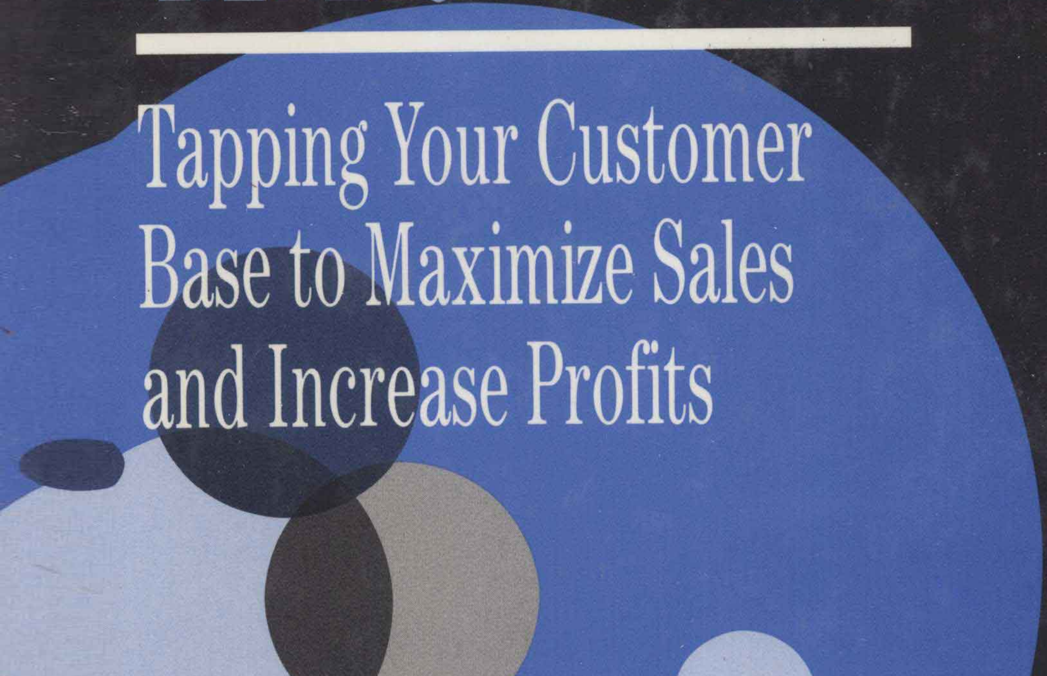
The Complete
DATABASE MARKETER

Tapping Your Customer Base to Maximize Sales and Increase Profits



Arthur M. Hughes

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江苏工业学院图书馆
藏书章

PROBUS PUBLISHING COMPANY
Chicago, Illinois

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Library of Congress Cataloging in Publication Data Available

ISBN 1-55738-192-5

Printed in the United States of America

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2 3 4 5 6 7 8 9 0

Acknowledgements

I have interviewed and quoted scores of people in the process of writing this book. Most of them are quoted by name. But there are some others to whom I owe a special debt of gratitude for working with me, providing leadership, and helping me to understand this exciting new marketing method. Among these people are:

Robert Smith, President of Targeted Communications Corporation, who had the vision to understand database marketing in the early years, and built a successful company around the concept.

Larry Rinaldi, Vice President and General Manager of Ogilvy & Mather Direct in Los Angeles; one of the creative geniuses who has the ability to dream up successful database concepts and sell them to company managements.

Paul Shoemaker, Brand Manager, The Carnation Company, a role model for the Database Administrator: a hands-on, can-do, successful administrator of a marketing database.

Skip Andrew, Executive Director of the National Center for Database Marketing, whose organizational skills and drive have made a profession out of an idea.

Ernie Schell, President of the Communications Center, who reviewed this book and provided valuable insights for improving it and keeping it within bounds.

Ben Spaisman, President of ACS, Inc., who started with a small direct mail service bureau and turned it into a major player in the modern database marketing world.

Arthur M. Hughes

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Introduction

The Old Corner Grocer

Sally Warren was surprised. She was used to getting commercial messages in the mail, but this one was different. The St. Paul Luggage Company was writing her to congratulate her on her son David's upcoming graduation from Hobart. In the letter, they suggested that she and Dan consider giving David luggage as a graduation present. The letter included a small colorful catalog featuring St. Paul luggage. But the letter suggested that she could probably beat the listed prices through sales in the three stores in Rochester that carried the famous St. Paul brand. The store names were listed along with the direct dial number of the luggage departments. The topper was a $5 rebate check good at any of the three stores, or also good if she ordered the luggage direct using an 800 number.

Sally Warren's relationship with the St. Paul company went back more than a year, when she and Dan bought their first set of matched luggage for a trip to Florida. Included in the package was an owner registration form offering a $5 rebate from St. Paul's for filling it out and returning it. She did so, and received her check. Six weeks later she also received a nice telephone call from a customer service rep at St. Paul asking, "How did you like your trip to Disney World?" They had a nice talk about Disney World, her family and her job, but not much about luggage.

Six months after that first call, when Sally's daughter, June Baumgartner, gave birth to Sally's first granddaughter, Sally received another letter from St. Paul's congratulating her on becoming a grandmother and suggesting either a St. Paul's Stroller or Car Seat as a useful gift. St. Paul was becoming a household word for the Warrens!

What Sally doesn't know yet, because it is still in the future, is that before she and Dan take that long planned vacation to Spain (which she told the St. Paul's customer service representative about), she will get another letter from St. Paul's wishing them well in Spain, suggesting that they both might want to take along two matching overnight bags specially designed to fit into an airplane overhead compartment.

Sally Warren was experiencing database marketing, the way that business will be conducted in the future. It is a system that sees in every customer an opportunity for a long-term relationship. In past years, marketing aimed at making a sale; database marketing begins with the sale and aims at establishing a lifetime friendship.

Our mythical St. Paul Luggage Company has established a Customer Marketing Database: an interrelated series of computer records about the Warren household that enables St. Paul to know and retain a hundred useful facts about this household and to bring them to bear at the right time.

This is what the corner grocer did in the old days. He knew that the Warren's daughter was having a baby and that their son was graduating from Hobart and, if he was successful, he used this information in his work. That was why his customers kept coming back to him, even though the supermarket down the street had lower prices. But the corner grocer is no more. The rising tide of mass markets and discounted prices did him in. Stores in the Sixties, Seventies and Eighties became impersonal warehouses where no one knew anyone, and clerks were impossible to find.

Database marketing exists today because of one important development: every year, the price of storing and using information has become cheaper and cheaper. The constant improvement in microchips means that vital facts about 800 customers that the grocer used to keep in his head can now be maintained on 8,000,000 St. Paul customers on a mainframe computer.

St. Paul's has set up an integrated system of software, direct mail, telemarketing, rebate checks and intercompany data exchange which is coming closer and closer to recreating the marketing technique of the corner grocer.

Think about it: from what Sally told them on their first telephone call, they learned that Sally's daughter June was recently married to Jack Baumgartner and that the couple were living in Oswego. They stored that information in Sally Warren's file.

Once a month, St. Paul's Stroller and Baby Car Seat Department gets a list of expectant mothers. They were able to link expectant mother June Baumgartner in Oswego with Sally Warren in Rochester and know that they had a proud grandmother who was in the market for the perfect gift. The corner grocer would have done this effortlessly. St. Paul required a lot of advance planning, organization and software, but they did it. And what's more, if they hadn't done it, they wouldn't have been able to maintain market share in the face of modern competition!

That is what this book is about—database marketing, as defined by the National Center for Database Marketing:

> Managing a computerized relational database system, in real time, of comprehensive, up-to-date, relevant data on customers, inquiries, prospects and suspects, to identify our most responsive customers for the purpose of developing a high quality, long-standing relationship of repeat business by developing predictive models which enable us to send desired messages at the right time in the right form to the right people—all with the result of pleasing our customers, increasing our response rate per marketing dollar, lowering our cost per order, building our business, and increasing our profits.

SOME BASIC DEFINITIONS

We need to distinguish a number of terms: let's begin with direct marketing and distinguish it from general advertising.

Direct marketing is any marketing activity in which you attempt to reach the consumers directly, or have them reach you:

- A television or radio ad which features a telephone number to call for information or to order the product.
- A print ad with a coupon, an order solicitation or a telephone number to call.
- Any direct mail piece or catalog sent to a household, designed to sell a product or service.

General advertising measures its success by whether possible customers are aware of or can recall your message. Direct marketing measures its success by whether the profits from direct sales exceed the cost of producing these sales. General advertising aims at projecting an image, positioning the product, increasing general awareness; direct marketing aims at sales and generating leads.

Direct marketing has been around for a long time, but has been growing very fast in comparison with other forms of marketing. It has consistently grown at twice the rate of the United States' gross national product. It is and will continue to be the hottest growth area in advertising for the foreseeable future.

Database marketing is derived from direct marketing: the advertiser maintains an active list of customers and prospects which is updated on a regular basis with information about the customer's response to your message. It is the newest and fastest growing part of direct marketing. It has these features:

1. A list (database) of customers and prospects is maintained on a computer using software which permits ongoing revisions of information about each person.
2. The database is actively used by several different people at the same time to:
    - add names of customers and prospects to the database;
    - enhance these names with demographic and lifestyle information;
    - correct and clean the name and addresses;

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- plan marketing strategy using information from the database;
- select names for mail or telephone contact, developing source codes for each different marketing package or message;
- post each customer's record with his or her response to direct marketing with dates, amounts and source codes, and new information specifically requested in the outgoing message;
- prepare frequent reports on the results of marketing efforts and survey questionnaires and
- use the information in the database in a continuing, planned program which builds relationships with the customer and promotes sales.

INDIVIDUAL MARKETING

Direct marketing attempts to reach groups of potential customers. You screen media and mailing lists to concentrate on those most likely to reach groups of people who will respond and buy.

Database marketing attempts to talk one-on-one with people about whom you already know a lot. You want to make customers feel you have a product just for them. You build their loyalty to your product and service because you have demonstrated that you have taken the trouble to learn and remember their past purchases, past requests, past complaints, their lifestyles and interests. They feel that you know them and understand them.

I recently spent a night in a Hyatt Hotel in San Francisco. About 9:30 P.M., I pushed the button on the telephone marked "In-Room Dining" to order a hamburger. The operator said, "Hello, Mr. Hughes. What would you like to eat this evening?" I was surprised and pleased. It sounded as if she had been sitting by the phone all evening, hoping that I would call!

A week later, I stayed in another very new, very large and very expensive hotel in San Francisco. I again pushed the button for room service. The operator did not know my name. He asked me what room I was in. I had to go to the dresser to look at my room key to be sure. He didn't know!

The Hyatt had a marketing database which permitted the operator to know my name as soon as I picked up the phone. I had only checked in one hour before the call, yet they already had my name on their system. A small matter, but enough to make me remember the Hyatt. I have forgotten the name of the other hotel.

THE IMPORTANCE OF COMPUTERS

Of necessity we will spend much time in this book talking about computers: what you can do with them, and what they will do for your business. There is no getting around it—database marketing owes its existence to the dramatic cost reductions and efficiencies made possible by what has happened to mainframe computers in the last ten years. Most of the techniques we will be discussing were possible, but not cost-effective, a few years ago. The way computers are developing, some techniques in this book may be obsolete ten years from now. We are on a very fast track. The race will go to the swiftest: the companies that learn these new techniques, and learn how to adapt their businesses to them.

If you are not computer literate, do not worry. There is nothing in this book that you can't understand or that will force you to consult some other book or expert. This is a book for marketing professionals, not for computer experts. As we introduce concepts that involve computers, we will explain what we mean in layman's language. Those who already know computers can skip these brief definitions.

THE CIRCLE OF PROFITS

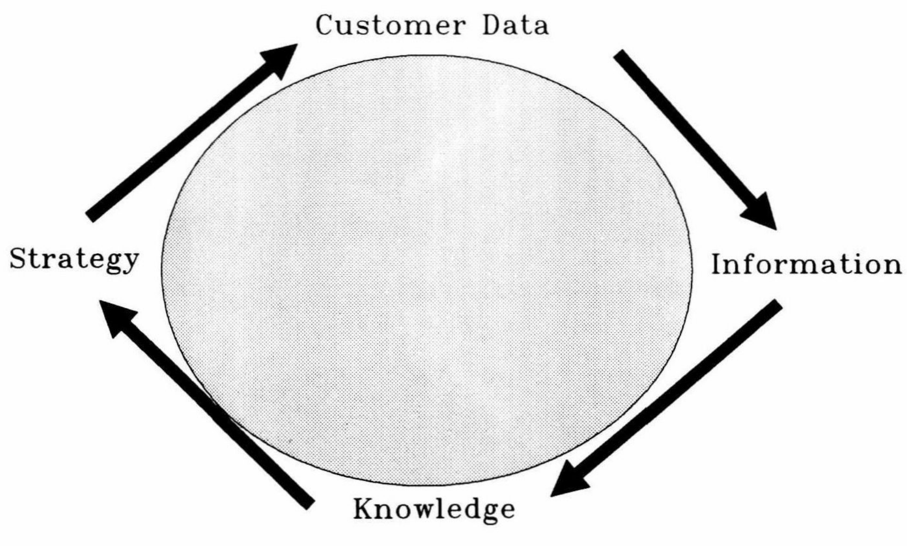
If you took the time to study the old-fashioned, successful corner grocer you would have noticed his technique. He kept his eyes and ears open. He chatted with customers as they came in. I used to think that he was just wasting time: "Why doesn't he spend his time out in the warehouse working, instead of making small talk with the customers?" I thought to myself.

How wrong I was! Today's successful store manager is busy in the warehouse. He runs a clean, well-stocked, impersonal store where the customer never gets to know anyone and is loyal only until the competitor's ad appears in tomorrow's newspaper.

In the next few years all successful stores will begin to return to first principles, and treat their customers as the old fashioned grocer did. They will be exploiting the circle of profits (Figure 1).

Every contact with a customer will be used as an opportunity to collect more data about the customer. This data will be used to build knowledge about the customer. The knowledge will drive strategy leading to practical, directly personal, long-term relationships which produce sales. The sales, in turn, will yield more data, which will start the process all over again.

Figure I-1 The Circle of Profits



Overview

Marketing to Individuals

HOW A DATABASE AFFECTS MARKETING STRATEGY

In their stimulating book, *MaxiMarketing,* Stan Rapp and Tom Collins opened our eyes to the dramatic changes in marketing which have come about during the 1980s:

> The common wastefulness of the mass advertising of the past is giving way to the newly affordable ability to locate and communicate directly with a company's best prospects and customers. And this new-found ability can be equally rewarding to a manufacturer, a retailer, a service company, or a catalog merchant . . . Of all these changes, surely the most revolutionary is the ability to store in the computer information about your prime prospects and customers, and, in effect, create a database that becomes your private marketplace. As the cost of accumulating and accessing the data drops, the ability to talk directly to your prospects and customers—and to build one-to-one relationships with them—will continue to grow. A rising tide of technological change has brought this golden moment of opportunity.

Almost everyone in advertising has heard their message and accepted it. In every major company, every agency, in every conference and convention, marketers are discussing ways of taking advantage of this golden moment and building a functioning marketing database for their company or client.

Rapp and Collins cautioned: "*MaxiMarketing* is not a textbook or a how-to book. It is a "think" book that aims not to solve your advertising and marketing problems, but to stimulate you to think about them in a new way so that you can solve them yourself."

The book you now hold in your hands, *The Complete Database Marketer*, is a how-to book. We begin where Rapp and Collins left off in MaxiMarketing and their follow-up book, *The Great Marketing Turnaround,* to provide you with some of the background information necessary to create a functioning marketing database in your own situation.

The Complete Database Marketer is written for two audiences: the senior executive planning marketing strategy and the middle-level staffer who is actually building a database, setting up loyalty programs, developing marketing initiatives and running a customer service program.

The Complete Database Marketer is state-of-the-art. Everything that you will read in these pages is either in existence or in the active planning stage somewhere. This book is for creative people who take ideas and run with them to make profits for their companies.

Database marketing has become a buzzword. Articles and books are devoted to it and a national center has sprung up to bring professionals together. Every direct-mail agency and marketing staff in America is either looking into it or actually setting one up. If you are not sure exactly what it is, don't be embarrassed—most people still don't. (But then, they haven't yet read this book!)

Whether you are selling boots or boats, software or soap, cars or computers, pharmaceuticals or financial services, to market effectively today you will need a marketing database that links you to loyal customers who are eager to be *the first to learn* about your new offerings. You will need to be linked to active prospects whom you will transform into loyal customers. You will need to use the information in the database to understand your customers and to communicate with them one-on-one.

A marketing database is not simply an "add-on" marketing technique which can be used to supplement your existing program. That is what it may be at first. But to make maximum use of data-

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