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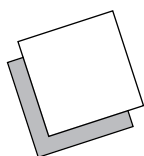
Understanding consumer database marketing

Denise D. Schoenbachler, Geoffrey L. Gordon, Dawn Foley and Linda Spellman

Introduction

A major trend in the world of consumer marketing is a shifting away from the shotgun approach of mass advertising to a more narrowly defined, rifle approach to targeting the most profitable existing customers and prospective new customers who are most likely to purchase a product or service. The evolution of building a database to take advantage of this rifle approach is considered by some to be one of the biggest changes in marketing since "new and improved." All types of marketers, including packaged goods companies, retailers, car manufacturers and software developers are trying to jump on the database marketing bandwagon, a technique not new to catalogers, credit card companies and record companies who have been utilizing direct marketing and the database for years. The purpose of this paper is to provide guidance to the consumer marketing manager new to the world of database marketing. In it we briefly define database marketing and its popularity, explain the advantages of database marketing, provide an overview of the process of developing a database marketing program, and identify some key future trends in database marketing.

What is database marketing?

Defining database marketing

A database, according to *American Heritage Dictionary* (1995), is a collection of data arranged for computer retrieval. Marketing can be defined as "the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client (McCarthy and Perreault, 1987). A marketing database, therefore, can be described as a collection of data, such as customers' names, addresses and purchases, which provides marketers with information that enables them to make better decisions in working toward accomplishing the company's objectives. More specifically, database marketing can be defined as "gathering, saving and using the maximum amount of useful knowledge about your customers and prospects … to their benefit and your profit" (Jutkins, 1994). In reference to direct marketing, database marketing may be explained as "the advertiser maintaining an active list of customers and prospects which is updated on a regular basis with information about the customers' response to the message" (Hughes, 1993).

Marketing databases have become an integral asset to business, largely due to the evolution of relationship marketing and the realization that in order to be competitive, companies need to build a relationship with their customers which is based on more than just price. Marketers learned that it is easier and less expensive to get an existing customer to buy again than it is to acquire a new customer. Database marketing aims at building a profitable individual relationship with each customer. The relationship should make the customer feel that he or she is recognized and receives personal service and attention.

Anticipating customer needs

What this means to marketers is better information for better decision making. What this means to companies' bottom line is increased profitability due to more efficient promotional efforts. What this means to consumers is less unwanted junk mail and instead more opportunities to make purchases they are interested in.

Database marketing growth

High growth area

Direct marketing, the industry from which database marketing evolved, is a high-growth area with current growth twice that of the US gross national product. The results of a WEFA Group study commissioned by the Direct Marketing Association suggest that the direct marketing industry contributes directly or indirectly 5 percent of the nation's annual gross domestic product (GDP). While US GDP is expected to grow 6.5 percent in the next five years, the direct marketing industry is expecting over 10 percent growth in the same period (Smith, 1995) . The tremendous growth is due, in part, to the relative efficiency of direct marketing. Compared to traditional mass advertising, more sales are produced by each dollar spent on direct marketing efforts (Yorgey, 1995). In addition to direct marketing's advantage in terms of efficiency, a number of societal changes and technological changes have also contributed to the industry growth.

One societal shift has been a significant decrease in the relative amount of leisure time available to consumers. Consumers have less time to sort through the hundreds of ads on television and in print looking for anything relevant to their needs. Less time also reduces the frequency of leisurely shopping excursions – consumers just do not have the time. Cross (1994) notes that over 50 percent of consumers feel too time pressured to enjoy traditional on-site shopping. Thus, the consumer is searching for a more efficient method of shopping to fulfill needs.

In addition to compressed leisure time, there are many more media choices available to the consumer, diluting the effectiveness of mass marketing efforts. Cable television, for example, has increased the number of television channels available ten-fold, encouraging channel surfing and deceasing the ability for marketers to cover all media bases in trying to reach an audience.

Flooded with mass marketing messages, consumers are also more skeptical and less likely to attend to ads. Consumers are indicating a preference for communications which are personalized and directed specifically to their needs, typically based on past purchase transactions.

Alternative shopping methods

As a result of time constraints and increased media and mass marketing clutter placed in society today, alternative shopping methods have emerged. Direct marketing has become more popular with niche catalogs appearing all the time. The days of the Sears Wishbook are gone – instead there are catalogs featuring only bedding, lingerie or pet supplies. In addition to the growth of catalog shopping, the home shopping channels and interactive online services are gaining popularity.

Consumers today are demanding more variety of goods and improved customer service. With increased competition, firms have used service as a way to differentiate themselves, and consumers have now come to expect a level of personalized service and attention. The personal computer industry has experienced these demands first hand. Sales of attractive computer hardware packages exceeded expectations, leaving the technical support phone lines inadequate to deal with the volume of calls. The result is customer dissatisfaction, damage to the company's image, and hurt to future sales.

Finally, consumers are more educated today. They demand more information than ever before. With so many product and service choices available, consumers want confidence they are making the best purchase decision. By providing information about their products or services, companies are able to provide a higher level of confidence in their customers' decisions to buy.

Who are database marketers?
A recent study of direct marketing executives found 80 percent of businesses (90 percent of those in the business-to-business category) have some form of database, with two-thirds of these indicating plans for a database upgrade during 1996. The majority of these are small, with less than 100,000 records. Most were developed for less than $100,000, although large companies spent as much as $5 million on database development and maintenance. Direct marketers indicated their databases were used to increase customer retention, increase sales growth, improve company profitability and for new customer acquisition. Over 75 percent indicated the database had paid for itself, with one-third indicating return on investment in less than one year (Negus, 1996).

Pioneer database marketers

Direct marketers are not the only ones using database marketing. Perhaps the best known database success story is American Airlines' Advantage Club which was the pioneer in airline loyalty programs. The Advantage club provided significant economic rewards for loyalty in the form of free airline tickets. In addition, members were rewarded with convenience (lounges set aside for members and early boarding privileges) and comfort (free upgrades). Advantage Club members received some form of communication from American at least monthly, usually in the form of an earnings statement, encouraging continued loyalty and relationship maintenance. Banned from traditional media, Phillip Morris pioneered a database strategy which aimed not only to market products, but also to lobby efforts against potential government anti-smoking regulations. Philip Morris's database currently contains over 26 million smokers. These two pioneer database marketers set the stage for others to follow (Chevan, 1992).

Banks are using database marketing to collect household financial information which enables them to target customers that may be prospects for additional services that are not currently being used by the customer. In addition, the database allows the banks to market to the most profitable segments of their communities. Many of the banks' promotions go out to customers completely transparent to competitors, as opposed to traditional advertising which is visible to not only potential customers but competitors as well (Nash, 1994).

Repeat sales opportunities

Automobile companies have recognized that their current and past customers are the best prospects for future sales. By keeping in continual communication, automobile manufacturers hope to ensure repeat sales opportunities (Nash, 1994). Communication and relationships with customers are so important to auto manufacturers that they have frequently joined forces with other companies to offer add-on benefits for customers to increase customer satisfaction and loyalty. General Motors, for example, teamed up with MasterCard to offer the GM Card. The database currently stands at over 12 million cardholders, which General Motors periodically contacts in order to determine when the customer's next purchase may be. Infiniti also maintains a database of customers which it uses to send out reminders for upcoming maintenance requirements and to enquire about service from dealerships (Cross and Smith, 1992).

Blockbuster Video has built a database of 36 million households which it maintains and updates with the movies that each household rents. One proposed use of the database is to send out a letter to customers recommending ten movies to rent based on the movies the household has rented in the past. This application not only promotes additional rental revenue for Blockbuster, but also builds the relationship with the customer by offering suggestions as to what to rent based on the customer's taste (Berry, 1994).

Cooperative database

A unique application is a cooperative database the Ridgedale Mall (Minneapolis, MN) built in an effort to differentiate the mall from others in the area. The database is used to send out newsletters and promotional coupons to customers, as well as being used by the stores within the mall to select specific segments. All mall member stores contribute information to the cooperative database and each may use the shared information. The database is also used to conduct profile analysis studies of the typical Ridgedale Mall customer (Szathmary, 1995).

Currently, 56 percent of all manufacturers and retailers are building a database, an additional 10 percent plan to do so and 85 percent believe they will need database marketing to be competitive past the year 2000 (Berry, 1994). Virtually every type of business, profit or non-profit, consumer or business-to-business, selling products or services, has a need for some type of marketing database. Although these database needs may vary in size, level of detail and applications, they all serve the primary objective of providing information for knowledge-based decision making.

Benefits of database marketing

More targeted promotion

Taking a rifle approach to marketing through the use of database marketing provides benefits to both the consumer marketer and the consumer. The use of database marketing allows the marketer to create more targeted promotion. Database marketing is the opposite of what traditional "junk mail" refers to – junk the customer does not want that the marketer has paid for. In database marketing, the marketer uses advanced methods to attempt to identify prospects who are most likely to buy. Only these targeted individuals receive the promotional message. The marketer saves money and the consumer is not irritated by endless streams of junk mail.

The database marketing approach increases the diversity of product offerings. Consumers have already caught up with the Joneses. Now, the consumer wants to catch up with his/her own personal special needs. The consumer no longer wants a standard dining-room table, but rather a five-foot oval glass table with brass legs that exactly fits in an area on the glass-covered patio. Instead of the old black standard Ford, consumers are demanding more choices (Hughes, 1993). Database marketing allows marketers to segment their markets more efficiently and to offer many choices to customers without the high cost of retail marketing.

As customers become more educated, they require much more information about the products and services they are purchasing. A database allows sales associates and customer service representatives to provide information quickly for customers and prospects. The database allows the marketer to be proactive in providing information as well. Informative communications focusing on related products or services can be sent out to customers who have enquired or made a related purchase in the past. With this information at marketers' fingertips, firms can offer unprecedented levels of service to

customers. Suggestions can be made based on past purchases. As Hughes (1991) states:

> A marketing database tells the travel agent that you prefer window seats, you always use a VISA card of a certain number, you prefer American Airlines and are an Advantage member, you always fly economy class, you prefer Avis cars and the St.Francis in San Francisco and the Plaza in New York. The agent knows where to deliver your tickets without asking, knows your spouse's name and office phone number. You needn't repeat all these facts every time. They are on your database record (pp. 32-33).

The astute database marketer uses this information to provide the most efficient service and to recommend related services that may be of interest to the customer. The customers feel recognized as being important customers. Being offered free flights and upgrades, hotel room discounts or department store specials based on frequent purchases rewards and recognizes the loyal customer, further building the relationship.

Increased marketing efficiencies

Database marketers find increased marketing efficiencies. The database which can be updated with promotions and responses to these promotions is, perhaps, the most valuable benefit of the database. Marketers no longer have to accept John Wanamaker's lament that "half of what I spend on advertising is wasted – the problem is which half?" Promotions can be tested to determine what types of offers are most effective, the best timing of offers and the segments most responsive to different offers. Database marketing efforts are measurable, unlike most alternative promotion methods (Chandler, 1994).

Database marketing, particularly loyalty programs, encourage customer retention and reduce customer attrition. Astute marketers realize it is much less costly to maintain customers than it is to acquire new ones. Not only does database marketing help keep loyal customers, but it facilitates conversion of one-time customers to loyal customers. Information on past purchases, combined with name and mailing information, provides the marketer with a qualified prospect – one who has purchased before (Johnson, 1994).

Modeling techniques

Through the use of database modeling and other prospect screening techniques, companies can more effectively target prospects who are most likely to buy. Modeling techniques, such as CHAID or Logistic Regression identify key database variables which target likely prospects. Marketers can then direct promotions to these likely prospects only, eliminating waste coverage. Database marketers often exchange lists of prospects with other marketers with a high product affinity in order to identify good prospects without capital expenditure.

By maintaining a record of customer purchase history in a database, marketers can identify opportunities to sell additional products that customers may be interested in (cross-sell). For example, if a customer owns the Intuit Quicken product, he/she may be interested in purchasing computer checks for printing monthly bill payments. Similarly, a company selling southwestern-style pottery may find the same customer interested in a piece of southwestern-style clothing.

The increase in database marketing has been paralleled with an increased opportunity for niche marketers. Companies are able to identify segments of the market that can support a specialty targeting approach. Catalogers such as Lillian Vernon, Williams-Sonoma, BioBottoms, After the Stork and Foster Smith Animal Supplies have been successful niche marketers based

on database information. Each of these niche marketers continually explores opportunities for spin-offs based on the identification of further defined niche markets. Lillian Vernon, for example, produces a Lillian Vernon Kitchens catalog.

In addition to these major benefits database marketers can exploit, some have found a side benefit in revenues from list rentals. Other database marketers are continually searching for new sources of names for qualified prospects. Thorough, updated, in-house databases can be a source of excellent prospects, producing additional revenues. A second indirect benefit is that of security of information. In contrast to mass media campaigns, direct campaigns allow marketers to communicate with customers without the knowledge of competitors.

A guide to developing a database marketing program

The advantages or benefits of database marketing outlined above help explain the popularity of database marketing, particularly among direct marketers. The challenge, though, has been for traditional consumer marketers to develop and maintain a database and to use the database effectively. Although over 80 percent of direct marketers use database marketing, less than half of consumer marketers have a database and many of those with a database do not use it effectively. The guide presented here is designed primarily for the consumer marketer considering developing a new database or updating an existing database. The guide is intended to direct consumer marketers through the process with or without the help of a professional consultant or vendor.

Corporate needs analysis

The first and perhaps most important step in developing a database marketing system is determining whether or not such a system is appropriate. This determination includes identifying how the database system will be used. If, for example, the primary use will be list management, it will likely be more cost effective to hire a service bureau to handle a database. For simple list management, internal personnel do not need access to the database and customer information. If the needs analysis reveals using a database system to determine who customers are, which traits best predict purchasing behavior, which customers are profitable or which offer/product/price is most effective with which customers, then the development of a database marketing system is necessary.

A second issue in needs analysis is to determine who will use the database system. Which departments will be using the system helps to define the types of information to be contained in the database as well as any special requirements needed. Following this determination is consideration of the type of data that will be collected and the length of time the data will be maintained. All departments and users of the system must be involved in these determinations. Once the database system is up and running, it will be crucial that the right information flows freely throughout the organization. The initial database discussion must include determination of users and user needs.

Once the needs analysis determines the need for a system, who will be using it and what data it will contain, the method of developing the database must be decided. The primary decision is whether to develop the database in house or to out source the database. Although the specific analyses involved in such a decision is beyond the scope of this paper, the marketer should be aware that there are numerous cost-benefit trade-offs with each alternative. It is

Using a database more effectively

Users and user needs

necessary to realize, though, that building an in-house database will require marketing personnel with a good understanding of information systems and statistical analysis as well as systems people who understand the objectives of the database marketing system as a whole.

The marketive champion

Whether the decision is to build the database in-house or not, the project needs a marketing "champion" to take charge of maintaining, updating and implementing the marketing program. The development of a database marketing system will require allocation of significant resources in order to fully utilize all of the information available. This is, perhaps, the source of most database system failures. Management has great expectations of the payback of the system, but it neglects to provide the marketing champion with the tools and resources to fulfill those expectations. The key to success is "applications before technology." The corporate needs analysis outlined focusses exclusively on determining the marketing applications and resource requirements, not the hardware and technology. This point is critical. Oftentimes, firms decide to develop a database marketing system and immediately purchase hardware and software without considering how the database information will be used and who will use it. This technology before applications approach is doomed to failure (Jackson and Wang, 1994).

Compiling data
The corporate needs analysis revealed basic types of data needed for the database marketing system. Now the specific data needs must be outlined. Earlier, the key user groups were identified, and each of these users must be involved in the determination of specific data needs. The marketer responsible for developing and testing promotions, the accountant responsible for tracking accounts receivables, and the customer service representative responsible for providing up to the minute information to customers all have specific data needs which must be considered.

Internal and external sources

Generally, the needed information will come from both internal and external data sources. Internally, there are numerous types of data to compile from existing paper or future transactions. Types of internal data include customer names, addresses, phone numbers, key demographic variables, past purchasing history including RFM (recency of purchase, frequency of purchase, monetary value of purchase), and payment history. In the business-to-business database, internal data could also include SIC codes, number of employees, purchasing preferences, and the purchase decision maker's name, title and any other relevant information.

The complete database also includes data from external sources including compiled data, behavioral data and modeled data (Jackson and Wang, 1994). Compiled data include demographic information which can be overlayed on an existing database. This type of information is particularly valuable to consumer marketers with only basic database information such as name, address and phone. Service bureaus such as Direct Marketing Technology, Donnelley Marketing and Metromail provide overlay data for database development. Behavioral data include purchase patterns and attitude patterns. This information is generally collected directly from the consumer through surveys, warranty cards, registration cards, or contests. The third type of external data, modeled data, attempts to predict purchasing behavior based on common traits with certain groups of customers. The traits are defined in terms of both demographic and behavioral information.

After determining the information needs to be compiled, current customer files should be reviewed to determine what information is already available. Conceptually a simple task, this may be complicated by the fact that much information is scattered throughout an organization on numerous files. Compiling and coordinating this information involves cooperation and commitment by all potential database users. Compiling information from the marketing and credit department, for example, can identify prospect names which are not good credit risks.

Initial analysis

A full data file is not synonymous with a database marketing system. The database marketing system is made up of the knowledge, resources and creativity necessary to transform individually insignificant pieces of information into a usable database system. Two types of initial analysis help move the database marketer toward effective utilization of the database. The first useful database system application is often a profitability analysis. This involves analyzing the customer base in the database through identification of all expenses attached to servicing each customer. These costs include accounting, customer service, marketing, and warehouse or retail store operations. The objective is to determine the net profit earned as a result of having each customer. The results of this initial analysis are often surprising. Many organizations find that their largest customers are not always the most profitable. Average order size, products/services purchased, frequency of purchase, returns and payment history all have an impact on the overall profitability of each customer.

The second initial analysis, trends analysis, involves identifying the common traits among customers grouped by profitability (based on the first analysis). The most profitable tenth of customers, for example, is examined to determine if there are common traits. The objective of this analysis is development of a model of a profitable customer. This modeling involves identifying the criteria that make up a particular customer segment and matching those criteria to other customers in the customer base. The common traits of a profitable customer segment (or model) can then be used to help the marketer more effectively market to the most profitable customers.

Defining the market

Current customers and potential prospects

Database modeling is useful in identifying market opportunities in terms of both current customers and potential prospects. Profitability models can be matched with current customers to determine which customers are most profitable. The firm can then reduce or discontinue marketing to unprofitable customer segments. The expenses of marketing to unprofitable customers has a negative financial impact in two ways. First, the organization is incurring a loss by promoting the business of an unprofitable account. Second, those marketing funds could be generating more business from profitable accounts, positively affecting net profit.

The profitability model is one type of predictive modeling, a technique possible with the database. The technique involves using common criteria to predict purchasing behavior. Past history can be used to determine which types of efforts, offers or promotions a profitable customer segment has responded to in the past. The model is compared to the customer and prospect files to identify those with the common criteria. The outcome is improved profitability through higher response.

Profitability and trends analysis

Analyzing past performance

Developing the marketing programs

Perhaps the best source of information to aid in the development of a successful database marketing program is past performance. Information on the successes and failures of a firm's own programs as well as programs of other successful marketers in the industry can both provide valuable insight. The key is identifying which marketing programs produced which outcomes. A related source of information on program success is the customer service arm of an organization. Often, the customer service division has received both positive and negative feedback on marketing programs which can be compiled and considered before launching new marketing programs. This type of information gathering and sharing is critical to a successful database marketing effort.

In developing marketing programs, a number of do's and don'ts will help guide the effort. First, it is crucial that all programs be developed with top management objectives in mind. For example, the organization may be emphasizing dollar volume sales for performance. The product to be marketed under this emphasis is different than if the firm's emphasis was on higher margin sales. Programs should always be analyzed in terms of return on investment. It may be difficult at times to measure ROI because of the intangibles created from database marketing programs such as brand awareness, customer loyalty, etc. It is important, though, to analyze ROI despite these difficulties. A final "do" is to build a program so the customers feel as if a personal offer based on their needs has been made. The primary advantage of database marketing is to provide one-on-one personalized sales on a mass marketing basis.

Firms must be careful, though, not to develop marketing programs which conflict with or override other programs in place. For example, the direct marketing program should not offer a lower price than that the salespeople are quoting as a "special price for this month only." This suggests, again, the need for continual communication across functions in the organization. A marketing program is not sending out one mailing and walking away if instant results are not forthcoming. The program design must include how many mailings or contacts a prospect or customer will receive before classifying the effort as a failure. It is often necessary and less costly to cultivate a prospect with repeated contacts, rather than turning to new prospects immediately (Cobel, 1995). When a program does go wrong, it should be researched to determine what went wrong. The lesson learned must then be applied to future efforts.

Catering for the customer

Database marketing programs should not be based on price alone. "If all you can think of to do with your database is to use it as a channel for offering discounts, your database will fail. Any competitor with a deeper discount can rob you of your customers" (Hughes, 1991). The purpose of database marketing is to determine customer needs at the individual customer level and service them better than anyone else. The customer must feel singled out and catered to in order to create the intangible advantage of customer loyalty. One important advantage of a database marketing program is the ability to market non price-based products without eroding margins.

One final "don't" involves use of the database and models. It is tempting to identify the most profitable customers in a database and market only to these customers. The risk is marketing only the products the firm prefers to sell, rather than the products the customer needs. The lesson is to focus on the customer, not the product. A second risk is becoming stale. Firms which

continually market only to high profit customers miss the opportunity to develop a program to turn low or moderate profit customers into high profit customers. A low profit customer might easily become high profit with the right marketing program. More than likely this program will be quite different from the program targeting the current high profit customer. Database marketing allows the marketer to target programs at specific segments of customers.

Feedback loops

Tracking results and trends
Perhaps the greatest advantage database marketing has over traditional mass marketing is that it creates a feedback loop. Through database marketing, an information flow can be created both to the customer, as in mass marketing, but also from the customer. The customer information received can be invaluable in many ways. For example, it can be used to assist in creating more successful marketing programs in the future or in the development of new product offerings.

A second advantage to database marketing is the ability to capture all purchasing history to identify trends in the customer base, sales, new account development and many other areas. The database can help discern who the customers are, which traits best predict purchasing behavior, which customers are profitable and to which markets various products or offers should be targeted on a regular basis. The database of information helps determine which, if any, products have cyclical sales patterns.

Finally, the database will allow tracking of the relative success of all direct marketing efforts. For example, tracking efforts may reveal that a program is extremely successful during March and November, but at no other time. A program may be particularly successful when targeting a particular SIC code, but not others. This type of information is valuable in reducing marketing costs by allowing efforts to zero in on the most effective customer and prospect audiences for each individual marketing effort.

Ten influential trends

Trends in database marketing
Consumer marketers developing or planning to develop a database marketing system should be aware of the key trends which are likely to influence database marketing programs in the next ten years. With changes in technology, greater societal concerns and increase experience with database marketing programs, consumer marketers will likely see the following ten trends affecting their database marketing efforts.

Point-of-purchase data capture
Consumers are likely to see more and more point-of-purchase data capture mechanisms particularly at the retailer location. These mechanisms represent efforts to develop relationships with retail customers. Grocery stores, for example, are adding systems which record each item purchased, then provide the customer with coupons which are relevant to their tastes. Preferred cards help encourage loyalty and help the retailer capture in-depth information about each customers' purchase history. Applications for such cards require increasing amounts of information to help the retailer know the customer beyond behavioral data.

Cooperative databases
More and more marketers with existing databases are contributing their customers' names and addresses, as well as some purchase history

characteristics, to huge compiled databases. These cooperative databases take the names and addresses from all incoming sources, matching them together in a huge update which creates one, consolidated record for each individual. For example, if an individual purchases from three different women's apparel catalogs, and each of these catalog marketers participate in a cooperative database, one record is created that contains detail of purchases from each catalog, as well as summary information that says the person is a three-time multibuyer with the cumulative dollar value spent in the catalogs. This information is a valuable resource of pre-qualified prospects with multiple variables available to segment and build models from.

Telelmarketing and online services

New media channels
As technology continues to advance, additional channels for marketing and communicating to the consumer enter the picture. Telemarketing, while not necessarily new, is evolving and affecting the way business is done. For example, telemarketing is being used more and more in follow-up sales and customer service. Electronic online services and the Internet offer new shopping alternatives, and represent one of the hottest growth areas for direct marketers.

Database marketing in new industries
Building databases in an effort to understand consumer purchase behavior and to build relationships will continue to move into new industries and companies. As the value of information continues to grow, more and more businesses will recognize the efficiency and potential profitability of the database. Tools are continually being developed to allow executives to analyze business and make decisions based on more than just gut instinct. Technology makes tools easier to use and allows executives to ask "what-if" questions and get answers.

Focus on PCs

Technological advances
As the cost of computing continues to go down and processing efficiency goes up, businesses can capture, store, and process information more effectively. PCs will continue to be the focus as new technologies are developed which link PCs to workstations, mini-computers and mainframes through the use of client servers and other online communication devices.

Increased data availability
As more and more databases are developed and technology continues to evolve, increased information will become available to marketers. Data will become more accurate and less expensive. The successful consumer marketer will be the one with knowledge how to use the incredible amount of available data.

Higher levels of sophistication in modeling
Complex analytical models can be developed to help marketers make effective decisions based on information available. There is a trend toward the development of modeling systems, such as neural networks and expert systems, which reside on a PC. These systems allow marketers to build systems that learn from past results and are able to predict future results and behavior, thus bypassing the need for statistical experts. The data mining neural network systems are simple to learn and understand.

Greater concern for privacy

Perhaps the greatest threat facing database marketing is the issue of privacy. Consumers continue to express concern that marketers know too much about them and that database marketing programs are an invasion of their privacy. States and federal legislatures continue to draft legislation designed to protect consumers' "right" to privacy. Although there is no such "right," the issue continues to cause concern among marketers. A finely tuned database marketing program actually helps disperse privacy concerns since it allows the marketer to target only those with some interest in the offer. As consumers find less junk mail and more relevant mail in the mailbox, concern for privacy will subside.

Customer service advances

The 800 line

Customers have become more demanding of services. Companies have responded with numerous programs, one being the 800 number. The 800 line allows customers to communicate easily and free of charge. Comments are often recorded as part of an attempt to develop a complete customer profile and address issues which may affect sales. Information is being made more available to customer service agents, making them more knowledgeable when asked questions about products or customer account histories. New sales opportunities become apparent when a customer service rep has access to a customer's complete purchase history, enabling them to make recommendations about additional sale items. Follow-up correspondence is being generated to evaluate aspects of the business such as the level of service provided in each call. Improving customer service may be the best way to differentiate from competitors. Database marketing provides a method for this differentiation.

Rewarding loyal customers

The development of loyalty programs has been the basis for a number of companies' continued success. The key to a loyalty program is the database which can help identify those loyal customers. Firms with high margin products or services and dependence on repeat business will find the loyalty program a necessary part of the marketing program. The use of such programs to retain and build loyalty among profitable customers will certainly continue to be a primary use of the database system.

Managerial implications and recommendations

Reading the "new" consumer

Marketing to the new consumer has become an increasingly complex task. The new consumer has less leisure time for shopping, is more educated, is more skeptical of advertising and is less brand loyal than ever. Successful consumer marketers will have to adapt their approach to reach the new consumer. Mass advertising, the shotgun approach, has lost its dominance as consumers become skeptical, the media become more cluttered and differentiation among product offerings become less clear. In recent years, a number of leading edge consumer marketers have successfully rejuvenated brand loyalty and increased profitability through the use of database marketing. Historically a technique of junk mailers only, database marketing may well be the "new and improved" of the future.

Consumer marketers need only look to the success of American Airlines' Advantage program, Phillip Morris loyalty program or Blockbuster Video's program to realize the potential benefits of database marketing loyalty programs. The database marketer can build a loyalty relationship with each customer based on the customer's needs and wishes. At the same time,

marketing costs can be cut as unprofitable customers and efforts are identified and waste eliminated. No other marketing alternative is as measurable, testable and trackable as database marketing.

Not an option – a necessity

Despite its benefits, database marketing has remained somewhat mysterious and unwieldy, particularly to the small or medium sized consumer marketer. The purpose of this paper has been to clearly lay out the nature of database marketing, its advantages and disadvantages as well as a basic how to get started in database marketing. The consumer marketer new to database marketing can use the database marketing background information provided here to persuade others in the organization of the need to develop a database program. The guide to developing a database program is designed as a checklist for consumer marketers to ensure all the necessary steps are taken and issues considered. The trends in database marketing outlined briefly provide the consumer marketer with knowledge of what is to come, as well as the ability to plan for change in developing a database marketing program. Finally, the consumer marketer must realize database marketing is not an option of the future – it is a necessity today to maintain customer loyalty and to remain competitive.

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This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present

Executive summary and implications for managers and executives

Database marketing for all

Huge numbers of pages have been written about database marketing including, today, whole journals dedicated to the subject. Endless conferences and seminars are promoted about databases and how to make the most of them. And nearly all marketers, regardless of their industry or customer, now acknowledge that trying to market without a decent database is at best foolish and at worst a recipe for joining the dole queue. Yet many practical marketers still feel confused by the idea, baffled by the jargon and terrified of the cost implications. Schoenbachler, Gordon, Foley and Spellman set about the endeavor of encapsulating consumer database marketing in one short article and in doing so providing some reassurance for marketers new to the idea.

It cannot be said that Schoenbachler et al. *provide the definitive guide to database marketing, but they do demonstrate in uncompromising terms the main elements of theory involved, the main challenges facing managers introducing a database marketing program and the principal benefits of a database to marketers. Their article does not serve to help those already well down the road to a sophisticated database marketing strategy except – and this is particularly valuable – to remind us why set about creating the database in the first place.*

However, for those businesses only tentatively approaching database marketing or yet to embark on the project, the article provides a good guide to the main features of the concept. Schoenbachler et al. *point out that databases fit with one well-observed trait in consumer behavior – that of time starvation and information overload. The task of finding out about a product category, reviewing the products available and making a choice is not easy and, as many have observed, consumers simplify this activity through the use of brand and corporate reputation. Also consumers starved of time do not seek out the new and different – making innovative products and luxury items more difficult to sell. What direct marketing (and its now grown-up child, database marketing) provides is a short cut to providing the information which is craved by consumers and most importantly which drags their attention away from the clutter of competing products. Your direct offer is viewed in isolation, making direct marketing more powerful than the conventional retail environment.*

The most important part of the article, and something that should be stamped indelibly on marketers' minds, is the observation that businesses should decide what they need a database for in the first place. Too many businesses are taken in by the blandishments of those selling software and buy the database before they know either what to put on it or what they are going to use it for. Schoenbachler et al. *also contend that the database needs a champion at the highest level in marketing. Having been in a situation where the most senior marketer in the business does not buy into the database principle, I can confirm that without a senior champion the database will not work as a central tool of the marketing effort – even when, as in this particular case, the project is enthusiastically supported by an IT director.*

Most direct marketers believe that introducing a marketing database is more than the addition of another tactical promotional aid. For database marketing programs to work, the business needs to switch its focus from

brand-consumer-prospect to customer-brand. As Schoenbachler et al. *assert, junk-mail (or indeed any junk communications) is unwanted clutter in consumers' lives – the very thing database marketing sets out to eliminate. And because mail and telephone are more intrusive than television or newspapers, it is the direct marketers who face the flak of privacy and intrusion. The truth is that we do not mind the intrusion of mail or telephone calls if what we read or see is relevant to our needs and is pertinently timed. I did not mind when a few weeks ago a company from which I bought tires rang to promote their low-cost automobile insurance. At the time I bought the tires the company asked me when the insurance was due and then contacted me at that time with their offer. I did not buy, but did not feel intruded upon. Remember the next time someone gives you a hard time over junk-mail that 80 percent of the population have, at one time or another, bought something through the post or over the phone. Taking that away on the pretext of some pretended concept of privacy rights is of itself one of the most crass examples of intrusion into people's lives I can think of.*

The gradual progression from direct marketing through the use of databases to the concept of relationship marketing is an exciting prospect for consumer marketers. An individual dialog with your customers involving the database, proactive customer service and rewards for customers providing you with information represents the future of marketing. Brands will remain important, but they will need to incorporate the service, support and dialog into that brand impression. Any brands that remain aloof from customers and play the traditional mass-marketing game will soon be seen by consumers as anachronistic dinosaurs when compared to the dynamic, nimble brands built round database and relationship marketing principles.

As Schoenbachler et al. *conclude, database marketing is not something to ponder on for sometime in the future – "it is a necessity today to maintain customer loyalty and to remain competitive." So build your database but do it carefully and thoughtfully remembering at all times why it is you doing it and what you want to achieve. It is never sufficient to get something simply because everybody else has one or some self-important consultant like me tells you to get one.*

(A précis of the article "Understanding consumer database marketing." Supplied by Marketing Consultants for MCB University Press)

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