

Transitioning marketing communication into the twenty-first century

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The argument is developed that marketing and marketing communication are in transition, moving from the historical marketing approaches of the 1960s, which focused on the 4Ps to a new, interactive marketplace in the twenty-first century. A structural model of three marketplaces is presented based on the location and control of information technology. The premise is developed that as information technology shifts from one market player to the next, definitive changes in the need for communication develop. A description of the development of the Integrated Marketing Communication concept is furnished. Based on that, a four level transition process is proposed as organizations move from one stage of integrated marketing communication development to another, generally based on their ability to capture and manage information technology.

KEYWORDS: Integrated Marketing Communication; Return-On-Investment; marketing communication; transition; interactive market place

INTRODUCTION

At present, marketing and marketing communication just do not work like they once did. They are not revered as they once were. They do not demand the attention and concern of top management as they did only a few short years ago. In fact, in many cases, both marketing and marketing communication are being challenged by the very persons who traditionally have been their champions. For example, Sir Dominic Cadbury, Chairman, Cadbury Schweppes, addressing a meeting of the Chartered Institute of Marketing (CIM) in the UK in 1997 said 'A fixation with advertising and agencies makes it unsurprising that marketing has a struggle to be taken seriously in the boardroom and that the notion of marketing has a source of competitive advantage is regarded with suspicion' (quoted in *Marketing Week*, 29 May 1997). Even more interesting is the fact that he had been installed as chairman of the CIM just a few months before.

Cadbury is not alone in his concern. Marketing and particularly marketing communication

appear to be under not just scrutiny; they are being seriously questioned in boardrooms around the world. Quite a unique situation when one considers we are just entering what many consider to be the 'information age'.

There is, however, little question that marketing and marketing communication are in transition. It is our belief that this transition is driving the need for a new view of how marketing, communication and marketing communication programmes are planned, developed and implemented. Our belief is that integration can provide a solution. By this we mean the integration of the broad array of activities and functions that influence and impact on the dynamic flow of information between the organization and its stakeholders, i.e. customers, prospects, shareholders, employees and other critical audiences. It is no longer relevant to think of such independent disciplines as advertising or public relations or sales promotion or even 'above the line' and below the line' activities. Nor is it appropriate to limit the responsibility of marketing communication solely to traditional outbound channels of communication. Those are old concepts and old issues. Ones which do not and cannot fit the needs of the twenty-first century organization nor twenty-first century customers, consumers or prospects. They do not fit because they were developed for a market-place which no longer exists. They were developed for organizations that no longer drive businesses. They were developed for media systems which are no longer dominant. They were developed for management which is no longer in place. Indeed, marketing and marketing communication are in transition. And it is this transition which is bedeviling marketing and communication managers around the world.

In this article, we illustrate this marketing and marketing communication transitory situation and the need for new marketing communication approaches now and into the future. We propose a new definition of and a more extensive look at what has been called integrated marketing communication or IMC and we provide a discussion of the four levels of integration which we have observed in the global market-place. Finally, we provide direction on how managers and organizations can begin the journey towards integration which will eventually be required of all organizations, no matter what their business, product or service.

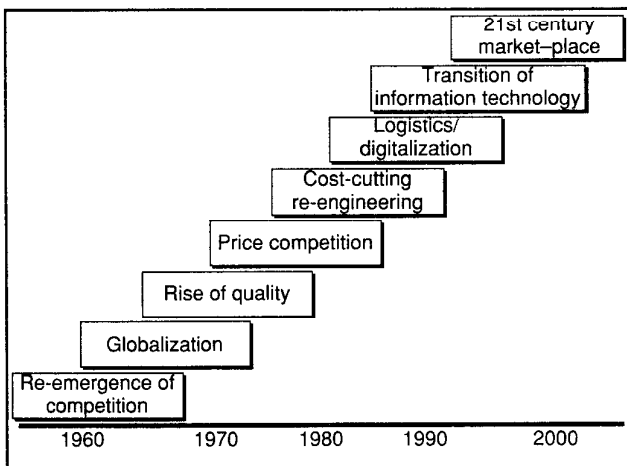


FIGURE 1. The market-place in transition.

MARKETING AND MARKETING COMMUNICATION TRANSITION

To understand the challenges to marketing and marketing communications, it is necessary to review briefly the history of how marketing and marketing communication has developed and evolved over the past 40 or so years. Figure 1 provides a graphic illustration of the major developments.

We begin our review in the late 1950s and early 1960s in the USA, as this is when most modern marketing communication concepts and theories were developed. The USA, being one of the few countries which was not destroyed in the Second World War, emerged as the dominant global supplier of most consumer and industrial goods and services. For ease of discussion, we focus our discussion here primarily on consumer products.

Since there was so much pent up demand for almost any consumer product during the post-war period, the business model was primarily one of producing products as quickly as possible, getting them into distribution channels and telling anxious customers and prospects they were available. It was mass production at its highest level. It was produce and sell. It was primarily driven by manufacturing organizations since those were the products which were in such great demand.

This was also the time when our current marketing concepts and approaches were developed and codified. It was the era of McCarthy's (1960) 4Ps model of marketing, i.e. product, price, place (distribution) and promotion. It was an economy of scale model driven by continuously increasing customer demand, little competition and practically no price resistance. Manufacturers were kings and their products were gold. Customers would fight their way through crowds to buy almost anything at almost any price under almost any circumstance.

In the early 1960s, competitors to the US manufacturing industry giants began to re-emerge. Germany, the UK, France, Japan and, increasingly, the Five Tigers of the Pacific Rim rose to prominence (Deming, 1982 p.19). They produced products faster and better and less expensively than the USA and they immediately adopted the marketing approaches which had driven US business. They took on the concepts and approaches which had served so well and they improved on them. They made the concepts global. Not content with their home markets, they quickly exported to other countries to fill the seemingly insatiable demand of customers and consumers. Globalization was in and it was successful.

In the mid-to-late 1960s, the Japanese, using the concepts and methodologies of Deming, Juran and others, changed the manufacturing paradigm. They moved from 'get it out the factory door and fix it when it breaks' to 'build a better product at a competitive price and watch customers flock to your brand' (Deming, 1982). And, that is exactly what happened. First in motor vehicles, then consumer electronics, then in watches and then cameras, the Japanese raised quality levels and captured market after market. Most traditional marketers did not understand the change. They continued on their merry way building products, pricing them based on their costs, distributing them through traditional channels using mass market and mass media communication programmes and repairing the products when they failed.

In the late 1970s, production finally began to catch up with consumer demand. Increasing global capacity outstripped consumer requirements even in the fast-growing markets of Asia-Pacific and Europe and even North America. We had reached surplus and most organizations did what all organizations do when there is greater production than consumption; they reduced prices and they reduced margins. Organizations which had been hugely profitable only a few years before began to feel the pinch (Totten and Block, 1994). Under pressure from financial analysts and shareholders to meet quarterly earnings expectations, marketers began to increase the use of short-term, volume-driving tools such as sales promotion and

trade discounts and they flooded consumers with special direct mail offers. The net effect, in many instances, was to drive the immediate volume but at the cost of eroding precious brand equity that had taken years to build. In the process, they created fiefdoms of competing marketing communication specialists who vied for corporate funding, management attention and, of course, career advancement.

Following the 1987 upheaval in the US stock market and the ensuing corporate preoccupation with costs, many (if, indeed, not most) organizations found themselves in a situation of redundancy. This led to more cost cutting which led to downsizing which led to lay-offs and work-force reductions. Indeed, most organizations spent much of the mid-1980s and early 1990s in re-engineering, downsizing and other management approaches which were supposed to solve the profitability problems, although there was only limited success (Majchrzak and Wang, 1996). For the most part, the tools and techniques that dominated this era focused on revamping cost structures and had little of substance to offer in terms of growing income flows. While programmes such as total quality management claimed, rightfully, to have a customer focus, in our view they were primarily operations driven and provided few tools for allocating finite resources against future business opportunities.

In response to re-engineering and cost-cutting initiatives, many organizations made piecemeal changes to their marketing communication efforts, such as allocating funds to business units and shifting funds from traditional mass advertising to more specialized media and targeted promotional tools. A variety of new forms of marketing communication began to emerge such as event- and cause-related marketing, custom publishing, relationship marketing and so on. By the late 1980s, it was not unusual to see fast moving consumer goods (FMCG) organizations allocating 70% or more of their marketing resources to promotion and other 'below the line' activities (Berkowitz *et al.*, 1992). Only a decade or so earlier spending patterns had been reversed, when the majority of budgets had been commanded by traditional mass media advertising.

Then the biggest change of all occurred; the rapid development and deployment of digitalization and logistics in the late 1980s and early 1990s. Most business practices were converted into 1s and 0s, driven by computers. Computerization allowed organizations to slash development times and costs. Production times and expenses were reduced. The time to market was dramatically slashed. Logistics and distribution made massive strides. Organizations learned to capture, store and manage massive amounts of information, as data was shipped from place to place almost instantaneously. Manufacturing processes were profoundly altered, as were distribution systems. Marketing organizations moved from manufacturing for inventory to manufacturing for customer demand. The entire structure of the manufacturing system fundamentally and irrevocably changed (Berkowitz *et al.*, 1992). Technology also gave rise to the growth of service organizations which increasingly found ways to do things for customers that customers did not want to do for themselves.

Information technology (IT) changed the entire market-place and the practice of marketing communication by greatly expanding the tool kit used to create, execute and deliver marketing communication programmes. Media decisions were impacted on by emerging new media opportunities and formats driven by new technologies, such as highly personalized direct mail, interactive point-of-purchase displays and stand-alone kiosks, selective binding of periodicals, cable and pay-per-view television and, of course, the Internet and the World Wide Web.

Digital technology impacted on marketing communication in other ways as well. For the first time it became feasible for marketers to begin capturing information on individual

customers, consumers and prospects to an extent never before possible (Wang and Jackson, 1993). Two trends enabled this transition.

- (1) The costs of data storage plummeted while storage capacity increased exponentially, making it possible to maintain huge amounts of data on customers and their behaviours inexpensively.
- (2) As desk-top computers became increasingly user-friendly there was a shift away from monolithic, legacy-bound mainframe computers controlled by IT department professionals to distributed data networks and stand-alone databases accessible by marketing, communication, sales and customer service personnel.

With enhanced information tools in hand, marketers now have the potential to achieve a greater level of customer insight than ever before, apply that insight towards creating highly relevant and customized messages and deliver those messages through specialized media or technologically advanced methods. The problem is, while many organizations have the technological capabilities at hand, they cling to the concepts, methods and organizational structures of the 1950s and 1960s. In our view they are on the verge of being left behind just like carbon paper and slide rules and shorthand, the business tools of the past.

Our argument is that these changes in the market-place, the customer/consumer, the technology, the media and the ability to manage and store data all combine to create the transitory situation in which most marketers and marketing communicators find themselves today. The critical challenge confronting organizations is this transition from the orderly, clearly defined markets and marketing approaches of the 1950s and 1960s, when we invented and developed marketing and marketing communication concepts, to the turbulent, radically changed market-place of the twenty-first century. It is IT which is providing the prod but it is the traditional marketer and marketing communicator who is feeling the pain. It is this transition in marketing and marketing communication which is driving the need, indeed, the demand, for the integration of marketing and marketing communication.

To explain the impact of this transition of IT and how it affects marketing and communication

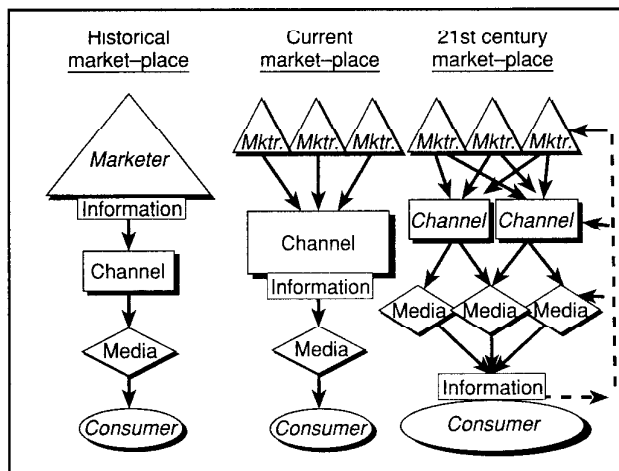


FIGURE 2. Evolution and revolution in the market-place.

organizations, we quickly review the natural adaptation and progression in marketing communication leading to the development of the impending twenty-first century market-place.

EVOLUTION AND REVOLUTION IN MARKETING AND MARKETING COMMUNICATION

In the scenario just described, marketing and marketing communication concepts and approaches have changed little although the market-place has changed substantially. In Figure 2, we illustrate three market-place forms which have developed as a result of shifting IT. Each is discussed in turn.

The historical market-place

What we term the historical market-place is depicted on the left-hand side of Figure 2. This is the arena perfected in the 1950s and 1960s by such marketing and communication pioneers as Procter & Gamble, Nestlé, Unilever, Shell, Philip Morris and other mass market, mass media-driven organizations committed to product differentiation (Schultz and Walters, 1997). Using IT, such as consumer research, mass distribution systems, mass media and the like, these organizations developed dominant brands for their differentiated products and they generally captured much of the market-place for their product categories. As a marketer, if you were the first organization to develop laundry detergents, had a reasonably good understanding of consumer and end user-wants and needs and had sufficient funds to dominate the channels and the media, you generally dominated the consumer or customer as well. And, that is what we saw in these early years of modern marketing and communication: Aggressive and skilled marketing organizations which dominated the distribution channels, the media and the consumer, using differentiated products or services which were not easily replicated.

The current market-place

In the 1970s, the market began to change as products proliferated (albeit frequently with few attributes to distinguish them from their competition), while the media became increasingly fragmented and specialized. During this same period tremendous consolidation within the channel segment occurred. Strong wholesalers, agents and retailers acquired weaker competitors and expanded their franchises into new regions and markets. Retailing, which had traditionally been a very localized business, became regional and then national and even international in scope, giving channel buyers enormous clout in negotiating with manufacturers (Corstjens and Doyle, 1989).

At the same time, IT shifted from the manufacturers/marketer to the distribution channels. The universal product code (UPC), computers, scanners and magnetic-strip bank and credit cards made it easy, fast and cheap to capture data on consumers, i.e. who they were, where they shopped, what they bought, etc. This shift in IT changed the power in the market-place as it moved from the manufacturer/marketer to the channels. The channels had closer contact, closer relationships and more information than their marketer/suppliers. Today, in most consumer product categories, it is the retailer who dominates the consumer relationship. Organizations such as Wal-Mart, Tesco, Carrefour and the like define the terms and conditions under which they will stock and sell manufacturers' brands. These huge, logistically

sophisticated retail distribution systems, which have increasingly consolidated over time, now control the manufacturer, heavily influence how vendors will spend marketing funds and, through location and pricing, manage to hold sway over the customer and consumer as well. Today, the market place in most developed countries and economies is dominated by the retail and distribution systems which control direct access to consumers and end-users. Thus we term this the current market-place.

The twenty-first century market-place

There is a new model emerging, that is the market-place of the twenty-first century. This is illustrated on the right-hand side of Figure 2. The twenty-first century will be a market-place dominated by the consumer because they will control the IT. Through already developed systems such as toll-free numbers, internationally accepted credit cards, overnight delivery services and the like, information and technology is now in the hands of the consumer and that will only increase in the future. Today, consumers can access information, identify products and services and make purchases at any time and any place that is convenient for them. It is an arena which the consumer dominates. It is interactive. It is continuously evolving. It is the Internet and the World Wide Web. It is electronic commerce and it is only moments away. It is easy. It is fast and it is the consumer in control.

The twenty-first century market-place will be dominated by interactivity brought about by IT which will drive electronic commerce. Buyers and sellers will talk to and with each other. No longer will the market-place be driven by the marketer who offers only what he or she makes; it will be driven by what customers want, when they want it and under what conditions and through what means of distribution they desire. That changes our current marketing and marketing communication paradigms considerably. Referring back to Figure 2 (evolution and revolution in the market-place), it is clear that both the historical and current market-places are outbound only. That is, the marketer decides when, to whom, in what form, through what media and at what level of volume he or she will attempt to market and communicate with the customer and prospects. The marketer drives the historical and current market-places. The consumer will drive the twenty-first century market-place. It will be the consumer who decides what is important, what is value and what relationships are needed and wanted. Unfortunately, most of our current marketing and marketing communication concepts and approaches are designed for the historical and current market-places. We have little experience, knowledge or understanding of an interactive market-place and less understanding of the roles and responsibilities of the various players. Yet, these are the skills which must be mastered and the challenges which must be met.

THE NEED FOR A NEW APPROACH TO MARKETING COMMUNICATION

In the previous section we discussed the new marketing and marketing communications which confront every organization. We are moving from a market-place dominated by the marketer to one dominated by the consumer. It is the transition of IT which is both driving the change and enabling communication solutions. Figure 3 illustrates what we call the marketing diagonal. It shows how IT slides down the diagonal from the marketer to the consumer.

As can be seen, IT formerly resided with the marketing organization, giving them market-

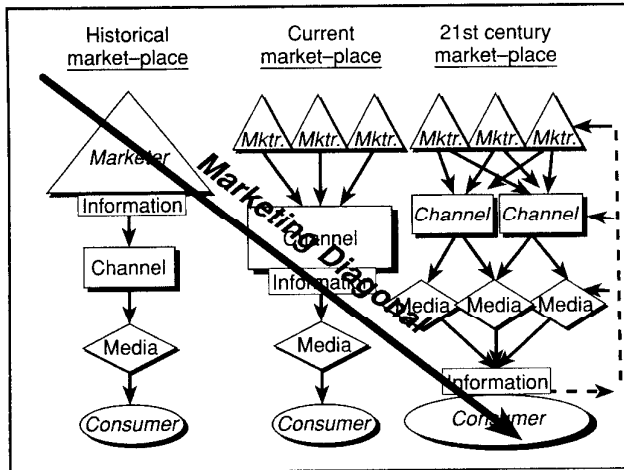


FIGURE 3. Marketing diagonal chart.

place power. It then transitioned to the channel. Eventually it will end up in the hands of the consumer. The interesting point about this marketing diagonal, however, is not that IT is transitioning. It is that we can identify three and perhaps more specific market-places, each with different demands on marketing and marketing communication.

There is an underlying need for the integration of communication within each of the three market-places. However, those needs become increasingly complex as an organization moves down the diagonal. Our premise in this paper is that marketing and marketing communication must eventually transition from the historical to the twenty-first century market-place. As organizations go through this transition, successful companies tend to adopt tools appropriate to each position along the marketing diagonal. As organizations move down the marketing diagonal they face differing challenges in their marketing communication programmes. These challenges presage the stages of integrated marketing communication which are discussed in a later section. They are summarized as follows.

- (1) The historical market-place will continue to exist in some categories and in some countries for years to come. For example, pharmaceutical marketers, who are protected by patents, will continue to operate in the historical market-place. Companies which now enjoy absolute or near monopolistic product or distribution advantages, such as utilities, also fall into the historical category, although deregulation and emerging competition will eventually erode those advantages. In the historical market-place the primary communication challenge is to develop compelling, concordant messages and deliver them in a coordinated, synergistic way. As company structures grow and increasingly become international in scope this presents a significant organizational challenge. Integrated marketing communication, in our experience, was initially a response to the practical needs of organizations to achieve greater impact and consistency across diverse products, divisions and regions. Many continue with that same approach today.

- (2) The current market-place will continue to be the arena of primary operation for many organizations for the foreseeable future. It is quite unlikely that Wal-Mart, Tesco and Carrefour will disappear in our lifetime. In order to partner effectively with powerful channel players, however, marketers need to be able to create dynamic and innovative selling programmes, create better alignment between the field sales force, marketing and marketing communication and enhance the value of their brand in the eyes of both the ultimate purchaser and the channel. This demands a multilevel, coordinated approach to communication that encompasses consumers, end-users, channel customers and organizational employees.
- (3) The twenty-first century market-place, it is clear, will be unlike any experience we currently have. It will be different and unique. The question is what is needed to succeed in this market-place? What types of marketing changes are needed? What types of communication activities would be best? To understand the market-place and, thus, identify a possible solution, it is important to review what we believe the twenty-first century market-place will be and the critical factors which must be addressed. As has been previously discussed, consumers will control the market-place. However, that does not mean that marketers will be simply pawns in the game. Indeed, it will mean a different role for marketers and communicators but one which will likely increase in value and importance. In the twenty-first century market-place, our promise is that traditional, brute-force, outward bound, marketer-driven communication will no longer succeed as it has in the past. Thus, we need new approaches and new concepts for the twenty-first century market-place. It is in this dynamic, interactive turbulent market-place that IMC becomes the marketer's most critical and most sophisticated tool.

In the next section, we review the evolution of IMC concept. Following that, we describe the levels of integration we have observed among organizations which practice the concept and discuss how IMC has changed and adapted to the needs of these organizations as they have proceeded along the journey to integration. This provides us with a view of the future and how marketing and marketing communication might well be practiced in the twenty-first century market-place.

THE EVOLVING CONCEPT OF IMC

Academics and practitioners have been discussing IMC for nearly a decade without reaching consensus on just precisely what IMC is or the benefits it offers marketers. As was recently noted, 'while the subject is generally accepted in the marketing literature, at this point, there are still many grey areas which are in need of clarification' (D.E. Schultz and P.J. Kitchen, unpublished).

Perhaps one of the more widely used even if not universally endorsed definitions of IMC is one developed at Northwestern University for use in conducting surveys of major advertisers and agencies in the USA. The initial survey to marketing organizations, sponsored by the American Association of Advertising Agencies, the Association of National Advertisers and Northwestern University was followed by additional studies in 1993 and 1996 (D.E. Schultz and P.J. Kitchen, unpublished).

Those studies used the following definition of IMC: 'a concept of marketing communication planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines e.g. general advertising,

direct responses, sales promotion and public relations ... and combines these disciplines to provide clarity, consistency and maximum communication impact' (Caywood *et al.*, 1991).

In a 1996 study (D.E. Schultz and P.J. Kitchen, pp 1-2), advertising agency executives were asked if the above definition captured the meaning of IMC. While there was some agreement that the definition was adequate, there seemed to very little conviction or consensus as to what should be added to the definition. Among the comments from these executives were 'The starting point is the consumer and the product message', 'Need to add an element of measurement/quantification/analysis', 'It is more than planning - it is results oriented', 'It starts with an integrated strategy which all disciplines can work against' and 'It starts with the consumer's needs' (D.E. Schultz and P.J. Kitchen, unpublished).

Part of the challenge in defining IMC has been that it has been rapidly changing and adapting along with the organizations that have embraced it. While the initial concentration was on marketing communication tactics and operations, many organizations realized the need for a more holistic and comprehensive approach to building customer relationships and justifying their actions to management. Based on our experience with how organizations implement IMC and considering the changing context for marketing communication management, we propose a new definition of IMC, one that we believe captures the current and future scope of IMC as we have seen it develop.

IMC is a strategic business process used to plan, develop, execute and evaluate coordinated, measurable, persuasive brand communication programmes over time with consumers, customers, prospects and other targeted, relevant external and internal audiences.

Perhaps the most important characteristic of this definition and what sets it apart from earlier attempts is the focus on a business process, one that ultimately leads to creating closed-loop systems through which all communication activities can be planned, implemented and evaluated. It is a system driven by customer data, an understanding of customer perceptions and brand contacts and - most importantly - provides an underlying methodology upon which all communication investment decisions can be evaluated, as it focuses on an assessment of customers' and consumers' current and potential value to the organization.

THE FOUR LEVELS OF IMC

Based on the observations of a variety of organizations in North America, Europe, Latin America and Asia-Pacific, it is apparent there is no one path to integration. Each company approaches the challenges and opportunities of IMC in a different way, depending on the nature of their business, channel dependency, the availability of customer/prospects data, the ability to differentiate customers and, perhaps, most importantly, management support and the strategic direction of the organization. However, notwithstanding these individual organizational differences, certain general patterns to the implementation of integration have been observed. Just as individuals go through fairly well-defined stages of infancy, childhood and adolescence before reaching adulthood, so organizations also appear to go through similar phases or levels of integration in their marketing communication efforts. The stages and levels we present here are not as rigid as those that move us from our minority to the age of majority. However, organizations do tend to deal with similar issues, barriers and implications of IMC in roughly the same sequence. That is, they tend to start at a tactical, task-oriented level. As they achieve success in these areas, they progress toward broader issues of communication planning and higher level issues of organizational and strategic alignment.

We have identified four levels of IMC through which organizations appear to progress (Figure. 4). As stated earlier, these are not discrete, finite stages with well-defined boundaries. In fact, we have seen some organizations 'leap-frog' earlier stages. That is, they achieve a high degree of success at one level while they have only begun to scratch the surface of the previous level, usually because of some unique corporate asset, attribute or opportunity. Ultimately, however, to be truly integrated an organization needs to demonstrate competency in the activities and requirements of each of the four levels.

Level 1: Tactical coordination

For many organizations, the point of entry into IMC has been the practical need to coordinate diverse communication activities across products, divisions, regions and countries. The 1980s and 1990s saw an explosion in the number of tools and techniques used by marcom departments to send messages to customers, prospects and other stakeholders. In the historical market-place of earlier, simpler times, marketing communication consisted primarily of a limited number of options: Broadcast advertising, major metro newspapers, mass circulation magazines, outdoor billboards, broad-based public relations and the like. However, as media systems became more specialized and more fragmented each one required special attention and, in some cases, even tailored campaigns to deliver distinctive messages to specialized segments were created. In addition, there was tremendous growth in other non-traditional tools such as direct marketing, sales promotion, event marketing, custom publishing, cooperative ventures, sponsorships and, of course, electronic and interactive tools.

The initial promise of IMC was to create 'one sight, one sound' by establishing an overall structure to consolidate communication planning (Caywood *et al.*, 1991). In some cases this led to a centralization of marketing communication, where it was hoped greater synergy could be achieved by planning all campaign elements in concert. In other instances, it fostered the establishment of strong corporate guidelines on usage, tone and message development, while leaving the actual execution up to the managers responsible for business results, i.e. those responsible for specific brands, divisions, regions or countries.

Cross-functionality is another hallmark of level 1 integration. Different organizations have shown varying approaches to cross-functional development, but the underlying purpose is to achieve a high level of competency, not just in managing individual communication efforts, but also in achieving synergy and dynamism across all activities. In some instances, marketing communication departments have been reorganized to create cross-functional teams consisting of experts in advertising, public relations, direct marketing and other communication specialties. These teams are then charged with creating multimedia, multidimensional

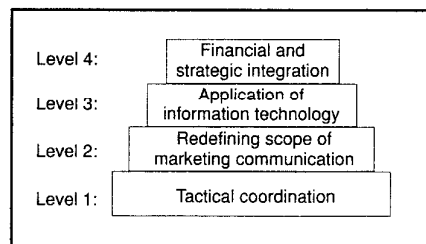


FIGURE 4. The four levels of IMC.

communication efforts on behalf of specific products or services. Another approach has been to invest in cross-functional training for individual communication professionals, so that each member of the department is fluent in the most effective applications and strategies of a wide variety of communication tools.

The promise of one sight, one sound has been a particularly popular approach among advertising agencies. They saw IMC as an opportunity to provide a greater menu of services to their clients. Most major advertising agencies went through a period of frenetic acquisition activity, buying discipline-specific affiliates around the world and acquiring specialty shops in direct marketing, sales promotion, public relations and so on. The idea was that they could service all of their clients' global needs under one broad agency umbrella. The score card on this strategy is mixed. While some corporations have looked to agency conglomerates to integrate and coordinate diverse programmes around the world, ongoing studies have shown that more organizations tend to prefer controlling the integration process themselves. That is, they utilize a variety of agencies and other suppliers, some of whom never have direct contact with each other, while keeping the job of coordination in-house (D.E. Schultz and P.J. Kitchen, unpublished).

Level 2: Redefining the scope of marketing communication

Level 1 integration is about coordinating the manageable pieces and parts of marketing communication into a coherent and cohesive whole. During the first phase the emphasis is on improving and enhancing the operation, effectiveness and delivery of outbound communication activities. However, many organizations have found that coordination and consistency in and of themselves are not sufficient.

As they enter level 2, there is a point at which the organization begins to redefine the scope of marketing communication. In essence, they attempt to switch from a corporate, operations-driven point of view to that of their customers, consumers and end-users. Rather than viewing marketing communication as a series of outbound activities to be managed for effectiveness and efficiency, they begin to consider, instead, all of the possible points through which the customer comes in contact with the brand. These brand contacts are defined as 'any information bearing experience that a customer or prospect has with the brand, the product category, or the marketer that relates to the marketer's product or service' (Schultz *et al.*, 1993). This view makes the brand contact experience a highly personal matter, one that will differ greatly from one customer to the next. As was noted by Upshaw (1995), 'Brands are whatever they are perceived to be at their point of contact with a prospective user. Brands are often in contact with their customers and prospects in hundred of ways and through hundreds of channels, many of which are potentially huge sources of growth for a franchise if they are managed correctly'.

While traditional communication activities clearly are important brand contacts, there are a variety of other contacts that can have as much – if not more – influence on a buying decision. Consider the importance of the following in shaping customer perceptions: Employee uniforms, user-friendly manuals, product packing, complaint handling procedures, inquiry response time, loyalty recognition, credit adjustments, returns policies, cleanliness of entranceway and so on. While none is typically considered as falling under the marketing communication function, each represents an opportunity to add – or subtract – substantially from the brand messages and identity communicated through outbound communication activities. The customer does not distinguish which messages come from the marketing department, which come from operations,

which came from accounting and so on. The customer sees their total experience with the organization and forms their perceptions and preferences accordingly. It is an important aspect of IMC, then, to realign 'communication to look at it the way the consumer sees it, as a flow of information from indistinguishable sources' (Percy, 1997).

By undergoing a formalized study of brand contacts and the messages delivered (intentionally or otherwise) at all points, organizations can put their communication programmes through a critical 'reality check'. It allows them to shift the focus from the messages that they (or the chairman or the agency creative director) want to transmit, to an understanding of what the customer receives. In this way, organizations are better able to understand how the brand is perceived from the customer's point of view and better able to craft relevant brand messages.

Increasingly, organizations are beginning to recognize that one of the most powerful brand contacts and, historically, one of the most overlooked, is their own work-force. The inclusion of employees as a legitimate target for marketing communication is a critical aspect of level 2 integration. Research conducted by Juliet Williams, the chief executive officer of Strategic Management Resources in Great Britain indicates that up to 40% of marketing communication expenditures can be wasted or destroyed when the internal marketing and communication programmes do not support or align with the external marketing and communication programmes. The goal of internal marketing is to extend 'brand values to the management of behavior at every point of transaction along the internal supply chain. Its purpose is to fold every member of the workforce into the marketing process and to turn people from cost centers into profit earners' (Schultz and Walters, 1997 pp 67).

Level 3: Application of IT

In an earlier section we suggested that it is IT that is both driving the change in marketing communications and, at the same time, enabling solutions. At the third level of integration the organization harnesses the power and potential of emerging technology to improve their performance in two major, related ways.

- (1) The first way in which IT is applied deals with how and when messages are delivered to customers, prospects and other targets. The use of sophisticated mailing systems to create personalized messages and customized offers is an example, as is the development of smart cards in loyalty programmes, information distribution through the Internet or proprietary intranets and the use of in-house satellite television to communicate with employees and suppliers. The value is not in applying leading-edge technology for the its own sake, but in pairing of technology with appropriate customer needs and requirements. The true benefit of using IT to deliver messages comes from giving customers and other stakeholders options on how and when information will be available to them, to be accessed at a time and place most convenient to them, with a message or an offer that is highly relevant to their circumstances. The use of IT to deliver communications could, conceivably, be part of a level 1 programme. The mere ability to deliver a customized message to a customer does not, by itself, indicate that one company is significantly more integrated than another. The more critical issue is how the organization plans and develops this communication from the customer's point of view, i.e. how well it builds upon the insight gained in understanding customer brand contacts in level 2.

- (2) While the use of technology to create and deliver messages is an important aspect of level 3, a far more critical and necessary benchmark is the utilization of a database to capture and store information about customers, consumers and prospects. Companies at the level 3 stage do not necessarily practice database marketing, i.e. use their data as a form of direct response marketing. Their true purpose is to use data-driven marketing as the underlying source for all marketing initiatives and to provide the ultimate framework for creating closed-loop evaluation systems. The past decade has witnessed an explosion of database applications among companies of all sizes and industries. As it relates to IMC, there are four critical areas that define the third level of integration.

Empirical customer data

Companies operating at the third level of integration have databases containing not just the names, addresses, phone numbers and some demographic information on customers and consumers. Instead, the key ingredient is their capability to capture empirical purchase behaviour, i.e. transaction history over time. The more information contained in the database, the greater the capability to analyse purchase and repurchase patterns. If the database also contains a history of other contacts between the customer and the organization, i.e. promotions sent, inquiries received, complaints and resolutions, so much the better.

One of the most essential ways in which empirical customer data is applied is in tracking customer retention persistency or repeat purchase patterns. The importance of customer retention was eloquently presented by Reichheld (1996) in his book *The Loyalty Effect* where he argued that customer loyalty is the true litmus test of corporate performance. As true as this may be, however, the actual measurement of retention is a complex, daunting challenge to most organizations. First, the organization needs precise behavioural definitions of customer retention and migration based on expected cycles usage or repurchase. Second, a loyalty tracking system necessitates that data be collected and analysed consistently through several purchase cycles. At the heart of the IMC process is the notion that organizations can track customer behaviour over time and use that data as the basis against which marketing effectiveness and results will be evaluated. Until an organization can master this aspect of its customer data it will have little hope of achieving closed-loop measurement systems to measure the return on investment of its marketing communication activities.

Behavioural versus attitudinal

Ever since the 1950s and 1960s we have tended to evaluate communication programmes by the output achieved, i.e. gross rating points (GRPs), cost per thousand (CPMs), readership scores, attitude and preference measurements, brand recall and recognition, the number of press mentions and so on (Schultz and Walters, 1997). We have used these as surrogate means to measure success. However, by having access to actual transactional data at the customer/consumer level, organizations can now shift the focus from these outputs to actual business outcomes. The use of transaction data also allows the company to become a learning organization in order to meet customer preferences, needs and expectations better. By that we mean that past behaviour can be referenced to help front-line employees anticipate customer requirements, such as seat preferences (windows versus aisle), purchase cycles (reorders printer supplies every 3 months) and changing needs (children growing from infant to toddler apparel), to illustrate just a few possible examples.

Valuation tools and techniques

Another critical hallmark of the third level of integration is the use of analytical tools to value customers based either on past history or anticipated potential. Organizations at this stage use a wide range of statistical methods and tools to value customers, consumers and prospects. This may be as simple as quintile or decile rankings of the highest spending or most profitable customers. On the other hand, it can involve more sophisticated techniques, such as regression analysis and the use of neural networks to identify the characteristics of the most responsive or most profitable customers and then applying that information as a guideline for prospecting new business. By understanding the dynamics of customer acquisition and retention patterns, organizations are able to benchmark, with a high degree of precision, the costs to acquire, retain or migrate customers. They also analyse purchase cycle behaviour to identify customers who may be at risk of defection or – on the other hand – may offer potential growth if properly cultivated.

Differentiation of customers on economic criteria

In the mass markets of the 1950s and 1960s there was little need or interest in differentiating between customers, since powerful media systems were effective in sending the same message to all consumers and prospects. In the 1970s and 1980s attention began to shift to segmenting customers across broadly defined demographic criteria, such as all women of 18–49 years. We relied heavily on statistical means and created programmes and communications geared to an ‘average’ customer – not the best customer, not the worst customer – but a typical, average customer who, in fact, did not exist except on paper. As organizations prepare for the twenty-first century, they can no longer afford to communicate with this fictional average customer. It is critical for organizations to shift from marketing on similarities and averages to marketing on the behavioural differences between and among their most valuable customers and prospects. Whether the organization is communicating on a one-to-one basis or, more likely, on a one-to-selected-few basis, the use of IT allows for the creation of a more intimate and responsive relationship, one based on recognizing and respecting individual differences, requirements, values and preferences.

It is also critical to align corporate resources and priorities to service the needs of those customers, usually the top 20 or 30% or so, who provide the majority (70–90%) of revenue or profits. For other customers and prospects outside this top tier, all communication investments must be carefully calibrated against their short- and long-term economic potential. This is a fundamental shift in how marketing communicators determine on whom they will focus their communication efforts. It is also a fundamental requirement of moving on to the fourth and final level of integration.

Before we leave the discussion of IT, it is important to note that certain types of industries have a natural head start in the database area. That is, these organizations are data rich by the very nature of their business (i.e. insurance, catalogue and credit card companies, hotels, car rental firms, continuity programmes, utilities, etc.). Very often, however, their data is fragmented and distributed in different parts of the organization or held ‘captive’ by the Management information system (MIS) department. It is not having data available that puts a company on level 3. It is how well the data is digested, analysed and applied to drive organizational priorities that is the true hallmark of level 3 integration. Even though an organization may possess extensive data and the expertise to manipulate, analyse and disseminate meaningful insights from its data effectively, it cannot ignore the first two levels

of integration. Unless technological and analytical expertise is combined with the smooth coordination of tactics achieved in level 1 and the broad definition of communication stemming from level 2, an organization cannot move on to the fourth level of integration.

Level 4: Strategic and financial integration

The fourth level of integration truly represents the next frontier of integration, although it goes well beyond the original tactical orientation of IMC. The driver on this final phase of IMC will be, in many cases, senior management, because it provides a framework for dealing with two issues that are of primary concern in the executive suite: Resource allocation and organizational alignment (Schultz, 1995).

At the very beginning of this paper we stated that senior executives are increasingly questioning the value of marketing communication expenditures. For decades marketing communication professionals have succeeded in deflecting attempts at measuring the financial effectiveness of their programmes by focusing on surrogate measures such as attitudes, preferences and brand recognition. Now, with empirical customer transaction data available, organizations can finally begin to put in place true closed-loop measurement systems that provide the opportunities to compare financial returns to financial investments, as shown by Figure 5.

In the simplified example shown in Figure 5, we start with the present customer base. The organization knows precisely who its customers are and their current level of spending or base income flow to the organization. In the following period, those customers receive a variety of marketing communication messages such as advertising, direct mail, teleservice calls, etc. During the same period they may also experience brand contacts not under the organization's direct control, such as a recommendation from a friend. All of these messages, brand contacts and marketing communications influence the consumer's subsequent behaviour, but the key point is that the consumer will decide for him- or herself just which contacts are the most influential. At the end of the cycle the organization is able to measure changes in behaviour and income flows and calculate the return on investment for the marketing communication activities against that specific customer or customer group.

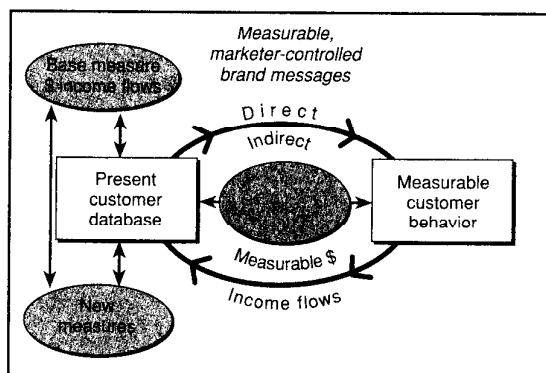


FIGURE 5. Closed-loop systems.

At the fourth level of integration two issues are paramount: (1) the ability to measure the return on customer investment and (2) the ability to use IMC to drive organizational and strategic directions. We will touch briefly on each of these.

- (1) Return on customer-investment. Under the proposed process, the attention shifts away from trying to measure the effect of individual communication efforts, such as the response to this advertisement or to that special event. It is simply not possible to isolate the effects of individuals' efforts, particularly considering that one of the goals of integration is to foster synergy between campaign elements. Instead, the focus is on relating the investment made in specific customers or highly defined customer groups against incremental gains (or declines) in the income flows from these same customers. Once organizations have put the necessary processes and infrastructures in place to measure the return on customer investment accurately at the macro level, they can then test various communication mixes or levels of investment to further refine the plan for future cycles. The important point here is that, under this approach, it is customer income flows that is the critical element of measurement, not individual communication efforts. By being able to relate investment in customers to the returns received from these same customers, organizations are able to put marketing communication investments on the same analytical footing as any other financial investment decision. The chief executive officer and chief financial officer will have comparable tools with which to judge alternative investments such as authorizing marketing communications versus building a new plant versus launching a product extension. They can then allocate resources – time, money and management attention – to those projects and initiatives that appear to offer the best return on investment for the time frame under consideration.
- (2) Using IMC to drive organizational and strategic directions. Through the processes that have been outlined here, IMC becomes a much more powerful tool than previously envisioned. In order to thrive in the twenty-first century market-place, we believe organizations need to move away from their operations-driven, inside-out approach to an outside-in approach focused on creating value for customers in all dimensions of the brand experience. That requires every aspect of the organization – from customer correspondence to product quality to human resources recruitment and training to compensation structures – must be reviewed and brought into alignment with the promises made to customers. This view was echoed by Duncan and Moriarty (1997), who wrote that IMC cannot work unless companies make significant changes in how they are organized and in their corporate priorities. They went on to say that to achieve profitable brand relationships with customers, organizations must adopt 'a cross functional process that has a corporate focus, a new type of compensation system, core competencies, a database management system that tracks customer interactions, strategic consistency in all brand messages, marketing of the company's mission, and zero-based marketing planning' (Duncan and Moriarty, 1997).

DISCUSSION

In this paper we have reviewed the changing context of marketing and IT and outlined the impact we believe these will have on marketing communications as we move toward the twenty-first century. Further, we have proposed a new working definition of IMC and

hypothesized four levels of integration through which we believe organizations progress as they gain experience and success with IMC.

This new theoretical framework for IMC requires additional research, study and comment. The authors have served as subject matter experts to the American Productivity and Quality Center (APQC), Houston, Texas, which has conducted a consortium benchmark study on IMC 'best practices' and which uses the four levels of integration construct as the framework for the study. The results are available to APQC members and will be available to non-members in 1998.

Further research is needed to support the concepts and processes outlined here. In particular, there is a significant need for marketers, database and financial experts and marketing communicators to join together in further study of customer valuation and measuring return on customer-investment, particularly as it relates to how marketing communication investment enhances brand value for the organization.

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