MarketingWeek

OPINION

Does your company suffer from 'Double CFO Syndrome'?

Many CMOs are working in companies where their CEO adopts the mindset of a second CFO.

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Peter Drucker, the leading management thinker of the last 100 years, described the role of the CEO as being "the link between the Inside that is the organisation and the Outside of society, economy, technology, markets and customers. Inside there are only costs. Results are only on the Outside".

The job of the CEO is to ensure the right fit between the Inside capabilities and the Outside opportunities.

But with over 70% of CEOs having a background in finance, operations, or sales and only one in 10 of CEOs in the Fortune 250 having any direct marketing experience, it is not surprising that there is an institutional bias towards the Inside and the prioritisation of Finance over Marketing.

The CMO effectively faces two CFOs.

The cost of Double CFO syndrome

Companies that suffer from "Double CFO Syndrome" are likely to be biased towards value extraction over value creation. These businesses tend to optimise the margin on existing revenue and channels, rather than investing sufficiently in the future sources of revenue.

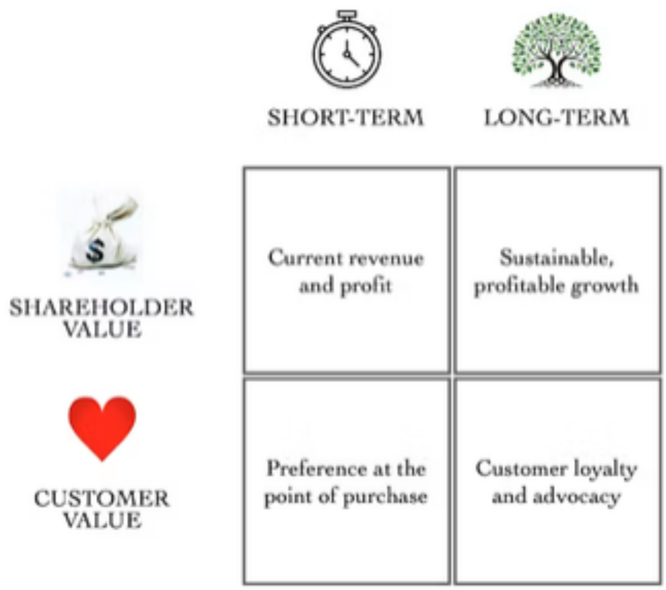
Nike under John Donahoe is just the most recent of the list of once great companies whose consumer franchise was hollowed out by financial "operators" who prided themselves on boosting earnings by cutting anything that accounting classified as a cost. Many once great companies – including Boeing, Home Depot, Chrysler, Kraft Heinz – are now shadows of their former selves because their CEOs acted as a second CFO.

A key task for any leader is reconciling tensions. In the job of leading a company as a CEO, we argue there are two specific tensions. The first tension involves asking, value for *who*?

Every CEO must balance the competing demands of investors and customers. Both want value for the money they are giving to the business. In the short term, the easiest way to increase value to investors is to reduce the value that you are giving to customers by cutting costs or raising prices. Equally, the easiest way to give more value to customers is to lower prices that you charge to them – but this reduces the level of return you generate for investors.

This highlights the second tension: value over *what time period*, or the trade-off between the short-term and the long-term. What is expedient in the short-term is rarely the best solution in the long-term.

The job of a CEO is to recognise both tensions and to find the right balance between creating value and monetizing it, and between current and future performance. Put simply, the CEO needs to satisfy all four quadrants of the diagram below simultaneously:



It is in the job description and DNA of the CFO to be biased towards the top left quadrant: maximising the current financial performance of the business. Likewise, it is in the CMO's job description and DNA to be biased towards the bottom right quadrant: securing recurring revenues from existing customers and building a pipeline of future customers.

The challenge is that while there is widespread consensus on how to measure performance in the top left quadrant (the KPIs of finance), there is almost no consensus on how to measure performance in the bottom right quadrant (the KPIs of marketing).

As a result, marketers keep getting lured into ROI conversations that are, by definition, discussions about short-term financial efficiency (top left quadrant) rather than discussions about their effectiveness in securing the long-term franchise of the business (bottom right quadrant).

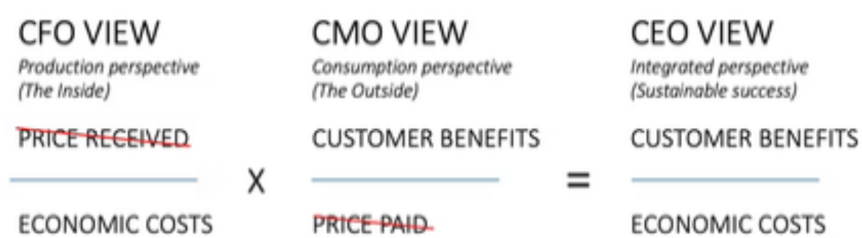
Price as bridge between production and consumption

Marketers need to understand the tensions that CEOs are tasked with reconciling as a crucial part of that job, and how their role fits into that equation.

We propose Pricing Power as the metric that marketers should be championing as the most reliable indicator that a company has built brand equity – delightfully defined by Tim Ambler of London Business School as a "reservoir of cash flow, earned but not yet released to the income statement".

Pricing Power is Warren Buffett's foundational criterion for investing. He defines it as "a company's ability to raise prices without curtailing demand or losing share to competition". It is the proof that your business is producing something that customers think is "worth paying more for". Over many years, not just one quarter. It reflects that the price you are charging is reasonable in relation to the perceived benefits that you are offering.

The importance of Pricing Power is evident when you consider how the perspective of the CFO and CMO integrate into the value equation that every CEO must manage – the relationship between customer benefits (the Outside) and the cost structure of the company's business model for delivering them (the Inside):



Price acts as the bridge between the production and consumption perspectives.

The customer's willingness to pay is what determines the revenue received by the business. Customers decide what your business is worth by how much they are willing to pay. As Drucker observes, internally, all you have are costs. Price is the bridge, it shows how much value you've created for customers and how much of that value you've captured as profit. Building Pricing Power is how a CEO satisfies both the customer on the outside and the balance sheet on the inside.

If too much focus is paid to customer benefits and insufficient attention paid to costs (the typical error of marketers), then the business tends to fail quickly. But if there is a focus on costs to the exclusion of benefits (the typical error of finance), then the business may do well in the short-term (congratulating itself on its expertise in "revenue management" and "cost optimisation"), but demand will collapse once the existing brand equity has been depleted.

The best business outcomes arise when the CEO works with the perspectives of both the CFO and CMO to focus on how to deliver the best relationships between the cost structure of the business and the strength of its customer franchise.

However, if the CEO exhibits Double CFO Syndrome, the company will systematically fail to invest in the sources of its future customers and revenue. Investor beware.