

1. How will marketing organizations respond to increasing global competition, rising customer expectations and emerging new markets during the next five years?
2. How will information availability and technology advances affect the marketing organization and impact the marketing process?
3. What are the outlooks for key technologies as applied to marketing?
4. How should the IS department partner with the marketing department to enable and deliver high-payback marketing systems?
5. What challenges will marketing professionals face in an information age?
6. What are examples of the “best practices” of leading marketing organizations, and how will other organizations leverage these experiences
7. What cost-effective strategies will organizations use to market and advertise electronically?
8. What impact will the convergence of telecommunications, computers and content have on marketing strategies and tactics?

Marketing Knowledge and Technology (MKT) mission:

The goal of Gartner Group’s MKT service is to assist marketing organizations and the IT groups that support them in identifying and assessing technologies as they are applied to marketing, the business trends and market dynamics that are driving their adoption, and the benefits or consequences of their use.

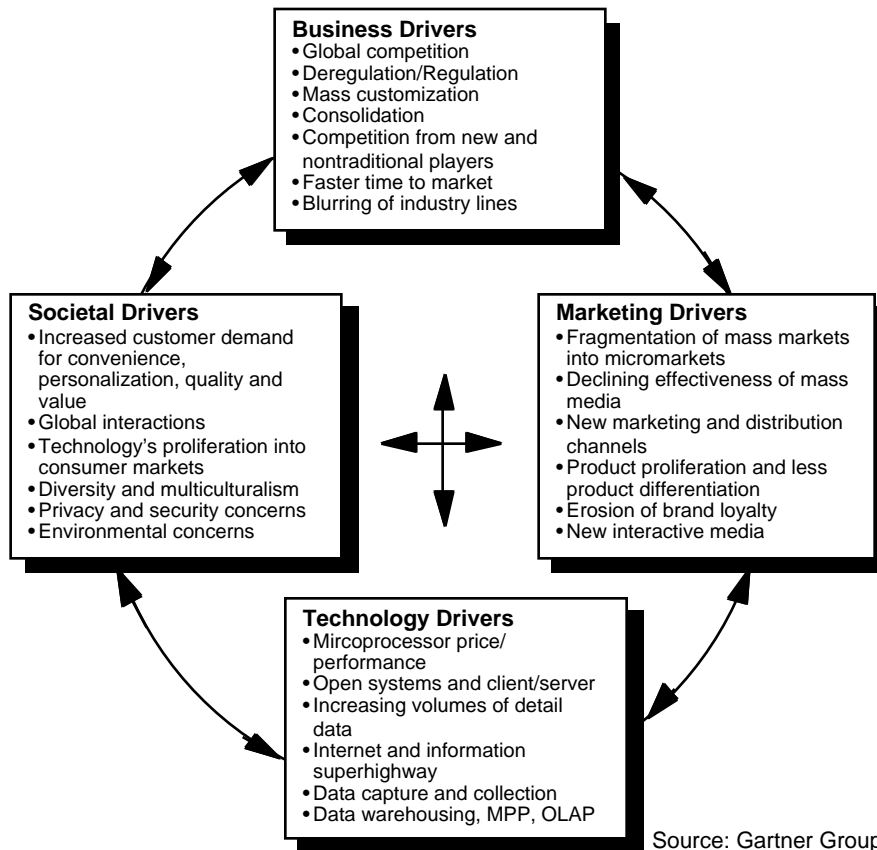
The next five years will see technology usher a profound change in the way organizations identify, acquire and interact with their customers. The marketing department will be expected to play a key role in initiating and enabling this change. MKT research coverage will focus on functional, organizational and process issues affecting marketing. We will also cover architecture, tools and applications, and emerging technologies as applied to marketing.



- The accelerating shift to a more customer-centric business model will give marketing the opportunity to lead the organization in responding to this change.
- The successful use of technology will become an increasingly important differentiator between leading and lagging marketing organizations.
- As more customer interactions are captured electronically, the amount of detail data about customer behavior and product usage is increasing dramatically. Despite better tools and technologies to analyze this information, most marketing organizations are failing to exploit available information due to limitations in infrastructure, inappropriate technology, antiquated processes, lack of necessary skills, and most importantly, cultural and attitudinal inertia.
- Advances in information and communication technology will fundamentally change the marketing process affecting marketing decision making, electronic marketing, database marketing and modes of customer interaction.
- Data warehouses, advanced decision support systems and interactive technologies will become key enabling technologies for next-generation marketing strategies.



How will marketing organizations respond to increasing global competition, rising customer expectations and emerging new markets during the next five years?

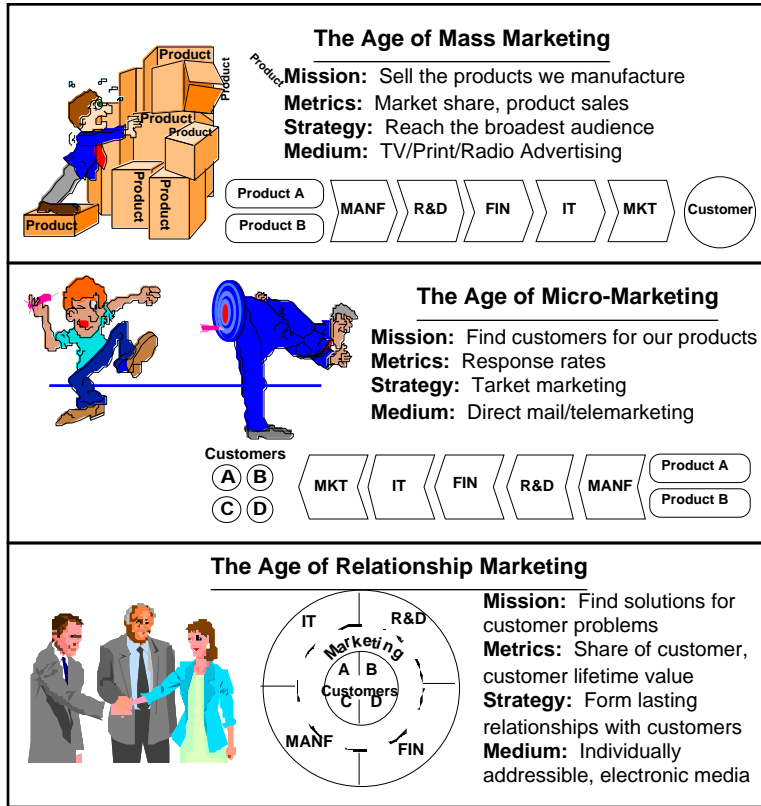


Marketing organizations are facing a vastly different and constantly changing business landscape. The breakdown of the traditional business model of mass marketing, mass production, and undifferentiated products and services supported by a homogenous, single vendor IT infrastructure has been well witnessed and documented. Societal, business, marketing and technology drivers will both enable and propel organizations toward a more *customer-centric enterprise*. The resulting transformation to customized, personalized, information-rich services and products is requiring significant investments in business process redesign, IT infrastructure enhancement and marketing re-engineering.

Within the new business framework, forward-thinking organizations have launched a search for new ways to understand the needs of their customers and the markets they serve — often entirely redefining their business from the perspective of what value they provide to the customer. Marketing departments that have anticipated this change are playing a significantly greater role in the organization.



Mass marketing and micromarketing paradigms are being augmented by new customer centric relationship marketing strategies.



Source: Gartner Group

Key Issue: How will marketing organizations respond to increasing global competition, rising customer expectations and emerging new markets during the next five years?

Less product differentiation, increasing amounts of customer attrition, collapsing product life cycles, increasing competition, rising consumer expectations, splintering mass markets and the diminishing effectiveness of mass media, heightened consumer privacy and security concerns are all negatively impacting traditional marketing. Even the promise of creating and executing tight micromarketing and target marketing strategies seems to be short lived. To be successful, marketing must not only develop relevant communications with small, idiosyncratic markets, but with individual customers. It must also focus on retaining existing profitable customers, not only on gaining new, often unprofitable ones.

These trends do not mean that traditional marketing disappears, but it must be supplemented by new relationship-oriented strategies. As a result, every organizational process and function must become closer to the customer and be defined by how it adds value to customer relationships. Only a few organizations are adequately prepared for how this change will impact their culture, organizational processes and information systems.

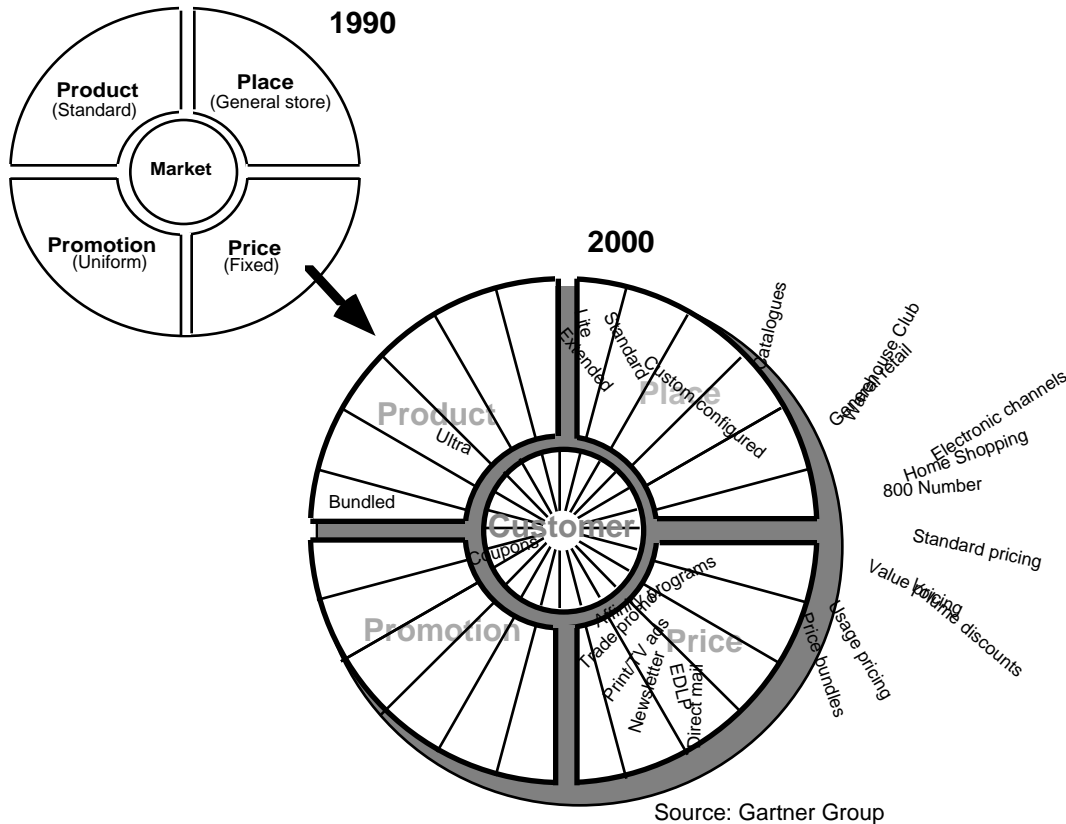


Strategic Planning Assumption

By 2000, customized products, new distribution and communications channels, and multiple pricing options will drive 70 percent of organizations to re-engineer and automate their marketing process (0.8 probability).

MKT Scenario

Reader Notes



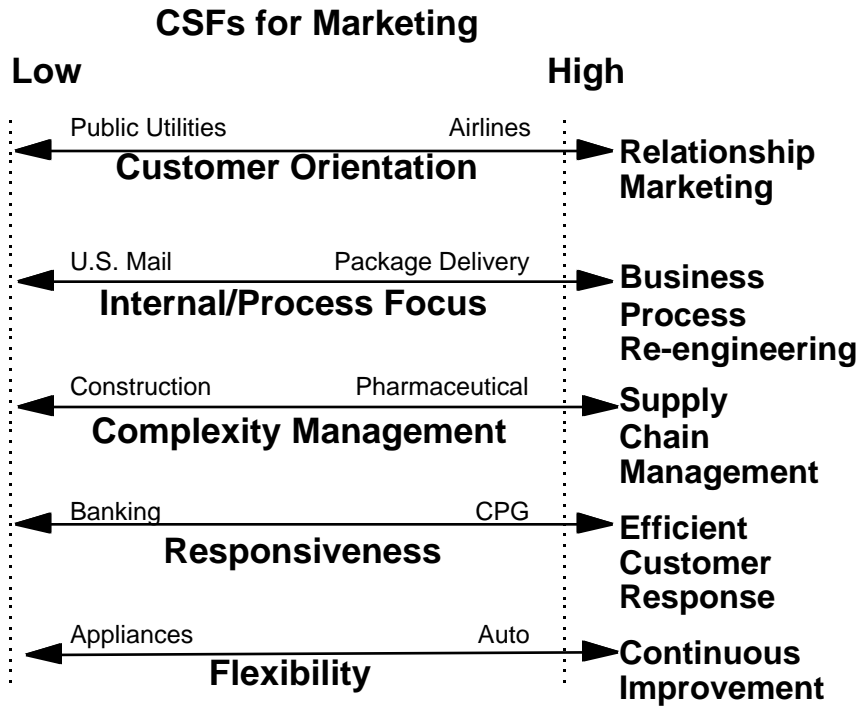
Key Issue: How will marketing organizations respond to increasing global competition, rising customer expectations and emerging new markets during the next five years?

Historically, marketing has been managed by focusing on products and their associated metrics (e.g., market share, product performance and penetration). Today, increasingly customized products and services, new distribution and communications channels, and multiple pricing options are making the marketing process dramatically more complex and difficult to manage.

Traditional product-oriented marketing management will not be able to scale up to handle this vastly more complex and information-intensive environment. Already, traditional metrics are proving inadequate to accurately measure marketing activities across multiple product categories, diverse placement channels and constantly changing price points. New fact-based metrics will enable organizations to dynamically allocate marketing resources to those activities that achieve the best return. Technology and automation will be key in managing these new marketing processes. However, the vast amounts of detail data that must be collected and analyzed to make effective decisions in this environment will task today's information systems.



By 2000, customer-driven enterprises will develop a new set of critical success factors (CSFs) to help evaluate the effectiveness of their marketing organizations (0.7 probability).



Several industries have emerged as leaders in defining new measures for success in marketing.

Source: Gartner Group

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Though excellent measures of overall corporate strategy and execution, metrics historically used to evaluate marketing effectiveness such as market share, penetration and profitability do not uniquely reflect the contributions made by marketing to overall corporate success.

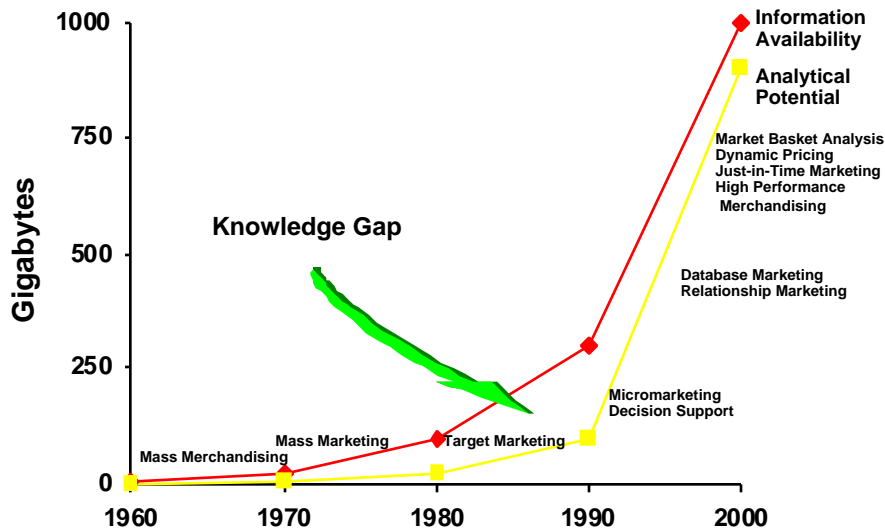
A new set of qualitative measures are evolving. The CSFs that marketing organizations will be measured on will be their degree of customer-orientation, extent to which they focus on internal processes, their ability to manage complexity, their ability to rapidly respond to changing market conditions and the degree of flexibility they offer in adapting to “moving target” customers.

The corporate response to rapidly evolving business models has been the practical application of management initiatives with programs such as efficient customer response (ECR), supply chain management, business process re-engineering (BPR), relationship marketing and continuous improvement.



How will information availability and technology advances affect the marketing organization and impact the marketing process?

The Marketing Knowledge Gap



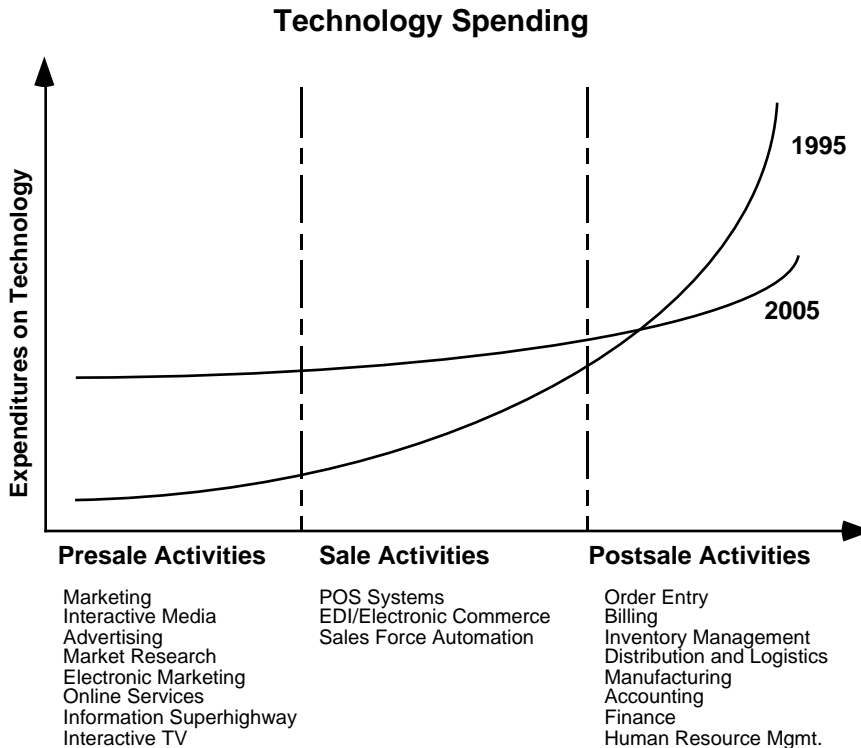
Source: Gartner Group

Marketing initiatives have always faced the knowledge gap between the amount of information available for analysis and the technical capability to analyze it. We are experiencing an explosion of hard, accurate data on customers and their behavior. Automated customer interfaces (e.g., home PCs, ATMS and the Internet) are facilitating the capture of digital information feeds about customer interactions. Organizations are moving beyond simply recording customer transactions to capturing a customer's every interaction with the organization. Data from multiple operational systems are being made available to end users through data warehousing initiatives.

However, simply increasing data access to vast amounts of complex and detail data will overwhelm users rather than enhance their decision-making processes. Organizations must explore sophisticated tools and techniques to enable a broad range of nontechnical users to analyze and understand complex data. New analysis tools, such as data mining, data visualization and geographic information systems, will enable marketers to interact through natural interfaces and leverage innate human pattern recognition capabilities. These tools will need to be supported by new analytical skills and will require significant investments in training. In addition, the use of new, innovative tools will require an open, flexible platform.



During the next 10 years, successful, customer-oriented organizations will spend greater portions of IS and marketing budgets on automating presale activities and processes (0.7 probability).



Source: Gartner Group

Key Issue: How will information availability and technology advances affect the marketing organization and impact the marketing process?

Much of the trillions of dollars spent on IT in the last 40 years has been spent on postsales activities — business processes that occur after goods and services have been purchased. These expenditures were geared toward reducing the cost and improving the efficiency of intraorganizational processes. We are witnessing a trend toward increased IT spending on presales activities — activities geared at generating product awareness and new sources of revenues and reaching new markets. These are decidedly interorganizational and customer-oriented processes.

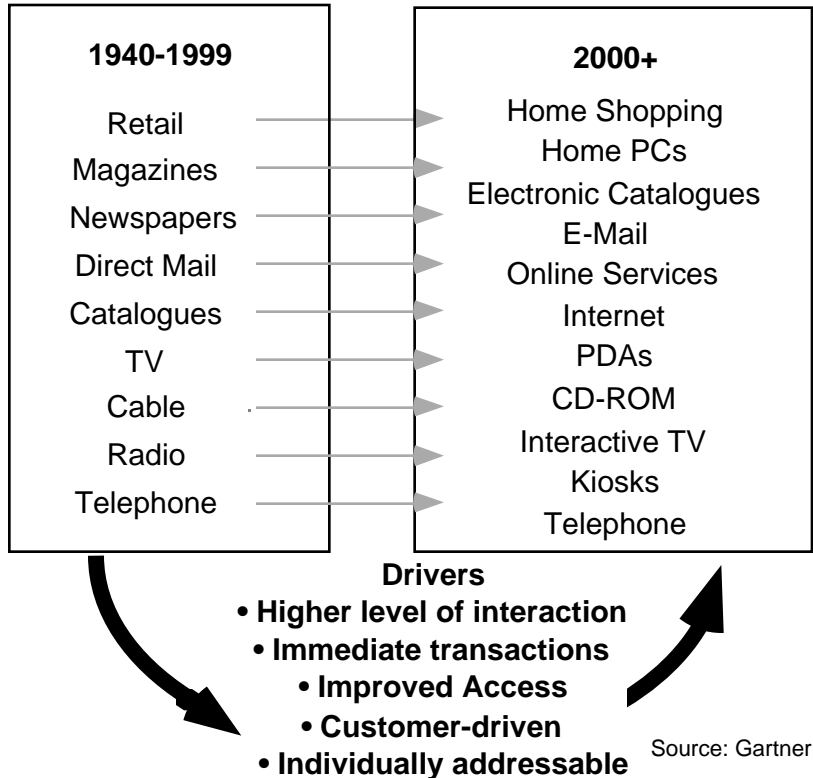
This spending will increasingly move away from legacy media toward building the infrastructure, enabling customers to link to organizations and each other through interactive devices and electronic channels (e.g., the information superhighway, the Internet and interactive TV). These electronic channels will have a potentially devastating impact on enterprise networking infrastructures, communications strategies and IT vendor revenues. Marketing departments will play an important role in determining the appropriation of presales expenditures; therefore, they must begin to develop strategies to exploit these channels.



Advances in technology will fundamentally change the way companies interact with their customers, suppliers and business partners.

Reader Notes

Media Evolution



Key Issue: How will information availability and technology advances affect the marketing organization and impact the marketing process?

The way organizations interact with their customers continues to change due to demand for increased convenience, better access, higher levels of interactivity and faster fulfillment. As a result, more customer interactions are done through electronic means (e.g., home PCs, ATMs, automated voice response, online services and 800-numbers). Regardless of the particular medium the customer chooses, it is clear that future communications will be increasingly technology-enabled, information-intensive and provide the foundation for a continuous, two-way dialogue with customers.

The benefits of new media and communications technologies to marketing are numerous — enabling organizations to provide better customer service, to capture valuable information about customer behavior and product use, and to allow greater differentiation at the point of contact. However, most next-generation customer interfaces continue to be designed to be “high-tech” rather than “high-touch.” Marketing departments must respond by participating in the design and development of the media used to reach, communicate and interact with customers.



Strategic Planning Assumption

By 1998, seventy percent of organizations using first-generation database marketing strategies will experience diminishing marketing effectiveness and migrate to second-generation systems (0.7 probability).

MKT Scenario

Reader Notes

Three Generations of Database Marketing

	First Generation	Second Generation	Third Generation
Goal	Enhanced List Selection and Management Systems Predict direct mail response rates	Customer Information Repository Reduce acquisition cost Improve retention	Enterprisewide Relationship Management System Manage organizational resources Ensure differentiation at every point of contact.
Activities	Direct mail Telemarketing Field sales	All marketing activities Campaign management Market research Media planning	Entire organization; all points of contact Customer service New product development Finance Manufacturing
Tools	MCIFs Service bureaus Flat-files Merge/purge	Relational database Analytical tools Data warehousing	Middleware Scalable hardware Integration Data mining/Visualization
Data	Name and address Demographic overlays Very limited transaction data	Transaction history Marketing communications	All customer interactions All operational data
Early Adopters	Airlines Banks/Credit cards Direct mailers/Catalogues	Financial services Airlines/Travel/Hotels Telecommunications	Telecommunications
Modeling	CHAID Regression	Statistical and nonlinear methods Neural networks Genetic algorithms Fractals	Same
Systems Implementation	Stand-alone PCs or Mainframes Six months	Unix servers 8-18 months	Massively parallel processing Two plus years
Selection Criteria	Ease of use/Fast counts Quick installation Externally managed	Functionality Performance	Interoperability Robustness Scalability
Drawbacks	Stand-alone, proprietary	Migration and support issues	Cost/complexity to manage
Benefits	Tactical Improvements in response rates Reduce the cost of direct marketing	Strategic Allocation of marketing resources Increase marketing effectiveness	Competitive Advantage Optimize allocation of enterprise resources

Source: Gartner Group

Key Issue: How will information availability and technology advances affect the marketing organization and impact the marketing process?

Most organizations still use “database marketing” as a substitute term for “direct marketing with more data.” However, database marketing has evolved beyond simply an enhanced list selection system. Database marketing must be thought of in a much broader context — as a *technology-enabled marketing strategy*. From a technology perspective, it represents the systems and infrastructure required to capture, analyze, and share all the facets of the customer’s relationship with the organization. From a marketing strategy perspective, it represents a process to measure and manage marketing activities in light of their impact on customer lifetime value (profitability over time).

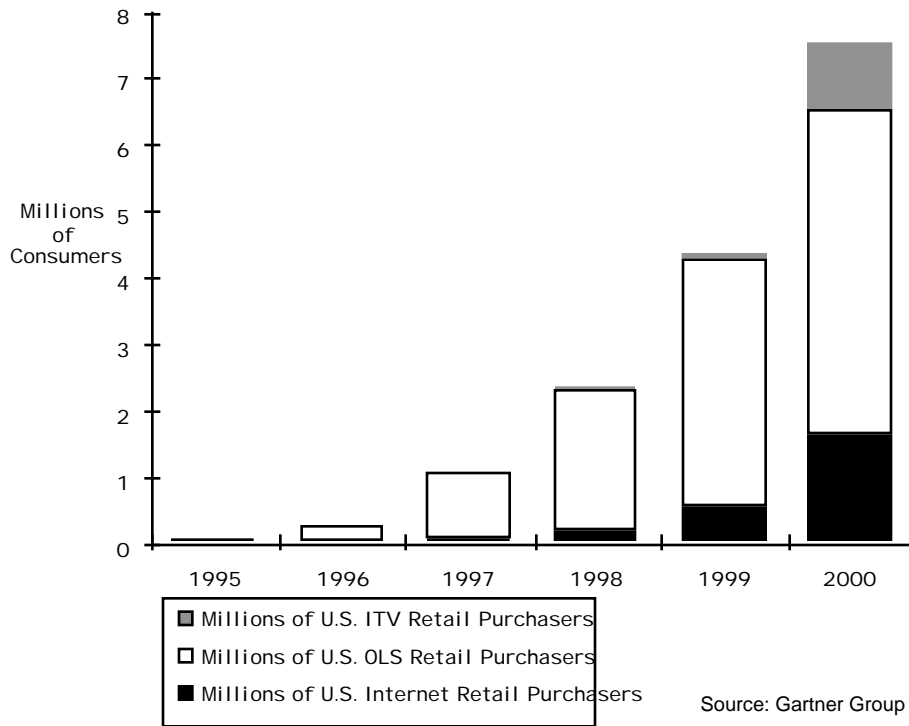
Many marketing organizations are attempting to achieve second-generation strategies with first-generation tools and technologies. The difficulty for marketing organizations will be to align their strategies with the appropriate tools and systems amid conflicting vendor claims, a confusing marketplace and uncoordinated architectures.



By 2000, the total number of U.S. users purchasing retail goods and services via online channels will be fewer than 10 million (0.6 probability).

Reader Notes

Annual U.S. Online Retail Purchasers — All Channels



Key Issue: How will information availability and technology advances affect the marketing organization and impact the marketing process?

Some initial commercial forays onto the “I-way” will meet with success, but most will be hampered by a fickle and hard to define audience, cultural adaptation issues and a failure to set realistic expectations. Due to the speed at which these markets are changing and evolving, traditional assumptions governing ROI calculations will have to be adjusted to account for a longer-term payback. For these numbers to improve, several things must happen:

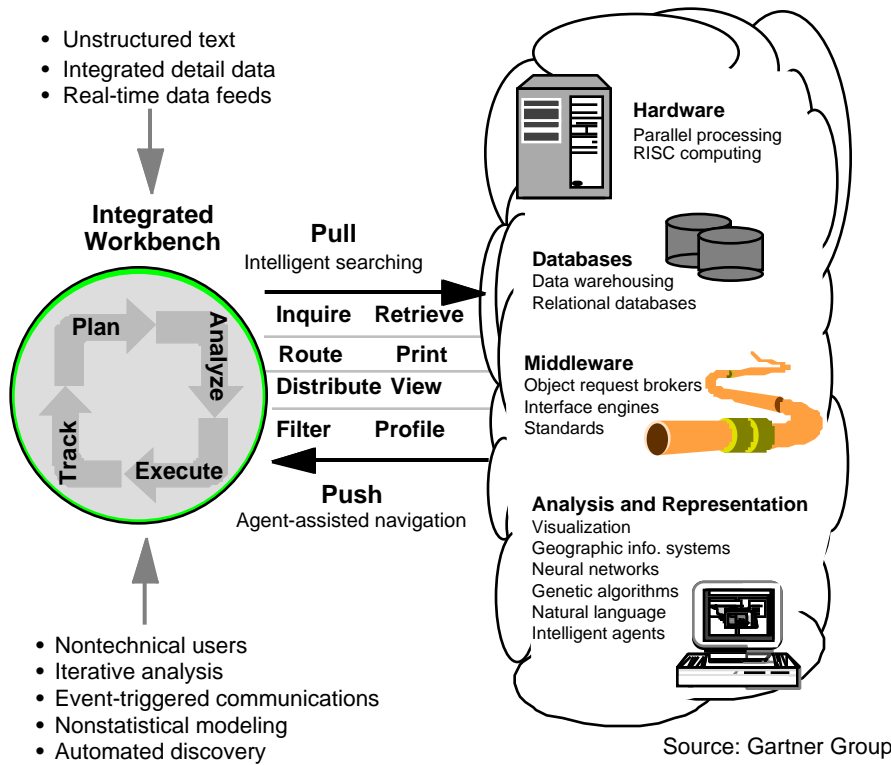
- Interface technology must demonstrate ease of use and convenience greater than alternatives.
- Access technology must become at least as affordable, useful and accessible as telephones.
- Regulatory environments must encourage competition and therefore innovation.



What are the outlooks for key technologies as applied to marketing?

Reader Notes

Building the Marketing Workbench



Designing the single, integrated marketing workbench that meets the needs of multiple marketing users has been the goal of a number of development efforts. Although its components will be enabled by advances in technologies and techniques during the next five years, integrating its multiple pieces will be complex and cumbersome for even advanced IS organizations.

Currently, advanced modeling algorithms and segmentation techniques (e.g., clustering, neural networks, rule-based systems and generic algorithms) are becoming commercially feasible and are being incorporated into mainstream packages. Marketing organizations should explore their use internally. Organizations have witnessed their payback on applications ranging from customer profiling to demand forecasting.

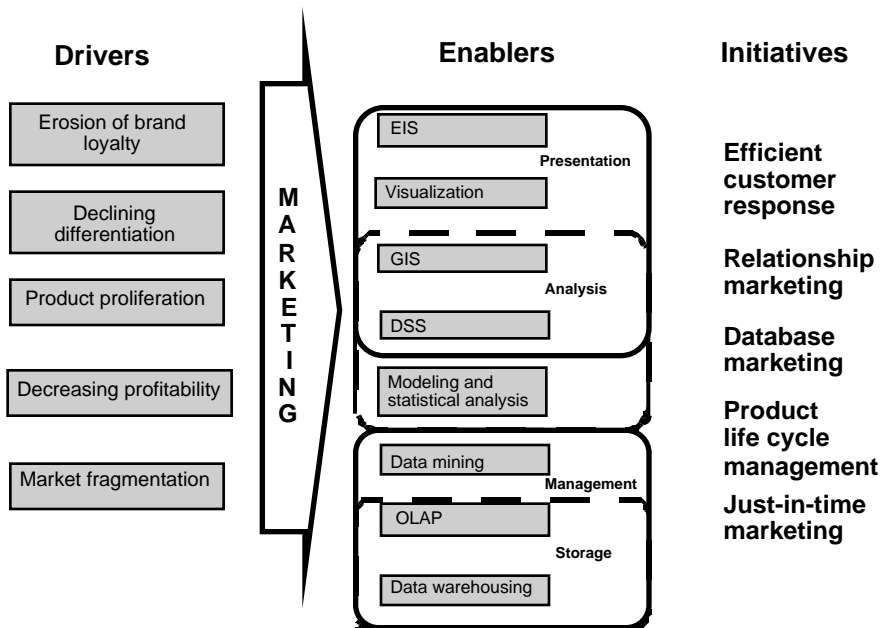
Data warehousing is giving marketing departments tremendous access to previously “locked” islands of information, enabling more thorough analysis and understanding of customer profitability, campaign/promotion planning and tracking, and channel performance analysis.

Massively parallel processing is being pioneered by the most advanced marketing departments to uncover profitable insights from detailed data on customers’ behavior.



During the next five years, customer-centric marketing initiatives will be enabled by the convergence of analytical tools and advanced value-added data storage and management (0.7 probability).

Key Enabling Technologies



Source: Gartner Group

Key Issue: What are the outlooks for key technologies as applied to marketing?

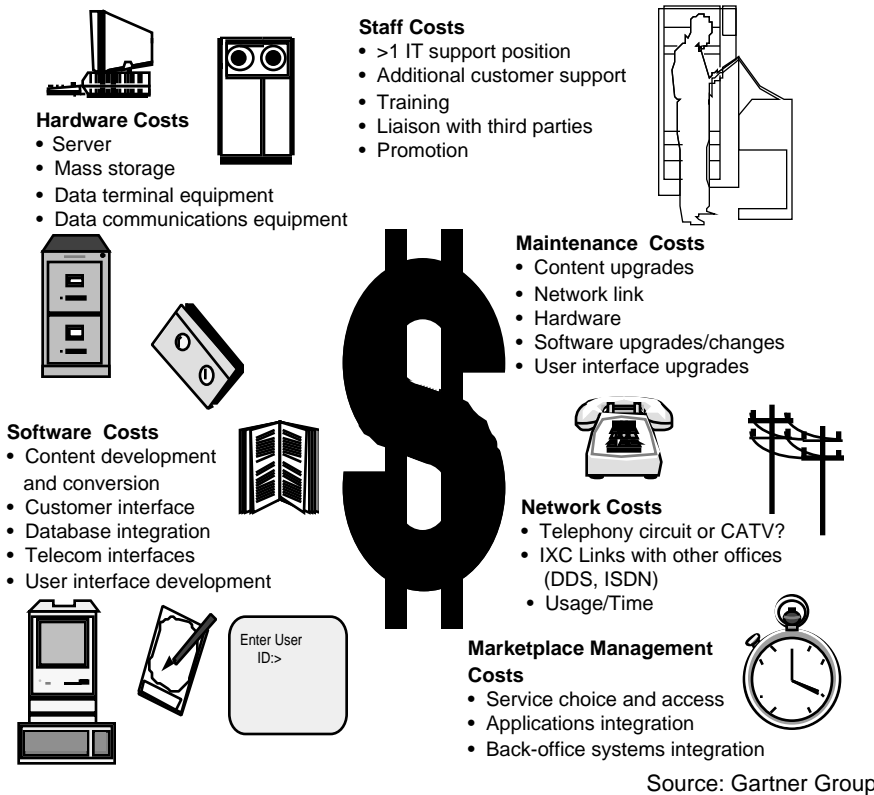
The next five years will see a general convergence of tools used for value-added analysis of marketing information. The combination of data warehouse, analytical tools, easy-to-use interfaces and experienced, top-tier integration expertise will allow organizations to establish value-added marketing applications that stretch beyond the limits of today's plug-and-play approach to EIS and DSS.

Product evolution will be steady, rather than radical. Integration of tools and open interchange of data will be more common than revolutionary new core functionality. Through acquisition, partnering and new development, vendors will deliver complete analytical applications development environments, striving to offer one-stop shopping for data storage, management, analysis and presentation.



In the next five years, 70 percent of marketing initiatives based on electronic channels will be considered failures due to low profitability (0.7 probability).

Internet and World Wide Web Cost Factors



Key Issue: What are the outlooks for key technologies as applied to marketing?

As organizations rush to establish a commercial presence on the Internet and World Wide Web, most will inaccurately estimate the cost factors involved in building an interactive, Web-based electronic channel for marketing, selling and communicating with customers.

The importance of each factor (or group of factors) will differ according to the types of services under consideration, the type of customers targeted, the online carriers being considered, and the ability of the current organizational and technical infrastructure to support doing business online.

The Internet will provide a good proving ground for new media and technologies, as well as require organizations to establish the necessary skills and infrastructure to support it. However, beware of overestimating market size and underestimating costs.



How should the IS department partner with the marketing department to enable and deliver high-payback marketing systems?

Applications and Industries

Business Value	High	<ul style="list-style-type: none"> † New product introduction (CPG, TEL) † Sales productivity (CPG, TEL) † Channel productivity (CPG) † Promotional effectiveness (CPG) • Crew scheduling (AIR) • Fuel and flight optimization (AIR) • Fraud detection (BK) † Contribution marketing (BK) † Householding (BK) † Electronic couponing (RET) † Electronic shelf labeling (RET) • Credit risk management (RET) 	<ul style="list-style-type: none"> † Product/channel profitability (CPG) • Life cycle merchandising (CPG) † Promotion planning/tracking (CPG) • Route profitability analysis (AIR) • Yield management (AIR) • Credit management (BK) † Customer profitability (BK) † Demand forecasting (RET, TEL) † Frequency programs (RET) • Supply chain mgmt. (RET) † Affinity analysis (RET) † Market basket analysis (RET) • Merchandising (CPG, RET) • Custom billing (TEL) † Database marketing* (All industries) 	Competitive Advantage	
	Low	<ul style="list-style-type: none"> † Forecasting (CPG) • Return management (CPG) • Billing (CPG) • Order entry (CPG) • Payroll (AIR) • Cash flow analysis (BK) • Accounting (AIR) • Directory management (TEL) • Warranty management (TEL) • In-store receipt systems (RET) 	<ul style="list-style-type: none"> • Spare parts distribution (CPG) • Accounting (CPG, BK, RET, TEL) • Warranty reporting (CPG) • Reservation systems (AIR) • Freight tracking (AIR) • Inventory systems (AIR) • Demand deposit accounting (BK) • Customer billing (TEL) • EDI (RET) † POS analysis (RET) 	Competitive Parity	
		Low	Data Intensity	High	
		<p>Legend (Industries)</p> <p>CPG = Consumer Package Goods BK = Banking (Retail) AIR = Airlines RET = Retail TEL = Telecommunications</p>		<p>† = Marketing-related applications • = Nonmarketing applications * = Database marketing includes: relationship-marketing, target-marketing and customer profiling/segmentation</p>	

Source: Gartner Group

In 1994, we surveyed a number of Type A (leading-edge) organizations in a cross-section of industries to determine which applications provided the most business value. Of the IT investments that participants considered “high-payback” — applications that enabled strategic competitive advantage — two-thirds were directly tied to marketing strategies. Despite their significant initial investments, typically more than \$2 million, these applications yielded between 5 times and 70 times ROI. Most of the applications required advanced technologies (e.g., parallel processing and data mining) and infrastructure enhancements and were often driven, justified and partially funded by marketing departments. The study also revealed that the returns often surpassed initial projections by as much as 300 percent. We expect that Type B (mainstream) spending on technology will also reflect similarly higher spending on marketing applications as the market followers attempt to compete with more aggressive organizations. A key driver of this change will be the pressure on IT departments to justify their investments not simply by cost-cutting initiatives, but by enabling business units to generate new revenue streams, acquire new customers and penetrate new markets. These investments to support marketing strategies translate into direct value for IT’s constituents and the ultimate end user — the consumer.



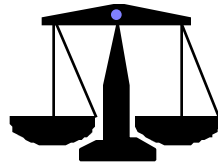
By 2000, 60 percent of businesses will fail to ensure that cultural changes, cooperation and compromises establish a successful partnership between the marketing and IS departments (0.8 probability).

Change

	OLD IS	NEW IS	Common Goals and Objectives	New MKT	Old MKT
Management Style	Control-orient. →	Serv.-orien.	Customer-orientation	Relationship-orient. ←	Prod.-orien.
Focus	Tech.-adept →	Bus. aware	Technology as enabler of business process	Tech.-aware ←	Tech.-averse
Tools/Skills	Data/Sys. →	Information	Shared know./intel.	Analytical ←	Creative
Posture	Reactive →	Proactive	Responsive	Flexible ←	Unchanging
Culture	Command/control →	Empower	Cooperation	Partnership ←	Independent

Compromise

IS Concerns
 Data integrity
 Systems interoperability
 Security
 Robustness
 Technical purity
 Standards



Marketing Concerns
 Information understanding
 Response rates
 Information access
 Ease-of-use
 Functionality

Cooperate

Enablers

- Shared values
- Constant communications
- Delineation of responsibilities
- Common, clearly articulated vision
- Focus on business objectives
- Well understood metrics
- Shared investment and funding
- Skills and capabilities focus



Inhibitors

- Conflicting cultures
- Missed expectations
- Lack of senior management support
- Lack of problem-resolution process
- Purely technology focus

Source: Gartner Group

Key Issue: How should the IS department partner with the marketing department to enable and deliver high-payback marketing systems?

Traditionally, the IS and marketing departments have typically been thought of as polar opposites. As a result, cultural and communication gaps will continue to be a significant obstacle to success. Developing mutually shared goals that are tied to business objectives and customer value will drive marketing and IS departments to forge stronger alliances.

A key requirement will be a strong customer-centric vision for the entire organization displayed in senior management values. This will serve as the mandate for cooperation and enable marketing to build synergistic links with other functions' initiatives and efforts.



Scenario 1A: Losers

Marketing fails to respond to the changing environment. Despite the declining effectiveness of traditional marketing, marketing continues to fight to retain its traditional role in the organization. Marketing remains technology averse and resists automation initiatives. Key marketing processes are outsourced to advertising agencies, new media companies, third-party service bureaus (0.1 probability).

Scenario 1B: Laggards

Marketing turns to external vendors and advertising agencies to develop and support systems to support critical customer-oriented processes. Critical marketing strategies, unsupported by internal IS, are dependant on outsourced, stand-alone, proprietary systems, and not integrated with the organizational IT infrastructure. Marketing is partially outsourced and has little influence on corporate strategies. (0.3 probability).

Scenario 2: Mainstream

Organizations temporarily increase marketing spending to compensate for its declining effectiveness. Marketing continues to focus on acquiring technology, instead of gaining new skills and capabilities. Marketing invests in potentially high-payback systems on an ad hoc basis without developing the processes or strategies to support them. The results are largely mixed depending on organizationally support and integration/shared successes (0.4 probability).

Scenario 3: Leaders

Marketing embraces the accelerating shift to a customer-model and faces the declining effectiveness of traditional marketing. Marketing leads the organization in defining a customer-centric, response-oriented business model. Integrated systems and information sharing enable intramarketing integration and create synergistic links to other corporate functions and processes. Marketing partners with IS to define next-generation customer interfaces and the infrastructure needed to support customer-oriented business processes (0.2 probability).

It is clear that marketing must respond to the changing environment. Winners will be those organizations that embrace change and proactively redefine themselves and their processes. This new role will require new skills, new processes and new technologies. Losers will be those that continue to resist change — either due to a lack of understanding of technology, an organization's lack of the commitment to a customer-centric business model, or an unwillingness to invest in new skills and new infrastructure.



- Organizations must make immediate investments in new infrastructure, new technology and new skills to support future marketing initiatives.
- Marketing must evaluate current processes and redefine these based on how they add value to customer relationships.
- Marketing must be prepared to spend an increasingly larger proportion of their resources on developing technology-enabled strategies for decision making, marketing management and customer interaction.
- The IS and marketing departments must partner to develop shared values, common objectives and new capabilities. To effectively deliver high-payback systems, both sides must be prepared to change, cooperate and compromise.
- The IS department must become proactive in seeking innovative technologies to support current and future marketing process. Marketing must be willing to share the expense, risk and reward of these initiatives.
- Organizations must realize that technology will only be part of the solution, not all of it. Marketing must reinvent itself with new strategies and new processes, most of which will be significantly enabled by technology and new skills.

