Saimaa University of Applied Sciences
Faculty of Business Administration, Lappeenranta
Degree Programme in International Business

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How to Utilize Case Company's Customer Database to Start Planning Integrated Marketing Communications Plan.

Thesis 2013

Abstract

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How to Utilize Case Company's Customer Database to Start Planning Integrated Marketing Communications Plan, 75 pages, 2 appendices
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The purpose of the study was to create a process for the case company to start developing their marketing and communication activities. As the case company doesn't have a plan for their marketing and communication processes, the aim for the thesis was to develop a clear model on how to plan an integrated marketing communication campaign. The IMC model introduced by Schultz D. & Schultz H. (2004) is more a business strategy than simply a means of coordinating communication. It consists of five strategic and tactical steps on how to identify the right customers, determine their value, invest in communication programs, and measure the impact of and returns on those communication activities.

The information was mainly gathered from literature and the Internet. For the theory part the information was gathered from several books and from a few Internet sources. The data and statistics for the empirical part were gathered from the case company's customer database and by having discussions with the staff.

The results of the study show that there are various ways for the case company to communicate with its customers and prospects better. From the information gathered the base and key customers of the case company were clearly identifiable and available to be valued. Based on the findings the case company is now capable of planning their integrated marketing communication activities effectively. In short, the case company has now a base on which it can start building their marketing plans.

Keywords: integrated marketing communication, customer database, customer relationship management, marketing

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1 Introduction

In today's business environment coordinated and aligned communication not only builds brands, but does so faster, more easily, and at less cost than traditional communication approaches. Integrated Marketing Communications (IMC) has become more and more important because of technological development, importance of brands, and emerging globalization. While there are still significant challenges to its implementation, IMC has achieved acceptance in businesses of all types. (Schultz & Schultz 2004, p.XVI.)

The objective of the thesis is to make it possible for the case company to use their customer database effectively to plan their marketing campaigns. This is the first step in integrated marketing communications process introduced by Schultz & Schultz (2004, p.68). The objective will be reached by processing the case company's customer database in order to see which customers are active (have bought something within one year) and which not. When this step is done, the active customers can be then aggregated to different segments, for example based on their purchases.

After the groundwork is done, it is possible for the case company to plan their marketing programs based on the customer behaviors, and to proceed with the marketing communications process. It consists of five steps: identifying customers and prospects, estimating the value of customers and prospects, planning messages and incentives, estimating return on customer investment, and post program analysis and future planning.

The study will only provide the model concerning on how to start building integrated communications process, and also will provide a starting point for the planning process. This is done by following and implementing the first two steps of the five step model. The study will not provide fully planned integrated marketing communications plan based on the five step model, but rather gives a starting point and suggestions on how to proceed through it.

Research questions include:

- How to evaluate customers by using customer database?
- How to analyze the gathered information?
- How to use the findings in order to improve case company's already existing processes?

Sub-questions include:

- How to find and analyze information from customer database?
- Which information is relevant and which not?
- How to use this information to proceed with the integrated marketing communications process?

To find answers to these questions the study will dig deeply into integrated marketing communication theory. After the theory is discussed in detail the case study will be provided. The necessary information about the case company will be acquired directly from the company itself using interviews and collecting customer data from already existing databases. After the information is gathered it will be analyzed and the recommendations and summaries will be discussed.

The research method used in this thesis is a combination of quantitative data gathering and qualitative research. Data gathered from the customer database provides the quantitative base for the study. It means gathering statistical data and then analyzing it to provide relevant information based on the findings. Group discussions with the case company will provide the qualitative part for the study, where the findings from quantitative research are connected with the qualitative company objectives.

Group discussions used in this study work same way as free interviews. There are no strict questions asked, but the discussion circles around a certain theme or themes. Doing the interviews this way, it is easier to get the overall picture of the case company's goals and objectives for the study. Also it is easier to analyze the gathered statistical data and provide relevant information for the company when there is a consensus about what is important and what is not.

2 IMC: A Five-Step Process

Schultz & Schultz (2004, p.68) argue that marketing communication has been historically implemented as a series of disconnected and often unrelated activities. In other words, organizations have treated them as distinct disciplines. They point out that IMC, on the other hand, 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 more consistent income flows over time. Because IMC requires an organization wide change in thinking, its implementation is most effectively achieved by following a clear and consistent process.

Schultz & Schultz (2004, p.68) 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 and customer-focused managerial steps that lead to and through the development and implementation of a totally integrated marketing communication program. Figure 2.1 gives a simplified overview of the process. It consists of five separate but interrelated activities that involve a number of the traditional functional areas of marketing and communication.

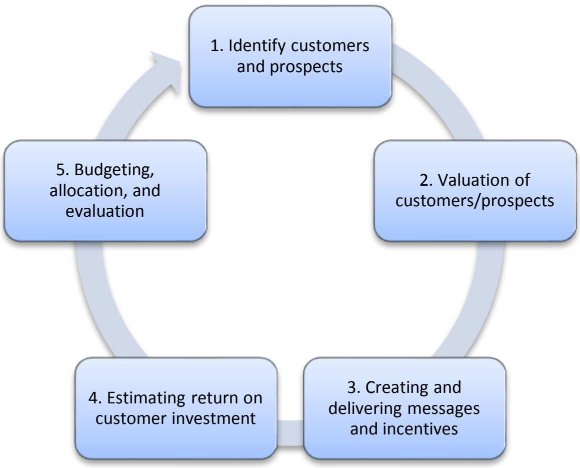


Figure 2.1 The Five-Step IMC Planning Process (Schultz & Schultz 2004, p.69)

On the other hand, Clow & Baach (2007, p.9) introduce a more traditional marketing plan for IMC. It consists of situation analysis, marketing objectives, marketing budget, marketing strategies, marketing tactics, and evaluation of performance. Slight differences can be found in the plans compared to the process introduced by Schultz & Schultz (2004). The marketing plan introduced by Clow & Baach (2007) starts with a situational analysis which identifies marketing problems and opportunities present in the external environment as well as internal company strengths and weaknesses. The Five-Step process starts by identifying customers and prospects, hence the starting points for both plans are different. One is based on the analytical SWOT analysis, whereas the other on the needs and wants of their customers and prospects. This study will follow the IMC process introduced by Schultz & Schultz (2004), and the differences between these two processes will be compared throughout the Five Steps Process.

2.1 Step 1: Identifying Customers and Prospects

In step one of the IMC process, the objective is to identify customers according to behaviors and to understand why those behaviors occur. It involves the collection of various types of information, including demographic, geographic, psychographic, and other relevant data. (Schultz & Schultz 2004, pp.70-71.)

The focus is on aggregating and integrating that data to provide an understanding with whom communication programs are to be created. Customers are aggregated into groups according to their behaviors in order to develop communication programs relevant to each group. For example, they can be aggregated into three simple groups: present customers, competitive customers, and emerging users which are new customers who do not have strongly established relationship with the company. (Schultz & Schultz 2004, p.71.)

2.2 Step 2: Estimating the Value of Customers and Prospects

The next task is to place an estimated financial valuation on customers and prospects, which means to identify the income flows they contribute to the firm. This step is critical, because it forms the basis on which the organization will determine against whom and how it will allocate its finite corporate resources. (Schultz & Schultz 2004, p.72.)

Step two begins by obtaining a clear picture of the current usage among target customers as well as factoring in future potential. This determination is then used to establish specific and measurable behavioral objectives. (Schultz & Schultz 2004, p.72.)

2.3 Step 3: Planning Communication Messages and Incentives

Step three involves planning the content of and delivery of communication to the firm's target customers. The goal is to structure relevant and compelling communication programs that will reach customers or prospects at a time when they will be most receptive to the communication. (Schultz & Schultz 2004, p.72.)

Included in this message or incentive approach are the delivery systems by which communications are delivered to customers, consumers, end users, and prospects. Marketers can determine how best to use their basic marketing tools (product attributes, pricing policies, distribution or channel strategies, and communication) when they have laid out appropriate message and incentive strategies. Finally, the execution of the communication program 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. (Schultz & Schultz 2004, pp.72-73.)

2.4 Step 4: Estimating Return on Customer Investment

Financial values are important in the IMC approach. By treating customers as assets, the planner has a practical basis on which the financial effects of the company's total marketing communication program can be calculated. Step four separates results into short term (business building) and long term (brand building) returns. (Schultz & Schultz 2004, p.73.)

2.5 Step 5: Post Program Analysis and Future Planning

The final step of the process involves several steps:

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

Within the IMC process, marketing communication is considered an ongoing and continuous program. (Schultz & Schultz 2004, pp.73-74.)

3 Step 1: Identifying Customers and Prospects

The first step in developing an IMC program is to identify and define customers and prospects using a behavioral database. Essential part in this task is the idea that customers and prospects are treated as individuals, not as markets. If marketers lose sight of the individual behind the purchasing decisions, they generally lose sight of the objectives of communication. (Schultz & Schultz 2004, pp.77-78.)

3.1 Aggregating Individuals into Behavioral Groups

Marketers aggregate or combine customers and prospects that are alike in enough ways to make generalized messages or incentives practical. This aggregation process makes it possible to use the efficiency of various forms of traditional media while still focusing on specific, behaviorally defined groups of customers and prospects. Figure 3.1 illustrates how aggregation differs from traditional market segmentation in a way that it starts with identifiable individuals and aggregates them into like-behaving groups.

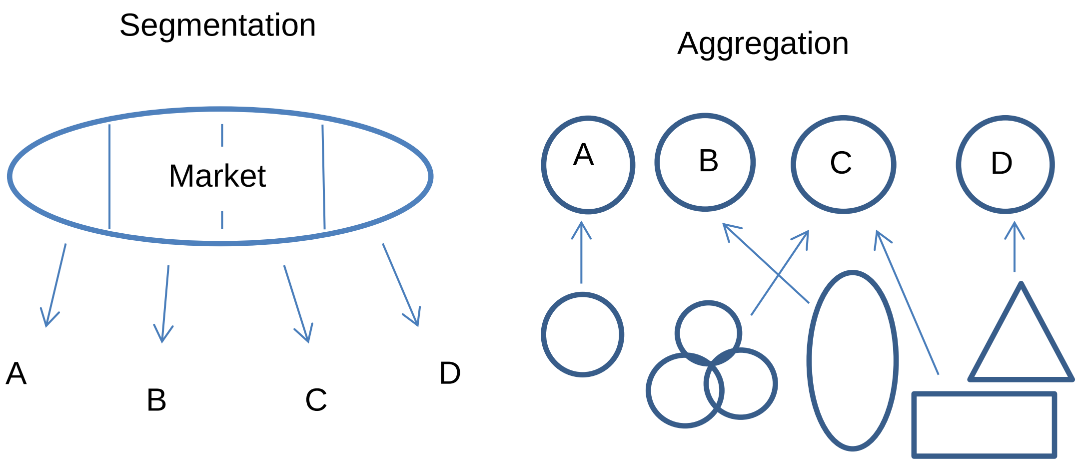


Figure 3.1 Market Segmentation vs. Aggregation (Schultz & Schultz 2004, p.78)

Companies commonly develop aggregation plans based on the strength of the relationship between the customer and the brand. For example, by aggregating customers and prospects into three simple groups: present customers, competitive customers, and emerging users. All present customers may be treated as a single target or may be broken down further into subcategories such as high-volume users versus occasional users. Same way competitive customers may be subdivided into those who are extremely loyal to a competitor and those whose previous behavior indicates they are switchers. Emerging users present special communication challenges, as these are the users who are new to a category (such as new mothers and recent retirees) and therefore do not have a strongly established relationship with any competitor. Since they are new to the category, they may have special informational needs and may have to be reached through different venues or channels than those already established. (Schultz & Schultz 2004, pp.79-81.)

When customers and prospects have been defined and aggregated according to their behaviors, the marketer can enhance this behavioral information by using traditional tools, such as demographic, geographic, or psychographic information. This data helps to explain the behaviors that have already been observed and to understand why those behaviors most likely occurred. (Schultz & Schultz 2004, p.81.)

Schultz & Schultz (2004, p.81) believe that aggregation is a far richer and more insightful approach than traditional methods of segmentation, because it treats customers as people rather than simply as segments.

3.2 Finding the Data Marketers Need for IMC Planning

The main goal during step one is to gain meaningful insights into the needs, wants, and wishes of those individuals or companies the firm wishes to serve. Source for such insights is the customer data. Today the problem is not the lack of data, or difficulty to obtain more data from customers and prospects. The challenge is to organize all the information the organization has and make it accessible to those who need it. (Schultz & Schultz 2004, p.82.)

Schultz & Schultz (2004, p.82) mention that most firms have “islands of information” spread throughout the organization. The problem is that few firms are successful in connecting these islands of information to achieve a comprehensive, insightful view of their customers.

3.2.1 Customer/Prospect Data Sources

Customer and prospect data comes from multiple sources. Figure 3.2 introduces a three-part model of how organizations capture, manage, and apply customer data. The left side column lists the various sources that organizations commonly use to gather customer and prospect information. Data sources are organized on a continuum bounded by whether the information generally comes from internal or external sources. Most firms use a combination of the two to develop a comprehensive IMC program. Each type of data has particular benefits and characteristics. The most valuable information about customers and prospects is what they have done in the past. What were their behaviors, purchases, or activities related to the product or service for which the IMC program is being planned? (Schultz & Schultz 2004, pp.82-84.)

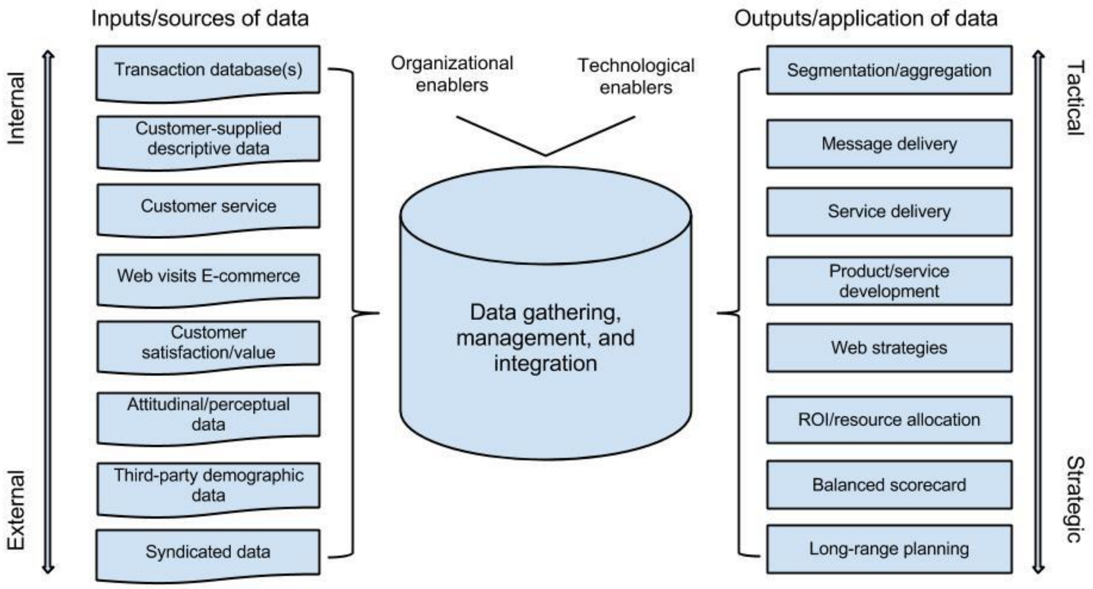


Figure 3.2 Model for Leveraging Customer Data (Schultz & Schultz 2004, p.39)

Schultz & Schultz (2004, p.84) state that behavioral data almost always provides more valuable insight about what customers might do in the future than any other type of information. They don’t say that attitudinal data (how people feel about a company or brand) has no value, but they think that generally such information lacks predictive ability. Rather than using attitudinal data to foretell what customers might do in the future, marketers use it to explain why those customers did what they did and why they might perform that way again in the future.

3.2.2 Understanding Customers and Prospects

When looking at collected information, marketers need to separate data according to tactical and strategic value. Data to support tactical decisions are based on how marketing activities should be carried out, meaning media forms, delivery systems, messages, offers etc. Strategic information allows an organization to make decisions about what should be done. To decide whether data is worth gathering and keeping, marketers can ask the following questions (Schultz & Schultz 2004, p.85):

1. Will these data help our company become more relevant to customers and prospects? Will we be able to offer products or services they might logically want or need, not just the products or services we have to sell, and be able to communicate with them in a meaningful way?
2. Will these data help us become a learning organization? Will we be able to understand a customer’s actions and use that knowledge to create a satisfying experience for the customers in the future? Will these data help us learn from our mistakes and take advantage of our successes? Can the data we are capturing help us to change and grow with the customer and his or her needs and wants in the future?
3. Will these data help us better allocate our finite resources now and in the future? Will the data enable us to make better marcom decisions? Can we determine what works and what doesn’t and, more important, why? Will the data we are capturing, managing, and analyzing help us be better stewards of this firm’s finite resources in the future?

If the data in question is valuable even in one of these three key areas, then it is most likely worthwhile to capture, manage, and analyze that data.

To be of strategic value, marketing communication must affect the present or future behavior of customers and prospects. Marketers do not assume that this will occur, nor do they assume the manner in which such a product or service purchase will occur. They take the behaviors as they are and then try to reinforce or change them. Hence, by having some knowledge of the customers' previous behavior, marketers know what to try to influence in the future and what to measure against in future evaluation of their programs. (Schultz & Schultz 2004, pp.87-88.)

3.3 Understanding Databases in an IMC Context

Some companies need database, some don't. The key to success in understanding customers and prospects is not how much data the organization has, but how the available data is used. As soon as two pieces of data of any kind on a customer or prospect are gained, those bits of data should be used to better understand the customer or prospect or to build better, more relevant marketing and communication programs. (Schultz & Schultz 2004, p.89.)

3.3.1 Data Audits

The first step in the development of a relevant database is generally a data audit. Data audits normally start with a review of what is already available in each of the areas shown in figure 3.3. Changes are that the organization will find what it needs fairly quickly and often at little cost. The challenge, of course, is how to bring all the information together. (Schultz & Schultz 2004, pp.89-90.)

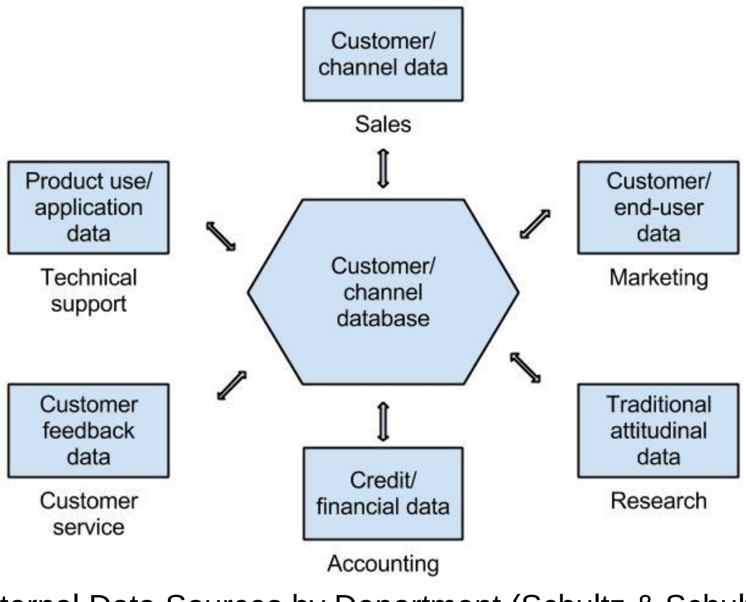


Figure 3.3 Internal Data Sources by Department (Schultz & Schultz 2004, p.91)

3.3.2 Types of Databases

The question naturally arises as to what type of information gathering or aggregation is most useful in the development process of an IMC program. Figure 3.4 helps answer this question.

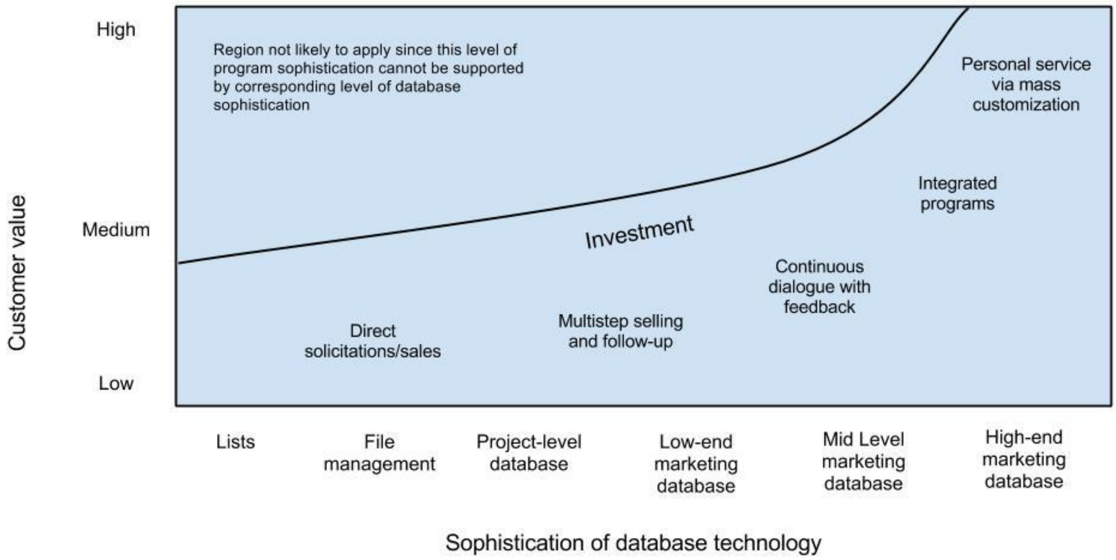


Figure 3.4 Finding the Right Type of Database (Schultz & Schultz 2004, p.93)

The type of database required depends on the type of marketing program being planned. The vertical axis of the figure shows the value of the customer to the organization. The horizontal axis shows increasing levels of database sophistication corresponding to increasing levels of customer value. (Schultz & Schultz 2004, p.92.)

Highly integrated marketing communication programs will require a midlevel to high-end database (Schultz & Schultz 2004, p.92). It means that to develop truly interactive integrated programs, a fairly comprehensive database is required. It is important to notice the concave line identifying the area where a database would likely provide no real value to the organization. For example, if a firm's only interest is in reaching the first level of integration, then a sophisticated database likely would not pay for itself.

3.3.3 Combining and Sharing Customer Data

“While much of the effort in customer and prospect identification is in obtaining data and information, the real insights come when data are combined and analyzed in some way to provide additional, in-depth detail on customers and prospects.” (Schultz & Schultz 2004, p.94.)

In order to gain the valuable customer insights that allow a firm to identify customers and prospects, all available data are used to create a four-box matrix around two continuums (Schultz & Schultz 2004, p.94):

- **Measurable data leading to implied data (horizontal axis).** Quantifiable data provides concrete, structured information on a large number of customers and prospects. Implied data is derived through survey methods of research or through episodic customer contacts and comments.
- **Observable data leading to information that can be projected (vertical axis).** Observable information is based on actual, traceable customer behaviors and data. Projected data is based on information gathered through surveys and other sample-based techniques.

When the two forms of data are combined together, a matrix can be developed as shown in the figure 3.5. Although the matrix shown is not all-inclusive, it does illustrate the types of data that might be found in the organization. It also provides one approach to organizing data for analysis and planning.

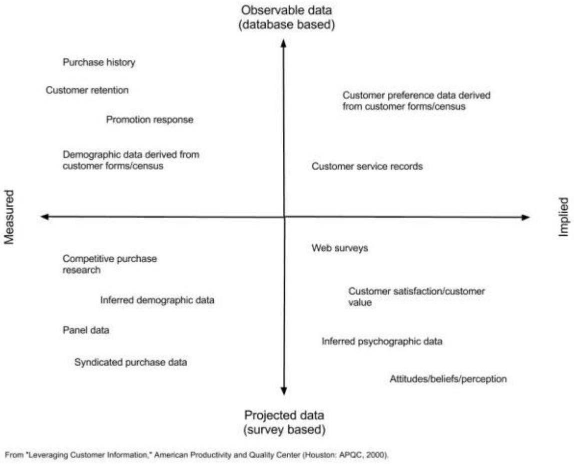


Figure 3.5 Observable/Measurable Data Matrix (Schultz & Schultz 2004, p.95)

Bringing all the data together into some type of useful and usable information about customers is done with organizational and technological enablers, as shown in the figure 3.2 earlier. Organizational enablers make data integration and insight possible. They generally include the culture of the organization (the extent to which it is customer focused; the level of support from top management; the level of cooperation between groups, units, strategic business units, and so forth). Technological enablers include the compatibility among computer hardware and software, data transfer systems, data-gathering facilities etc. Both types of enablers are essential for successful integration. (Schultz & Schultz 2004, pp.95-96.)

Customer insight comes as a result of the ways in which data are linked. Links can be either hard or soft. *Hard links* are activities that enable the physical matching of various kinds of data. For example, matching customer buying records with third-party demographic data is a hard link. On the other hand, *soft links* are activities that involve human intervention or actions to ensure success. These can be, for example, customer profiling, customer scoring, and the design of samples for data gathering. (Schultz & Schultz 2004, p.96.)

3.3.4 Generating Customer Insights

The figure 3.2 shows the right side column which lists ways that aggregated data are applied to shape business activities and strategies. These outputs or applications are displayed on a vertical continuum ranging from strategic to tactical. Obviously, the primary tactical output of importance is the segmentation or aggregation of customers and prospects. At the other end of the continuum the analysis of customer data can be used to develop various methods of long-range planning. (Schultz & Schultz 2004, p.96.)

4 Step 2: Estimating the Value of Customers and Prospects

Step two of the IMC process requires developing a methodology for determining the financial value of customers and prospects in order to make effective marcom investments. This begins by understanding the purchase dynamics of each aggregated customer group and the share of their purchasing in the category that is directed to the firm or brand. This approach is based on an understanding of the current level of demand for the firm's products or services and must include an estimation of projected potential demand. (Schultz & Schultz 2004, p.102.)

In step one, customers were aggregated by their behaviors into present, competitive, and emerging categories. Step two lists the behavioral objectives the organization hopes to gain through the communication initiative (retain, grow, migrate, or acquire). Obviously, each of these customer or prospect groups generates differing flows of income to the firm. The questions asked now are:

- What customer behaviors are to be influenced and with what result?
- What customers and prospects are to be acquired and at what cost?
- Who will return what value?
- Which customers are to be retained?
- Which customers are to be migrated to a more profitable line as a result of the firm's marcom investments?

4.1 Developing a Customer/Prospect Valuation Methodology

"A useful customer valuation methodology must provide a view of historical, current, and future financial value." (Schultz & Schultz 2004, p.106.)

Some customers and prospects are worth more than others: they spend more in the category, they are more profitable, and they are more loyal. For example, in most product categories there is what is called the "80/20 rule", or the Pareto rule. The rule states that around 20 percent of customers commonly contribute approximately 80 percent of the firm's sales, profits, or income. It means that in almost every company, a relatively small group of customers is critically important to the success of the company. (Schultz & Schultz 2004, p.106.)

Targetbase has developed an innovative approach to valuation. The method seeks to define an overall customer brand value (CBV) (Schultz & Walters 1998). Targetbase starts with the financial value that a customer, or group of customers, could represent to the brand's profitability. As shown in figure 4.1 four factors determine the CBV valuation:

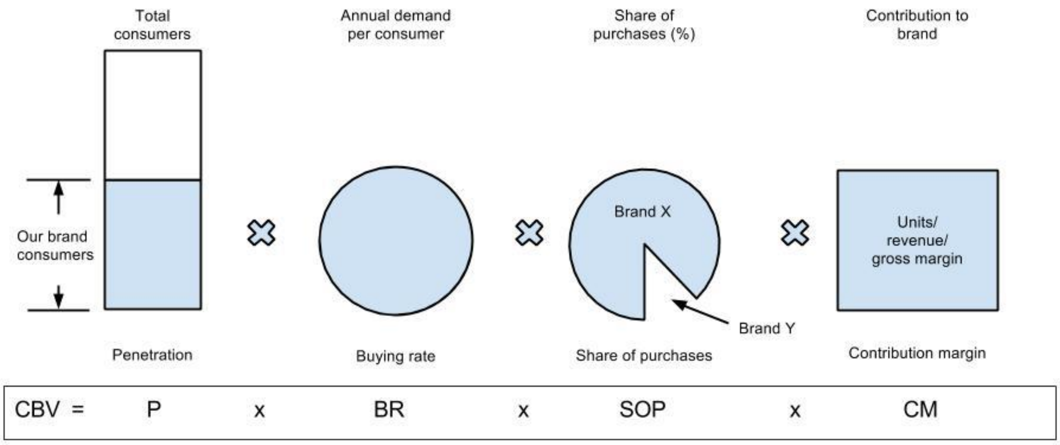


Figure 4.1 Calculating Customer Brand Value (Schultz & Schultz 2004, p.109)

- **Penetration (P).** The number of customers the firm has as a percentage of the total number of customers in the category.
- **Category buying rate (BR).** The average annual (or other time period) demand for the product, service, or brand per the customer.
- **Share of purchases (SOP).** The proportion of total customer purchases that the marketing organization has.
- **Contribution to margin (CM).** How much of the total purchases made by the customer results in income flows at the company's contribution margin line?

4.2 Creating Customer and Marketplace Value

How does the company create value in the eyes of the customer? Schultz & Schultz (2004, pp.115-116) state that in most marcom planning approaches it is assumed that certain forms of customer value are inherent in the product or service the organization is selling. Therefore the task of the marcom manager has been to identify those values and communicate them to customers and prospects. Associated with this assumption is the common belief that any product or service can be “sold” to consumers if the marketer has enough money, is clever enough with the marcom program, and is given sufficient time. On the other hand, Schultz & Schultz (2004, pp.116-117) point out that in today’s interactive environment control is quickly slipping away from the marketer. Customers can view, shop, and buy from all types of alternative systems, ranging from bricks and mortar retail outlets to E-commerce sites. Customers and prospects are able to identify, evaluate, and purchase products and services from all over the world using their own time frames and through processes they set up.

In the traditional value chain customer value for the basic product or service is delivered through assembly, distribution, stocking, and other methods. In each step, it is assumed that value is added for the ultimate customer. Schultz & Schultz (2004, pp.117-118) mention that the problem with this view is that in many cases some of that costly “added value” is not wanted or needed by the consumer. In today’s interactive marketplace, the consumer controls much of the value chain. For example, the end user may decide that buying a book through a local bookshop provides little extra value. As an alternative, he or she can buy from amazon.com. It offers wide selection, competitive service, and an easy purchase and delivery system.

4.3 Learning the Five Rs of IMC

As IMC puts the customer at the center of the organization, it changes the entire concept of value. Value is no longer added continuously as in the traditional model. The customer determines value and selectively adds that value from the marketing system using only those elements that provide the greatest value to him or her. In figure 4.2 this “customer value add” is visualized as a series of circles surrounding the customer or prospect from which he or she or the firm can select, combine, and organize products and services in ways that create the greatest personal or organizational value. (Schultz & Schultz 2004, pp.118-119.)

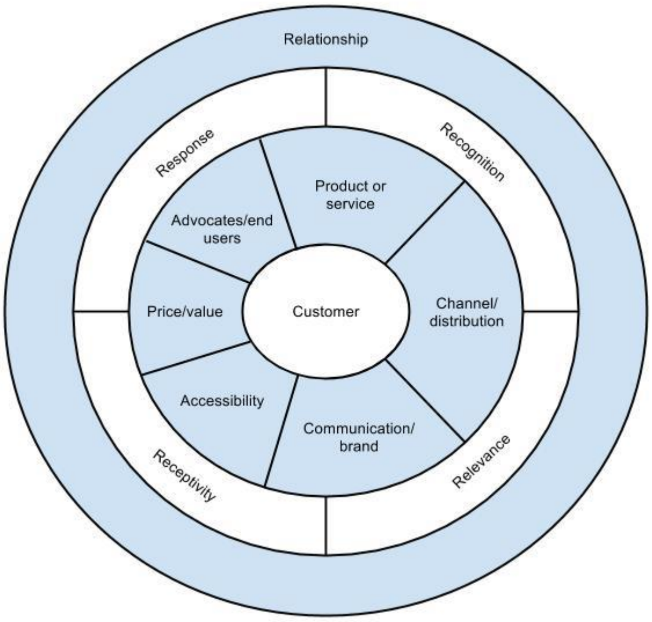


Figure 4.2 IMC Circular Value Add (Schultz & Schultz 2004, p.119)

At the center is the customer or prospect. Surrounding the customer are the traditional marketing value adding systems, including product/service specifications, price, channel or distribution system, communication and information, and so forth. Also there are added the influence of advocates, endorsers, and communities of interest, as well as accessibility, or the ways in which the product or service can be obtained.

The second concentric ring includes the new Five Rs of IMC (Schultz & Schultz 2004, pp.120-122):

1. **Relevance.** Term used to determine how relevant the marketing firm can be to the customer in terms of making products and services the customer wants and needs. Also the organization must further provide relevant, compelling, and meaningful communication, as well as relevant, competitive pricing and relevant distribution systems through which the customer can acquire the product or service.
2. **Receptivity.** The organization wants to be able to reach the customers and prospects when they will be most receptive to the message. Receptivity also contains how open the organization is to new ideas, new concepts, and new methods of doing business.
3. **Response.** Response raises the question of how easy it is for the customer or prospect to respond to the company's offerings. Is the company easy to do business with, and does it effectively facilitate the transaction process at every possible point of contact? Response also refers to how

well the organization can sense, adapt to, and answer the needs and wishes of its customers and prospects.

4. **Recognition.** It reflects the firm's ability to recognize the customer at important points of contact and to immediately connect to the firm's stored knowledge about that customer. Recognition also has to do with the customer's ability to recognize and select the organization's brand from a given array of alternatives.

The figure shows the first four Rs as surrounding the customer or prospect. Depending on how the customer or prospect wants to obtain value through the first circle, the second circle highlights the types of additional value he or she can receive from the company because of its organizational structure, company focus, willingness to change, and so on. In other words, the first four Rs reflect the additional value the organization wants to provide for the customer.

At the outer edge of the value-add circle system is the single element of relationship, the fifth R.

5. **Relationship.** It is the customer who creates the relationship and decides with whom he or she will do business and under what time and situation constraints. The power of the customer is the key in understanding the customer-centric view of IMC: the customer decides, the marketer responds.

4.4 Three Key Questions

Working through steps one and two, the organization should be able to answer three critical questions based on the customer and prospect data assembled so far (Schultz & Schultz 2004, p.123):

- Who are the firm's best customers? Why?
- Who are the firm's best prospects? Why?
- What information does the organization need to be more relevant to customers and prospects?

5 Step 3: Planning Messages and Incentives

Using the inputs from steps one and two, the organization has all the necessary ingredients to begin developing a powerful and effective communication program. Much of the groundwork is already done: the organization thoroughly understands the product or service for which the program is being developed, is aware of competitive offers, and understands the structure and operation of the marketplace in which the program will be delivered. For the creation of messages and incentives to begin, the organization must further understand how customers come into contact with the brand (brand contacts) and how that brand is perceived by them (brand networks). (Schultz & Schultz 2004, p.145.)

Today creative, or *what* marketers say, is less important than *how* and *where* they say it. This is because new media forms pop up almost daily, ranging from events and sponsorships to mouse pads to satellite sky beams to various options available on the Internet. Almost everything consumers see or hear – hats, clothing, cell phone displays, and bus shelters – has been turned into a communication medium. (Schultz & Schultz 2004, p.146.)

In IMC planning process the first order of business is to understand where customers or prospects might hear, see, or learn about the product or service and then use those points of contact that offer the greatest opportunity for relevance, receptivity, and response. Only then does the organization determine creative, or what the message will say. (Schultz & Schultz 2004, p.146.)

5.1 Analyzing Brand Contacts

The customer is “touched” by the brand in many ways, including but not limited to direct experience (either through previous purchase or sampling), contact with front-line employees, use of the physical product and services, or various forms of marketing communication (Yastrow 1999-2000, pp.5-12).

A primary method to understand such brand touch points is the brand contact audit. It helps to identify how customers actually come in contact with the firm and its products or services. Schultz & Schultz (2004, pp.146-147) define a brand contact as any element of the customer’s experience with the entire product or service offering that he or she attributes to the brand. The test of a brand contact consists of two questions (Schultz & Schultz 2004, p.147):

- If a particular element of the customer's experience with the brand goes well, who gets the credit?
- If an element of the customer's experience with the brand goes poorly, who or what gets the blame?

If the answer to one of these questions is "our company" or "our brand", the experience is a brand contact. Figure 5.1 illustrates typical brand contacts for a technology product. It can be seen that the whole brand consists of much more than just traditional communication elements. It includes employees, word of mouth, merchandising, post-sales support, and so forth. It is all the ways a customer or prospect might have contact with the product or service before purchase, during use, and after experiencing the product in action.

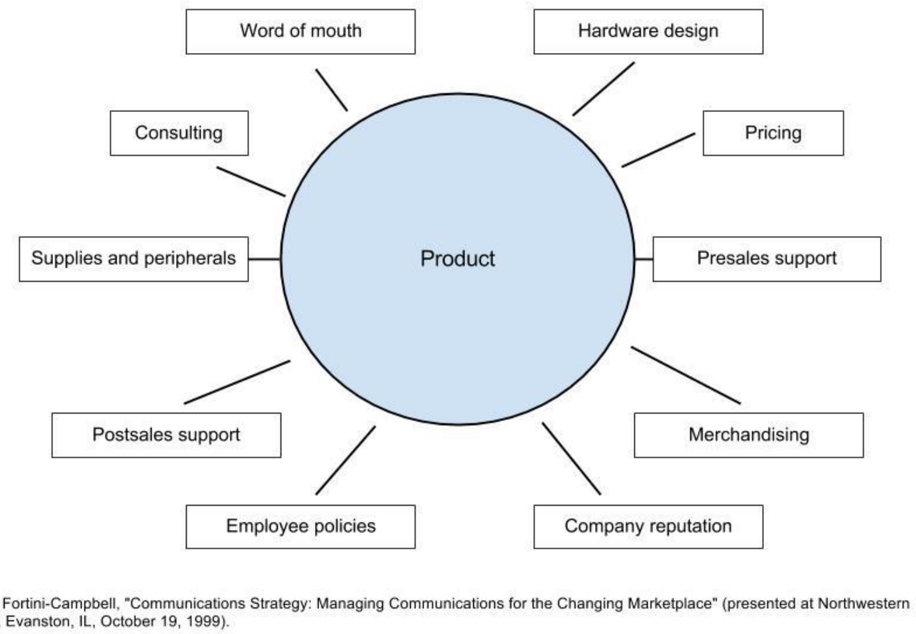


Figure 5.1 The Whole Brand (Schultz & Schultz 2004, p.147)

5.1.1 Conducting a Brand Contact Audit

A brand contact audit allows the organization to determine how and under what circumstances and conditions the customer or prospect comes in contact with the brand, product or service, or organization. Fortini-Campbell (1999) has developed the following three-step process:

1. Recognize all brand contacts from the customer's or prospect's point of view, whether they are controllable or uncontrollable by the organization, and whether the marketer is directly responsible for them. This means that the organization must develop a full inventory of the various forms of communication to which customers and prospects are exposed.
2. Arrange and prioritize the brand contacts from the point of view of the customer or prospect. Fortini-Campbell (1999) identifies specific "moments of truth", critical points that either motivate the customer to embrace or reject the brand. This step involves recognizing which contacts reinforce compelling brand impressions and which contribute to nonintegrated impressions that can drive customers away. The information is brought together in the chart shown in table 5.2.

Brand Contact	Importance evaluation	Impression evaluation	Customer expectation	Customer experience	Message sent	Resources currently allocated

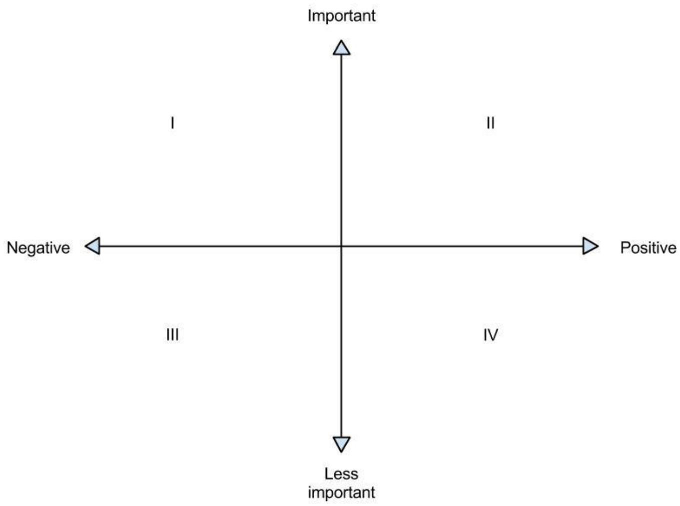
Table 5.2 Whole Brand Contact Inventory (Schultz & Schultz 2004, p.150)

The first column is an inclusive list of all points of contact described in the first step of conducting a brand contact audit. It includes all forms of outbound marketing communication, such as advertisements, brochures, in-store displays, and so forth. It also includes such points of contact as a call to the customer service desk; the bill sent from the accounting department; interaction with delivery personnel and technicians; and third-party contacts, such as stories in the press, word of mouth from other users, and so forth. (Schultz & Schultz 2004, p.149.)

In the second column each point of contact is rated high, medium, or low. This is to indicate its importance to the customer's evaluation of the brand. For example, product use or personal experience with the product or service is almost always more important than forms of media communication. (Schultz & Schultz 2004, p.151.)

The third column represents the impression left with the customer at the point of brand contact. It simply means identifying whether the impression left on the customer or prospect was positive (yes) or negative (no). (Schultz & Schultz 2004, p.151.)

The information gathered in the first three columns is then plotted on a brand contact priority grid, shown in figure 5.3. This illustrates which brand contacts are most important and should be managed first. The brand contacts in areas I and II represent the first order of business for the organization, while those in areas III and IV have lower priority.



From Lisa-Fortini Campbell, "Communications Strategy: Managing Communications for the Changing Marketplace" (presented at Northwestern University, Evanston, IL, October 19, 1999).

Figure 5.3 Whole Brand Contact Priority Grid (Schultz & Schultz 2004, p.151)

For long-term brand communication success, it is critical that the message or messages the customer or prospect receives at all points of contact are fully integrated and aligned. That means to improve those brand contacts in areas I and III, and align and integrate them with the positive contacts in areas II and IV. (Schultz & Schultz 2004, p.152.)

3. Develop an improved customer experience at each point of contact. Actual customer experience must be analyzed in great detail to do so. This involves completing the last four columns in table 5.2, which present the following questions:
    a. What do customers expect at each contact point? What level of quality or service do they connect with and expect from our brand? What level of knowledge and expertise do they await? What impression do they have of our brand and organization?
    b. What is the real customer experience at each point of contact? Are we living up to their expectations, or are we delivering a different experience than what they had expected?
    c. What is the real message sent at the point of contact? Do we send a message of poor or slow service, although our ad promises fast and friendly service? Is the message coherent with what customers have been led to expect?
    d. What resources are we allocating to each point of contact, and is resource allocation adequate with the contact point's importance and relevance to customers? Are we overspending on communication that has little impact, and underinvesting in points that customers feel are critical to their experience?

When the inventory chart and priority grid have been completed, they can be used in a number of ways. They are useful as the basis for deciding which points of contact will be most effective in delivering messages and incentives, and in helping the organization to fashion the content of each communication. Beyond marcom applications, the inventory chart and priority grid are a useful starting point for developing a fairly sophisticated customer satisfaction measurement plan that identifies areas for reinforcement and improvement. Furthermore, and examination of the priority grid can identify how well the firm's priorities line up with those of customers and prospects. In the end, the grid can help identify where resources are currently being allocated or distributed to customers and prospects and helps the manager identify areas of misallocation. (Schultz & Schultz 2004, p.153.)

5.1.2 Reversing the Communication Flow

Historically, firms have relied on the outbound distribution of messages and incentives. The organization decided what it wanted to say, developed messages or incentives, selected distribution forms and methods, and then sent those messages and incentives on their way. They sat back and waited for customers and prospects to respond to or ignore their communication. This basic model is shown in figure 5.4.

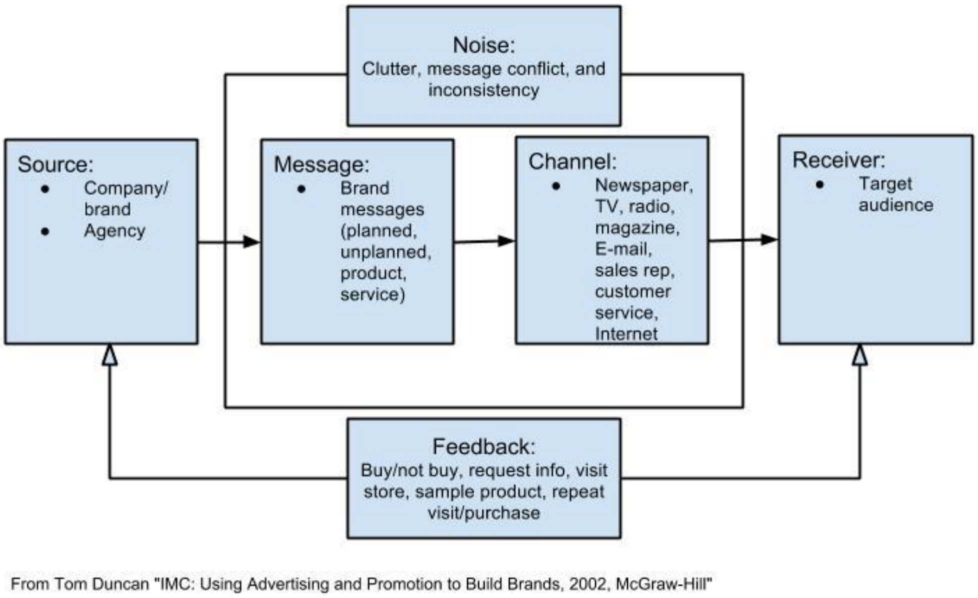
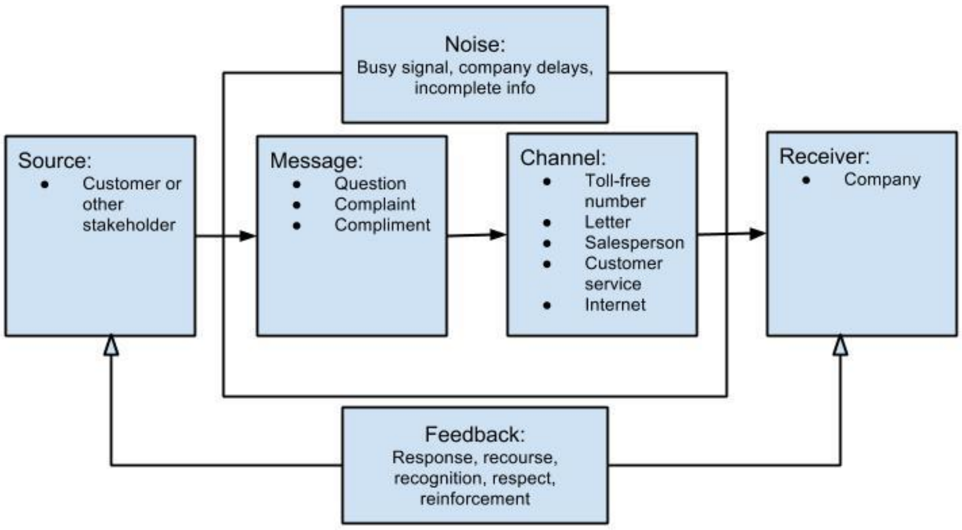


Figure 5.4 Traditional Outbound Marketing Communication Model (Schultz & Schultz 2004, p.160)

Schultz & Schultz (2004, pp.160-161) argue, that the problem is that in the new interactive marketplace, the communication process has changed. The customer or prospect becomes the message sender or message requester, and the organization is the receiver and respondent. The communication flow is reversed as illustrated in figure 5.5.



From Tom Duncan "IMC: Using Advertising and Promotion to Build Brands, 2002, McGraw-Hill"

Figure 5.5 Customer-Initiated Inbound Communication Model (Schultz & Schultz 2004, p.161)

In this reverse-flow model, also channels change. Rather than consisting of traditional media forms, channels are those to which the customer or prospect has access, including toll-free numbers, letters, salespeople, customer service, the Internet, and so forth. These channels are a prerequisite for any company wishing to combine reverse communication into its marketing efforts. The organization must be prepared to listen, as well as to talk, to respond to customers and to communicate messages to them. (Schultz & Schultz 2004, pp.161-162.)

5.1.3 Recognizing Internal Brand Contacts

For an IMC program to be successful, it is vital for the company to recognize that brand contacts can be internal as well as external. Unless employees and partners understand the promises made to customers and prospects, they have no hope of fulfilling them. Who is then responsible for making internal communication happen? (Schultz & Schultz 2004, p.163.)

Schultz & Schultz (2004, p.163) discuss that part of the difficulty in getting employees and other stakeholders into the communication circle is organizational structure. Marketing and communication managers generally do not have direct responsibility for internal communication.

Professor Christian Grönroos, Hanken School of Economics in Helsinki, sums it up efficiently:

"Most of the firm's marketing is carried out by "part-time" marketers. That is, employees who are charged with making, processing, delivering, providing customer service, billing, and so on. They are the persons who really carry out the marketing and communication programs for the organization. Trained marketers are too busy "doing marketing" to spend face-time with customers. It is these part-time marketers who are the front-line troops in the marketing team. They put life and meaning into what the firm and the brand really is and does. Yet, they have not been trained in marketing or communication and too often don't know what the firm is promising customers or what they are supposed to deliver." (Grönroos 1994.)

5.2 Brand Networks

Brand networks are the internal combinations of icons, thoughts, ideas, and experiences in the customer's or prospect's mind that form an overall image or definition of a particular brand for that individual. Schultz & Schultz (2004, p.164) point out that marketers might think of these interconnected elements as forming a network because, in terms of human physiology, that is what they are.

5.2.1 How Mental Brand Networks Operate

When an individual is exposed to marketing communication including new information about a product, service, or anything else, previously stored information from any existing network is called up and the new information is added to it. This is then held in memory until more new information is collected and added, thus creating another new node. Hence, every individual has a series of connected nodes which form brand networks in their minds. Some of these nodes are good for brands, some are bad. Some are strong and some are weak. These nodes are constantly changing and adapting as new information is acquired and processed. (Schultz & Schultz 2004, p.165.)

Brand networks can become quite complex and understanding them requires extensive research. Schultz & Schultz (2004, pp.165-166) recommend that marketers investigate brand associations along several distinct dimensions reflecting the brand's functionality, personality, symbolism, and supporting organizational culture. Brand networks are the basis for all brand and marketing communication storage in the human mind. If the customer or prospect has nothing stored about the brand, product, or service, it is hard to add new concepts or get new messages embedded. They simply have no relevance, because there is no connection to be made in the mind.

5.2.2 How Brand Networks Create Relevance

Customers have particular needs, wants, and desires. They may seek to solve a problem by examining marketing communication as an information source. For example, when a couple decide to purchase a new washer and dryer, they normally review newspaper ads, ask friends and neighbors, look through Consumer Reports, or gather information in many other ways. All the information they find will be added to their brand network for washers and dryers. Because it comes at a time when they are receptive to information about washers and dryers, any marketing communication about the machines has increased relevance for them. (Schultz & Schultz 2004, p.167.)

If an automobile manufacturer would simultaneously bombard the couple with marcom materials, and the couple knew they can't afford to buy a new washer and dryer and a new car at the same time, they would find the automobile manufacturer's marketing communication to be less relevant. This example shows the connection between relevance and receptivity and how brand contacts and brand networks influence what people purchase or don't purchase, what they ignore and to what they pay attention. It is critically important for the organization to understand the customers and prospects with whom it will be attempting to communicate. (Schultz & Schultz 2004, p.167.)

Additionally it is clear that customers test the various communication or contact elements they encounter on a regular basis. If they have a certain brand network stored away and the company then presents conflicting information through its communication, the customer or prospect can make one of two choices:

- Accept the new information and change his or her brand network.
- Ignore the new information and stick with what he or she knows and has stored away.

Likewise, if the brand communicator presents two radically different messages through two types of marcom delivery systems, which of the two should the customer believe? Which one should be stored in the brand network? Maybe the best choice is for the customer or prospect to ignore both messages since they have no alignment or integration. This is a powerful argument for integration of marketing communication at all levels and by all groups that are attempting to communicate with customers and prospects. (Schultz & Schultz 2004, p.168.)

5.3 Defining Customer Insight

Fortini-Campbell (1998) suggests that customer insight contains three primary elements:

- Customer insight includes identifying the strongest motivational force in the mind of the customer or prospect.
- Customer insight is the identification of the psychological opportunity that provides the greatest opportunity for the marketers and the customer to intersect and connect.
- Customer insight is the perfect connection between the marketer and the customer in terms of what the marketer wants to deliver and what the customer or prospect wants to acquire.

Finding customer insight allows the marketer to establish a relevant “whole brand” framework that is then developed, delivered, and reinforced with every brand contact. Brands that achieve customer insight leave customers feeling that the firm knows them, respects them, and can prepare for their needs. (Schultz & Schultz 2004, p.172.)

5.3.1 Developing and Testing Customer Insights

How do organizations know when they have captured the insight that will help gain a new customer or bond an existing customer to the organization? Schultz

& Schultz (2004, pp.172-173) introduce a simple test to find this out. If the organization can complete the parts of the following statement easily and completely, it is well on the way developing effective messages or incentives using the IMC process.

- **For** (Who is the behavioral target the communication program is to impact?)
- **Who** (What is the customer insight that has been identified, and what is the category motivation that drives that customer or prospect?)
- **Our product is a...** (What is the product or service in the eyes of the customer or prospect, that is, what is the whole product or whole brand?)
- **That provides…** (What is the key benefit or value the customer wants and the brand or product can deliver based on insight or insights?)
- **Unlike…** (Who is the relevant competitor or competitors?)
- **Our product…** (What is the key point of differentiating relevance?)

5.3.2 Matching Organizational Capability with Consumer Insights

Marketing communication typically makes promises to customers and prospects. Schultz & Schultz (2004, p.175) mention that the customer experience is often quite different from the promises made. Bank and sales clerks could care less about customer problems or providing customer assistance. Salespeople don't return telephone calls, and products come with unclear instructions and inaccurate directions. Too many organizations don't deliver what they promise to customers and prospects in their marketing and communication programs.

Schultz & Schultz (2004, p.176) suggest that it is critical for each and every part of the organization to focus on customers and be dedicated to helping customers meet their goals. This means that when developing and using customer insights, the goals of the organization must sometimes be aligned to the goals of the customer. Customer insights help the organization to understand the customer's goals and align organizational goals with what the customer is trying to achieve.

5.4 Developing a Message and Incentive Strategy

Figure 5.6 illustrates the concept of messages and incentives. It acts as a useful starting point for establishing communication strategies around specific messages and incentives.

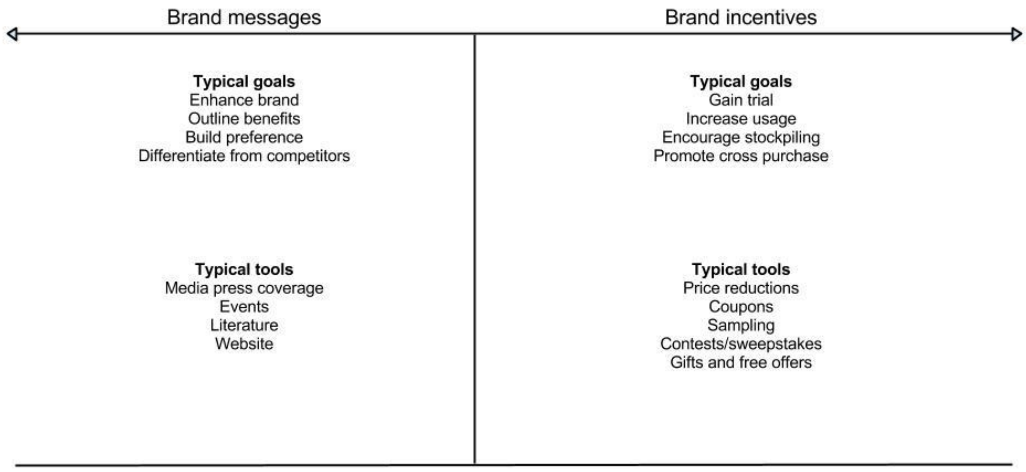


Figure 5.6 Typical Goals/Tools of Messages and Incentives (Schultz & Schultz 2004, p.177)

Usual goals for brand messages are to enhance the brand, to outline specific benefits the customer or prospect might obtain from using the brand, to build preference for the brand, to clearly differentiate the brand from competitors, and so forth. The tools the organization can use to deliver messages include paid messages in various forms of media, public relations, events, sponsorships, product placements, and so forth. Messages can be delivered in almost any form and through almost any medium, but the aim is always the same: to leave some type of impression for the brand or product or organization in the mind of the customer or prospect. (Schultz & Schultz 2004, p.177.)

For brand incentives, typical goals might be to create trial of the product or service among nonusers, to increase usage among present users, or to get the customer or prospect to stockpile the product for future use. In terms of tools, brand incentives might include price reductions for a limited time; coupons; or various free offers. (Schultz & Schultz 2004, p.177.)

The strategy form in Appendix 1 is specifically created for IMC programs. All it does is bring together the material the marketer has already gathered and thought through during the first three steps of the IMC process. The benefit of the form is that working through it forces into a disciplined thinking process that will result in a workable communication strategy. It brings all stakeholders together, since it forces everyone to sign off on who the customer is, what the customer wants, and how the brand or product will meet those expectations. The strategy defines the position of the product, its personality, its competitive reason for being, and the benefits the consumer will acquire from it. It also captures how the organization thinks customers will be influenced by competitive forces. It provides behavioral criteria for which the marketing department will be held accountable. The strategy includes the best media contact points where the customer can be communicated with. It also answers the need for future research to further improve and update the strategy. (Schultz & Schultz 2004, pp.180-182.)

6 Step 4: Estimating Return on Customer Investment

Because IMC treats customers as assets and is directly concerned with behavioral returns on investment rather than attitudinal change, it is now possible to answer the following core financial questions (Schultz & Schultz 2004, p.197):

- How much should be invested in marketing communication?
- What type or level of return will be achieved from that investment?
- Over what period of time will that return occur?

The matrix in the figure 6.1 separates the returns from the two core communication outputs into short and long term. Short-term returns come from business-building activities that will generate revenues during the current fiscal year. Long-term returns will accumulate over more than one financial accounting period or fiscal year thanks to brand-building activities. (Schultz & Schultz 2004, pp.207-208.)

Each “box” of the matrix contains examples of the types of marcom programs that generate each form of return. The matrix helps organizations treat marketing communication as a financial investment by viewing that investment clearly in terms of cash outlays and financial returns. (Schultz & Schultz 2004, p.208.)

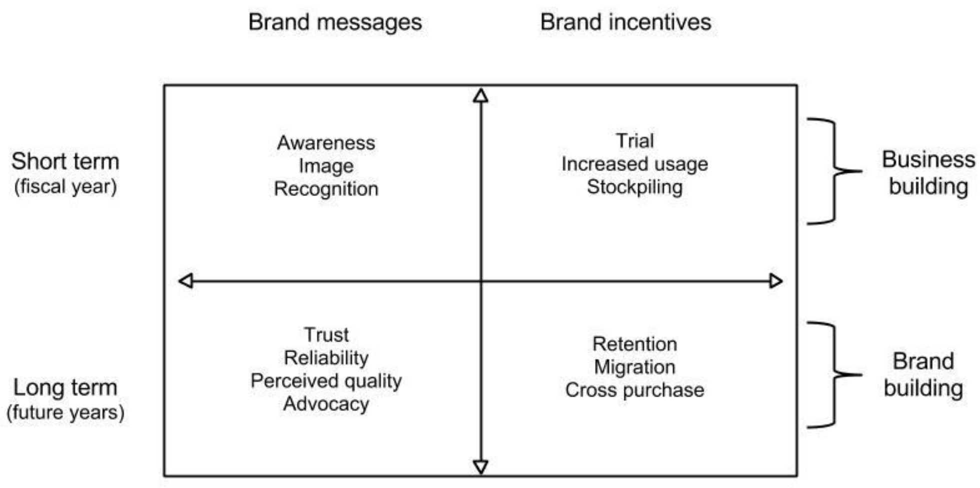


Figure 6.1 IMC Planning Matrix (Schultz & Schultz 2004, p.207)

Most organizations operate on the basis of two primary values:

- To increase or stabilize the firm’s cash flows.
- To increase or improve shareholder value.

Every marcom manager must find ways to connect these clearly defined management goals to the development and implementation of marcom programs. The marcom investments the organization makes must somehow deliver one of four values (Srivastava et al 1998):

- **Increase cash flows.** The focus is to provide ways of acquiring new customers who can provide new cash flows or to improve the returns on those customers the firm already serves.
- **Accelerate cash flows.** Money in the hands of the firm today is worth more than money obtained in the future, so the goal here is to accelerate the customer cash flows. If the future cash flows become available sooner, it gives the firm more flexibility and leverage.
- **Stabilize cash flows.** By having a stable cash flow, borrowing can be reduced, planning can be more strategic, and the peaks and valleys of financial turbulence can be removed. One way is to enhance customer loyalty and continuity.
- **Build or enhance shareholder value.** These values can be created by increasing perceptual value for the organization among financial analysts and the investment community. Another way is by increasing the image of brands and other intangible assets so they are perceived to have greater value than in the past.

Communication activities work on a different time frame than does the financial system in the corporation. Practically all organizations operate on the basis of a fiscal year, which means 365 days of operation and in the end the books are closed and the organization starts all over with a clean tablet. It is this time factor which makes communication measurement and funding difficult, because communication is expensed in one period but the results are not obtained until a later period. This is especially true with brand building investments. Schultz &

Schultz (2004, p.211) argue that there are clear financial time frames, and marketing communication must be made to fit them.

6.1 Estimating Short-Term Return on Customer Investment

Schultz & Schultz (2004, p.216) mention that IMC offers a marginal analysis system through which to value marcom programs. Money goes out in the form of investments, money comes back in in the form of increased or retained income flows. All current marcom investments which have short-term measurable results can be converted into variable costs to the organization. In other words, business-building marcom investments become variable costs rather than fixed expenses. To make this change, the firm has to know the value of a customer or customer group and have some way to manage and measure changes in the value of that customer or group over time.

If organizations can determine the economic value of customers or prospects, they can determine how much they should invest against those individuals or groups. By adjusting the contribution figure slightly, which means breaking out all costs and other charges so that the contribution margin figure includes only marcom expenditure and profits, one can quickly and easily determine the return on investment. With the contribution figure containing only marcom costs and profits, it becomes clear that money not spent on marketing communication becomes profit, and profits not taken can be used for marketing communication. Hence, marketing communication is changed into a variable organizational cost for accounting purposes. (Schultz & Schultz 2004, p.216.)

A key element needed to effectively measure ROCI (return on customer investment) is the ability to separate short-term business-building marketing communication from brand-building communication. The basic separation between short term (returns within the organization’s fiscal year) and long term (returns over typically several fiscal years) is critical because of current accounting standards. (Schultz & Schultz 2004, p.218-219.)

The ROCI measurement system Schultz & Schultz (2004, p.219) propose for IMC planning is based on the assumption that all business-building marcom programs will contribute incremental returns to the organization. The planner also must estimate or account for additional revenue that should be expected to be generated by the marcom program.

Schultz & Schultz (2004, p.219) argue that incremental revenue approach is possible because some measure of income flows from the customer or the value of a customer group is known before executing the marcom program. Hence, the calculation of incremental financial return is the goal, replacing the determination of total sales volume or total profit in traditional budgeting. Also they point out that incremental revenue approach works just as well for a customer retention strategy, the organization can estimate what it costs to retain a customer's income flows. Likewise, the company can estimate or calculate the cost to acquire a new customer from whom the initial income flow to the organization will be zero until a purchase has been made.

How the Incremental Revenue Method Works

Appendix 2 shows a standardized overview of a typical ROCI analysis spreadsheet.

Customers are aggregated by their behavior in the column headings across the top. These groups can be as small or big as necessary for the market being estimated or calculated. Along with each customer group, it is specified the behavioral objective the plan aims to achieve during the measurement period. The spreadsheet is composed of rows divided into five sections that provide the basic building blocks for the ROCI calculation.

Category Requirement Assumptions

The customer's entire demand in the product category is determined across all vendors in this section.

Line 1: Estimated Category Demand

Based on historical or what-if data about customer purchase behavior and is expressed in currency rather than in units, shipments, or other nonfinancial measures.

Base Income Flow Assumptions

In here basic assumptions are made about the brand's share-of-customer requirement and its cost dynamics. These factors are then applied under alternative scenarios calling for differing levels of communication spending.

Line 2: Base Share of Requirement (SOR)

Proportion of the customer's total category requirements that the marketer's brand currently enjoys, based on historical or what-if scenario data.

Line 3: Base Income Flow to Us

The customer's total category demand multiplied by the percentage of that demand that comes to the marketer's brand.

Line 4: Noncommunication Costs

All fixed and variable costs of running the business excluding marcom costs. For simplicity, this is shown as a simple percentage of the income flow.

Line 5: Contribution Margin (%)

100 percent subtracted by the percentage used in line 4.

Line 6: Contribution margin

Contribution margin for the brand expressed in currency is determined by multiplying line 3 with line 5.

Scenario A: No Communication Investment

This establishes a baseline of profitability. In other words, if the brand made no further communication investment, how much business would it receive from each of its customer groups during the period of analysis? This section of the spreadsheet defines certain assumptions just about what the impact might be.

From there, the brand's income flow, costs, and net contribution based on the factors established in the previous section are projected.

Line 7: Change in Share of Requirement

This represents the estimated change in the brand's SOR during the period if there were no marcom investments.

Line 8: Resulting Share of Requirement

This is the result of adjusting the initial SOR in line 2 by the factor in line 7.

Line 9: Resulting Customer Income Flow to Us

The adjusted SOR from line 8 is multiplied by the customer total category demand in line 1. This line shows what would happen to the brand's income flow for the period if no marcom expenditures were made.

Line 10: Less Noncommunication Costs

Line 4 is multiplied by the adjusted income estimate in line 9.

Line 11: Less Marketing Communication Costs

This line is zero, since there will be no marcom expenditures during the period.

Line 12: Net Contribution

This line represents what remains after the costs associated with lines 10 and 11 are subtracted from the income flow estimate in line 9. This figure gives the basis for estimating the incremental gain to be achieved when the firm invests in an IMC program.

Scenario B: Communication Investment

The next step is to estimate how the value of each customer group would change if a planned communication program was directed toward it.

Line 13: Marketing Communication Efforts

This includes all identifiable expenditures for marcom programs the organization plans to direct to a specific group of customers or prospects.

Line 14: Total Marketing Communication Investment

This is the firm's total investment in its IMC programs, indicated by all items under line 13.

Line 15: Change in Share of Requirement

This line estimates what percentage change can be expected in SOR for the brand as a result of the total communication program.

Lines 16, 17, and 18

These lines recalculate the revised SOR, income flows, and noncommunication costs based on the percentage obtained in line 16.

Line 19: Less Marketing Communication Costs

This number is equal to the total IMC communication investment figure in line 14. It is repeated here as negative so that it can be subtracted from the income flow along with the noncommunication costs.

Line 20: Net Contribution

This indicates the net income after all communication and noncommunication expenses have been deducted.

Line 21: Incremental Gain/loss Versus "No Communication Investment" Scenario

This gives a comparison of the two net contribution estimates obtained in lines 12 and 20.

Line 22: Incremental ROCI

This is the total incremental gain/loss (line 21) divided by the investment made in line 14.

6.2 Estimating Long-Term Return on Customer Investment

Schultz & Schultz (2004, pp.259-260) argue that the real value of the organization is in the cash flows it generates currently and the expected continuation of those cash flows into the future. They mention that some could think that long-term returns are of less value to the firm. The concepts of net present value (NPV) and discounted cash flow (DCF) are based on the concept that money the organization has today has more value now than having that same money sometime in the future.

Another important consideration they mention in estimating long-term returns on marcom investments is that maintaining current income flows from present customers is generally less expensive than current time investments made in gaining or attempting to gain additional customers and their income flows. Clearly, having current customers continue to buy rather than continuously acquiring new ones is a major benefit to any organization simply in terms of current cash flows. However, Schultz & Schultz (2004, p.260) point out that there are some problems with this idea of long-term customer income flows. While long-term returns can and often do occur, the expense of generating those returns occurs and is accounted for in the present fiscal year.

Additionally, having a set of customers who are continually satisfied with the products and services of the firm and their experience with the company also provides substantial future opportunities for that company. For example, cross selling, upselling, and migrating customers through the product or service portfolio adds additional sales and profits that might not have initially been expected. Also the advocacy value of satisfied customers is something many organizations are just beginning to recognize. So there are compelling reasons to have an ongoing set of satisfied customers rather than just the immediate income flows they may produce now and in the short-term future. (Schultz & Schultz 2004, pp.262-263.)

6.2.1 Challenges of Measuring Long-Term Returns

Long-term cash flows are not as easily identified as are current income flows. There are a significant number of variables in long-term measures that confuse the organization's ability to predict potential income flows.

Schultz & Schultz (2004, p.264) point out that, based on current accounting standards, there is simply no way for an organization to recognize future income flows until they are earned. If an investment is made in a marcom program in the fourth quarter of the firm's fiscal year and customer income flows start to arrive in the first quarter of the following fiscal year, the current year will show only the expense of the investment and no return, and the following year will show income but no costs.

One of the most common responses to marketing communication for customers is to see or hear the communication but not act on it until a later time. Schultz & Schultz (2004, p.266) call this a lagged effect of the communication program. They mention that as a result of the lagged effects of communication return, it is often difficult for an organization to determine exactly when returns will occur, or if they will occur at all.

6.2.2 A Model for Measuring Long-Term Returns

Two frameworks help organizations to overcome the difficulties described in forecasting returns on marcom programs in the long term. The first is customer centric. It means focusing on ongoing income flows that can be derived from a customer or group of customers. The second is brand centric. It analyzes the financial value of a brand by estimating the brand's input to the firm's incoming cash flows or its asset base, or the value for which the brand could be sold to another organization. (Schultz & Schultz 2004, p.269.)

The customer centric measurement framework is based around the concept of lifetime customer value (LTV). It is a method of estimating future returns from customers based on past or current experience with them. (Schultz & Schultz 2004, pp.269-270.)

Lifetime Customer Value

The LTV approach acknowledges that some present customers will likely continue to purchase the firm's products or services in the future, thus creating future income flows. At the same time, some customers also will be lost through attrition, transfer to competitors, moving, death, or any number of other reasons. (Schultz & Schultz 2004, p.270.)

Lifetime customer value is estimated by calculating the NPV (net present value) of all future revenues minus all identifiable costs associated with the average customer (Stone & Jacobs 2001). For example, to get an estimate of LTV, the short-term estimate of returns is extended to multiple fiscal years, given certain assumptions about the level of customer retention, their anticipated levels of spending, and the ongoing marketing costs to maintain the firm's relationship with them. Schultz & Schultz (2004, p.270) point out that the IMC process takes the concept one step further to reflect net LTV. It means that it uses the NPV of all future revenues as the basis of calculation. To do so accurately, two additional assumptions need to be set up (Schmid & Weber 1997):

- **A return on customer investment goal.** The goal for any marcom investment must be to give returns that reflect both the time and risk values of money. Typically, the ROCI goal must be at least as high as the company's traditional return on equity.
- **A realistic time frame over which customer value will be estimated.** This must reflect the period for which future purchase behavior can logically be predicted and for which the ongoing impact of communication programs can be estimated.

How to Calculate Lifetime Customer Value (example)

Database consultants John Schmid and Alan Weber offer the following step-by-step method of calculating LTV (Schmid & Weber 1997).

1. **Determine the cost of acquiring a new customer.** If it costs 0.6€ for company to send a catalog to a prospective customer, and the expected

response rate would be 1.1 percent, it would cost 54.55€ to acquire a new customer (0.6€/0.11=54.55€)

2. **Determine how much gross profit is earned on the average sale.** If average initial order from a new customer is 70€, with an average gross margin per customer of 40 percent, the initial order average profit margin would be 28€ (70€ x 40% = 28€)
3. **Determine net gain or loss of customer acquisition.** By taking the customer acquisition cost from step 1 and subtracting that from the margin on the first sale (28€ - 54.55€ = -26.55€).

So, in the example the company has net loss on each new customer it acquires, at least on average. This can also been seen in a way that the company makes an investment of 26.55€ to acquire a new customer with the anticipation that the customer will become profitable over time through following purchases. How long it will take for an average customer to repay the costs of acquisition, and how much profitability new customers represent going into the future? (Schultz & Schultz 2004, p.272.)

To determine the probable future profits on newly acquired customers, the organization must extend their future purchases and subtract the cost of re-contacting them as well as any additional costs that will be incurred in this process. The organization must also consider the time value of money by factoring in the net present value of future cash flows. (Schultz & Schultz 2004, p.272.)

Line			Year 1	Year 2	Year 3
1	No. of mailings per year		4	4	4
2	Average response per mailing		16 %	13 %	11 %
3	Annual response rate	(Line 1 x Line 2)	64 %	52 %	44 %
4	Average repeat order		75 €	75 €	75 €
5	Average gross profit/order @ 40% margin		30 €	30 €	30 €
6	Gross profit per year	(Line 3 x Line 5)	19,20 €	15,60 €	13,20 €
7	Less annual cost for 4 catalog mailings per year @ 0.5€ each		2 €	2 €	2 €
8	Net earnings per year	(Line 6 - Line 7)	17,20 €	13,60 €	11,20 €
9	Discount factor @ 20%		1,20	1,44	1,73
10	Net present value of earnings	(Line 8/Line 9)	14,33 €	9,44 €	6,48 €

Total net present value of earnings over 3 years		30,25 €
Less original customer acquisition investment	-	26,55 €
Three-year return on customer investment		3,70 €

Table 6.2 Customer Lifetime Value Example (Schultz & Schultz 2004, p.273)

Table 6.2 summarizes the net LTV calculation. Let's assume that new customers will continue to actively purchase from the company for a period of three years after their initial purchase, and that they will receive four catalogs per year. Any subsequent mailing sent to a customer costs only 0.5€ per catalog, since there is no need to rent a prospect mailing list. Also, the response rate from established customers is generally much higher than from prospect lists since a relationship has already been established. Schultz & Schultz (2004, p.272) mention that experience has shown that after the initial purchase, a group of customers will typically respond at a rate of 16 percent to each of the four offers within their first year. In the second year the rate drops to 13 percent, and in the third year to 11 percent.

4. **Determine cumulative response rate over time.** This is done by multiplying the average response rate by the amount of mailings per year. In year one, customers have an average response rate per mailing of 16 percent. Multiplying this by the four mailings per year results in a cumulative response of 64 percent. For year 2 it is 52 percent, and for year 3 it is 44 percent.
5. **Determine the margin on repeat sales.** In this example, the organization uses the same 40 percent gross margin used in the initial mailing.
6. **Discount the expected cash flows to their net present value.** The company uses a 20 percent per year discount factor. This time value of money discount factor for year one is 1.2. For year two it is 1.44 (1.2 x 1.2), for year three it is 1.73 (1.2 x 1.2 x 1.2). The earnings in each year are then divided by the appropriate discount factor to arrive at the NPV of the projected earnings for each year. Thus, the NPV of the forecasted earnings is 14.33€ in year one, 9.44€ in year two, and 6.48€ in year three. It can be stated that the total NPV of earnings over the three-year period will be 30.25€ per customer. To get the final estimate of profitabil-

ity, the investment made to initially gain the customer has to be subtracted (26.55€).

So, acquiring new customers not only provides a 20 percent return on the initial acquisition investment but returns an additional profit of 3.7€ as well. It is possible to change the time value of money discount factor to make the end figure zero and determine the exact projected return on investment. Also it is possible to change the time period to determine how long it takes to recover the investment with interest, based on the initial investment in a customer. (Schultz & Schultz 2004, pp.274-275.)

Comparison of Lifetime Value

Schultz & Schultz (2004, p.275) point out that understanding lifetime value is especially useful when one method of marketing to customers is compared against another. Schmid and Weber (1997) provide another example of a consumer catalog organization that is trying to decide whether it should conduct three or four mailings per year. Three methods are under consideration: method A would require three mailings per year, method B would increase the number to four, and method C would have four mailings and an 10 percent discount on all following orders over 60€. Each method is believed to have a different effect:

- A will have the highest response per contact.
- B will have the highest annual response.
- C will have the highest average order.
- A will have lower economies of scale.
- B will have the lowest cost per contact.
- C will require explanation of the 10 percent offer.

This example does not consider the acquisition costs as it compares only the programs the company is considering for existing customers. Thus, the focus is on increasing future profits, and the most appropriate method of doing so. Table 6.3 summarizes the expected results for each method.

	Method		
	A	**B**	**C**
Number of mailings per year	3	4	4
Response rate per contact			
Year 1	12 %	10 %	10 %
Year 2	9 %	8 %	8 %
Year 3	6 %	5 %	5 %
Average order	75 €	75 €	75 €
Profit margin (%)	40 %	40 %	37 %
Cost per contact	1 €	0,95 €	1 €
Annual marketing cost	3 €	3,80 €	4 €
Profit per year			
Year 1	7,80 €	8,20 €	7,84 €
Year 2	5,10 €	5,80 €	5,47 €
Year 3	2,40 €	2,20 €	1,92 €
Present value of future profit			
Year 1	6,50 €	6,83 €	6,53 €
Year 2	3,54 €	4,03 €	3,80 €
Year 3	1,39 €	1,27 €	1,11 €
Lifetime return on investment	11,43 €	12,13 €	11,44 €

From John Schmid and Alan Weber, *Desktop Database Marketing*, 1997, NTC Business Books.

Table 6.3 Likely Results of Marketing Strategies (Schultz & Schultz 2004, p.276)

It can be seen that contacting each customer four times per year with no discount produces the most profits over the three-year period. If the discount offer had produced considerably higher average orders or if the response rate had increased, it would have been more profitable. Also it is worth noticing that reaching customers less often when response rates are low is more profitable (as in year 3). Clearly, it is important to segment the customer base and contact some customers more frequently than others. (Schultz & Schultz 2004, p.276.)

7 Step 5: Post Program Analysis and Future Planning

The organization knows the value of certain groups of customers and/or prospects in terms of their current income flows (steps 1 and 2). The company has developed and delivered appropriate messages and incentives through predetermined media vehicles (step 3), and has estimated potential returns in the form of changes in income flows from these customers or prospects as potential returns (step 4). Because each goal has been thoroughly thought out and examined in these first four steps, all that is necessary is a comparison of actual customer responses and sales data from the current fiscal year. (Schultz & Schultz 2004, pp.282-283.)

A key value of post program analysis is the opportunity it provides for continuous learning and improvement. It is possible to determine fairly accurately what worked and what didn't. The programs that did work can be repeated or improved and the others changed, adapted, or abandoned. (Schultz & Schultz 2004, p.284.)

The organization can also see the relationship between the short and long term effects. Long term returns that accrue to the organization are an accumulation of short term returns from investments in the same customers and prospects. (Schultz & Schultz 2004, p.284.)

7.1 Three C Analysis

IMC evaluation model is based primarily on customer income flows. Although the greatest focus is on financial returns, there are other values connected with ongoing customer contributions, customer advocacy being one of the most important (Humby 2002). Customer advocacy surrounds customer loyalty but also extends to proactive customer behavior to recommend the brand to others. For example, to wear the brand's logo or icon on apparel or otherwise make a public statement showing his or her enthusiasm and support for the brand. (Schultz & Schultz 2004, pp.284-285.)

To measure the integrated short and long term impact of marketing communication, three elements are needed (Schultz & Schultz 2004, pp.285-286):

1. **Customer contribution**. The income flow from the customer or customers over time, measured at the contribution margin line.
2. **Customer commitment.** A simplified version of the customer share of requirement. Customer commitment is determined for each individual segment.
3. **Customer champions.** Refers to how involved with and supportive of the brand the customer is. The strongest measure is whether or not the customer actually recommends the brand to a friend, relative, or colleague.

Figure 7.1 illustrates the Three Cs concept. The company is able to construct a three-dimensional "customer cube" by using basic customer identification along with the Three Cs. This cube identifies where the customer currently stands in terms of behavior, and also offers some guidance to the organization in terms of what future behaviors would be most beneficial to both the customer and the firm. If the customer is low on one attribute, the organization can initiate marketing communication programs to try to move them in a specific direction in the cube. (Schultz & Schultz 2004, p.286.)

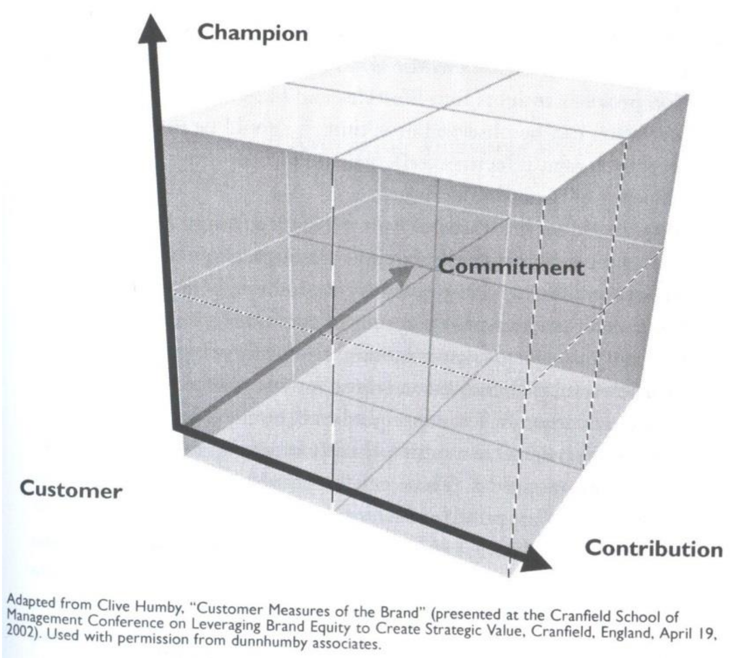


Figure 7.1 Three Cs Measures of the Brand (Schultz & Schultz 2004, p.287)

As an example, some of the objectives for the communication program might be as follows:

- To retain the existing behavior of the customer.
- To promote new behaviors among the customer group.
- To build incentives or rewards to encourage customers to become champions or advocates.
- To allow the company to determine whether or not to invest in the customer based on the current and potential value that might be returned to the firm.

The objectives behind Three C analysis are following:

1. To help the organization to understand changes in behavioral activities among individual customers and various customer segments.
2. To help the organization to understand how customers migrate from one box in the cube to another.
3. To present an indicator of how difficult it might be to change customer or prospect behaviors through the use of marcom programs.

7.1.1 Identifying the Benefits of the Three C Approach

Schultz & Schultz (2004, pp.288-289) argue that Three C approach provides a direct benchmark of marketing and communication returns, because it measures the critical variable changes in actual customer behaviors. It helps overcome the danger of viewing or measuring “average” customers for the brand. This averaging masks critical information on what the individual customer or customer group is actually doing.

For example, an adventure travel company with a total of one million customers offers vacation trips with several outdoor activities. Using traditional analysis measures, on average each customer generates a contribution margin of 50€ per year. However, there is swirl in the customer base of about 20 percent per year on average. As a result, the firm estimates that the average customer stays for about five years (20% attrition x 5 years = 100% customer base). (Schultz & Schultz 2004, p.289.)

The total projected net present value (at a 15 percent discount rate) of the firm's customer base is approximately 119.5 million €, illustrated in the table 7.2. Based on this estimate, the firm could develop plans that would attempt to acquire new customers and other plans that would be designed to retain the existing customer base, although the firm probably doesn't know which customers will leave. However, from this analysis it would appear that the company would have to develop some very effective acquisition programs, and some retention programs would be needed as well. (Schultz & Schultz 2004, pp.289-290)

Average Customer Analysis - Old Model

Bases:	1 million customers		
	50€ contribution		
	20% defection rate		
	15% discount rate		
	Customer Count	**Average Contribution Margin**	**Total Contribution margin**
Year 1	1 000 000	50 €	50 000 000 €
Year 2	800 000	50 €	40 000 000 €
Year 3	640 000	50 €	32 000 000 €
Year 4	512 000	50 €	25 600 000 €
Year 5	409 600	50 €	20 480 000 €
Net present value over 5 years: 119 583 590 €			

Adapted from Clive Humby, "Customer Measures of the Brand" (presented at the Cranfield School of Management Conference on Leveraging Brand Equity to Create Strategic Value, Cranfield, England, April 19, 2002)

Table 7.2 Adventure Travel Company (Schultz & Schultz 2004, p.290)

The Three C model suggests that an analysis be made of each customer group each year to determine and understand the actual value of various customers. As shown in the table 7.3, the customer base is aggregated into loyal customers, core customers, borderline customers, and passive customers. When the net present value of each aggregated group is analyzed the income flow to the organization over the next five years is 146.2 million €, not 119.5 million €. The differing estimate of future returns comes from an understanding of the contribution margin income flows from various customer groups, their group defection rate, and their value by year to the firm. Hence, different marcom programs are needed for different customer groups. (Schultz & Schultz 2004, pp.290-291.)

Segment Customer Analysis - New Model		
Customer Count	**Contribution Margin**	**Deflection Rate**
50 000 loyal	350 €	2,5 %
200 000 core	100 €	7,5 %
300 000 borderline	30 €	12,5 %
450 000 passive	8 €	33,4 %
Net present value over 5 years: 146 273 381€		

Adapted from Clive Humby, "Customer Measures of the Brand" (presented at the Cranfield School of Management Conference on Leveraging Brand Equity to Create Strategic Value, Cranfield, England, April 19, 2002)

Table 7.3 Adventure Travel Company (Schultz & Schultz 2004, p.291)

7.1.2 Back to Step 1

A core activity during step five is the evaluation of results. This knowledge is then used for future marketing communication programs. The company takes everything it has learned about customers and prospects, and evaluates how well each step of the process worked. Then repeats the same questions asked in the first four steps: Were the correct customers and prospects identified? Were they properly valued? Was the correct mix between messages and incentives made? What type and level of response was achieved? With answers to these aforementioned questions, the organization is able to begin again at step one of the integrated marketing communications process with each new program improving the last. (Schultz & Schultz 2004, pp.294-295.)

8 Case Study

The case company employs around 20 people and it works in an industry where it sells boats, motorcycles, mopeds, gardening and forest appliances and machinery, and so on. Company also sells all the necessary accessories and spare parts and provides maintenance for the brands they sell. The store includes three buildings, two for the shop and one warehouse. In the main building they sell boats, jets, ATVs, motorcycles, mopeds, and so on. The other building is more concentrated on selling spare parts and gardening and forest machinery.

Based on last year's financial information, the company's turnover was 7.76 million euros. The turnover had decreased from year 2011 by over 20 per cent, although the result of the financial period was not so much in the minus side anymore, only roughly 15 thousand euros. These negative numbers have been explained in the company's webpage by the impact of the economic recession in 2008. The company has had few subsequent unprofitable years in a row, and has been forced to shut down its operations in other cities in Finland.

They need to start thinking their current processes and how to make them work better, or to change them completely. This is the entry point where the purpose of the thesis solidifies. As mentioned in the introduction chapter, the objective of this thesis is to give good standing point for the case company to start building up their integrated marketing communications processes in order to make the company profitable. This includes the first two steps of the integrated marketing communications process.

8.1 The Method

By following the model introduced by Schultz & Schultz (2004), an integrated marketing communications process starts with the step 1 which means identifying the customers and prospects. The first thing is to start looking for the information and data about the customers which is "hidden" in the company. Referring back to the figure 3.2 "Model for Leveraging Customer Data", the first source or input of data is transaction database. The case company is using an information system for machinery business or industry, to integrate all the activities into one single program instead of several ones. This makes it a perfect starting point for data gathering. All the information and data gathered and presented in this thesis is from the customer database.

As the database is not maintained as well as it could, the whole data gathering process had to be started from a scratch. This is due to the fact that some of the personnel in the case company don't know or don't have a habit of using the features correctly, hence there also might be some "human" errors in the numbers. Also customers who want to pay with cash, and don't have customer account, can't be properly tracked by this method because their personal information is not stored to the system.

The first step was to plan how to aggregate the customers to different customer groups. The idea was to take a sample group of newly registered customers from a specific time span, which was from 25 March 2013 to 25 June 2013. Then the customers were aggregated into different groups by their amount of purchases during that time. They were divided into three simple groups: customers who spent less than 5000€, customers who spent 5000-10000€, and customers who spent over 10000€ during the tracked time period. (Kortelainen 2013.)

This kind of approach was chosen because it is rather easy to execute in this case, and it also gives valid and fresh information about the customers. Main purpose of this segmentation was to separate the casual customers who buy spare parts from the ”big spenders” who normally buy a boat, a motorcycle, an ATV, and so on. When the aggregation is done, the data can be analyzed to give information about the size, revenue, and profitability of the different groups. This information can be then further interpreted to define who the key customers are. Later on the ”older” customers could be added, and thus start analyzing the customer buying behavior over a long time frame and get deeper customer insight.

Only limitation was the inability to track unknown cash customers and older account customers who had registered before the 25th of March, 2013. However, the overall sales numbers could be compared against the sales of the sample group and thus divide the overall sales to three factors: old customers, new customers, and cash customers.

8.2 Step 1: Identifying Customers

Customers who spent:	Amount	Percentage
0-5000€	729	93,3
5000-10000€	27	3,5
Over 10000€	25	3,2

Table 8.1. Distribution Within Customer Groups

During the monitored three months there were total of 781 newly established customer accounts in the database. Table 8.1 shows the distribution of customers among the different groups. Most of the customers clearly fell to the first group, over 90 percent. This can be explained by the fact that the scale is really wide, from zero to five thousand. The group mainly consists of customers who buy accessories, spare parts, small machinery, and so on, so they clearly use much less than 5000€.

The two other groups only consist of around three to four percent of all customers, total of 6.7 percent combined together. Customers who spent 5000€-10000€ normally buy motorbikes, small boats, mopeds, rear engines, etc. The last group consists of customers who buy expensive motorcycles and big boats.

As the time period here is rather small, only three months, most of the customers probably have done only few transactions. It is easier to deduct what they have bought those few times, than what are their buying habits in a long run. As all the customers have had to aggregate to groups manually, the transactions have been observed to some degree during the process.

It can be clearly stated that during the monitored time most of the customers came to buy accessories, spare parts, small appliances, and so on. This is the main customer base for the case company. In order to make this distinguishing more specific, the scale of the purchases could be further divided. For example:

0-200€, 200-500€, 500-1000€, 1000€-2000€, and 2000-5000€. This kind of customer aggregation would definitely give more detailed information about customer buying behaviors. Of course this kind of scaling would only be effective with short time spans, like the three months used in here. If the monitored time was half or full year, the scaling should be customized for it.

The amount of customers who spent more than 5000€ is only 6.7 per cent. It is only a fraction of the total amount of the whole sample group. These are the customers who normally buy a motorcycle, a boat, and/or remarkable amount of accessories, appliances, and parts. Next step in the process is to valuate these three groups and to see how profitable they are to the case company.

8.3 Step 2: Valuation of Customers

As the customers are now divided into different groups, the next step is to start compare the characteristics of the groups against each other. Table 8.2 shows the total amount of sales, average transaction, and margins divided by the customer groups.

Customers who spent:	Transactions	Sales	Average transaction	Margin	Margin%
0-5000€	864	379 753,16€	439,53€	91 082,09€	23,98
5000-10000€	75	196 821,84€	2 624,29€	24 208,45€	12,30
Over 10000€	42	461 941,00€	10 998,60€	65 534,75€*	14,19*

* Had to manually adjust with an estimate due to mistake in the data base.

Table 8.2. Sales Divided by Customer Groups

The average number of transactions per customer in the first group is 1.2, in the second 2.7, and in the third 1.7. This shows that the customers generally visited the case company around one to three times during that three months' period. This strengthens the idea that the products sold are not consumable, but rather necessary parts or machinery which the customers need or want. As the second group has the highest transaction rate, it suggests that these customers are repetitive buyers. For example, they are updating their parts and accessories for motorcycle or boat, or they are company customers. Also the values of average transactions hint to the same direction.

Regarding the amount of sales, table 8.2 clearly shows that the first and third groups are the busiest. Total revenues sum up to over one million euros and the first group consists of 36.6 percent, the second 19.0 percent, and the third 44.5 percent of the total sales. Interesting to see here is the fact that although groups two and three consist of only around 7 percent of the total number of customers, they still get over 60 percent of the overall sales. This also correlates with the Pareto Principle explained earlier in the chapter 4, which states that around 20 percent of the customers contribute to 80 percent of the sales.

As the objective is to evaluate the customers' profitability, the next logical step is to calculate the average margin per customer. The margin percentage differs among the groups, because the products bought are different. The spare parts and accessories have higher margin compared to motorcycles, boats, and machinery. From the table 8.2 it is possible to calculate the average margin per customer:

- Group one: $\frac{91\,082{,}09€}{729} \approx 125€$
- Group two: $\frac{24\,208{,}45€}{27} \approx 897€$
- Group three: $\frac{65\,534{,}75€}{25} \approx 2\,621€$

As it can be seen from above, the margins rise heavily from group one to group three. These are the figures which estimate the value of customers to the firm. The customers in group three are the most valuable and profitable customers for the case company. Also group two has significantly higher margin compared to group one. These two groups are the case company's key customers.

8.4 Comparing Sample Group to Other Customers

In order to get a clear picture of the size and value of the customers in the sample group, the overall sale figures need to be compared against the total revenues of the case company during that time. This information is illustrated in the table 8.3 shown below.

	Total Sales	Margin	Margin%
All customers	2 950 052,88€	697 960,04€*	23,66*
The sample group	1 038 516,00€	180 825,29€	17,42

*The numbers are higher than should be because of a mistake in the database.

Table 8.3. Total Sales Comparison

It can be seen that the sample group provided roughly one third of the revenues during the monitored time. As summer is the busiest time for the company, most of the revenues come during that time and it attracts lots of new customers. This shows that the amount of new customers is on healthy basis and there is no need for spending immense amount of resources for marketing to attract new customers. This is also explained by the information gathered from the discussions that the competition is not aggressive in the region. The case company is one of the few brick-and-stone shops in the region which operates on this field. Only competitors are online-stores which sell spare parts and accessories cheaper and one or two brick-and-stone shops. So, in order to answer that competition prices should be kept reasonable and the transaction process as easy as possible for the customer. Also reclamations and warranty issues should be taken care of professionally and effectively, as that is the main competitive advantage against online stores.

8.5 Objectives for the Communication Initiative

Based on the information discussed earlier, there are several objectives for the case company to improve their communication. As the number of new customers is on the positive side, the case company should try to influence the process of repetitive buying and put more resources to boost their after sales. The costs are lower when customers repeatedly purchase from the same company, and this affects positively to the profit and margin.

In order to retain or increase the number of new customers the case company doesn’t need to implement aggressive marketing campaigns as found out in the group discussions (Kortelainen & Vitikainen 2013). Consistent use of newspaper and magazine ads combined with social media and online marketing should keep the company visible enough for customers and prospects to knowledge its existence when the need arises for its products. This is possible mainly because there is not much aggressive competition.

The main objective is to retain the key customers. These are the customers who already have established relationship with the company and most purchasing power over any other customer group. It is important to feed sufficient amount of resources to keep the customer satisfaction as high as possible and boost after sales to the top. This can be done by improving the brand contact points between the company and customer, and also by implementing aftersales marketing, for example direct marketing.

The last objective is to migrate already existing customers to a more profitable customer groups. This is done by improving the company's processes and value-add to the customer. The customers buy more and visit more often. Putting resources to after sales also helps to achieve this objective. This can be done, for example by improving the availability and delivery times of products and also by decreasing the amount of possible errors.

8.6 Creating Value in the Eyes of a Customer

Figure 4.2 showed that value-add is like a circle. Customer is in the middle and all the outer rings build up value for the customer. In the inner circle there were mentioned: product/service, price/value, channel/distribution, communication/brand, accessibility, and advocates/endorsers. What this means for the case company is that the products need to be of good quality so that they don't affect customer satisfaction negatively. This can be done by comparing different suppliers who can supply the same kind of products.

Prices should be also reasonable. This can be done by finding the most cost efficient suppliers and comparing the prices with market averages all the time, not by taking the MSRP from supplier plainly or just sticking with already made margin targets. Of course, it is probably not feasible to keep track of millions of different product prices, but it could be done by just keeping track the ones customers buy most and which are most "visible" to customers. This gives a picture for customers that all the prices are always competitive. And if there are few products more expensive than market average, it doesn't probably matter in the end if most of the products the customer buys are properly prized.

Also important factors for the case company in the inner circle are accessibility and distribution. When the customer comes to the shop and wants a specific product, it should be easily found. If it is not in stock, it should be easily ordered and picked up within few days. In order to achieve this, the warehousing and the size of the inventory should be optimized for the possibilities/limitations of the premises. All the products should be indexed and put accessible for customers or salespersons. The inventory should be kept as small as possible in order to keep costs down and so that it is easily managed. This also affects the accessibility of products. All unnecessary "junk" should be disposed and get rid of.

On the second circle there were relevance, receptivity, response, and recognition. Relevance determines how relevant the company can be to the customer in terms of distributing products the customer wants and needs. The company must provide relevant, compelling, and meaningful communication, as well as relevant, competitive pricing and relevant distribution systems. Outbound communication should not be perceived by the customers as spam, rather it should always have something relevant information to the customer. This can be achieved by customer identification and planning different marketing plans for every aggregated group separately.

Receptivity means how open the organization is to new ideas, new concepts, and new methods of doing business. It also refers to the planning of when and at what point of brand contact will the customer or prospect be most receptive to the message or incentive. For the case company, this means evaluating the present methods of doing business and improving or changing them to better. This can be done by hiring third-party consulting or analyzing how other successful companies have been running their businesses and taking the best processes from there and fitting them to the case company's own way of doing business.

Response refers to how well the organization can sense, adapt to, and answer the needs and wishes of its customers. Also it means how easy it is for the customer or prospect to respond to the company's offerings. In other words, is the company easy to do business with, and does it effectively facilitate the transaction process? This means that the salespersons should be always available for the customer's enquiries and questions about the products, at the shop or through phone or email. Also the company should have all the necessary payment methods available for the customers, and warranties if needed.

Recognition reflects the firm's ability to recognize the customer at important points of contact and to immediately connect to the firm's stored knowledge about that customer. It also determines the customer's ability to recognize and select the organization's brand from a given array of alternatives. This means of keeping customer database available and updated all the time and also that all the staff knows how to properly use it. For example, that b2b customers are identified from b2c customers because different payment methods and discounts are only available for business customers.

Depending on how the customer or prospect wants to obtain value through the first circle, the second circle includes the types of additional value he or she can receive from the company because of its organizational structure, company focus, willingness to change, and so on. In other words, the first four Rs reflect the additional value the company can provide for the customer.

At the outer ring of value-add circle system was the single element of relationship. Customer is the one who creates the relationship, decides with whom he or she will do business and under what time and situation constraints. The case company needs to understand the power of the customer in order to build customer-centric view of IMC: the customer decides, the company responds. To fight against time and situation barriers the case company has started to plan of including online shop to their website. This means that the customers can browse at the site whenever they like and order products to be delivered to them or to pick them up from the shop.

8.7 Conclusions and Recommendations

The information gathered shows that it is possible to identify the customers by using a customer database. By monitoring the customers through certain period of time, it could be seen that the case company has a base customer group and also separate key customers. As the process moved to step 2 of the integrated marketing communication model, which meant evaluating the customers, it was possible to compare the profitability of different aggregated customer groups. Clearly the key customers had the best profitability margin compered to others, and the case company should concentrate on serving these customers as well as they can. Also they should implement after sales and direct marketing to keep cash flows coming from these customers. This can be achieved, for example, by keeping record of what the customer has bought and recommending related products to them via email and so on. It would require the case company to change how the customers are aggregated into groups. For example, instead of having groups based on how much the customer has spent, the groups could be based on *what* the customer has bought. Of course, this would require more resources and time as compared to the aggregation made in this study, but the results would make it possible to build customer insights which are critical when advancing further in the IMC process.

For example, motorcycle and boat customers have different buying behaviors. Motorcyclists normally change motorcycle to a newer model within a few years. Boat customers, on the other hand, change their boat maybe within one or two decades. By aggregating these customers to different groups the company could easily and precisely communicate with them when they would need service to their motorcycle or boat, or if there is new products relating to their motorcycle or boat, or if the time for update is getting closer. By implementing this kind of aggregation plan, the company could effectively execute direct and after sales to their customers. What this means in practice is that when the customer buys a boat or motorcycle, the company can offer also all the necessary accessories, parts, service, and future update for the customer, now and in the future.

By aggregating customers to groups based on what they have bought would also make the planning of subsequent steps more effective. For example, planning the messages and incentives in the step 3 would be much easier for groups where the company knows *what* they have bought, rather than how much they have spent. Also keeping the communication relevant for the customer would be more efficient, as the marketing could be kept interesting for the customer by offering and communicating about products which relate to their previous purchases.

When moving on to the step 4 with our motorcycle and boat example, there are great advantages compared to the aggregation by the amount spent. As mentioned previously, the customer purchases the boat or motorcycle in one year, and updates it to a newer version somewhere in the future. Thus, it is critical for the company to be able to estimate long term return on customer investment for these customers. The IMC process provides a method to calculate lifetime customer value (LTV). This method should be used to calculate when and how much resources should be put on marketing for these customers in the future in order to keep them buying from the firm.

Base customer group found from the analyzed data should also be considered as a part of marketing objectives. These are the customers who will determine how valuable the case company's brand is. This is why the case company should analyze all their brand contact points with these customers and reinforce the weak and important contacts. For example, the shop itself plays a major role here and the company should keep it as representative as possible. This can be achieved by keeping the premises tidy and new, and providing the salespersons with company clothes and all the necessary devices to keep in touch with the customers. Also relating to brand contacts is the transaction process itself. It should be as easy as possible for the customer to come to the shop, decide what to buy, buy it, and leave the shop knowing that if anything arises the salesperson or company is reachable and will take care of the problem.

As the IMC process leans heavily on the data gathered from the customer database, it is important to shift the untraceable cash customers to the system. This can be done via different promotional tools. For example, organizing a competition where the customers need to give their information in order to win a new scooter, and so on. This would be a good way to get the customers "into the system" seamlessly and also it would provide good visibility for the company and the products it sells.

By following these recommendations, the company can achieve a consistent communication with its customers and thus increase the customer satisfaction and sales. By looking the case company's situation, it is more important to make the already existing processes more efficient and linear than starting huge marketing campaigns to attract more customers. When these two steps are made properly it is feasible to move towards the third one, which means planning and executing the messages and incentives. As the key customers were the main focus here they should be considered as the first target group. By using consistent marketing in newspapers, specialized magazines, and Internet; the company will surely achieve the right results to increase its sales. The main point is to keep the advertising relevant and interesting to the target group.

For the base group the marketing should focus more to attract their attention and to refresh their memory of the company and what they sell. This is because there is not much competition in the markets and the products are hard to find from somewhere else. By taking these recommendations into consideration the case company will have a strong base to start implementing their integrated marketing communication plans and to shift towards more customer oriented company. It will greatly increase the customer satisfaction and thus increased sales and profits will follow.

9 Summary

In today’s business environment many companies are still using traditional marketing communication processes to plan their marketing strategies. As the globalization, advancements in technology, and increasing importance of brands has changed the marketplace, Schultz & Schultz (2004) have introduced a five step marketing communication process to answer the new demands for successful marketing communication. It consists of the following: identifying customers and prospects; valuating customers and prospects; creating and delivering messages and incentives; estimating return on customer investment; and budgeting, allocating, and evaluating the process. The process differs from traditional planning in a way that it starts from customers and their needs and wants, as opposed to the process introduced by Clow & Baach (2007) which starts by a SWOT analysis of the company.

The easiest and most effective way of identifying customers is to start looking what information the company has already gathered. Most organizations have some sort of customer database where it can easily be seen the transactional data of different customers. Using this information and analyzing it, companies can aggregate customers to different groups and start building the base for their integrated marketing communication plan.

Proceeding from the identification of customers and prospects, the next step is to valuate those customers and groups. This can be done by analyzing the gathered data and calculating the margin for different customer groups, and for even individual customers. Based on these findings the company can decide on which groups and customers to target their marketing processes in order to get the best results.

When the target groups have been chosen the company needs to plan what kind of messages and incentives it wants to deliver to the customers, and how. This step consists of choosing which channels and media to use in order to get the message and incentives delivered to the target groups most efficient and relevant way. Also inbound communication has to be taken into consideration, so all the brand contact points need to be identified. The company should keep its marketing processes relevant to the customers. This is why different marketing plans are made for different target groups.

When all the relevant planning has been done, it is time to calculate return on customer investment. The marketing costs need to be thought of as an investment and proper return should be calculated for it. Based on these calculations the company can decide how much it will want to invest its resources for specific marketing processes.

The last step is to make a budget for the marketing plan and to allocate the available resources as effectively as possible. When the plan has been executed, it should be evaluated in order to see which things worked and which not. This information is crucial for developing the next marketing plan and improving the IMC in the company.

By following this Five-Step integrated marketing communication model introduced by Schultz & Schultz (2004), the companies can answer to the changing demands of future customers. The globalization, development of technology, and increasing importance of brands will surely make the markets harder for companies to maintain if they don’t start changing their already established processes to answer these changes in the future.

List of Figures

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Appendix 1. Communication Strategy Development Form (Schultz & Schultz 2004, pp.181-182)

I. Who is the consumer?
   a. What is the customer's target buying incentive?
      What is the general product category: __________
      i. How do members of this group perceive the products or services in this category?
      ii. What do they buy now? How do they buy and use the product(s)?
      iii. What are their lifestyles, psychographics, and attitudes toward the category?
   b. What is the key customer insight?
   c. What do these customers want from the product category that they are not now getting?
      Target buying incentive: "I will buy a product that ____________ than any other product in the category."
   d. Which would best achieve the IMC goal: message, incentive, or combination of the two?

II. Does the product or service fit the group?
   a. What is the reality of the product or service?
      i. What's in it?
      ii. What does it do?
      iii. Why is it different?
   b. How does the customer perceive the product or service?
   c. How does it look, feel, taste, work, etc?
   d. How does the customer perceive the company behind the product?
   e. What is the "naked truth"?
   f. Does the product or service fit the group?
      Recommendation:___________________

III. How will the competition affect our objectives?
   a. What is the brand network, the competitive frame? Why?
   b. What do competitors now communicate to customers or prospects?
   c. How will the competition retaliate against our program?
   d. How vulnerable is the competition? From whom will we take business?

IV. What is the competitive consumer benefit?
   a. Must be a true benefit (solve a consumer problem, better the consumer's way of life, etc.)
   b. Must focus on one benefit for each group
   c. Must be competitive (that is, "better than" the competitive frame)
   d. Must not be a slogan or an ad phrase
   e. Must be one sentence (e.g., "Sanka tastes better than any other instant coffee", "Holiday Inn gives you a better night's sleep than any other hotel.")

V. How will marketing communication pertaining to each of the following make the benefit believable to the customer or prospect?
   a. Product or service itself: ________________________

    b. Perceptual support: ___________________________
    c. Communication support: _______________________

VI. What should the personality of the brand, company, or product be? What unique personality will help further define the product or service and discretely differentiate it from the competitive frame?

VII. What main message do we want the consumer to take away from the communication?
    a. What main incentive will be offered?
    b. What action do we want the consumer to take as a result of the communication:
        i. Try the product or service
        ii. Send for more information
        iii. Use the product more often
        iv. Try other product in the line
        v. Other: ___________________

VIII. What will the perceptual or promotional effect of the communication be?
    a. If the communication is successful, what customer or prospect action will occur?

IX. What are the consumer brand contact points? To most effectively reach the consumer with a believable persuasive message or incentive, what consumer contact points should be considered? Why?

X. How will we handle future research? (list the types of future research needed to further develop the IMC strategy and your reasons for each.)

Appendix 2. Building Blocks of ROCI Analysis (Schultz & Schultz 2004, pp.221-222)

		Aggregated Customer Group:	Group A	Group B	Group C
		Behavioral Goal:			
	Category Requirement Assumptions				
1	Estimated category demand	Historical data/estimate	€	€	€
	Base Income Flow Assumptions				
2	Base share of requirement	Historical data/estimate	%	%	%
3	Base income flow to us	Line 1 x Line 2 =	€	€	€
4	Noncommunication costs (product, fixed, G%A, etc.)	Operating estimate	%	%	%
5	Contribution margin (%)	100% - Line 4	%	%	%
6	Contribution margin (€)	Line 3 x Line 5 =	€	€	€
	Scenario A: No Communication Investment				
7	Change in share of requirement	Estimate	±%	±%	±%
8	Resulting share of requirement	Line 2 + (Line 7 x Line 2) =	%	%	%
9	Resulting customer income flow to us	Line 8 x Line 1 =	€	€	€
10	Less noncommunication costs (product, fixed, G&A, etc.)	- (Line 9 x Line 4) =	- €	- €	- €
11	Less marketing communication costs	0 €	-	-	-
12	Net contribution	Line 9 + (Line 10 + Line 11) =	€	€	€
	Scenario B: Communication Investment				
13	Marketing communication efforts (Lines A-M)	Estimate	€	€	€
14	Total marketing communication investment	Total lines 13A-M	€	€	€
15	Change in share of requirement	Estimate	±%	±%	±%
16	Resulting share of requirement	Line 2 + (Line 15 x Line 2) =	%	%	%
17	Resulting customer income flow to us	Line 16 x Line 1 =	€	€	€
18	Less noncommunication costs (product, fixed, G&A, etc.)	- (Line 18 x Line 4) =	- €	- €	-€
19	Less marketing communication costs	- Line 14	-	-	-
20	Net contribution	Line 18 + (Line 19 + Line 20) =	€	€	€
	ROCI Calculation				
21	Incremental gain/loss vs. "no investment" scenario	Line 20 - Line 12	€	€	€

22	Incremental ROCI	Line 22 / Line 14	€	€	€

Note: G&A = general and administration; ROCI = return on customer investment.

From Don E. Schultz and Jeffrey Walters, Measuring Brand Communication ROI, New York: Association for National Advertisers, Inc., 1997.