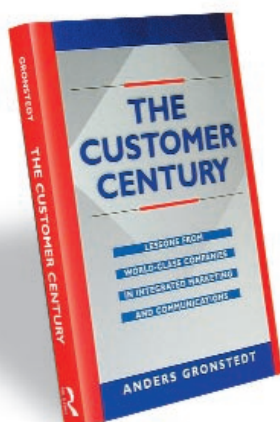


SOUNDVIEW Executive Book Summaries®

FILE: MARKETING



By Anders Gronstedt

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Lessons from World Class Companies in Integrated Marketing and Communications

THE CUSTOMER CENTURY

THE SUMMARY IN BRIEF

In the last century, organizations could succeed as production companies, focused exclusively on producing and selling goods. Today, we are moving from the Production Century into the Customer Century, writes Anders Gronstedt, in which the ultimate key to success of an organization is how well it satisfies its customers. According to author Gronstedt, integrated marketing and communications is a crucial component of the customer-centric company.

In this summary you will learn the secrets of world-class companies who, to better serve customers and stakeholders, are adept at integrating marketing and communications along three dimensions: between the company and its customers and stakeholders; across the different managerial levels; and across the different business and geographic units of the company.

First, you will learn how **integrated external communication** allows you to really listen to the customer and other stakeholders and use the information they give you to provide better service and products. You will learn to use technological innovations to calculate which customer is the most profitable and be able to concentrate on building a long-lasting relationship with him or her.

Next, you will discover that **integrated vertical communication** — between top managers, middle managers and front-line employees — can reap rich benefits. By having information flow from top to bottom and bottom to top, you will tap into energy you didn't know your company had. Front-line employees and top level management will benefit from working in a company with a well-defined mission and common goals.

Finally, you will learn the importance of **integrated horizontal communication** across different departments and business units. For example, you will see how allowing employees to hold varied positions within the company strengthens you as a Customer Century company.

The summary ends with a discussion on creating the right mix of high-tech communications with high-touch communications for optimal benefit to your company and your customers.



THE CUSTOMER CENTURY

by Anders Gronstedt

— THE COMPLETE SUMMARY

Integrating Communications in 3-D

Most companies are organized like a herd of fighting bulls, with departments and business units fighting against each other for limited budget resources and senior management's attention. Unfortunately, this rampant internal bickering became the norm in the twentieth century, the "Production Century."

Production Century companies are organized to efficiently produce and distribute goods. They relegate customer management and brand building to separate marketing and communications departments. These departments don't interact with each other. Instead, they compete. The end result is that customers, on whom the company depends, are confused and frustrated. They get calls from salespeople from two different divisions of the company seeking their business, log on to a fancy Web site designed by a Silicon Valley start-up, buy from a minimum wage clerk at an independently owned franchise, and are treated rudely by an outsourced call center.

Eventually, they leave in search of a company that wants to keep their business. For we are now entering the Customer Century. Customers today are savvy, well-informed, cynical, price-conscious and empowered. They demand quality, service, customization, convenience and speed.

Companies who want to keep their customers and prosper will have to stop acting as if they are still in the Production Century and instead begin acting as if they are Customer Century companies. That means that instead of acting like a herd of raging bulls, they must act like a flock of geese, flying in formation toward a common goal. That goal is customer satisfaction.

Integrated Communications

How do you get your company to "fly in formation" toward the common goal of superior customer satisfaction? The key element is integrated communications.

Reaching today's savvy customers requires close communication with customers at all of their points of contact with the company. Thus integration of communication — making sure that all levels and units of the company are united and coordinated in their communication efforts — is vital to successfully building the relationships required in the Customer Century.

Saturn Apostles

In June 1994, 44,000 proud Saturn automobile owners from Alaska to Florida, and even as far away as Taiwan, paid their way to Spring Hill, Tennessee to see the assembly plant where their cars were born and to meet the men and women who built them. And at other locations across the country another 130,000 Saturn owners participated in events, representing an incredible one out of every six Saturn owners. Everyone, including dealerships, plant workers and corporate leaders, got involved in the action, which included raising money for Special Olympics and building playgrounds in communities.

Is it marketing or public relations? Is it community outreach? Is it employee relations? Customer service? It's all that and more. In two words, it is integrated communications.

There are three dimensions to integrated communications. **Integrated external communications** is the process of involving everyone in the organization in both inbound and outbound communications with customers and stakeholders.

To make that happen, senior management has to train, empower and support front-line employees through a process of **integrated vertical communications**, the second dimension. This type of communication is about opening up forthright, frequent and two-way communication between senior management, middle management and other employees.

The third dimension, **integrated horizontal communications**, integrates communication among people at different work units, departments and countries. All three dimensions need to be in place to successfully compete in the Customer Century. ■

The author: Anders Gronstedt, Ph.D., is president of The Gronstedt Group, a Colorado-based "think and do tank" in integrated marketing and communications that consults and conducts training programs for companies around the world. A world-renowned speaker, author and management consultant, Gronstedt is a former professor of integrated marketing communications at the University of Colorado.

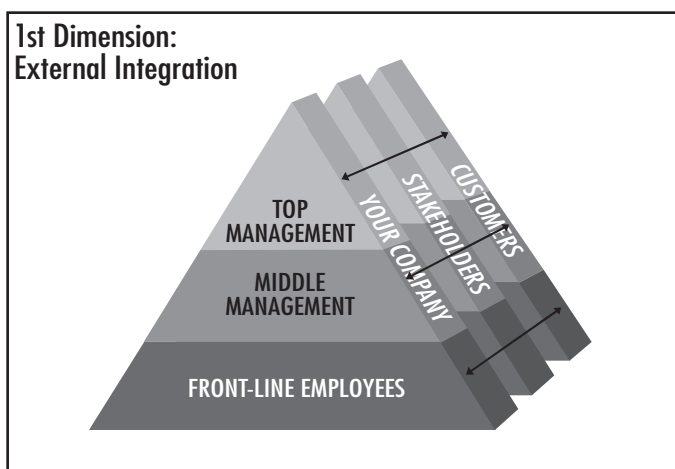
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The First Dimension: Integrated External Communications

The first dimension, integrated external communications, is about building close customer and stakeholder relationships at all levels of the organization. The first dimension starts with identifying the most important customers based on their current profit contributions and potential lifelong customer value. Once they are identified, satisfaction surveys, retention rates, complaints, inquiries, field operations, market research and other sources of customer information are judiciously tracked and the information widely shared within the organization.



Profitable Customers Are Always Right

Who are your most important customers? First, you must pay attention to your most *profitable* customers. Harness the power of database technology, Internet connectivity and mass customization capabilities to identify customers with the greatest profit potential, and tailor communications and service to their individual needs.

Consider these examples. The automaker Saturn has information on every one of its two million owners. Huge Hewlett-Packard has a central customer database with between 6.5 and 8 million names, complete with the recentness and frequency of purchase for individual customers. HP also tracks the customer's contact history. The information is available companywide to everyone who needs it. The result? HP believes its use of customer data translates into additional annual sales of \$180 million.

Activity-Based Costing

Customer Century companies must learn to take advantage of a new accounting method called "activity-based costing." The technique determines the actual cost of individual customers, including customer service, credit expenses, handling charges and product support.

Link the purchasing data with cost data and the profitability of individual customers becomes apparent.

Share of Wallet

One way you can measure a customer's future profitability is through your "share of" his or her "wallet." "Share of wallet" is a measure of how much of the customer's budget for a category you have captured. Fast food companies need to determine their "share of stomach," automobile manufacturers need to figure out their "share of garage" and clothing companies need to calculate their "share of wardrobe." For example, a family with one Saturn and one Honda in the garage would represent a 50 percent share of garage for each car company. Moving from 50 percent to 100 percent can be many times more cost effective than chasing new customers.

How do you go about increasing your share of wallet? The key lies in making information about your customers available to those in the company who need it. True breakthroughs come from sharing customer database information broadly and organizing your company's entire manufacturing, service, delivery and communications process around individual customer needs.

Beware of Customer Terrorists

World class companies take special care to listen to the voices of disgruntled customers. Act quickly, or a disgruntled customer will turn into a customer terrorist who will badmouth the company. By some estimates, for every complaint there are ten other customers out there with the same bad experience. You must address complaints quickly and then take action to correct the problem for all

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The Pareto Effect

Wilfredo Pareto, an Italian economist, postulated that 80 percent of the wealth in the world was owned by 20 percent of the people. The rule applies to companies as well, and holds that 80 percent of a company's profit is attributable to 20 percent of the customer base. You must determine which customers are the 20 percent responsible for most profits.

Lifetime Customer Value is how much revenue you can expect from a particular customer from now until the relationship ends. It is, in essence, the net present value of future profits a customer is expected to yield.

The Pareto effect also applies to other stakeholders. Important stakeholders are small in number and big in effect. You can rank them in order of their power (i.e. major stockholder,) legitimacy (i.e. television news anchor,) and urgency (i.e. laid-off worker.) If all three factors are present, handle with care.

The First Dimension: Integrated External Communications

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customers, not just the one who called or wrote.

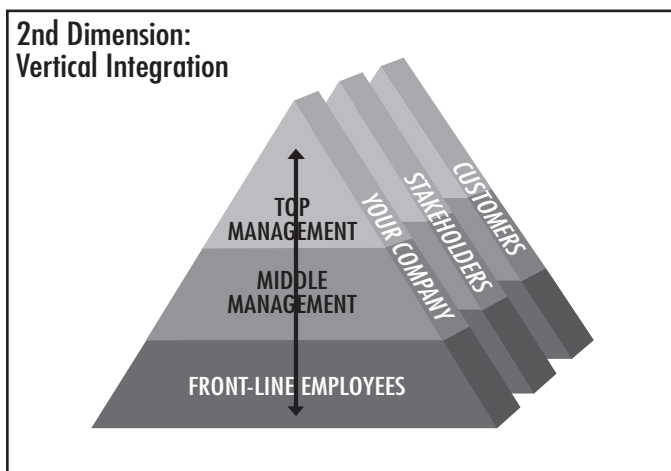
As you build communications with customers, don't forget that you must do the same for other stakeholders. Stakeholders include employees, intrusive governments, a litigious public, active shareholders and the 90,000 or so registered special interest groups in the U.S. The successful management of relationships with these stakeholders will yield you a cycle of reinforcement. If you attract good employees, you will attract equally good investors, customers and partners, and escape some harsh criticism from the media. The opposite is also true; mismanage stakeholders and you will find your company in a tailspin. ■

The Second Dimension: Integrated Vertical Communications

The second dimension to integrated communications is vertical. When used properly, the results are amazing.

Consider the case of once troubled Philips. As fifty top managers of the electronics giant gathered in an old Dutch castle, the CEO waved a press release and announced with urgency "Philips is bankrupt!" Philips wasn't, but unless something was done immediately about sliding profitability, the press release would be reality in two years. So to get things moving and avoid "analysis paralysis," the CEO staged a fake press conference and got the managers moving.

During two retreats in the Dutch countryside, managers completed a radical restructuring program dubbed Operation Centurion. It included cutting time to market in half, closing factories, selling businesses and redefining the core business. The managers committed to simi-



A Customer in Hand is Worth . . .

It costs anywhere between five and twenty times more to recruit a new customer than to keep an existing one. Customers also become more valuable over time, costing less and providing more revenue the longer they stay with the company. Although you must spend time recruiting new customers, don't do it at the expense of ignoring old ones.

By knowing your old customers, you can also target prospects more intelligently. Use the data you acquire from them to build a data warehouse, an enterprise-wide repository of databases from different organizational units and external sources. Then use data mining to analyze the information in the data warehouse. The information you extract can help you keep your current customers and target new ones better.

lar meetings all the way down the organization. It was a massive communications cascade to reach the hearts and minds of over 240,000 employees in 52 countries and 272 business units.

To increase the pressure to change and heighten the crisis mode, Philips purposely did not respond to media inquiries and criticism in a conscious orchestration of information to inspire dissatisfied people to jump-start the change process. But inside, communication flowed up and down the organization. For example, Philips closed all factories for a day and conducted a worldwide meeting for all its employees. There were workshops led by trained facilitators. Later, they watched a satellite hookup speech by the CEO, simultaneously translated into 37 languages. The CEO responded to questions from the workers.

The integration of vertical communication between senior managers and the Philips work force is now institutionalized. The result? Philips is the leader in European consumer electronics. You can be sure Philips will continue to use the power of integrated vertical communications to continue to drive a world class operation.

Developing a Customer-Centric Vision

As you develop communications from the top down and the bottom up, consider the power that a company vision can have. Your challenge is to develop a vision that is specific enough to provide guidance but adaptable enough to survive in today's rapidly changing environment. Beware of both very vague and very narrow vision statements.

The vision must be based on the firm's core competency — the bundle of skills and technologies that is central to its strength — and on opportunities in the

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The Second Dimension: Integrated Vertical Communications

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marketplace. The best visions focus on customer benefits rather than product features. For example, when Danfoss replaced its vision of “selling air filters” with “selling fresh air” it became a service company that offered measurement and advice on dust prevention instead of an air filter company. ■

The Vision Thing

Top down communications starts with a vision and sense of purpose for the entire organization. Your company’s vision needs to be anchored in the values and philosophies your company stands for. Those values then need to be translated into clear brand promises that are communicated to customers and stakeholders.

Examples abound. Saturn is “A different kind of company, a different kind of car.” FedEx provides “The world on time.” Xerox is “The Document Company.” Although they may seem simplistic, vision statements are powerful, energizing everyone in the company.

Cascading

Leading edge managers focus their companies’ efforts around a small number of breakthrough objectives that move their organization closer to the vision.

Communicating these objectives is key to achieving them. Senior managers share objectives with lower level managers, who in turn decide what their objectives will be and then pass these down to front-line managers. This way, corporate objectives are “cascaded” down management ranks and translated into specific action along the way. Customer Century companies in effect align the whole organization around a small number of shared objectives and develop processes to achieve them.

Another area where cascading proves important is

The Third Dimension: Integrated Horizontal Communications

Integrated communications’ third dimension is horizontal communication. Teamwork is key to horizontal communication. It must be the modus operandi.

Consider the following example from Rank-Xerox.

It was the second time the team had come together, flown in from headquarters in the U.K. Their job was to develop a marketing strategy for a new line of copying machines. As the meeting progressed, the team members

The CEO is the CCO

The CEO and the top management team play a critical role in communicating the company vision to employees and the public. In effect, the CEO is also the Chief Communications Officer. In order to get employees to internalize the values symbolized by your company’s vision statement, you need to do more than speak the vision, though. You must also live the vision. Actions do speak louder than words. CCOs who tie communicating the vision with tangible rewards for performance of mission goals are most effective. When you coordinate compensation with vision communication, you send a strong message about the company’s real priorities.

employee training. Training is an ideal avenue for practicing vertical communication. Xerox used cascading training to help turn itself around. First, the senior management team underwent a six-day training session in total quality management. A week later, senior managers held training sessions for the managers reporting to them. These managers, in turn, trained their direct reports. Before long, training cascaded through the organization. What makes cascading such a powerful approach is that every manager is involved twice, first as a participant and second as a teacher.

Of course, cascading must also work from the bottom up. The most difficult vertical communication problem is assuring that untarnished information is relayed up the organization. Senior managers need direct access to front-line workers who know the customer and the operations firsthand. Just remember that fear is the greatest barrier to bottom up vertical communication. Be sure that there are no reprisals for voiced opinions. Then try using these tools to help information flow:

- e-mail
- employee surveys
- 360 degree feedback for managers
- casual meetings. ■

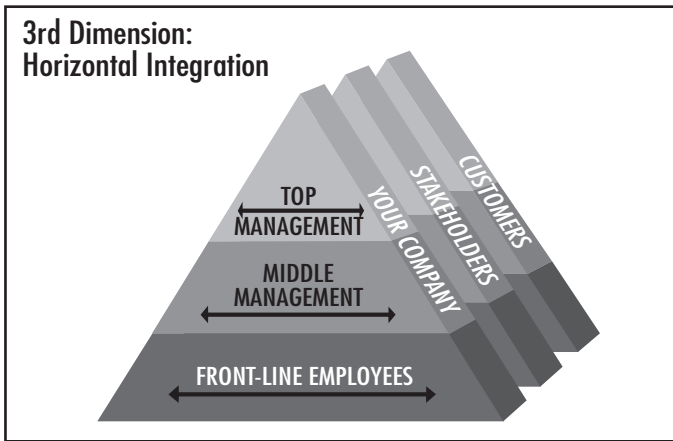
became more and more fired up. The facilitator could barely keep up with notes scrawled on his flip chart.

At Rank-Xerox, teams are required to come up with a consensus decision. That means any member of the team has veto power. Everything was moving along until one team member broke her silence, and suggested an alternative strategy. More in depth discussion followed. Two hours later, the group reached a consensus decision on the appropriate strategy. The decision was one that had built on her alternative rather than the previous favorite.

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The Third Dimension: Integrated Horizontal Communications

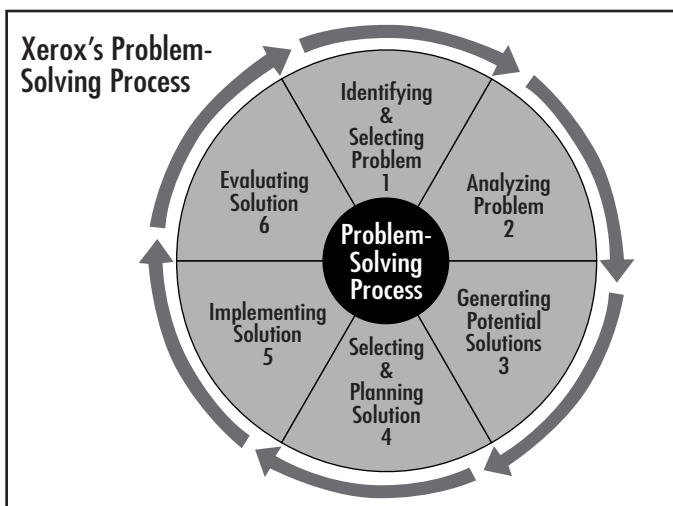
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Xerox uses a structured problem-solving process to aid decision making. Every team member is assigned a role. *Facilitators* are responsible for aiding discussions; *team leaders* direct the project; *scribes* take notes; *time-keepers* assure that an appropriate amount of time is spent on each agenda item and that meetings start and end on time; and finally, a *behavioral checker* assures that no one dominates the meeting, that everyone is heard and that everyone is an active listener.

Start with Customer Needs

The problem with most organizations is that the processes are not managed with the same care as functions. Designers design a new product, engineers change it, operations makes it, accountants price it, marketing promotes it, sales sells it, finance collects payments and customer service returns it. Integrated horizontal communications reverses this flow. It starts with information about the customer's needs through order fulfillment, up to manufacturing operations, and finally to research and development.



How do you successfully practice integrated horizontal communication? By establishing effective teamwork processes, facilitating “virtual communities of practice” and systematically rotating people through job assignments. ■

Teamwork Key To Horizontal Communications

Since teamwork is at the core of horizontal communications, make sure everyone understands teamwork. Fortunately, teamwork is a skill that can be taught and practiced by everyone in the organization. The development of a team follows a predictable pattern with four stages: forming, storming, norming and performing.

During the **forming** stage, team members are selected and given a clear mandate. Next comes the **storming** stage, the time when everyone on the team has gotten to know each other, but doesn't quite trust each other. During the **norming** stage, the team creates ground rules. At Saturn, for example, consensus decision making is the law. Once everyone on a team is at least 70 percent comfortable with a decision, they will put 100 percent of their effort into making that decision work. Finally, during the **performing** stage, team members are ready to implement their ideas and move forward toward common goals.

Communities of Practice

Linking communities of practice is also critical to establishing integrated horizontal communications. Communities of practice are simply people who are informally bound together by facing the same issues and problems — for example, people who have the same job function in different parts of the organization, or the same customers. Hi-tech communications, such as e-mail and information on an Internet site, are powerful tools for keeping these communities of practice, which are dispersed throughout the organization, linked. ■

Teamwork at Saturn

Can you really teach teamwork? At Saturn, the resounding answer is yes! How do they do it? The automaker believes the most effective way is through training the team members together. At Saturn, teams train through Outward Bound classes, where team members take turns helping each other climb a thirty-foot pole, turn 180 degrees on a rotating platform, then jump off and ring a bell. They also take courses in conflict resolution, consensus decision making, assertive listening, transactional leadership and team dynamics.

Learning How the Other Half Works

An effective way to institutionalize horizontal communications is to deliberately move managers across functions, business units and countries. The end result is experience transfer, stronger personal networks and greater company pride. Production Century companies typically cast their employees in one role and ask them to perform one function. Customer Century companies, on the other hand, encourage individuals to explore different areas so that they develop greater respect for their fellow workers and share their experience and knowledge among many.

International rotations are becoming more important in the face of a global marketplace. There really is no substitute for living and working in another culture if the goal is to understand that culture. American companies have been slow to catch on to international assignments, particularly in marketing or corporate communications specialties.

Job rotation is expensive, but the long-term benefits are usually worth it. Just make sure your company does-

Integrating High Tech and High Touch

Computer connectivity is developing at such an unprecedented speed that “digital architecture” is becoming crucial to integrating internal communications. Intranets are emerging as the business platforms of choice because they speed and aid internal communications like nothing before. And of course, e-mail makes internal communications almost instant.

How can an Intranet help you run your company? First, an Intranet is a place where your employees can share problems and solutions easily. Collective knowledge gained in the field can be stored in Intranet databases and harvested later, when the question comes up again. What better way to avoid reinventing the wheel than tracking previous solutions to problems?

However, technological innovations aren't without problems. Consider that the average employee receives 2.3 million words in routine communications over a 3 month period. Add to that an average of 178 voice mail messages, e-mails, faxes and mail messages that a person receives in any average workday, and you begin to appreciate the term “information overload.” The average worker is interrupted 3 to 4 times an hour. On top of that, the average manager spends 17 hours a week in meetings and another 6 hours preparing for them!

The traditional way of dealing with information overload is to control and restrict the flow of information. But for a Customer Century company, that simply won't work because communication is essential to the way it must do

Celebrating Teamwork

When it comes to creating a corporate teamwork culture, Motorola and Xerox are in a league of their own. They don't just practice teamwork, they celebrate it. At Xerox, workers are treated to a “Teamwork Day” where outstanding teams are praised. The event is broadcast live on the company's internal network to over 30,000 workers worldwide.

At Motorola, as many as 5,000 teams compete against each other in 12-minute presentations of their accomplishments. Local winners go on to division-level contests, and on to a “World-Wide Total Customer Satisfaction Team Competition.”

n't go overboard. Although rotating and transferring from within has great benefits, don't use it as a substitute for astute hires from outside. Without some fresh talent, your company may become stagnant. Also, be sure to leave expatriates overseas long enough to settle into a position and a foreign culture. Five years in any one position is optimal. ■

business. One answer is to train everyone to label communications by “need to know” and “nice to know.” Some other tips to manage information overload include:

- **judicious use of the cc function; not everyone needs a copy**
- **meetings must have agendas and goals**
- **some off-site meetings can be replaced with video or phone conferences**

In the end, you must balance high-touch in person communications with high-tech instant communication. Human and virtual communications need to work in tandem to reinforce each other and optimize horizontal communications.

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Office Architecture

The buzz in the hallway is where real communication takes place. Informal communication can be encouraged through the right physical office layout. People in closer proximity to each other communicate more frequently than those far apart. For that reason some companies like HP and Saturn have done away with office walls altogether. People work in cubicles, but there is shared space for impromptu team meetings. At HP, the open-door policy is both literal and metaphysical. No one in the company has a door. The philosophy that eliminates corner offices and replaces them with open, accessible work spaces plays an integral role in successful internal communications.

Integrating High Tech and High Touch

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The Future of High-Touch Communications

In the Customer Century, everything that can be automated is becoming computerized, leaving only “people problems” to people. The counterintuitive implication of the Customer Century is that *high-touch communications will be more important even as high-tech communication increases*. The gospel of old fashioned high-touch face-to-face communications reverberates from the Xerox directors who take turns at call centers to the 50,000 Saturn owners who travel to the car maker’s factory in Spring Hill, Tennessee every year.

High-touch and high-tech communications need to be leveraged with each other, each used to do what it does best. Online communications are efficient, provide instant access to information and make communications efficient. But high-touch communication is unrivaled for the ability to create bonds, build trust, develop new

Today’s Marketing and Communications Tasks

The key professionals in a Customer Century company are the communications professionals. Their job is to assure that communications flow up, down and across the company and to the customer and stakeholders.

To effectively integrate communications in their companies, marketing and communications specialists need to:

- Develop measurements based on three parameters: the value that customers and stakeholders add to the company; the value that the company adds to customers and stakeholders; and finally, the reputation of the company and its products.

- Find out what senior managers and a sampling of middle managers believe about the value of communications. Based on interviews, develop action plans to integrate communications.

- Develop guidelines on the personality, look, tone and core messages of the company and its brands. Also develop process flowcharts for how to conduct communications planning and implementation.

- Connect with marketing and communications professionals across the company, sharing best and worst practices and future plans.

- Analyze what communications tasks can be done in-house and what must be outsourced.

- Bring integrated communications and marketing agendas that address the strategic priorities of your company to the senior management table. ■

Reaching Off Line Workers

Not every worker in your company will have Internet, Intranet or e-mail access. Yet you still need to reach blue collar workers. Using digital media for workers who aren’t chained to a computer is still possible. For example, Xerox makes available a toll-free number for the latest company news. And Saturn has satellite hook-ups for live broadcasts of important news. When a car is recalled, the information is sent out over the computer system. Workers and dealers are then told when to check for more information. A satellite broadcast explains in detail the need for a recall. There is even time for called-in questions and answers.

ideas and solve complex problems. Clearly, the greatest value of high-tech communications is in its ability to free up people’s time for valuable high-touch human interaction. ■

Putting It All Together

In the Customer Century, the best companies take integrated communications to heart and change their way of doing business. To become a world-class Customer Century company, your organization needs to learn the following lessons of today’s top companies:

Integrate external communications by compiling customer and stakeholder information into a central customer database. Identify the most profitable customers and critical stakeholders, and analyze their needs. Use high tech to customize communications, service offerings and products to their needs. Integrate high-touch communications into communications between the company and key customers and stakeholders.

Integrate vertical communications between the senior management and the front line, keeping top people in touch with the rest of the organization and employees in tune with the strategic context of their work. Use high-tech computer connectivity to reach all employees instantaneously, and encourage open dialogue. Use high-touch cascading communications to secure commitment and involvement at all management levels.

Integrate horizontal communications by aligning the entire organizational structure, processes and reward systems around customers instead of around functions, business units or geographic regions. Use high-tech communications for global access to information and people and for forming virtual teams and communities. Use high-touch face-to-face communications for teamwork, bonding, building trust, developing ideas, resolving conflicts and solving complex problems. ■