Unleashing the power of customer data

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Deepening customer insights

To be blind in understanding... is the worst blindness of all," in the words of the British novelist Samuel Butler. Many businesses have access to a wealth of information on their customers – customers leave a trail of information about themselves and their preferences every time they interact with a company. Yet most companies don't take advantage of it.

Capturing and using this information is at the heart of customer relationship management (CRM). Customer relationship management originated in the mid-1990s and grew in popularity as information technology rose to "C-level" prominence. It is widely credited with helping to increase customer loyalty, store-visit frequency, and the amount spent per visit for those who do it well. In addition, it has aided in more clearly defining customer profiles and predicting buying trends that help to recruit new customers. Once retailers have profiled their customers through CRM, they can target promotions at specific customers. And they can empower employees and associates in a wide variety of departments with detailed knowledge of a customer's history of transactions, needs, and concerns.

American, United, and other airlines pioneered loyalty programs in 1981 with frequent flier programs. Safeway, Ahold, and other grocery stores extended the concept in the middle to late 1990s with retail loyalty cards, and gave users price discounts related to card use. Citigroup, Royal Bank of Canada, and other banks refined predictive modeling. More recently, Amazon.com took CRM to the web, and now we can learn about what other books people like us have bought.

The model seems fairly easy to replicate. When a customer scans 25 items and a credit card at an electronic check-out counter, he provides his identity and some information about his lifestyle. When he purchases a CD on the web, he often keys in his address and other personal information, making it even easier to collect additional customer attributes. And data such as birthdays and age can be purchased from data shops.

Getting up to speed

However, many companies still do not have the processes or infrastructure to analyse customer-specific data. “Most companies only do a fair job at this [and some] companies are asleep at the wheel,” according to Mark Miranda, Director of Marketing at Georgia Pacific, a maker of building materials and tissue products. The same reaction can be found in footwear: “Nike and other shoe companies have little customer data ,” according to Mike Gotfredson, CEO of Road Runner Sports, the largest retailer of running shoes in the country. Even grocery chains, among the pioneers of CRM, still collect customer-specific data on less than half of all transactions, according to Bari Harlam, Vice President of Marketing Intelligence at CVS/Pharmacy.

Moreover, an increasing amount of customer-specific data will become available as e-commerce grows, widening the gap between the companies that use it for marketing advantage and those that don’t. Gotfredson of Road Runner Sports, expects Internet sales to increase dramatically. “I used to think the Internet would plateau at 50% of sales five years from now; now I think it will be 65%.” Those that are not able to process data will face a widening competitive gap as Internet sales increase in proportion to total sales.

How leaders put the pieces together

So what should companies do to set up processes and systems to leverage customer data? If leading companies are any gauge, they practice four CRM strategies:

- Build a culture of deep respect for the customer that ensures communication and responsiveness to customer needs throughout the organisation.

- Collect and analyse customer data, processing and integrating multiple channels of data feed, and cleansing and enriching the data so it can be used to profile, segment, and predict customer behavior.

- Develop precision marketing strategies, including loyalty and communication programs, that provide customer benefits while respecting privacy and providing useful information or savings opportunities for targeted consumer segments.

- Disseminate analyses to all users who can generate value from them, including not only customer-facing departments such as sales and customer service, but also new product development, category management, and partner suppliers.

Nurture respect for the customer

Leaders in customer data management replace the sales-driven organisational model with a customer-centric culture. Employees have a zeal for understanding customers and interacting with them. The paradigm shifts away from “selling” and toward human interaction; away from “searching” for new customers and toward retaining existing customers.

The culture is not “reactive” but proactive; not complacent but grateful for customers’ business. A model CRM leader, Road Runner Sports holds weekly meetings about customer feedback in which customer service representatives recap every customer interaction they had that week that was less than perfect.

Finally, leaders don’t ask customers to trade off privacy for targeted benefits. “We bump up against a fine line as marketing people,” says Mark Miranda of Georgia Pacific. “If we collect so much data and can craft a one-on-one marketing strategy and anticipate needs and you’re on the customer ‘like white on rice,’ the customer may resent this and not want to be manipulated.” Leaders in customer data management avoid this risk by using customer transaction histories with discretion and respect to ultimately strengthen the customer bond.

Collect and analyse the data

Leading companies collect, cleanse, and enrich data from multiple channels so as to achieve a comprehensive picture of individual customers. Data is collected through multiple channels, including stores, Internet, outbound calling, and inbound customer calls to a customer service center.

CVS collects SKU-level data at the store level through its ExtraCare loyalty card program, which offers a 2% rebate and two free prescriptions when customers spend a minimum quarterly dollar amount. Road Runner Sports collects information on the size, color, phone, e-mail, physical address at its stores, and next year it will begin collecting information on their running habits.

The Internet, offers the opportunity to collect even more information quickly with the help of drop-down boxes, fill-in blanks, etc. The data is cleaner than the handwritten information collected in the store because of real-time error-checks. Road Runner Sports transacts 40% of its volume through the Internet.

Inbound and outbound calls to customer service and call centers do not offer face-to-face contact, but provide an opportunity to ask for more data on customer lifestyles and interests. CVS asks its customers about their health habits and their interest in receiving promotions/coupons when they call into the call center. Road Runner Sports calls every new user of its running shoes to ask if their order was perfect.

Integrating data across the channels can be tricky if different data is captured in each channel. CVS integrates input from the tracking studies it conducts in the call center with the transaction data from the store, and correlates the two data sets in order to better understand its customers’ habits and interest in receiving promotions and coupons.

Cleansing dirty data (eliminating illogical and erroneous information) and enriching data (filling in holes) can help sharpen the consumer profile. Georgia Pacific cleanses its data by performing sanity checks to eliminate obvious errors, such as Ace Hardware being coded as a healthcare customer. CVS uses computer debugging to avoid mis-classifying multiple uses of its in-store Universal Card as separate transactions. When data is missing, retailers reference external databases. CVS uses the national change of address database produced by the US Postal Service to scrub its physical mailing information, and Road Runner Sports collects customer birthdays from external sources. CVS uses purchase patterns to infer missing data on its customers. For example, if a customer purchases diapers, then they most likely have children.

Leading companies archive volumes of customer data so they can track long-term buying patterns. Mike Gotfredson, CEO of Road Runner Sports, describes the company as “a high-tech data management company. We know what color and size every consumer has purchased since 1989.” With this data, Road Runner Sports is able not only to profile its customers but also to predict their buying patterns as they grow older.

Design precision marketing strategies

With the data collected, cleansed, and enriched, forward-thinking marketers design precision marketing strategies that enhance the customer experience. As opposed to marketing strategies based on aggregate thinking, they design programs precisely targeted at retaining and expanding sales to specific customers.

Precise marketing strategies benefit customers in three ways. They feel understood and appreciated. They receive useful, personalised information that can save them money. And they come closer to achieving their goals – for example, living healthier lives, enjoying richer personal relationships, or being more beautiful – vs. buying medicines, greeting cards, or make-up.

CVS defines three customer profiles: Caroline (C), Vanessa (V), and Sophie (S). With 60% participation in its loyalty program at the stores and 90% on Internet purchases, it has the ability to accurately specify which inserts to place in its advertising circulars depending on the profile of the customer who will receive them. It even links mother-daughter relationships and sends l’Oreal promotions to daughters and their mothers together.

Road Runner Sports sends congratulatory notes to individual customers for having completed road races that they indicated they were training for when they purchased their running shoes. “It gives them warm fuzzies,” says Gotfredson. Road Runner also sends “close-out” notices to users of sneakers when manufacturers such as Nike discontinue a product. This enables its users to purchase replacement sneakers at a reduced price, improving their safety by reducing injury from worn sneakers and simultaneously saving them money on new sneakers. Road Runner also sends running tips that are appropriate for the amount of running that a specific user does.

Mark Miranda of Georgia Pacific cites Philip Morris as an example of excellent customer data management. Due to regulatory restrictions, the company is banned from using mass advertising, so it employs a more targeted approach. The company understands its existing user base and is "laser-like in the application of its message system," according to Miranda.

Push the data to multiple users

Leaders in CRM extend the value by pushing the data out to all departments that can use the data. Although the data may originate in marketing, its applications typically extend to sales, customer service, engineering, category management, logistics, and other functions. This takes a cultural revolution in some companies that are not used to sharing information across departments.

Marketing needs the data to develop more precise and targeted market segments, as well as to develop targeted promotions. Brand management needs the information to develop new products that meet the needs of these more precise customers and customer types. Sales needs customer segments, retention statistics, and individual customer purchase patterns. Customer service needs to have specific customer purchase, transaction, and relationship history available when a customer calls. And suppliers need pricing and promotion data in order to work in tandem with retailers on merchandising strategies. CVS offers its partner suppliers access to a supplier portal, where they have access to configurable and downloadable reports on demand.

Benefits of integrated customer data management

The largest benefit of CRM for retailers and consumer packaged goods companies is increased customer retention. It is simply less expensive to keep an existing customer than to get a new one. Fourteen percent of Road Runner Sports' transactions in 2004 came from customers that purchased their first running shoes through Road Runner in 1989. Other benefits include increasing store-visit rates and the average spend per visit, and drawing customers to new product lines.

The largest benefit to consumers is more useful advertising and sales efforts with less "noise." Mailings are more relevant and focused on the customers' ultimate goals. For example, CVS may target its pharmacy users with circular slots that address healthy-heart products rather than an array of medicines that are less relevant to a particular consumer.

Conclusions

Customer data management can increase spending per visit, increase customer retention rates, lead to more frequent purchases and more effective promotions, and catalyse top-line revenue growth. It can also enhance customer loyalty, create a better image for the retailer or consumer products firm, and help develop and tailor more useful new products.

Despite the benefits, however, relatively few companies are exploiting the full potential of customer data.

Companies will need to implement customer data strategies in order to sustain their competitive edge as e-commerce grows and more purchases are transacted online. Key steps along the journey include:

- Cultivating respect for the customer – orienting the corporate culture around CRM and training people in the value of customer retention vs. sales.

- Organising people and processes around relationship management. This means hiring people with the right skills, collecting and reviewing the data both internally and externally with suppliers, and breaking down silos.

- Collecting, enriching, and analysing customer data for precise customer segmentation and advertising.

- Making the analyses accessible to every department that can use them, including marketing, brand management, and sales.

By harnessing the power within fragmented and often under-used customer data, retailers and consumer goods companies are increasingly using precision marketing to strengthen customer loyalty and sharpen their competitive edge by giving consumers what they really want.

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