Emerging marketing

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Companies don't need state-of-the-art tools, huge volumes of customer information, and armies of experts to use continuous-relationship marketing effectively.

Thanks to microchips, companies in developed markets routinely collect and store huge volumes of information about their customers. Thanks to continuous-relationship-marketing (CRM) tools, this valuable resource doesn't lie inert but is instead used to fashion sample customer segments that can be used to test new offers. The winning ones are then turned into full-scale marketing campaigns.

It seems unlikely that CRM would work this well in emerging markets, where accurate customer data, advanced IT systems, and marketing experts are all in shorter supply. Yet it does. Overall, from 10 to 60 percent of the customers targeted in well-designed CRM-based campaigns in emerging

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markets sign up for the offer they receive—far more than the 5 to 20 percent norm in developed markets. Although CRM activity in emerging markets accounted for only 11 percent of the worldwide total in 2000, it has been growing by 35 percent a year since then.

Why? For a start, consumers in developed markets have wearied of unsolicited mail, sales calls, and spam, but for many consumers in emerging markets, personal attention from companies is still a novelty, and a welcome one. Second, success in CRM depends more on applying its principles creatively than on marshaling massive databases, complex software, and armies of experts. Indeed, some companies that use the fanciest CRM tools available have yet to see any result: in one recent survey of mainly North American retail companies, 69 percent of the respondents said they had gained little or no benefit from their CRM investment.[1] But in emerging markets, we have seen substantial value accrue to companies that effectively used whatever skills and data were at hand.

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A pragmatic approach to CRM

One mobile-phone operator in Asia, for example, cut customer churn by more than 40 percent by offering a special discount to just the customers identified as the most likely to cancel. An East Asian retail bank increased its credit card profits by at least $5 million and perhaps as much as $6 million by targeting a direct-marketing campaign at high-income customers who were heavy ATM users, having discovered through the use of CRM that they were four times as likely to take up a credit card offer as the people in a control group.

If consumers respond so enthusiastically, why are so few companies in emerging markets launching campaigns? One reason is that these successes are not well known among senior managers—many marketing directors included—because few companies in emerging markets track the effect of their individual marketing and promotion activities. Second, many companies that know about CRM and are keen to apply it believe, mistakenly, that only the IT-heavy, deluxe version will do; they are still building the perfect database and acquiring the latest propensity-modeling skills. Even some less technically ambitious marketers worry that they have neither the data nor the human resources that CRM textbooks say are essential.

[1]National Retail Federation; Meta Group annual CRM conference survey findings, May 2000.

The textbooks are wrong. In any market, CRM aims to capture increasing amounts of the lifetime value of high-value customers by creating offers that respond to their individual needs. The two most essential resources in any CRM program are a wealth of hypotheses about the composition of possible target segments and a variety of offers to test these hypotheses. A company's first CRM customer database therefore need only be big and accurate enough to support well-thought-out, statistically relevant test campaigns.

We have found that a CRM database containing records on 50,000 to 300,000 active customers encompasses enough diverse groups of around 2,000 customers each to make it possible for companies to develop an extensive series of distinct tests that avoid tapping the same customers twice. If a company can reach larger samples of customers by e-mail, it can test and roll out new ideas more quickly. But large samples are not a necessary condition of successful CRM campaigns[2] (*see* sidebar "Not like this"). Nor are lots of details on each and every customer. The amount of information that each customer record in the database must contain depends on the hypotheses a company wants to test. Less is more if it makes it possible for the process of testing and refining offers to start sooner rather than later. It will be more than enough to begin with some demographic details about customers and

Not like this

Mistakes by companies in developed markets offer important lessons for companies in emerging ones. Two problems seem to be the most common.

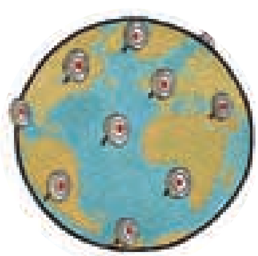
The first is a tendency to focus on information technology rather than the business outcome. In many companies, continuous-relationship marketing (CRM) has been introduced by the IT unit and does not have sufficiently close coordination with marketing, sales, or customer service. The result is expensive systems that don't necessarily deliver either successful campaigns or improved profits.

Second, large-scale systems with long-term promise are often preferred to an incremental approach with immediate impact. Many companies have attempted to install, simultaneously, all of the elements of classic CRM: a data warehouse, complicated analytical models, and campaign- and channel-management tools. But installing those things ties up too much time. If, as often happens, it proves difficult to integrate the various elements of the CRM system, any return on the investment may be deferred even longer. But companies that build their CRM systems incrementally, campaign by campaign, need not wait years for results.

[2] *See* Ruediger Adolf, Stacey Grant-Thompson, Wendy Harrington, and Marc Singer, "What leading banks are learning about big databases and marketing," *The McKinsey Quarterly*, 1997 Number 3, pp. 187–92.

information about the products they currently own, such as their account balances, and the kinds of transactions they have undertaken during the course of the previous 12 months (for example, how many ATM transactions they carried out).

Of course, the quality of the data available for CRM in developed and emerging markets does differ. Most companies in emerging markets have customer information files and transaction histories located in various computer systems. But hardly any such companies track communications from customers—communications such as complaint calls, responses to promotional events, and choices of gift options—though these often form the core of fruitful marketing campaigns in developed markets.



Furthermore, systems in emerging markets may not be programmed to reject data that have been entered inaccurately, however obvious the error. One bank's database, for instance, was set up to handle nine different sexes for its customers: "male" was 1, "female" 2, but numbers 3 to 9 had also been entered and accepted. At an Asian mobile-phone company, 60 percent of new urban account holders were described as "farmers." In emerging markets, the accuracy of such data can rarely be cross-checked against external records, since few if any external data providers exist.

Even so, the poor quality of the data collected by companies shouldn't put them off CRM. In the first place, they can probably build small, usable databases from the information available. Systematic but simple checks can identify omissions and errors early on and ensure that the data collected are fit for the intended purpose. Second, putting together this little data "shed" is the first step toward building a giant data warehouse as the company's data structure and accuracy standards improve and the volume of data about customers grows. Companies can use positive results from their pilot CRM campaigns to show their employees that—at long last—it actually makes good sense to collect accurate and comprehensive information about customers. In addition, these companies can encourage the meticulous collection of their data by, for example, giving higher commissions to those sales representatives who manage to persuade customers to fill out every space on their various forms.

Companies can build usable databases in a remarkably short time, despite the need to audit and clean up the data. At a leading South Korean retail bank, two employees had a database up and running in only two weeks. It took a Southeast Asian mobile-phone carrier no longer to set up its own database. Another built one in a week. With a working database, a company can start to push through pilot campaigns quickly, maybe eight to ten of them in the first two to three months, each campaign typically testing the effects of five or six variations on an offer against groups drawn from a particular category of customers.

Say that a bank wanted to test the effectiveness of three promotional incentives, communicated by phone or by mail, among customers with only one account. That would give the bank six variations in all—incentive one by phone, incentive one by mail, incentive two by phone, and so forth. The CRM team would need to test each variation against six separate customer groups drawn from the pool of customers with only one account.

The CRM team tracks the results, revises the offers, retests the refinements, and selects offers to roll out across the customer base (Exhibit 1). Usually, just a few important variables—high income and frequent use of an ATM card, for example—identify the target customers for a rollout, so they are easy to locate in the company's main databases.

EXHIBIT 1

CRM in action

The human resources

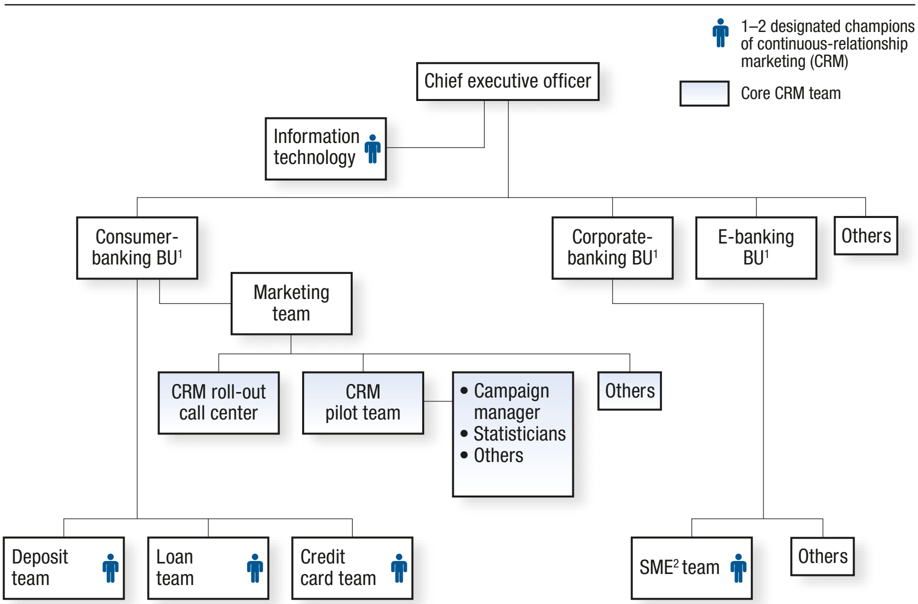
Success with CRM is closely related to the number of pilot campaigns and tests a company can run at a given time. Capital One—a US credit card issuer and leading CRM marketer, with 34 million customers and roughly a thousand CRM statisticians and marketers—tested 45,000 variables in its pilot campaigns during the year 2000. But a typical large US bank is more likely to have only 20 to 50 CRM specialists, which is still far more than would be on hand at most companies in emerging markets, where external resources such as direct-mail agencies, call centers, analytic-service providers, and telemarketing shops are also scarce.

However, companies that start small don't need highly sophisticated marketing skills to get good results. A pioneer CRM team needs only one or two representatives from each of the CRM support disciplines: namely, marketing, product management, statistics, call-center management, finance, information technology, and sales. Moreover, a company's initial levels of skill and commercial judgment really are not as important as a willingness to learn from differences in the ways in which statistically similar groups of customers respond to a range of offers.

A single CRM corporate- or divisional-level team run by a senior CRM champion can carry out high-profile tests and campaigns that could have an impact on all of a company's business units. Alternatively, a core CRM team might be located in the marketing function or a retail business unit and work with designated CRM champions in each channel. A bank, for example, set up a CRM pilot team to run test offers and a call center that rolled out the successful ones to each business unit's wider customer base—all under the aegis of the consumer-banking business unit's marketing department (Exhibit 2). At the front line, each business unit had a designated CRM champion responsible for assessing the financial potential of the relevant pilots and for helping to feed new offer ideas and customer-segment hypotheses into the testing pipeline.

EXHIBIT 2

One bank's solution



[1]Business unit.
[2]Small- and medium-sized enterprises.

Branch champions

In banking, continuous-relationship-marketing (CRM) campaigns tend to work best when product managers have profit-and-loss responsibility for their products across the whole organization. These managers have a particular interest in developing and rolling out successful product pilots, even to the point of helping to finance them from product budgets, which are often substantial.

In emerging markets, however, product managers with that much power are rare. In Turkish banks, for example, it is usual to value the performance of individual branches more highly than that of particular product lines, so branch managers are important but not natural allies of CRM pioneers. When one Turkish bank launched a CRM campaign, branch managers, unwilling to cede any control over their local customers to teams of direct marketers, resisted strongly at first. What brought the managers around was seeing that CRM campaigns can boost the performance of branches. When a pilot campaign promoting on-line banking, for example, was rolled out, the CRM team showed branch managers how it encouraged customers to conduct more transactions than they had previously conducted and to increase their account balances. Once the branch managers realized how the campaign could benefit them, they became champions of CRM throughout the entire organization.

A feedback loop runs from the marketers who develop hypotheses to the call-center operators who explain offers to the company's customers and listen to their responses. When CRM teams are small and the links in this loop are tight, information flows around it quickly enough to produce successful offers. In such companies, it is not unusual for marketers to write direct-mail material and to script telesales calls themselves. Unfortunately, however, the hierarchical cultures of some companies in emerging markets can get in the way of such fast-paced, democratic teamwork. A failed test may, for example, be treated as someone's mistake rather than as an essential step in the progressive refinement of an offering.

Corporate cultures can change, however. In one Asian mobile-phone company where a campaign flopped unexpectedly, everyone involved, from the campaign manager to the call-center operators and the statisticians, discussed the causes of the failure. Chief among them, the company discovered, was the procedure for handling customer complaints. For one thing, the company responded to them so slowly that it reminded some people of unresolved grievances long since forgotten. For another, it irritated customers who had deep-seated problems that it could do nothing to fix—complaints about network quality, for example—by making any kind of contact. Using this information, the company changed the way it handled complaints and thereby cut its rate of customer churn considerably.

Getting support from the rest of the organization

Most companies in emerging markets track aggregate measures such as total sales or customers. To win the backing of senior managers, CRM teams must understand the components of those aggregates—especially the differences in profitability between particular customer segments and activities—and the degree to which CRM campaigns change the factors that most influence the aggregates. One Asian insurance company, for instance, identified, tried to influence, and tracked granular measures such as the number of its products its customers held and retention rates among different groups of customers.

Showing corporate leaders the process at work is another powerful means of winning them over. The CEO of a Brazilian insurance company, for example, was converted when he overheard a skilled call-center operator securing a renewal and a new policy just by calling the right customer, at the right time, with the right message—all three revealed by a CRM campaign. In addition, a CRM team needs support from the business unit or line in which it is located.

But in many emerging markets, value-based performance measures are simply not sufficiently disaggregated to demonstrate that a team is having a beneficial effect on a particular organizational unit (*see* sidebar "Branch champions," on the previous page). CRM campaigners really need such measures if they are going to reward the performance of every CRM team and of the individuals who serve on it. In the absence of such measures, a CRM team can go ahead and develop its own, calculating the net present value of each of the campaigns and extrapolating their effect on the profits of the business.

Of course, the best way to get the backing of senior managers is to show them the money. Fortunately, the results of a series of rapidly launched pilots are likely to come in quickly.

The potential rewards of continuous-relationship marketing for companies in emerging markets are huge. Yet too few companies are enjoying these rewards, partly because many executives believe that it is impossible to make state-of-the-art database tools work in emerging markets. But businesses piloting CRM in “do it now, fix it later” campaigns enjoy growing market shares. Wait too long, and companies from Seoul to Johannesburg may find that customers have transferred their allegiance to competitors that took a chance on CRM. Q

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