

Bringing Market Research and Data Driven Marketing Together

This paper outlines how market research and data driven marketing can effectively be brought together. Both are essential tools to meet the challenges that marketers face when trying to understand and service their customers. The pros and cons of both methods are outlined. Several methods are available to integrate market research and data driven marketing while still retaining the fundamental anonymity of individuals. These methods are illustrated through case studies of New Zealand businesses.

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THE CHALLENGE FACING MARKETERS

The challenge facing marketers is how to gather and utilise various sources of information to understand their customers. The marketer then needs to provide products and services that meet their customers' needs and expectations. Marketers ideally want to pursue long-term sustainable relationships with their customers, rather than simply driving short-term acquisition initiatives. To do this requires a deeper understanding of both the customers' behaviour patterns and their attitudes.

Market research and data driven marketing are both disciplines that support the marketer in pursuit of these goals. Market research will typically allow the marketer to understand more about their customers' motivations, feelings and attitudes. Conversely, data driven marketing will expose customers' actual behaviour patterns and characteristics.

The challenge then becomes how the two can be effectively integrated.

MARKET RESEARCH PRO'S

Market research provides information that is very difficult for companies to collect in an effective manner through normal interactions with their customers.

It provides insight into reasons for customers acting in certain ways, and perceptions they may hold about a company or its products and services. This may be useful during product and service development, or prior to new product launches by ascertaining attitudes to various scenarios, or directly testing response to various offers. Information can be gathered from customers on their usage of products and services from other providers or competitors, and the share of wallet between these respective suppliers.

Behavioural information such as media usage can also be gathered. This can be invaluable to guide the marketer in deciding on effective advertising. Information can also be gathered reflecting how customers think they will behave in the future. Companies can also learn about people who are not currently their customers, including prospects, or customers who have recently defected.

MARKET RESEARCH CON'S

Market research does have some disadvantages. Typically, only a small sample of customers is targeted. Furthermore, specific customer responses are not provided back to companies to enable them to identify who responded in certain ways. For example, a company may learn from market research that 20% of customers intend to behave in a certain way. However, they have no way of knowing who those customers are in order to carry out relevant targeted communication or actions.

Carrying out a sampling approach can lead to bias that is difficult to quantify let alone rectify.

The accuracy of customer responses may also be questionable. A customer's perception of their own behaviour or activity may not actually represent reality. For example, customers may inaccurately estimate their own level of spend or frequency of usage. If such results are grouped together with responses that are more 'accurate' it is impossible to tell which ones were exaggerated.

A customer's indication of future behaviour may not in fact eventuate. For example, after recent electricity reforms, the number of customers indicating their intention to switch providers was far higher than reality.

Responses may also be skewed by recent events. For example, a customer experiencing recent poor service from a company may be more likely to have a negative impression than if the poor service event had not occurred immediately prior to the research.

Due to the typical time taken to carry out market research and compile results, findings may be out of date by the time they are re-presented back to the client. Of course, this will not necessarily be an issue for all market research, as some topics retain their currency for longer than others.

DATA DRIVEN MARKETING PRO'S

Data driven marketing accesses information about individuals' transactional, behavioural, and profile characteristics. These data are usually the most powerful and reliable for predicting future behaviour. This information can be used to discover patterns in behaviour that can then be used in a predictive manner for customers who share similar characteristics.

This information is typically available for all customers, and can be readily augmented with data from other external sources such as census, Quotable Value NZ (QVNZ), and Universal Business Directories (UBD). The fact that data is available for all customers, not just a sample, essentially removes the problem of sample bias.

Data derived from data driven marketing is often more accurate for measuring customer behaviour. This is particularly the case for transaction data where precise usage can be measured.

Data driven marketing is usually extremely cost effective, with the cost of data collection typically being minimal. This data is usually required for other business operations, and so may already be available.

DATA DRIVEN MARKETING CON'S

The main limitation of data driven marketing is the lack of information pertaining to customers' attitudes and perceptions.

The way institutional data is stored by a company often makes it difficult to access or extract. Data may also be spread across multiple disparate systems, and linking all the information together and associating it with a single customer can prove highly challenging.

The data itself is frequently inaccurate or incomplete. This can be particularly the case in large organisations with many people entering data, for example a large call centre. Even with the best training and the latest software, information may be missing, entered in the wrong fields, mis-typed, transposed etc. This can lead to a substantial effort in cleaning the data prior to any analysis being carried out. This may prove impractical or impossible, leading to records being discarded, or being allocated dummy values.

Data useful for data driven marketing is usually only available for people are current or past customers. This makes data driven marketing little use for prospective customers.

BENEFITS OF INTEGRATION

The benefits of using market research and data driven marketing together are greater than using either in isolation.

The ideal scenario is to match individual customer responses from market research to their actual behaviour gained from datamining. A link can be made between customers' attitudes, views and thoughts and how these translate into observed behaviours. This can provide insights, not only to that customer's behaviour, but also that of other customers sharing similar characteristics.

Integration can help overcome the weaknesses of each method alone, for example, market research combined with data driven marketing could identify patterns that enable a company to identify likely prospects, or predict customer defection.

There are several approaches to this integration, and all can be used within the confines of the Market Research Code of Practice and the Privacy Act.

APPROACHES TO INTEGRATING MARKET RESEARCH AND DATA DRIVEN MARKETING

MARKET RESEARCH TO ENHANCE DATA DRIVEN MARKETING

Market research data can be used to augment data driven marketing. This could include information such as hobbies, magazines read, favourite TV programmes etc that will aid the marketer in identifying and targeting customers more effectively.

Typically, data driven marketing will identify unique groups of customers. Samples of customers can then be selected appropriately from these groups, and details provided to a market research company. These customers can be surveyed, responses gathered, and the results returned. The responses are then used to categorise members in each of the customer groups.

While this data will not be available for all customers in a group, there will be common significant factors. For example, the responses to five questions may show

no pattern amongst the customers in a segment, but the responses to five other questions may reveal a trend or pattern useful in categorising customers.

This approach is potentially more useful to marketers than either method alone as it includes a combination of data from both their own database and market research. This combination provides insights into the actions resulting from different customer attitudes.

MARKET RESEARCH TO VALIDATE DATA DRIVEN MARKETING

Market research information can be used to confirm that data driven marketing techniques have correctly classified unique groups of customers.

This method is similar to that applied above. The difference in this case is that the market research is used to validate the results derived from the data driven marketing. Market research would be undertaken on a sample of customers from each of the customer groups, testing that some of the key features identified by the data driven marketing hold true.

DATA DRIVEN MARKETING TO VALIDATE MARKET RESEARCH

One of the disadvantages of market research previously mentioned was the potential inaccuracy of customer responses. Data driven marketing techniques can be used to confirm such responses.

For example, market research was undertaken to ascertain customers' spending patterns with a large retail organisation. This same data was then validated using actual transaction data for the customers surveyed. The results indicated a considerable discrepancy between the two methods, suggesting that customers may not always be the best judge of their own behaviour (Figure 1).

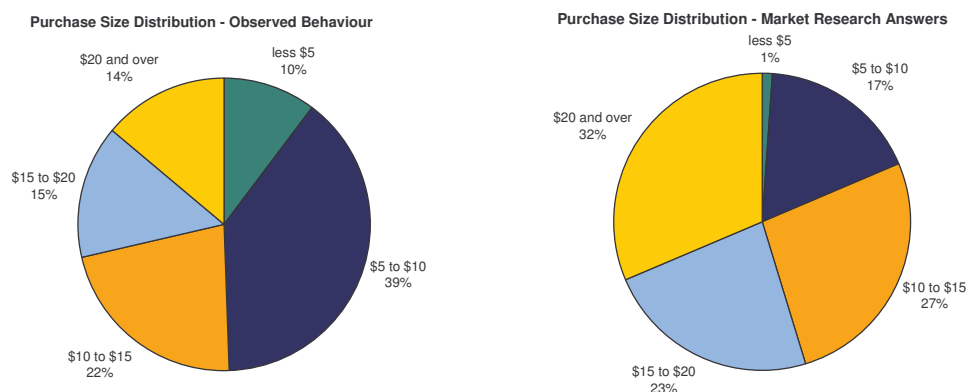


Figure 1 Comparison of market research responses to actual transaction data to determine customer spending patterns at a large retail organisation.

Analyses such as this can then be used to decide whether to consider responses to other questions for those respondents whose behaviour was shown to be different from their market research response. This may help eliminate potential bias from respondents who tend to exaggerate. This approach may also be helpful in determining what information is best derived from market research, and which from data driven marketing.

MARKET RESEARCH TO DRIVE DATA DRIVEN MARKETING

Market research can be used to initially formulate distinct customer groups, and these decisions supported by data driven marketing techniques. For example, market research can be used to ascertain customers' commitment or loyalty towards a company, and these responses used to initially categorise groups of customers. A list of customers and the group they belong to could then be used to carry out further data driven marketing. Transactional or behavioural data then adds to the initial market research derived customer groups.

DATA DRIVEN MARKETING TO DRIVE MARKET RESEARCH

Market research is carried out on only a sample of the entire customer base. If the base is sampled randomly, 'average' customers may comprise a large portion of the customer base, and so the results will strongly represent these customers.

A better approach is to use data driven marketing to identify groups of customers illustrating behaviour that is of interest. Samples of customers falling into these interest groups can be extracted and provided to a market research organisation. This technique ensures those interest groups of customers, rather than 'average' customers are over-sampled (Figure 2).



Figure 2: Illustration of over-sampling customers with unusual levels of profitability to ensure Market Research effectively profiles the entire base.

USING A COMBINATION OF MARKET RESEARCH AND DATA DRIVEN MARKETING

Both techniques can be used together to build understanding of a company's customers. Using this approach, neither type of information drives the solution more than the other. Most importantly, customer specific behavioural and transaction data can be combined with customer specific market research data within the constraints of the Market Research Code of Practice and the Privacy Act. This process is detailed in the following case studies.

CASE STUDY ONE – TOWER SEGMENTATION

A segmentation of TOWER’s customers carried out by Datamine demonstrates how data driven marketing can be enhanced with market research information.

The segmentation was initially developed using customer specific data matched with census and Quotable Value NZ data. Datamine then provided a sample of customers to AC Nielsen. This sample contained name, address and segment number (1 – 5) information.

Using its Financial Services Monitor, AC Nielsen provided additional information about customers within each segment including share of wallet, activities, attitudes and feelings.

To further assist TOWER in understanding customers within each segment, Datamine carried out video interviews of two customers within each segment.

CASE STUDY TWO – BANK OF NEW ZEALAND CLIENTVIEW

This is an example of how data driven marketing and market research data can be used jointly to generate customer insight.

The key to carrying out this form of integration is to ensure that it is not possible to identify an individual using personal information. However, it is still necessary to know an individual’s responses in order to link it to other customer specific data.

To achieve this, BNZ created a new unique ID for each customer. This new ID was not related to the old ID number, and BNZ kept the key to translating one to the other (Figure 3).

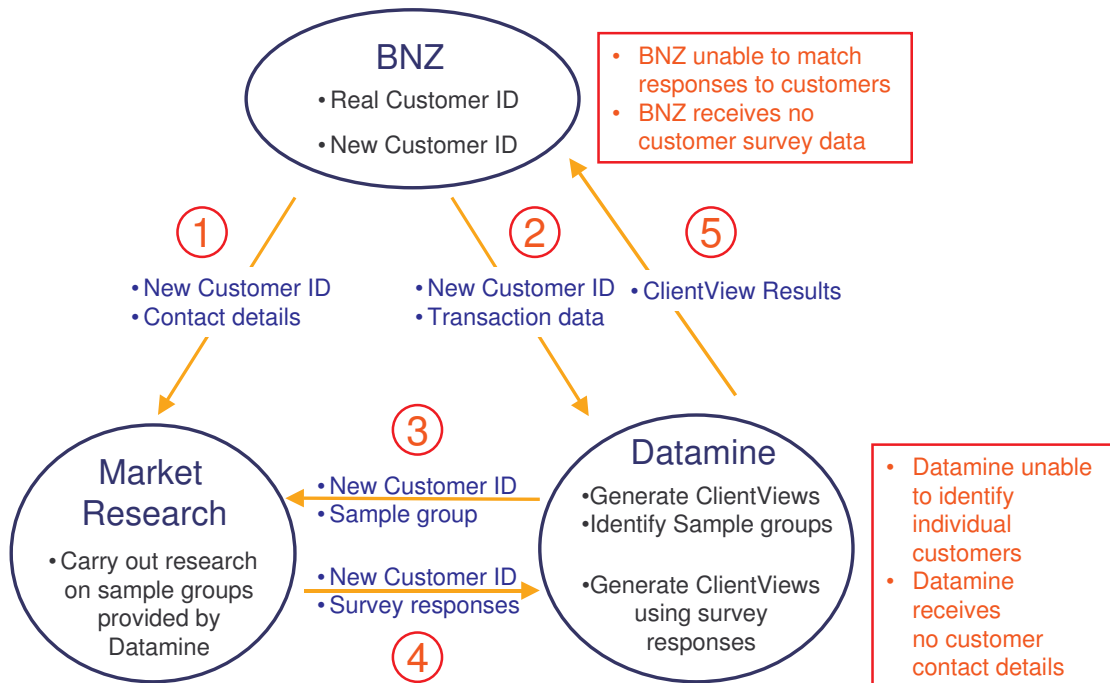


Figure 3: The flow of data between BNZ, Datamine and the Market Research company necessary to carry out the ClientView analyses and retain the anonymity of individual customers.

BNZ provided Datamine with new customer numbers, and information necessary to carry out the ClientView analysis. No name or address information was provided so Datamine could not identify individual customers. The ClientView analyses enabled groups of customers to be identified, and these customer numbers were provided to the market research company.

BNZ also provided the market research company a list of new customer numbers, and their associated name and address details. The market research company, after carrying out the research on the customers identified by Datamine, sent back the individual responses for each of the identified customers to Datamine.

Datamine then used the specific responses, such as share of wallet, and using the new customer number, matched these responses to other behaviour from the BNZ database. This enabled further ClientView analyses to be produced which included competitor information.

Using this method, the customers' privacy was protected at all times. By BNZ creating new customer numbers, and providing these to Datamine and the market research company, meant that customer transaction details could not be linked back to an individual. In turn, BNZ were only provided the ClientView results, no individual market research responses.

The greatest benefit to BNZ was that this method enabled them to identify penetration by competitors within various groups of their customer base.

SUMMARY

Both market research and data driven marketing have their own important part to play as essential tools for marketers. However, the greatest power can be extracted from these tools if they are used in combination, either one supporting the other, or used in tandem.

In order to achieve this, individual customer responses need to be linked back to their behavioural data. This needs to be undertaken while ensuring that the anonymity of individuals is protected.