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Customer Information: Building A Strategic Asset

In today's world, the question is not only what can you do for your customer, but what can your customer tell you? A well-managed customer database can be a major strategic asset, setting the stage for multiple levels of inquiry about your business.

As we approach the millennium, an important characteristic of successful businesses has emerged: They are customer-oriented. Indeed, with the globalization of markets and the ever-improving Information Age, competition is increasing, and customers have more elaborate choices and are better-informed about them. Market orientation has become the winning business paradigm of our era, and it should remain so for some time to come.

Making your company customer-oriented is a major challenge for top management, as it involves an attitude change for all the firm's employees, not just the marketing and sales departments. In essence, the customer should be viewed and treated as a strategic asset of the firm. While this idea is not new—Peter Drucker wrote in the 1950s that the sole purpose of a business is to create a satisfied customer—modern information and communications technology is now a powerful driver of this process, by carefully recording, documenting, and tracking customer transactions and characteristics, and using that information strategically.

Indeed, Merck's $6 billion acquisition of pharmaceutical mail-order firm Medco just two years ago is an important signal of the strategic importance of customer transaction databases. As a business, Medco produced only $80 million in annual revenue, hardly worth its $6 billion price tag. However, the Merck-Medco database is a gold mine of accurate and timely information about customers—prescribing physicians and their patients. It makes Merck's sales force much more effective, and it allows for new ways of segmenting customers and targeting the right products to them. It allows Merck to design and execute highly information-intensive marketing strategies that simultaneously satisfy customers' needs and reduce Merck's marketing costs.

This trend is by no means limited to pharmaceuticals, or for that matter to Fortune 500 companies. In retailing, for example, the impressive growth of Wal-Mart is largely due to the quality of its sales and inventory tracking and forecasting systems. Not only do these systems allow the retailer to keep its shelves stocked "just in time" and gain bargaining power over its suppliers—knowledge is power—they benefit customers through attractive prices and almost guaranteed availability of every SKU for which they are shopping. In banking, new competitors such as NationsBank have used information technology to acquire customers and make inroads in markets long dominated by the traditional banks. Niche players such as USAA in the insurance business have taken relationship marketing to new heights by using customer databases intelligently to match insurance products with the ever-changing needs of customers.

Designing and managing a customer database can be expensive, and is usually more costly than the immediate benefits it creates. However, as a strategic asset, well-managed systems can and should develop increasing returns to use over time; in other words, the more these systems are used, the more valuable and enriched they become. Take, for example, American Airlines' pioneering efforts in designing its Sabre customer reservation system. At first, Sabre enhanced operations efficiency for the airline and provided a more reliable level of customer service. As the transactions database grew, it became an unparalleled source of demand and price information that allowed the airline to price each seat on each flight "just right" and maximize its yield. Still later, the database became the backbone of a customer loyalty program that helped protect the airline from customer attrition due to competitors' fare discounting. Eventually, the reservation system became the direct link between the passenger and the airline, and allowed the carrier to "own" the customer. As customer ownership shifts from the distribution channel—mainly travel agencies—to the customer information-intensive airlines, it is no surprise to observe that travel agencies' commission rates are being lowered, and that airlines are enjoying record-level earnings for the first time this decade.

The advent of customer information systems will require new managerial and human resources skills. How does an organization that has prospered without customer data suddenly adapt to managing with data? Neither an ostrich policy ("ignore the data because they are too cumbersome and confusing") nor a Star Trek policy ("put the company on autopilot, based on data analysis") is likely to work. The challenge for managers is to learn to make market-oriented decisions that combine valuable business intuition with the hard numbers that now can so easily be obtained.

Here are a few specific priorities to consider:

• *Examine your existing databases from a customer point of view.* Your databases may be good for accounting or other internal purposes, but could you use them to develop segments based on customers' actual behavior? Could you isolate order and sales information and advise your customer how much to order next month, rather than selling him as much as possible without concern for excess inventory?

• *Establish clear measures of performance (what business schools call the Ys) and efforts (the Xs), and track them over time.* If you want to know if your advertising contributes to the bottom line, you need good records of your media spending and those criteria you want to affect (such as customer awareness, customer inquiries, and sales and profits). Once you agree on the Ys and Xs, you can use analytical techniques and user-friendly software to measure the relationship between them (Y in function of X) and, eventually, to set the spending level of X to achieve the desired Y.

• *Remember increasing returns to use.* A cleverly designed customer information database can start small, deliver concise benefits, and set the stage for the next level of inquiry. Indeed, with every question answered, a new question emerges. Sustainable competitive advantage arises from the fact that you are answering that next question, while your competitor is still struggling to put the customer data together to answer your old question.

Here's how these three principles can work. A CEO might ask the following questions: *Who* is buying our products (as opposed to, *how many* are we selling)? How does the profile of buyers or heavy buyers differ from that of nonbuyers or light buyers? Simple statistical profiling of customer groups will tell you whether your company is targeting correctly. Though the data and statistics are relatively straightforward, it may take the company a while to put the relevant information together and answer the questions (Stage 1).

While it can be expensive, a customer database is an asset that will deliver increasing returns.

As the company realizes the value of customer-profile data, new strategic questions arise. For example: Are we communicating correctly with this correct audience? What is the revenue-generating value (a Y) of our advertising dollars (an X)? Should we emphasize more personal communications through the sales force (another X)? How about price levels (another X)? In Stage 2, the customer profile data are matched with historical marketing spending and pricing data, and you can build market response models to measure and compare the cost-effectiveness of your marketing investments (Y in function of X). The insights can move the company from a practice of setting marketing budgets in function of last year's results, or in function of competitor spending levels, to a practice of allocating funds to match customer needs and obtain the highest demonstrated return.

As the customer profile and marketing effectiveness database and models develop, someone—perhaps from customer relations—may point out that the marketing database should be augmented with more qualitative information, such as customer satisfaction. By now, the company finds itself in the enviable position of knowing not only who is buying and how much should be spent, but also who its unhappy customers are and what can be done to turn them into loyal fans.❑

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