:

> Until two years ago, everything was strongly decentralized. The national affiliates had their own strategy, only 30 percent of the activities were coordinated. Today, 70 percent are coordinated.

Increasingly firms are establishing sales regions that span country boundaries. Additionally, many firms are establishing "competency centers," which consist of specialists who may be geographically dispersed and specialized in certain types of applications or industry sectors. A U.S. marketing manager at a computers systems firm mentioned a specific example of drawing on worldwide technical support:

FIGURE 1
Shift Toward Customer-Focused Organizational Structures



> If somebody at Daimler Benz in Stuttgart needs a guy to talk about plant floor automation, he calls a specialist to come in and help. All of that is done on a global basis. So if that skill is in Boulder, Colorado, he gets it.

Our interviews provide evidence that there are three major reasons why firms seek a stronger coordination across countries. First, information dissemination across country boundaries is facilitated by modern communication and information technologies. Generally this increases the interdependence of activities across countries. In such circumstances, a firm's marketing activities in Country A may have a strong impact on their market position in Country B. This problem turned out to be most significant within Europe where price differences across countries have historically been very high in many industries. As one German manager noted, "uncoordinated prices are a dangerous game" due to the forthcoming introduction of a common currency, which will make prices more comparable.[6] Second, buying firms emphasize synergies across countries in their procurement operations to a stronger extent than in the past. For example, many multinational firms operating in Europe have adopted organizational structures that span country boundaries rather than relying on separate subsidiaries in each country. Supplying firms are better able to serve these customers by having organizational structures that mirror those of their customers. Third, there are also motives of the supplier to emphasize the centralization of decisions across countries to a larger extent than in the past. Some interviewees mentioned the desire to control product variety. For example, in consumer goods sectors, firms tend to search for ways to standardize brands across countries to exploit cost synergies. Additionally, speeding up of global new product introduction was mentioned as a reason for increasing centralization across countries and arraying the organization more toward the customer.

Combining the two facets of the move toward customer-focused organizational structures yields an important insight into the question of whether marketing and sales operations will be more centralized or more decentralized in the future. Drawing on the work of Jaworski and Kohli (1993), we define centralization as "the inverse of the amount of delegation of decision-making authority throughout an organization and the extent of participation by organizational members in decision making." On one side, increasing interdependence between countries leads to a stronger need for centralization across countries. On the other side, to be more customer focused in terms of their marketing and sales operations, firms tend to decentralize their activities in terms of customer industries. Thus, our findings indicate more centralization across countries and less centralization across customer groups.

Our conclusion is that the movement along the product side is more significant than the move along the geography side of Figure 1, because it represents a shift in orientation from an internal emphasis to an external emphasis (see Day 1994 for a similar distinction). It additionally applies to more firms than the geographical shift since many firms serve a limited geographical region and have not developed geographically differentiated organizational units. Based on the research, we offer the following propositions concerning the likelihood of having a customer-focused organizational structure.

Proposition 4: The likelihood of a firm or subunit of a firm having a customer-focused organizational structure increases
- as the emphasis placed on being close to customers increases.
- as customer decision making across geographical regions becomes more centralized.
- as customers have access to information that allows product feature and price comparisons across geographical regions.

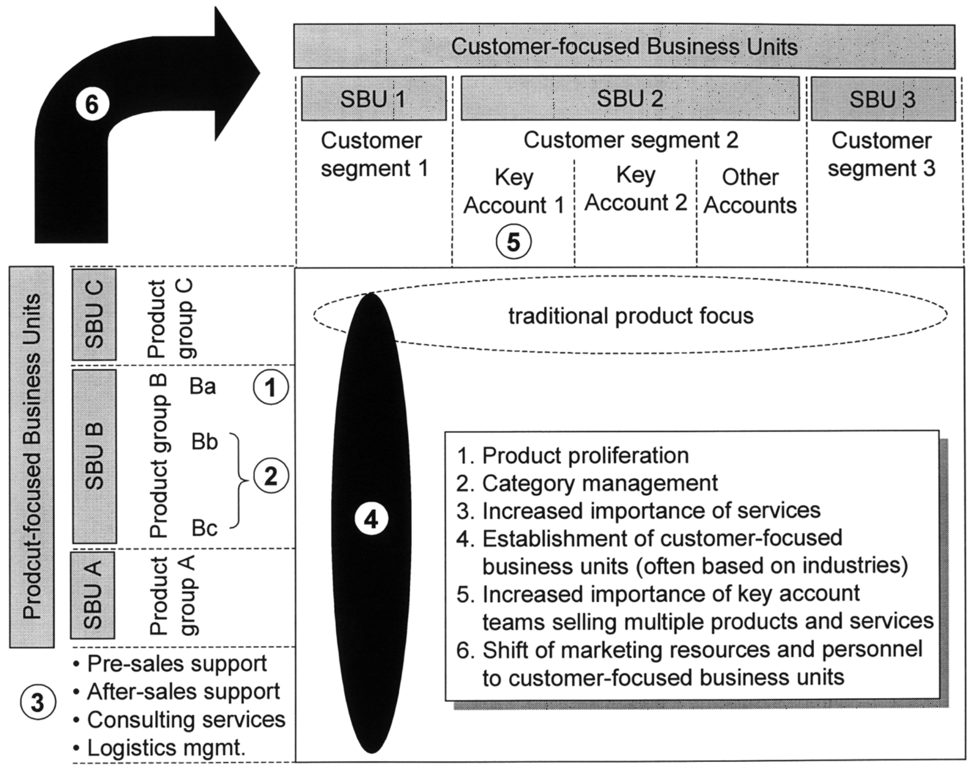
Organizational Transitions

While numerous marketing academics have drawn on the marketing concept to argue that firms should be more customer oriented, market oriented, or market driven (Anderson 1982; Carson 1968; Day 1994; Jaworski and Kohli 1993; Narver and Slater 1990; Webster 1992), there has been relatively little discussion of specific organizational changes required to achieve this objective and little research on the challenges of implementing these changes. Our field research leads us to conclude that the transition from a product-focused to a customer-focused organizational structure is an evolutionary process. In this section, we provide a more abstract description than we have used thus far to consider the process of movement toward a customer-focused organizational structure. In Figure 2, we indicate some of the aspects of the transition from product-focused SBUs, which typically sell a limited set of products to many different types of customers, to customer-focused SBUs, which typically sell a broader set of products to a limited set of customers.

In this figure, we have also indicated a number of trends that our data analysis indicates is part of the general process of the shift to customer-focused business units. First, product proliferation has occurred in many firms due to the production technologies that allow "mass customization" (Pine, Victor, and Boynton 1993) and due to the greater ability to target smaller customer segments with product features that are more appropriate for their needs. Second, the increased number of products available often results in resellers wanting assistance at the overall category level, not the product level. Thus, firms increasingly have established managers responsible for entire product categories. Third, there is an increased importance of services in developed economies, with many major firms receiving more profits from services than from products. Fourth, many firms reorganize their sales force around customer groups (often industry based) to develop coherent "solutions" out of the products and services from multiple divisions. Fifth, following from such an industry segmentation, many firms then assign key account managers to be the single point of contact with major accounts, selling the entire range of products and services produced by their firm. Sixth, the final change indicated in Figure 2 is the resultant shift of marketing resources and personnel from the product-focused business units to the customer-focused business units.

To make a transition from a product-focused to a customer-focused organizational structure, firms typically go through a number of major reorganizations. While we did not explicitly discuss organizational transitions in our interview, we observed firms had different types of structures for integrating product and customer perspectives. Figure 3 presents a range of six organizational types ranging from a weaker to a stronger degree of customer focus. These six organizational forms are intended not to represent the transitions undergone by any single company, but rather to indicate representative changes from lower to higher levels of customer-focused organizational forms. The transition from 3(a) to 3(b) represents the creation of the multidivisional form, which has been widely discussed and studied (e.g., Chandler 1962). The transition from 3(b)

FIGURE 2
Evolution From Product-Focused to Customer-Focused Business Units

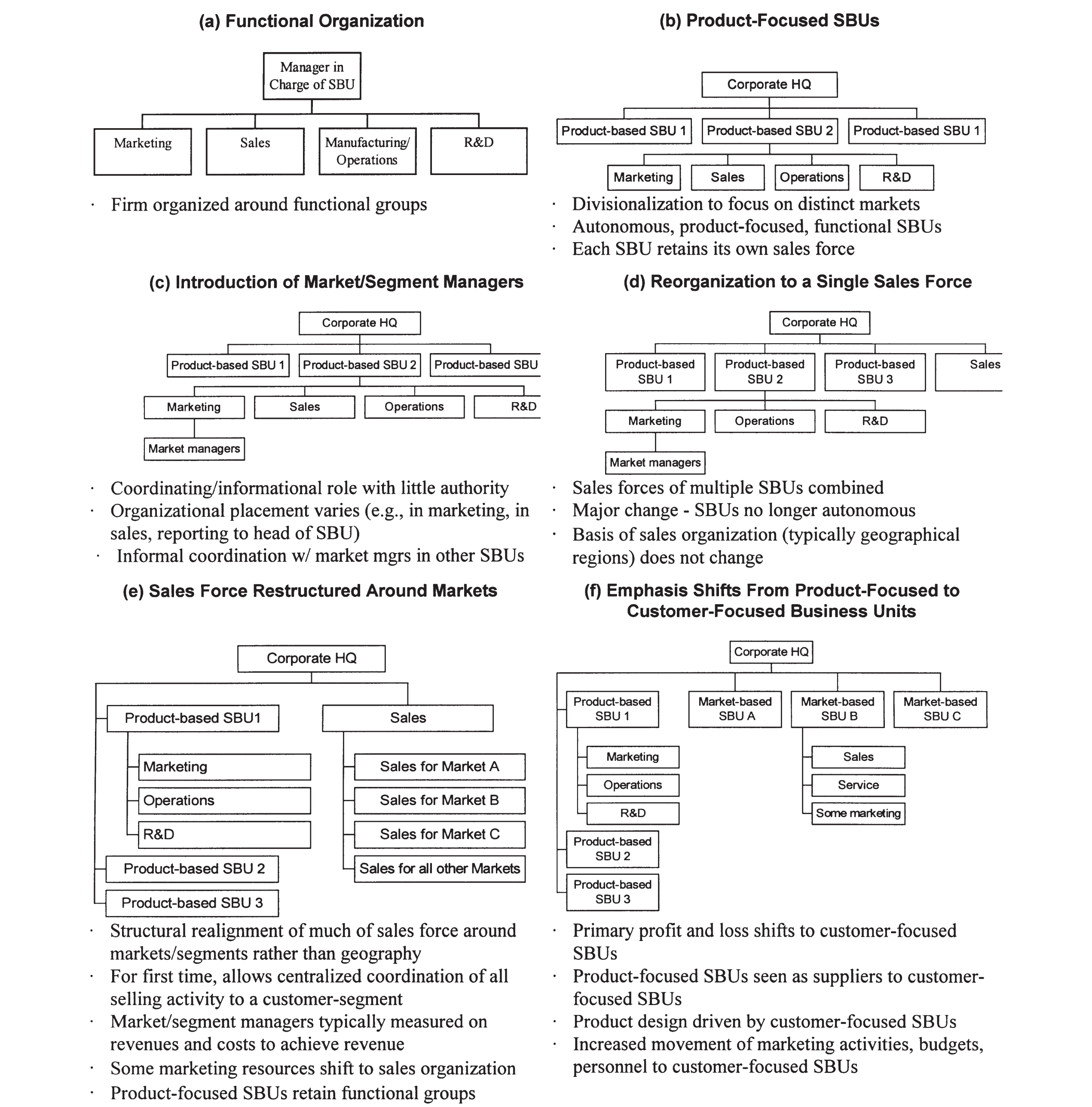


to 3(c) primarily consists of the addition of "market managers" (possibly called application, segment, or industry managers) who are introduced to coordinate the marketing activities in selling to customers in selected markets. One U.S. bank marketing manager noted: "We have segment managers such as for the affluent segment, for the small business segment, for retirees." Such segment managers are distinct from key account managers in that they are typically part of the marketing rather than the sales organization, usually encompass all sales to the specified segment, and work more in a product or service management role than as a coordinator of selling efforts. The organizational placement and degree of authority of these managers varies significantly, but most act primarily in a coordinating/information role, usually reporting into marketing, with no direct authority over the salespeople calling on customers in this market.

The transition from 3(c) to 3(d) represents a major reorganization at the firm (or division) level as the sales forces of multiple product-focused SBUs are combined. This is typically done due to the similarity of selling tasks among the SBUs represented, to save on selling costs, and possibly due to the desire of customers/resellers to have a single point of contact. However, one implication is that SBUs are no longer autonomous, since they have lost control of the selling function. The next transition, from 3(d) to 3(e), represents a restructuring within the sales organization around major markets (e.g., industries, applications) rather than geographic regions. The market managers are now in the sales rather than the marketing organization, and they typically have hierarchical authority over the sales personnel calling on customers in designated markets. The final transition, from 3(e) to 3(f), is not so much a structural change as it is a change in orientation and internal systems. The managers in charge of the market (or customer-focused) SBUs now have full profit and loss responsibility and typically report at a higher hierarchical level. At this stage, it is common for some of the marketing personnel and budgets in the product-focused SBUs to shift to the customer-focused SBUs. In some firms, these customer-focused SBUs are given a high level of autonomy and are allowed to develop their own products and services and/or to distribute products and services from external suppliers if they cannot obtain the appropriate products and services from internal units.

It is worth noting that as firms move to higher levels of customer focus, they are also introducing greater complexity in their organizational structure. This complexity

FIGURE 3
Typical Organizational Configurations in the Movement Toward Customer-Focused Business Units



typically shows up with key managers having either dotted line reporting to other parts of the firm or dual solid lines (a matrix reporting relationship) to two parts of the firm. In our interviews, we noted that some companies that had recently gone through a downturn moved from higher to lower levels of customer focus. Given the greater complexity of most customer-focused organizational structures, this suggests that firms during times of crisis may establish more simple command structures with a clear emphasis on efficiency.

IMPLEMENTATION ISSUES

In this section, we consider some of the key challenges in implementing the organizational changes identified thus far. We start with a consideration of systems.

Adaptation of Systems

Information Systems

It was a common theme throughout our interviews that information technology was a key factor that enabled many of the changes in marketing organization. As one U.S. manager noted, "You don't need all these layers and layers of people dispensing information. Now, everyone can get information at their fingertips quickly from wherever they are on the road."

One interesting implication of the spread of advanced information systems is that coordination and control are increasingly uncoupled from geographical proximity. One reason firms historically used product-focused and geographically focused organizational structures was the need to have proximity of people working together. Today, information systems allow more geographically dispersed people to be part of the same organizational unit because information can be easily disseminated via e-mail, shared databases, and corporate intranets. In regard to coordination, one sales manager of a German medical equipment manufacturer pointed out that "team selling becomes possible through new technologies which allow permanent reachability, such as through modem-equipped laptops and cellular phones." The increased centralization across regions as in the case of global account management is also facilitated by the fast access to frontline information. As a German manager in a consumer goods firm noted: "Much more communication is going via e-mail. This increases speed and internationalization."

The key challenges we heard regarding implementation of the new systems were not so much ones of technology, but rather ones of social acceptance of the new ways of working. First, information technology changes what people do and the way activities are done and there is often resistance to this changed nature of the work. Second, to the extent that information systems allow more dispersed groups of people to work together, people may lose the social contact with coworkers, may feel more isolated, and may resist changes in this regard. Third, firms often encounter significant internal resistance when attempting to fill their internal systems with useful information. Salespeople are often reluctant to surrender information about customers because knowledge of their customer base constitutes a primary source of their power. One manager commented that sales representatives in one country who were asked to provide information on a key account's local operations to a centralized information system on this key account resisted this request. In this case, it is not only giving up the information but also giving it up to people in another country.

Accounting Systems

As firms make a transition to customer-focused organizational structures, there is a challenge in adapting their accounting systems. Accounting systems typically are able to track profitability of products but not of individual customers or customer groups (Montgomery and Webster 1997). As one U.S. academic noted:

> Most companies don't know the profitability of individual customers, because of fundamental weaknesses in their management accounting systems . . . and they don't know the cost to serve various market segments. So they know they have a lot of business which is unprofitable, but they don't know *how* unprofitable it is.

Tracking profitability of customer groups is difficult because firms typically allocate costs to product categories and to functional activities rather than to customer segments. Additionally, there are typically no systems for synthesizing the sales to a specific key account on a worldwide basis (McDonald, Millman, and Rogers 1997). The problem this introduces to the organization is that once business units are defined according to customer segments, it becomes difficult, if not impossible, to track their profitability. While some of the interviewees mentioned activity-based costing (Cooper and Kaplan 1992) as an instrument to make accounting systems more customer focused, the general feeling was that the ongoing use of such complex accounting tools is too demanding in terms of manpower.

Reward Systems

The lack of customer focus in accounting systems directly translates into a problem of reward systems. Since most firms' accounting systems do not allow tracking of profitability by customers or industry segments, profitability-based reward systems are difficult for many firms to implement as they move to customer-focused business units. This is a problem at the business unit level as well as at the level of the key account manager.

A second issue mentioned by several people is that it is difficult to measure the performance of key account managers, even if profitability systems are in place. As one U.S. academic noted, "How do you measure the performance of a key account manager when he has to rely on so many other people?" A number of people pointed out that traditional incentives were primarily individually oriented and with the increased use of teamwork, there is a greater need for team-based incentives.

Propositions

We offer the following propositions concerning the effectiveness of a customer-focused organizational structure:

Proposition 5: The effectiveness of a customer-focused organizational structure increases
as more attention is placed on the social rather than the technical issues in the implementation of information systems.

as the accuracy of revenue and cost allocations to customer-focused business units increases.
when managers of customer-focused business units are rewarded based on profitability of the set of customers for which they are responsible.
as a greater emphasis is placed on team-based incentives.

Changes in Human Resources Management

Individual Skills

The movement toward customer-focused organizational structures also leads to challenges in developing the appropriate skills in sales and marketing. Managing long-term relationships with major customer accounts requires skills well beyond personal selling and negotiation skills. When working more closely with a limited number of accounts, sales people need an understanding of the entire industry value chain to best match a firm's products and services to their customers' operations. As one U.S. consultant noted:

> Companies are very concerned about management of their working capital. As a result, the way they think about terms and conditions with their suppliers changes. Financial terms and conditions, logistical arrangements, setting up EDI arrangements, all of this becomes more important. Therefore, the people who do key account management increasingly have to have expertise in those areas.

Additionally, an increasing number of key account managers are responsible for costs in serving the account as well as the revenues generated. This leads to a need for skills in understanding the financial impact of various decisions and understanding how to provide value to customers. As a number of people noted, the skills are more those of a general manager than a typical sales manager.

Another change in skills mentioned by several managers was the need for championing and leadership behaviors among key personnel in both sales and product management. This results from the greater emphasis on cross-functional teams and horizontal business processes, which means there is more ambiguity in organizations and more voices being put forth of what to do. Key account managers are increasingly likely to be the point of contact between the supplier and the customer, yet not to have control over all of the resources needed to be successful in that account. A U.S. manager in an industrial firm noted:

> The salesperson who previously managed a $20 million territory with 10 accounts now is managing a $30 million territory with one or two accounts. They need to be able to come back inside the organization and effectively marshal the resources and gain the support to meet that customer's requirements. Because that customer that you are doing $10 or $15 million with has naturally a much higher expectation for what you are going to do for him.

While this situation of "responsibility without authority" is well-known to product managers (Buell 1975; Low and Fullerton 1994), it has historically not been as common within sales. This greater ambiguity, greater use of teams, and greater emphasis on horizontal business processes produces a greater need for teamwork skills, more breadth of experience, greater empathy for goals and constraints of people in other functional areas, and more flexibility in being able to respond quickly to changing business conditions.

Recruiting, Training, and Career Paths

Given the increased emphasis on cross-functional teams, many firms recruit individuals who have a variety of career experiences and have demonstrated they can effectively work in teams. For example, a U.S. consumer marketing vice-president noted:

> From a skills standpoint, we are almost demanding now that people move between functions. Because in this kind of environment, you have to have more experience than just your own. For that reason, when we recruit, we are actively looking for people who have had a real broad background.

In regard to career paths, we heard a number of comments that vertical career paths within either marketing or sales are less common than in the past. Rather, a number of people said that people need experience in a number of functional areas to advance to general management. For example, one U.S. consumer goods manager noted:

> There is a tremendous amount of movement between marketing and sales. People are moving around more so that by the time they become a general manager they've actually sat in many other places and have a much broader experience base than someone who goes straight up.

In consumer firms, brand managers are increasingly required to work in the sales organization to be promoted. On the sales side, there is, on one hand, more specialization to deal with specialists in the customer accounts, but also a recognition that effective account managers need experience in areas outside of sales to effectively provide an integrated view of the firm's products and services.

Propositions

We offer the following propositions relating human resource management to the effectiveness of a customer-focused organizational structure:

Proposition 6: The effectiveness of a customer-focused organizational structure increases
as the financial and cost accounting knowledge of managers of customer-focused units increases.
as the understanding of the industry value chain by managers of customer-focused units increases.
as the cross-functional experience of managers of customer-focused units increases.

DISCUSSION AND IMPLICATIONS

While many people over the years have called on organizations to focus more closely on their customers (Carson 1968; Drucker 1954; Levitt 1960; Webster 1981), there is relatively little detailed consideration of the changes in structure, systems, personnel, and incentives required to be customer oriented. One of the contributions of our research is using the theme of customer focus to provide an integrative perspective through which to view changes that have often been viewed in isolation from each other. While research on market orientation has provided scales to measure market orientation (Kohli, Jaworski, and Kumar 1993; Narver and Slater 1990) and has identified antecedents and consequences of market orientation (Jaworski and Kohli 1993; Slater and Narver 1994), these studies have not empirically considered specific organizational structures and specific organizational changes that facilitate a customer orientation. The theme of a movement away from product-focused and geographically focused organizational structures toward customer-focused organizational structures (see Figure 1) helps to provide a holistic way of viewing the changes and identifies competing organizational structures that appear to be less important than they were in the past. Additionally, by drawing our conclusions based on field research across a range of industry groups and across national boundaries (United States and Germany), we are more confident that the overall theme of customer-focused organizational structures is not isolated to specific firms, industries, or countries. In contrast, many of the conceptual articles on changes in marketing organization have based their conclusions on relatively little systematic exploration of marketing in different contexts.

A second contribution is that we have gone into much greater depth than prior research in describing the process of becoming customer focused and in identifying specific changes in organizational structure that may be needed to increase the focus on customers (see Figures 2 and 3). While it is easy to say firms should be more customer oriented, there are often very different interpretations of what it means to be customer oriented and little understanding of the changes in organizational structure that are needed.

A third contribution is an exploration of the implementation challenges firms face as they seek to move toward customer-focused organizational structures. A number of marketing scholars have noted the lack of specific guidance on how to implement the marketing concept (Anderson 1982; Kohli and Jaworski 1990; Webster 1981). Beyond the changes in structure discussed above, we additionally consider adaptation of systems (information, accounting, and reward systems) and changes in human resources management (skills, recruiting, training, and career paths) that support the focus on customers.

A fourth contribution is to identify some of the aspects of marketing organization that are not changing as much as some people have indicated. Some writers have argued that product management is going away ("Death of the Brand Manager" 1994) and that marketing is not a function but rather a mindset (McKenna 1991). In contrast, we find that the traditional organizational form of product management is remaining in most firms. Also, although many marketing activities are carried out in cross-functional process teams, we observed that functional units for marketing and sales activities are not abandoned. While there is some stability in the existence of organizational positions, we do claim, however, that country/regional managers and product managers are becoming relatively less important as coordinators and the market segment/key account managers are becoming relatively more important. We claim that this is a direct consequence of the shift from product-focused and geographically focused organizational structures toward customer-focused organizational structures and a change in the primary marketing coordinator.

Implications for Academic Research

Our research suggests several avenues for future research. First, there is a clear need for large-scale empirical research (such as surveys and secondary data analysis) to identify environmental factors affecting adoption of specific organizational forms. The propositions developed in this article provide guidance for this type of research. This research should also assess performance outcomes of various organizational structures that would allow normative statements concerning optimal organizational configurations to be made. Several researchers have provided frameworks that identify organizational and environmental dimensions that can help guide decisions on constructs to include in such empirical research (e.g., Achrol 1992; Workman et al. 1998).

Second, while there has been a lot of empirical research on product management, the topics of key account management and of the dispersion of marketing activities are clearly underresearched empirically. Sound psychometric scales need to be developed to describe and predict these changes. Additionally, there is a need to study the process by which firms move toward customer-focused organizational structures. In Figure 3, we indicate typical organizational configurations by which firms seek to couple product and customer perspectives. However, since this figure represents an abstraction of a change process that we did not explicitly study, it should be viewed as a first step toward the development of an organizational change model.

Third, our research reveals a need for new types of interdisciplinary research. Prior interdisciplinary research in marketing has tended to emphasize the marketing/R&D and marketing/manufacturing interfaces. The movement toward customer-focused organizational structures requires changes in accounting and information systems and in human resources management, particularly with regard to implementation issues. Research in services marketing has already emphasized that people throughout the organization are critically important in creating positive experiences for customers and have developed concepts such as "internal marketing" (Grönroos 1990), which should provide a basis for this new type of interdisciplinary research.

Fourth, as firms place greater emphasis on business processes, there is a need to understand how this affects various marketing coordination roles. We have introduced the concept of a primary marketing coordinator and claim that primary marketing coordinators increasingly reside in the sales rather than the marketing organization. There is a need for additional research on the relationship between team-oriented processes, product manager activities, changes in coordination roles within the firm, and whether these team-based designs are more likely to be found in smaller or younger firms.[7] An interesting issue for future research is whether these changes are more proactively initiated within the firm or represent reactions to changes in the environment. It may be that as wholesale and retail channels consolidate and as the power of customers increases, firms adopt customer-focused organizational structures as a response to customer demands.

Implications for Managerial Practice

A number of managerial implications follow from the ideas we have presented in this article. First, to make organizations more customer oriented, we have suggested that structural changes are needed. The typical organizational configurations in the shift toward customer-focused business units presented in Figure 3 can provide ideas for structural changes in the organization.

Second, organizational systems must be changed to facilitate a focus on customer groups. Accounting and information systems must be in place to track revenues and costs by customer (or by groups of customers), and managerial reward systems need to be adapted to provide rewards for managers to be more focused on their customers. As an example, companies need to consider the incentives they must provide their sales people to fill their information systems with useful information. Thus, while structural changes can be made relatively quickly, necessary changes in the systems, skills, and culture to support a customer-focused organizational structure are longer term tasks.

Third, there are a number of human relations issues required to support the transition to a customer-focused organizational structure as different types of skills are needed in many positions. Hence, firms need to adapt their recruiting strategies and employee selection criteria, need to reevaluate their training programs, and need to rethink desired career paths. Within the product management area, there is a need for product managers to be qualified to assume responsibility for a whole category of products. In this vein, a stronger strategic orientation needs to be developed in product management. Within the sales organization, there is a need for key account managers and customer segment managers who have cross-functional experience and approach the selling task from more of a business and financial perspective than that used by traditional sales representatives.

Finally, managers must address the issue that some people may have skills that are no longer relevant when firms move toward a greater customer focus. For example, many European firms have abandoned their geographically based sales structures and no longer have country managers. Senior managers need to actively deal with the question of what to do with people whose skills are less relevant ("dinosaurs" according to one informant). It is important to realize that these people can undermine desired organizational changes since they stand to lose out in the new organization.

Implications for Management Education

We believe there are a number of far-reaching implications for management education of the shift from product-focused to customer-focused organizational structures. To be effective in marketing and sales, students clearly need to have greater teamwork skills and need to be more aware of organizational structures that promote customer orientation and allow rapid response to changes in the business environment. Among marketing faculty, we believe there remains an overemphasis on product management skills and an underappreciation of the skills needed to be effective in sales positions in customer-focused organizational structures. It is becoming increasingly common in consumer goods firms to require product managers to rotate out into the field sales organization if they desire to advance within their organizations. It is time for marketing faculty to place greater emphasis on the skills needed to be effective in key account management positions and to recognize that key account managers have skills more similar to those of general managers than to those of traditional sales people.

Given the importance of marketing's cross-functional interfaces, one way to help students understand and appreciate these interfaces is to have more class sessions taught jointly by marketing and nonmarketing faculty. We claim that the financial and accounting skills are particularly important as firms shift toward customer-focused organizational structures as innovations are needed in information, accounting, and reward systems to produce the desired results. However, two problems arise. First, the traditional functional paradigms in other business disciplines often prevent faculty from developing the needed knowledge to effectively teach students how to operate in organizations with blurred boundaries across functions. Second, traditional ways of allocating courses to academic departments make it difficult to encourage and reward faculty who participate in jointly taught classes. Changes in the internal organization of business school may be needed to facilitate the types of teaching needed to develop tomorrow's business leaders.

CONCLUSION

In this article, we have reported on key changes occurring in selected organizational areas and argued that there is a fundamental shift taking place toward customer-focused organizational structures. We have identified typical changes firms make as they move toward customer-focused organizational structures (see Figure 3) and have identified key implementation challenges these firms face. Changing the organizational structure is not sufficient—there is also a need to make changes to information and accounting systems, to change personnel policies, and to adapt the overall corporate culture in a way that supports this transition. These changes cannot be made within marketing and sales alone—they require the active participation and support of senior managers in the firm. We believe that those firms that move toward becoming more customer focused will be those that will lead their industries in the twenty-first century.

NOTES

1. In this article, we follow the integrative perspective of marketing identified by Workman et al. (1998) and consider changes occurring in the way organizations organize and perform their marketing activities. Integrative studies (e.g., Hutt and Speh 1984; Tull et al. 1991) consider both marketing activities and functional groups that perform the activities. It is worth emphasizing that firms tend to split out responsibility for marketing and sales activities into separate organizational units. Therefore, when discussing organizational issues, we refer to "marketing and sales organization" since it is common to observe separate units performing the marketing activities and the sales activities (Cespedes 1995; Workman et al. 1998).

2. Our article is based on the implicit assumption that a customer-focused organization structure moves the firm closer to the customer.

3. The industries in Germany included machinery, automotive, chemical, steel, industrial supply, consumer goods, electronic instruments, telecommunications, and public utilities. For the U.S. sample, the following industries were used: computer, office equipment, telecommunications, pharmaceutical, consumer packaged goods, industrial goods, and banking.

4. The authors thank Gary Armstrong, Michael Hutt, Philip Kotler, Bill Perreault, Frederick Webster, and Bart Weitz in the United States and Manfred Bruhn, Hermann Diller, Hans Georg Gemünden, Richard Köhler, Heribert Meffert, and Günter Müller-Stewens in Germany for providing their perspectives on key changes in various dimensions of marketing organization.

5. A quantitative study that we undertook following the qualitative field research reported in this article has confirmed our observation that many companies have not made the transition to a customer-focused organizational structure. Asked for the main criterion based on which they mainly define business units, 44 percent of the 385 firms in our sample indicated product-focused, 31 percent indicated customer-focused, and 25 percent indicated geographically focused.

6. The Euro was introduced as a common currency in January 1999. The German interviews took place in early 1998 and thus the common currency was "forthcoming" at the time of the interview.

7. We are indebted to one of the reviewers for suggesting this possible link between firm size and age and the use of team processes.

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