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The Next Horizon for High-Tech Marketers: Customer-Focused Database Marketing

by Richard Birt
and Dr. Dominique M. Hanssens

One of the great challenges of high-tech marketing in the mid-1990s is to establish a strategic and tactical framework for developing lasting, profitable customer relationships. Whether you are a Dell Computer or Gateway 2000 selling directly to consumers, or a company with a multi-tiered channel hierarchy (like Apple Computer, Digital Equipment Corporation, International Business Machines, or Microsoft Corporation), it is becoming imperative to master the effective marketing use of customer information.

This involves a major shift from the business basis of most high-tech companies, which have historically been more product-oriented than customer-focused. Sales, channel and marketing expenditures have typically been directed at direct-response prospecting efforts rather than at developing existing customer relationships. Many organizations routinely prospected by mail or telemarketing using large databases of addressable prospects or executed general advertising campaigns in business and vertical trade publications. Communication efforts needed only to detail key technology messages and product features. By and large, when it came to selling computer hardware and software or other technology equipment and services, marketing seemed to focus on increasing the volumes of prospect leads, store traffic, and/or telemarketing calls.

Tough Environment Calls for New Skills

Until recently, there was little incentive or need for high-tech companies to expand their marketing efforts far beyond product-focused prospecting. Sales in most hardware and software categories grew by 30 percent or more per year between the mid-1980s and the mid-1990s. Those companies that did build customer databases typically were doing just fine with simple "flat" transactional files segmented by product, even though these databases could provide little or no understanding of the total life cycle of a customer.

All of that has changed in recent years, however, as mature markets have become saturated with competitors and demand growth rates have slowed. Across the board, the industry now seems to be awakening to the need for true customer-oriented databases that can provide the insight needed to develop loyal, multi-

product customers. These databases allow organizations to move beyond basic new customer acquisition strategies into cross-selling and retention programs.

Several key developments are supporting this shift from a *transaction* database model to a *relationship* model:

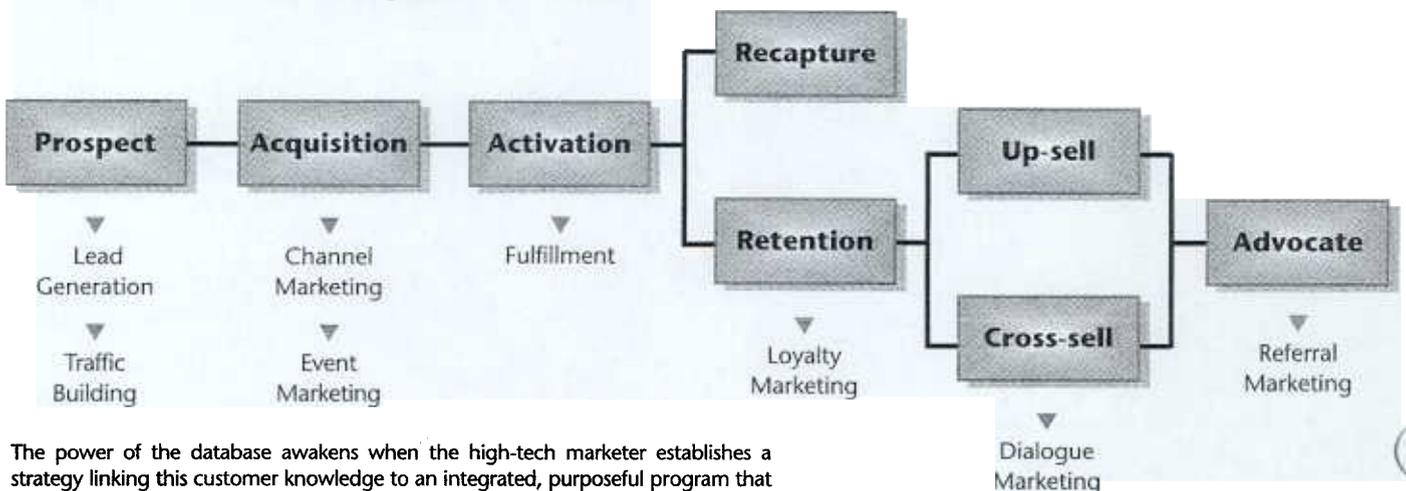
- ▼ **The pace of technology innovation.** Information technology and innovation diffusion are closing the gap between the market leaders and their competitors. Key hardware technology innovations are now happening every three to six months. Customers are showing a willingness to adopt new technologies at accelerated rates.
- ▼ **Commoditization of high-tech products.** Consumers and businesses are now faced with many choices within a product category where individual differences in product features cannot be easily distinguished. This is putting severe pricing pressure on most high-tech marketers, forcing them for the first time to place a greater importance on customer lifetime value through customer loyalty and retention.
- ▼ **More awareness of the power of direct-response marketing.** Perceptive marketers are placing a higher value on market response and customer data to drive their internal decision making. We are seeing for the first time more integrated approaches to advertising, promotions, discounting and distribution, driven by a fact-based understanding of the performance of these marketing investments.

Indeed, with direct sales calls now costing high-tech organizations between \$250 to \$750 each, companies must explore lesser cost options such as outbound telemarketing and direct-response mail as part of the channel mix. This is creating the need for more "one-to-one" communications campaigns that encourage customers to respond, thus creating more opportunities for dialogue and information interchange between the company and its prospects and customers.

Leading-edge high-technology concerns are responding to these forces by shifting from product-focused customer acquisition to customer-focused loyalty marketing. Early adopters are now creating new marketing opportunities by exploiting the power of new customer databases. The remainder of this Report highlights the strategic and tactical considerations involved in exploiting this shift.

An effective customer-focused database supports the entire customer development cycle. It does this by giving the marketer a comprehensive view into the values and buying patterns of each and every prospect and customer, based upon a range of transaction and demographic data. Such data is collected both from interactions with the individual and from other sources such as externally purchased demographic databases.

The Customer Development Process



The power of the database awakens when the high-tech marketer establishes a strategy linking this customer knowledge to an integrated, purposeful program that moves a prospect from lead generation or traffic-building through the conversion process and/or into processes that continually deepen customer loyalty.

The power of the database really awakens when the high-tech marketer establishes a strategy linking this customer knowledge to an integrated, purposeful program that moves a prospect from lead generation or traffic-building promotions through the conversion process, and from there into processes that continually deepen customer loyalty (see "The Customer Development Process," on page 2).

A good first step for a high-tech marketer to start formulating a comprehensive customer-development program is to map out all contact points along the existing customer development cycle. Look at all communications activities, sales resources, registration processes, customer feedback mechanisms (such as customer satisfaction surveys, warranty and service processes), and after-market activities. Each holds the power to inform you about your prospects and customers, and to impact your relationship with them. This examination will enable you to identify opportunities for improving that relationship. It should also identify opportunities for capturing meaningful customer data at each stage in the process, data you can use to move the prospect or customer further through the development cycle.

Capturing Customer Data. To track the progress of an individual inquiry through to an eventual sale is never easy. It can be especially difficult for marketers who rely on multi-tier channels, with the resulting reliance on indirect techniques such as product registrations for capturing customer information. Marketers that sell direct to end users can at least capture prospect and customer data through a range of direct sources, including field sales, order entry systems, and/or telesales functions.

Taking into account the unique structure and balance of your sales channels, you can begin today to define a consistent format for capturing data and methods for incenting your channels to participate with you in database marketing. The goal for all marketers building comprehensive customer development databases is to be able to capture prospect and customer data from multiple transactions or system sources in such a way that it can be used to deepen customer relationships. The standardization and consolidation of this data into an accessible customer knowledge base is what is referred to as creating a *data warehouse*.

The common design used to build customer-focused data warehouses is a file structure that can effectively segregate between businesses and consumers, contacts and sites. (This capability is becoming very important as the Small Office/Home Office market [SOHO] becomes an increasingly important segment for high-tech goods and services. Many high tech marketers who have previously sold just to consumers or just to businesses now find themselves selling to both.) By assigning end-users to their logical address, it is possible to connect all of the organization's cost and revenue activities that are associated with that customer.

This requires that the database also be able to map all product relationships, making the connection between a prospect's initial inquiry and the establishment of subsequent orders. Product mapping also allows for effective customer retention pricing along multiple lines of products. By tracking incremental revenue through add-on or installed-based selling, companies can price competitively to avoid losing customers to price competition later in their life cycle. They can also create value-added promotions to reward customer loyalty.

Tracking a Customer. Another key issue to address in designing a customer-focused database structure is customer lifetime value (LTV). Ideally, organizations should view each contact point as a profit and loss (P&L) statement, tracking all revenues associated with a customer against all marketing expenditures. This can be especially challenging for multi-channel high-tech concerns, which must measure and quantify the impact of a whole range of general advertising, direct-sales channel, inbound and outbound telemarketing, direct-response mail, and indirect channel promotions. Individual data items that are crucial to this reckoning, such as the total costs involved in converting a prospect, might not be available. For example, general advertising expenditures cannot be tracked to individual customer orders. Rather, you may have to assign averaged costs per contact, such as an allocated advertising cost spread equally over all new customers.

Another issue in tracking LTV arises with corporate customers. High-tech marketers typically have multiple contact points within the corporate environment. Some expen-

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ditures move about the organization, touching influencers, decision-makers, purchasing agents, and even whole buying committees. In a prospecting and acquisition environment, most companies rely on separate, standalone sales automation tools (such as Symantec's ACT contact software or sophisticated telemarketing systems) to track their cost per contact equations. These systems are a valuable source for LTV data and an organization should review how this data should be merged back into the customer file. For concerns selling direct to the end user, the order entry system will typically pick up these multiple contact points through ship to/bill to addresses. Allocation of marketing costs by individual contact point becomes extremely difficult under these circumstances, especially in a centralized purchasing environment, so it is best to accumulate data at the company level. This will provide a closed loop environment.

Segmenting the Customer Base. There are many services that append firmographics and demographics to a master file (see "It's Not Business as Usual Any More," *Case-in-Point* Volume 1, Issue 3, page 7). *Firmographics* include such business attributes as company size, estimated revenue, standard industrial classification (SIC), and job function. *Demographics* include consumer attributes as household income, individual age, family composition and purchase behavior. By appending relevant data elements to prospect and customer files, high-tech marketers are in a position to begin profiling their best customers and segmenting the database according to various purposes, including cross-selling of likely segments, or suppression of unprofitable segments.

As customer databases become more elaborate, various techniques should be used for further market segmentation and customer development. Multiple regression analysis and its variants are well suited for the task of estimating customers' financial attractiveness to the company based on a large number of identifying characteristics. When customer attitudinal data is available, factor and cluster analysis may be used to model the attitude structure and to create benefit-based customer segments. While the application of these and other methods requires a good deal of statistical expertise, high-tech companies are also benefiting from new software packages that are computationally powerful yet surprisingly user-friendly. These packages are allowing modeling to move into the mainstream of direct marketing practice.

Benefits of the Customer-Focused Model

Customer-focused databases allow companies to exploit their customer base. While results will differ by company, they typically provide a set of core benefits:

- ▼ **Reduced costs.** Marketers know that it is five to ten times more costly to market to a new prospect than to an existing customer.
- ▼ **Better resource allocation.** Customer data provides an informed basis upon which to make management decisions about resource allocation. The LTV model allows organizations to more deeply penetrate a business or household, or to target non-performing segments. This allows a firm to concentrate on the 20 percent of customers who account for an average 80 percent of an organization's revenues.

One software company has been operating a customer-focused closed loop system for four years. The description used by the company's president to describe the benefits his firm has realized is one of the most eloquent testaments to the power of the customer-focused database in the new high-tech marketing.

"Database marketing can encourage the idea that every step in the process can be measured," he said in a recent conversation. "[Our database offers] hands-on access to customer and lead information to the people who need it to improve customer service. Tracking improves productivity. Fewer leads get lost and follow-up can be automated. Return on marketing investment improves. And we now have the tools to make informed decisions about our marketing communications mix decisions, so we can split our resources more intelligently between advertising, public relations, direct mail and trade shows." ■

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