The Unified Theory of Database Marketing

By Ruth P. Stevens

Database marketing is all of a sudden the new holy grail. What with “big data,” CRM, data warehouses, one-to-one marketing, data mining—a number of techniques are capturing management time, attention and budgets, and they are all built around customer information. We now have new opportunity to pick up some of the powerful approaches that database marketing has been developing over the last 50 years and apply them to our businesses, to generate substantial value.

That said, there is a general misconception out there about what database marketing can do. I’ll never forget the comments of a very senior but very uninformed sales VP at a company I was associated with several years back. My job at that company was to help apply database marketing to an old line business that had lots of data but little clue of how to put it to work.

This sales exec, who was extremely influential, indeed powerful, was in a position to be a valuable supporter of the project. But to hear him talk about database marketing was to cringe. Here’s the kind of stuff that came from his mouth: “This stuff will let us find blue-eyed one-armed paperhangers who graduated from Yale, and then we’ll be all set.”

Yipes, what’s a database marketer to do? The spirit is willing but the flesh is weak. I know that somewhere, deep inside, he “got” what database marketing is generally about, but he had no clue as to the art of the possible.

So I would like to lay out a few principles of what database marketing can do and can’t do. What database marketing is really about. And why it’s so powerful.

The first thing we have to keep in mind is data availability. My sales VP’s confusion was that he didn’t understand that marketers only have a very limited amount of information about customers and prospects to work with. We may have our customers’ transaction history, some demographics we’ve gathered or rented, and, if we have been wise, the promotion history, meaning, the record of all outbound marketing communications and the inbound responses.

Then, database marketing boils down to 3 major marketing applications.

Profiling for look-alikes. Profiling usually supports customer acquisition. This application analyzes current customers or, better yet, our best customers, and identifies their characteristics. This is called a "profile," and might be generated by a cluster-type analysis (CHAID or CART) or a multi-variate regression analysis, where various characteristics are identified as having either positive or negative correlations.

Once we know that about our customer, or our ideal customer, we can then apply the model to vast universes of prospects, select the closest matches, and then communicate with them. In theory, and usually in practice, these modeled "look-alikes" will be much more likely to become good customers for us than the great unwashed universe as a whole. Profiling uses analytics to identify strong prospects, saving vast amounts of money that might be wasted on promoting to the uninterested or unqualified.

This process can also be applied in reverse, profiling unprofitable customers, for example, and using those characteristics to suppress, or avoid doing business with, undesirable new customers.

Segmenting, and treating the segments differently. This application is primarily used for customer retention marketing. The idea here is that not all customers are of equal value, or have similar preferences or buying patterns. So a smart marketer will analyze the customer base regularly, divide the base into groups, and set up programs, policies and processes that allow them to be treated differently, to increase the likelihood that they'll buy more, and stay longer, or whatever is the marketing objective.

The classic segmentation analytic is RFM, where the customer base is regularly grouped based on the recency, frequency and monetary value of their transactions with the marketer. RFM is easy to perform with the kind of data most sales operations have lying around, and it is extremely powerful at identifying individual customers by value.

There are hundreds of other ways to segment, too, depending on the needs of the business. Segment by purchase channel preference, or by sales coverage, or by prior purchases. By geography, language, or demographic characteristics. The only requirement is that the segment needs to be real, meaning people in one segment are truly different from another, and that the segment is useful, meaning that there is some real business value to be had by grouping people this way.

Predictive modeling. Some may argue that this application is nothing more than another type of profiling. I wouldn't disagree. But I call it out because it is such an important contributor of value to the whole notion of database marketing.

Predictive modeling is used to identify the likeliest people among a customer or a prospect universe to respond to any given marketing campaign or offer. It considers not only the characteristics, but the purchase or response propensities of the buyers. It's perfect for up-selling and cross selling.

Predictive models may sound a bit like voodoo, but they are based on a simple concept quite like the one used in profiling: finding look-alikes. First, we identify the people who did buy that product, say, or who bought through that channel, or who bought at that certain point in their relationship with us. We identify their characteristics, which include not just who they are, but also when, where and what they tend to buy. And then we apply those characteristics to the rest of the population, looking for the likeliest prospects for the campaign or program.

So that, my friends, is that. If you happen to have data about one-armed paperhangers, who knows, it might be predictive of future behavior. The point is, database marketing is very straightforward, it makes a lot of sense, it's a powerful marketing technique, and it deserves to be better understood.

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