Relationship Report Marketing

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USING INFORMATION TO BUILD AND MAINTAIN RELATIONSHIPS WITH YOUR CUSTOMERS

Winning Customers as Members

by Paula Hart

A customer is a person who buys goods or services, especially on a regular basis. A member is a person who belongs to a group or organization. This is the story of how Dayton Hudson, a major retailer in the Mid West, enrolled their best customers as members in a loyalty program called *Regards*. The stores included Daytons, Hudsons and Marshall Fields. The goal was to reward these best customers and to transition them from being simply customers to being advocates.

Forty years ago Abraham Mazlow described a hierarchy of needs which included belonging as an important step. Customer loyalty can be increased by giving customers a feeling of belonging. Winning customers' hearts is a step beyond winning a percentage of market share. As Martin Levine, General Manager of Chrysler's Jeep Division said, "We want to own consumers' hearts, not just their pocketbooks."

In the early 1990's I was Director of Customer Development for the Department Store Division of the Dayton Hudson Corporation. I received approval and a budget from the CEO of the company to begin a customer loyalty program that we called "*Regards*". The program was directed at the top ten percent of our customer base – about a half a million customers in all. This is the story of how we went about it.

We began with the customer. We did primary research on our own customers which involved phone surveys, store exit surveys, and focus groups. One of the keys in the focus groups is to know who you are talking to. Are you talking to your best customers, your middle tier customers, or your look alike best customers? Then we verified with our customer database to see, how people were really behaving, not only how they saw themselves or described themselves as behaving.

We had good customer data on more than half our customers: those who used the stores proprietary credit cards, and those who used other credit cards who had registered their card number with us. We could not track cash or check customers. Using this data, we identified who our top tier customers were. We found that ten percent of our customers gave us forty five percent of our sales. Dayton Hudson had never looked at customers as being different before.

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This was a huge eye opener. It was a big hurdle for the organization to realize that there was an economic reason to treat some customers differently from other customers. We found that the top tier customer spent on the average five times as much as the average customer, and shopped twice the number of categories. Their demographics were quite attractive. Twelve percent more of the *Regards* group had household incomes over $100,000 than did the average customer. Their median age was 3 years older, and eleven percent more were white collar.

This demographic information was fine, but none of that told us how to win these customers as members. We had to go far beyond simple demographics to understand that. To get this knowledge, we began to listen to these customers' needs and wants. A lot of the opportunities in a loyalty program and to win customers as members is to listen to what people really want when they come in to a store. Everyone wants fast service, but a lot of them are looking for appreciation, recognition, for that sense that they really matter to your business. Marshall Field's motto is, "Give the lady what she wants."

We wanted to find out what these best customers wanted, and to deliver it to them in a disarming way. A lot of what we heard in our focus groups did not make us not very comfortable. We heard what they liked and then we heard all of the ways that we fell short. When we got through, we categorized these customer desires into:

Appreciation - for being a good customer
Beckoning - reaching out to invite them to belong to the store
Communication - interesting communications that challenged them
Dialog - a simple way to have two way meaningful conversations

The *Regards* program was sub-titled "The art of appreciation". We launched this program with oversized mail. Being a Minnesota based company, our sense was that our customers were very interested in the environment, and therefore we should use recycled paper that looked as if it were recycled and had big print on it that said that it had been recycled. We used subdued colors. This was a mistake. There were a lot of people who threw this package away because they didn't know what it was, and didn't open it. Then they found out at bridge club the next week, what their neighbors and friends had gotten. So we learned that we had to have that *Regards* name prominently enough on the envelope so that people knew that this was their *Regards* mailing.

To create our *Regards* membership database, we used the credit files that we had been mailing to for the past ninety years. The primary name on the credit file was often the husband. We had never gotten any complaints on that. The primary buyer was usually the woman. She did not mind that we had been sending the bills to the husband all these years. But now that we sent this mailing out full of certificates, freebies, we love you, we appreciate you, we got so many complaints that the hot line brought down three blocks of downtown Minneapolis offices' telephone lines. Fortunately, we had a special *Regards* Customer Hotline in place. We had three days time to change the addresses for the next mailing so we didn't make the same mistake again.

In that first mailing, we put in a survey. One of the things that we learned was that every time we got a chance to get feedback from our customers, we went for it. Everything that we sent them provided some opportunity for the customer to talk back to us. We asked our customers what their interests were. This was in the early nineties. We asked, "How interested are you in shopping?" Eighty seven percent of our best customers were very interested in shopping. They liked to eat out, to read and to garden. They did not like needle point.

We asked which of our services they liked. We were

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shocked at the response. Some of our core services had very low awareness ratings even with our best customers. Once we learned this, we followed up in subsequent mailings with information about those services. For example, one of the highest awareness ratings was our bridal registry with eighty five percent awareness. But our 1-800 number to order bridal gifts was recognized by less than twenty percent of our best members.

We wanted to launch the program with something tangible to show that *Regards* members were enrolled in something different. So, we reissued our credit card in a gold version with *Regards* on it. One important feature was to put "Customer since 19XX" on it. We found out from focus groups that unless we put that on the new credit card, customers who had been carrying their cards for thirty or forty years would not want to give them up. They took a great deal of pride in their longevity with the store. We also provided *Regards* stickers that they could stick on to their regular credit cards. Thousands used these stickers.

Once the program was launched, the front line sales people in the stores could immediately identify whose these *Regards* customers were. Within the first week, we had hundreds of customers come in and identify themselves as *Regards* customers. That is a brand managers dream. But it was not a store manager's dream. My voice mailbox filled up with complaints from store managers, because they would get paged, come to the floor, and a *Regards* customer who had not had a good experience would identify themselves, "I am a *Regards* customer, and…". From a marketing standpoint, that is a great opportunity, to help a best customer. We didn't realize, however, how important it was to brief our employees on the program. At first, the store managers were caught off guard.

In the initial mailing, we wanted to have a reason for the customers to come in to the store. The mailing had a certificate for a quarter box of Frango Chocolates free. The key to success is to be able to give your customers something that costs you much less than the perceived value to the recipient. The Frango Chocolate was a Marshall Fields private label. I had to wheel and deal with the candy buyer so that I could afford to get this in the program. It was an item that sells for $4.75 in the store. The candy buyer said, "Well, we can do this, but we will do it with the raspberry chocolate, because that is the new flavor that I want the consumer to know about." That was OK with me, because I was desperate for something to put in the envelope.

We had a forty eight percent redemption on that Frango bounce back which was much higher than our budget. What we also did not anticipate was that there are a lot of people that don't eat raspberries. What do you think that the candy sales people told our best customers when they came in with a Raspberry Frango Certificate and said that they wanted a Mint Frango? "No, you can't have that. It says 'Raspberry.'" We had letters to the CEO from fellow board members – about 25 of those. "I am one of your best customers. I cannot eat raspberries. I asked for a different flavor, and was told no."

It was very painful. We had to communicate to 63 stores and all the part time candy sales staff that it was OK to give them some other flavor. "Give them anything." What we learned is that the success of any loyalty program, is determined by the choice given to the customer. The more choice you can give your members, and have it work economically, the better.

We heard in our focus groups that people were very interested in inside information. Consumers think that the buyer is some sort of hero. They hang on every word that a buyer will say. How do you get a buyer to talk to a half a million customers? We used this idea to create some special events that were different from our typical special events which feature celebrities, fashion shows, or

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fragrance launch.

We took major themes, ideas, merchandise trends and developed insider information events which were much more educational in nature. Our first one centered around *workday casual*. This was a couple of years ago when workday casual was new on the business scene. Our customers told us they were uncomfortable with what to wear. They needed expert advice. So we put in place for *Regards* customers only, a series of workday casual seminars. We didn't know if they would fill. We did not know how big the need was. What we found was that we needed about 2 ½ times as many seminars as we had scheduled. They filled up in 24 hours. It was a wonderful indicator of where the rest of our customer base would be on this trend. One great benefit of the loyalty program is that you can use it as a laboratory, a leading indicator for where the rest of your customer base will go. You should share that learning with the rest of your organization.

The next time we did one of these seminars, the Garden Theme was the focus. Once again, we found ourselves adding additional seminars. As much as possible in a loyalty program, you want to position yourself so that you can say "yes" to the customer. You don't know how many seminars you need, but you have a plan B so that you don't have to say no to any of your best customers. People called the *Regards* hot line. If you have to say no, you are almost better off not having a loyalty program.

For us, it was thrilling to sell Santa Bears in August. Our customers told us that they wanted first crack at something. It was up to us to figure out what it would be: information, or merchandise. They wanted the feeling that they were on the inside. The Santa Bears were really an icon at these stores. Customers knew that they sometimes sold out because ten years ago when they were first introduced, they sold out in a week. The day after Thanksgiving, the bear goes down 25% in price and becomes a purchase with purchase. We decided to test the early access idea with the Santa Bears. Early in August we sent out a mailer that said, "If you buy a Santa Bear at full price now, you are guaranteed you will have one, and we will ship it out to your house with free delivery." The cost of the free delivery was less than the cost of the twenty five percent off after Thanksgiving. The store thought this was a really stupid and crazy idea. Who in their right mind would buy a Santa Bear in August? The fact was that tens of thousands of customers bought Santa Bears in August. The other obstacle was that we weren't bringing customers into the store. We were sending the merchandise to their homes. In retailing, you will always have this obstacle. Retailers always have this one objective: drive the customers into the store. We had to persuade them that it's OK that we can ship these Santa Bears to their homes. These were already our best customers. We were showing them appreciation.

Other examples of appreciation, were birthday cards, and Valentine's day cards. For our very very best customers, which were one half of one percent, we sent out Valentine's Day Cards which were wonderfully disarming. We had two different levels. We sent out Watermen pens to some people, and we sent out a crystal Waterford objects to other people. We got handwritten notes back from people who were very busy and very high spending, who were charmed by being remembered on Valentine's day. We learned not to get into a rut. You have to keep your loyalty program fresh. You have to constantly approach your program as if you were just starting it today. Ask yourself, what can you do that your competition is not doing?

My college introduced another example of this type of reward. They have a Freshman Reading Week in which every freshman reads the same book. One year, the book was *The House on Mango Street* by Sandra Cisneros. The university sent the book to us alumni along with the notes from the lecture. It was a fabulous way to get us to feel close to the

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University after so many years out of college. It made me feel very very connected. I read the book and the lecture notes. The following years, I waited in vain for similar books. The first one made me want to give more to the college. But the subsequent books never came. Finally, the college sent out a survey. They asked me how I felt about communications with alumni. I told them of my disappointment with the book. We will see if they do anything about it.

To further the idea of members being on the inside, we created special member events. The idea is to take what you are going to do anyway, and turn it into a membership-only event. The best customers love it. To do this on one occasion, we opened the store two hours early only for our *Regards* customers.

One of the very surprising things that we learned was what the best customers looked like. We had this idea that these people would be very well dressed, all wearing Ralph Lauren and Polo, all look like a double page spread. I visited three of our stores in the first two hours. The upper management were shaking their heads, saying, "These aren't our best customers. You must have sent the invitations to the wrong list." "No, it was the right list. This is what our best customers look like."

It is important for management to see what they actually look like. Start shattering some stereotypes. As a store manager, I had CEOs and CFOs come to the store in cut offs and tee shirts. They looked like everybody else. We heard from our best customers that they got treated differently depending on how they were dressed. If I come in a suit after work, I get treated better than if I come in Saturday morning straight from the garden. If I am pushing a stroller I don't get treated as well. If I come in with my Mother I get treated better than if I come by myself. If you have a loyalty program, you should ask yourself and your staff, "What are the conceptions internally of who your best customers are, and how does that affect how they are treated?"

Beckoning means to attract, to be enticing. Beckoning is about how to magnetize a best customer. It is about disarming surprises. We put together some of the most popular salad recipes from the Deli. These cost 17 cents each to put in the mailing. We got one hundred percent consensus on these cards in the focus groups. All of the customers loved getting these recipe cards. They were unexpected. The consumer did not expect to open a letter from a department store and find a recipe card. So, our goal was to find, what will be the next recipe card idea? These ideas are not so easy to find. We sent out a tea bag in a May mailing. It was unexpected. We sent out an offer to order for live bugs for your garden, which was very trendy. As a reward you got little chocolate ladybugs, and little insect ornaments for your Christmas tree.

On another mailing, we had the dragon fly theme. We had a dragon fly jewelry pin. Any *Regards* customer could get the pin for $15. We ordered thousands and thousands more than we thought we would ever sell. We drove traffic into the store in February, and were sold out in a week. It was unusual, and unexpected.

Northwest Airlines sent out a Christmas ornament to their most frequent flyers in early December. It worked. For two weeks I wasn't mad at Northwest. But the good feeling soon wore off, due to my dissatisfaction with the airline's service. It is important to recognize that loyalty programs are the vitamins. They are not the main course. If the main course isn't good, all the loyalty programs in the world will not make up for it.

Introducing the Communications in the Regards program was a tough sell at Dayton Hudson. Retailers are not used to the idea of spending money on a lot of letters. It takes resources and dollars. It was a hard sell internally.

We wanted to have the information valuable. We tried to get feedback. We tried different themes in our newsletter, which were tied in to the store theme at the time. Some customers didn't want newsletters. They wanted post cards. It is tough to get customers to read these days. How can you communicate with your customers?

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We learned to sweeten the information with rewards. The newsletter always included appreciation certificates. They were never coupons. They represented some kind of value to get the customer to open up the newsletter. The Saks newsletter always includes some bounce back. Niemans newsletter has offers wedged in spots throughout their newsletter.

We wanted to make the newsletter really interesting. One company that is particularly good at this is Amazon.com. You can click on their Website and fill out an interest survey. They will let you know when books come out that you are interested in. They give inside information. This is hard to do, but it was part of our objective at Dayton Hudson.

We did not put our newsletters in the credit card bill. Over the years, we had trained our customers to look for vacuum cleaner offers with their bills. This was the wrong place for a *Regards* newsletter. Also, we did not want to have the newsletter be associated with the bad news. A bill is bad news. It sends a mixed message.

One form of communication that we did not use was telemarketing from store managers to the best customers. It didn't work. It is harder to reach people at home today. Too many of our best customers have unlisted phones.

Finally, we wanted to make sure that we had a dialog with our *Regards* customers. So many companies disseminate information in one direction only. Customers typically don't know how to communicate with you. For our best customers we had to set up a two way dialog process. If you ask for feedback, you have to be prepared to respond and to make changes. If you can't respond, don't ask.

We created a special hot line for *Regards* customers. Of course, there is always the question, "Who is going to pay for this? Why would customers want to call us anyway?" We found we got 65,000 calls a year on this hot line. What do they call about? Everything.

As our dialog program evolved, we learned to put the best people in the call center into our *Regards* hot line. We had to show the hot line staff the packages before they were mailed to the customers, so they would know what the customer was talking about when they called. We learned the importance of investing time and effort in our hot line people. We learned to share with our hot line people what was working and not working, and to take their suggestions on ways to make the program better. We made many changes in the program based on the feedback from the hot line operators.

One area of dialog that did not do as well as others was to treat *Regards* customers better in the stores. Overall, retail is a high turnover operation. It was easier to get a few operators in the hot line on board than it was to educate thousands of retail sales people. Many of these front line troops felt that if you treated someone in line better than the others, it might hurt sales. So, in some respects, we did not do as well as we wanted to in reception of our best customers at the sales clerk level.

Results

What were the results of the *Regards* program? The results were increased retention, increased profits, increased customer lifetime value. While it may seem soft and squishy, it changed behavior of our best customers and changed our bottom line.

To prove that the money spent on the *Regards* program was paying off, we had a control group. The company had never had one before. It is difficult to measure a program unless you have a control group. When we set up the control group, we made sure that no store executives were in it, no board members, no employees, but we did not have a smart enough database to tell us who was the next door neighbor and best friend of the President of Merchandising's wife. She was in the control

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group.

We got some angry calls from people who were in the control group. We didn’t tell them that they were in a control group, of course. We just told them that there had been "a terrible mistake", and shifted them to the program. They were tagged as the "out of control group." Others called to complain about being left out who were not qualified for the program. We explained that you had to have spent this much to qualify. Most said OK, but for those who were adamant we made exceptions.

In summary, I feel that we really learned something valuable in the *Regards* program that is applicable to similar programs everywhere. Treating your best customers better is good for business and makes customers happy.

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Relationship Marketing: In The Online World, It Can Be Just One Click Away

by Lora Meisner

"The 1:1 enterprise, operating in an interactive environment, relies not just on information about customers, but information from them. Dialogue and feedback are indispensable elements of a customer relationship. Communication with the customer plays an essential, integrating role in the customer-driven dynamic of competition."
--Don Peppers and Martha Rogers, Ph.D.
Enterprise One to One

<u>It's the Customer Stupid !</u>
While not trying to emulate James Carville, the strategist behind Clinton's campaigns, I think many online services are struggling with ways to become more customer-friendly. As many e-commerce sites have found, price isn't everything. Customer service has to be part of business in cyberspace. Most e-commerce sites offer e-mail and phone support. But many times both are hard to find on some sites and actually reaching someone on the phone can be a challenge while waiting on hold for 10 minutes or more. I've read that e-mails can go unanswered for days. I guess I've been fortunate in that I've purchased many items online and have had good experiences.

<u>They Know Their Customers</u>
I'll admit that I'm an unabashed fan of Amazon, but as a marketer and someone well aware of the importance of customer service, I find that they do things right. As an example, several months ago I purchased a book and used their one-click system. (The one-click system already has the customer's relevant data and literally completes the sale with one-click.) Right after I completed that transaction, I came across another book that I wanted to buy. After deciding to use the one-click system again, I immediately contacted Amazon's customer service via e-mail, to see if they could combine the two orders and

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save me some money on shipping. (Anyone who has ordered through Amazon knows that you get an almost immediate confirmation on any order.)

The customer service department responded quickly saying that both transactions were completed separately, but Amazon would credit my account for one of the shipping charges. For me, that showed excellent customer service by responding quickly and giving me, the customer, a good-faith reduction on the shipping charges.

Just recently, I was on Virtual Vineyards site at http://www.virtualvin.com. While looking at their specials and their Wine of the Month recommendations, I decided to see if they carried any herbal wines, like dandelion wine. Not finding anything listed on their site, I sent a message to their customer service department inquiring about dandelion wine. The next day, I received a message that said that most of these wines are of the homemade variety and the person listed several search engines that had information on sites that described how to make dandelion wine.

Needless to say, I was impressed for several reasons. I received a timely response as well as information that helped me with my original question. It was obvious that the customer service department had searched for this nformation. They went the extra mile. Will I return to buy more wine at Virtual Vineyards? Absolutely.

<u>Now Just A Few More Words</u>
Good customer service is the best way for a business, whether online or of the bricks and mortar genre, to build a loyal customer base. Both of these online businesses can now count me as one of their loyal customers. If a business is primarily e-commerce, good customer service can be more of a challenge for obvious reasons. But proper planning and dedicating the right amount of resources can ensure that any online business is reasonably responsive to their customers.

Many books have been written on how to develop good customer service practices. I've listed several of the basic strategies:

1. Customer recognition--develop a "most valued customer" program and let your customers know that they are valued by offering them a special discount or service.

2. Loyalty purchasing--Amazon does this with their book recommendations on their site which are personalized based on the customer's buying habits. Also recommendations are sent via e-mail as short e-newsletters to registered customers. The textbooks refer to this as cross marketing.

3. Product quality & customer satisfaction--delivering a quality product is an obvious element to any customer satisfaction program. Surveying your customers and asking for their feedback should be a universal practice but it is not used enough by online or offline businesses.

4. Customization and collaboration--building a learning relationship between the business and its customers. This requires a consistent stream of information that is developed over time.

Developing good customer service is essential to build as well as grow any business. This should be obvious to anyone but too many online businesses have jazzy sites with lots of graphics but have forgotten the basics--be available and responsive to your customers. Isn't this what basic marketing is all about?

As part of a good relationship marketing program, continuing to build a relationship with customers as well as potential customers is essential to building a business. One great way to do this is to offer your customers relevant information. A good and inexpensive way to deliver the information is via a newsletter---either in print or electronic format.

<u>E-newsletters - Good Customer Relations</u>
Any firm that has a Web site and e-mail can estab-

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lish a relationship with their customers that offline efforts are not able to replicate. Customer relationship management helps firms to build barriers to competition, increase customer retention and learn to sell more goods and services to each customer - all while making it more convenient for customers to remain loyal.

My Own Experience

While I was researching how to develop my own business and my Web site, aside from "content is king", and quick downloading, among other features, having an e-newsletter (an ezine) was considered an important factor in getting traffic to a Web site.

I took advantage of subscribing to newsletters that covered online marketing, email marketing, as well as other issues that were important to developing my business. I found that receiving consistent and up-to-date information helped me to more effectively market my business. But more importantly, this information helped me to help my clients--making their businesses more effective.

One very effective tool in establishing ongoing relationship with your customers is an e-newsletter. Why is the e-newsletter such an effective tool? It's easy, cost effective, and it delivers. How does it do all of this? Let me give you some examples.

Some of the Benefits

75+ million people communicate via e-mail today. Many polls (both online and offline) have found it to be the most popular form of communication among regular users. An estimated 2.6 trillion e-mail messages were sent last year alone in the U.S. But the challenge for marketers and e-newsletter publishers is to make their messages targeted, relevant and compelling.

The e-newsletter has to give the reader something they can use, not a lot of advertorials. E-newsletters assume several functions--sending relevant information and messages, driving traffic to Web sites, replacing paper mail (cutting the cost of marketing), as well as the ability to promote special discounts, sales or services.

E-newsletters while driving traffic to your site can also generate their own revenue by selling advertising/sponsorships within the newsletter itself. My own newsletter accepts reciprocal advertising. These wonderful communication tools are also extremely cost effective. E-newsletters eliminate printing and postage fees while making it easy to distribute them. Additionally, increasing your subscriber base involves no additional distribution costs.

E-newsletters foster regular communication with customers and potential customers, creating familiarity and building trust with your brand. By including timely information, your subscribers will begin to look to you as a source of information--one of the most important aspects to building any business in this Internet-led information age that will continue to challenge us for at least the next 50 years.

Here are a few examples of Web sites that offer free subscriptions to e-newsletters:
www.thetrip.com
www.1tto1.com
www.amazon.com - offers individual newsletters on books covering various subjects There are numerous directories for e-newsletters:
www.lifestylepubs.com
www.ezinesearch.com
www.ezineseek.com

Now That You Have Their Attention, Ask Their Permission

Once a company has built up a database of customer (& potential customer) e-mail addresses, there are other ways to make use of this information in relationship marketing. It's called, "Permission Marketing." The nature of the Web lends itself to building one-to-one relationships through permission marketing.

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Unlike static brochures and printed sales materials, the Web provides a medium through which you can easily interact in real-time with prospects and clients. A well-executed permission marketing program can help turn your web site visitors into online clients. Over time, those one-time customers can develop into loyal clients if you consistently identify what your clients want and notify them when you can meet those needs.

Permission Marketing

To practice permission marketing on the Web, you would typically start by making an offer via your Web site, banner ad or opt-in email lists. The prospect would then respond to your offer and give a formal consent to receive that information or incentive from you. Permission marketing utilizes opt-in email which is not spam, as it has been requested by the subscriber.

How do you integrate permission marketing into your online efforts? Identify your target audience and obtain opt-in email addresses of prospects in the target market. Communicate offers to your audience regularly in order to nurture the relationship via ongoing email that's informative and educational.

Ask The Right Questions

So how do you measure the success of your permission marketing campaign? By recognizing that your are building loyal and trusting client relationships. Are you learning more about them and serving them better? Has your repeat business increased? The more information you gather from your clients, the more effective your permission marketing programs can be.

By utilizing permission marketing, you get more "bang for your marketing buck" because you're interacting with each client more efficiently. You can eliminate redundancies and utilize your marketing dollars more cost-effectively on a target audience who wants to hear from you.
What are some concerns when your firm uses permission marketing? Don't send hard-sell solicitations or be too insistent and don't send your messages too often. Of course, good business practices also prevail on the Web--don't exaggerate product size, performance claims or the "retail price." Last, and most important, don't invade your clients privacy. This means no reselling of their names or information or offering their information to another party without their express consent beforehand.

Where's the Fit?

Which industries are successfully using permission marketing? The travel industry--airlines are selling more seats with last minute special low fares sent to target audiences. This quick turn-around time allows the airlines to fill seats that normally would have been empty. The software industry, financial services, industrial products, and the medical industry--all have lowered marketing as well as operating costs. As a result, they can use the dollars they have saved to do additional marketing to their target audience online.

So when are you beginning your permission marketing campaign? It's a great way to grow your business and build that very important relationship with your clients. Tomorrow would not be too early to begin designing your program. Building relationships with your customers and potential customers does not have to be expensive or time consuming, just well-planned and continuous. Once a good relationship is built, it takes more than mere competition to break it.

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Software Review

by David Raab

Batch vs. Real-Time Technologies

The last two columns in this series have looked at ways to segment the universe of marketing-related systems. Although no fully satisfactory scheme has emerged, one distinction was present in nearly every attempt: batch vs.and real-time systems. The general argument was that the technologies needed for these two types of systems are so radically different that they need to be treated separately. This proposition is worth closer examination--both to understand the nature of the technical differences, and to see how some systems manage to bridge the gap.

First, let's get the definitions straight. Batch systems execute a sequence of steps without external inputs, while real-time systems wait for user input between steps in a transaction. Batch systems typically apply the same process--such as calculating a model score or assigning a customer segment--to many records in a single job, while real-time systems typically execute a process against a single record per job.

These differences in function result in different goals for system design. For a batch system, the key goal is to move through a large data set as efficiently as possible. The goal for a real-time system is to retrieve and update individual records with minimum delay.

Although batch systems usually process large numbers of records, they generally work with one record at a time: they read the record and its associated data, process it, store the outcome, and then repeat the process for the next record. Efficiency is determined primarily by the time it takes to assemble all the data needed to process each record. In a flat file system, this is done by either combining data from multiple sources into a single record before the process begins, or by sorting multiple files in the same sequence so the system can step through them in parallel without extensive searching. This sort of sequential processing is especially well suited to files stored on tapes rather than disk drives, since it allows the system to physically read the records in the sequence they appear on the tape. If the processing were not sequential, then the system would have to search for each set of records from one of the tape to the other. (Remember all those images of spinning tapes from TV shows and movies n the 1960's and 70's? That's what was going on.)

In contrast, a relational database is explicitly designed not to place records in a specific sequence. Instead, relational systems rely on indexes to link the related data and typically load the data itself onto disk drives that can quickly access records that are not physically adjacent. Still, because sequential access is inherently more efficient than even the fastest disk drive, many of the largest-volume batch systems create an ordered extract that is then processed like a flat file.

Relational systems also often improve efficiency by "denormalizing" the data, which means storing the same piece of information in more than one record. This violates a cardinal rule of relational database design, which says each item should be stored only once. The rule exists to ensure data consistency and speed updates. But violating it will reduce the number of tables that must be searched and read to process a record. This can yield major performance gains.

Batch systems can get away with denormalization and sequential processing because they are not subject to the same constraints as real-time systems. Most real-time systems don't know which record will be needed next, because they are reacting to unpredictable events such as which customer will place an order or call for service. Therefore the real-time systems need search mechanisms like indexes on account numbers, which allow them to find any particular record quickly. By contrast, a batch system will eventually process all records in its set, so has no particular need to locate a specific record first. Real-time systems also must be kept internally consistent at all times, since two transactions relating to the same account might occur almost simultaneously, and different

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kinds of transactions might occur in different sequences. This makes it much more dangerous for real-time systems to violate the relational principal of "normalization"--storing each piece of information only once--than for batch systems,which exist in a much more controlled environment. Similarly, real-time systems are also more focused on the update speed that normalized designs provide.

So, to oversimplify a bit, batch systems use sequential processing and denormalized data structures (few tables with some redundant data), while real-time systems use indexes, random access and normalized structures (many tables with no redundant data). While it's possible for one system to do both, most software is optimized for one or the other. This is why the distinction is so fundamental when attempting to classify different marketing products.

Specifically, traditional data warehouses and database marketing systems tend to use batch processing techniques--after all, most queries are looking for patterns or segments in the entire database, not picking out a single customer or account. By contrast, front-office systems for customer service, sales automation or contact management are real-time systems that must be designed to work with one customer at a time.

The problem, of course, is that today's goal is to merge the back-end marketing database with the front-office customer contact system. This lets users define customer strategies in the back-end system--which has the rich history data and analytical capabilities--and execute the strategies in the front-office system during the real-time interactions. So designers are being asked to make one system handle both batch and real-time processing. As with most computer processing challenges, there are two basic solutions: brute force and elegant design. Given the continued drop in hardware costs, brute force is often the best approach. But in some situations, elegant design is still worth the effort.

In dealing with real-time marketing systems, the classic application of brute force is parallel processing. This involves systems that split a single batch job into many smaller jobs and run them all simultaneously. IBM's SP2 and NCR's Teradata are the most common examples of massively parallel systems, although other vendors have products as well. Massively parallel systems do have the ability to give high performance on both batch and real-time jobs. But the hardware is expensive and developers must usually tune the application software and data structure for optimum performance.

This tuning is costly and time-consuming, which is bad enough. But it also means that the resulting system may perform poorly when faced with unanticipated demands. For example, one common tactic in parallel system design is to store data from different date ranges on separate hard drives (each served by its own processor). This works great when queries look across all date ranges, since the different processors can work on the different date ranges simultaneously. But if queries suddenly focus on a single date range, the system will slow considerably because only one processor can access the necessary data. (Reality is a bit less grim, since parallel systems can usually give several processors access to the same data if necessary. But performance will still suffer.)

A newer brute force approach involves "main memory" databases, which essentially move the underlying data from a disk drive into high speed, random access memory. Specialized database management systems that do this include TimesTen (www.timesten.com) and Angara Data Server (www.angara.com). These systems can access records ten to twenty times faster than if the data were stored on a disk drive; they can also employ specialized indexes that reduce performance impact of bringing together related records from many different tables. The most important current application of this technology is managing Internet interactions, where systems may need to access huge volumes of data in real time. But the fast access provided by the main memory systems allows them to complete batch processes extremely quickly as well.

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For companies that are unable or unwilling to apply brute force solutions, the alternative is a system design based on conventional technology. Since the same conventional data tables generally cannot provide adequate performance for both real-time and batch tasks, this usually involves maintaining separate data tables for the two types of applications, and somehow synchronizing them. The simplest approach is to first load all data into a conventional marketing database--structured for batch processing--and periodically create extracts that are structured for access by real-time systems or feed data into the real-time systems' own tables. The problem with this method is that batch processes are used to update the conventional database and to generate the extracts. This means the marketing system cannot feed adjusted information as a transaction occurs. So the marketing feed itself is something less than real-time.

A slightly more sophisticated approach is to update the table that supports the real-time systems at the same time that the main marketing database is updated. This avoids the lag due to batch extracts, but still must wait for the batch updates of the main database. The only way to avoid this second lag is to update the real-time table directly, rather than filtering data through the main marketing system first. Some systems--particularly those designed for Internet marketing--do maintain a profile database that is updated in real time in this fashion. In addition to simply capturing the new transaction, such a system might recalculate derived values such as cumulative purchases and model scores, and use the adjusted values in managing the interaction. The new data would be periodically added to the main marketing database during its regular batch update. This sort of synchronization is about the best that can be done with conventional technology.

As marketers continue to integrate real-time front-office systems with batch-oriented marketing databases, vendors will face increasing pressure to combine batch and real-time processing in a single system. As we've seen, this is a difficult task using today's standard (relational) technologies. Buyers looking for an integrated system should look carefully at each vendor's approach to this challenge, to ensure the system they purchase will meet both current and future needs.

Mergers Point to a Consolidated Industry

Maybe it's a sign of maturity or maybe it's a sign of decadence, but today's marketing software companies now seem more interested in acquiring other people's products than building their own. The past year saw a spate of mergers and acquisitions among members of the industry. Some were traditional efforts to strengthen capabilities related to a company's core offering.

For example, Kana (www.kana.com), a provider of email response management software, purchased companies that do outbound email campaigns (Connectify), real-time Internet dialogs (Business Evolution, Inc.) and self-service Web-based support (NetDialog). Similarly, Sagent (www.sagent.com), a provider of tools to help load operational data into a warehouse or marketing system, acquired QMSoft, which has specialized technologies for data matching and enhancement. Roughly in this category--although perhaps more a consolidation in a shrinking segment--was the combination of Retail Target Marketing Systems with Experian's AnalytiX group. Both provide traditional campaign management systems using proprietary database engines--an increasingly tough sale in a world committed to using standard technologies.

But other acquisitions had a bolder purpose: assembling a complete set of customer management capabilities. This group includes E.phiphany's (www.epiphany.com) purchase of RightPoint, Broadbase's (www.broadbase.com) purchase of Rubric, and, to a lesser extent, Exchange Applications'

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(www.exapps.com) purchase of GBI and ClientLogic's (www.clientlogic.com) purchase of MarketVision. The object of such transactions is to provide an instant infrastructure to firms with no existing customer management capabilities--transforming them from laggards to leaders in one simple step. Clueless to flawless, as it were. For marketers afraid of being left behind as their competitors do a better job of customer management, this is an irresistable proposition.

It is also the purest snake oil. Any experienced marketer or remotely honest vendor will tell you that the real work in becoming customer-centric is the organizational and process change. Delusions that simply buying the right product will solve the problem will be quickly shattered--though not until after the vendor has been paid. This does not mean that integrated product suites lack value. The technoloyg of customer management is far from trivial, so selecting appropriate products does have a major impact on project success. This means it's worth looking at just what the Vendors of integrated suites have to offer.

The first step is to establish a framework for comparison. Nearly every marketing product claims to support "closed loop marketing". The general impression conveyed by this term is of a system that executes marketing programs and captures the results so they can be evaluated and fed into improved future programs. But it turns out there are more loops in customer management than a three-mile roller coaster. Vendors naturally tend to define the kinds of loops that they can actually deliver. So it's important to identify the components of the full customer management cycle in order to see which pieces any given vendor can support.

In broad terms, the cycle can be broken into five components. The first includes 'front office' systems that actually interact with customers: these are where transactions originate and where, eventually, marketing messages will be delivered. The second component includes the data extract and preparation tools that pull transactions from the front office systems and load them into the marketing database or data warehouse. For simplicity, assume this component also includes the database itself. The third component is the analysis tools used to assess the marketing data and guide marketing strategies. The fourth component is the campaign engine that assigns customers to groups and associates those groups with specific campaigns that embody the strategies. This component also generates outbound campaign messages. The final component is real-time interaction management, which feeds marketing decisions to the front office systems as customer interactions occur. Reactions to these decisions are captured by the frot office systems and then fed back into the marketing database for analysis, thereby "closing the loop".

It seems self-evident that a true "closed loop" system would contain all five components. But in fact there is a great divide in the marketing system world. Standing alone on one side are the front office systems, which are large, real-time transaction processing products run by operational departments like sales and customer service. These systems may have thousands of users in a large company; because of their size, they are where most of the money in customer management is spent. This is the turf of traditional "customer relationship management" (CRM) vendors like Siebel, Vantive and Clarify, and is being approached by other enterprise software vendors like Oracle and SAP. A related and somewhat overlapping set of vendors like Pivotal, Kana, Brightware and Silknet provide Internet-based front office products.

On the other side of the divide is everybody else: database, analysis, campaign and interaction management tools. These systems have much smaller numbers of users and (except for interaction managers) use mostly batch processing, which is better suited for most kinds of analytical work. Traditionally, these components have been provided by many small vendors who are specialists in their particular field.

With this picture in mind, the recent mergers and acquisitions come into clearer focus. E.piphany, Broadbase and Exchange Applications all are on the non-

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front-office side of the cycle, and so are the companies they acquired: E.piphany provides data transformation, analysis and some campaign management, to which RightPoint adds interaction management; Broadbase provides data transformation and analysis, to which Rubric adds campaign management; Exchange Applications provides campaign managment and some analysis, to which GBI adds outbound email. Thus, these acquisitions all represent an attempt to build multi-function integrated systems that can rise above single-function, stand-alone products that have traditionally dominated this sector.

This strategy has several advantages: it leads to larger revenue streams; it makes the vendor attractive to companies that are new to customer management (still the vast majority); and it lets the vendor win against single-purpose products that are superior within their specialty. In fact, by helping deny revenues (and investment financing) to single-function products, the strategy has the welcome long-term effect of reducing competition and stifling the growth of firms that might eventually grow into full-spectrum rivals.

No strategy is guaranteed to succeed, and this one does has its drawbacks. The most obvious is that not all firms want to buy an integrated solution--and, in fact, the companies most likely to want a complete customer management solution are precisely the early adopters who already have partial solutions in place and therefore only need some incremental enhancements. These are a minority of the business world but may well constitute the majority of the market for the foreseeable future. Of course, the integrated product vendors are willing to sell their different modules separately. But these components are often less than best-of-breed and will be increasingly difficult to deploy independently as they become more tightly integrated with the rest of the vendor's suite.

There is also the cost of expending technical and management resources on absorbing acquisitions rather than adding new system functions. This could lead the integrated vendors to fall further behind specialists who create best-of-breed products in one area and build alliances with best-of-breed providers in others. This is the strategy adopted by Exchange Applications in setting up alliances with SAS and MarketSwitch for predictive modeling and with Microstrategy for reporting.The integrated vendors also risk a backlash when buyers and investors realize that their "closed loop" products exclude the front office portion of the customer management cycle. Software buyers, who are used to vendor hyperbole, will presumably make this discovery between any money changes hands. But the investment community, entranced by visions of a multi-billion dollar CRM software market, may be less forgiving when discover most of the funds will be spent in the one area--the front office--that these vendors exclude.

Indeed, skillful handling of front office integration will probably be the key to long term success for the non-front-office vendors. Because the sheer size of the front office systems--in terms of complexity, number of users, operational impact and acquisition cost--they tend to be purchased on their own merits rather than as an adjunct to the other customer management products. This means it would be extremely difficult for a non-front-office vendor to successfully introduce its own front office products: in fact, this is so obvious that none of those vendors has even tried. Instead, they have created generic data exchange capabilities and, in many cases, have also built specific connectors to major CRM systems. Their problem is that the front office vendors themselves have their eyes on the non-front-office sector, and can either build or buy the components to provide the necessary services. So far, there have been no major acquisitions across the front-office/non-front-office divide. (ClientLogic's purchse of campaign management vendor MarketVision is a near exception, but ClientLogic provides front office services rather than software.) But when the front office vendors start crossing the line, the non-front-office vendors will face a serious challenge.

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Since interaction management represents the connection between front-office and non-front-office systems, it is the most likely point of contact between the two sets of vendors. Interaction management is also an uneasy fit with other non-front-office products, since it is inherently real-time rather than batch. This makes E.piphany's acquisition of RightPoint--the most mature interaction management product--particularly intriguing. How E.piphany integrates RightPoint with its other offerings and manages its connections with front-office systems will be extremely important to its long term success.

Other products for interaction management are being developed mostly by traditional campaign management vendors (Exchange Applications, Harte-Hanks, Recognition Systems, Prime Response) or independent companies (Verbind, Trivida, Manna FrontMind, Black Pearl, DataSage). Whether the front office vendors acquire any of these, develop their own interaction managers, or leave interaction management to others bears close watching by both customers and investors in the marketing software industry.

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The Five Steps for Achieving Double-Digit Response Through Integrated Direct Marketing

by Scott Hornstein

Integrated Direct Marketing (IDM®) is the go-to-market process that corporations such as AT&T, IBM, Hewlett-Packard, Citibank and West Group are using to synchronize their publicity, advertising, direct mail, telemarketing, e-marketing and field sales to:

- Increase response rates
- Increase customer satisfaction
- Enhance customer lifetime value

These companies have proven the power of the IDM process to:

- Generate double-digit, qualified response
- Increase, and often double the percentage of leads that are followed-up by the salesforce
- Re-deploy existing marketing budgets and resources to be significantly more productive

The Five Steps

Following are the five steps for achieving double-digit response through Integrated Direct Marketing:

1 IDM “Voice of Customer” Research to understand customers’ and prospects’ media message preferences, sales cycle and decision-making process.

2 Integration of the field salesforce into the IDM process from day one.

3 Developing and deploying the Consensual Database^{sm} process.

® IDM is a Trademark of Ernan Roman Direct Marketing
^{sm} Consensual Database is a Service Mark of Ernan Roman Direct Marketing

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4 Precision timing and deployment of multiple media and sales channels.

5 Ongoing communications to increase penetration, yield and lifetime value.

Let's examine each of these in detail.

Step 1: IDM "Voice of Customer" Research

Traditionally, we learn about our customers by extrapolation: what's on the list card; are they multi-buyers; what is their response history; etc. The "Voice of Customer" process goes straight to the source to "pre-test" marketing programs by talking directly to customers via in-depth, one-on-one interviews which usually exceed an hour. These interviews delve into the content and timing of direct marketing communications.

This is a qualitative research process focusing on:

- Key business issues
- The decision making process
- Roles and responsibilities of key contacts
- Best offer
- Positioning of the creative
- Media preference and , increasingly, **media aversion**
- Media and sales channel mix

These are some of the critical questions IDM "Voice of Customer" research can answer about your customers and prospects:

- Who are the decision makers?
- What business issues are important to them?
- Which media best reaches them?
- What offers will influence their buying decision?
- How should mail packages be designed so that they'll be opened?
- What is their perception of:
  - Print Advertising
  - Direct Marketing
  - Telemarketing
  - Publicity
  - e-marketing
  - Appropriate field sales coverage
- What information should be available electronically?
- When is personal customer service appropriate?
- In short, how to get the right message to the right person at the right time?

Do no shortcut this critically important step as you plan your IDM program!

Step 2: Field Sales Integration

If the Field does not "buy in" to a program, they will not follow-up leads! And the program will fail. Therefore, a cornerstone of IDM is the integration of the Field Sales Force from day one.

Field sales is a critical member of the cross-functional IDM Team, contributing to the following critical areas:

1 "Voice of Customer" research

2 Offer development

3 Creative Review

4 Developing the database

5 Determining lead criteria

6 Designing a lead management process

7 Determining the metrics that we will all be judged by

Step 3: The Consensual Database Process

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Traditional databases perpetuate our reliance on single-digit response, otherwise known to direct marketers as the 2% solution. These traditional databases only provide us with the ability to select customers and prospects based on inference.

Instead, we suggest a process where customers opt into a database and populate it with information which they have provided regarding their:

- Interests and needs
- Information and timing requirements
- Media preferences

In testing this new process, IBM has achieved a:

- 80% increase in sales over the control group
- 75% decrease in marketing waste
- Six point increase in customer satisfaction

Step 4: Precision Deployment

Marketers' toughest objective is to get the right message at the right time, via the right medium to the right person. Think of your own experiences where the incorrect medium has blocked the message (like phone calls received during dinner).

IDM looks to integrate all appropriate media, including:

- Publicity/public relations
- Advertising
- Direct mail
- Telemarketing
- Internet
- Field sales

Key questions you should consider to achieve precision deployment:

1 How can you synchronize all the appropriate media to meet your objectives?

2 What is the effect of each medium on the selected prospects?

3 What mix will build optimal impact and response?

4 How can you time your telemarketing to maximize the effect of mail, Web or print advertising?

Precision deployment of media achieves optimal use of traditional marketing and sales channels at current or often reduced costs. By redeploying media (and shifting budgets accordingly), direct marketers can realize dramatic increases in response rates.

For example, let's say a direct response campaign generates a traditional 2% response.

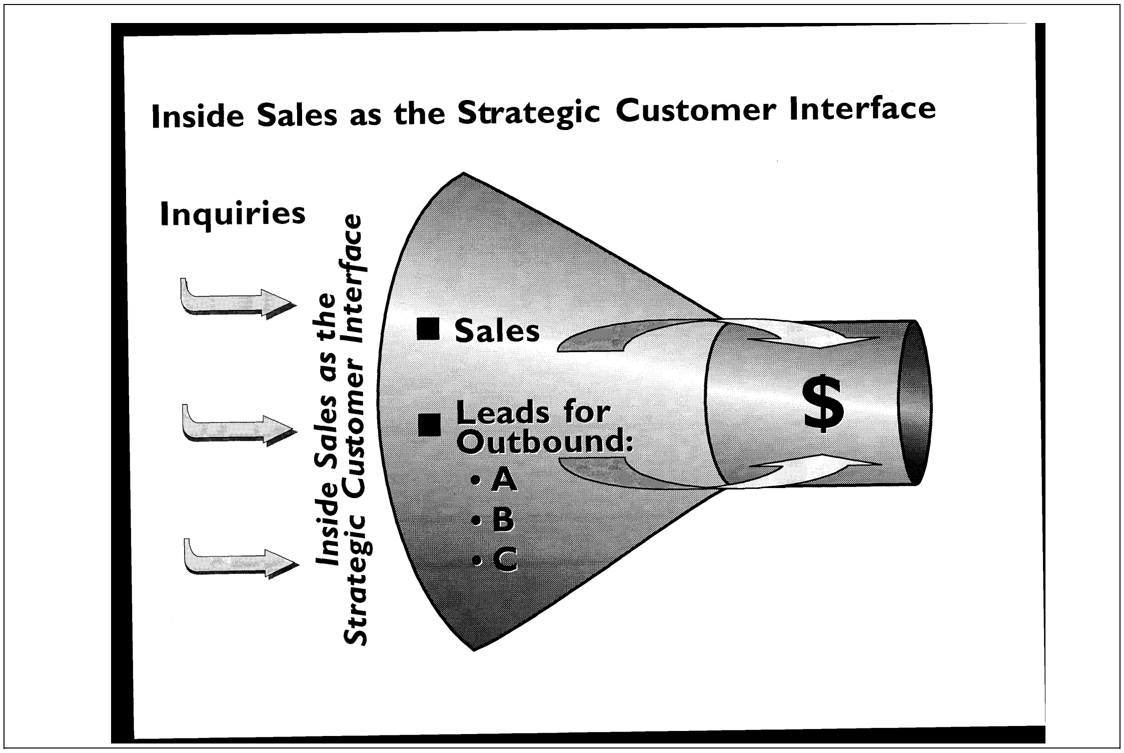
- If you integrate a toll-free 800 number in your advertising, mailing and Web page as an additional way to respond (or for customer service)—with well trained, well-scripted communicators answering the phone—**the response rate can increase by 50 percent to 100 percent.**
- Then, if the mailing is followed up with a knowledgeable, relevant phone call within **24 to 72 hours** after mail is received, the response can jump by **500 percent**.
- In this simple example you've increased response by 600%—from2% to 14%.

See Graphic 1 on the next page.

As you select and deploy media remember that it is not the size of the media budget that makes Integrated Direct Marketing succeed; it is how that budget is deployed. Because of this small businesses can use IDM with as much success as large corporations.

The traditional budget allocates about 70 percent for print ads with an 800 number and 30 percent for direct mail.

Per IDM, media dollars should be allocated based on the percentage of response contributed by each medium. Our testing shows that it is generally more effective to spend:



Graphic 1

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10 percent on vertical print advertising

15 percent on direct mail

15 percent on Internet

60 percent on telemarketing

While it's true that telemarketing is more expensive than either print or direct mail, and Internet is much "sexier", the personal nature of the telemarketing contact makes it a powerful addition to your mix—when professionally deployed and implemented.

Unfortunately, it's too early to quantify Internet's true contribution to bottom line revenues.

Step 5. Ongoing Communications

Traditionally, most marketing programs focus just on achieving a sale. It is often unimportant whether this sale is from a first-time customer or a ten-year customer. We devote virtually the same time and money to both.

Targeted, personalized Ongoing Communications is considered a luxury, and usually falls by the wayside, which is bad for both marketer and customer.

The IDM process is concerned with Customer Lifecycle Management, and thus engages the customer in an ongoing interactive dialogue. The purpose of this dialogue is two-fold:

1 To find out more about customers' needs and how they change over time.

2 To tailor messages to focus on those needs.

A critical aspect of Customer Lifecycle Management s establishing the process to structure, sequence and limit the number and type of communications you have per customer.

Thus we should be able to implement, and continuously fine-tune a precise, disciplined marketing process that:

- Adds relevance to your direct marketing.
- Provides better value to your customers.
- Builds strng customer relationships and satisfaction over time.

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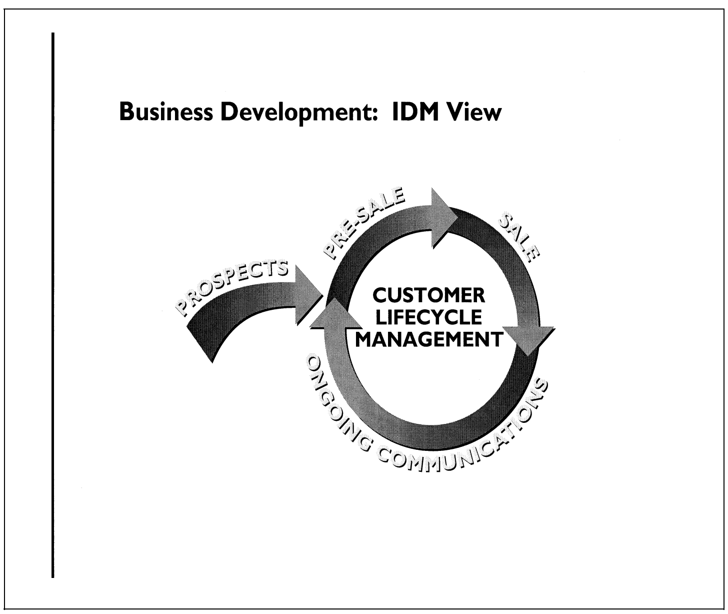
- Generates “best in class” return on investment.

See Graphic 2 below.

In summary you now have the five critical steps for implementing Integrated Direct Marketing at your organization, and achieving double-digit response. Good luck!

Scott Hornstein is Senior Partner and Principal of New York City-based Ernan Roman Direct Marketing (ERDM). His responsibilities include database strategies, creative direction and program implementation. Mr. Hornstein has lectured widely an Integrated Direct Marketing and is a contributor to all books on IDM by Ernan Roman. He can be reached at (718) 225-4151 or via e-mail at scott@erdm.com.

This article is based on the book, Integrated Direct Marketing: The Cutting Edge Strategy for Synchronizing Advertising, Direct Mail, Telemarketing and Field Sales, *by Ernan Roman, NTC Business Books. To order, call (800) 323-4900.*



Graphic 2

Building Loyalty by Solving the Customer's Problems

by Arthur Hughes

Everyone wants loyal customers. That is what database marketing is all about. But how do you go about building and maintaining that loyalty in a business to business situation? That is the question one company, Panduit Company, of Tinley Park, Illinois, has answered with a highly innovative method using Electronic Data Interchange which can be used in a wide variety of business situations.

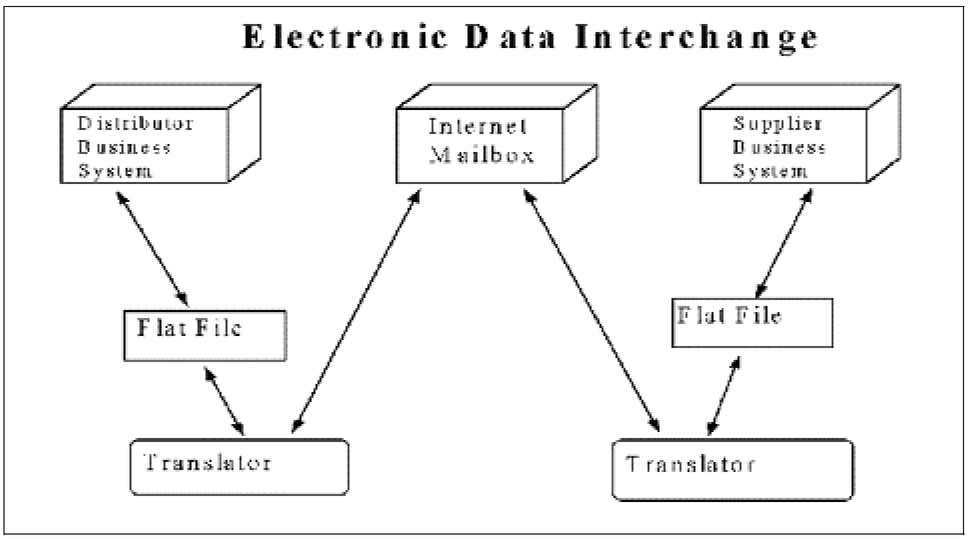
Panduit is one of the largest manufacturers of components for the electrical industry, with more than 60,000 SKUs in stock. They market exclusively through 1,800 distributors in the USA. These distributors, in turn, sell to maintenance & repair shops, industrial construction firms, original equipment manufacturers and communications firms. There is a lot of competition in the industry. Profits are down. The average distributor who was making 2.13% on his sales revenue in 1989 dropped to 1.50% in 1993. The picture since then is no better. The distributors are plagued with low market growth rate, rising operating costs, and low profitability. The return on total assets dropped from 7% in 1989 to 4% by 1993. When their customers hurt, Panduit hurts. Something had to be done.

Panduit Corp. worked directly with several of their largest distributors to analyze their problems. They knew profits were low as industry data showed that distributor's average gross margin was 20.7% and operating costs as high as 19.2%. Some of the largest problems were due to purchasing, accounts payable, receiving and put away, inventory carrying costs, incoming freight and returns. The urgent need for these distributors was to reduce their replenishment costs, increase their inventory turns, improve their service level, and eliminate the many errors that were common in the industry.

(Solving Problems, continued from page 20)

The solution which Panduit Corp. presented to them was adoption of Electronic Data Interchange involving automated communications between Panduit and their customers, and Vendor Managed Inventory. The system was explained by Bernard Westapher, Vice President, Marketing and Sales, in a talk to the Second Annual Executive Networking Conference in Chicago. CEO's of sixty major distribution companies enthusiastically received Bernie's talk.

EDI (Electronic Data Interchange) is a system similar to the Internet. It is a method of linking the computer systems of a supplier and its customers. It looks something like this:



The EDI system has been around for some time, but had not been used to link distributors and suppliers in the way that enabled many suppliers and distributors to do it quickly and inexpensively. Each distributor and manufacturer used unique mappings which required interpretations. The results were slow and expensive. Furthermore, although Panduit liked it, their distributors could see no cost reductions for themselves in adopting it. They preferred to use the fax. It was easier and cheaper for them. Most suppliers were promoting the EDI system strictly to enter orders. If Panduit and other suppliers were to cut costs for their distributors, they had to provide order entry, order acknowledgment, advance shipping notice and invoicing all through the same paperless system.

To get the real payoff, the distributors had to integrate their systems with EDI. But each distributor already had a system which they had purchased from various business system providers which could not be easily integrated with EDI. The industry standards required interpretation so each supplier and distributor had to negotiate custom arrangements to utilize EDI. In short, the EDI system was nothing short of chaos: poor understanding, very slow implementation, and quite a bit of resistance.

Investment in the solution

To solve the problems, Panduit invested a great deal of time and money. They secured the agreement of four other key suppliers to their industry. Then, Panduit modified their own system to accommodate the requirements of these four suppliers and, hopefully, most other suppliers. They called their new system the Qualified Supplier Program (QSP). Using these suppliers as a template, they developed a turnkey package. They found an external vendor, Advantis which could supply the translators mapped to QSP standards to all parties concerned. Panduit took out advertisements, published the standard mapping specifications, and invited other suppliers -- including their competitors -- to adopt the new system.

After two years of work, Panduit had persuaded 34 major electrical suppliers to adopt the new QSP system, and were testing with many more. Some of the suppliers using the new system include Allied Tube and Conduit, Leviton Manufacturing, American Insulated Wire, Allen-Bradley, Appleton, Philips Lighting, and Hubbell. As a result of their success, the National Association of Electrical Distributors took over responsibility for promoting and administering the program throughout the entire industry.

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(Solving Problems, continued from page 21)

Results of the new system

Within 1.5 minutes after a distributor places an order with Panduit through the EDI system, Panduit has received the order, processed it, acknowledged it, prepared a shipping manifest for printing in their warehouse. Most products are on their way to the distributor the same day as the order. Human errors, which plagued the industry before (with 60,000 parts, many with similar part numbers), were minimized.

Distributors received advance shipment notices, via EDI, telling them how many boxes were being shipped, the contents of each box, and identification of the bar coded license plate on each -- all electronically, without any paper required. This is the foundation for a computer-controlled receiving system called Pan-Receive.

Vendor Managed Inventory

The ultimate cost saving device, however, has been the extension of the EDI system into VMI -- *vendor managed inventory*. In this system, Panduit knows exactly what every one of their distributors has in their warehouses at all times. Panduit's VMI engine (the replenishment system) takes into consideration distributor's booking trends through a powerful forecasting program, receiving costs, inventory carrying costs, and many other factors to determine the replenishment quantity and shipping frequency to provide the distributors with the lowest total operating costs at the service level specified by the distributor.

Panduit automatically ships the needed items and generates an electronic invoice and advance shipping notice. If experience shows that some items are being used up at a faster rate than anticipated, Panduit VMI replenishment system automatically responds to ensure the specified service level is met at lowest total operating costs for the distributor. Whenever the computer shows that customers are maintaining too much stock of slow moving items, Panduit generates a return order *with no restocking charge*. In other words, the customers have really let their vendor, Panduit, take charge of their inventory system. This is the ultimate in cost reduction, maximum service and error elimination.

Vendor managed inventory represents partnering between the supplier and the customer. It lowers mutual operating costs, optimizes shipment quantities, and achieves excellent service levels for the distributor's customers. . It does this by using advanced forecasting techniques. The usage for each of the 60,000 SKUs is forecasted based on prior 24-month usage by each distributor branch -- on a running basis which is recomputed every month for every part number for every distributor location on VMI.

Benefits to Panduit and its customers

Freight costs are reduced, human errors are virtually eliminated, accounts payable processing is speeded up, inventory turns are maximized, and operating costs minimized while achieving the service level specified by the distributor. The system is now in place at over 200 different locations. Sales are up. There is a daily inventory review. All of this is accomplished with only four electronic documents:

852	Daily Inventory Position
855	Order Acknowledgment
857	Advanced Shipping Notice and Invoice
861	Receipt of Shipment Notice

Why do Panduit distributors like it? Costs are down, and profits are way up. They are providing far better service to *their* customers. Out of stock conditions have been reduced to an absolute minimum, which, in turn, helps the distributors keep their customers.

This is real database marketing

What Panduit has done is to find a really creative way to build customer loyalty by solving their customer's -- the distributors -- problems. It's very nice to send birthday cards, newsletters, provide gold cards, or have customers accumulate points or air miles, but

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the EDI-VMI system goes way beyond that. Panduit made a real study of their customer's problems. They realized that their success was based on their customer's success. Low profits were killing the industry. They spent many hundreds of thousands of dollars in finding out why profits were down, and what they could do about it. Once they developed a solution, they put their whole weight in the industry towards solving it -- enlisting and encouraging their customers and other suppliers -- including their competitors -- to adopt the same system. In a sense, Panduit was doing what the airlines did. By adopting universal standards for reservations and flight bookings open to all in the industry, they helped the entire industry to survive and prosper.

The EDI-VMI solution does not have to be confined to the electrical industry (although that is where it is right now). It can be adapted to a wide variety of industrial situations.

Database marketing will be successful only if the customer benefits from it. How can you help to solve your customer's problems? EDI offers a solution. The Internet is another. If you are a manufacturer of business products and haven't considered such a system, start thinking now. What do you think the electronic linkage between Panduit and their customers will do to their customer retention rate? To customer loyalty? To sales? What is it worth to Panduit's bottom line? Think about it. This is where database marketing is headed in the business to business field. Get aboard before it is too late!

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Differences Among Campaign Managers

by David M. Raab

Is campaign management a commodity?

Not so long ago, campaign management vendors competed on core capabilities: which system handled the most complicated promotions, included the most data, ran fastest, or was easiest to use. But over the past year or two, the terms of competition have shifted. Now vendors tout the scope of their offerings, citing integrated analytical reporting, email production, and statistical modeling. Basic campaign management itself--the ability to select names, keep a promotion history, and match responses to promotions--is almost an afterthought.

In some ways, this is a natural result of past industry trends. Over the past decade, systems that use standard or "open" relational databases like Oracle or SQL Server have steadily displaced products that use "proprietary" databases created by the campaign management vendors themselves. The main argument in favor of the open systems was that the data could be read by any number of third-party reporting and analysis tools. This eliminated a dangerous dependence on the campaign management vendor. But precisely because the "open" systems all use the same database engines and query language (SQL), their performance depends more on the underlying database engine, database design and hardware than on the campaign managers themselves. Similarly, third-party query, reporting and analysis tools are at least as good--and often better--than anything a campaign management vendor can build for itself. So, having given up control over most of the things that previously differentiated them, campaign management vendors no need new ways to compete.

Integrated suites meet this need nicely. They simplify implementation--one of buyers' key concerns--while helping shift attention away from specific functional details. There is some irony to this development,

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since the integrated suites are in some ways as "closed" as the proprietary systems they initially displaced. Of course, most vendors don't see it that way.

But back to the original question: are the campaign management functions in today's leading systems so similar that buyers need not examine them in depth?

I think not.

Take query complexity. This is where the constraints of SQL bind most tightly: nearly any modern system can support a simple SQL query, and very few systems can do much else. The simple functions boil down to examining a single field to see whether its value is equal, greater than or less than a specified value or another field in the same record. Most systems can extend the comparison to include simple math operations such as addition and subtraction, and can also combine separate statements with "and" or "or" conditions (although it's easy to make mistakes in setting up "or" logic.) But it's hard to generate SQL to handle other situations, such as finding sets that do not contain a particular value (practical example: people who haven't purchased a given product) or summarizing many-to-many relationships (example: multiple purchases linked to multiple returns). Most of today's SQL-based campaign managers don't even try to support such queries, relying instead on precalculation, hand-written SQL, or multipl steps in a segmentation flow. The most important exception, Decision Software Inc.'s TopDog (www.dsitopdog.com), actually extracts the data from the relational database, manipulates it without SQL, and then reinserts it.

Embedding precalculated values in a record is one way to overcome some SQL limitations. Today's systems also vary considerably in this area. The most powerful allow users to design, save and reuse complicated formulas that incorporate multiple variables and can even look up values in related tables (for example, the median income of the customer's Zip code). Systems also differ in whether the values can be recalculated automatically as a query is executed, and how much work it takes to store them permanently on the database.

Promotion complexity is also tightly bound to the nature of SQL. Most of today's systems allow users to define hierarchical nested selections: that is, they apply a series of queries that use the records selected (or rejected) by one query as input to the next, in order to split the database into ever-finer segments. This is another way to create complex selections that would be difficult or impossible with a single SQL statement. The differences among existing systems arise in two areas. The first is that not all products actually allow this sort of nesting--some limit the number of levels of queries that are allowed. More subtly, systems also differ in whether they literally use the output of one query as input to the next, or instead generate independent queries that all run against the main database itself. So long as the independent queries reexecute the logic of all the preceding queries, either method will yield the same result. But the independent query approach requires a great deal more processing here large databases or many segments are involved. This can raise a scalability issue. Some products offer a choice of whether the queries are independent or not, although even within this group there are differences in how easy it is to set up the processes.

A related distinction is how systems handle segments that are separated in time--for example, where one message is sent thirty days after another. Here, the different queries pretty much have to run independently, since the latter message may depend on customer actions after the initial selection. The difference among systems lies in whether they create the underlying queries automatically, based on an interface that lets the user simply specify a time interval. Many do, but others require the user to build the time relationships into the queries themselves. This is difficult and error-prone, and makes it impossible to show the relationships on system reports.

Query and promotion complexity are areas where marketers' needs vary widely--which is why leading

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systems have found it possible to treat them differently. Similarly, there are still large differences in the products' ability to limit the number of promotions sent to an individual, in support for complex response analysis, and in administrative functions such as budgeting, project management and approvals.

On the other hand, some requirements are pretty much universal and these have been incorporated in every leading product. A good example are the Nth or random selections needed for standard testing procedures. These are available in all major systems even though random selects are quite difficult to create in standard SQL. Today's systems also let the user design the underlying customer database rather than forcing data into a fixed schema, although many do have a standard schema for internal data such as campaign information. Most products also include job schedulers that can execute campaigns automatically over a period of time--another key requirement for successfully executing an advanced database marketing program.

In short, there are still substantial differences in the core campaign management features of today's leading products--differences that can cause major problems if they are not compared to user requirements before a system is purchased. So while integrated suites offer real and intriguing advantages, it's not yet safe to ignore the details of their embedded campaign managers.

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Organizing for Customer Focus

by Arthur Middleton Hughes

This is the story of how a major retailer, Sears Canada, Inc., changed their organizational focus from a channel to a customer focus. It is an intriguing story.

Many marketers accept the idea that their companies should shift from a product or channel focus to a customer centric focus. But most of them don’t know how their company can go about making the change. Why do they want to shift? To attract and retain the right kind of customers. There is a list of statements concerning customers that most marketers have recently begun to recognize as being true. They are:

- Eighty percent (or some very large percentage) of company revenue or profits comes from the top twenty percent of the customers.
- The bottom twenty percent of customers are usually unprofitable. In some companies the losses from this bottom group are very substantial.
- Long term customers have higher retention rates, higher spending rates, higher referral rates, and are less expensive to serve than new customers.
- Marketing dollars spent on up selling, cross selling or retention building programs focused on existing customers produce more revenue than the same dollars spent on new customer acquisition.
- A five percent increase in the retention rate will produce a very significant increase in company profits.
- The more different products or categories that a customer buys from your firm greatly increases the likelihood that the customer will become loyal, long term, and profitable.

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These beliefs underlie customer relationship management: the idea that marketing activities should be focused on increasing customer lifetime value. To achieve LTV increase, the company has to recognize customer segments, and develop customer segment managers who develop customer-focused programs based on these beliefs. Yet, most corporations are not organized in this way. Their compensation systems work to frustrate customer relationship building activities. Look at the typical bank organization:

In a typical bank, there are vice presidents for each major product: credit cards, home equity loans, retail (checking and savings accounts), insurance, etc. The credit card manager receives no bonus or special recognition if some of his credit card customers take sign up for checking account. The Retail Vice President gets no special reward if some of his customers apply for a credit card. Yet any analysis of bank customers will show that the more different bank products that the average customer has, the higher will be that customer's loyalty to and profits for the bank. The organization and compensation system does not reflect the theory of customer relationship management.

With this background, it is very rewarding to see how Sears Canada dealt with this organizational problem, and solved it head on. The story was explained in a fascinating talk to the National Center for Database Marketing in Orlando last December by Bruce Clarkson, General Manager of Relationship Marketing for Sears Canada. Sears is the largest general retailer in Canada with sales of $4.6 billion in 1997. In 1997 they had 110 full line retail stores. 8 whole home furniture stores, 8 outlet clearance stores. 79 dealer stores and 2,000 catalog agents. They continue to expand. Their big book catalog reaches 5 million households in Canada every year. Two thirds of all sales in both catalog and retail are done on the Sears Credit Card.

A few years ago, Sears made a major investment in database marketing, creating a state of the art marketing database which gave them a new insight into their customer base. A key benefit from the database was to put all customer sales – particularly those from the catalog operation, and the retail stores -- into the same customer record. It was an eye opener.

At the time the database was built, there was an SVP for retail stores and an SVP for catalog operations. These two channels competed with each other openly. Their rivalry went back a long ways in Canada. In early Canadian retailing history, the Sears Canada pioneers were the catalogers. They built a strong base in rural Canada. Once this base was established, Sears would open retail stores, based on the growth of the catalog. To the company it was profitable. But to the catalogers, it created a sense of perceived cannibalization. The catalog merchants who had previously owned these markets saw sales attrition due to the stores. They saw it as channel competition. Over the years, the competition became quite heated.

The competition reflected where the catalog operation was located in the typical Sears retail store. In Canada, as well as in the United States, Sears stores put the catalog office way back in the store, where you have to walk through the whole store to get there. It was viewed as an overhead to the selling operation, taking up valuable space that should be used for merchandise. The catalog desk was put as far as possible from the entrance to the store to generate store traffic. Customers coming in to pick up a catalog item, would have to walk past aisle after aisle of merchandise. It was not designed for customer convenience – just the opposite, in fact.

Once the database was built, Sears was able to measure the performance of catalog customers vs. retail customers. The data was very revealing. In 1997, for example, the average catalog customer spent $492 dollars per year. The average retail customer spent $1,102 dollars per year.

What about customers who were shopping both chan-

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nels? These customers bought more than the average in both channels. When Bruce looked at these cross shoppers, the average cross shopping customer spent $584 on catalog items *and* $1,299 in retail stores. Leaving these cross shoppers out of the total figures, the customers who only shopped one channel spent $409 on catalog items, or spent $994 in retail stores. Cross shoppers were spending $1,883 per year with Sears, compared to half that or less spent by single channel shoppers.

The facts were staggering. The marketing staff provided their findings to top management. Management could clearly see that the way the business was being managed was inconsistent with customer behavior. The leadership said things like, "I knew it, but we did not have the numbers to prove it!" "We have to do something to encourage cross channel shopping."

Once top management saw what was happening, Sears began to make major changes. No longer were Catalog and Retail each under a competing SVP. Instead, Sears Canada now has three major divisions:

1. EVP for Marketing
2. EVP for Sales and Service
3. EVP for Merchandising

Each EVP works across all channels: Retail, catalog and several other channels including the credit card, long distance services, gift registries, etc. Marketing does branding, advertising, TV, preprint, catalog production, in-store marketing, the look and feel of the store, the arrangement of the store, customer relationship marketing and e-commerce. Sales and Service delivers service excellence through all the channels.

One of the first fruits of the reorganization was the change in the location of the catalog desk in the retail stores. Stores have started to look contemporary: bright, functional and convenient. The catalog desks are put at the most used entrance of the store. Throughout the retail store, Sears now has outposts where they put copies of the catalog. At each outpost, there are telephones for immediate access to the call centers. The catalog is positioned as an extension to the retail store. Selected catalog pages are displayed throughout the store, so if you are in the footwear division, you will find catalog pages laminated in the footwear department. If you can't find the size or style you want, you can pick up a phone and order it. It is not promoted as being a catalog order. It is just another way of shopping at Sears.

To promote telephone shopping, Sears now has 48 hour national service on most orders. No matter where you are in Canada, they can arrange delivery for you to a convenient location near your home within 48 hours. Plus, they don't charge any shipping or handling. With 2,000 locations throughout Canada, goods can be shipped free to nearby locations. The whole idea is to increase the number of cross shoppers, who they now know to be Sears most valuable customers.

What was the result of this? Before Sears provided the catalog and telephone service in the store, clerks would say, if they did not have what the customer wanted, "Gosh I am sorry. Maybe they have it at so and so down the mall." With the new system, Sears in 1998 saved sales that were equivalent to adding another mid sized store to their 110 store chain with no bricks and mortar – essentially at almost no cost. That virtual store may become the largest single store in the Sears Canada chain.

Sears recently began including a teleshopping icon in their flyers and preprint programs. You can call to obtain by phone any product that is available in the stores. It looks like retail, but it acts like direct. The customer does not know that they are ordering from a catalog. They think that they are calling a retail store with the teleshopping number. Sears customers are capitalizing on the convenience of the system. People call the number and then pick up their products at the retail store. In teleshopping Sears has had double digit growth in its first 15 months. The incremental sales from Teleshopping are equivalent to putting out a

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new catalog and sending it to 5 million households. The cost, however, has been virtually nil. This is what comes through organizational integration of catalog and retail.

But the database and the reorganization have not stopped at integrating catalogs with retail. Marketing is now moving towards the goals of retention, acquisition and purchase stimulation. Clarkson developed customer attrition models. His first effort was to find out why people were not shopping through the catalog any more. What he discovered was that the strongest predictive variable for not shopping the catalog was exposure to bad service: out of stock, or merchandise that was not satisfactory. Sears could prove that money spent on improved service would increase customer retention. The EVP for Sales and Service now measures his performance based on a customer loyalty index which is now well known throughout the organization. Clarkson's staff has created two measures of customers: behavioral segments and RFM cells. They have developed 14 active customer segments and two lapsed customer segments:

1. One segment is the **Super Spenders**. This group has the highest retail transaction dollars, the highest total revenue overall and the highest revenue in five out of twelve merchandise categories. Their credit limit is very high. They are nuts about using the Sears card. In terms of demographics, they own, not rent their homes. They tend to live in affluent suburbs. These Super Spenders are only 2% of the customer base.

2. At the bottom are the **Occasional Store Shoppers**. They are the highest in terms of returns, and highest in payment to the credit balance. They pay off their account every month. They are the lowest in terms of overall revenue, lowest in catalog purchases. But there is a paradox: the Occasional Store Shoppers are demographically identical to the Super Spenders. They live in the same subdivisions. 28% of them lapse each year. Since they use the Sears card, it means that Sears has constantly to do acquisition programs to keep their card holder membership up. Occasional Store Shoppers account for 17% of the customer base. They absorb a tremendous amount of expense.

Besides creating these segments, Sears maintains an RFM system with 189 cells, tracking recency on a quarter by quarter basis. Clarkson's analysis showed that each quarter between 20,000 and 30,000 new customers acquire a Sears card, buy once, and never buy again. Sears spent a lot of money trying to get the card into people's hands, but was not doing enough to get them to use the card. Knowledge of this situation has prompted marketing efforts to shift the focus from acquisition to greater use of the card. The RFM analysis also showed that 14% of Sears customers were $2,500 plus buyers who have contributed fifty percent of Sears total corporate merchandise revenues over the past five years. These loyal customers don't just buy the big-ticket items such as major appliances. Instead, they just loyally shop every month. The revenue builds up over time.

Finally, Sears Canada, like everyone else, has started a web site. They discovered something very surprising. 97% of sales volume is from people who have the paper catalog in front of them. With the catalog, of course, they could call the 800 number, talk to a live operator, and order their products. They prefer to use the catalog, look Sears up on the website, and order directly. What are the implications of this amazing 97% number? Perhaps it makes no sense to put tens of thousands of SKU pictures up on a website. A paper catalog is much more convenient. In a catalog you can skip rapidly from dresses to furniture to automotive in one hundredth of the time it would take on the web. But you can order faster on the web than you can on the telephone.

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Sears has built their database. They used and continue to use their database to understand their customers. Then they took that crucial step to change their organization to make use of what they had learned. They have become customer focused. It is a tremendous lesson for the rest of us.

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Should You Build a Data Warehouse?

by Arthur Middleton Hughes

Which is the better vehicle to increase profits by building relationships with your customers and understanding their motivations: a data warehouse or a marketing database? Two experts who have dealt with this problem in a major company show us the answer.

Alexandra Morehouse, and Daniel St. John worked together on database marketing projects for American Express for fifteen years. Eighteen months ago they joined the California State Automobile Association as VP for Membership Relationship Development and Director of Database Marketing respectively. Their assignment: build a data warehouse. They were given a budget of $17 - $22 million.

The California AAA is a massive 100-year-old organization. It has 7,000 employees in 80 different offices throughout the state. It provides road service, insurance, travel and other services. It is the largest travel agency in California. Its 102 different legacy systems had never been combined before into a single marketing database. There was a lot of data but very little information. People throughout the company needed the information and could not get it. The data warehouse project was huge.

Alexandra and Daniel knew from experience that a data warehouse takes two years or more to build. They had seen other organizations get bogged down building warehouses which were never used, and which lost support from top management because of the costs and delays associated with their construction. They did not want to have this happen to them at the California AAA. So they took a very brave step: they turned down the $22 million, telling management that they could build a marketing database for less than a tenth of that, and have it ready in less than six

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months. And that is just what they did.

The marketers at the AAA wanted answers to simple questions. Who is most likely to want cruises to Hawaii? It took a month to get the answers. At any given time there was a backlog of 200 to 300 requests. Six programmers were kept busy writing code to get the answers. The 102 different legacy feeds had different formats and were in many different languages. There was no contact management or promotion history available to users. The AAA marketers had no way of knowing if they had talked to a given customer recently or what the message had been.

The team determined on some simple, but important business objectives. Instead of building a warehouse, they wanted to solve immediate marketing problems by building a robust profile of each customer with a cross product view. Since the 80 offices were scattered throughout the state, they wanted a point and click campaign system which could be accessed through the Internet. Using the web eliminated the need for setting up a costly statewide LAN system. They wanted the new system to support the AAA's new Siebel customer care system as well as several new membership systems. Overall, they wanted the database system to function with minimal support from IS.

From experience they knew that business users had to have tools that they could use. In any organization there are always a few power users who really understand marketing databases. That was not good enough for the team. They wanted to reach the hundreds of marketers who wanted something they could use to make their customer retention and cross selling programs work better, without their having to know advanced computer programming or statistical analysis. Finally, they wanted to use the new system to break down the data silos that existed in the AAA. They wanted something that would show each customer's usage of insurance, travel, emergency roadside service, the Web, claims and automotive products.

Their first job was to sell the system to top management, which had at first asked for a data warehouse. What management really wanted was to see what their customers looked like. So the team told them: "Lets do a marketing database. Instead of amassing together all the information in the company, lets just collect the data that pertains to our customers." They knew that if you can get a home run early on, and prove that your system is working, you are much more likely to get top level support for it and get your other business users to support you. They knew from experience that there are naysayers in every company. They had to have some early successes to prove the system.

What is an early success? By studying the available data, they discovered that if you can increase the retention rate on automobile insureds by only 50 basis points, you can increase profits by $6 million a year. That was an achievable objective with the data mart that they set out to build.

What were the requirements for the new system? It had to include a campaign manager. It needed to have a flexible table structure to support SAS and Cognos. It had to support multiple feeds from multiple sources. It had to have scalable growth. They built it, at first, for only a few users and a few projects. But the system had to be capable of expanding rapidly to handle thousands of users, millions of customers, and thousands of simultaneous projects.

Selecting the Vendor

From their experience, Alexandra and Daniel knew that the build process had to be out-sourced. They issued an RFP to a dozen different vendors. A key feature of the RFP was a built-in user acceptance test. It had to be point and click, work through the web, and give answers to specified ad-hoc questions in a specified number of seconds. Until the software met these tests, the vendor could not be paid. As various vendors quali-

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fied on the RFP process, the team visited various vendors' clients, including Schwab, Autodesk and Macromedia. In the end, they picked Epiphany, a Silicon Valley startup as their vendor, after reviewing the capabilities of such well-known vendors as Epsilon, Valex, Prime Response, Cambridge Technology, and Paragren. A site visit to Epiphany convinced them that this vendor would provide them with high quality people who would be with them throughout the project. The original Epiphany product did not support Oracle, which the AAA wanted to use. Alexandra and Daniel wrote Oracle support int their contract, and Epiphany modified their product.

The project methodology involved a phased approach getting the data mart up and running right away to handle membership, emergency road service and other basic requirements. Integration with the travel service was reserved for phase two, and the Insurance and Claims systems saved for phase three. They also included a blueprint for a data warehouse in case the AAA ever decided to go ahead with one. They required Epiphany to provide strong documentation of every step, with all the work being done at the vendor’s site. Epiphany started by analyzing the feeds from the 102 legacy systems in detail.

To make sure the tools were useful to business users, Alexandra and Daniel selected 15 people as a beta test group. They gave this group the tools first. The group helped them to debug the system and get it up and running. At the same time, they developed an exit strategy. If something went wrong, they wanted to be sure that they could stop and shift quickly to another approach. Fortunately, that wasn’t necessary. They got the data mart up and running, producing useful output for the 15 users in six weeks.

Adding Travel, Insurance, Claims and the Web

Phase two focused on the use of the travel data. There was lots of operational data, which had never been used before. Using the system, they could develop a profile, for the first time, of who uses the travel service. It gave them an important home run that convinced management of the benefit of the system. This phase also included the new campaign manager. The return on investment from this system was very high. They developed, for the first time, a standard file layout that was used for all functions throughout the state.

Phase three involved adding the Web data, the Insurance program and the Claims system. The server selected was a Compaq 45000 which included four 400 Mhz processors, four gigabytes of RFM, sixteen 18 Gigabyte disks, a SQL 7.0 Enterprise query tool, and Microsoft Internet Explorer 4.0 as the web browser for the users.

One Year Later

One year after launch, there were now 150 business users who had direct access to data and were using it in their marketing programs. They used easy analytical tools, which they accessed over the web. The old practice of queuing of requests was ended. There were now no paper reports in the system. Everyone got and printed what they wanted directly on their own printers, working through the web.

The campaign manager was up and running. This system cut the time from getting a mailing tape out from two weeks to two or three days. Two years worth of promotion history was loaded into the system from over one hundred legacy systems. They now had a cross-functional view of their members, with lifetime value computed and appended to each member’s record. The database is updated once a month. Later, when the Siebel system is installed, they plan to update the system daily. There are 300 data fields in each customer record, including overlays and Polk data. The Epiphany system serves to answer any straightforward data question. For more complex queries, it

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is still necessary to write a program.

What Did it Cost?

Compared to a data warehouse, the California AAA marketing database is laughably inexpensive. The total cost, from start to finish in the first year was $1.2 million dollars. To maintain the system there is one person for training, one who maintains the data mart, and one who is in charge of content. These three people maintain a system that, at present, serves 150 users throughout the state. A year ago, only six people throughout the system had access to the data. Within the next year, the system will be extended to 2,000 users, all of whom will be able to access the data from their PCs through the Web.

Lessons Learned

Probably the most important lesson learned was that the "start small and start fast" approach really worked well. Instead of taking two years to build a giant warehouse, the team had a functioning marketing database up and running in six weeks. Concentrating on fifteen users for testing was a brilliant stroke. These users furnished valuable feedback to the organizers, rather than having users taking their gripes to management in the development phase.

Future Uses

Now that the database is up and running and being expanded to 2,000 users, the California AAA will, for the first time, be able to send personal messages to all customers based on their actual use of products, their demographics, their expressed preferences, and their prior promotion history. This has never been done before. Although there are over 90 AAA clubs in the US, the California AAA was the first to develop an attrition model and the first to have a lifetime value score in the member's database records. They were able to target retention programs towards high value, highly vulnerable members. This enabled them to beat their highly aggressive retention goals with numbers over 80%.

It is absolutely amazing that so much has come from an investment of $1.2 million in such a short time by a couple of very experienced and skillful marketers.

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