

Relationship Report

Marketing

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USING INFORMATION TO BUILD AND MAINTAIN RELATIONSHIPS WITH YOUR CUSTOMERS

Unleashing Branch Power at Fleet

by Arthur Middleton Hughes

For the last few years, banks have been exploring the potential for customer relationship marketing with very productive results. The process goes this way:

- **Creating a Marketing Customer Information File.** This is the first step that many banks explored in the 1980's. Accounts for many of the bank's different products – many of them housed on different computers in different formats – were brought together once a month, reformatted, and householded, to produce a single consolidated statement for each customer. Many used that statement to produce a consolidated monthly report to the customer, although most did not.
- **Computing customer profitability.** This was the next logical step which many banks have been exploring in the 1990's. For each product owned by each customer, the bank figured out the revenue and the costs involved. For banks the computations were quite complicated, involving interest revenue and costs, the cost of capital, transaction fees and costs, maintenance costs, product sales costs, provision for losses, etc. The software is extensive. Each variable (interest rates, capital hurdle rates, etc) is subject to monthly changes. The output of the process is a monthly new profit (or loss) figure for each customer in the bank.
- **Segmenting customers by profitability.** Once

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What's the Big Idea in Relationship Marketing?

by Morry Potoka

If relationship marketing has a "big idea", it's embedded in the process of building profitable relationships with your customers. While traditional advertising is often based on that Eureka!, sweaty-palm moment when the "big idea" is suddenly realized, relationship marketing follows a well-defined process that places the customer at the very center of all thinking and activity.

The trouble with the "big idea" in relationship marketing, is that by its very nature, it's "big". And "big" doesn't always translate when you get down to the little guy -

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Software Review: Strategic Optimization

by David M. Raab

Some phrases have charisma and others simply don't. Successful terms like "customer relationship management", "knowledge management", "data warehousing", and "data mining" all somehow sound important, exciting and complicated enough to justify large sums of money and conferences in desirable locations. Other terms, like "cost-benefit analysis", just don't make the cut.

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banks learn the profitability of each customer each month, they are often profoundly shocked. They discovered, as one large bank did recently, that half of their customers are unprofitable. In addition, they found that the bottom 20% of their customers are very unprofitable – often involving sizeable losses for the bank. To get a grip on this situation, banks have begun to segment their customers into profitability quintiles. In these segments, typically 100% or more of the bank’s profits come from the top 20% of the customers. The other 80% represent a little more than break even or a dead loss.

- **Managing customers based on their profitability segment.** Once you know that a customer is losing you money every month, if you want the bank to prosper, something has to change. You can reprice the unprofitable customer’s products, try to change her costly habits, encourage her to buy additional profitable products, or find a way to gently ease her towards the door. Branch personnel are furnished with information about the profitability segment of each customer, and are trained to look for ways to change the situation. They also learn who the Gold customers are, and are trained to treat them well.

- **Computing lifetime value and potential lifetime profitability.** It is not enough to know the current profitability of a customer. You need to be able to predict the future by making accurate forecasts of each customer’s potential lifetime profitability. This is especially critical for the "middle profitability" segments – those for which the bank breaks even or loses a small amount of money today. Half of those "marginal" customers have the potential to become profitable. The question is, which half? To forecast the future, you determine for each customer, the likelihood of your being able to sell them additional profitable products, the expected net revenue from usage of those products minus the promotional expense involved in the sale of the products. This forecast is added to current profitability to create a reasonably reliable lifetime profitability forecast which can drive bank marketing strategy and tactics.

This is the story of how Fleet Bank went through these steps, what they learned, and how they are going about providing their branch personnel with the information about their customers and the training necessary to improve customer profitability. The process was directed by Randall Grossman, Senior Vice President and Director of Customer Data Management and Analysis of the Fleet Financial Group, Fleet had developed a bank-wide MCIF in the early 1990’s, maintained externally on a Harte-Hanks database. In January 1996, they took their first measure of customer value – by simply adding up all non-mortgage deposit and loan balances for each customer. By the end of 1996, they had created the software necessary to determine the Net Income after deduction of the Cost of Capital (NIACC) for all retail customers. For a typical customer, it looked something like this:

In this annual calculation for a typical customer, her net profitability is \$63, due principally to the fact that she invested in mutual funds. Without this investment, she

	CHECK & SAVINGS	HOME EQUITY	CREDIT CARD	MUTUAL FUNDS	TOTAL TOTAL
Revenue					
Net interest	\$210	\$248	-\$280	\$0	\$178
Fees	\$18	\$18	\$396	\$1,500	\$1,932
Total Revenue	\$228	\$266	\$116	\$1,500	\$2,110
Expenses					
Amort.Sales Costs	\$20	\$120	\$67	\$75	\$282
Acc. Maint.	\$30	\$75	\$40	\$900	\$1,045
Transact Cost	\$193	\$21	\$0	\$30	\$244
Allocated Overhead	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$243	\$216	\$107	\$1,005	\$1,571
Loss Provision	\$0	\$23	\$160	\$0	\$183
Net Income	-\$15	\$27	-\$151	\$495	\$356
Taxes	-\$6	\$11	-\$60	\$198	\$143
NI After Taxes	-\$9	\$16	-\$91	\$297	\$213
Cost of Capital	\$1	\$49	\$32	\$68	\$150
NIACC	-\$10	-\$33	-\$123	\$229	\$63

Annual revenue and costs for typical bank customer having these products

would have represented a loss of \$166 to the bank. By the end of 1997, Fleet had extended this system to its commercial customers. They were using industry benchmark costs for computing profitability. By the end of 1998, the bank had created an in-house data warehouse which enabled them to keep all of this data current, and to use actual Fleet activity based costs. The system looked something like this:

At their PC workstations using Windows NT and 95,

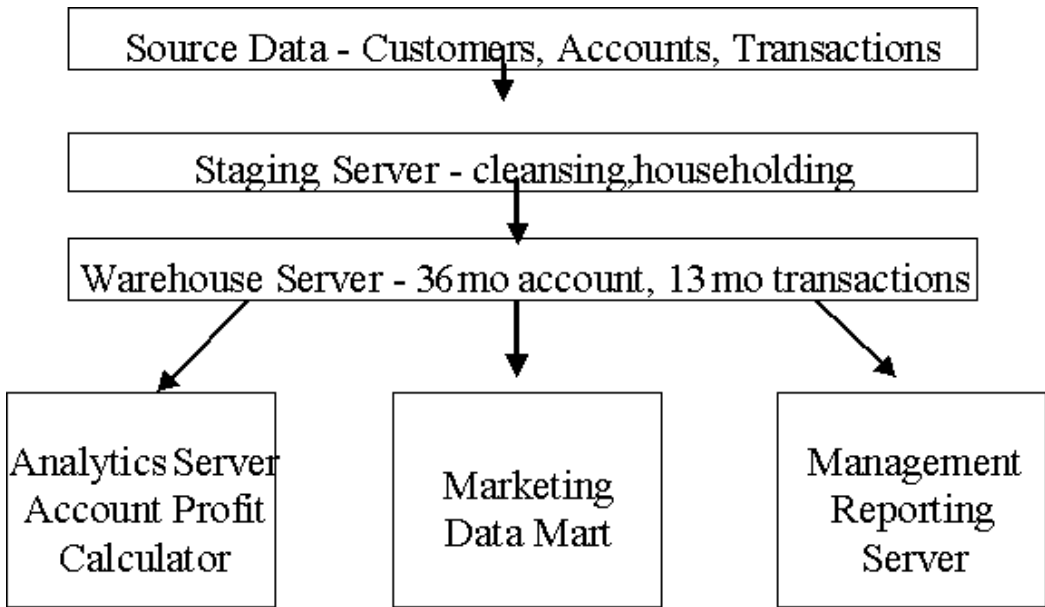
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power users, marketing and business analysts can access the data on each customer, can do analytical work and

Even though half of all customers were considered unprofitable, Grossman realized that Fleet could not simply walk away from half of their customer base.

Further analysis showed Grossman that:



- It was almost impossible profitably to cross sell the most profitable customers. Most of these sales cannibalized existing profitable products. For these top customers, marketing should focus on retention, not cross or up selling.
- Some customer profits and losses were temporary, not permanent
- Some low profit customers had great potential, sometimes

modeling, and develop marketing initiatives. The analysis server, for example, provides for statistical analysis, neural networks, ad hoc query and analysis, and geodemographic analysis. The data mart provides summarized, pre-formatted data for promotion design, tracking and analysis, and enables the users to do point & click, drill down analysis. The management reporting server provides on-demand parameterized reports.

because their assets were elsewhere, and they were, in fact, high profit customers at another bank

- Some unprofitable customers could be nudged into profitability if they were offered the right products at the right prices
- There were, however, many customers for whom there was very little potential for profit.

Preliminary Lessons Learned

The new system enabled bank management, for the first time, to really understand their customer profitability, and to do something about it. The data showed that:

- Half of all customers were unprofitable
- 20% were very unprofitable
- The balances that people maintained were only loosely correlated with profitability
- Demographics were even more poorly correlated with profitability
- Half of the new accounts being currently sold would never be profitable
- The bank staff was working hard every day to retain customers who destroy customer value

Faced with these sobering facts, the marketing staff decided to figure out ways to use the database that they had created to turn the situation around. The key to Grossman’s strategy was to develop three measures of customer value:

- Lifetime Profitability
- Potential Profitability
- Potential Customer Value

Lifetime profitability is the net present value of the expected future stream of net income after the cost of capital, discounted at the corporate hurdle rate. It is calculated based on the current products that the customer is now using, including planned re-pricing. As calculated by Fleet, customer profitability differs from

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organizational profitability for several reasons:

- Many customer's business with the bank cuts across business lines. Organizational profitability is computed by adding up the profits from each line of business.
- Some costs, such as overhead, are not allocated to each customer, since the methods for doing this involve arbitrary decisions which may distort the real profitability of the customer to the bank.
- For those costs that are allocated to the customer, the allocation had, of necessity, to use standard cost factors (such as the cost of a branch visit, telephone call, or product sale) for which it was not cost effective to determine accurately based on each specific event.
- Customer profitability does not "roll up". If two customers share the same account, the bank gave full credit to both (which one is the decision maker?). Organizationally, of course, each account is only counted once, not twice.

Given these qualifications, lifetime customer profitability at Fleet is calculated for each bank customer and stored in the customer's database record each month. Customers can then be ranked and segmented. It is possible to pick out the top customers, those just below the top, the average customers and the unprofitable customers. They can be flagged in the customer record so that marketers and branch personnel can recognize their value to the bank, and develop appropriate strategies and tactics.

Potential Profitability carries the analysis one step further. A typical customer has a limited number of bank products. There are usually many other bank products that the customer could be using. The probability of a given customer purchasing an additional product can be determined using CHAID analysis. For example, if a customer owns a home with a mortgage of \$W, has a checking account with an average balance of \$X, a savings account with an average balance of \$Y, and a monthly credit card usage rate of \$Z, an age of 44 years, two children in college, CHAID is used to predict the likelihood of him purchasing:

Probability

An auto loan	12%
A home equity loan	16%
A personal loan	12%
Mutual Funds	21%
A Certificate of Deposit	3%

CHAID can also predict the average balance that he will maintain on each of the possible additional products. Logistic regressions are then used to determine the expected Net Income after the Cost of Capital (NIACC) that Fleet will realize from the possible sale of each of the products to the customer. In each case, an estimate is made of the promotional expense involved in getting him to purchase the product. The potential profitability, then is calculated for each product as the:

$$\text{Probability of purchase} \times \text{Expected NIACC from usage} \\ - \text{Promotional expense}$$

The software then adds up each of the products for this customer with a positive NIACC to get the potential profit.

Potential Customer Value is then determined for each customer by adding together the lifetime profitability (with current products) and the potential profitability (from possible new products). This value is stored in every customer's database record and used to select the most likely candidates for promotion for each product in direct mail promotions. It is also used to suggest the next best product when branch personnel are talking to the customer, or customer service has them on the line.

Mobilizing Branch Personnel

Knowing potential customer value and keeping it in a database is useless unless the data can be put to work by customer contact personnel. The central marketing staff can use the data:

- For retention programs and preferred customer efforts
- For product design analysis and decisions
- For channel reconfiguration and service introductions
- For product pricing

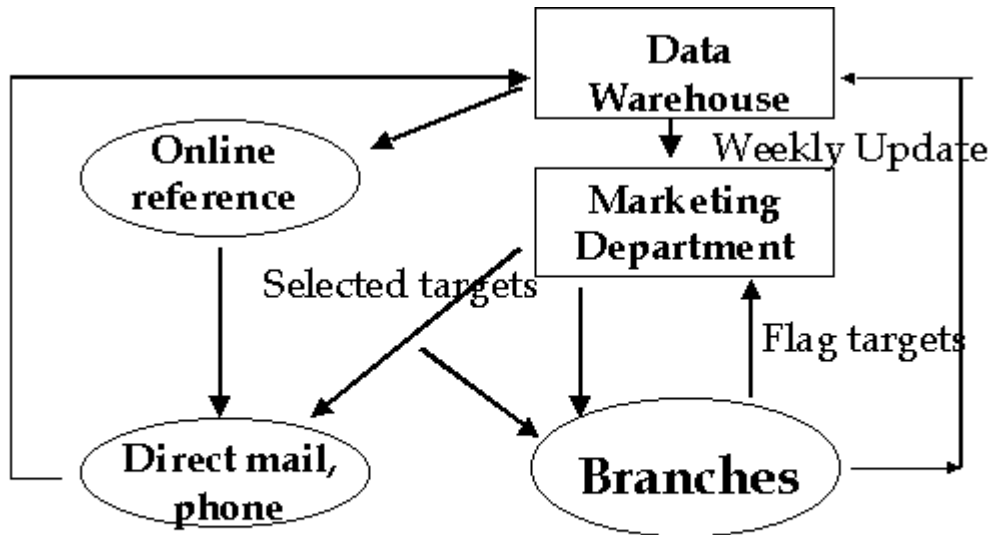
Beyond that, however, the bank seeks to mobilize its

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branch personnel to use the new customer data. The bank has 1,200 branches, many of which have more than one officer that is interested and skilled at identifying targets for bank programs, and determining the appropriate tactics for each particular case. Here is where branch empowerment becomes important. Too many marketing staffs assume that they know what is best. Furthermore, most direct marketing professionals

and training and empowering their customer contact personnel to use that knowledge.



Fine tune tactics, based on nightly feedback

Identify targets & tactics

Randall Grossman is Senior Vice President and Director of Customer Data

like to speak in terms of mailings of hundreds of thousands. They use statistical programs on computers to determine what should be done. Branch personnel, on the other hand, who know their customers, and see them once a week or more often, can identify those customers who they spot as being obvious candidates for particular products. They can dream up creative ways of suggesting these products to their customers. They are comfortable with programs that identify the ten or twenty best customers for action in a given week. By mobilizing their imaginations, and entrepreneurial skills, the bank can put their calculations of potential customer value to work.

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Banks still have a long way to go in training their staffs to use potential lifetime profitability in their work. But, at Fleet, the data are now available. They are poised for a big boost in profitability by knowing their customers,

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your customer - the person who has unique interests, needs, attitudes, preferences, issues and opportunities, and of course, the authority to spend money on your offering. Where does the "big idea" fit into his world? He might notice it. Remember it for a while. Even go out and buy your product because of it. The "big idea" is important for awareness and identity and all the other great things that mass media advertising does to support the brand. But it won't do much to change the relationship you have with your customer. To initiate and build a profitable relationship with your customer, you're going to have to get a lot closer. You might even have to adjust your "big idea" attitude.

Regardless of your best advertising efforts to get customers to think of you, try and retry your product, over the course of time, each consumer is going to give the bulk of his business to the company who satisfies his needs consistently. To do that, you have to step out from behind the curtain and find out what's important to your customer. What does he look for when deciding to purchase your category of product? What's holding him back and what would help him make the best purchase decision? And once your customer has taken the time to tell you, then you better listen.

So how do you take the "big idea" and come up with a million little "big ideas" each tailored to the individual needs and interests of your customer? It has to do with strategy and the ability to effectively implement one-to-one marketing. Not global, "big idea" thinking. Relationship thinking.

The key is not to force the "big idea" onto relationship marketing strategies and programs. The "big idea" comes from your perspective, your vision of what will stimulate your customers. The "little big ideas" of relationship marketing come from the customer. He or she defines what buttons you're going to push to motivate him or her. You may incorporate "big idea" design and personality elements into relationship marketing efforts, as long as they work on a one-to-one level. But you have to ask yourself, is the "big idea" someone with whom your customer would consider having a conversation? Sometimes, you just have to accept that your relationship marketing might be somewhat different in appearance and tone than your mass media advertising, and that it will probably be promoting different aspects of your product or service. The customer tells you what's relevant, and you respond accordingly.

When investing in relationship marketing, a good place to start is by taking an investigative look at your customer data and conducting a thorough audit of your marketing and sales processes. It's important to understand how and why a sale is made because part of the "little big idea" of relationship marketing is its ability to translate the sales process into an effective marketing program, complete with that two-way dialogue you would have if you could talk to every customer yourself.

Once you have a solid plan that identifies the customers you want to invest in (did I mention that you'll no longer be spending the same amount of money on your worst customers as you do on your best customers?), and you have strategies and programs that engage the customer in an active dialogue, you've got the "right idea". You'll begin asking customers the right questions; providing them with responses that reinforce their opinions, or change their opinions when necessary; overcome attitudes and objections; stimulate them to sale, or call, or store visit; and nurture their relationship with you over time. Not just one hit. Relationship marketing is a long-term commitment. It doesn't end with the next "big idea". It will, however, become a powerful place from which to spark new and improved "big ideas".

So the next time the account director jumps onto the boardroom table, or the art director falls off her chair, or the copywriter triumphantly flashes his scribbled brainwave on a soiled Starbucks napkin, you'll have a perspective that begins with your customer.

Let traditional advertising do its job to create awareness and entertainment. Let relationship marketing do its job to build profitable relationships that last a whole lifecycle. You won't find those on a soiled napkin.

Relationship Marketing Resources is dedicated to helping clients develop more profitable customer relationships. Their expertise, experience and breakthrough perspectives have resulted in the development, design and execution of successful customer relationship marketing programs for many North American clients representing a variety of industries. Services include Analytics, Strategic Planning, Program Development and Execution, Creative and Execution, as well as Technology Solutions. NOTE:

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Excellent web site features interesting and useful information, articles and case studies, as well as information about Relationship Marketing Resources Inc.

Morry Patoka is Executive Vice President of Relationship Marketing Resources, a company dedicated to helping its clients across North America initiate and build profitable relationships with their customers through the integration of analysis, strategy, interaction and technology.

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"Optimization" will never be a really hot buzzword: it sounds too dry, too limited to wringing the last bit of value from a well-worn set of options. This is emotionally unappealing: people want to blaze a new trail through the wilderness, not cut two minutes from their trip to the grocery store. It is also a dubious business strategy: with the rapid change and new opportunities of today's environment, there truly are new wildernesses to explore. So fine-tuning an existing process just doesn't seem all that important.

Still, while optimization will never attract stadiums of screaming fans, it does have its own followers—particularly among the analytically minded, and in industries that are relatively stable. In fact, the term is popping up with surprising frequency in vendor presentations these days. Unfortunately, different vendors use it in different ways—a common enough situation, but one that will further contribute to the term's ultimate lack of utility.

In the hopes of salvaging some value from this soon-to-be-overused word, let's take a closer look at what it can mean.

First stop, dictionary. My ancient one defines "optimize" as "to be optimistic", but then gets around to today's more common meaning of "to

make as effective, perfect or useful as possible". The key here is "as possible": because what optimization systems truly do is manage sets of constraints. The focus on constraints is inherently pessimistic, and part of why "optimization" is psychologically unappealing. But, more important, it also gives hint of how to classify optimization systems: by looking at the type of constraints that they manage. The major distinction might be called tactical vs. strategic optimization.

Tactical optimization manages constraints related to a single decision. This kind of optimization has been around for a long time—it is as simple as finding the exact mailing quantity that will yield the highest profit on a list of names ranked by expected response rate. Today, any decent predictive modeling software provides this capability, usually in the form of a "gains chart" that shows the expected costs, revenues, profits, and response quantity from mailing to different depths in the ranked file. The better implementations—such as MarketSwitch Corporation's Targeting Optimizer (www.marketswitch.com) and Group 1 Software/Unica Model 1 Campaign Optimizer (www.g1.com or www.unica-usa.com)—provide a slick graphical display that shows how these metrics change with different mail quantities, and even tell the user what quantity will meet specific constraints such as a fixed promotion budget or target number of new customers.

MarketSwitch's Cross-Selling Optimizer takes this a step further including multiple offers subject to their own constraints—such as a maximum promotion quantity or minimum sales target per offer. This is in addition to customer-level constraints such as a maximum number of offers or minimum profit per name. The output is a plan that assigns treatments to each customer in a way that is expected to yield the best over-all result.

But whether the optimization involves one offer or many, what makes these approaches "tactical" is that they consider only the results of the promotion at hand. The result is typically measured in imme-

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diate profit or return on investment, although it could also incorporate future values such as lifetime purchases from a new customer. While any sensible marketer realizes the future value is determined in part by future decisions, tactical optimization systems themselves do not attempt to measure or manage the future alternatives.

Strategic optimization does exactly this. That is, it looks at a sequence of future decisions and outcomes, and attempts to find policies that will yield the highest long-term value. This is a much more ambitious undertaking than tactical optimization, and probably needs a more exciting buzzword to capture its importance. Of course, one could argue that "customer relationship management" already does this quite nicely.

Semantics aside, the importance of strategic optimization is that it offers the ability to change the long-term value of an existing customer relationship. This involves two major tasks: figuring out what the optimal policies are, and finding ways to implement them. Today, these tasks are handled by separate systems—although there is no particular reason a single system to do both might not appear in the future.

Developing optimal policies is the greater challenge, because it involves true creativity: thinking up a new product, or type of offer, or service policy. Of course, no computer system can really do this today; the problem is simply too unstructured. (Some advocates of artificial intelligence may disagree, but that's another discussion.) Still, a computer system can report on the results of past policies, predict what will happen if the same policies are applied in the future, and perhaps even estimate the results of combining them in new ways. This involves lots of model building and simulation, so if the number of options to consider or events to predict increases beyond a fairly limited point, the volume of work becomes overwhelming for even the largest computers. This is one reason that strategic optimization has so far been applied primarily in the credit card industry, where there are a limited number of key options (interest rate, credit limit, annual fee, grace period), relatively few key events (activation, balance maintenance, payment, renewal),

and lots of customers to provide data and amplify the value of any improvements. Credit cards are also a fairly stable industry with lots of analytical people in control.

The simulation inherent in strategic optimization also lets users examine the risk posed by different sets of policies—say if interest rates rise or bankruptcies increase. While this simulation could also be run without optimization, it's nice to have both in the same system.

But even in the credit card industry, compromises are necessary to make strategic optimization practical. Trajecta (www.trajecta.com), which seems to have the most complete approach to this problem, limits its analysis to a handful of key variables and combines detailed modeling of near-term events with simpler forecasts of long-term behavior. Both shortcuts are justifiable: a few variables do account for most differences in behavior, and detailed long-term simulations are unlikely to be more accurate than simpler forecasts. But the shortcuts also mean that other tools would be needed to deal with more complicated industries or to make optimal decisions about non-key variables.

This last point is particularly sticky. It's easy enough to argue that a handful of key decisions account for most of your business profit, and maybe you can even prove it with statistics. But try explaining this to the CEO who just spent \$20 million for a new call center precisely because it was able to personalize every customer interaction. Chances are pretty good that she'll want to treat different people differently, whether or not the optimization system can tell her how.

In fact, the call center rules will probably be defined the old fashioned way: by human beings making their best guess about what policies make sense, and then (hopefully) watching the results to improve the rules over time. This is the realm of the other strategic optimization systems, which do implementation. The classic rule-implementing optimization systems also originated in the credit card industry: venerable

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products like Fair-Isaac TRIAD (www.fairisaac.com) and AMS Strata (www.amsinc.com), and the more recent HNC Capstone Strategy Manager (www.hnc.com) and Trajecta Decision Optimizer. All let managers define strategies comprising rules for key decision points, assign customers to different strategies, execute the strategies and evaluate the results. TRIAD and Strata, with roots stretching back more than a decade, have also been adopted in other financial services and telecommunications. These systems are usually integrated with operational processes such as billing so the appropriate decisions can be made and executed during the normal course of business. Optimization evolves over time as managers set up champion/challenger tests that assign customers to alternative strategies, compare the results and pick the winners. Although these systems could also be adapted to selecting names for outbound communications, like a conventional direct mail campaign manager, this is not the usual application.

Recently, however, there has been some movement toward outbound optimization. Recognition Systems Protagona (previously ideas Solution; www.recsys.com) and NCR Relationship Optimizer (www.ncr.com) include extensive features to manage constraints such as maximum number of contacts or promotion expenses per customer over a time period. Protagona even takes a stab at balancing revenue received from a customer with value provided to the customer—a particularly knotty problem that most vendors more or less ignore by assuming the user will develop a long-term measure of value that encompasses both. Both systems also accommodate limits on marketing resources such as call center capacity. Relationship Optimizer can automatically track the load on marketing resources as responses come in, and shift lower-priority messages to alternate channels when necessary. Although lead management and call center systems have provided similar cascading functions for years, they are unusual in a campaign management system.

Is there really a distinction between "outbound optimization" systems like Relationship Optimizer and an advanced front office system like a Siebel call center? True, both can implement customer-tailored business policies. But the ability to embed and analyze policies in campaigns and strategies is very limited in standard front office systems:

anyone who wanted to develop true optimization would find it difficult at best. This may change over time as the front office vendors strive to make their products live up to the optimization claims inherent in the concept of customer relationship management.

On the other hand, tools like Protagona and Relationship Optimizer most definitely do not provide the operational functions of a call center, sales automation or Internet response management product. That is, they don't capture customer data or execute transactions. Like all strategy implementation systems, they are decision engines that tell other systems what to do—whether it is a batch process processing credit card statements, an on-line queue of messages to display at a bank teller station, or a real-time response to a customer action. Even if the front office vendors were to expand their strategy management capabilities, it seems unlikely that they would extend beyond messages delivered through their own customer interaction tools. So independent strategy implementation tools will probably remain necessary to truly coordinate—and optimize—all decisions regarding each customer.

But I still don't think they'll call it optimization.

David M. Raab is principal of Raab Associates, a consulting firm that helps clients evaluate marketing technologies. Many of his past articles are available at www.raabassociates.com.

Database Marketing Drives New Corporate Strategy

by Arthur Middleton Hughes and
Ian Gilyeat

A major North American direct marketer, with over \$1 billion in annual sales, segmented its database three years ago, and took a close look at where its sales were coming from. It discovered something fairly ordinary: 50% of the sales were to consumers, and 50% were to business. However, it was very shocked to discover the profits on the business sales were 500% better than those to consumers. It was like night and day. Most consumer sales were not even profitable although they represented the majority of customers, transactions and expenses.

Armed with this information, top management called a retreat to figure out what they should do. After much soul searching and disagreement, they decided to scrap their overtures to consumers, and concentrate on the profitable side: business to business sales. How could they go about it?

Prior to this decision, the company had relied on inbound calls from their catalogs and print ads. They had nearly five hundred employees taking calls from customers, and less than 100 making outbound calls to previous business customers. The new strategy required a total turnaround. Two years after the shift, they had 700 outbound callers, and less than 100 taking inbound calls. How did they do it?

In the first place, the company identified where their business sales were coming from. They overlaid their file of business customers with SIC code data, annual revenue, and number of employees. In addition, each company in the database had RFM scores, credit information, and actual products purchased over the past three years. They ran models to determine the ideal targets for retention and further acquisition. They did penetration analysis to see which market segments they could exploit most easily. SIC penetration analysis was based on dividing the number of active customers into each four digit SIC code by the total number of North American companies in that same SIC code. Four separate data suppliers were used to validate results. The resulting penetration ratios were used to create SIC specific suppression files, establish credit lines for new prospects and rank market opportunity by SIC, company size and past customer performance.

From this analysis, the company knew where the increased business sales would come from and how big the sales opportunity could be in four-digit detail. The models identified which products customers and prospects were most likely to buy, and which, therefore, should be suggested by the callers.

The next step was more difficult. The company had to shift their overwhelmingly inbound call center staff to become overwhelmingly outbound. It was not easy. Many, if not most, inbound people cannot easily change to outbound. Outbound involves rejection. It involves bothering people who are not thinking about buying right now, whereas inbound callers are always in a buying or inquiring mode. Outbound callers have to have a thick skin and a strong personality. The company had to identify the skill sets in their inbound sales staff which would enable them to sell outbound. Many inbound employees would not survive the switch. The company had to recruit and train most of its 700 outbound callers. New outbound callers had to prove themselves in training and make 200-300 prospecting calls a day. After training the requirements dropped to around 100 calls per day. For a new outbound employee, it took about nine months before the sales person could support himself or herself on the commissions from the sales.

One of the difficulties in the transition was the selection and distribution of the customers among the 700 outbound callers. Each employee was given a share of existing businesses to call, plus a group of new businesses selected by a model. The idea was that there should be a level playing field with each employee getting a shot at profitable and unprofitable business.

What happened if a business called in with an order without identifying (or remembering) their assigned outbound sales rep? These orders were taken by the remaining inbound callers. Commissions were paid to the inbound rep and the assigned outbound rep.

Eliminating Unprofitable Customers

With the new models, it was possible, for the first time, to see who was profitable and who was unprofitable. Early in the transition, the company identified unnecessary product lines. These were eliminated. Unprofitable customers, were the next hurdle. Using sev-

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(New Corporate Strategy, continued from page 10)

eral models, the marketers were able to determine the type of customers they did not want. Using past purchase history including returns, credit history and profit margins, the marketing staff was able to compile a suppression file of nearly one million firms and individuals that it did not want to do business with. Changes in merge/purge logic, circulation planning and suppressions allowed the company to eliminate all catalog growth. The million-name suppression file was used as a stop file for all catalog mailings.

Shifting To The Web

While all this was going on, the company was rapidly moving to sales over the Internet. At first, the company's Web site was highly experimental, yielding many awards and strong traffic but marginal sales. Roughly eighteen months after the web site was set up the focus changed to selling product in tandem with sales reps and product management. Today, about 10% of all company sales are "hands free" sales. In the other 90%, the caller frequently uses the Web to browse products, and then calls in his order. Pure Web sales, of course, are cheaper to process, since no employees have to touch the order. On the other hand, the Web, so far, has not proved as successful in upselling as a live operator. Average line items per order are lower on the Web than the average with outbound operators. Volume is not as high, although "hands free" are more profitable.

Result Of The Turnaround

After two painful years, the company now has 95% sales to business and only 5% sales to consumers. Sales which were growing at 21% before the shift, now average above 50% and peaked much higher in recent quarters. Profit growth has been equally as dramatic. The shift was definitely worth it. This is a great example of profitable database marketing. The steps are these:

- Build a customer marketing database with purchase history, RFM, Lifetime Value, SIC codes and other data so that modeling can take place.
- Segment the customer database so as to determine where the profits are coming from and where they are not coming from.
- Make some tough decisions about what to do to increase sales and profits. Get everyone in the company, from the top down to understand the

implications of the change. It may be rough, as it was in this case. Hundreds of employees lost their old jobs, and were not suited to the new ones. Management had to understand what the goal was, and why the pain was necessary.

- Do penetration analysis and modeling to support the new sales staff. Determine which customers should be retained and which should be dropped. Predict which are the most likely products to be purchased by customers, and arm the outbound staff with the tools to make up sell and cross sell initiatives.
- Track the results carefully so that you prove to management that all the pain and suffering is worth it.
- Move rapidly to build up the net as a selling tool, but realize that human outbound efforts may still generate more bottom line dollars due to higher volume.

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