



GUIDING PRINCIPLES OF VALUE-BASED IMC

As demonstrated by the best practice benchmarking study discussed in Chapter 2, most firms typically go through four stages of evolution on their way to reaching a totally integrated marcom program. The process places new demands on both the organization and marcom managers. In later chapters, we explore how exemplary firms have successfully made the transition from one stage to the next. This chapter lays the groundwork for the integration process by identifying and illustrating the basic elements that must be developed before the firm can proceed beyond the rudimentary stage of coordinating the traditional functional elements of marketing communication.

Before we begin, let's look again at where we are going. In the previous chapter, IMC was defined as "a strategic business process used to plan, develop, execute, and evaluate coordinated, measurable, persuasive brand communication programs over time with consumers, customers, prospects, and other targeted, relevant external and internal audiences." This definition has four key elements. First, it clearly elevates marcom from its traditional role as a tactical activity to a strategic management tool in which finite corporate resources can be invested and returns calculated. In short, IMC is promoted from marketing tactic to business strategy.

Second, this definition expands the scope of marketing communication. Rather than being confined to communication specialists who develop primarily external communication to targeted customers, consumers, and prospects, the new IMC involves the whole organization. It spans the entire spectrum of brand, customer, product, and service contacts the firm has with all stakeholders at all levels.

Third, as defined here, IMC requires ongoing measurement and evaluation. Stewardship and evidence of return on the IMC investment are integral to the process and must be built into all communication plans.

Fourth, the fact that IMC achieves desired results “over time” separates it from traditional communication programs. Unlike the “campaign” approach that represented communication efforts in the past, IMC is an ongoing process that boosts performance in the long term as well as the short term. While individual promotion activities or events may have an immediate impact, IMC requires evaluating these activities not only as separate events but as part of an overall and ongoing program that continues to contribute to results—and to build long-term relationships with customers—over time.

The best possible way to understand any new concept is to see it at work. An excellent example of the new IMC in practice is Intel Corporation’s “Intel Inside” program. As you read Intel’s success story, consider how effectively the company put the key elements of IMC in place to achieve a sophisticated level of integration over time.

IMC at Work: Intel Inside

The Intel Inside program was not conceived as an IMC initiative. Rather, it was developed as the solution to a major competitive challenge Intel Corporation faced during a critical time in its organizational history. In the 1980s, the company identified its products by assigning each a number; the number 286 indicated a certain level of technology, 386 a higher level, and 486 something higher still. As the silicon chip business became increasingly competitive, Intel’s numbers were adopted

by other manufacturers to signal the technological capability of their products. Competitors began to identify their chips as “386-type.” Intel tried to protect its numbers from competitive infringement by attempting, in effect, to trademark them as brands. However, the federal courts objected, and the numbers Intel had devised essentially became the de facto names of certain levels of technological development in silicon chips.

Intel needed a way to both differentiate its offering and protect its investments in research and development (R&D) and its intellectual property. The company created the Intel Inside logo to signify that the chips inside various brands of computers were manufactured by Intel. As the firm developed more advanced technologies, such as Pentium and Celeron, those products also carried the logo. Intel’s success was phenomenal. For instance, in 1991—immediately preceding Intel Inside—the company’s market capitalization stood at about \$10 billion. By 2001, Intel’s market cap had grown to \$260 billion.¹ If even a tenth of the increase in market value can fairly be attributed to Intel Inside, the net result of the marketing, communication, and branding program accounts for more than \$25 billion over a ten-year period. By 2002, *Business Week*’s annual “Top 100 Global Brands”—a survey conducted by Interbrand using a proprietary valuation method—pegged Intel’s brand value at \$30.6 billion, making it the world’s fifth most valuable brand, topped only by Coca-Cola (\$69.6 billion), Microsoft (\$64 billion), IBM (\$51.2 billion), and General Electric (\$41.3 billion).²

While it began as a way to differentiate products from competing brands, Intel Inside involved far more than the creation of a logo. What did Intel do to build not only market value but consumer value as well? How did Intel go from being a rather late entry in the silicon chip business to the icon of the industry? More important, how did Intel build marketplace value for a product that most end users had never seen and could not easily compare with competitors, whose purpose they did not understand, and whose value was virtually impossible to measure? Silicon chips, after all, are only one component of a computer. But Intel Inside succeeded in giving that component a manufacturer, channel, and consumer cachet that rocketed the company to the top of the computer

chip industry. In essence, Intel Inside came to signify the development of a brand and brand value in the technology industry while at the same time becoming a household name.

At the first level of integration (see Exhibit 3.1), Intel pulled all the right levers and pushed all the right buttons. The company took a simple concept, the Intel Inside brand, and through brilliant creative and graphic design, created an image and identity that had real marketplace appeal. In an arena where many computer purchasers felt uncomfortable making product choices, Intel provided simplicity and assurance, giving customers and consumers all they wanted and needed when making a major purchase investment.

The critical ingredient was the integration of Intel's marketing and communication activities. The Intel Inside logo was used throughout all marketing and communication activities and provided the basis for the entire program. Every piece of advertising, direct marketing, pack-

Exhibit 3.1 Early "Intel Inside" Ad



Used with permission of Intel Corporation.

aging, public relations, and internal and external communication was developed to have the same look and feel and shared the same strong graphic elements. Everyone—consumers, manufacturers, channels, the financial community, shareholders, and employees—was exposed to the new look. In short, Intel Inside was totally integrated at the tactical level—a perfect example of the “one sight, one sound” concept. Exhibit 3.1 shows an early Intel Inside ad. A comparison with ads that you will find in many magazines today shows how consistently Intel has used the same tactic over time.

The success of Intel Inside, however, went far beyond achieving “one sight, one sound, one concept.” Its real value came from the way the program was able to span several traditional sales and marketing boundaries. It “pushed” the product concept into the marketplace and at the same time “pulled” it through manufacturers and channels. Key to achieving this was the substantial incentive package Intel gave computer companies such as Dell, IBM, Toshiba, and Gateway to include the Intel chip in their products. Intel encouraged every manufacturer using its chip to identify that use with an Intel Inside sticker on the computer's outer housing. Through various co-op advertising agreements, Intel was able to provide incentives for manufacturers to advertise Intel processors as an integral part of their products.

Aggressive incentives did not stop at co-op advertising but continued through distribution channels. Intel offered geographic marketing development funds, in-store displays, and similar programs to encourage retailers and distributors to display, promote, and sell the value of Intel Inside, regardless of computer manufacturer. Intel's goal was to make the manufacturer/channel combination as seamless as possible.

Finally, Intel invested substantial amounts in consumer marketing and communication programs to convince consumers and end users that they need only look for the Intel Inside logo to assure themselves they were getting the most advanced, most dependable chip technology and, by implication, the best computer available. This end-user program was particularly important since many buyers, particularly first-time purchasers, didn't understand the technology involved and had difficulty evaluating specific chip innovations in terms of price value. However, if

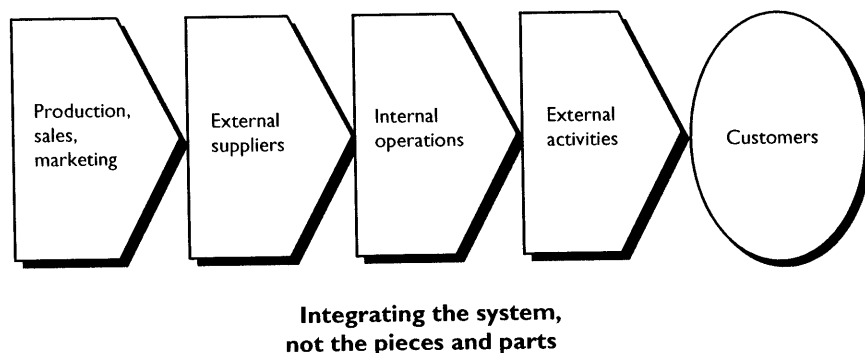
the prospective buyer knew there was an Intel chip inside, many of their questions were resolved or their fears diminished.

Through a single, integrated approach, Intel was able to push its product to and through computer manufacturers, into the distribution channels, and then on to the final purchaser. Exhibit 3.2 demonstrates how the program progressed. Intel Inside started inside the organization with an internally integrated team of sales, marketing, and production groups. It then integrated and aligned all the various external Intel partners such as the computer manufacturers, the channels and distribution systems, and those involved in external communication programs as well. All were focused on influencing the end user of the product to make a final purchasing decision.

It is important to note that Intel, like other successful IMC initiators, recognized that integration must first take place *inside* the organization. Here, that meant bringing engineering, production, operations, logistics, finance, and so on together and getting them focused on the one key element they had to support—the Intel Inside brand and communication program. This required training and development and, most of all, ongoing senior management commitment to the concept and its execution.

Next, Intel had to align its immediate customers, primarily computer manufacturers, behind the program. Then came channel partners, such

Exhibit 3.2 External and Internal Alignment System



as computer retailers, distributors, value-added retailers, catalog sellers, and all the forms and methods by which a consumer or customer or prospect could obtain a computer with an Intel processor. Finally, Intel focused on external communication programs, including advertising, promotion, point-of-purchase, public relations, trade dress, packaging, and all other communication channels through which Intel Inside reached the ultimate consumer.

It is important to remember that while consumers were the last to be exposed to the program, they were the most critical group. After all, if Intel couldn't convince people to dig down in their pockets to buy a computer with Intel Inside, then the entire program would fail. Intel Inside worked because at all stages it was focused on the ultimate consumer; it was a totally integrated program that brought all the participants in the value chain together to deliver value to that final purchaser.

It is clear from the Intel Inside example that IMC is far more than a marketing or communication tactic or technique. It is a process or system that encompasses the activities not only of the firm but of all its internal and external contacts. Unlike other marcom efforts, IMC is clearly strategic in nature, oriented around the firm as a whole rather than around marketing activities.

How well did Intel Inside measure up to the four-part definition of IMC? First, Intel certainly viewed its program as a strategic issue rather than the domain of marketing alone. Second, the program involved all parts of the organization, including external partners and channel members. The same concept was delivered across all markets, segments, customers, and prospects. Third, the program was developed, executed, and measured against objectives. Finally, Intel Inside has been a long-term and ongoing commitment.

Eight Guiding Principles of IMC

Case examples like Intel Inside help identify certain elements that underlie a strategic, value-oriented IMC approach. Here, we will examine eight guiding principles of IMC that are key to developing and

executing an integrated program. The principles evolved from practitioner examples as well as from solid theory and comprehensive research into media and channel organizations and consumer product companies. The principles are global, crossing national and cultural boundaries. They represent the core concepts an organization must embrace and practice—both internally and externally—in order to succeed in the customer-focused, interactive global marketplace of the twenty-first century.

Guiding Principle 1: Become a Customer-Centric Organization

The ultimate end user, customer, or consumer must be at the center of any type of integration. In the increasingly complex global marketplace, the term *customer focus* has taken on many meanings. For the purposes of IMC, a customer-focused (or customer-centric) organization is simply one that considers the ultimate purchaser or consumer of the product first, foremost, and always. Although important, wholesalers, retailers, and other intermediaries are not as critical to a customer-centric organization as those who eventually buy or use the product. The intermediaries are simply that—middlemen in a value chain—and while they have a role to play, it is secondary to that of the ultimate customer.

Over the years, several organizational concepts have drifted in and out of popularity. Some focus on building shareholder equity in the form of dividends and increased share prices, while others favor building the organization for the benefit of employees or the community at large.

Our view is simple but clear: the organization must focus on its end-user customers and consumers. Those are the only people or groups that can provide income to the firm. Customer-generated income flows enable the company to provide employee benefits; reward shareholders for their investment and risk; and provide society with the benefits a well-run, socially responsible organization can generate. Unless the firm is financially successful, it cannot reward employees, shareholders, management, or society. Therefore, the approach in this book is unam-

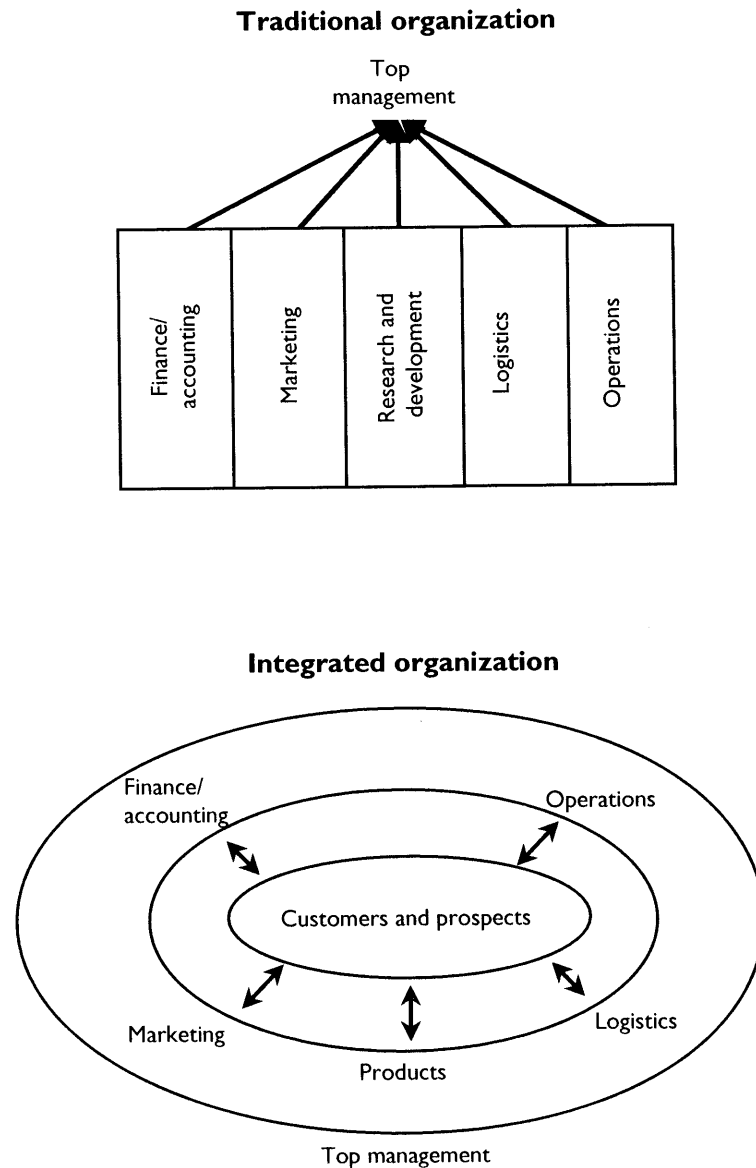
biguous: the company must focus on its ultimate customers, for they are the only ones who provide the resources and therefore the rewards for everyone involved.

Most organizations are structured on a hierarchical basis, a “command-and-control” approach that can be traced back to the Roman legions. Within the hierarchy, managers focus on activities, elements, or units that perform certain activities and over which they can exert some direction and control. Each of these separate fiefdoms or silos is focused on what it does best but not necessarily on the customers the organization ultimately serves. Further, between each silo there is little cross-functional interaction that helps align the various elements to benefit customers. The firm is, in essence, inwardly focused. Employees are taught that success is based on the efficient completion of various activities or tasks, not whether customers are happy or satisfied.

Unsuited to siloed organizations, IMC thrives in organizations that revolve around the customer. Exhibit 3.3 clearly illustrates the difference. In a customer-centric organization, the customer is at the center. All functional activities, elements, and units are directed toward and focused on providing customer benefits, filling customer needs, or satisfying customer requests. The key goal of the firm is to serve and satisfy the customer and build loyalty and ongoing flows of income from those customers.

Because of their common focus, members of a customer-centric organization work together to provide the best customer products, services, and solutions. For example, to provide total customer satisfaction, there is a clear need for manufacturing to talk with logistics and distribution. Similarly, there is a natural reason for accounting to interact with marketing and so on. Thus, once the firm adopts the concept of becoming customer centric, there is suddenly a need for total integration of the various functional groups within the firm. Integration at all levels becomes the norm rather than the exception.

Perhaps there is no better example of a customer-centric company than Dell. From consumers to large businesses, Dell's business model and culture is completely driven by the needs of its customers. For instance, the firm uses its Premier Dell.com service to customize products and services for large corporate clients. A client can log on to a

Exhibit 3.3 Traditional vs. Customer-Centric Integrated Organizations

custom-created Premier site and shop for desktops, notebooks, servers, storage, and related services. The client company can view its contracted prices for Dell products, see a list of company-approved components and accessories, review past purchases, and find contact information for Dell service representatives. By allowing end users to view pertinent information about their company's contracts with Dell, Dell establishes one-to-one relationships with the people who use its products and services firsthand.³ After purchasing a Dell computer online, Dell customers receive immediate confirmation of their order and delivery date. Additionally, if a customer has questions or experiences problems, help is only a phone call or an E-mail away. As follow-up, Dell sends an E-mail to the customer to assess satisfaction. The organization has successfully set up a multichannel customer service feedback system that differentiates it from many other computer marketers.

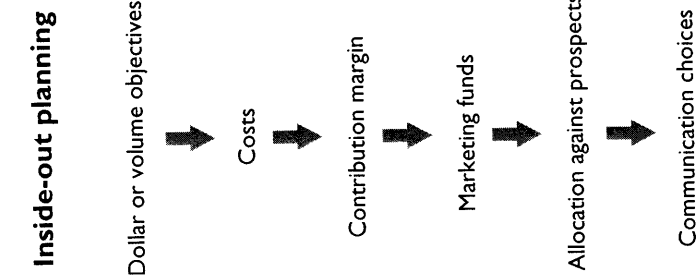
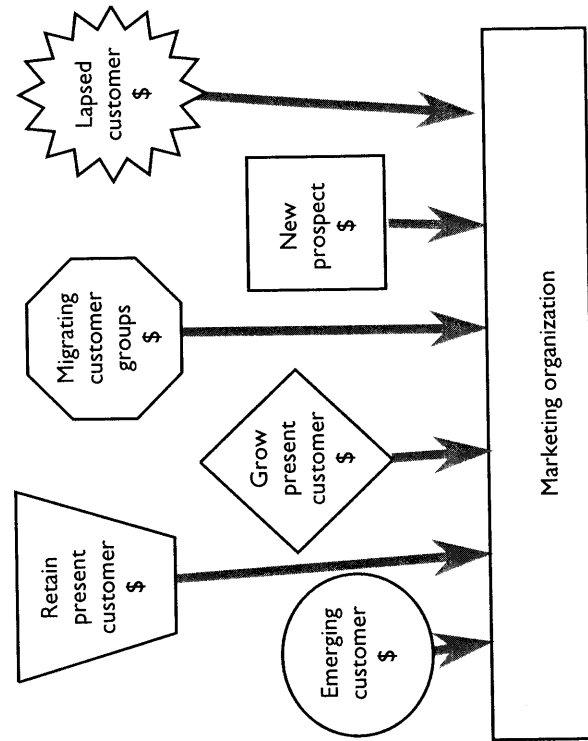
Guiding Principle 2: Use Outside-In Planning

Achieving a customer-focused system is generally impossible unless and until the organization fundamentally changes its marketing planning approach. This is because customer focus means more than servicing existing customers; it means that the company has succeeded in structuring its business systems—from budgeting and planning to operations to delivery to performance evaluation—around its customers and prospects. This is often a radical change for many enterprises.

The most common method of planning and budgeting for marketing is shown on the left-hand side of Exhibit 3.4. We call this the inside-out planning approach. It starts with what the organization wants to achieve and then forces various activities into a series of steps that will hopefully produce the desired results. Planned volume or financial goals drive the marketing and communication investment or spending levels. If anticipated goals are achieved, the firm is then willing to use a portion of sales to buy further marketing and communication activities.

Clearly, in the inside-out approach there is no recognized connection between marketing spending and expected sales results. In fact, just the opposite is true—sales success creates marketing funds. This is a most illogical approach but one that is widely practiced in all types of

Exhibit 3.4 Inside-Out Planning vs. Outside-In Planning

**Outside-in planning**

organizations. Since there is no assumed relationship between marketing and sales, management has little expectation of any measurable financial return on its marketing and communication investments. In fact, the management view is generally "If the marketing expenditure can be reduced, so much the better for the bottom-line results of the company. Funds not spent are funds retained, and funds retained can be taken to the bottom line."

While this approach is filled with flawed assumptions, it is the methodology most companies around the world use to develop, implement, and fund marketing and marcom programs. The IMC alternative is to flip the inside-out model to create the outside-in approach illustrated on the right side of Exhibit 3.4. Here, the marketing or communication manager views customers and prospects not as units of expense but as income flows to the firm. The goal is to manage the creation of demand and income flows rather than products and costs.

In the IMC approach, the key marcom task is to generate and retain customer and prospect income flows using various marcom tools, programs, and activities. While here we discuss the management of income flows as the primary task of marketing and communication people, in truth, it is the responsibility of the entire firm, all employees, all functional groups, all elements to develop, cultivate, and maintain those customer income flows over time.

Guiding Principle 3: Focus on the Total Customer Experience

Closely linked to the customer-centric requirement is the understanding that a strategic IMC approach is focused on the customer's total experience with the product and the firm, not just on marcom activities. The IMC manager's goals must move from a limited view of externally delivered, traditional marcom activities to the total relationship the customer has with the brand and firm. *Total customer experience* encompasses how the product or service performs in the marketplace, how it is obtained, the capability of channel members to provide products in a timely and efficient manner, how customer service is delivered, and what type of social impact the firm makes in the community it inhabits.

The goal of a strategic approach to IMC is to look at the customer experience holistically—that is, to determine all of the drivers that positively (or negatively) affect the experience as the customer perceives it—and then to manage accordingly. Thus, an organization must determine the following:

- Who its customers are from behavioral or other data
- What experiences they have had with the company
- What offers the company can or should make in its marketing and communication programs that will deliver the desired experiences
- How products, services, and people will be configured to deliver that experience

At this point, the traditional marcom manager is apt to say, “Those aren’t my responsibilities. They belong to manufacturing or sales or channel partners or corporate management.” Such an argument has little value in today’s interconnected, interrelated, networked, and increasingly global marketplace. The company is the brand and the brand is the company. Anything and everything that sends a message, provides an experience, or relates to the product or service is something that must be considered, managed, and measured.

The formal marketing and communication programs the company develops and delivers to customers and prospects are only a tiny sliver of the overall and ongoing communication the customer has with the brand and the company. The firm is continuously communicating with its customers and prospects in myriad ways, both planned and unplanned. The real challenge of marketing and communication management is to integrate the total communication system, not just the pieces and parts of the controlled communication the firm develops and delivers.

Put quite simply, the customer will eventually integrate the organization’s communication whether the company does or not. The purpose of IMC is to lighten the load on the customer and make sure the impressions delivered are advantageous for the company.

Since brand and company integration will occur, whether planned or unplanned, it simply makes sense for an organization to practice total

integration as much as possible. The only question is whether the integrated view of the firm and its products is the one the company wants the customer to have or something that can and will be detrimental to any ongoing relationship.

Strategic integration reaches far beyond traditional marketing and communication roles or activities. It is about customers and their beliefs, feelings, and experiences with the firm. That comes from all the ways the firm and the brand touch customers and prospects.

Guiding Principle 4: Align Consumer Goals with Corporate Objectives

It often appears to external consultants that marketing and communication groups live in their own world and are oblivious to the direction of the firm whose products and services they are trying to promote. The edgy and often unrelated creative executions used by the dot-com firms in the late 1990s provide evidence of that problem. Creative? Perhaps, yes. Effective marketing communication? Probably not. It is a rare company that can be creative and still remain grounded in effective business strategies.

The difficulty is in aligning the organization’s goals with those of customers and then supporting those goals with the appropriate marketing and communication programs. The realities of conducting an ongoing business in a highly competitive global environment make it difficult for management to achieve balance between what the customer wants and what the firm is able to provide. It is quite possible for an organization to market itself into bankruptcy if the proper level of customer wants and needs and corresponding company goals and objectives is not selected and maintained. Achieving such a balance in the rapidly changing business environment means aligning marketing and communication goals more closely with those of the organization as a whole.

In most organizations, corporate direction comes from top management. This means that to fall in line with that direction, marketing must be privy to it. Only when marketing is fully aligned with corporate direction can relevant IMC programs be developed. The changing mar-

ketplace also leads to changes in corporate objectives. Today's business climate, for instance, prioritizes the generation of short-term cash flows above the attempt to build or acquire longer-term shareholder values. The trend toward building shareholder value primarily by increasing the market capitalization of the firm is another example. Given these two corporate objectives, there are only three strategic levers available to top management seeking to achieve them:

- Invest in or enhance products or services, that is, R&D initiatives.
- Invest in the supply chain, that is, efficient customer response (ECR) and enterprise resource planning (ERP) initiatives.
- Invest in customer relationships, that is, communication, customer relationship management (CRM), and other brand-building initiatives.

These three levers are key tools to drive the firm. In the past, R&D alone fueled growth as new and innovative products were rapidly brought to market. Today, technological advances that allow competitors to duplicate and improve innovations quickly reduce the power of the R&D lever. A singular focus on innovation is a risky way to drive overall company growth.

Faster, more efficient supply chains drive growth by taking the friction out of getting products through plants and distribution systems and into the hands of consumers. Today's organizations make substantial corporate investments in initiatives designed to assist the firm in becoming more efficient in the development, delivery, and logistics and distribution of its products and services. Such initiatives include ECR, sales force allocation models, and shortened value chains.

The third management lever is to improve or enhance the firm's customer understanding and customer relationships. In other words, firms seek to become more effective at marketing and communication to attract and retain more and more profitable customers over time.

Looking at these three levers, we can clearly see that marketing communication has a significant part to play in achieving overall corporate objectives. In the past, marketing and communication in many organizations were relegated to tactical support activities and were not con-

sidered strategic initiatives. The advent of new technologies that allow for the capture, storage, and analysis of massive amounts of customer data, making customer-focused initiatives possible and practical, carve out a new strategic role for marketing and communication as well.

If they are to be strategic, however, marketing and communication must prove their worth in terms of demonstrable returns to the organization. This is where the IMC approach succeeds and traditional marketing initiatives—even the much-touted CRM—fail. By providing demonstrable returns, we mean that IMC must go much further than traditional communication goals such as building brand awareness or recognition. It must achieve management's financial goals, too. For example, if senior management is to invest in marketing and communication, the objectives of those programs must deliver specific, measurable financial results, such as top-line growth, bottom-line growth, increased market share, increased revenue per customer, and so on. The IMC objectives, which are completely aligned with corporate goals, must do one of the following:

- Generate short- and long-term cash-flow increases greater than the cost of the marketing and communication program used to achieve them.
- Accelerate cash flows—that is, move the flow of income from customers and prospects forward in time, or increase the speed with which those cash flows are acquired.
- Stabilize ongoing cash flows. In many organizations, cash flows come in peaks and valleys, high one month and low the next. The capacity of marketing and communication to flatten those cash flows or smooth them out reduces the operational cost for the company.
- Build shareholder value by increasing the equity of the firm or the brand. Strong brand equity is recognized by the financial market and commonly increases the share price of the firm, both of which will provide value for the shareholder.⁴

In industry after industry and category after category around the globe, we have observed marketing communication programs that were

unrelated to one or any of the four corporate objectives listed here. Marcom managers invest financial resources of the firm to build or buy communication programs. Therefore, it is vital that the returns achieved be identified in terms of the financial outcomes they have generated or can/will generate. This is a theme we will return to again and again throughout this book.

Guiding Principle 5: Set Customer Behavior Objectives

For all the seeming complexity of marketing and communication plans, firms want only four outcomes from them:

- **To acquire new customers.** This is a fairly straightforward marketing goal and has traditionally been the primary focus of many communication efforts.
- **To retain and maintain present customers.** One of the goals of managing present customers is (at least) to maintain them at their current level of activity and income flow. In some categories, customers are limited by the number of times they can buy a product during a given period. For example, an automobile owner generally renews collision coverage once a year, just as magazine readers will generally only need to buy one subscription each year, at least for their own use. Thus, the primary task in these situations is to ensure the retention of the customer's current business before attempting to add on additional products or services.
- **To retain and grow sales volume or profit from existing customers.** Generally, this involves getting present customers to buy more, use more, or find different uses for the products or services they are purchasing now, any of which means a growth in volume or value for the firm. The challenge here is to stimulate demand for the product or service among those people who already use it.
- **To migrate existing customers through the firm's product or service portfolio.** In this instance, the goal is to get a present customer to purchase alternative, higher priced or higher margin products or services in the firm's line. Business hotels promote the

benefits of their higher priced executive floors with concierge services, while automobile manufacturers attempt to get car buyers to upgrade to a more elaborately equipped model.

Critical to all four activities is that marketing communication must affect customer or prospect behavior. It must reinforce present behavior, assuming it is currently profitable for the organization, or it must change the behavior to encourage trial or increased usage. The key ingredient in the IMC process is influencing behaviors, because it is behaviors that provide income flows to the firm from customers and prospects. Thus, with this approach, we have already set up a generalized system of measurement by understanding two key characteristics of IMC. First, IMC is designed to influence the behaviors of customers and/or prospects. Second, those behaviors can be measured and valued in financial terms. The goal of IMC—to influence a measurable change in the behavior of customers and prospects—gives a good checkpoint against which to evaluate potential IMC programs and alternatives. We will keep coming back to this idea of behavioral influence or change as we work through the IMC process.

Guiding Principle 6: Treat Customers as Assets

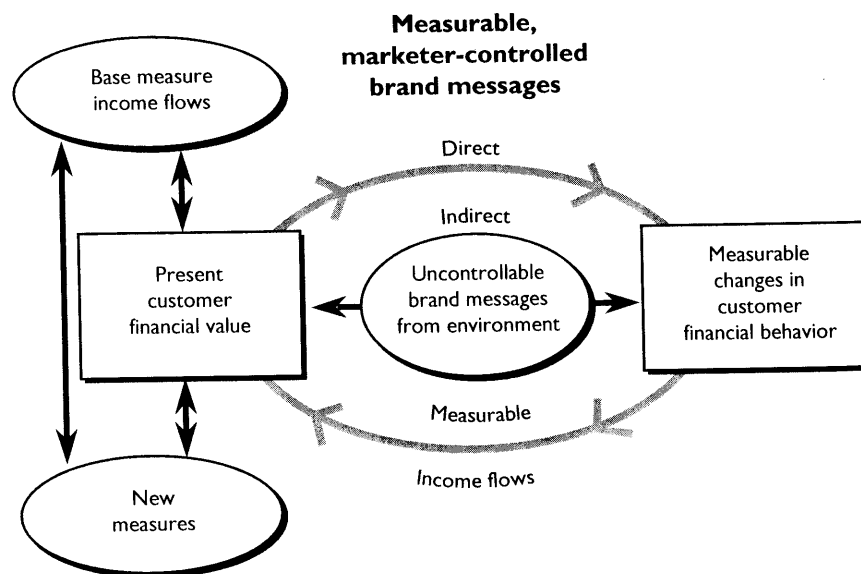
Closely related to the financial issues described in principles 4 and 5 is the concept that the firm must begin to consider customers its true assets. The customer, in most instances, is the primary unit that generates income flows for the organization. Almost all of the other activities and initiatives of the organization are really cost centers. So, a key ingredient of the value-oriented IMC system is the understanding that marketing and communication managers are asset managers. That is, they are or should be responsible for the initiation, continuation, and maintenance of customers, the source of the firm's income flow.

Once the firm starts to consider customers as flows of income, it can then take the next logical step, that is, treating customers as assets. That means making investments in customers and prospects and then expecting or anticipating returns on those investments. This allows the IMC manager to move to the next step also—the viewpoint that investments

in advertising, direct marketing, or public relations are not really promotional purchases at all. Instead, they are investments in the customers and prospects who receive and might react to them. For example, effective marcom managers do not purchase television advertising time with the expectation that any return will come from that activity. Instead, they recognize that the investment is made in customers who may see or hear the television commercial and either increase or continue the flows of income to the organization.

Exhibit 3.5 illustrates this idea of a closed-loop system. Investments are made in customers through various types of marketing and communication programs that generate measurable response in the form of continuing or increased income flows back to the organization. To close the loop in treating customers as assets, the IMC manager must find some way to measure the value of a customer or customer group. In the strategic IMC approach, financial value is used. We first identify the historical financial value of a customer group (box on left). Once the financial value is known, the manager can then make reasonable finan-

Exhibit 3.5 IMC as a Closed-Loop System



cial decisions about how much to invest in that customer group to maintain, grow, or migrate its members through the firm's product or service portfolio. Thus, if the initial value of the customer group is known, an investment of a certain amount is made against those customers. Finally, a postcommunication measurement can be made to determine the change in income flow that resulted from that investment, allowing the firm to close the loop on its marketing and communication investments. This closure step is critical in the process because it allows the IMC manager to practically and effectively meet various corporate financial objectives and tie the marcom investments to returns on those programs.

With IMC as a closed-loop system, the marcom manager can finally resolve the age-old problem "I know half my advertising investment is wasted but I don't know which half."⁵ Better still, the manager can say with some assurance that with proper planning and measurement, over time he or she can effectively identify which half is wasteful and take steps to address the problem.

Inherent in the closed-loop system is the demand for incremental returns to the firm. No rational organization invests resources in an attempt to lose money, and to succeed, the firm must get back a greater return from its marcom programs than it invests. Unless there is an incremental return on the marketing and communication investment, the best the firm can hope to do is to break even—certainly not a very attractive goal in today's highly competitive marketplace. To simplify, the firm must increase returns at costs lower than the generated returns. If the firm can add \$100 in new sales through a \$10 investment in marketing, and if its cost of goods and overhead amount to only \$50, the firm generates \$40 in profit for the \$10 invested. In short, it has gotten back more than it invested or has generated incremental returns.

In too many situations, marketing and communication managers have been divorced from the company's financial planning or have not attempted to relate their activities to the financial health of the firm. They have spent money and other resources as allocated by management rather than arguing for investments with which they can generate returns. If the marcom manager is to move up to the strategic level of customer investments and returns and take on the management of

income flows from customers and prospects, then this incremental return approach becomes a major tool in developing and managing the IMC process.

Guiding Principle 7: Streamline Functional Activities

One of the major challenges of achieving organizational integration is sorting through the tangle of functional structures and activities through which marketing and communication have developed. Over the years, in an attempt to enhance their status, marketing and communication managers created more and more artificial distinctions between their areas of functional expertise. As we saw in Chapter 1, under the outmoded Four Ps concept, promotion was split into the three separate functions of sales, advertising, and publicity.⁶ As new promotional activities became available, the managers in charge of them tried to split them off as separate entities, too. Examples include sales promotion in the 1970s; direct marketing and database marketing in the 1980s; and sponsorships, events marketing, electronic marketing, and stealth marketing in the 1990s. Today, some firms separate out electronic communication from other promotional activities, commonly with little success. In our view, too many silos within the marketing function muddy the entire marketing effort, bringing with them unnecessary battles for turf and budget. In most cases, the artificial distinctions focus on the development of delivery systems—that is delivery of the message through ads, public relations, database marketing, and so on—and not on basic improvements or enhancements of the overall marketing and communication strategy.

Thus, the major barriers to integration in most organizations have little to do with external customers at all. In too many firms, managers undermine any integration efforts by trying to separate out their functions into distinct budget or head-count centers. In many cases, managers simply don't want to give up their areas of responsibility or expertise for the greater good of either the company or the customer.

Contrast this with the perspective of the consumer. We have found that customers do not think of or describe the marketing and commu-

nication activities of the firm in the same terms that internal managers use. They simplify and aggregate. When asked about marketing communication, customers commonly say that the company is generally trying to do two things. First, it is sending out messages that it hopes the customer will remember and use when he or she next goes to purchase products or services in that area. Second, the company is sending out incentives, that is, offering some type of reward for doing something or following some type of behavior such as buying now rather than later, buying when an item is on sale, or going to the store to sample a new product. In other words, from the customer's view, the company is really dealing with only two basic marketing and communication activities: messages and incentives.

Mirroring the customer's perspective, value-based IMC rolls up all the various functional elements that marketing and communication managers have created over the years and consolidates them into these two groups:

- **Messages:** the brand concepts, ideas, associations, values, and other perceptions the firm wants customers and prospects to store away in memory
- **Incentives:** short-term offers or rewards for doing something the firm believes will be of value to both itself and the consumer or customer

This idea of focusing on messages or incentives can do much to assist the marcom manager in developing programs; it simplifies the planning and development. For example, a manager who wants to deliver a message on behalf of certain products or services using traditional disciplines can consider advertising, sales promotion, public relations, sponsorships, or any of a host of other marcom delivery methods. The same is true for incentives. An incentive can be offered in the form of a cents-off coupon (sales promotion), an advertisement that tells about a short-term offer being made in a retailer's shop (advertising), a press release with a toll-free number from which to obtain a sample of the product (public relations), or even a reduced-price ticket to a stock car

race where the product might be sampled (sponsorship and/or an event). In short, by collapsing and streamlining the range of alternative communication to only messages and incentives, a much wider range of communication choices is generated.

Perhaps the greatest value of this collapse of marcom disciplines is that it forces the manager to think strategically rather than in terms of communication tactics. This is not to say tactical elements are not important. They are, but they cannot and should not drive the marketing communication effort and they have little relation to the way marketing communication is measured and evaluated.

Guiding Principle 8: Converge Marcom Activities

At the heart of any marketing and communication program, there must be convergence. Until the mid-1990s, convergence was generally considered to involve the bringing together of all communication activities under a single umbrella. Today, convergence has taken on a new meaning: the blending of traditional marcom with electronic marketing and communication activities.

As E-commerce and E-communication developed, many marketers treated them as separate and distinct marketing and communication elements. That is, they separated out website development, E-commerce, E-mail, electronic consumer research, and other capabilities into separate and unique units within the organization. In the early days, this separation may well have made sense. People working in technology-driven communication forms were generally different from those working in the more traditional areas of advertising, sales promotion, and so on. Perhaps it was important to think about, create, plan, and develop interactive marketing and communication programs separately and differently from those in traditional channels. But while this separation might still make sense within organizations, it makes no sense at all from the customer's point of view. Customers who see the brand's television commercials are, for the most part, the same ones who are accessing websites and shopping online. In other words, there is now and will continue to be convergence between the traditional and electronic forms of marketing and communication. This melding of "clicks and bricks,"

or the combination of location-specific physical retail and the virtual space of electronic commerce, affects virtually every organization.

With convergence must come integration. Convergence will occur, and it will come quicker than we plan or expect. That is why integration is not simply a nice idea or a money-saving approach. It is critical for every organization that hopes to become or remain viable in the twenty-first-century marketplace.

Compensation

Our review of the eight guiding principles of IMC skips one key element that makes this method valuable: compensation or the manner in which employees, managers, channel partners, and others are rewarded for their efforts and activities. Compensation is omitted for a simple reason: at present, marcom managers have little control over the compensation policies of their firms. Yet compensation is a key driver in how well the firm can integrate, how well it can become customer focused, how well it can develop and deliver on customer wants and needs, and so on. People do what they are rewarded to do. Thus, if a company's reward system is not consistent with its integrated approach, no integration will occur, no matter how much planning, effort, or enthusiasm is generated for the concept.

The primary problem at this point is that people are typically rewarded for accomplishing tasks, not for serving or satisfying customers. It is the product or internal focus that creates much of the difficulty. If customer service people are rewarded on the basis of how many calls they can handle in a one-hour period, then customer needs and requirements are placed on the second or even lower rung of the agent's priorities. If the sales force is compensated for moving a certain volume of products or units in a specific time period, then that takes precedence over learning what customers really want or need. The reward is for getting rid of product, not for serving customers. If the marketing manager is rewarded for making cost-efficient media buys, then concerns about how effective those media choices were in reaching the right audience at the right time, are pushed to a lower level of

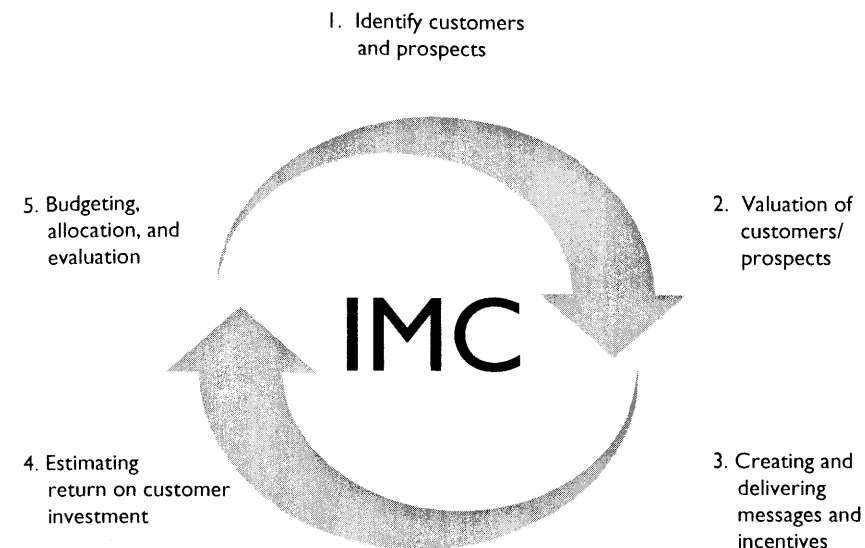
priority. If an agency is rewarded for winning awards for creativity rather than influencing behavior and thereby building customer income flows, then it is not serving the best interests of the client company. To avoid situations like these, compensation throughout the entire organization must move toward a new emphasis on gaining, retaining, growing, and migrating customers now and into the future. Marcom managers must put a financial value on their activities in order to be fairly compensated. While they may not have the responsibility for compensation, they should always lobby for an approach that will help the firm achieve full integration.

IMC: A Five-Step Process

Having a firm understanding of the eight principles that drive value-oriented IMC, we now turn our attention to the process through which a fully integrated communication program is developed. As already noted, marketing communication has historically been implemented as a series of disconnected, often unrelated activities. Ad agencies thought of their discipline as an independent unit. Direct marketers thought the same, as did public relations practitioners. Organizations also treated them as distinct disciplines. Integrated marketing communication, however, uses multiple communication methods to focus on the customer with the overall objectives of acquiring, maintaining, growing, or migrating customers in order to generate greater and most consistent income flows over time. Since IMC requires an organizationwide change in thinking, its implementation is most effectively achieved by following a clear and consistent process. Here, we introduce a five-step IMC process that has proven effective in organizations around the world over the last several years. The process is a series of interconnected, customer-focused, managerial steps that lead to and through the development and implementation of a totally integrated marketing communication program.

Exhibit 3.6 provides a simplified overview of the process. It consists of five separate but interrelated activities or steps that involve a number

Exhibit 3.6 The Five-Step IMC Planning Process

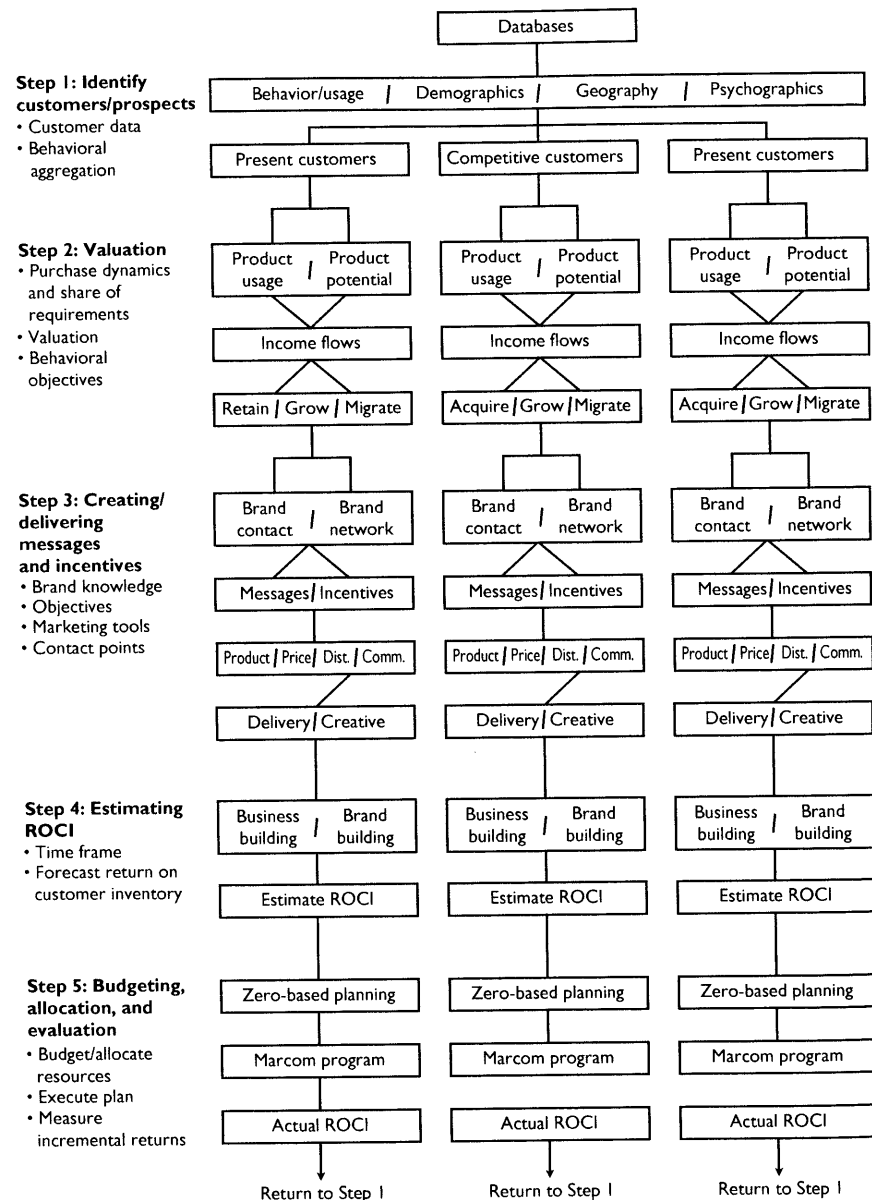


of the traditional functional areas of marketing and communication. They have, however, been combined in new, more effective and efficient ways so the total effect far exceeds the sum of the parts. Recall that guiding principle 6 stressed the need to create closed-loop planning systems to track the incremental gains (or losses) that result from marketing communication investment. The five-step process is structured to facilitate such tracking over both the short and long term.

A more comprehensive view of the components of each step is shown in Exhibit 3.7, on page 70, which is laid out in a process flow-chart format. It nevertheless represents a closed system in which the results of one period are used as input for the following planning cycle.

Step 1: Identifying Customers and Prospects

As guiding principle 5 indicated, IMC identifies customers and prospects in terms of behavioral data, that is, what they have done or might be influenced to do in the future. In step 1 of the IMC process, mar-

Exhibit 3.7 Details of the Five-Step IMC Planning Process

Note: Comm. = communication; Dist. = distribution.

com managers not only attempt to identify customers according to behaviors but to understand why those behaviors occur. For this reason, step 1 involves the collection of various types of information, including demographic, geographic, psychographic, and other relevant data.

The focus is on aggregating and integrating that data to provide an understanding of persons or firms with whom communication programs are to be created. Customers are aggregated according to their behaviors in order to develop communication programs relevant to each group. As the example in Exhibit 3.7 shows, customers are aggregated into three simple groups: present customers, competitive customers, and emerging users (these are new customers who do not have strongly established relationships). This approach to defining target customer groups will be discussed in greater detail in the next chapter.

WHO IS THE CUSTOMER?

A common issue in marcom discussions is determining exactly who or what is the customer. Some manufacturers, for instance, refer to their channel partners—that is, wholesalers or retailers to whom they sell directly—as their customers, while those who buy from the retailer are referred to as consumers or end users. In some complex value chains, such as are often found in business-to-business marketing, the chain of customer relationships can be quite lengthy before the product or service reaches the ultimate end user.

In this text, we use the term *customer* to refer broadly to all types of individuals or organizations who buy or use a product or service. Where it is necessary to make a distinction between the various levels of the value chain, we use the specific term *channel customers* (to refer to intermediaries) or *consumers and end users* (to refer to those who ultimately consume or use the product or service).

Step 2: Estimating the Value of Customers and Prospects

Since value-oriented IMC focuses on the financial impact and effects of marketing communication, the next task is to place an estimated financial valuation on customers and prospects, that is, to identify the income flows they contribute to the firm. This step is critical, for it forms the basis on which the organization will determine against whom and how it will allocate its finite corporate resources.

Step 2 begins by obtaining a clear picture of the current usage among target customers, as well as factoring in future potential, stated in terms of current or estimated income flows to the organization. This determination is used to establish specific, measurable behavioral objectives consistent with guiding principle 5—that is, to acquire, retain, grow, or migrate customers according to the circumstances of each target group. This approach to customer valuation, which will be discussed in Chapter 5, provides the basis for the planning of marketing communication programs in step 3.

Step 3: Planning Communication Messages and Incentives

Step 3 involves planning the content of and delivery of persuasive communication to the firm's target customers. The goal is naturally to structure communication programs that are relevant and compelling and to reach customers or prospects at a time when they will be most receptive to the communication. The process begins by marketers gaining a thorough understanding of each customer group's brand contacts and brand networks—that is, where do they come in contact with the brand, and what "network" of associations to the brand do they maintain?

Guiding principle 7—streamlining functional elements into messages or incentives—is key to step 3 of the process. Inherent in this message or incentive approach are the delivery systems by which communications are delivered to customers, consumers, end users, and prospects. Having laid out appropriate message and incentive strategies, marketers

can then determine how best to use their basic marketing tools (product attributes, pricing policies, distribution or channel strategies, and communication). Finally, there is the execution of the communication program, which is divided into two essential components: delivery systems to get the message or incentive to the target audiences, and the actual creative execution to be used—the words, graphics, copy platform, campaign themes, and so on.

Step 4: Estimating Return on Customer Investment

Financial values are critical in the IMC approach. By applying guiding principle 6 and treating customers as assets, the marcom manager has a pragmatic basis on which the financial effects of the company's total marketing communication program can be calculated. With IMC, managers can not only demonstrate that marcom is providing positive returns on investments, but they can drill down to specific cases to determine which elements were most effective and efficient.

Step 4 separates results into short-term (business-building) and long-term (brand-building) returns. On one hand, for example, incentives are often designed to work in the short term to generate incremental income almost immediately. On the other hand, brands are built over time; thus, marketers must also measure brand equity returns over an extended time frame.

Step 5: Postprogram Analysis and Future Planning

The final step of the process involves several steps of its own:

1. Implement the IMC program in the marketplace during the relevant period of time.
2. Evaluate the program once it has been put into action.
3. Develop a reinvestment strategy.

Within the IMC process, marketing communication is not considered a finite program, that is, it does not start and end with the organiza-

tion's fiscal or financial periods. That is why the new IMC approach recognizes that marketing communication is ongoing and continuous. It is never complete and it is never over.

Moving On

Upcoming chapters describe each of the five steps of the IMC process in detail. The brief overview given in this chapter, however, gives you enough information to help you determine how well the marketing and communication programs in your firm align with the IMC process. If you agree that value-oriented IMC principles, methods, and processes make sense, read on. If not—or if your firm does not seem ready to consider taking the steps necessary to move toward integration—set this book aside. Continue to develop and implement your programs as you have always done. Come back to the book only when you and your firm are ready for a change in thinking. Hopefully, we'll see you in the next chapter.