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Measuring the Customer's Variation in Value

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ABSTRACT

Many organizations do not measure the variation in value that their customers have for its products and/or services. The organizations that do know about measuring variation in value frequently don't know how or where to begin to do so. As the marketplace- and the people in it - changes so does the value of a product or service; therefore, it is important to measure the variation of the value.

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The reality of direct marketing is that no matter how great a direct or database marketer you are or intend to become, if you are not delivering your marketing communications piece to the intended customer, your response rates and return-on-investment for your marketing efforts are leaking precious profitability.

Those businesses and nonprofit organizations that stand to lose postal discounts under classification reform because of the quality of their mail lists should consider developing a database maintenance plan (DMP).

The following example of a DMP is an actual case study of an organization that has sales of approximately $260 million and is a retailer, direct marketer, cataloger, publisher, wholesaler and sponsor of conferences and events. It has three different transactional system databases that combine for a total of approximately 3.3 million consumer customers.

Their problem was like most larger organizations and corporations. There was one large corporate database and other significant databases that were comprised of customers from different transaction systems. The organization was divided into different business units with different business, marketing and mailing objectives, but all units used the larger corporate database to mail from. The problem was no one maintained the customer name and address information in any of the databases.

The organization relied on in-house software for taking care of duplicates, standardization and sortation, but nothing was enforcing any business unit to even use that. Furthermore, each business unit did not want to share their names with the others. There wasn't any integration of organizational marketing, mailing or database maintenance for these degrading databases, nor was it desired.

A study that consisted of a sample of approximately 600,000 individual names and addresses (25% of the organization's database) was conducted of the corporate database and organization-wide mailings. In summary, this analysis indicated that on average 39% of the mailings resulted in wasted postage and mail piece production dollars.

Out of the research, a DMP proposed to put the databases into a massive integrated cleanup process which would enable this organization to save an estimated $941,000 from waste avoidance of production and postage in the first full year of implementation. This turned out to be a conservative estimate.

An additional estimated value of $170,000 would be gained from recovering individual customers whose names have been lost over the years. The plan also called for periodic cleaning updates of the databases. The DMP involved some centralizing steps that included MIS costs for programming time and testing; however, the financial benefits from reduced waste and increased revenue outweighed the costs.

When the waste and financial figures were reported, the initial reaction was for each business unit to do its own database maintenance. This option was discounted due the cost and the inability of the present system to track waste avoidance and customer recovery revenue. It would have multiplied the

cleaning costs four times and customer overlaps in the databases would guarantee a continuation of errors in the future.

The DMP insured incorporating a single set of scheduled cleaning steps instead of cleaning multiple databases individually. The plan based the entire organization's database maintenance on annual volume discounts and minimums, entitling this organization to reduced rates. Overall, the option to do database maintenance organization-wide was the most efficient and cost effective option.

There were three unanticipated benefits that came out of planning this organization-wide database maintenance process. These three benefits are strong characteristics of the implementation of the DMP in any organization: 1) It is usually the first place the wrecking ball comes out and starts tearing down the corporate culture walls, and forces people in the entire organization to work together; 2) It is usually the first time that the entire organization gets a glimpse of the customers being its assets; and 3) It is an initial

and perpetual funding for database marketing.

In conclusion, the DMP accurately achieved the savings in waste avoidance that was estimated from its implementation. In fact, it did better than it conservatively projected and would have been more valuable considering the United States Postal Service's recent classification reform.

Each business and organization is different. There are different aspects of corporate culture to deal with in all of them. Only through the database maintenance planning approach, can a multi-business organization integrate its database hygiene efforts.

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