Papers

Building an internal marketing management calculus

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Abstract

Internal marketing is increasingly important to organisations, but it has proven to be a difficult implementational challenge for managers. The author reviews the current primary internal marketing conceptual models. The paper identifies the five major difficulties managers find in developing and implementing an internal marketing programme. From that, it provides a model for a financially based integrated internal marketing management development and allocation calculus approach. This process starts with customers and works back through employee behaviours. It places a financial value on changed employee behaviours so that internal marketing can be treated as an investment and return process.

Introduction

Internal marketing has generally been defined as activities, actions and managerial directions an organisation implements in an attempt to encourage and generate employee and other stakeholder support for programmes and processes needed to achieve organisational goals and objectives. While there are other definitions,[1] this seems to summarise the views of most academicians and practitioners.

Given the increasingly competitive global marketplace, internal marketing is becoming more and more important to all types of organisations, across multiple venues. For example, recently, the *European Journal of Marketing* devoted an entire issue to the subject.[2] Internal marketing discussions are now starting to emerge in other scholarly and professional journals as well.[3]

What is causing this sudden interest in internal marketing, a subject that was ‘hot’ in the 1980s but seemingly disappeared in the ‘go-go’ days of the internet bubble of the 1990s? Clearly, it is the growing recognition of both scholars and professionals that with the increasing commoditisation of products and services, where differentiators are commonly short-lived or even non-existent, ongoing customer relationships with the brand and the organisation may well be the only way for the firm to build long-term, sustainable competitive advantage.[4] In addition, the continuing failure of techno-driven customer relationship management (CRM) approaches reinforces that view.[5] The hoped-for advantages of customer data, rapid data processing, new statistical algorithms and the like have winnowed down to nothing more than a welter of marketer-driven contact management schemes.[6]

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Internal marketing comes at the problem from a different organisational perspective. Rather than focusing on end customers and their needs, internal marketing assumes that employees and their requirements and activities are what really drive successful, ongoing businesses. The mantra is 'Satisfied employees beget satisfied customers'. Satisfied customers are more loyal customers. And loyal customers are more valuable customers in both the short and long terms, as posited by Reichheld, Sasser and a host of other loyalty proponents.[7] As a result, the best place for the firm to start consistently to build a more profitable business model is with employees and other stakeholders. Thus the belief follows that organisational success starts with an increased focus on how and why and in what manner employees can be turned into the firm's supporters, advocates and customer-service providers. That should enable the firm to develop sustainable differential competitive advantages.[8]

Satisfied employees beget satisfied customers

Employees as supporters, advocates and customer-service providers

The problem is, while the concept of internal marketing is sound, the actual practice is an entirely different matter.[9] This paper investigates why internal marketing has had so much difficulty gaining traction with internal managers, and why it has failed to live up to its potential as a relevant and important organisational programme. It starts with a brief history of internal marketing from an academic perspective. That is followed by a description of the author's experiences with internal marketing at Northwestern University. The paper ends with a suggested new managerially oriented approach that the author believes cuts through the challenges that have faced internal marketing for years.

A quick tour of internal marketing history

Over its relatively short history, internal marketing (IM) has developed along three separate and distinct tracks. The early approaches were suggested by Berry in the 1970s.[10] Working in the area of services marketing, he developed the idea that because people were the most common form of service delivery, their actions probably had a major impact on customer acquisition, retention and migration, and thus the ultimate success of the firm. Berry approached IM from a traditional marketing view. He posited that employee jobs could be considered the firm's products, and developed traditional marketing models and approaches that were based on the idea of making the worker's job attractive and desirable to him or her. He employed a basic 4Ps approach that focused on the employee's job as the product and used various forms and formats of price, distribution or place and promotion to build that desirability. Thus, a major focus of Berry's approach was to develop various types and forms of internal communication and promotion to encourage and build employee job satisfaction, with the idea that employee satisfaction would lead to customer satisfaction which would, in turn, build more customer loyalty.

Basic 4Ps approach

In the 1980s, Gronroos[11] introduced the Scandinavian approach to IM. He, Gummeson[12] and others took a somewhat different tack. They argued the employee was an important part of the overall product or service delivery equation developed by the marketing firm. Thus, the customer-facing employee was key to the firm's success. Gronroos proposed that

Customer-facing employee key to a firm's success

each such employee be trained as a marketer — that is, trained to do add-on, cross-selling and the like along with ongoing customer retention skills that would enable the building of customer relationships. The balance of the organisation, what he considered the 'back-room' or 'back-end', should be designed to support these customer-facing employees. Thus the focus of the organisation was not just on providing an excellent customer product or service experience, but was based on building an ongoing relationship with the customer that could be converted into additional sales and profits if the employees did their 'IM' jobs. (Interestingly, it was this premise of relationship marketing that led to the development of techno-CRM in North America. Unfortunately, when computerising the customer relationship process in the USA, software developers ignored the human relationships that Gronroos and others had designed into their approaches; hence the failure of CRM in much of North America.)

A hybrid approach

In the 1990s two academics in the UK, Rafiq and Ahmed,[13] developed what was essentially a hybrid approach to IM. They took the best of Berry and Gronroos, added some conceptual thinking and developed another form of IM.[14] In their approach, they proposed that IM was inherently difficult to implement because of inter-functional conflicts between departments, management and employees and the firm's inherent resistance to change. Thus, their methodology focused on overcoming organisational inertia by identifying the specific behavioural changes employees needed to make. They then related those behavioural changes to the various departments and groups within the firm. That provided the base for the development of cross-functional integration within the firm.

While there have been other approaches, these three streams of thinking have driven IM for more than 30 years. In spite of these well-developed, well-defined and well-researched streams of thought, practising managers still find IM to be a most difficult task.[15] The next section offers a different view of why the IM process has been so difficult to implement. This is based on research and teaching experience at Northwestern University, and is followed by the conceptual model developed there.

Some background on integration

In 2001, the Integrated Marketing Communications (IMC) Department at Northwestern University (NU) was approached by several USA-based motivation and incentive organisations and associations. Chief among those were the SITE Foundation, the Incentive Marketing Association, Carlson Marketing, Maritz Inc. and others, all of whom had an interest in developing better IM programmes for their clients and members. Most had conducted various forms of research over the years, some public, some proprietary. But all recognised the need for a more coherent, robust and measurable approach to IM than that which currently existed. The goal, thus, was to develop a theoretical base for IM that would either support, change or modify the practices that had grown up over the years based on practitioner results or anecdotal 'rules of thumb'. Together, the IMC Department and the sponsoring founders established the Forum for People Performance Management and Measurement,[16] an organisation

Need for a coherent, robust and measurable approach to IM

that was designed to focus on researching, aggregating and disseminating theory-based, practical applications of IM among the membership of the Forum and the general business community.

As a part of the overall charge of the Forum, there was a desire to create a graduate-level course in IM: one that could be transported to other universities and perhaps even serve as a model for an external professional development programme. The desired course was developed in the spring and summer of 2003. It was delivered for the first time in autumn 2003 to graduate-level students enrolled in the IMC Department at NU. Since that time, the faculty has been reviewing the course and the learnings that have emerged from it.

It should be noted here that marketing and communication alignment is not new to the faculty at NU. That group established the first graduate-level IMC curriculum in 1991. It has been teaching the principles of IMC for more than a dozen years, although admittedly most of the focus has been on the development of external marketing and communication integration. So, the development of IM was a natural outgrowth for the group.

Based on the work in the overall topic of IMC, and the research and investigation of IM, five basic problems in the development and application of an integrated IM approach at the organisational level were identified. Understanding those problems has led to what the author believes might well be an innovative solution. The paper now discusses the problems and difficulties first, and then presents a solution.

Why most IM methodologies have failed

Five reasons why IM has failed

In investigating why IM has not met with more management implementation success, five issues were identified.

Few financial measures of IM programme success

For the most part, IM methodologies have relied on traditional marketing concepts and approaches. That is, they have been based on a stimulus-response psychological model that assumes a change in attitude by the audience will, at some point, result in a change in behaviour by the audience receiving the messages. Thus, IM programmes have commonly been developed to encourage employees to understand the need for customer focus, the value of supporting organisational goals, the responsibility of employees to ensure customer satisfaction and the like. And the results of such programmes have then been evaluated on the basis of communication effects, ie awareness, recognition, ability to play back the distributed messages and so on. These approaches emulate traditional broad-scale, mass-market external marketing approaches.

The problem, of course, is the attitudinal measurement model being used is most difficult to connect to any type of behavioural change or, ultimately, to any organisational financial return. For over half a century, marketing and communication managers have had little success in connecting a change in consumer awareness or attitudes to a change in behaviour. Thus the firm invests dollars to implement IM programmes, but measures returns in terms of message awareness, attitudinal improvement, ability to recall messages or other communication-related effects. Without evidence of measurable behavioural changes by employees, measurement of the financial returns resulting from IM programmes becomes extremely difficult. And, with increasingly quantitatively oriented senior management, this inability to connect dollars expended for IM programmes to dollar returns to the firm puts most programmes in jeopardy.

Lack of management cohesion in developing or implementing IM programmes

Which department has responsibility for IM programmes?

IM programmes often fall under the control of one or many functional groups. In some organisations, IM is the responsibility of human resources (HR). In others, it is guided by marketing. And in still others, it is under the supervision of corporate communications. Perhaps the worst-case scenario is when IM is a bit of the responsibility of all three.

Clearly, each functional group views IM differently. HR sees it mostly as an employee satisfaction issue. Marketing views IM as a selling opportunity. Corporate communications looks at it as reputation management. Thus there is often no cohesion or agreement inside the various functional units and even less between them.

To make matters worse, in most cases, the employees who are to be included in IM programmes do not report to any of the three functional groups that are implementing the programmes. Often the employees report to operations or production or sales or some other functional group. Thus one finds a situation where IM programmes are being developed, planned and implemented by groups that have no authority or responsibility for the people they are trying to motivate or whose behaviours they are trying to change.

IM implementation resides at the middle levels

Little visible management support

For the most part, IM often gets little visible senior management support. While many senior managers agree that IM is important, there appear to be few who actively champion the cause. For the most part, the responsibility for the development of IM programmes is pushed to the middle-manager level, with all the inherent problems of turf, position, promotion and political situations that inhabit that region. Thus while almost every academic model and most functional managers say senior management support is needed or required to make IM work, in the author's experience, with a relatively large number of companies, IM simply is not viewed as a senior management issue. It is often considered simply as a motivation or reward programme, often within the province of sales, brand and product managers, HR and motivation people. That is tactical, not strategic, work. Thus most senior managers shy away from being involved except for providing some resources and tacit approval of programmes. Given that there are few examples of success, IM often seems to be considered a 'necessary evil' by the organisation and treated as such.

No connection between employees and internal stakeholders and external customers

One of the major issues with IM is that it is often difficult for employees, particularly those who are not 'customer facing', to understand how IM affects them, their jobs, the customer or the organisation. A 'pull-and-pack' worker in an order delivery department may never ever see a customer of the firm. The same is true for IT, maintenance, product sourcing managers and the like. Thus it is often difficult for them to understand that the work they perform, the activities they conduct and the responsibilities they have are even related to customer satisfaction and customer loyalty. Further, when the focus of the organisation is on efficiency and cost cutting, even customer-touching employees find it difficult to relate to customer-focused programmes. Witness the customer service centre where, in too many cases, customer service representatives are rewarded on the number of calls they handle per hour, not on the number of customers satisfied.

Employee difficulty in relating to customer-focused programmes

Lack of a management calculus

Perhaps the greatest difficulty in developing and implementing IM programmes is the lack of a strategic management calculus or planning system that can be used at the senior management level. Senior managers have no idea of what the value or return on an IM programme is, was or could be, and middle managers developing the programmes generally cannot tell them. For the most part, senior management is asked to fund IM programmes to buy the 'stuff' needed to conduct the programme, ie communication message distribution, brochures, folders, banners, buttons and the like. Little is ever said about organisational returns, only about organisational costs.

Little said about organisational returns

Further, with no method of viewing IM as something the organisation does, rather than something a functional department develops and delivers, it is difficult, if not impossible, for senior managers to view IM as anything more than another corporate programme that demands corporate resources but provides few corporate returns. It is here, the author believes, that the most critical steps need to be taken to build support for any type of IM approach.

While there are clearly other issues facing IM, in the NU work over the past few years these have been found to be the ones that create the most difficulty and the ones that must be resolved for the field to move ahead either theoretically or practically.

The next section provides some integrated tools that have been developed at NU that it is believed can overcome some of these historically difficult issues.

Building an integrated IM process

Relevant customer brand experiences are, or should be, something the entire organisation develops and delivers to external customers on an ongoing basis, not just a functional group such as marketing or customer service or dealers. That is truly the basis for IM. Thus customer needs should drive IM programmes, not just corporate needs or objectives.

Customer needs should drive IM programmes

Therefore, the alignment of customer needs with the ability and willingness of employees to deliver satisfactory customer brand experiences really determines whether or not an IM programme is needed initially and whether ultimately it will succeed or fail. Unfortunately, gaining the necessary alignment between management, employees and customers is not a simple task for several of the reasons discussed earlier. By far the most mitigating factor against successful IM programmes, however, is the organisational structure most firms employ. An illustration of the problem is shown in Figure 1.[17]

Organisational structure of firms

Many organisations are structured in functional silos, as shown in Figure 1. Each functional group is focused on a specific set of tasks, reporting vertically up to senior management. Functional groups have no reason or incentive to interact or even communicate with other groups within the firm. Even worse, they have no real reason even to acknowledge the existence of customers. Customers are off to the side so they will not interrupt the internal flow of work activities. In this structure, internal management is vertical and cross-functional coordination is restricted. While this structure is easy for senior managers to install and control, it necessarily separates the organisation into managerial fiefdoms rather than coherent, customer-serving systems.

The most challenging element in this organisational structure is that customers, the financial lifeblood of the firm, are necessarily defined out of the mainstream of the company. Often they are viewed as necessary, but not terribly relevant to the success of the functional group or even the organisation itself.

Functional groups do not interact with other functional groups within an organisation

Since functional groups are focused on carrying out their tasks, they commonly have little or no interaction with other functional groups. In the rare cases where customer focus is developed, the activities connected with that initiative are commonly carried out by one of the functional groups. So while the company may espouse customer focus or customer orientation or being customer-centric, there is no practical way for that to

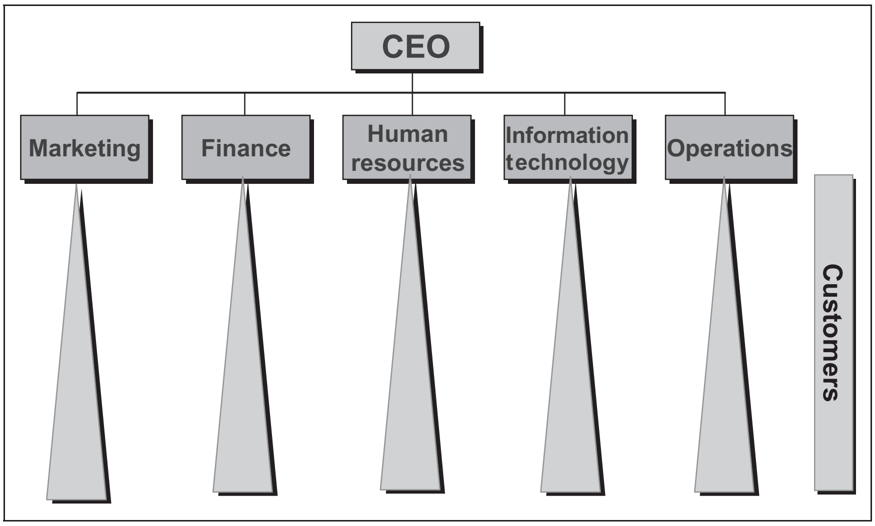

Figure 1: Functional silos ignore customers, employees and brand experiences

occur. Thus when IM issues arise, for the most part, the organisation has no structure, process or system with which to implement any cross-functional type of programme, and, even worse, no organisational system that can be employed.

Two solutions quickly become apparent. One is to blow the organisation up and start over with a matrix or flat organisation design, an approach suggested by many change management or organisational structure gurus; the other is to find ways to build horizontal systems or processes that will bring the organisation together. The approach in NU's IMC Department has been to build and implement horizontal processes or systems, allowing the functional silos to work in a team-like fashion.[18] The approach has the value of keeping the current organisational structure in place, with the inherent cost savings and organisational focus already established, while at the same time enabling the various functional groups and managers to come together to solve mutual problems and issues.

Building of horizontal processes to enable teamwork

NU has applied such an approach to an experience with a for-profit educational institution. An example of that situation and the proposed solution are discussed below.

This approach to IM follows a basic logic. Figure 2 shows a set of horizontal processes that are commonly required in the development, implementation and measurement of an integrated external marketing process.[19] This approach is used to form the crux of the new IM approach.

While the cross-functional, horizontal systems are critical to the success of any integrated organisational programme, the second key element is to identify areas on which integrated functional processes will focus. Most IM programmes today focus on communication — that is, the development and delivery of messages such as exhortations to employees to follow the company line, change their attitudes and, hopefully, at some point refocus their behaviours as a result of seeing or hearing the company messages.

Focus on communication

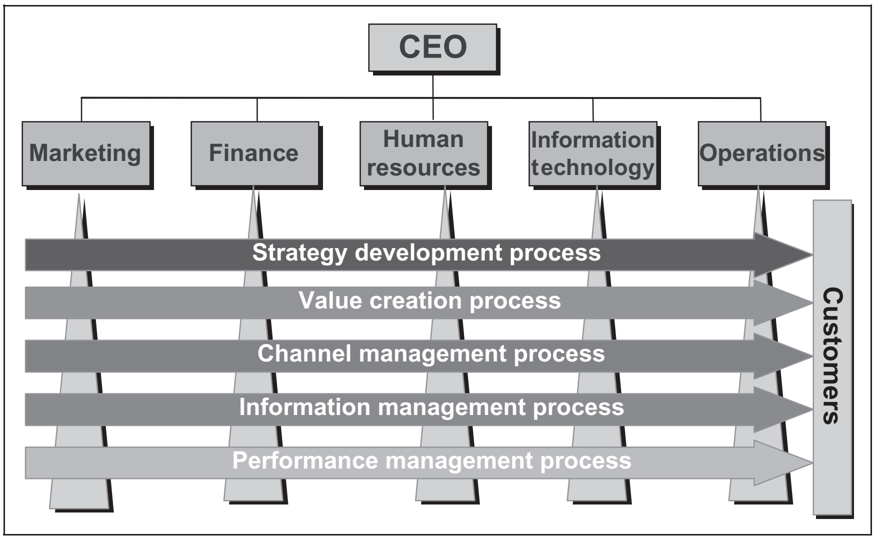

Figure 2: Integrated planning processes focused on customers

Based on NU's experience with external marketing and communication programmes, while attitudinal change is important in terms of understanding a behavioural change, the key element for organisational success is whether or not the actual behaviour of the employee changes. It is behaviours that customers observe when dealing with the organisation and employees, much more so than the attitudes which may underlie those behaviours.

Does the actual behaviour of employees change?

This is not to say that employee attitudes are unimportant. They are critical. But, again, it is the behaviours of employees towards customers and others within the organisation that really drive the overall, long-term success of the organisation. In NU's work in developing external marketing programmes, the best approach is first to identify the important behaviours that are inhibiting success, whether those be behaviours by customers, internal employees or whatever. Thus, in the integrated marketing process, one starts with customer behaviours since those drive the financial returns for the organisation. Then one tries to explain or understand why those behaviours occurred, often by overlaying attitudinal data gathered from the relevant parties. So, rather than trying to influence future behaviours through attitudinal change, one focuses on understanding and explaining those behaviours with the goal of changing them based on whatever supports them. This simple change is where the process starts. That is, starting with attitudinal change or behavioural change makes a major difference in the level of success the organisation typically achieves.

In summary, in NU's experience, instituting horizontal processes and systems that bring the functional groups within the organisation together is critically important for success. And changing behaviours, not just attitudes, is the key to understanding organisational returns from IM investments. With these two tools, we can now move to the model of IM management and implementation.

An integrated IM model

Figure 3 shows a working model of integrated, behaviourally based IM.

As shown, one continues to accept the functionally organised structure found in most organisations. But to bring those functional groups together, one overlays five behavioural factors NU has found customers generally would like to see the firm's employees improve to create a better customer brand experience for them. While the factors illustrated in the model are hypothetical and generalised, they represent issues that organisational managers will find quite familiar. The section that follows illustrates how the integrated IM methodology might be applied to an actual organisational situation.

A better customer brand experience

Obviously, the horizontal issues — that is, employee behaviours that need to be managed — must be derived from customer or end-user research or data. Simply attempting to change the organisation or change employee behaviours without external validity or support is generally doomed to failure. So, one starts first with consumer or end-user research to identify what would or could provide a better organisational experience for consumers with the firm.

External validity and support are vital

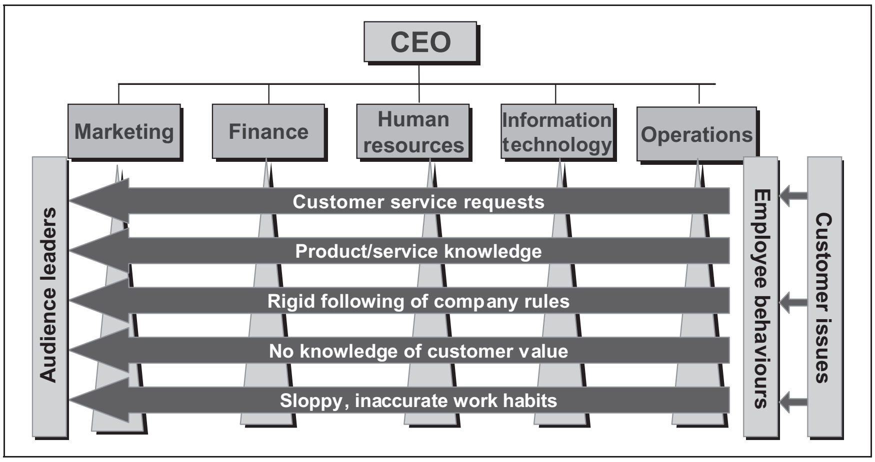

Figure 3: An integrated managerial IM calculus

Determine employee behaviours to solve issues

The next step, once the customer issues have been identified, is to determine the employee behaviours that would resolve the issues. For example, if the issue is slow response to customer requests for service, that provides the base for tracking back in the organisation to determine why that is occurring. It could be a systems problem, a management problem or simply an employee motivational problem. Clearly, to employ an IM approach, the problem must be one that can be solved by changes in employee behaviours.

Placing financial value on the resolution of the customer experience

A critical part of the integrated IM approach is to place some type of financial value on the resolution of the customer experience. Thus, senior managers have to estimate, calculate or measure the financial importance or value of the customer experience and the future value that would be generated if the situation were resolved. For example, assume 7 per cent of the firm's customers are affected by slow customer service. If it were determined that by improving that element of the customer brand experience, a 2 per cent increase in sales would be likely to occur if the problem were resolved, then that would be the value of the employee behavioural change. Alternatively, if there were no direct incremental sales increase but an increase in long-term customer retention would occur, that would provide the base value of the IM programme. The important part of this IM management calculus is to identify some financial value that would or could accrue to the firm if specific changes in employee behaviours were achieved. That provides the base for an investment and return approach to IM programmes. An illustration of how the IM process was applied to a for-profit educational institution is provided in the next section.

Applying the IM model

Proof of any model is its marketplace performance. The use of the integrated IM methodology discussed in this paper, while still under development, has been used in some applications in the USA. One such experience for a US-based educational service provider is described below. (The example is based on an actual situation. Some of the facts, figures and situations have been changed to provide the illustration and to illustrate the use of the integrated IM calculus.)

IM application at a US-based educational service provider

The company for which the integrated IM programme was developed was one that sought and acquired new customers (students) through a broad variety of promotional approaches, ranging from traditional advertising to direct marketing, websites and internet homepages. (As is illustrated in this case, the school focused most of its efforts on acquisition, while ignoring retention, student growth and migration, all of which led to the situation described.) The educational services and programmes were provided through traditional classroom instruction and internet-based distance-learning activities.

Using the basic integrated IM approach (see Figure 3), the company determined its three primary revenue streams, ie students actively engaged in course work at the school, as follows.

— *The number of enrollees*. There were approximately 63,800 per year.
— *The length of time the students were enrolled*. Twenty-four per cent of the students left after the first two months, 60 per cent after the first six months and 77 per cent after the first 12 months.
— *The revenues and profits per month (on average) for each student enrolled*. Each student represented, on average, \$381 in revenue per month and generated a \$39 monthly profit or earnings before income tax (EBIT).

The students were divided into seven segments according to revenue and profitability (EBIT). The company determined that high revenue was not always associated with high profits and vice versa. The key was the compatibility between the students, the educational offerings and their educational experience. Thus, some students were willing to invest a significant sum toward their education, but defected when the course work did not meet their expectations or the school experience did not satisfy their needs. On the other hand, students who were satisfied with their school experience could be profitable even at lower levels of financial commitment because there was less defection, greater continuity of enrolment and less out-of-class demand on the faculty and staff. Clearly, those students whose needs were being satisfied by the school created ongoing income flows for the organisation. Using these data, the educational centre was able to evaluate in more detail the value of its programmes to its various customer groups. Figure 4 shows the result of the student satisfaction study.

The school had an excellent enrolment record, with over 7,600 enrollees per month, or over 91,000 per year. Customer retention was not nearly as impressive. The school was losing, on average, approximately 7,700 students per month, or 92,400 per year. In short, the actual year-to-year enrolment was declining since more students were leaving after one year than were being gained during that same period. And while the average revenue per student was impressive, on further analysis it became clear that a small number of students were quite profitable while others

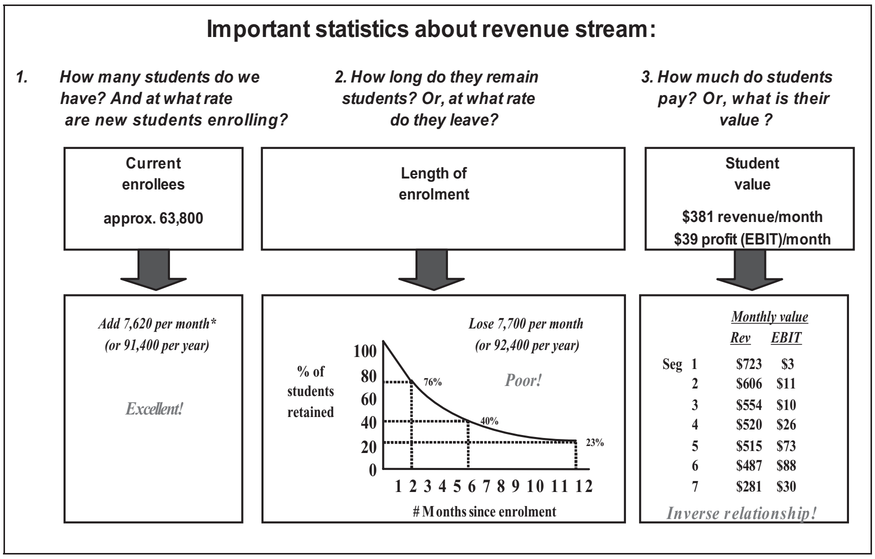

Figure 4: Value of the student to the school

provided almost no profit to the school at all. In other words, there was an inverse relationship between length of enrolment and the amount of revenue the students returned to the educational centre in tuition and fees. Thus, customer satisfaction and loyalty were working against the best interests of the school.

Customer satisfaction and loyalty working against best interests of the school

Turning to the other side of the equation, the value of the education centre to the student, some interesting results were found.

Research with the students identified two classes. First, 'non-school' types were those who had a low compatibility with the educational centre — that is, they were not satisfied with their school experience. Secondly, 'school' types were those whose views of education and their educational needs were compatible with what the educational centre was offering and who were generally satisfied with the services being provided.

Based on the analysis, the two groups were classified according to their financial value to the centre. This analysis enabled the school administrators to identify those students who were most likely to become 'vulnerable' — that is, most likely to terminate their enrolment by either dropping out or moving to another educational institution. As shown in Figure 5, the educational centre was lagging behind competitors in terms of customer satisfaction, which was believed to be the root cause of the problem.

Proprietary research was authorised by the education centre and conducted by an external vendor. The vendor developed a questionnaire and applied it to a broad range of students attending similar schools that provided the same type of programmes and education as the host school in the school's market areas. Some of the sampled prospective students were defined as being the ones that the school would like to attract. Those were labelled 'school' types of students since they fitted the profile of the type of student the host school wanted to attract. Others in the sample, for

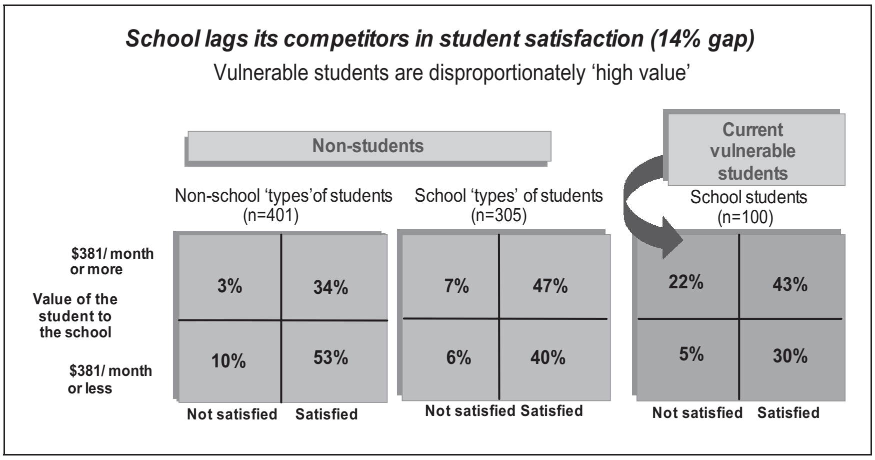

Figure 5: Value of the school to the student

various reasons such as educational background, past educational achievements, ability to afford additional schooling and the like, were defined as 'non-students'. Perhaps that is an unfortunate choice of words, but that is what the external vendor used. The comparison being made in figures is between those who could logically have been students at the host school but for various reasons were attending another school and students attending the host school. The goal of the study was to determine if types of students were more satisfied with their school, ie the school they were attending, than the students attending the host school. Clearly, there is and was a significant difference between the two groups.

IM model provides understanding of why students are leaving

By using the integrated IM model (see Figure 3), the centre was able to understand why students were leaving. Forty per cent based their decision to leave on some type of dissatisfaction with the school: the centre was not meeting their needs or requirements or they had had an unacceptable experience. Fifteen different reasons were given for this dissatisfaction, ranging from poor record keeping to failure to communicate by school officials to dissatisfaction with the services provided by the centre's staff. Five reasons accounted for about half of all the reasons given for defection.

Change the customer experience

The question for the school became: 'Could the various reasons for student dissatisfaction be addressed by improving various activities, actions, policies and employee and faculty behaviours that were causing students to leave?' The administrators believed if they could change the student experience, the number of students vulnerable to defection would decline and the expected attrition of other students would be prevented. In other words, if the school could address issues that caused students to leave, then dissatisfaction should be reduced and the loss of students stemmed. Clearly, something had to change or the school faced serious financial challenges in the future.

Further analysis of the 15 major reasons for student dissatisfaction revealed that eight of them could potentially be resolved through changes in various types of school faculty, staff and employee behaviours and actions. Others were generally organisational (essentially inherent in the

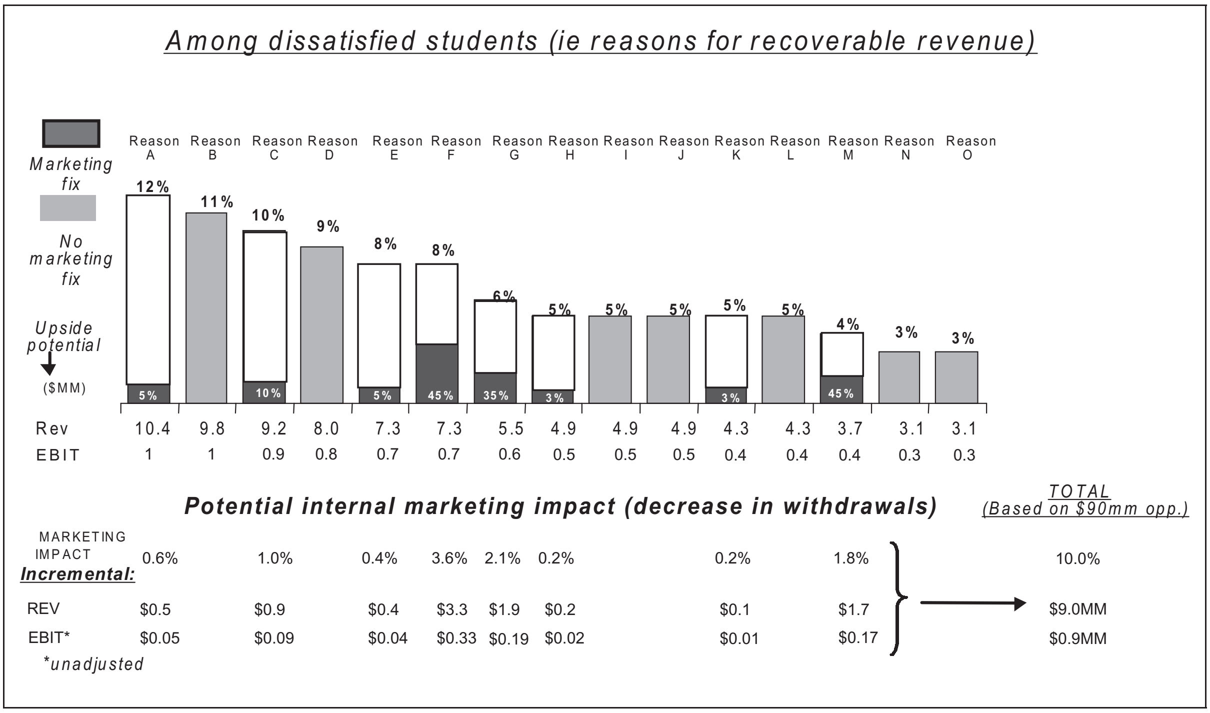

Figure 6: Recoverable value: What would be a reasonable contribution to recovered value?
EBIT: earnings before income tax

structure of the educational programmes being offered) and thus beyond the scope of the IM managers. Three key solutions were then identified:

Internal changes

- improvements in communication programmes between the school, the students and the employees and staff
- identification of needed improvements in the operating systems that would allow employees to have ready answers for student requests
- development of empowerment solutions that could be implemented by staff and employees as needed to solve issues arising out of student enrolment, matriculation, tuition, fee payment and other ongoing concerns.

The final step in the analysis came from an estimate of 'recoverable value' that was potentially available to the educational centre if the necessary changes in employee behaviours could be accomplished. Figure 6 illustrates the analysis.

While the dissatisfaction elements that were driving students out of the educational programmes could be identified and their importance determined, simply removing the dissatisfaction by employees and the faculty and staff changing their behaviours did not guarantee students would immediately become satisfied and return their full value to the school. Thus an additional analysis was conducted. In this exercise, potential loss recovery was determined for each of the three available IM-related changes the school could employ. This analysis was done on each of the seven customer segments shown in Figure 4. This allowed the

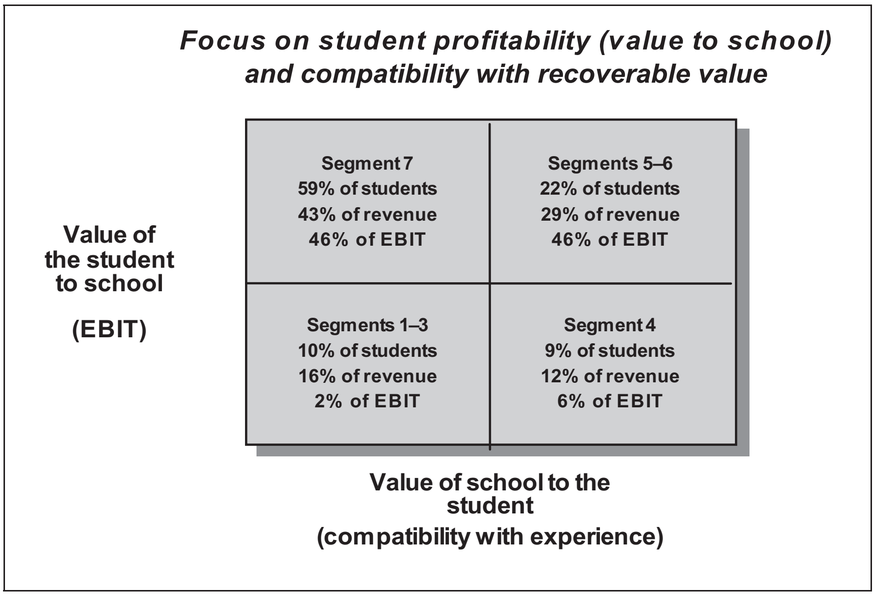

Figure 7: Managing student–school value
EBIT: earnings before income tax

school to determine the potential impact on both revenue and profitability by segment along with the cost of the IM programme that would be employed to provide the solution. As a result, school administrators were able to concentrate their efforts on those employee, faculty and staff behaviours that would have the greatest financial impact.

Changing employee, faculty and staff behaviours

As shown, substantial improvements could be expected in both revenue and profit if the IM programmes were successful in changing employee, faculty and staff behaviours. Thus the school administrators had their answer. Initiate the IM programme. Make the required internal changes. Get employees, faculty and staff to change their behaviours and student loss would probably be substantially reduced.

Figure 7 summarises the concept of balancing the value of the school to the student with the value of the student to the school. The seven customer segments were grouped according to the students' compatibility and satisfaction with the school and its offerings (on the horizontal axis) and the students' financial value to the school as measured by EBIT (on the vertical axis). This provides a four-box matrix with the following groups.

Managing student–school value

— Segments 1–3: Low compatibility, low financial value. These students are a poor fit for the school. There is little that changes in employee, faculty or staff behaviours can do to improve the situation. Creating satisfaction for them is almost impossible.
— Segment 4: High compatibility, low financial value. These students perceive value in the school's offerings, but are either unable or unwilling to spend sufficiently for their training and education.
— Segments 5–6: High compatibility, high financial value. These students are the most appropriate for the school's current offerings.

They are willing to make the necessary investment of time and money to complete their training.

— Segment 7: Low compatibility, high financial value. This group are willing to pay a premium for their training, but found the course offerings below their expectations or the physical facilities and requirements of training at the school in conflict with their capabilities.

Cost of proposed IM programme

The final step in the integrated IM analysis was to estimate the cost of the proposed IM programme — that is, the cost to implement the programme among employees, faculty and staff. As shown in Figure 6, the estimated recoverable value for the school was \$9m (based on a 10 per cent improvement on the \$90m in student tuition and fees the school generated each year). The estimated cost of the IM programme to achieve the changes in employee, faculty and staff behaviours that would enable the gain in recoverable value was estimated to be approximately \$900,000. Based on this analysis, school administrators agreed to the IM programme since they knew the potential return on their investment in the various programmes.

From this integrated IM analysis, it is clear that understanding the total customer is necessary to manage customer and brand relationships properly. Further, as the example shows, various combinations of internal changes in both operations and employee, faculty and staff behaviours are generally necessary to accomplish organisational goals. Single, one-time, non-repeatable activities are generally not successful. By identifying the points of dissatisfaction among students, the school could begin to create IM solutions that hopefully would prevent defection by those identified as being vulnerable because of their dissatisfaction with the various areas of the school. Most important, school administrators also understood what needed to be changed, the costs involved in making those changes and the estimated returns that should accrue with successful implementation of an IM programme. In this case, the IM programme was a 'win-win-win' situation for all involved.

A win-win-win situation

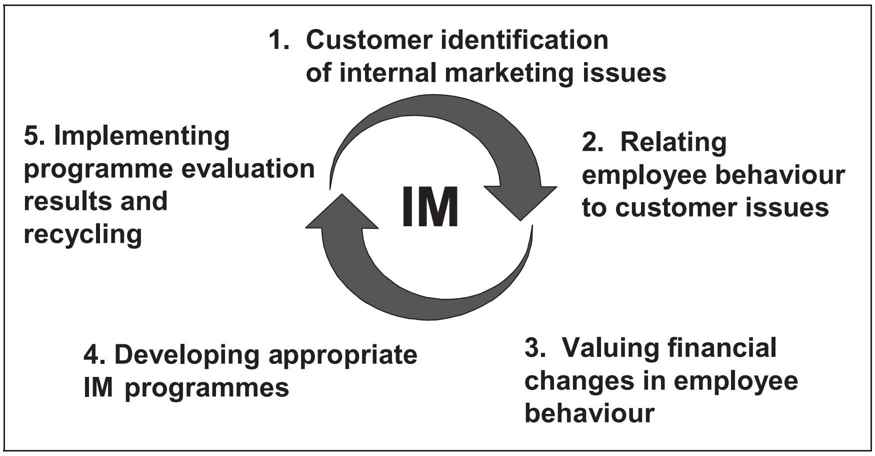

Figure 8: Closed-loop integrated IM process

Continuous improvement process

The next step in the development of the integrated IM process is to create a closed-loop, ongoing, continuous improvement process. The methodology developed is shown in Figure 8. (This closed-loop process is quite similar to the one developed for the integrated marketing communications programme at NU to manage external marketing and communication activities. Thus the two approaches are compatible and synergistic.[20])

One starts with customer identified needs — things customers believe would create a better relationship for them with the organisation. One then identifies the financial value filling those needs might create for customers going forward. Those financial improvements are then related to changes in employee behaviours. That provides an investment level for the IM programme as well as setting an expectation of returns. This allows one to create a management calculus that will identify the potential value to the company that the employee behavioural change would generate. That can be used to determine the amount the organisation would be willing to invest in the IM programme to create that change. Next, implementation of the IM programme is developed. The results of that programme are then connected to changes in customer income flows and the actual value of the programme determined.

Reward employees for changed behaviours

Ideally, at some point it should be possible to develop some type of employee benefit-sharing programme to reward the employees for their changed behaviours. Thus the IM programme provides reciprocal value for all. The customer gains in better employee service, the organisation gains in longer and more profitable relationships with the customers and the employee gains by creating a more stable and rewarding workplace — and in some cases is rewarded financially for those changed behaviours. This is the famous 'win-win-win' scenario that is often promised by IM programmes, but too seldom achieved.

Summary

This paper has identified and described the current situation in IM, at least as it exists in the USA and other developed markets. It has outlined the historical underpinnings and pointed out the three general streams of implementation that have been developed. From that, it identified the five major issues that inhibit the successful implementation of IM programmes in most companies. It then presented an integrated management calculus approach. That approach is based on the creation of horizontal integrating processes that bring the organisation together. It also includes initial research among the firm's customers or consumers to determine which or what customer-employee situations need to be improved. Those improvements are then quantified and a financial value placed on them. That provides the guidelines for an investment and return model for managing IM programmes going forward.

Plans to test and refine the process

While it is acknowledged that this is a quite novel approach, it is firmly based on the external integrated marketing and communication programmes the NU faculty has been developing for the past dozen years. Currently, the approach is being considered by a major US corporation that has identified IM as a major initiative within their organisation. It is planned to test and refine the process and approach further in upcoming graduate-level classes at several universities around the world.

The author believes IM has a key role to play in the future success of all types of organisations. Clearly, some type of managerial calculus is needed to help senior managers identify the investments and returns to be made, which are often substantial. This is one step in that direction.

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