Data-Driven Marketing: Key to Profitability

Abstract: Companies must use readily available data for making product decisions to optimize profitability.

The Decision-Making Trap

In developing new products, or even making product decisions, companies usually reach a go/no-go decision point. At this time, the company evaluates the information it has collected, produces analyses, and discusses it among the management team who makes a decision about the product. These **decisions are often unduly influenced by the perceptions, expertise, and life experiences of the sheltered management team without consideration of readily available market information -- and leads to many poor decisions.**

For example, the proliferation of wireless phones presents numerous opportunities for wireless carriers and manufacturers. In looking at the penetration rate of cordless phones in the home (over 70% of households) and the penetration rate of wireless subscribers, it is evident that the true customer need is to communicate with a handset that can be used wherever they are -- in the home, in the yard, in the car, across the country, and globally.

Traditional wireline connections are relatively cheap (starting at about $15 per month) compared with traditional wireless plans, which start at about $20 for very limited talk time and have high per minute charges beyond. Additionally, wireless carrier engineers have not believed that their voice quality and connection reliability is comparable to wireline service. This leads many industry participants, who are predominantly middle-aged white males, to conclude that wireless service can not be a substitute for the traditional wireline service.

If these participants examine data, however, they will find that substantial numbers of households are potential users of wireless service as their primary phone. Many people living alone with lower telephone usage are great prospects for this substitution. In fact, surveys indicate that about 15% of wireless users are using their wireless phone as their primary phone, despite limited marketing promotion. One company, AT&T Wireless, has finally recognized this and has started promoting the substitution of wireless for traditional wireline service in their advertising.

A Nation of Fragmented Markets

It doesn't take much data to recognize that **the U.S. is a nation of very fragmented markets**. The traditional family as represented in the television shows of the 1950's and early 1960's no longer predominates. There are about 100 million households in the U.S. Of these, 61 million are headed by males and 39 million headed by females. A married male with a spouse present in the household heads only 44%. Further splitting this market by age, a total of 16 million households are headed by a married male, aged 45 to 64, with a spouse present in the household. This means that only 16% of the households are headed by a person in similar circumstances to the majority of corporate decision-makers.
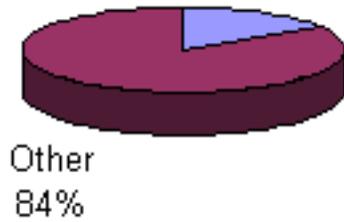
Looking at household data with the presence of children reveals a similar phenomenon. Of the 100 million households, about 54% are considered married couple family households. A total of 25 million households consist of married couples with children under 18. Applying race, gender, and age to this 25% would further reduce the percentage of households that match an individual's status.
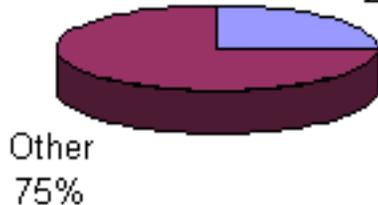
Business markets are just as fragmented. Of the 6.5 million businesses, only 13% have more than 20 employees. In fact, only 0.1% have greater than 1,000 employees, yet these establishments employ about 13% of the workers, pay about 18% of all payroll, control vast amounts of the country's assets, and make a lot of product decisions.

U.S. Business Locations

1000+
employees
0%

1-999
employees
100%

The point of this is that **everyone is in a minority market!** This means that management's current experiences are unlikely to be a true reflection of the potential market for their product. While it may be that corporate decision-makers may have progressed through various market segments (they were once younger and probably had a lower income, or they may have worked for a small company), it may be **difficult for management to relate to the world outside their current domain.**

Capitalizing on computer technology, this fragmentation has led to a concept of **one-to-one marketing**, popularized by Don Peppers and Martha Rogers. Some talk of a market segment of one person, with companies specifically tailoring their offerings and promotion to the needs of each individual. While much data can be purchased on each individual, much of the data must be collected after the prospect becomes a customer, so many of these efforts are more directed at customer retention and up-sell possibilities, and not at customer acquisition. Even with increasing computer sophistication, marketing to a very, very small group of prospects is still **cost-prohibitive for most products**.

Companies Ran by Traditionalists

Despite the fragmented market, **most companies continue to be run by middle-aged white males**. Because of their position, they command higher salaries than most of their customers make. This makes their current life experience very different than their current and prospective customers. This is not a criticism, for companies should be ran by those with the greatest qualifications, but rather a reflection of reality.

Many companies promote diversity as one way to make them more in-tune with their customers and prospects. U S WEST, for one, has a very strong diversity program. In the long run, **diversity may work and lead to more products and services that respond to specific market needs**.

Data Driven Marketing

What can be done in the near-term? While each individual management decision-maker can not be expected to have the same life experience of major prospect groups, **data about market segments can be used to help understand potential customers**.

In developing, pricing, and promoting products, a great number of decisions must be made. These decisions

include:

- Who are the target markets?
- What product attributes should be included?
- What price should be charged?
- What promotional themes will connect with this market?

Data should be used to support decisions in all these areas, but often is not, because management <u>feels</u> that it <u>knows</u> their markets. For example, one truckline developed its entire marketing plan in a half-day meeting of company executives where everyone was encouraged to voice their opinion of which markets to target. Not one data element was used in this process! Needless to say, the company struggled to become profitable and most of the senior management team was shortly replaced.

Marketing Data Sources

A great deal of this data is easily obtainable for a low price. Three major data sources are available:

1. One of the first sources is the **government**, who collects all kinds of demographic, economic, and social data. Most of this data is available for a very low cost, but sometimes requires additional manipulation to convert it into valuable information.
2. **The Internet** has a multitude of private information also available for free. For instance, many newspaper articles are available on-line that describe various information. While this is not always in the exact format needed, inferences can usually be drawn from it. Internet information can be accessed through search engines, or companies can hire secondary market research specialists, often with additional sources, to obtain the information for them.
3. Many **data providers** collect data, process it, and make it available for a fee. This also often includes software to help users make decision. For instance, services exist that allow users to help locate retail outlets. These services contain demographic and other data for geographic areas, allow users to input target demographics, and use software to recommend sites for retail outlets.

Data Analysis

Data collection is a first step, but **detailed analysis** is another important process that is **often overlooked**. Many marketers often get excited about a product but don't analyze the product's potential impact on the company's value. **Cannibalization** of existing products is the most glaring example of the need for analysis. The **cost of acquiring customers and providing the product and service bundle** is another. For instance, many telecommunications and cable companies became excited about the prospect of "convergence" and offering services like video-on-demand to their subscribers. While there appears to be a substantial market for this nationwide, the cost of upgrading telephone and cable company infrastructure in order to provide these services make their ultimate provision financially prohibitive. The bottom-line is that marketers need to be aware of new product impact

Customer Usage Analysis

In addition to data collection before making product decisions, it is **also important to collect information about how products and services are actually being used by customers**. Companies often spend a lot of time developing customer propositions for their products and services, and yet customers often use them differently than hypothesized by the company. Internal data will often reveal usage patterns and other relevant data. It is also critical to obtain feedback from customers on actual usage in order to adjust the product and its marketing to other potential customers.

Conclusion

While management experience and expertise is invaluable in designing and marketing products, companies must ensure that they examine data in order to make profitable marketing decisions. Data allows companies to find new markets for their products and optimize their product performance. Much of the data is inexpensive and readily available, so there is no excuse for not using it. This **data can be the key to optimizing corporate profitability**.