Transforming to Customer-Centric Marketing

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The Customer-Centric Imperative

It is widely accepted in marketing circles that the more customer-centric (relevant, timely) the marketing message, the more successful that message will be in getting through to the customer. Yet while some companies have adopted a more customer-centric approach, most marketers have clung to their product- and campaign-centric ways.

But product- and campaign-centric models may be on their last legs based on two key trends reported by Forrester Research:  

1. Consumer resistance to intrusive (non-customer-centric) marketing is increasing:
   - 68% of North American consumers say there are too many ads today
   - 63% of U.S. households wish they received less direct mail
   - On average, North American online consumers receive 102 unwanted email messages per week

2. Consumers are actively taking control away from marketers:
   - 54% have installed pop-up blockers
   - 76% of consumers have registered for do-not-call lists

So, at the very least consumers are ignoring more of the noise from marketers and, in many cases, are actively tuning them out. In reaction to these trends, marketers are looking for new approaches.


Some are simply trying to figure out new tactics that might increase results in the short term; others realize that there is a fundamental shift in consumer behavior and are looking for a strategic change in how they bring themselves to market. Those looking for a strategic change would do well to examine a more customer-centric marketing methodology.

In fact, one could argue that a more customer-centric (more relevant, timely messages) marketing practice is not just an option but an imperative. Before making the shift, though, management teams first need to understand why they should change.

**Why Customer-Centric Marketing?**

The answer to the question "why should we change to customer-centric marketing" is an economic one: "because it will increase profits."

This will happen for two reasons:

1. Customer-focused (as opposed to promotional and product-focused) communications will increase the recipient's comfort level that their preferences and wishes are respected (thereby increasing their loyalty to you vs. the competition) and, as a result, they will buy more from you over a longer period of time.

2. Your marketing investment will be better aligned with customer profit potential, driving tangible cost-efficiencies (you won't be wasting marketing dollars on low potential customers).

**Customer Economics**

Most companies have intricate financial measurement systems to measure revenues and profits at the product or division level, but have no experience measuring financial performance at the more granular, customer level. As a result, most need to learn about some basic customer economics – and why it's important to extend our understanding of financial performance all the way to the customer level.
Research conducted by Bain and Harvard Business School shows that the longer a customer is with you, the greater the annual profit generated from that customer. These increased profits come from a combination of increased purchases, cost savings, referrals and a price premium.

Related research sheds light on the old 80/20 rule (80% of your revenue comes from the top 20% of your customers): the top 20% of your customers (measured in revenue) can provide as much as 200% of your profit. This means that your best customers actually subsidize the weakest customers – the ones who use up a lot of your marketing budget but don’t spend a lot in return.

Based on these truths about customer economics, clients should base their marketing approach on these three basic and easily actionable tenets:

- Acquire new customers who have the best potential to become good, long-term customers (go for quality, not quantity in the customer acquisition process).

- Determine as early in the customer relationship as possible which new customers have the greatest potential to become high-value, long-term customers (and focus marketing spending on them, not low-potential customers).

- Reward existing high-value, loyal customers with special treatment in order to retain a higher percentage of them (they are the customers keeping you in business!).

Some marketers shy away from focusing on customer profitability and focus instead on maximizing revenue – as marketing is primarily responsible for maximizing revenue within the marketing budget that they have. Customer profitability is not a common financial metric so management often just tasks marketing with bringing in the most customers (quantity) not the most profitable customers (quality). Marketing is asked to maximize revenue and number of customers because finance believes that market share is the most important measure of success – increase it and profits will increase (due to economies of scale).

That’s a nice logical thought process but it doesn’t work that way in reality. Research on market share leaders and profit leaders across more than 200 industries shows that market share and company profit are not highly correlated. In fact, the economics of customer profitability suggest they are inversely correlated. When your goal is to maximize the number of customers you bring in, you are inevitably going to bring in a large number of customers who turn out to be unprofitable. And when this happens, economies of scale on the manufacturing side are wiped out by increased sales and marketing costs.
**How to Make the Shift to Customer-Centric Marketing**

First of all, shifting to customer-centric marketing will not work if your approach is too radically different from what is happening today. People find it difficult to adopt wholesale changes to anything – and marketing is no exception. So the process must be gradual as well as logical.

Equifax has a basic road map for how this should work. At the highest level, the evolution that your company must go through looks like this:

![Diagram](image)

First, you must understand what your customer base looks like and how they break down in terms of value and potential value. Then you can begin to align your marketing investments – starting first with the direct marketing budget and then examining where you might shift budget from mass media to direct media. Having a customer-centric strategy requires that you focus more effort on direct, 1-to-1 messaging and less on untargeted, mass media messaging. Mass media marketing is impossible to differentiate from customer-to-customer and thus prevents you from varying your investment at a customer level.

Once you have the information you need to determine which customers warrant more or less focus, you need to develop a messaging strategy that will keep customers loyal and shopping with you. Since we can’t really develop a contact strategy for each and every customer, we need to develop contact strategies for the various customer segments we have in our marketing database.
Initially, most companies developing a segmented marketing approach use a combination of value-based segmentation and customer lifecycle segmentation. Equifax’s standard segmentation approach is called MVP (Marketing to Value and Potential) and it contains the following segments:

- High Value
- Medium Value
- Low Value
- New
- Lapsed

As you can see, these segments are a combination of customer value (High, Medium, Low) and lifecycle (New, Lapsed). The customers in each of these groups should receive different frequency of contact as well as different messages. Each segment needs to have its own contact strategy and plan. The segmented contact strategies should include the following:

- Basic marketing objective (e.g. Retain, Upsell, Migrate, Reactivate)
- 12-Month financial opportunity (e.g. for High Value customers, retaining an additional 10% of customers in this segment will yield $276K in revenue)
- Segment "theme" (e.g. for New customers, "Welcome and here is a special offer for you")
- Direct mail plan
- Email plan
- Customer Service plan (hint: Customer Service should know which segment customers are in - especially High Value customers)

Developing contact strategies by segment is a great first step in developing a customer-centric marketing approach, leading the way for more advanced techniques such as real-time, trigger-based personalization of offers. Many companies have a limited ability to conduct real-time personalization on their website.
(modifying the web pages people see based on what they are currently looking at online). But, a new capability of combining historical customer behavior from all channels with real-time customer behavior at the website or call center is where things are quickly evolving. And when we get there, we will have achieved true 1-to-1 marketing.

So in terms of developing a road map to become more customer-centric, the process should look something like this:

Throughout the process it is important to educate and inform all relevant parts of the organization as to what is happening. True customer-centric marketing involves all parts of the organization that touch the customer, not just outbound marketing groups. The insights gleaned from analyzing and segmenting the customer base should be shared with the e-commerce, customer service and retail management teams. They should also be aware of the outbound marketing programs and which customers are getting which messages. This synchronization of messages and offers will play a critical role in convincing customers that you are focused on them and concerned about their specific interests and needs.

One final thought: a comprehensive transition to customer-centricity will take time. One multi-channel retail client of ours has accomplished the development of a marketing database along with fully implemented, segmented contact strategies in just about 14 months - which is actually quite fast. It is critical to recognize that this effort requires both patience and persistence – and often requires some outside assistance from a credible vendor.
About the Author

Andy is a founding member of Equifax Marketing Services. As VP, Client Development he works closely with Equifax Marketing Services' prospects and clients to create information-driven marketing solutions that deliver breakthrough results. Andy has over 25 years of experience in database marketing and is particularly skilled at helping companies evolve from a product-focused to a customer-focused marketing and sales approach. Throughout his career, Andy has worked with leading companies such as IKEA, Borders Books, IBM, General Motors, and Four Seasons Hotels. He is a graduate of Dartmouth College and holds an MBA from Boston University's School of Management. Andy is a frequent speaker at direct and database marketing gatherings, writes for many industry journals and has taught a course in Relationship Marketing at Bentley (MA) College.

Contact us today to find out more about how Equifax can deliver sophisticated, intelligent, and effective multi-channel marketing programs to your organization.

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