

atabase Marketing

At the heart of CRM is database marketing. Your company needs to develop separate databases on customers, employees, products, services, suppliers, distributors, dealers, and retailers. The databases make it easier for marketers to develop relevant offerings for individual customers.

In building the customer database, you have to decide on what information to collect.

- The most important information to capture is the *transaction history* of each buyer. Knowing what a customer has purchased in the past affords many clues as to what he or she might be interested in buying next time.
- You could benefit by collecting *demographic* information about each buyer. For consumers, this means age, education, income, family size, and other attributes. For business buyers, this means job position, job responsibilities, job relationships, and contact addresses.
- You may want to add *psychographic* information describing the activities, interests, and opinions (AIO) of individual customers and how they think, make decisions, and influence others.

44 Marketing Insights from A to Z

The second challenge is to get this information. You train your salespeople to gather and enter useful information into the customer's file after each sales visit. Your telemarketers can gather additional information by phoning customers or credit rating agencies.

The third challenge is to maintain and update the information. About 20 percent of the information in your customer database can become obsolete each year. You need telemarketers to phone a sample of customers each working day to update the information.

The fourth challenge is to use the information. Many companies fail to use the information they have. Supermarket chains have mountains of scanner data on individual customer purchases but fail to use these data for one-to-one marketing. Banks collect rich transaction information that mostly goes unanalyzed. At the very least, these companies need to hire a person skilled in *data mining*. By applying advanced statistical techniques, the data miner might detect interesting trends, segments, and opportunities.

With all these benefits, why don't more companies adopt database marketing? All this costs money. Consultant Martha Rogers of Peppers & Rogers Group does not deny the costs: **“Establishing a rich data warehouse can cost millions of dollars for the technology and the associated implementation and process changes. Throw in a few hundred thousand for strategic consulting, a little more for various data integration and change management issues, and voilà, you've got yourself one hefty investment.”**²⁶

Clearly one-to-one marketing is not for everyone. It is not for companies that sell a product purchased once in a lifetime, such as a grand piano. It is not for mass marketers like Wrigley to gather individual information about the millions of its gum-chewing customers. It is not for companies with small budgets, although the investment costs can be scaled down somewhat.

However, companies such as banks, telephone companies, business equipment firms, and many others normally collect lots of infor-

mation on individual customers or dealers. The first company in each of these respective industries to exploit database marketing could achieve a substantial competitive lead.

There is a growing threat to effective database marketing that is coming from the inherent conflict between customer and company interests (see box).

What Customers Want

- We want companies not to have extensive personal information about us.
- We would be willing to tell some companies what we might like to be informed about.
- We would want companies to reach us only with relevant messages and media at proper times.
- We would want to be able to reach companies easily by phone or e-mail and get a quick response.

What Companies Want

- We want to know many things about each customer and prospect.
- We would like to tempt them with offers, including those that they might not have awareness of or initial interest in.
- We would like to reach them in the most cost-effective way regardless of their media preferences.
- We want to reduce the cost of talking with them live on the phone.