The (un)Importance of Marketing and the CMO in the American Auto Industry

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Abstract

The authors relate the decline of U.S. auto manufacturers to the lack of importance of marketing and of CMO influence. Three factors are discussed: company structure, internal management progression, the CEO background, and the absence of consumer influence from the decision process. More recently, the US auto manufacturers have begun to take a closer look at the marketing organization, and the CMO position has gained importance at General Motors and to some degree at Ford Motor Company. US auto manufactures have begun to look outside the industry for the CMO and CEO positions to bring about new perspectives, leading to a recovery of the previous lost ground to foreign auto manufacturers, specifically Toyota. The C-suite recognition of the Marketing function within the US auto companies seems to be finally realized and this should make a major difference from the perspective of product viability and consumer acceptance and perhaps put the US auto companies back on track to regain years of lost market share.

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Introduction

There has been considerable discussion regarding the decline of the U.S. auto manufacturers, including the analysis of the reasons behind the relative worse performance of several domestic firms when compared to foreign competitors. In fact, since 1990, the American Auto Industry, defined in this article as the three largest U.S. car manufacturers – General Motors, Ford, and Chrysler (also known as the Big 3) - have lost significant market share, as can be seen in Figure

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1 The authors would like to thank Roger Adams, Jeffrey Burke, and Bill Koleszar for valuable comments and suggestions.

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The total market share of these American companies has gone down from 72% in 1990 to 47% in 2008 and continued to slip in 2009.

The proposed reasons for this decline vary from issues such as (1) the heavy cost structure of the American companies; (2) the inertia and arrogance on the part of the auto companies from being number 1 for many years; (3) the inexistent or ineffective marketing, especially in terms of the lack of car appeal to consumers needs, such as low image of quality, style, or value. It is likely that all of the above reasons contributed to some degree to the decline of the once unshakable U.S. auto industry. Our intention in this article is to focus on reasons related to the marketing perspective, including the value of the chief marketing officer (CMO) within the auto companies. What is the impact of the lack of marketing focus, especially reinforced by the missing role of the CMO, on the performance of Detroit car manufacturers?

**Factors that influence the importance of marketing in the auto industry**

We believe that several factors justify why the marketing function has had a tradition of relatively low importance in the U.S. auto industry, particularly in terms of top management within the companies.

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3 Source: Autodata.
a) Company structure

The organizational structures provide some clues about the importance of the CMO. In recent years, the structure of companies such as Ford or GM has placed the marketing and the CMO position at lower levels than other companies. For example, available organization charts of both General Motors and Ford Motor Company\(^4\) indicate that none of the “C-Office” top management personnel carry the title of CMO. The traditionally highest marketing title at these companies includes sales, for example, Vice-President (VP) of Marketing & Sales or in the case of General Motors, Global VP of Sales, Service, and Marketing Operations. Clearly, the grouping of Sales and Marketing together seems to indicate that these two functional areas (Sales and Marketing) are not viewed as distinct and different with regard to their roles in the overall marketing operations of the firms.

The merging of the sales and marketing functions may lead to a focus on short term results. With the intense emphasis on short term results, where at one time, for example, sale numbers are measured and compared with the competition on a 10-day basis, it is not hard to see why sales play an overriding role in the US domestic auto industry. The focus on “short term results” can easily override the need for longer term, visionary, and more strategic thinking and planning. The term “the crisis of short-termism”\(^5\) seems to precisely fit the US Auto Industry dynamics, and consequently leaves little room for the longer term vision or the consumer-oriented direction that the CMO position should provide. Perhaps it is timely to clearly define the longer term perspective vs. the short term sales objectives. Perhaps there is not a clear distinction within the auto firms in terms of sales and marketing. The two roles are definitely connected, but are they also separate and distinct in a number of significant ways? Absolutely!

The fact is that many large corporations have not yet been able to implement the CMO position. Based on a recent review of the CMO position, less than 25% of the Fortune 100 firms actually have the position in place.\(^6\) Having a CMO occurs more frequently when a firm spends more in R&D, has a strong corporate branding strategy, and hires a CEO from the outside,\(^7\) which are

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4 Source: www.cogmap.com
7 Source: Journal of Marketing, January, 2008
characteristics less common in American car manufacturers. Even in businesses that have a true CMO, few allow the CMO to actually have complete control over the traditional 4 P’s of marketing. Given the divisional structure of some companies, a centralized CMO role would not limit empowerment at the divisional level. Instead, he or she would take the leadership role of identifying consumer needs and creating incentives to offer products that meet preferences and satisfy consumer needs of excellent car design, fuel efficiency, and price-quality value.

b) Internal management progression

If the CMO position is indeed needed within the auto companies, one of the key questions at the moment is from where this position should be sourced. The advantage of hiring within the car company is industry knowledge. However, the argument that “we need a fresh, non biased look at the problems” has recently become very strong, encouraging firms to go outside of the industry in search of accomplished leaders. For example, industry analysts agree that Ron Zarrella, the former marketing chief at GM recruited from Bausch and Lomb, made some very significant contributions.

Over the years, the US Auto Industry has traditionally promoted from within, not unlike other major Fortune 100 companies. Traditionally, an employee would start at the lower level of the ladder within the firm, in the financial or sales area, and moving upward by staying mostly within the same functional area, picking up very little cross-functional experience. This career path is commonly referred to as “functional foxholes”, with each functional area deeming itself as supreme. The dominance is seen in particular along the financial area of the business, as described in the next section.

As the U.S. auto firms resize and restructure following bankruptcy and bail out proceedings, we believe that external recruiting, not only from outside the company but also from outside the industry, will become a much more frequent occurrence. For instance, Ford has used external recruiting to fill the CEO position by hiring Alan Mulally from Boeing. First signs suggest that this has been a successful move, as Ford is beginning to show positive results. Other U.S. auto companies are likely to fill their CMO positions with proven marketing experts from outside the industry, perhaps even from the consumer product goods industry, where marketing has been a
dominant function. However, we are not saying that industry auto marketing experience should be ignored, but perhaps repositioned within the firm’s overall marketing structure.

c) The CEO background

Other areas besides marketing, and specifically finance and operations, have been dominant in American auto manufacturers and the career positions of past CEOs of American firms serve as clear evidence. For example, the list of names and professional backgrounds of the last CEOs at General Motors is as follows:

- Fritz Henderson (2009): President and COO (2008-09), Vice Chairman and CFO (2006-08), VP Finance, GMAC;

For Ford, the past CEOs and their backgrounds are as follows:

Head of Ford’s operations in Australia, Chairman of Board Ford of Europe, Analyst in Australian Unit of Ford (joined Ford in 1958);

In both cases, marketing has not supplied one single CEO, as far as we know, while finance or operations areas are represented quite frequently. Although this is not a disadvantage on its own, we note that products can then be vetoed by the financial or operations areas, with disregard for consumer needs or marketing recommendations. In this case, the American companies will be at a disadvantage when compared with foreign competitors who base their product portfolios on consumer tastes. Marketing executives in the various divisions have thus less influence on product introductions, while financial benefits and leveraging platforms across operating divisions become excessively important.

Among American car executives, Lee Iacocca is the exception. While at Ford and then at Chrysler as CEO, he was considered a marketing guru. With his marketing background, he was heavily involved in the development and introduction of the Ford Mustang in 1964, which became an outstanding success. Iacocca was President, CEO, and Chairman at Chrysler, after leaving Ford from 1978 until his retirement in 1992.
d) Consumer absence from decision process

The days are gone when new product development decisions could be made with little or no concern for consumer needs or tastes, with only financial concerns driving the process almost entirely. In the auto industry, it is clear that auto companies need to know precisely what is right for the customer, and use customer input in the product development process. With the current organizational culture or corporate DNA in the American companies, the resulting saying “Buy it, you will like it!” is clearly not an argument that can work as a basic philosophy for the industry and it seems to be a symptom of cultural bias that keeps a strong CMO from having a meaningful role in the C-Suite.

Perhaps it is time to “revisit” the 4 P’s in Marketing that have survived since the 1950’s. While the 4 P’s can be essential in the development of any marketing program, a key missing ingredient is the concept of “engaging the customer”, as clearly pointed out by Don E. Schultz. In the past, the U.S. auto companies have built, priced, promoted, and distributed the product, assuming they knew what the customer wanted, without tapping into this vast customer reservoir of needs, wants and demands. The understanding of what the customer really wanted in terms of style, price, quality, functionality, etc., was flawed because it did not fully “bring the customer into the equation.” Times must change. It is time for a new look at the auto industry marketing process, with top down initiatives, such as the creation of the CMO position, bringing customer input properly into focus, and incorporating it in the 4 P’s of each car.

GM, Ford, and Chrysler seem to have failed to understand this essential information from consumers. Even though it is likely that the information was collected and analyzed, it did not serve as the major driver for decisions. Are the management concepts of obtaining economies of scale between brands and locating a dealer in every corner preventing car companies from developing really innovative car designs? In some cases, cost savings related to the operations area can lead to almost identical cars across brands and an image of low customization. Economies of scale and scope can also lead to the survival of brands that are not successful, such as Oldsmobile or Pontiac, or a large and costly over-extended dealer network.

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8 Professor emeritus, Northwestern University, citation from Marketing Management, July/August, 2009.
In contrast, foreign companies such as Toyota, Honda, and Hyundai paid close attention to consumer preferences and trends. More specifically, Toyota and Honda initially concentrated their efforts on improving mileage per gallon, while Hyundai created a positive brand opinion with its very long warranty and later with improved car design. Partially, this focus on the consumer was motivated by the small presence of these firms in the U.S. market and the need to find opportunities not explored by the dominant firms. However, in the long-run, this match with the desires of the consumer led to growth and gains of market share in the last few years.

Other industries have successfully brought the customer into the product development process and we believe that it is time for this process to be more firmly embedded in the U.S. auto industry product strategy. American cars have consistently performed worse at areas such as reliability, style, fuel economy, and performance than other competitors. The market introduction of vehicles that the average American consumer does not like or is hesitant to buy due to lack of trust on the brand leads to a buildup of inventory at the manufacturer and dealer level. Especially with today’s stiff competition, not all cars are expected to be smashing hits. However, bringing the customer “into the equation” for their valuable input is an absolute necessity. We believe that the CMO can be the catalyst to assure that this framework is implemented.

**Future and the search for a CMO**

The hunt for chief marketing officers by many American companies is now going at full force. Some companies are looking for their first CMO, while others intend to replace the ones they have, with the average tenure of a CMO reported to be a short period of 2 years, reflecting the pressure for immediate results. Although some auto companies have had a Vice-President of Marketing, the CMO position implies a much broader perspective and higher influence in the company’s strategic decisions. Bob Lutz, who has worked with all of the Big 3 US auto companies and BMW, just ended a position as CMO at General Motors. While many believe that Lutz is one of the “best in the business,” there are very few “Bob Lutz’s” available for the CMO slot at an auto company. After Edward Whitaker, Jr.’s acceptance as permanent CEO at General Motors, Mr. Lutz "retired from GM " effectively in May 1st, 2010. Given the cultural biases inherent in the industry, it is possible that we need the insertion of a marketing-savvy Chief Executive to usher in a new age for the industry, because even with an “Evolved CMO” (see
Grewal and Wang, CMOJ article, Vol.1), he/she would be pitted against a set of peers that would conceivably work against them. Alternatively, why not include a CMO in the Board of Directors?

Some experts who study the global auto industry feel that there was a cyclical recovery in global auto sales in the spring of 2009 which should gain momentum in 2010. Some of the emerging markets (e.g., China, India, and Brazil) will lead the way in this growth. Further government incentives and stimuli should help this overall global recovery. In 2009, China became the world’s largest auto market, passing the U.S. with 7.3 million units, representing a 40% growth year over year. India has also reached a record market of 1.4 million units in 2009. The real question is – “Will the U.S. domestic auto market share recover in this expected global growth?” More specifically, will the US auto firms have the appropriate marketing organization, with the CMO in place to drive the action and gain momentum both at home and internationally?

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9 Scotia Economics, the economic research arm of Canada’s Scotia Bank, December 29th, 2009.
Concluding Remarks

The general feeling in the industry, and partially shared by consumers, is that a “miracle” is needed from the marketing department of the American auto companies to lead them back to successful car launches. However, overnight fixes will not work. It took Honda and Toyota decades to build the image of reliability and innovation that they now share.\(^{10}\) While establishing accountability for results is appropriately assigned to the CMO, amongst other members of the top management team, it takes time and patience to re-build the image of American cars. "Business as usual is over at GM," said Fritz Henderson, the previous GM CEO. "Today starts a new era for General Motors and everyone associated with the company. Going forward, the new General Motors is fully committed to listening to customers, responding to consumer and market trends, and empowering the people closest to the customer to make the decisions. Our goal is to build more of the cars, trucks, and crossovers that customers want, and to get them to market faster than ever before."\(^{11}\) More recently based on financial and market share results, it seems that Ford is on the right track, but results at Chrysler are disappointing. Is the appointment of a highly experienced marketer a key answer for the US auto industry? Probably, but will it be someone within the industry who answer the call or perhaps even more relevant, will we see a big leap, where it will be someone with strong marketing background from the outside that brings the necessary changes?

The CMO can be the catalyst to turn things around, with a fresh mind, a fresh insight, a visionary. Everywhere we turn, we find evidence of an excessive financial and operations hold on the marketing decision making process at the US auto companies. It always has been like that. If the Board and the CEO give the “right CMO” a chance and time, and does not impose unrealistic short-term sales objectives, the American auto industry can have a chance to come back. The CMO should not take away the flexibility of the division heads, but instead lead the corporate Marketing thrust, coordinate overall from the corporation’s perspective, and overcome the challenge to create and communicate a unique value proposition to potential buyers.

\(^{10}\) With the frequent recalls in the last year, Toyota has itself a difficult challenge of maintaining this image with the consumers.
\(^{11}\) July 10th, 2009
Addendum

May 2010

Since the original writing of this article at the end of 2009 and beginning of 2010, several important events and managerial activities have taken place within some of the U.S. automobile corporations. Since the mid of 2010 until now, the auto industry has seen a significant recovery and improvement of the American companies, in a number of measures, such as brand image, sales, market share and profits. As an addendum to the original paper, we discuss some of these impactful actions.

First, the 2010 Super Bowl XLV included an auto extravaganza in terms of ads, with about 30% of the ads taken by auto companies. More specifically, from a total of 61 total ads, the auto industry took 18 spots, with major players including General Motors, Ford, and Chrysler. This clearly demonstrated a self-positive image, and it represented a return to major advertising investments from U.S. automakers, who had kept a very low profile over the past few years. Most experts feel this was an excellent way for these firms to display their product improvements and newly developed advertising campaigns in front of more than 100 million world wide viewers and to “make their case” in terms of being “back in the game”.

Second, the American manufacturers benefit from missteps from their closest international competitors. The most striking example came from Toyota, which in 2010 after a series disastrous auto recalls, reacted slowly and very poorly in the eyes of the American consumer, suffering since lingering negative effects in terms of demand for its products. This provided excellent opportunity for American manufacturers to regain significant lost ground to Toyota, in terms of share and profits.

Finally, in terms of management and directly related to our analysis of C-level responsibilities, there were interesting changes. For example, GM has elevated Joel Ewanick, previously the CMO of Hyundai, to the position Global Marketing Czar for the company, and he is now being referenced as the GM’s Chief Marketing Officer. The apparent significance of the position has now hit General Motors, which would seem, in our opinion, to be a major indication of the shift of internal power to marketing positions. At Ford Motor Company, Jim Farley, who was the
group vice-president and general manager of Lexus, responsible for all sales, marketing and customer satisfaction activities for Toyota’s luxury brand before joining Ford, was promoted and now heads the global marketing efforts and serves as CMO for the United States.

We firmly believe that these are clear examples that the importance of marketing is increasing overall in American car companies, and that Marketing organizational restructuring is currently paying major dividends, and will continue to do so in the future.