

PART I

WHAT IS VALUE-BASED IMC?

IMC: FROM COMMUNICATION TACTIC TO PROFIT- BUILDING STRATEGY

Integrated marketing communication (IMC)—a process through which companies accelerate returns by aligning communication objectives with corporate goals—has its roots in the boom times of the 1980s. Yet back then, few firms were interested in the idea of integrating any of their business functions. Companies were neatly divided into departments that operated as independent silos. Each one—whether it was responsible for particular products or services, geographic areas, logistics, or other activities—operated as a unique profit center. From the top down, a regimen of “command and control” kept all units operating by top-down direction. It was the rare exception for firms to think of integrating these separate functions. Fewer still felt there was any need to integrate their marketing or marketing communication (marcom). The problem? Business was good! And since businesses had enjoyed unprecedented growth when they were structured around specific functions and skills, most assumed that their prosperity had something to do with that organizational structure. All the signs indicated that businesses were structured appropriately—for many, profits were

consistently rising, shareholder value was at an all-time high, and there were career opportunities for employees at all tiers of the organization. So, why change business structures when everything was ticking along like clockwork?

To answer this question, we must first look outside the limited perspective of the U.S. business organization. Early moves toward integrating business activities were made soon after the end of World War II—but not in the United States. Instead, Japan and Europe led the way. To compete in what was swiftly becoming a global economy, managers needed to find ways to work across boundaries and borders. Those boundaries were not just geographic and cultural, but internal, too. Like voices crying in the wilderness, proponents of integration gradually influenced—or at least came to the attention of—corporate America. Management thinkers like W. Edwards Deming and Joseph Juran, for example, argued for the use of total quality management (TQM) systems based on the Japanese model they had helped to develop.¹ Michael Hammer and James Champy advocated organizational reengineering, while C. K. Prahalad and Gary Hamel championed organizational focus.² Yet despite the successes of cross-functional teams overseas, U.S. companies, for the most part, held on to the structures that had served them so well in the past. Nowhere was this more evident than in the marketing function. After all, U.S. managers had “invented” marketing. And that function was solidly and unwaveringly organized around four independent marketing concepts—the Four Ps of product, price, place, and promotion.

A Shift Away from the Four Ps

First popularized by Jerome McCarthy in the late 1950s and proselytized by Philip Kotler and other marketing academicians, the Four Ps quickly became the theory base for almost all marketing education and practice.³ It governed the manner in which businesses conducted their marketing activities. But notice there is no mention of customers or profits in the Four Ps model—a clear sign of its internal, “siloe” orientation. Using the Four Ps approach, managers managed things they

knew and controlled—selection of products, setting of prices, organization of distribution channels, and implementation of advertising and promotion programs. The theory was that if a company got each of the Four Ps right, business would grow and prosper. And the proof for this approach was right there in the growing marketplace. Or was it?

Well, it sure seemed to be. For more than forty years, companies spun out products and services as though there were an unlimited supply of customers or prospects. Nowhere was this more evident than in the United States. With pricing, too, profit optimization was the name of the game. The mantra “Never leave any money on the table!” encouraged marketers to believe that new, higher-paying or faster-using customers were easy to get—customer retention was not terribly important. Further, marketers controlled distribution—as “channel captains” of manufacturer-driven programs, marketers assumed they would continue to build their “value-adding chains” far into the future, governing the way in which their products reached customers. And for a long time, this inwardly focused approach really seemed to work!

In the 1980s, the first major business database, developed at Harvard University, allowed companies to monitor their activities and performance relative to their competitors.⁴ A new focus on “market share” as the key to future profits assumed that if the firm achieved a dominant—even monopolistic—share of the market, crowding out competitors and controlling customer choices, profits were sure to follow. And very often, that’s what happened. The result was that organizations spent more time trying to outthink, outmaneuver, and outpromote competitors than they did trying to understand their customers and prospects. Mass media, mass distribution, and mass promotion were all themes of business management well into the 1990s. And some companies continue to pursue these approaches even today.

But to get to mass, you had to have concentration, and this is where the silo system of organizational structure that had neatly accommodated the Four Ps model began to fall short. Achieving the economies of scale necessary to capture the lion’s share of the mass market meant concentration of product and promotion. It was no longer enough to outspend, outpromote, or outdistribute. To gain a stronghold in mass markets, cost efficiency—rather than more spending—was critical at

every stage of the supply chain, and this meant integration—not separation—of business functions. Among the first to realize this were retailers such as Wal-Mart, Home Depot, Toys ‘R’ Us, and Best Buy. These “category killers” found that by consolidating activities they could drive out smaller competitors and control more consumer dollars. Moreover, their size would allow them to influence and even dominate their upstream suppliers, the manufacturers. Almost overnight, the tables were turned. Retailers, until now merely distribution channel partners, suddenly became adversaries. And since manufacturers no longer controlled the distribution channel (place), the other components of the Four Ps model—product, price, and promotion—also began to slip from their grasp.

A Parallel Shift in Marketing Spending

As the Four Ps model began to show its flaws, similar factors were driving change in marketing communication, specifically advertising and promotion. Product proliferation, a plethora of new channels, and more competitive pricing all demanded new forms and types of marketing communication. In place of the so-called promotional mix of the early 1980s—which focused on the sales force, media advertising, and some forms of publicity—a new breed of communication strategies began to take shape. Sales promotion, direct marketing, and public relations activities all burgeoned as businesses sought ways to influence the behavior of customers and prospects in an increasingly cluttered marketplace.

Intent on keeping these interlopers in their place, old-line marketers—including advertising directors and general ad agencies—did what they could to maintain the status quo. New promotional techniques—including discounts, contests, and other incentives that increased volume only in the short term—were derisively referred to as “below the line” and were even thought to detract from the perceived value of the product or service. Traditional advertising was considered “above the line,” since it contributed to so-called value-adding activities designed to build brand image in the long term. Yet as the new

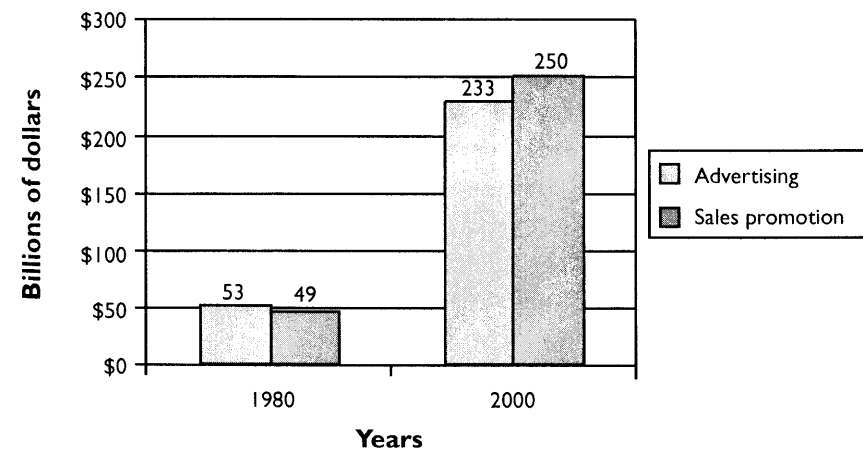
forms of promotion proved their worth—particularly in the form of measurable, incremental, fast-acting solutions to basic business problems—more and more marketing dollars were shifted to support them. Exhibit 1.1 illustrates the shift of funds from advertising to sales promotion during the twenty-year period from 1980 to 2000, which became a torrent of promotional dollars by the end of the 1990s.⁵

The world was changing fast, and once challenged, many of the old rules and methods of marketing were found wanting. Change was needed, but because of their prior successes, many organizations had become change-resistant. It was from this rapidly evolving marketplace of changing marketing and media alternatives that integrated marketing communication sprang into being in the mid- to late 1980s.

Demand for IMC

At its outset, integrated marketing communication was not a business model that marketers or advertisers demanded. Most were perfectly

Exhibit 1.1 Shift of Funds from Advertising to Promotion



From Robert J. Coen, Universal McCann, *Insider's Report*. Used with permission from Universal McCann.

content with the functionally structured approaches already in place. Instead, the interest in IMC came initially from outside client marketing organizations and from the ad agencies that served those clients. And there was a real need on the part of agencies to move to integration: it was called greed.

Historically, a majority of the marketing organization's promotional funds, particularly among consumer products companies, were invested in traditional advertising media: newspapers, magazines, outdoor, radio, and increasingly, television. Ad agencies earned their money from commissions they received on these media purchases. As agencies noted the shift to "below-the-line" promotional investments by their clients, they immediately sought ways to protect their income streams. They could either convince clients to keep spending on media advertising or, better still, they could capture the funds marketers were directing into sales promotion, direct marketing, and so on by providing those services themselves. Either way, they thought, those funds would keep flowing through the agency's doors.

The first move by agencies was to offer their clients "one-stop shopping" for all their promotional needs. Ad agencies quickly sought to either develop new expertise in the areas of sales promotion, direct marketing, and public relations or to acquire companies that already had these capabilities. The pitch to client organizations was that since the agency now offered a full package of services, there was no need to shop around to spend those below-the-line dollars. Young & Rubicam's "whole egg" approach and Ogilvy and Mather's "orchestration" were both attempts to give these new, seemingly integrated agency models a creative—and competitive—cachet.

Integrated marketing communication was off to a shaky start. Born from a desire to protect the agency's bottom line rather than provide improved, coordinated communication programs for clients, it seemed destined to fail. Client organizations were the first to spot its flaws. They saw no reason why they should consolidate their marketing communication programs in a single agency and forfeit long-standing relationships with proven specialists. While the idea of "one sight, one sound" had great resonance at management levels and among external, integrated agencies, it did not generate much interest among functional

managers who believed they had too much at stake to advocate a change in the status quo. In fact, an early study of the potential of IMC found that it could generate credibility as a business model only as a result of initiatives developed by client organizations, not by external ad agencies. And that meant either winning over those obstinate functional managers or changing the way organizations had been structured for decades.⁶

Drivers of IMC

Change did come, though not in the way most functional managers expected. Three shifts occurred in the mid-1980s to thrust IMC to the fore:

- The development and diffusion of digital technology across the entire spectrum of business operations
- The increasing emphasis on brands and branding as the major competitive differentiating tool
- The increasing focus on multinationalization and globalization as marketers spread across the traditional geographic boundaries

Today, there is one more key factor in support of IMC—the demand for value-based business approaches that generate cash flows and shareholder value. The demand for accountability in the form of six sigma, balanced scorecards, and the like is greater now than ever before. This concept of accountability and the measurement of financial returns on marketing communication activities are fundamental to the strategic, value-based approach to IMC illustrated throughout this book.

Technology

The desire to be customer focused—to understand and be able to respond to the needs of the customers one wishes to serve—has always been central to the marketing concept and a key objective of most marketing organizations. But it was not until the 1990s that computer tech-

nology made it possible for companies operating in mass markets to get close to their customers. The rapid development and diffusion of information technology in the form of data capture, storage, and manipulation made it possible for organizations to find out, for the first time, exactly what types of customers made up the mass market for their products. Organizations could also find out what motivated those customers to buy. Thus, while companies' activities had traditionally revolved around their products or services, they now had the opportunity to focus on customers and their wants and needs.

The rapid emergence of direct marketing during the 1990s is the most obvious early application of information technology to marketing. Indeed, direct marketing—with its focus on identification, contact, and measurement of returns from specific customers over time—was one of the key drivers in the development of IMC. Today, Internet marketers use technology-driven tools in much the same way. And even broad-scale marketing organizations such as retailers, banks, insurance firms, and auto dealers are making use of these same tools and techniques.

Branding

Since the 1950s, the marketplace has been one long series of new products, new technologies, and new innovations being sold to new groups of consumers and customers. "Innovate and grow" was the theme all through the 1960s, 1970s, and 1980s, even up to the early 1990s. From televisions to microwaves to computers to the Sony Walkman, companies brought innovation after innovation to the market. For the most part, each new product gave the originator a unique segment of the available consumer dollar.

Beginning in the mid-1980s, however, innovation became a competitive rather than just a market-leader tool. Emerging economies in Asia-Pacific and Latin America concentrated their resources not on innovation but on copying—and improving—existing products and technologies. The ability to duplicate innovations quickly became as important as the ability to innovate. A whole new breed of competitors emerged in the marketplace. Their *modus operandi*: find an innovative

product, develop an enhancement, manufacture in an emerging country with low labor costs, underprice the market and capture what was available, and then look for the next innovation to duplicate.

The rise of generic or copycat brands crosses every category from technology-driven products to store brands and private labels. In the pharmaceutical industry, for example, generics represent a full tenth of the drug market. And while branded pharmaceuticals are projected to grow by 6 percent in coming years, generics are projected to enjoy double-digit growth.⁷

Even a simple trip to the grocery store will tell you that private labels are growing exponentially. According to a recent report by the Private Label Manufacturers Association, two out of five primary household shoppers buy store brands regularly or frequently in supermarkets. One-third of drugstore shoppers do the same. Other studies show that the sale of private labels is substantially outstripping that of overall sales for supermarkets, drugstores, and mass retailers. In fact, between 1998 and 2002, private label sales increased from \$41.5 billion to \$51.5 billion, an impressive rise of 24.3 percent.⁸

Clearly, the market still has room for copycats, and faster technology and lower costs have contributed to their success. Yet as the price-driven, multicompetitor marketplace developed, a new form of competition evolved: the brand. True, brands had been around for centuries, but they had been viewed primarily as product or service identifiers, not as powerful marketing and management tools. That was soon to change.

Marketing organizations were not the first to recognize the financial value of brands. In the mid-1980s, investment firms discovered that brands, because they commanded a base of loyal customers, were able to generate income flows into the future despite relatively modest investments. This often made the future value of a successful brand more important than its present income flow. Further, the future income flows the brand could create were often worth a great deal more than the tangible assets of the organization that produced the branded goods or services. As a result, the focus of much marketing activity changed from communicating what the organization made or did to the creation of brands that had the power to increase the future value of

the firm. Intangible, rather than tangible, assets became the battleground for corporate raiders seeking to gain control over these future brand income flows. RJR-Nabisco, Rank-Hovis, and Rowntree are well-cited early examples of this transition.⁹

Globalization

The third factor that drove the emergence of IMC was the increasing globalization of the marketplace. While organizations such as Nestlé, Unilever, and Coca-Cola had marketed outside home borders for years, they were the exception rather than the rule. Driven by the emergence of new trading blocs such as the European Union, ASEAN (Association of Southeast Asian Nations), and MERCOSUR (Southern Common Marketplace) and the restructuring of Eastern Europe, brands began to cross national lines in ever-increasing numbers. In addition, firms began to stretch their wings through acquisition and consolidation. And with the rise of electronic communication systems, companies were able to operate in real time twenty-four hours a day, seven days a week, around the globe. Thus, the demise of borders and the growth of multinationals, always seeking new markets and new opportunities, created a completely altered global marketplace in the early twenty-first century.

With increased globalization came the need for organizations to change their communication strategies. It became critical to create a unified, consistent, and integrated brand strategy while remaining responsive to the unique needs of individual markets and cultures.

These three driving forces—technology, branding, and globalization—converged in the 1990s, pushing organizations toward integration of multiple business strategies, including marketing communication. In short order, integration—the alignment and coordination of marketing activities around the singular focus of the brand—became not just acceptable, but mandatory, in many organizations.

The primary holdouts to integration during this time were the large ad agencies and the holding companies that owned them. Ironically, the tables had turned and the very firms that had preached IMC were now reluctant to embrace it. The reason? Control. It had proven an all but

impossible task for agencies to convincingly offer advertising, direct marketing, and public relations as a one-stop shopping package for the simple reason that this meant transfer of control from the client organization to the agency. Once organizations set out to integrate marketing communication under their own steam, IMC suddenly became a threat to the agencies that had once championed it.

IMC IN ACTION

While most large ad agencies failed to overcome the functional chasm that scuttled their attempts to integrate marketing communication for their clients, there are some early success stories. Most are from smaller or regional agencies, particularly those serving business-to-business and service organizations. The standouts include The Phelps Group (Santa Monica, California), Kilgannon McReynolds (Atlanta), Price McNabb (Charlotte, North Carolina), and Slack Barshinger (Chicago). All have practiced the underlying principles of integration coincidentally, some long before the emergence of IMC as a formal business model.

The Phelps Group believes that if a variety of tools is used to reach the consumer at different contact points, they can all work together to communicate consistent core product benefits and brand image. The distinguishing characteristic is the group's lack of functional departments for each discipline. Instead, the company works in what it calls "pyramids," composed of specialists and coaches who bring specific expertise to the various teams. For each project, discipline specialists meet initially to ensure that their objectives are well integrated into the plan before they begin the creative process. While this process requires an investment of time at the start of the project, it ensures that in the long run all marketing messages are coordinated, aligned, and—as a result—more effective.

Kilgannon McReynolds starts its process by looking among the client's customers and prospects for those segments that

represent the greatest growth potential. According to founder Rena Kilgannon, "The agency itself has its own position, which is straight out of the IMC philosophy. The philosophy is built around 'Find. Keep. Grow.' This demonstrates the agency's commitment to help clients find new customers, keep old ones, and grow share among them."

Kilgannon McReynolds achieves this objective by reviewing all channels through which a customer or prospect could get information about a particular product or service. Next, the agency analyzes all messages being communicated in and through those channels. Additionally, the agency questions the current status of the product or service: What is going on? What is working? Why? What is not working? What still needs to be done?

Recently, Kilgannon McReynolds established its own advertising return-on-investment model. With this model, the agency can now tell a client that, for instance, its advertising was not effective, yet its public relations had a big impact on its success. Tools like these give the client the added value of an integrated perspective; rather than just focusing on separate elements of the marketing mix, the client gets a complete and—more importantly—integrated view of the business.

Agile, innovative agencies like The Phelps Group and Kilgannon McReynolds have proven that integration can work. Not only are they challenging the more traditional approaches used by larger national and international agencies, they are finding ways to demonstrate that IMC-based programs pay out for their clients.

New Challenges

By the end of the 1990s, IMC was on its way to becoming established as a legitimate marketing approach. While many organizations evolved to become the more fluid structures the new business environment

demanding, only the most change-resistant argued in favor of keeping the old silo structure intact. Global, cross-functional teams replaced departmental structures, making way for the new marketing communications model that IMC represented.

One other factor pushed IMC to the fore: the explosion in Internet technology and E-commerce. The rapid emergence of electronic communication in which real-time buyer-seller interaction became possible gave rise to a sudden and more pressing need for integration. While IMC started as a means to coordinate and align *outbound* communication, quite suddenly it became a means to integrate all company-customer interactions, both outbound and *inbound*. The objective—to create meaningful and ongoing customer contact—remained the same, but IMC shifted from a focus on one-way, outbound communication to the creation of an interactive, two-way channel between the organization and its customers.

With this new, broader scope, IMC has progressed from a communication-only approach and is on its way to becoming a full-fledged business strategy. Unlike any other business model—including the highly touted customer relationship management approach—IMC uniquely integrates all the pieces of an organization around a single factor: the wants and needs of customers. Satisfying those wants and needs leads to the core business objective of creating value for shareholders. And that is the objective of this book: helping practitioners move from seeing IMC simply as a means of coordinating communication to viewing it as a core business strategy that is based on measurable communication inputs and outputs.

Moving On

In the early 1990s, when Don Schultz, Stan Tannenbaum, and Bob Lauterborn wrote *Integrated Marketing Communication: Putting It Together and Making It Work*, which has since become the seminal work on IMC, the goals were simple and quite clear. We wanted to help organizations bring together all the disparate tactics of external communication and put them together as one coherent whole for the benefit of

the customer and prospect. With that, we believed, came some basic benefits for the organization as well. Yet the focus remained squarely on what the seller wanted to communicate or persuade the buyer to do or think or feel. The approach was mass market oriented in that communication revolved around what *the organization*, not necessarily the customer, felt was important. Our application of emerging technologies was crude by today's standards. Yet with all its limitations, IMC endured and proved—at least in concept—to be the precursor of several other business models, ranging from the “one-to-one” and mass customization approaches of Peppers and Rogers to the newest data-mining techniques of organizations such as Axiom, Harte-Hanks, and EDS to the customer relationship management initiatives of Siebel, SAP, and Epiphany.¹⁰ For better or worse, it was accepted as a basic business tool and was put into practice by such organizations as Dow Chemical, CIGNA Insurance, Kraft, FedEx, IBM, Dell, and Hyatt International, to name just a few.

So, where does all this lead us in today's business environment, and what is the future value of IMC? Is mastering the coordination and alignment of outbound marketing communication programs all there is to it? The answer, as you've probably guessed, is no. Integrated marketing communication has come a long way since the days of functional silos, but it still has much further to go. The next logical step is for organizations to leverage IMC to meet the challenges and opportunities that globalization and the rapid pace of technology offer. As the marketplace becomes more cluttered and confusing than any of us ever imagined possible, the value of fully integrated marketing communication systems increases. In many cases, such systems will separate those companies that thrive and prosper from those that ultimately fail. For if a firm cannot master communication, if it cannot use communication to influence and bind customers to it, if it cannot turn its brand and brand relationships into a sustainable competitive advantage, and if it cannot find ways to use communication to build long-term brand loyalty, that firm will not survive.

The chapters that follow explain how IMC can play a vital, strategic role in the future of today's organizations. In the next chapter, we take a closer look at how IMC has evolved, with particular emphasis on best

practices where results have been proven and benchmarked. Future chapters use this core knowledge and experience to explore how IMC can best be leveraged by organizations in the future. To work effectively, integration requires major changes within organizations, changes that straddle structure, focus, workplace behaviors, and compensation. It also requires new approaches to the financial aspects of marketing communication, that is, how much to invest and how to measure results. Remember as you read that IMC is far from being a static business model; it's a dynamic process that will prove critical in helping organizations compete in a radically changing business environment.