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James Lawson discovers how M&S Money used its state-of-the-art direct marketing toolset to turn an obligation into an opportunity.

Achieving More at M&S

Over £424 million of fraud was committed on UK credit and debit cards in 2002 and, without a more secure system in place, UK losses were forecast to be in the region of £800 million by 2005. To stem the tide of corruption, the financial services industry dug deep into its pockets to fund the Chip and PIN initiative. But when faced with this challenge, M&S Money saw an opportunity to do more than simply re-issue its cards.

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Preparing the ground

Marks & Spencer Money was originally established in 1985 to run the M&S Storecard. One of the pioneers of storecard processing and management in the UK, Marks & Spencer Money (MSM) was the first British company to offer a storecard to its customers. M&S retail staff now offer credit card, loans, insurance, savings and foreign exchange services to customers, and the company works from a purpose-built facility in Chester where over 1000 staff take care of call centre, back office processing and support functions.

To support its marketing work, the company had invested in customer databases outsourced to other third party suppliers, but these were struggling to deliver the quality of analysis required as the business moved towards a more customer-centric strategy.

Extracting data for mailing files relied heavily on IT, an expensive and cumbersome process: the total cost of the customer intelligence infrastructure in place at the time was £4.4m per annum. To enhance retention and cross-sell across the base, the company decided it need to redevelop its customer analytics infrastructure.

The short-listed candidates had to build a proof-of-concept prototype in six weeks, and the marketing team tried out a variety of front-end tools on these extracts. Since its implementation by service provider Kognitio in late 2002, Minerva – as the platform is now known – has been hosted at the M&S data centre, with regular maintenance and updating performed remotely to ensure its integrity.

The database and its related applications have been constantly upgraded over time and over 30 feeds now find their way into the 3.5m-strong customer file at various update frequencies ranging from daily to monthly. Kognitio runs all the conventional mortality screening and other cleansing using industry-standard reference files.

M&S Money employs a wide range of applications. The database itself runs on Oracle, with Informatica used to handle the different feeds. The Customer Intelligence and Analysis team uses SAS Base and Enterprise Miner used for data preparation and mod-

elling. Unica handles campaign management while Microstrategy's OLAP tools deal with reporting, and MapInfo aids in-store marketing planning.

These are used by the Customer Intelligence and Analysis team which sits within the Risk and Analytics department, quite distinct from sales and marketing which is within the Commercial department. The team is split into three sections: campaign management and analysis, strategy, segmentation and profiling, and modelling and stats.

"They do overlap," says Customer Intelligence and Analysis manager Martin Squires. "I always see it as more of a Venn diagram than a traditional structure. We cover all aspects of marketing and sales development required by our internal customers."

The recently-completed Minerva platform was instrumental in the successful switch from the storecard to a credit card and loyalty scheme approach, with extra feeds added to handle the changes such as credit data from Experian. Piloted in October 2002, the full credit card launch rolled out in November 2003.

"We have been moving to smaller campaigns over the last five or six years, particularly since we migrated from being a storecard to a credit card in 2003," says Squires.

The big push

In November 2004, HSBC took full control of M&S Money, and agreed a ten-year joint venture with Marks & Spencer. Shortly thereafter came the move to Chip and PIN. The UK programme as a whole involved supplying 850,000 new retailer terminals, issuing 122 million cards and upgrading 40,000 cash machines.

"Like every credit card issuer, we had to move to Chip and PIN," says Squires. "Because we had issued new cards relatively recently, we couldn't just replace them as they expired so we had to move quickly to get it done by the deadline of February this year. Several million pieces of plastic had to be replaced, it was a big operation."

The re-issue represented a major risk to continued card usage levels but at the same time, the company realised it was also a major opportunity to drive card reappraisal by customers and therefore incremental profit through increased usage and take-up of extra related services like card insurance.

"Replacing the cards would be a big expense for any organisation," continues Squires, "so how do you get the best return from that spend, how do you get the commercial benefit from it?"

The team decided to send a staged series of statement inserts and mailers to both maximise new card activation and to deliver incremental income through cross-selling additional products and services. The latter included balance transfer propositions with interest rates between zero and nine per cent, Cardsafe

card loss cover and PPI (payment protection insurance) which insures against inability to pay monthly payments due to illness, accident or unemployment.

Some complex modelling was required to make sure that the right mix of propositions and incentives, such as varying numbers of loyalty points, went to each part of the customer base.

"We used a combination of four different models," says Squires. "We were trying to get away from the one-size-fits-all approach to segmentation, and didn't just want to use traditional propensity-to-respond models."

The first model aimed to estimate how soon different types of customers would activate their cards following the mailing. To do this, the team used historical data that showed the time lapse between card arrival and activation gathered from the behaviour of customers that had previously lost their cards. A value for this period could then be linked to other customer attributes.

The second model looked at which cross-sell offers different types of customer would be most likely to take up, based on responses to previous campaigns, and their propensity to spend. The remaining two models provided scores for customer value and loyalty. According to Squires, the latter was "mostly revenue with some costs in there".

The models were combined to derive scores for the different planned activities. For example, the cross-sell model influenced influence which products were offered in the card carrier or during inbound cross-sell calls, alongside the loyalty model which influenced the number of loyalty points on offer for taking up the product.

Prioritisation of activation calls following the mailing was a key application. "There would be no point in calling a less valuable customer on day 14 if they are likely to activate after 25 days," says Squires.

The Activation and Use segmentation was the most complex. Split into three segments each, the loyalty and profit scores were combined with the likelihood-to-activate model in order to allocate different loyalty points incentives for both activation and to encourage spend. For example, the most generous Activation and Use points incentives went to the small proportion of the base that were very profitable but were most unlikely to activate. In addition, five different offer end dates were used, resulting in a total of 135 different offers.

Given that, at that point, 14 per cent of customers accounted for 51 per cent of spend, and ten per cent accounted for 89 per cent of total book quarterly profit, making sure that the most valuable customers continued to use their cards was a top priority.

"It was vital to retain certain customers," confirms Squires. "They had a high priority for follow-up calls and a strong initial offer. You need to balance the

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resources expended – loyalty points, marketing budget, call centre resources – with the value of the customers.”

The final campaign, co-ordinated through Minerva's campaign management tool, involved 62 separate batches of mailings, PINs and card carriers, with more than nine million separate mail pieces. Customers received a teaser insert with the previous month's statement, followed by a direct mail piece three days before the card's arrival telling them it was on the way. The PIN would arrive two days before the card carrier pack arrived containing its various offers.

To ensure consistency across the phone and mail channels, call centre agents could see the offers made on outbound mailings and could repeat these when cross-selling during card activation follow-up calls or when answering inbound calls from customers.

Build on success

The results of the campaign were excellent. The model predicting activation showed good discrimination across segments, justifying its use, and the loyalty offers were particularly effective on those with a low likelihood of activation. The cross-sell offers out-stripped their targets by large amounts in all cases.

The balance transfer values exceeded expectations by more than 250 per cent for example, while Cardsafe take-up was over four times the target. When compared to the “No offer” control groups, the cross-

sell offers delivered between five and eight times the numbers of sales.

The Minerva system has now long since proved its effectiveness. “It's when you do this kind of project that you understand how good the infrastructure and team really are,” says Squires. “We couldn't have done this three years ago and shows how valuable our investment was. If I were doing a similar project again, all I would change would be to start earlier if possible.”

The continual improvements made in M&S Money's analytical and customer data management capabilities also means that the Minerva platform is far more versatile than any outsourced bureau extract could normally be.

“Minerva has become more of a operational BI environment than a relatively static marketing database,” says Sean Jackson, marketing manager at Kognitio. “They get regular snapshots of the key facts from the database and it now supports some of their regulatory and compliance requirements too.”

With the operational effectiveness of analytics proven in the Chip and PIN project, the business case for further intelligent cross-selling on inbound calls at its contact centre looks strong.

“The Holy Grail would definitely be to move to an intelligent dialogue with customers rather than the monologue which you can achieve if you are just targeting outbound activity,” says Squires. ■

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