

CHAPTER 8: DATA-DRIVEN COMMUNICATION

Chapter Objective

To further explain the concept of customer relationship management, particularly as it is supported by database management techniques.

Chapter Key Points

Chapter Outline

- What is data-driven communication and why is it used?
- How are customer data integrated into the IMC process?
- What are the privacy and security issues associated with building relationships with customers?
- How do companies use databases to manage customer relationships and customize MC messages?

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This chapter addresses four fundamental issues:

- 1) What is data-driven communication and why is it used?
 - The chapter defines the concept of data-driven communication and discusses how it can be accomplished through the use of database technology.
- 2) How are customer data collected, converted into information, and integrated into the IMC process?
 - The chapter discusses issues related to database development and identifies sources of data from customer transactions and in response to MC messages.
- 3) What privacy and security issues are associated with building relationships with customers?
 - The chapter discusses critical issues regarding consumer privacy concerns about the use of databases and identifies guidelines for safeguarding personal data.
- 4) How do companies use databases to manage customer relationships and customize MC messages?

- The chapter explains how organizations employ databases to attract new customers, retain current ones, encourage growth in current customer sales and to re-acquire “lost” customers.


Chapter Perspective


Chapter Perspective

This chapter is nothing more than an update to the model used by the old corner mom and pop grocery store...

...find out everything you can about your customer and use the information to make sure they are satisfied customers

- The difference: sophisticated technology





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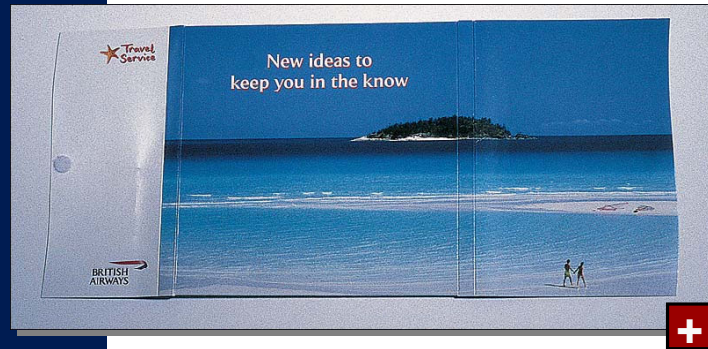
Companies collect data to learn about customers in order to better target messages and make marketing communication more relevant to target audiences. Knowing how they respond to offers, what they buy and don't buy, why they buy and why they don't buy, how much they buy, when they buy, and which customers are profitable and which are not is all valuable information in MC. It also has the potential to make the communication more personal and more relevant to customers.

In days gone by, the old mom-and-pop grocery store used to know its customers and the grocer could relate to them as individuals. The sophistication of today's information technology (IT) systems is making it possible for companies to “know” their customers and have a memory of past interactions with them, similar to that neighborhood grocer. Such systems allow companies to cost-effectively collect, analyze, and use such data in planning marketing communication.

This chapter first introduces some components of data-driven communication, then discusses privacy and security issues related to data collection and use, and, most important, explores the management and use of customer databases in IMC programs.

Opening Case: British Airways

Opening Case: British Airways



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Opening Case: British Airways

Challenge:

Build relationships with leisure travelers

Answer:

An IMC program featuring:

- Direct mail, posters, and point-of-purchase materials
- Database for ongoing direct mail to encourage repeat
- Staff education program to handle relationships

Results:

- 170,000 new members in first year
- Achieved revenue goals
- Won international gold medallion

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Discussion Starters:

- 1) Since spring break travel is probably one of the more relevant experiences for most college students, use this ice=breaker question: ‘where did you go on spring break last year?’
- 2) Follow up with this question: what made you think of this destination? If they respond “my friends,” ask how the friends found out about the destination.
- 3) Finally ask how each of the traveling students researched and paid for their package deal, air fare, or hotel reservations (i.e. online, over the phone, or in person with a travel agent, etc.)


Lecture Outline

- I. Using Databases to Build Relationships
 - A. The foundation: a database

The Foundation: A Database

Database: A collection of related information that is stored and organized in a way that allows access and analysis

- Can be as simple as a shoe box full of index cards containing the names and addresses of customers



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- i. *A collection of related information that is stored and organized in a way that allows access and analysis*
 1. Can be as simple as a shoe box full of index cards containing the names and addresses of customers

IMC In Action: Speedy Car Wash

IMC In Action: Speedy Car Wash



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IMC In Action: Speedy Car Wash

Challenge:

Encourage customers to come more often

Answer:

An IMC program featuring:

- Creation of a database that matched license plate numbers with names, enabling:
 - Targeting low-frequency users with incentives
 - Staff to greet customers by name

Results:

Increased repeat visits by occasional users

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Challenge: Find a way to encourage occasional customers to come more often

Answer: An IMC program featuring:

- Creation of a database that matched license plate numbers with names, enabling:
 - Targeting low-frequency users with incentives
 - Staff to greet customers by name

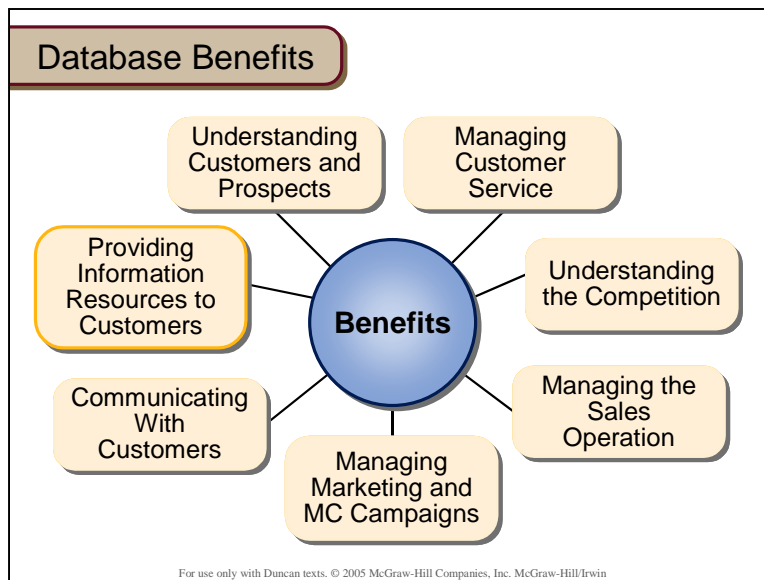
Results:

- Increased repeat by occasional users

Discussion Starters:

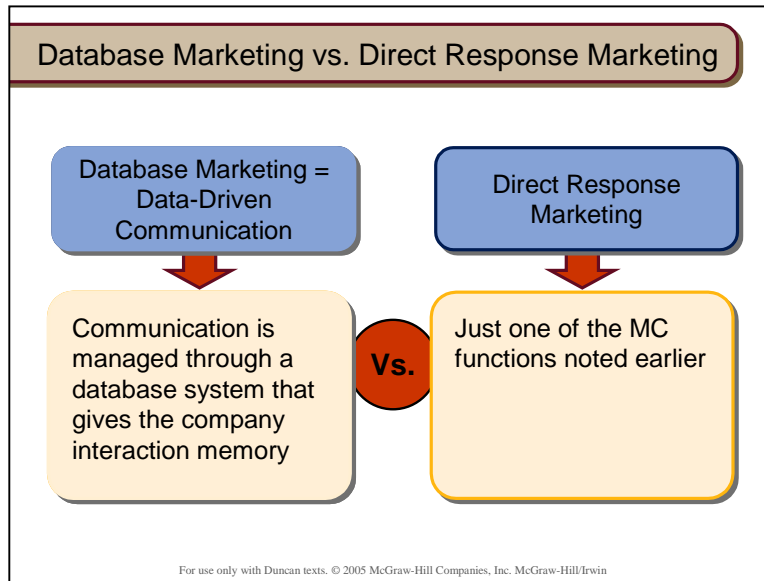
- 1) Ask students to think of at least one example of program they are part of that sends them offers via the mail or email.
- 2) Poll the class to see how many regularly act upon these incentives and calculate a “response rate” percentage on the board.
- 3) Ask students this question about MC messages that address them by their first name: does it make you feel better about the organization sending the message, or does it seem phony?

B. Database benefits:



- i. Understanding customers and prospects
- ii. Managing customer service
- iii. Understanding the competition
- iv. Managing the sales operation
- v. Managing the marketing and marketing communication campaigns
- vi. Communicating with customers
- vii. Providing information resources to customers

C. Database Marketing = Data-Driven Communication...

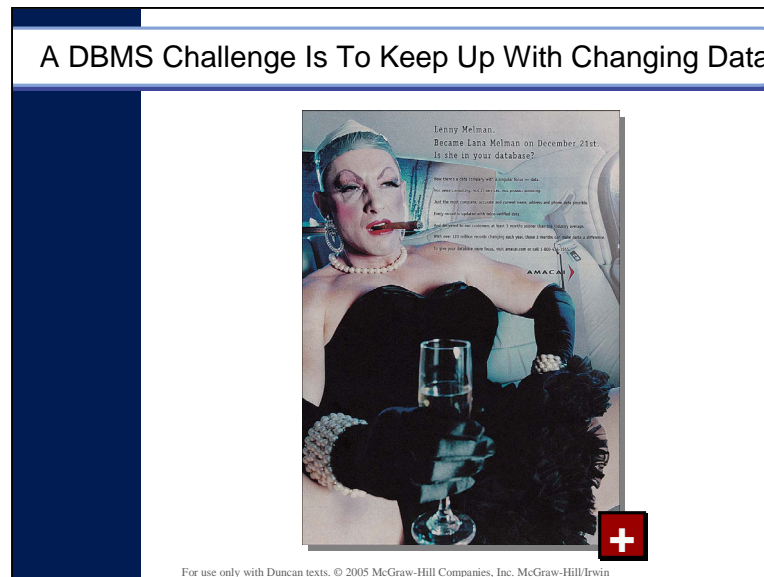


- i. *Communication is managed through a database system that gives the company interaction memory*

D. ...Is not the same as Direct Response Marketing

- i. Just one of the MC functions noted earlier

E. Databases managed by IT department



i. Database Management System (DBMS)

- 1. *Software that records customer information, tracks customer interactions, and links customer databases already in existence*

▷ **INSTRUCTOR IN-DEPTH INSIGHT: DATABASE ARCHITECTURE**

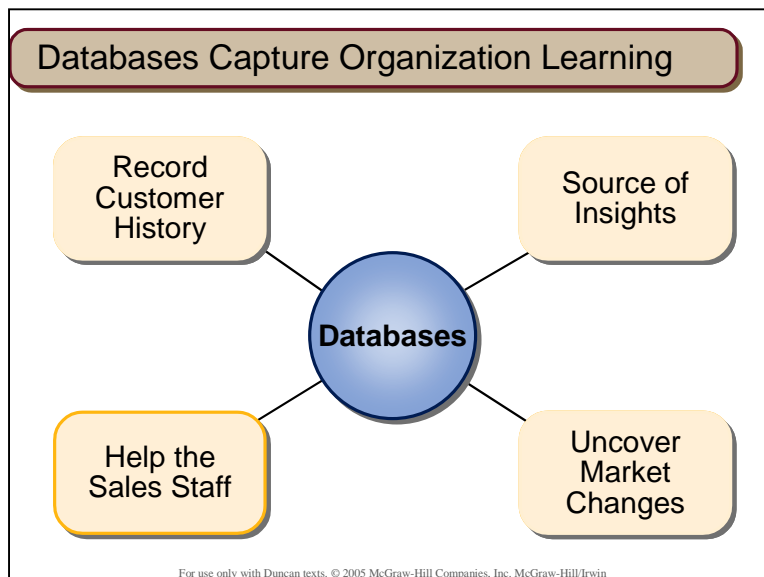
Insight: Database Architecture



The architecture of a database begins with the foundation: name and contact information—street address, city, zip code, fax, e-mail address, etc.
The next level: purchase history and record of responses
Next: “enhancement” data—demographics; psychographics
Next: records of specific interactions, including any repairs, returns, complaints, or inquiries
The final level: customer preferences

The first level of information in a database is typically a customer’s name and contact information—street address, city, zip code, fax, e-mail address, telephone number, and fax number. The next level of information is the customer’s purchase history and record of responses to various promotional offers. Next are what are called enhancement data, which include demographic and lifestyle data about each customer or household. Then come records of specific interactions, including any repairs, returns, complaints, or inquiries the customer has made. The final data set details customer preferences

F. Databases capture organization learning

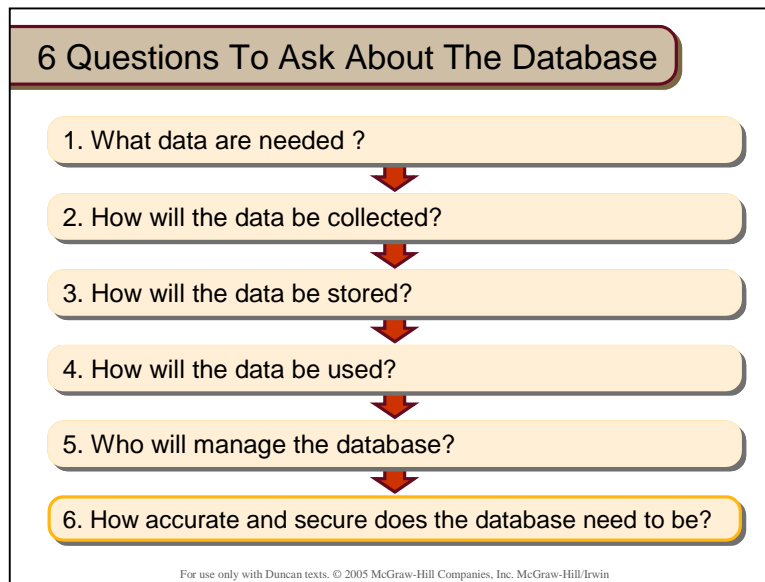


- i. Record customer history
 - 1. Complete customer profile in one place
- ii. Source of insights
 - 1. Helps uncover product problems/opportunities
- iii. Uncover market changes
 - 1. Can detect competitive and media moves
- iv. Help the sales staff
 - 1. Assist with reordering and special needs

II. Setting Up a Customer Database

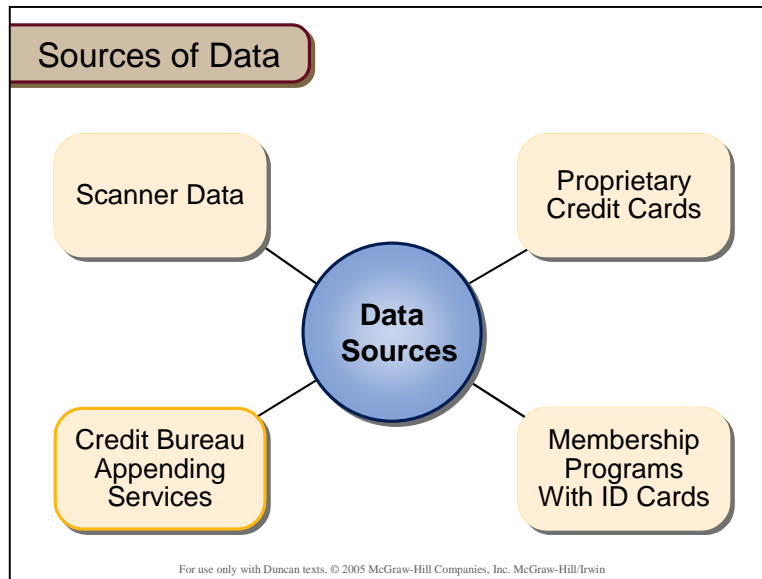
A. Getting started

- i. 6 questions to ask about the database:



1. What data are needed ?
2. How will the data be collected?
3. How will the data be stored?
4. How will the data be used?
5. Who will manage the database?
6. How accurate and secure does the database need to be?

B. Sources of data:



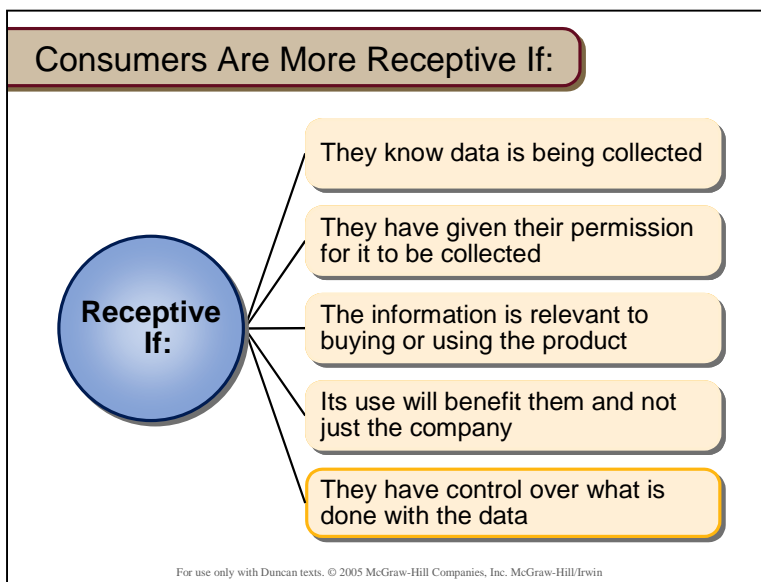
- i. As part of a customer transaction
 - 1. Scanner Data
 - 2. Proprietary credit cards.
 - 3. Membership programs with ID cards.
 - 4. Credit bureau appending services
- ii. In response to marketing communications
 - 1. Coupons, Sweepstakes, and Promo Offers
 - 2. Warranty Cards
 - 3. Membership and Frequent Buyer Clubs
 - 4. Catalogs
 - 5. Toll-Free Numbers
 - 6. E-Mail and Websites
 - 7. Surveys

III. How Data Gathering Affects Privacy And Security Issues

A. Reputable organizations follow guidelines

- i. Data collection procedures should not be secret
- ii. Individuals can find out what information is on record
- iii. Individuals can correct their record
- iv. Individuals can limit the disclosure of information
- v. Organizations must take precautions to prevent misuse of the data

B. Consumers are more receptive if:



- i. They know data is being collected.
- ii. They have given their permission for it to be collected.
- iii. The information being asked for is relevant to buying or using the product.
- iv. Its use will benefit them and not just the company
 1. Example: if it speeds up the delivery
- v. alerts them to information they want
- vi. They have control over what is done with the data

IV. Building Relationships Through Data Management

A. Customer Relationship Management (CRM)

Example of a company promoting its CRM skills

Customer Relationship Management

Whether your customers are delighted, or simply delighted to leave, revolves around knowing your customer data.

That's why you need the SAS[®] Solution

How do you know your profitable customers... and why? How do you know your profitable customers are still being... and why? What value do your customers see in your products and services... and how do you measure it? Instead of just knowing your customer data, realize all the possibilities with the SAS Solution for Customer Relationship Management.

As the only software that integrates our rich scope of marketing, customer management, sales information and customer contact systems... then analyze data to learn individual customer needs. Reduce business costs by serving your most profitable customers. Discoverable. Measure customer value. All by just printing and clicking.

to find you more... and require a true leader in Customer relationship management with the SAS[®] Solution. Visit us at www.sas.com

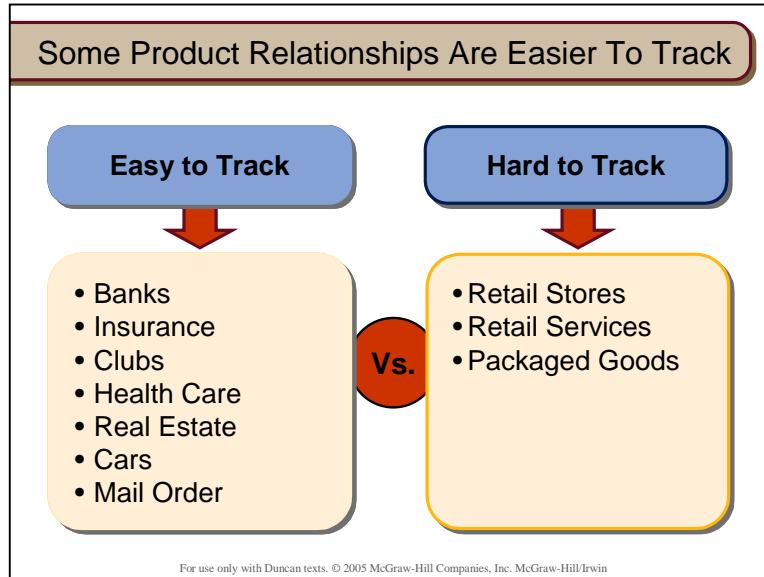
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- i. *The optimization of all customer contacts through the distribution and application of customer information*

B. Some product relationships are easier to track than others



- i. Easy to track: Banks, insurance, clubs, health care, real estate, cars mail order products
- ii. Hard to track: Retail stores, retail services, packaged goods

C. Enhancing customer data

- i. Data overlay
 - 1. Enriching one database by adding another to it
- ii. Data mining
 - 1. Sifting and sorting the information warehoused in a company's database

Databases In Action : Paine Webber

Challenge: Learn more about its customers to serve them better

Answer: Carefully reexamine all of their customer databases using:

- data mining
- data overlay

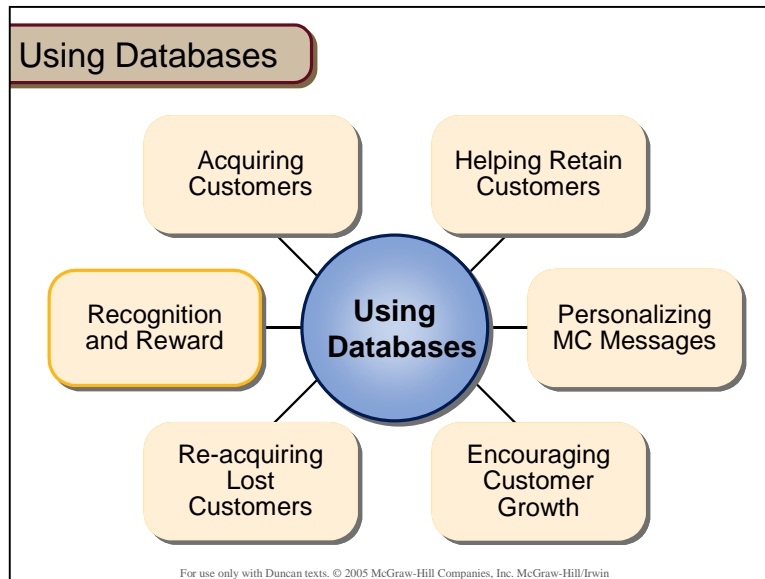
Results:

- 1.8 million accounts held by only 717,000 customers
- MC messages became better targeted

Discussion Starters:

- 1) Poll the class to see how many students have received duplicate messages from the same marketer.
- 2) Ask students to identify the marketer who sent the message.
- 3) Poll students to obtain an “attitude score” rating the impact of the duplicate message on the overall intent of the message (suggestion: use a 1-5 scale with 1 = really hurt the message; 3 = had no impact; 5 = really helped the message).

D. Using databases




i. Acquiring customers

1. Prospecting

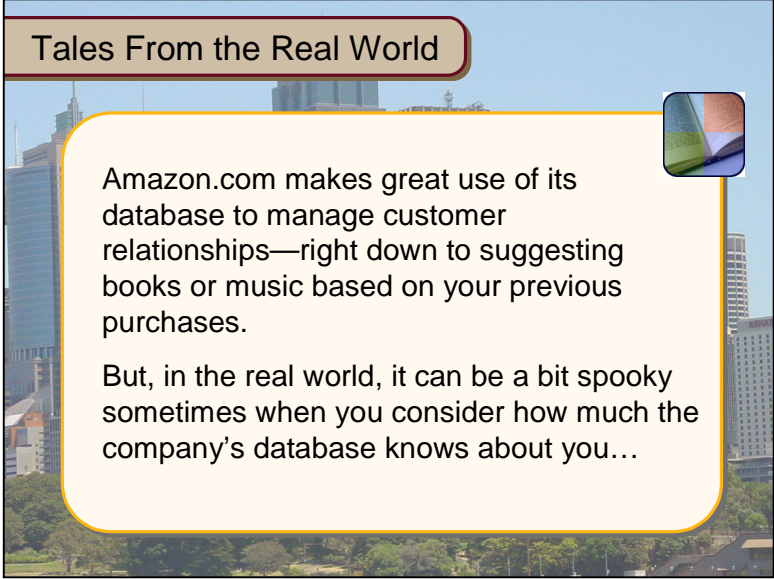
- a. *using data to identify prospective customers types*

- ii. Helping retain customers
 - 1. Exception analyses
 - a. *Software scans database for above-average number of complaints, inquiries, or compliments*



TALES FROM THE REAL WORLD

Tales From the Real World



Amazon.com makes great use of its database to manage customer relationships—right down to suggesting books or music based on your previous purchases.

But, in the real world, it can be a bit spooky sometimes when you consider how much the company's database knows about you...

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But it can be a bit spooky sometimes when you consider how much the computer knows about you...

- 2. Personalizing MC messages
 - a. Levels of message personalization range from simply inserting a name to a customized solution to a customer problem
- 3. Encouraging Customer Growth
 - a. Software looks for opportunities to sell more of a current brand or cross-sell other brands

▷ **INSTRUCTOR IN-DEPTH INSIGHT: LIFETIME CUSTOMER VALUE (LTCV)**

Insight: Lifetime Customer Value (LTCV)




Gerber knows that the average baby consumes about 600 jars of baby food before he or she progresses to solid food, so if Gerber is able to keep a baby's mother loyal, that baby's value to Gerber could be \$350 to \$400.

More and more companies are finding it useful to determine the lifetime customer value (LTCV) of their customers. Gerber, the baby-food manufacturer, knows that the average baby consumes about 600 jars of baby food before he or she progresses to solid food. If Gerber is able to keep a baby's mother loyal to Gerber during this period of the baby's

4. Re-Acquiring lost customers
 - a. Important to determine reason customer "lapsed"
5. Recognition and Reward
 - a. Recognition
 - Example: Domino's caller ID-customer profile system allows you save time by ordering "the usual"
 - b. Reward
 - Example: British Airways provides discount rewards

V. Final Note

Final Note:



- Customers and organizations both have relationship memories; they each learn something new with every interaction
- For their relationship to succeed, the organization's memory must at least match the customer's memory

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- A. Customers and organizations both have relationship memories; they each learn something new with each interaction.
- i. For their relationship to succeed, the organization's memory must at least match the customer's memory.

Answers to Review Questions

1) Data-Driven Communication

- a. What do the initials IS and IT stand for, and why are they important to a data-driven communication program?

Answer: The department responsible for managing an organization's hardware (computers), software (programs), and databases (information) is called one of several names depending on the company—data processing, information systems (IS), information technology systems (ITS), or information technology (IT). The latter is the most common. This department usually operates a database management system (DBMS), which is software that records customer information, tracks customer interactions, and links customer databases that are already in existence (e.g., product orders, accounting records, service and repair records, customer service).

- b. What is a database?

Answer: A database is a collection of related information that is stored and organized in a way that allows access and analysis. A database can be as simple as a shoe box full of

index cards containing the names and addresses of customers, but is usually a set of digitized information contained in a software application.

- c. Define the term *learning organization* and give an example.

Answer: Capturing responses to marketing programs and customer feedback make it possible for companies to record and learn from their past experiences, and thus create a “learning organization.” A learning organization has a feedback program that involves collecting data, and storing, analyzing, and sharing customer feedback. This philosophy not only increases corporate learning, but also communicates to employees that such learning is a top priority.

- d. Explain how a learning organization uses databases.

Answer: Databases are used by a learning organization in four critical ways: First, databases record customer history. Capturing and making available information about customers ensures that relationships extend beyond individual sales or customer-service interactions. Second, Databases are the source of insights. Complaints, compliments, and inquiries, properly quantified, can help companies design new products, solve problems, and develop brand message strategies. Third, Databases uncover market changes. If a company is constantly monitoring its customers, it will pick up on their changing interests and tastes. And fourth, Databases help the sales staff. Databases compiled from retail check-outs, allow retail chains to supply manufacturers with timely information, giving them the opportunity to change their presentations to match rapidly developing markets.

- e. Explain how large and small companies might use databases in an IMC program.

Answer: The first two cases in the chapter provide good insight into how small and large organization can use databases to assist their IMC programs. Specifically, British Airways was able to use a very large, sophisticated database to create an IMC program designed to attract large numbers of leisure travelers. On the other hand, Speedy Car Wash is an example of a small organization that used a relatively unsophisticated database of car license plate numbers and customer information to create an IMC program aimed at encouraging more purchase frequency from its light and medium users.

2) Setting Up Databases

- a. Why is a cross-functional team needed in designing a database system?

Answer: One of the most important considerations is to design a database management system that all the various people who need access to customer information can easily use. This task should be carried out by a cross-functional team so that all departments have input into what data to capture, what role they will play in capturing and using the data, and how the data will be configured for easiest retrieval by each user group.

- b. What six questions need to be answered before a database system is set up?

Answer: It is helpful for organizations to ask six questions as they approach the process of creating a database. They are: First, organizations should ask “What data are needed?” (i.e., How much does the company need to know about prospects and current customers). Second, organizations should ask: “How will the data be collected?” (i.e., from whom will it be collected? What are the least costly ways to obtain the desired data?). Third, and organization should ask: “How will the data be stored?” Fourth, the organization should ask “How will the data be used?” (i.e., what kinds of analyses will be conducted? What kinds of decisions will be based on the results?). Fifth, the organization should ask: “Who will manage the database? (i.e., will the marketing department or information systems management be in charge?). And sixth, the organization should ask: “How accurate and secure does the database need to be?” (i.e., how frequently does the information need to be updated? How confidential is the data?).

- c. Explain two ways customer data can be collected, and give examples of each.

Answer: Two common ways to collect customer data include the use of the warranty cards that come with new products, particularly electronics and appliances, These cards typically ask you to give the company purchase information. These cards are mailed back to database companies that maintain these records on behalf of subscribing companies. The information is used to contact you about product changes, updates, and recalls, but sometimes the data is compiled into larger lists and sold to direct marketers. A second common example is the use of Frequent Buyer Clubs by large retailers, including supermarket chains. These organizations ask consumers to provide information about themselves when joining the club, which then helps build the database to track their purchases and to provide the opportunity to customize promotional offers to consumers.

- d. What is the purpose of data mining? Give an example of how it can be used to develop better marketing communication strategies.

Answer: The purpose of data mining is to spot trends, relationships (e.g., heavy users buy less frequently than the average customer but in larger quantities), and other nuggets of information and customer insights in order to make better marketing communication decisions. An example is the Paine Webber case from the chapter. Through data mining, this organization was able to recognize that 1.8 million accounts were held by only 717,000 individual customers. This finding resulted in significant mailing cost savings in the, not to mention the reduction in customer aggravation from continually receiving multiple mailings and being offered products that they already had purchased. The audit identified which of its 22 products each customer was already using, making it possible to begin a customized cross-selling program.

- e. If you were designing a membership recognition program for an association to which you belong, how would you go about setting up a database system?

Answer: Students will have numerous different suggestions for this question, so a

suggestion to help focus the discussion would be to ask students to describe some of the offers they may have received over the years from retailers or organizations seeking to recognize and reward their patronage, and list each on the board. Then it might be helpful to ask the students to suggest an association to which some belong (perhaps a fraternity or sorority) and ask the class to vote on which of the rewards listed on the board would be appropriate to use for this association.

- f. You have been asked to build a database of friends and supporters of your school or department. What types of databases might be available to you? How would you go about combining them, and what would you need to do to make the new list as efficient and effective as possible?

Answer: Students may respond by suggesting individual tactics or steps of the database development checklist provided in the chapter. A suggestion to help guide this discussion would be to ask students to suggest an organization that all are familiar with on campus. The list the six decision steps noted in question 2 (b) above on the board, and ask students to provide answers to the questions posed at each step as it relates to the campus organization.

3) Privacy and Security

- a. What are two major consumer concerns about privacy?

Answer: The text cites a poll on privacy that found that the top two consumer concerns regarding privacy were “that companies they patronize will provide their information to other companies without permission (75%), and that their transactions may not be secure (70%).”

- b. Why is privacy situational?

Answer: This concept relates to the fact that different consumers have widely different ideas of what privacy means in different settings. When a company asks questions that are not relevant to its products or business dealings, then customers become suspicious. Suspicion weakens trust which, as cannot be stressed too much, is the foundation of relationships. When a customer feels their privacy has been violated by a company, this can cancel out the positive impact of dozens of expensive MC messages. The concept relates to database programs, because consumers may feel betrayed if they find information they provided willingly to one organization somehow ends up being used by another organization (i.e. you buy a product from one direct mail company and then suddenly become inundated by direct mail solicitations from other direct mail merchants).

- c. What is “identity theft,” and how does it tie in to database management?

Answer: The concept of “identity theft” represents one of the most serious abuses of database technology in today’s society. It occurs when unscrupulous individuals gain access to a database containing a person’s Social Security number and

other information. This information, in turn, can be used by scam artists to set up phony bank and credit-card accounts.

- d. What can a company do to make sure its database program is responsive to privacy issues?

Answer: A good rule of thumb for organizations to follow is to consult with the Direct Marketing Association (DMA), a group comprised of organizations particularly interested in database marketing, has developed data collection guidelines for its members. Another good reference is the set of guidelines based on the Code of Fair Information Practices, developed by an advisory panel of the U.S. Department of Health, Education, and Welfare. These guidelines are included in the text of the chapter.

4) Managing Customer Relationships

- a. What are the four types of programs used in relationship management, and how do they work?

Answer: The four key relationship management programs discussed in the text are those focused on achieving the following objectives: First, some programs seek to acquire new customers by examining the profiles of the organization's most profitable customers to identify their common demographic and lifestyle characteristics. It can then use these characteristics to identify prospective customers. Second, some programs attempt to help retain customers by listening to customers and even asking them when and how they would like to be contacted by the organization. This information is placed in the customer database so it is readily accessible when doing one-to-one messaging. This shows respect for loyal customers' time and schedules, and allows companies to direct the brand communication in a way that is most personally appropriate. Third, some programs focus on growing the sales volume of customers by encouraging current customers to give a brand a greater share of their category spending. And fourth, some programs are designed to re-acquire customers who have left a brand for any number of reasons. Some former customers are impossible to reacquire, such as those who have moved out of the shopping area or, in the case of a B2B, gone out of business. But most often, customers who quit buying have switched to another brand or to another company because they were either dissatisfied or moved to try something different.

- b. Explain how prospecting works.

Answer: Prospecting uses data to identify prospective customer types. Prospecting works in both consumer and B2B marketing. Once a company has identified some of the commonalities of profitable customers such as purchase behavior or demographics, it can then go to a company that compiles databases employing these segmentation tools to create a mailing list of prospective customers that most closely match the desired profile.

- c. What is cross-selling, and how is it used in growth programs?

Answer: Cross selling refers to the opportunity for an organization to help grow current

customer sales by suggesting other brands marketed by the organization that might compliment the ones already being purchased by the consumer. For example, a bank which already holds a customer's checking and saving accounts is trusted by that consumer, and therefore, has the opportunity to cross-sell other investment options to that customer, such as certificates of deposit or mutual funds.

- d. How and why are profitable customers identified?

Answer: Data mining can help identify an organization's most profitable customers. By looking at information in the database relating to a customer's purchases and comparing this information to the costs associated with servicing this customer, a profitability ration can be applied to each individual.

- e. Have you (or someone you know) been targeted by an acquisition or retention program? How did the program operate, and how did you respond?

Answer: Answers will vary considerably to this question. If students hesitate in their initial responses, a suggestion is to ask if any are members of the frequent purchaser club of some relevant student brands like Abercrombie and Fitch or American Eagle Outfitters. This may stimulate some discussion as they realize that they really have been targeted by an acquisition or retention program.

- f. What is mass customization of MC messages? How do companies use it to create brand messages?

Answer: Mass customization of MC messages is the process of personalizing customer interactions with a company on a large scale. Standardized MC letters, e-mails, and telemarketing calls can be personalized by adding not only a person's or company's name, but also referencing customer-specific information that can be automatically pulled from a customer database. The most sophisticated types of mass customization database applications allow for a high degree of personalization, and are more likely to well received by recipients.

- g. A local store has asked you to help design a customer recognition program. What are some techniques that you might recommend?

Answer: Student responses will vary, but some good discussion starters would be to ask the following questions and record responses on the board: First, as a question related to the nature of the database, such as "how sophisticated should the database be and what data should it record?" Responses to this question could include those provided in question 2 (b) above. Second, a helpful question would be to ask "what types of recognition/rewards should we offer? Responses to this question could include those provided in question 2 (e) above. And third, a helpful question to ask would be "how personalized should the messages be? Responses to this question could relate to answers provided in question 4(f) above.

Chapter Challenge

Writing Assignment

Use the Database Application Checklist, to develop a mini-audit and use it as a guideline to interview a local company about how it goes about collecting and using customer data.

Presentation Assignment

Assume that you have a new job or an internship. You have been asked to prepare a presentation for a marketing staff training program on the strategic use of databases. Develop an outline of the key points you want to present. Give the presentation to your class or record it on a videotape (audiotape is also an option) to turn in to your instructor, along with the outline.

Internet Assignment

Visit www.CRMguru.com for an in-depth understanding of the latest CRM practices and applications. This website is open to students for free. Analyze the materials and discussion items on this site and identify a problem or debate that is engaging the CRM community. Explain the problem and the differing viewpoints in a written report to your instructor.

Research Assignment

Interview 10 classmates about their concern of privacy when buying products online. For those who express some concern, ask if they always read a site's privacy statement before placing an order. For those who do not do so, ask "why not."

IMC Plan Team Assignment

At this stage in their semester-long project, students should investigate the extent to which their client engages in data-driven communication with its customers. This assignment will ask students to conduct a data-driven communication audit examining key aspects of their client's database management practices.

IMC Final Project Checklist #8

Due Date: _____

Your Agency Name:

Data Driven Communication Audit

Current database status

- What data are being collected ?

(consider and list all the following types that are applicable: customer's name and contact information—street address, city, zip code, fax, e-mail address, telephone number, and fax number; customer's purchase history and record of responses to various promotional offers; demographic and lifestyle data about each customer; records of specific interactions, including any repairs, returns, complaints, or inquiries the customer has made; customer preference details)

- How are the data collected?

(consider the following possible sources that are applicable: scanner data, proprietary credit cards, membership programs with ID cards, from coupons, sweepstakes, promo offers, warranty cards, membership and frequent buyer clubs, catalogs, toll-free numbers, e-mail, websites, and surveys)

- How are the data stored?

- How are the data used?

(consider the following possible uses: acquiring customers, helping retain customers, personalizing mc messages, encouraging customer growth, re-acquiring lost customers, or recognition and reward programs)

- Who manages the database?

- How secure is the database?

Implications for the IMC Plan

Comment on the current status of the client's data-driven communication efforts and suggest specific areas that need to be addressed in the plan to improve the use of their database systems.