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RELATIONSHIP MARKETING -
WHAT DRIVES YOUR CUSTOMERS

Relationship Marketing - What Drives Your Customers

Written by the Association Laboratory

Do you know your customer? A membership database with your customers' name, address, title, occupation does not imply knowledge of the customer. Often, marketers make the mistake of assuming that simply because they have membership data they know their customers. This is seldom the case.

Truly knowing what drives an individual to behave in a given manner, such as joining an organization, is essential to building an ongoing relationship. Relationship marketing, the buzzword of the '90s, assumes that organizations communicate with customers in a meaningful, relevant manner. For example, sending a blanket direct mail piece regarding an upcoming conference is marketing. Relationship marketing implies that the marketer communicates with each individual member in a meaningful manner. In addition, as time progresses, the marketer needs to continually build a "picture" of how the member behaves and refine the "relationship."

Outlined below are some essential steps that will assist in understanding the customer and communicating in a meaningful manner, hence relationship marketing.

- Do you have a database? A database implies that you have information on your membership base. In its simplest terms, this may mean a customer database. In its more complex form, this information may be in a relational database.
- **Task:** Determine if you have useful data on your customers. Paper files and index cards don't qualify.
- Determine the amount of data you currently have on your customer base and/or potential customers. Is it 2,500 records, 10,000 records or 100,000 records? Also, determine how the database might grow in the next one to five years. Minimal growth? Do you plan to triple your membership? It is important to know the amount of current and potential information you plan to have in your database.
- **Task:** Assess the number of current and future members, and the amount of data you will need on each that will be on the database. Be sure to be liberal in your estimates. Your database has to have the capacity to "grow."
- Once you've established your existing membership file and assessed the potential for growth, research the available relational database software programs available in the marketplace.
- **Task:** Research software alternatives. Time consuming perhaps, but keep in mind that the right software can do wonders in housing, sorting and extracting records from your membership database.
- Entering the data in the database is perhaps one of your lengthiest tasks. You will want to structure your database so that you can input all of your membership records and all available information on each member into the database. The goal is to enter data that is helpful in understanding the demographic, psychographic and socioeconomic make-up of your membership base. You want to know who your customers are so you can find new similar customers and seek out new target groups.
- **Task:** Enter your data into your selected database software. Be sure to build a master template for all of your membership data. The goal is to keep the database uniform so that you have similar data on your whole membership base.
- Once you understand how your particular software functions, you can sort, extract and segment specific members from your database. Identify data that helps you make decisions. Look for trends, high frequencies or other correlations that can guide your efforts. As long as you have entered the data you can retrieve it in seconds. Now you won't be marketing to the entire membership base at all times, you can "target" your offer to a group of members who meet specific criteria.
- **Task:** Understand your database and learn to manipulate the data. This will be your ticket to target marketing.
- What if you want more information on your customers? Like many membership databases, you may only have the pertinent information, such as name and address on your customers. However, to do good research, it is very helpful to have additional data on your customers. You can contact a multitude of data vendors to have them append additional data to your existing customer base. InfoUSA is an example of an organization that specializes in gathering business data.
- **Task:** Research the available list vendors that can append additional data to your customer base. This is a daunting task. If you have a list broker or marketing consultant they can help you.

Once you get the data, what can you do with it? Once you append data to your customer base you (or your list vendor) can use a multitude of research tools designed to understand your customers' characteristics.

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Profiling is a research technique used to determine the characteristics of your customer base at one point or a “snapshot” in time. You can then use the profile analysis to determine what your “best” customer looks like. Once you have an idea you can work with your list vendor to “find more customers with the same characteristics.” The goal is to understand what your best customers look like and find new, but similar customers with the goal being that they will also have an interest in your offer. Modeling is a very sophisticated research technique used to understand your customer’s

characteristics. Although many types of models can be created to understand your customer base, the common goal is to understand what characteristics drive your customer’s behavior. Although you may have fifteen bits of information on each customer, it is common for a few data elements to “drive” the customer’s behavior. For example, when purchasing a minivan, although a couple is in their mid-30’s, living in the suburbs and are highly educated; the fact that they have children may well dictate their desire for a minivan (versus another type of vehicle).

Once a model is used to determine what drives people to perform a particular action, the results are shown via an algebraic formula. This formula can also be used to select new prospects for a product or service based on how similar they are to what the model defines as the “best customer” characteristics. Using this algebraic formula, you can then select new prospects from a database (provided you have the appropriate data to make this decision. ?Once a model has been completed, it can be used to select highly qualified candidates for telemarketing and/or direct mail promotions. A model is typically good for about one year. This is dependent on the industry for which the model is created; the more dynamic the industry, the more often the model will either need to be refreshed or recreated.

Over time, the ticket to successful direct marketing will be to measure the performance or response of mail campaigns. The highest performing modeled selections, in combination with creative and offer, will be referred to as the “control”. Any piece tested against the control is referred to as the “test”. Thinking of this as an incumbent/challenger relationship is often helpful in understanding the relationship. The goal should be to continually have the challenger outperform the incumbent. Although this will often not be the case, with continual testing we will be striving for the best possible response rates.

Three main factors of a direct mail piece contribute to the response rate. They are the offer, list and creative. ?The offer refers to the product or service being offered. Even with the best creative and the best candidates, if the offer is not relevant, response will be low. For example, offering Internet service to individuals who do not own a computer will likely be unsuccessful. ?The list refers to those selected to receive the offer. The model often drives this, for sophisticated marketers. Often times, the list is selected in other less statistical ways, such as a predisposed belief as to the typical customer. In this case, new opportunities to reach new markets are often missed. The model will assist greatly in selecting highly qualified individuals to receive an offer. ? The creative refers to the appearance of the offer piece. Is it colorful and humorous or serious in nature? The creative has to reflect the product or service being offered. For example, while a vehicle offer can often be engaging and even humorous, one might want to take a more serious, hard-hitting approach when offering insurance.

To conclude, the list, offer and creative are crucial in driving high response rates. Poor choices in any of these three categories will have a negative effect on response in most cases.

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