



Let's Get Personal Event-Based Marketing

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Introduction

According to SearchCRM.com, two of the top ten CRM buzzwords reflecting key market trends for 2007 are “predictive analytics” and “customer valuation”.¹ Predictive analytics uses data analysis and mining techniques to predict future behaviors and trends. Central to this concept is the ability to determine the variables that will reliably predict future customer behavior and indicate imminent action. Along the same lines, customer valuation is the scoring of customers based on past purchase recency, frequency, and expenditure (monetary), as well as on future potential in order to narrow the field of campaign recipients to those most likely to purchase again.

That these trends top the CRM market is not surprising when you consider the three Rs of CRM: providing customers with the right products at the right time in the right place. Identifying predictors or triggers, determining propensity, and anticipating preferences based on behavior dovetail quite nicely with the big three. Savvy marketers are continually searching for innovations that enable them to personalize campaigns, generate relevant and timely offers, and facilitate the CRM “Rights”.

One such innovation is Event-Based Marketing (EBM). EBM is the generation of targeted and personalized communications that are triggered by significant events, which indicate a specific customer need, imminent customer action, or strong propensity to purchase or defect. Unlike traditional marketing promotions that bombard customers with unsolicited (and many times unwanted and ineffective) messages, EBM facilitates proactive communications that customers are happy to receive. Stemming from the recognition that a customer’s behavior is deviating from the norm or that outside events could precipitate possible action, EBM communications coincide with customer needs and are strongly tied to propensity. These communications also foster longer, more complex dialogues because they stem from real customer insight.

Consider the telecommunications company that uses EBM to detect substantial increases in customers’ monthly bills. Using qualified events, they can understand when bill increases are associated with new calling patterns versus increased use of add-on services, such as text messaging or internet access. They are then armed to offer new phones to the customers whose actions dictate the need for an upgrade and modified calling plans where calling patterns have changed. Even better, they understand this before the bills go out, allowing them to automatically generate a custom offer on the billing statement, initiate a timely outbound call, or react to a customer inquiry with the appropriate offer.

¹ CRM and Customer Service Market Trends: Top 10 Buzzwords, SearchCRM.com, August 01 2007, Christine Cignoli

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The benefits of EBM can be amazing. Chinatrust Commercial Bank, one of Taiwan's premier financial services providers, generated NT\$479 million in new business from its first 10 campaigns, covered the cost of the EBM system twice over, and achieved a whopping 168% average ROI on its campaigns². The Gartner Group findings indicate that EBM campaigns generate up to five times more responses than mass marketing efforts³. At the very least:

- customer satisfaction is increased as you cut down on extraneous communications and demonstrate an understanding of customer needs and preferences.
- customer retention is increased as you anticipate attrition and react immediately.
- share of wallet is increased as cross-sell offers are based on demonstrated need rather than on the product “du jour”.

EBM – Marketing and More

EBM is a far cry from our grandfather's marketing strategy. In fact, it has several intriguing characteristics. First is the ability to extend the traditional marketing focus (product, pricing, promotion, and place) out to all types of customer communications. While cross selling is still a major objective, many organizations are using EBM quite successfully to identify and mitigate retention risks, to trigger service communications, to comply with regulatory requirements, and to meet immediate customer needs. Some examples of non-sales-oriented events that can yield big benefits include significant out-of-stock conditions, first alternative channel usage, payment history changes, significant withdrawals, and early signs of potential defection such as decreasing visits to the web sites or decreasing market baskets.

One financial services organization uses its EBM program to conduct a customer retention campaign based on significant withdrawals. If the withdrawal is a certain percentage over the customer's average money movement, and the funds are moved from a cash management or savings account into a checking instrument, the customer is considered to be at high risk of transferring the funds to an outside investment. Because the funds are likely to leave the bank within 24 to 48 hours of the transfer, these leads are immediately passed to an investment advisor for top priority customer calls. In the pilot program, this organization doubled its retention rate for these

² DMReview, Product Review, “Chinatrust Commercial Bank Generates 168% ROI with Teradata”, July 2006/Volume16, Number 7.

³ Gartner Group, “Hype Cycle for Customer Relationship Technologies, 2007” July 27, 2007.

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customers to 27% (funds retained in the bank) from only 13% when no contact was made. The pilot also resulted in an unanticipated benefit for the investment advisors tasked with making the calls – customers were much more receptive to the calls than in past, less targeted efforts.

Another fascinating characteristic of EBM is that campaigns tend to shape up quite differently than when using traditional marketing practices. The sophistication of the event triggers (one organization calls them event detectives) and the introduction of automation are a powerful combination. Because events are so well targeted and the detectives can run continuously, generating leads at the moment significant actions occur, individual campaigns produce fewer leads than mass marketing efforts; large volumes aren't necessary because the event detectives produce such extremely high conversion rates. Costs are cut, campaign ROI is increased, and lead volumes can be matched to channel capacity. As organizations gain experience (and success) with EBM campaigns, most increase the number of simultaneous campaigns substantially. It is not unusual for leading EBM practitioners to have hundreds of campaigns running daily, looking for a wide variety of significant events and enabling them to react whenever customer behavior warrants action. EBM is one-to-one customer marketing at its finest.

Knowing Right from Wrong - EBM Best Practices

Award winning companies, such as Continental Airlines, Travelocity, Overstock.com, and British Airways, all enjoy enhanced relationships with their customers due in part to their EBM programs. However, each would affirm that EBM is not a simple plug-and-play solution. Not only does it require robust EBM software with a rules-based engine to detect events and execute appropriate responses, these leaders have developed a set of best practices that must be followed to ensure full value and continued growth and scalability for the program. Best practices include:

- Predictive analytics facilitated by a comprehensive data warehouse
- Real- or near-real time information for right-time event reactions
- Contact optimization and prioritization for communication control
- Platform and rules engine horsepower capable of handling detection and reaction for many simultaneous EBM campaigns

Predictive Analytics – the Devil's in the Details

Merriam-Webster's dictionary defines the word *significant* as "having or likely to have influence or effect." Successful EBM programs don't leave the significance of the events to chance. Nor do they constrain events to blanket conditions that may or may not be outside the bounds of normal behavior for a particular customer. Instead, actions are analyzed to determine their importance and relevance in context of the customer's historical behavior. Customers are qualified based on factors such as risk and propensity. Offers are personalized to match customer preferences. Delivery is directed to optimize channel utilization and profitability, and results are continually monitored for compliance to expectations. Additionally, the results, business rules, and predictive models are also updated dynamically as evidence of what works versus what doesn't are heuristically gathered.

All of this takes access to information that is integrated, cleansed, centralized, clearly defined, and consistently refreshed. A data warehouse and the sophisticated analysis capabilities found in a comprehensive business intelligence environment (thus the predictive analytics as a CRM top ten) are a must. Integration of the EBM software into the data warehouse is also quite helpful as it provides a seamless environment from which to do analysis, event detection, offer generation, and results measurement.

Let's look at it in the context of a bank looking to serve an immediate need for customers who need cash for emergency purchases and have insufficient cash reserves. In a compelling example of timely, significant, and relevant communications, the bank plans to offer these customers a credit card with cash advance capability, overdraft protection, or a personal loan. To ensure the relevance of this offer, the bank must first detect those customers who have tried to withdraw funds at the ATM or branches and received rejections due to insufficient funds in the account. This entails mining the data for rejected transactions at the specific channels selected.

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Habitual offenders, possible fraud perpetrators, and people who have simply misjudged the account balance (and can get the funds from other accounts within the bank) must be eliminated from consideration. Eliminating these customers requires a look at past behavior patterns and recent transactions to determine that the account has not had an insufficient funds transaction in the past six months, that the card has not been reported lost or stolen, and that the customer has not withdrawn a similar amount from another account within 24 hours of the initial attempt. Further attempts to ensure the need for emergency cash can include verification that the account does not have a paycheck direct deposit due, but is simply late arriving (again requiring past account transaction detail mixed with current state information). Once the bank confirms the need for cash, it must perform a credit score on the customer to ensure that the products offered are appropriate. Finally, analysis can help to predict how many leads will be generated, as well as which of the three products is best to offer based on behavior of other customers who were in a similar situation.

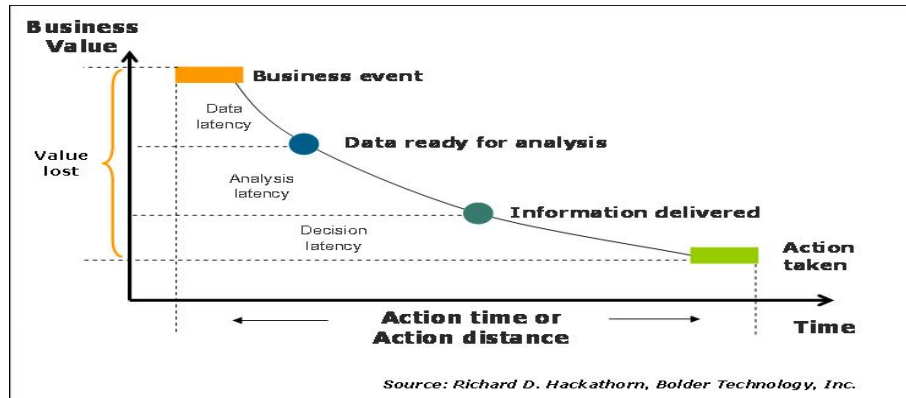
This analysis requires individual transactions (including channel information), product ownership and balances, credit risk, history, and trended information across the customer base. Without a data warehouse, it would be difficult to do this for a single campaign, let alone the hundreds found in a successful EBM program.

Now or Never – Don't Miss Your Queue

Timing is critical in an EBM program. Research indicates that customer responses fall dramatically 24 to 48 hours after an event. Figure 1 illustrates the timing issue in terms of information latency. Data latency is the time it takes to detect the event and prepare the information for analysis. Analysis latency represents the time it takes to analyze the information, determine context, apply the qualifiers, and perform historical comparisons. Finally, decision latency represents the time to determine how to react to the event, many times at the point of customer contact (e.g., at the call center). The longer it takes to detect that an event has happened and move through the latency curve to take action, the higher the likelihood that you have missed the opportunity.

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Figure 1



As with predictive analytics, integration of the EBM software with a data warehouse is a must to overcome the latency issues. Otherwise, the EBM program must rely on information extracted from legacy systems and integrated, consolidated, and cleansed on the fly. This would also force pre-aggregation, which lowers relevance. The data preparation alone would cause the latency curve to become unacceptably long and push the program in the direction of missed opportunities and lower success rates.

The Point of No Return – Let's Not Go There

EBM programs can generate the most sophisticated events possible by man and machine, but if customers are over-saturated with communications, success rates will plummet. So will customer satisfaction as communications become viewed as nuisances to be promptly forgotten, or worse -- ignored.

Automated contact prioritization and optimization capabilities must be a part of the EBM program, particularly as simultaneously executed campaigns grow in number. Contacts should be categorized into sales, service, retention, and regulatory, and a priority and frequency should be assigned to each type. Communications should be evaluated in the context of past communications, time lag between communications, type and urgency of communication, potential profit, and impact on both customer and channel. Automation of this capability is important because it becomes increasingly difficult to do this manually and minimize the latency curve. Additionally, automation frees up both marketing and IT resources to concentrate on other tasks, and lessens the reliance of marketing personnel upon IT whenever the priorities change.

Tune up the Cadillac – Keep the Engine Humming

The last critical requirement is horsepower. The EBM application (and the associated data warehouse environment) must be powerful enough to process large volumes of data in a timely fashion. Event detection and qualification alone can require the EBM rules engine to mine entire transaction sets and also consider aggregated and trended historical data. Hundreds of concurrent campaigns must compete for machine resources with other data warehouse processes, and contact optimization activities add fuel to the fire. Both campaign development and campaign execution must be facilitated. Undersized hardware platforms, poorly tuned operating systems, lack of data storage capabilities, or EBM rules engines not built to handle very large data volumes and complex rule sets can bring the program to a grinding halt. Organizations that take shortcuts with their hardware and/or data warehouse environments are likely to find themselves unable to duplicate pilot programs across the organization, unable to meet latency requirements, or stymied when they need to run simultaneous events.

Conclusion

EBM and CRM go hand in hand. Companies across a variety of industries are achieving amazing results when they implement EBM programs in conjunction with a comprehensive data warehouse and the use of best practice processes, analytics, and contact optimization capabilities. The opportunity is there for many more such successes as more and more businesses adopt this “customer driven” approach to building and maintaining customer relationships.

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