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Not afraid to mix data warehouses with targeting or statistics with geodemographics, *Database Marketing* bridges the gap between sales, service, marketing and IT to inform both those that work directly with these tools, techniques and data, as well as board level executives that have to decide which systems and services to choose for their company.

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Analysis is now the hottest area of customer management as companies try to maximise return on their investment in operational technology. James Lawson reports on CRM Analytics.

TURNING A PROFIT

Treating different customers differently. One-to-one marketing. Profitable direct relationships with the top 20 per cent of your customers. As the CRM boom really got underway a few years back, many software vendors tried to make you believe that you could achieve all that with little more than a contact management package.

In today's less naïve marketplace, it's clear that operational CRM systems add very little to the bottom line on their own and, even if they did, how would you be able to tell? To decide which flavour of CRM system to implement or to deliver real returns from your current CRM investment, means first understanding your market, your customers and your own internal processes.

Integrating analysis

Like many of the traditional techniques involved in managing customers, analysis has been rebranded. No

longer is it targeting, profiling, sales forecasting or predictive modelling, it's Analytical CRM. Just like customer management itself, the catch-all phrase has been extended to cover basic reporting, or anything that isn't actually operational management. Clients may experience a feeling of déjà vu as vendors re-label the standard reports that come with their products as Analytical CRM tools.

"These are simply business intelligence tools," says Richard Walker, Oracle UK's CRM marketing manager. "The difference is that you need to take an integrated approach to both data and processes, for example, getting to sales to talk to marketing."

Analysis in the different CRM functions takes many forms, from simple reporting to using analysis results online to match customers to products. In sales, it often means reporting on last month's figures, with the results used more to optimise internally rather than

improving external targeting. Indeed, simply getting sales staff to enter data into the system is often cited as one of the toughest challenges for sales contact management implementations. But if you do have the data, there are sales-specific customer analysis techniques can offer more than simple reporting.

“The difference is that Analytical CRM is very much about the future whereas reporting is about the past,” says Nick Poeschle, VP for business development at Update Software, which has partnered with Cognos to provide analytics for its mid-market CRM suite. “We’re moving to more accuracy for sales pipeline forecasting, rather than just adding ten per cent to last year’s figures. In addition, the CRM system can add more facts on behaviour and communications history, rather than the basic facts you would get from an ERP system.”

Poeschle notes that the ability to more accurately estimate customer profitability based on income versus cost to serve is another recent development, and describes tracking the generation of leads and their eventual conversion to actual sales to estimate marketing effectiveness as extremely worthwhile.



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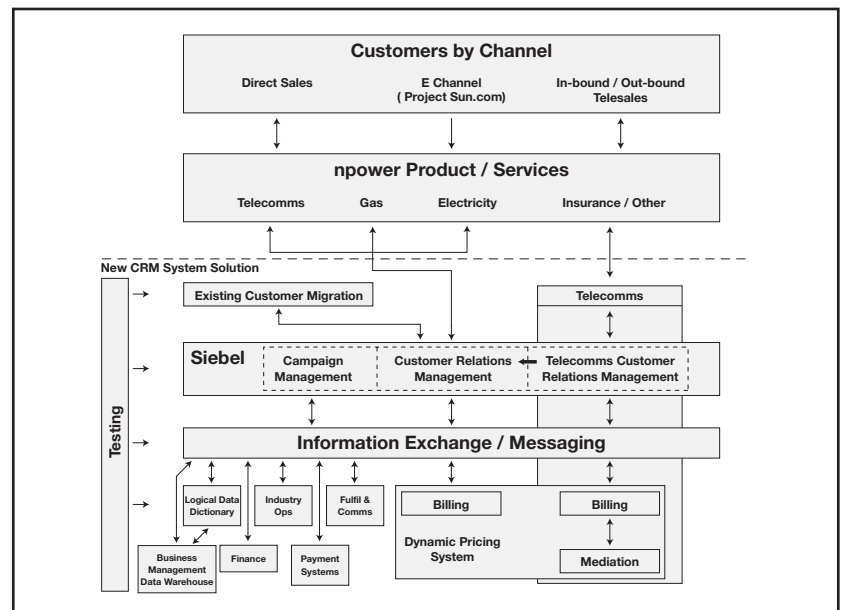
“You need to look at what the customer is costing you,” he says. “If you have 2000 Web registrations every day, it’s no use if they don’t become customers at the end of the process. People are only starting to understand the benefits of monitoring the sales pipeline to inform the rest of their business, logging the number of calls to each client or tracking the number of quotes sent out.”

The fact that so many types of customer analysis are grouped under the banner of CRM analytics is in fact a major strength, going back to the concept of customer management as a core business discipline that needs to be run as an integrated whole across the enterprise. Instead of working in the separate silos of sales, service and marketing, companies have the potential to bring all of their customer analytics into one place and link them tightly to their expensive operational systems. With these operational systems in place, companies can use analytics to take steps to measure how much sales, service and marketing really add to the bottom line, which customers to keep and which to lose, and to measure the operational effects of the different tactics they choose to employ.

“Essentially, the tools, techniques and methodologies are no different,” says Colin Sheppard, strategic busi-

ness development director for Detica. “But conceptually there is a big difference. Historically, database marketing has been a narrow science, focusing on acquisition and retention, not thinking of the customer as a holistic individual. By pulling all the data together, companies can have a good understanding of who buys which mix of products, which are more profitable, who will use which channel and so on, and are much better able to place different objectives on different customer segments. This is where Analytical CRM has meaning rather than being a buzz word.”

The theory is that taking data from and feeding results to the systems that support the different chan-



nels offers the potential to continually optimise customer management strategies and internal processes. Data gleaned from a call centre conversation might trigger an appropriate and timely marketing communication, for example, while a lifetime value estimation derived from transactional analysis could influence the level of service the customer receives.

Like traditional CRM, customer analysis can be split into the business theory and processes, which must relate to some business need, and the systems and tools that are needed to support them. Duncan Painter of Sand Technology outlines the key stages of analysis as defining the customer base, determining the customer segments, identifying the most valuable customers in these segments, taking action to maximise the profit per customer and tracking the impact of these actions.

As for the tools, they can roughly be split into simple reporting, analytical reporting (OLAP), real-time recommendation engines and offline analysis of detailed customer data using statistical tools, such as is familiar to database marketers. Once again, companies have to look across the whole pantheon of analysis products and pick and choose which parts they think are going to work for them.

Holding the customer database centrally with operational access for sales, service and marketing means everyone has the same view of the customer. Results of offline analysis in the data warehouse such as indicators of customer value can be written to the operational database and used to inform interactions. In this example, npower also incorporated real-time dynamic pricing and other functionality within the new system, making for a complex data and systems integration task.



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From analysis to action

Providing metrics to help formulate the correct operational tactics is essentially the goal of CRM analytics in all disciplines – analysis is a means to an end in improving the effectiveness of marketing, sales and service. The real trouble is, as ever, interpreting the results correctly and translating them into action quickly enough. In a recent research note, Gartner Group states that, “Most enterprises recognise the value of customer data; however, transforming data into insight is challenging.”

Certainly in marketing, propensity scores for customer segments have long since been used to drive campaign management tools, tailoring the contact strategy and treatments to different customer groups in order to boost response. Re-running segment or individual scores based on the results of campaigns, and piping them to the operational campaign management tool allows targeting to be refined based on learning. “Near-real-time” trigger-based systems like those from Harte Hanks and NCR also attempt to find opportunities within the customer base by continually searching for exceptions to the norm, such as a recent large deposit in a bank account, and bring them to the attention of marketers either by a physical alert or by an automated link to an operational system.

“The future is about decisioning, so that the results of analysis can be integrated more into operational systems,” comments Chris Underhill, managing director of smartFOCUS. “This means more automation and a tighter bond – Data Distilleries points the way. You shouldn’t look at analytical tools in isolation, you need ones that can be used by those in operations because that is where the benefit is derived.”

This goal of using the results of analysis as quickly as possible at the front end has also driven the shift from straightforward reporting to more ambitious work in the call centre. Reflecting the primacy of service in CRM implementations to date, “real-time analytics” provide perhaps the best example of the desire to increase income from those expensive call centres and Web sites, and indeed sometimes seems synonymous with Analytical CRM itself. Packages from companies like ThinkAnalytics and Data Distilleries analyse a mixture of existing data and actual customer responses in near-real time in order to give call centre agents an indication of the proposition to which the customer they are talking might respond best to. This offers one high tech and, in terms of infrastructure development, potentially complex way to increase success in upsell and cross-sell work, as well as informing other actions, such as differentiated service to the highest value customers.

In a similar vein, Broadvision and NetPerceptions have long used techniques like collaborative filtering to work out which products to offer to online customers. (The contact centre article on p21 also discusses how

analysis can drive improvements in call centre processes). A good example of using customer data to inform call centre interactions is Identex’s work for the Chelsea Building Society, which wanted to improve the conversion rates of DRTV (Direct Response Television) respondents calling into its call centre.

Chelsea Building Society’s marketing communications manager, Sean Scannell, explains, “We needed a system that could realistically help us to improve the conversion rate of customer responses to our DRTV campaigns. The solution needed to work in conjunction with our in-house call centre scripts and help us to categorise all customer enquiries.”

Analysis of profiles of different groups by Identex demonstrated that there was indeed a clear difference appearing between those enquiring and those actually completing applications. From these initial findings, Identex was able to take the two datasets, identify the key driving variables and produce a final scoring formula which could be used to group customers according to their propensity to apply.

By matching incoming callers against a variety of files including the Electoral Roll, the system generates a score for each caller and using it to categorise the enquirer as “A1”, “Good” or “Low” and routes them through the Chelsea’s call centre scripts to convey the appropriate message to the operator.

“We are probably quite unique in the way we react to our DRTV enquiries at the Chelsea,” says Scannell. “The benefits of this system mean that the operators no longer have to trawl through the data in order to interpret it. We can specifically target the best prospects for conversion, which saves us time in the long run. The efficiencies of the system alone make it worthwhile.”

Online or offline?

The concept of real time analysis results being immediately available, while sounding like a good idea, is often desperately difficult to implement in practice across different channels (as opposed to creating more silos at the call centre or on the Web site) and has been slow to take off since it was first mooted a few years ago.

“This is talked about a lot but rarely done,” says Detica’s Sheppard. “Less than 20 per cent of businesses are even thinking about it. Call centres often don’t have access to all the customer data.”

One company that does place real-time analytics and automated recommendation engines high on the agenda is E.piphany, a CRM suite vendor with a strong track record in marketing analysis. “Everything that’s not real time is really late,” is the view of the company’s head of European product marketing, Soren Pallesen. “I see increased effectiveness in upsell and cross-sell as the main objective of analytical CRM.”

But how to achieve this increased effectiveness using analytics is where opinion differs. “Changes in individ-



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ual purchasing behaviour take time," says Mike Talbot, chief technology officer for Alterian. "Real time is something of a red herring. CRM analytics is about having the ability to work with all your data, in fact, operational CRM systems have allowed analytics to come of age. You can change your strategy by changing your CRM system."

This points up the essential difference between the kind of manual and more strategic offline analysis where database marketing has traditionally been strong and newer software designed to be used directly in operational sales, marketing and service interactions. Certainly there is little change in the sort of tools and techniques that are used offline to derive information from customer data. Statistical software from SAS and SPSS or the fast counting "what if" tools from suppliers like smartFOCUS and Alterian have been around for some time, and the statistical techniques employed with them are little changed, and do not need to be.

"A good statistician doesn't need a flashy set of tools," says Sheppard. "You need to know the model is working, you don't need six-dimensional diagrams. The techniques are much the same and I don't anticipate massive advances in this area."

Given the desire for tighter integration, the classic decision of best of breed versus suites also rears up: do you buy the analysis tools that come with the operational software or buy in your own? Martin Squires of Marks and Spencer Financial Services (see case study p18) took the latter course, describing the combination of GIS, relational OLAP and statistical software as "becoming the standard toolkit for this kind of operation".

But there are definite benefits to the integrated approach. "Cost and time to market is much better for an integrated solution," argues E.piphany's Pallesen. "The software is ready to go out of the box, you can form a single view of your customers if you use the whole suite and you can feed data into real time more easily.

Whatever you choose to analyse, one pre-requisite for customer analysis is some form of a single customer view, something that many companies have now

spent considerable amounts of time and money trying to achieve. A data warehouse, be it an expensive company-wide initiative or simply another name for an offline marketing database, is one way to get all your customer, transaction and product data into a single place, allowing it to be analysed together. Notoriously difficult to implement on a large scale, customer management applications have breathed new life into the data warehouse industry. But simply getting all the data in one place is just the start.

"The only thing that suppliers will agree is that you need a single customer view," says Underhill. "It's an absolute necessity. But you need to distinguish between getting the data together and the application of analysis results to a specific function. Vendors are all coming from different angles and many perceive that creating the single customer view is analytical CRM. It would be no surprise that someone like Oracle would see analytical CRM as a data warehouse. It's not the endgame, it's about how well you deliver insight to improve the business function. The IT department may see this as a de facto data warehouse solution, and will that derail analytical CRM? We've all heard about data warehouse failure."

Pick and mix

Just like operational systems, what Analytical CRM has to offer in the way of business benefit depends very much on the sector you are in, how your business functions work with each other, the volume and value of your customers, and how you interact with them. An automated recommendation engine isn't much use if you only have 50 customers run by key account managers. Likewise, trying to apply analysis globally won't work if your sales, marketing and IT departments are permanently at war.

For those with large numbers of valuable customers, typically the financial services, automation makes more sense. But given the cutting edge systems integration needed to achieve more ambitious projects, bear in mind that an offline marketing database and associated tools may be all you need to start to fundamentally change the way you manage your customers. ■



Changes in individual purchasing behaviour take time

Mike Talbot, chief technology officer, Alterian.