

Data Warehouse Newsletter #5

Marketing Analysis Systems

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1. CHANGE CONTROL LOG

| # | Date | Name | Description |
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| 1.0 | 16/10/02 | P. Nolan | Initial publication to the web. |
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2. AUDIENCE

The intended audiences for this Newsletter are:

- Business managers in marketing, sales, finance, actuarial and distribution functions of banking and insurance companies.
- IT Managers responsible for Data Warehouse initiatives.

3. OVERVIEW

It is possible to “Double Your Marketing Dollar Effectiveness” by using Data Warehouse technology to deliver world-class Marketing Analysis Systems. This Newsletter discusses:

- what is possible today in the area of Marketing Analysis Systems.
- the dramatic benefits that these types of systems can create in the finance and insurance industry.
- the various features and components of a Marketing Analysis System.
- the basic methods by which they work.
- the choices of ‘build’ or ‘buy’.

4. CONCLUSIONS

This Newsletter draws the following conclusions:

- Marketing Analysis Systems can deliver exceptional Return on Investment.
- No one system can perform all functions required hence some systems integration is necessary.
- There are distinct features and functions required of any Marketing Analysis System.
- There are definite “buy” or “build” choices to make for various components.

5. THE NEED FOR MARKETING ANALYSIS SYSTEMS

"It may almost be time to replace location, location, location with database, database, database."

Rapp & Collins

"We are living through a shift from selling virtually everyone the same thing a generation ago to fulfilling individual needs and tastes ... by supplying ... customised products and services. The shift [is] from "get the sale now at any cost" to building and managing ... databases that track the lifetime value of your relationship with each customer."

Tom Peters

"Mass markets are fragmenting into micro-markets; multiple channels of distribution are replacing single channels...The winners are those who carefully analyse needs, identify opportunities and create value-laden offers for target customer groups that competitors can't match."

Philip Kotler - Marketing Management

The competitive environment in which banks and insurance companies operate is strongly reflected in the comments made by the above management and marketing experts. It is the volatile, highly competitive environment that is driving the need for Marketing Analysis Systems.

How can you continue to compete and be profitable when it seems your competitors can always copy what you do? How can you differentiate your product without having to slash your profit margins by giving large discounts?

What do you have, in your business, that can provide you with a sustained competitive advantage, that none of your competitors can copy? What do you own, that no competitor has access to, which can be turned into a 'Profit Engine'?

The answer? Your customer information. The computerised data of who your customers are and how they interact with your organisation. The time, effort and money that your business has invested in computer systems to manage the business can deliver handsome returns by using your customer data in Marketing Analysis Systems.

By using data about your customers, how they interact with your company, the products they purchase and the services they use in a Marketing Analysis System you can develop targeted marketing and servicing campaigns that will generate much higher levels of profit.

You may have heard the truism in Marketing "I know half of my marketing budget is wasted. I just don't know which half." It is possible to build a Marketing Analysis System to tell you which half. How would you like to double the effectiveness of your marketing dollars?

6. WHAT IS THE POSSIBILITY?

What is possible in the world of the Marketing Analysis Systems today?

With the availability of:

- Census data
- Geodemographic coding
- Highly automated customer contact systems
- Transaction data from your own computer systems
- The internet in many households.

It has become possible to invent, design and implement targeted database marketing campaigns on an unprecedented scale. It has also become possible to customise and target the campaign to the individual and to do this on a mass scale. This new method of marketing has become known as "Mass Customisation".

For example, when looking for new customers to buy an existing product one of the best places to start is your own customer database. It is now possible to examine your customer database and your transaction files to determine what 'types' of customers buy what 'types' of products. It is then possible to examine your customer database to find existing customers who are likely to buy specific products if offered.

This experience has been proven over and over again in many different industries. From finance and insurance to telephone companies to retail chain stores. In fact, any business where the product line consists of high volume, low cost products is an ideal business for Marketing Analysis Systems.

6.1. What is The Opportunity? - Double Your Marketing Dollar Effectiveness

The opportunity for your company may be enormous. The key question is, "How much money is spent per year on marketing and how much incremental income is generated by those marketing dollars?" Now, imagine producing twice that result. That is the opportunity for your company. Why? Because it is entirely normal for the Marketing Analysis System to "Double The Effectiveness of The Marketing Dollar." Some companies have experienced a quadrupling of the marketing dollar effectiveness. I would always recommend your initial target be to "Double Your Marketing Dollar Effectiveness".

6.2. Why is the Opportunity so Large? Why Set Such an Ambitious Target?

One of the "traditional wisdoms" of marketing is "I know half of my marketing dollars are wasted, I just don't know which half". The Marketing Analysis System will tell you which half, at which point you will have a choice to re-direct your marketing dollars to where they make the most difference and produce more revenue.

6.3. Some Examples from Management Guru Tom Peters

One of the world's leading Business Management consultants, Tom Peters, has published some of the benefits that can be accrued by building on the customer relationship using Marketing Analysis System techniques. These examples come from his book *Liberation Management*, pages 717-718. The book is full of real examples, these are two of the best.

6.3.1. Customer Retention Case Study

The average firm, according to Frederick Reichheld of Bain & Company, loses 10 to 30 percent of its customers each year - and isn't even aware of it! Programs aimed at customer retention per se can make a huge difference.

Consider MBNA, a Delaware-based credit card company. Reichheld and Harvard Professor Earl Sasser report in the September-October 1990 issue of *Harvard Business Review* that the firm began systematically collecting feedback from defecting customers in 1982 - and acting on what they learned. "Eight years later, MBNA's [annual] defection rate is ... 5 percent ... half of the average rate for the rest of the industry," the authors write. "That may seem like a small difference, but ... profits have increased sixteen-fold". In general, even modest reductions in "defections" lead to enormous profit increases. Reichheld and Sasser found profit boosts of 25 percent to 85 percent when defections were reduced by 5 percent. For example, an auto-service chain's profits shot up 30 percent when defections were pared by 5 percent; for a credit card company, the increase was 75 percent; for a credit insurance firm, 25 percent; for an insurance brokerage, 50 percent; for an industrial distributor, 45 percent; for an industrial laundry, 45 percent; for an office building management concern, 40 percent; for a software house, 35 percent; for one bank's branch system, 85 percent.

6.3.2. New Customer Case Study

In *MaxiMarketing*, database marketing gurus Stan Rapp and Tom Collins report on a pioneering application of databases by Kimberly Clark. In the mid-'80s, the firm tried a new selling strategy for its Huggies disposable diapers. It poured \$10 million (part of a \$35 million marketing budget) into direct mailings to new mothers. With the help of hospitals and doctors, a database was constructed that included 75 percent of a year's 3.5 million new mothers. During her pregnancy, the mother-to-be was bombarded with personalised letters and pamphlets on how to care for a new baby. That budding relationship between Huggies and Mom was iced with a discount coupon waiting in the mailbox when Mom got home from delivering the new baby. ... "By focusing on the lifetime value of a customer (total sales) rather than the value of a unit sale," Rapp and Collins add, "the company found that if the entire loyalty-building program increased the number of regular Huggies diaper users by just one percent, it would pay for itself".

Overall, Rapp and Collins claim that it may almost be time to replace "location, location, location" with "database, database, database".

We are living through a shift from selling virtually everyone the same thing a generation ago to fulfilling individual needs and tastes...by supplying...customised products and services. The shift [is] from "get the sale now at any cost" to building and managing ... databases that track the lifetime value of your relationship with each customer.

6.4. *Nynex of New York*

Some companies more than doubled their marketing dollar effectiveness. One of the most famous public cases is Nynex, a New York telephone company.

Nynex held their marketing dollar spend level, invested in a Data Warehouse for targeted marketing from the regular marketing dollars and performed numerous targeted marketing campaigns using the existing levels of expenditure.

The result: Over the first two years of operation Nynex estimated the incremental profit generated by using the Data Warehouse was \$US80 million. That's **\$US80 million** in **incremental** profit. This meant that the large investment that Nynex made (\$US15 million at the time) was paid back five times over in the first two years of the project life.

One executive of Nynex was heard to say at a conference, "The reason we have only spent \$US15 million on our Data Warehouse is that we do not have the people capacity to spend any more money or we would. For every dollar we put in, we get four back, and we are at the people limits of the programs we can run."

How would you like to have the problem of not having enough people to support an investment that is producing profit at a \$1 in \$4 profit returned rate?

6.5. *How Would My Company Benefit?*

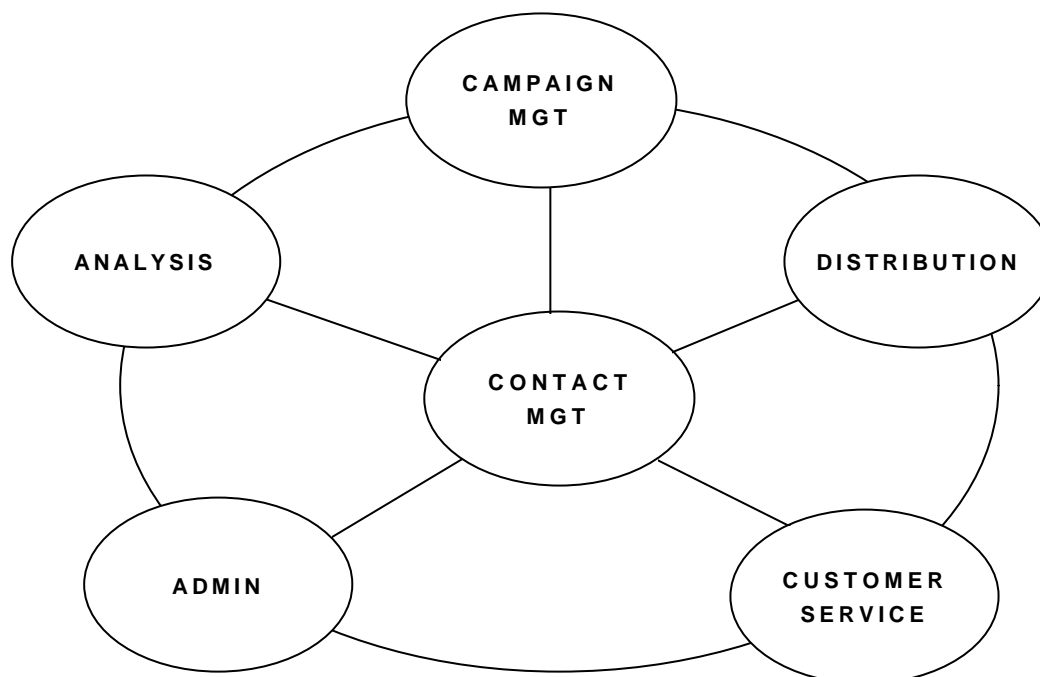
How would your company benefit if you had a customer retention campaign that reduced "defections" by five percent? Is there that room for improvement? I have worked with companies who have 30 percent defections per year. And it is no surprise that such companies are typically household names as they are constantly spending big money on mass media advertising (usually television) enticing new customers into the fold.

How would your company benefit from being able to specifically target people who are in a position to buy your product? Such as the Kimberly Clark case?

The same sort of campaigns are now beginning to appear in Australia. In Database Marketing magazine article called "Behind Heinz's \$3.5 million move into direct [marketing]...". It seems that Heinz realised that only one in seven Australian households have a baby under 24 months. When TV is used as a contact medium 6 out of 7 adds paid for were to households that could not use the product advertised. You will see more direct marketing occurring in the future.

7. **FUNDAMENTAL FEATURES OF MARKETING ANALYSIS SYSTEMS**

Marketing Analysis Systems all have some similar features, none of which can be left out or the whole Marketing Cycle does not work. These features can be illustrated in the following diagram.



- **Campaign Management:**
This is where the Marketing Campaign is defined.
 - How much money will be spent?
 - Who will be targeted?
 - What response rates and returns do we expect?
 - How will we contact the customers?
- **Distribution:**
This is where the offer is distributed to the customer. This may be done by:
 - Direct Mail
 - Telephone
 - Face to Face sales call
 - Advertising via all mediums (including the internet)
- **Customer Service:**
If the offer is anything more than the extremely simple you should expect that the customer will call to discuss the offer. Thus your call centre should be ready for the incoming call and should know that the customer was solicited.
- **Administration:**
Should the customer take some action then the action must be managed by the normal administration systems. For example, if the offer was for an extra product and the customer accepted the offer then the new product would be added to the portfolio.
- **Analysis:**
During the campaign as well as after the campaign, analysis is done to maximise the return on the current campaign as well as subsequent campaigns. For example, we recommend that geodemographic groups that are responding very poorly to the initial mailing for an offer do not receive the followup offering. This frequently saves a very significant amount of money. Also, we recommend that people who have accepted the offer do not receive the followup offer. (I am constantly surprised how many times this is not done.)

Some typical features of the Marketing Analysis Systems are:

- They store solicitations and responses over a **very** long period of time. The very best are planned to store data from 5-10 years.
- They provide customer data enhancement capability such as geodemographic coding and psychographic coding of the individual customer.
- They provide the ability to store account information at customer and household levels.
- They store all the customers of the organisation with a unique number for each customer. (Or as close as the organisation can come to a unique number per customer.)
- They store all the products held by all the customers of the organisation.
- All the transaction information for the customers is stored so that their transaction patterns can also be taken into account for marketing purposes.
- They allow a customer profit contribution (or at least classification) to be calculated.
- The very best systems calculate the profitability of customers, households and business customers. This is often a very difficult attribute to calculate.

7.1. *What Features Must You Have?*

In an effective Marketing Analysis System for banking or insurance you must have the following features for the reasons provided:

1. The ability to identify an individual.
Your customers are people and to effectively market to people you need to know something about them.
2. The ability to enhance internal customer data with external customer data.
Your internal customer data is very likely to be insufficient to enable you to develop accurate targeting methodologies for your customers and to enable you to significantly improve those capabilities substantially over time. Externally available data will significantly assist you in this area.
3. The ability to geocode customers.
Due to the fact that internal systems contain insufficient customer data for targeting, it is necessary to geocode the customer table. This is a minimum requirement. There is a great deal more that one could do with enhanced customer data.
4. The ability to store solicitations and responses over a long period of time.
By long period of time I mean at least five years. A large bank would make many tens of millions of solicitations over a 5-10 year period and I suggest capturing them all, including the events of sending statements and incoming telephone calls. The reason for this is that one needs a very rich history of data in order to most accurately target the next campaign.
5. The ability to interface to the Call Centre for all telephone calls.
Here I believe it is sufficient to say that capturing details about phone call activity is an absolutely vital feature. The reasons why it is so vital we will reserve for direct discussions with customers.

7.2. Basic Methods By Which Marketing Analysis Systems Work

Marketing Analysis Systems are not rocket science. Fundamentally they work on the following principles:

1. If it is important enough to contact a customer then it is important enough to record that contact.
2. Every effort to modify customer behaviour (of which purchasing a product is just one behaviour) is planned, estimated and then counted and verified during and at the completion of the campaign. The actuals are measured against plan.
3. Every campaign is used as a 'learning experience'. By 'used' I mean that people learn from the experience of the marketing campaign whether it produced the desired result or not. The organisational learning should be retained over many years because it will be valid for many years. We are constantly surprised at how many "failed" campaigns are not made public, only to be repeated two or three years later, again producing a poor result.
4. All customer contact data is integrated so that it can be cross-tabulated. It is not enough to just dump data into a database.
5. There is a conscious effort to model cause and effect.
6. There is a significant amount of testing to be done.

7.3. The "Buy" or "Build" Option

As a business manager who is committed to improving the profitability of your company you will likely face the choice of "Buy" or "Build" for a Marketing Analysis System. Faced with this choice we suggest that you are aware of the following:

1. There is no 'complete' Marketing Analysis System available on the market today.
The product closest to this, as far as I am aware, is the Sybase Industry Warehouse Studio. I am aware that the Marketing Analysis Capabilities of the banking, insurance and telco components is very extensive.

The only other way to get to a near complete solution is to buy all your operational systems and your Marketing Analysis System from the one vendor like Oracle or SAP.

To perform full cycle marketing to your customers you will need to interface to many existing systems or even install new systems. For example, gathering data from your existing operational systems and sending it to your call centre. These applications are very customised in banks and insurance companies so it is necessary to build significant amounts of code to build your Marketing Analysis System.

2. Many vendors sell their products as 'complete'.
To be more explicit, many vendors of software sell their Marketing Systems as complete. You should be aware that no vendor has a 'complete' solution. You should be wary of any vendor who offers you a 'complete, off the shelf, turnkey' Marketing Analysis System. How do they decode your operational system data? No matter what happens, you are likely to spend quite some time and money getting data out of operational systems and into the Marketing Analysis System.
3. The "buy" or "build" option is restricted to applications.
When implementing Marketing Analysis Systems you can buy some applications that can be integrated into a complete solution. Some of these applications include Call Centre applications, Geodemographic Coding applications, Campaign Management applications, as well as remote field staff support applications. Each of these applications may have to be customised to support your particular types of data about accounts or policies.
4. Integration is the key.
One of the key points to look for when building a complete Marketing Analysis System is Integration of components. You require all five key areas, Campaign Management, Distribution, Customer Services, Administration and Analysis. You require that all data generated and used by these applications is integrated in the Contact Management and Data Warehouse Database. When you are buying separate packages you should ask how the vendor intends to integrate this data.