*Michael Caccavale
has over 20 years of
experience providing
leading-edge solutions to
customer marketing
challenges, including
business process,
technology, and integration
consulting to Fortune 100
companies.*

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Customer knowledge replaces brand loyalty

Michael Caccavale,
President,
Aperio Inc.,
24 Prime Park Way,
Natick MA 01760, USA
Tel: +1 508 651 5757
Fax: +1 508 651 5857
E-mail:
mcaccavale@aperioinc.com

Exploiting interactive marketing

Michael Caccavale

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Abstract

This article explores various attempts to exploit interactive marketing techniques, defines interactive marketing, and investigates how this new marketing technique recognises the customer's role in the customer/company relationship. The article explores the risks and challenges in shifting the organisation, process, and technologies to support interactive marketing, yet outlines several strategies for achieving this transformation and the resulting benefits.

Introduction

Interactive marketing is quickly arriving and certainly here to stay. Although some leading organisations have effectively deployed superior interactive marketing techniques in the past, the proliferation of the Web and new technologies are critical enablers of this new approach to one-to-one or direct marketing.

Despite the successes of interactive marketing early adopters, many firms are struggling with the deployment of interactive capabilities or finding that their roll-out strategy prevents them from taking advantage of new technologies or capabilities. To understand this dynamic, this paper reviews the industry changes driving firms towards interactive marketing and the challenges in deploying today's technologies to exploit interactive-capable media fully. Finally, it provides a framework for shifting towards an interactive capability.

The customer as king

Although many marketers will readily admit the customer's role in today's economy and, further, the increasing reliance on customer information to help make up for the type of brand loyalty that dominated in the past, many organisations simply don't have the technical capabilities to support a true customer-driven business model. Instead, marketing organisations spend countless hours and significant money in jury-rigging their business processes and technologies to support a customer-centric model.

One simple example is the frequent mailing of credit card upgrade offers. During work with a leading credit card issuer, the author learned that these offers often go out on a schedule of six to 12 times a year. When asked how the dates were chosen, the issuer said that an attempt was made to ensure even coverage was planned for the entire year. On the other hand, the issuer readily admitted that the offer criteria (the customer has reached his/her credit limit three times in the last year, has consistently paid on time for over two years, and has a high credit score) is based solely on customer-driven actions or behaviours.

**Customers drive
interactions, not
companies**

Effectively, the firm is ‘batching-up’ these people to make a one-time mailing possible instead of allowing the offer to go out on the exact day a person hits the prescribed criteria. Basically, the firm is taking a class of offer that is really a customer-driven event and forcing it into a company-driven business model.

Why? The organisational model and systems in many organisations were designed to support ‘one-shot’ marketing. In this model, the premise is that the organisation makes the decision on what offers to make what people and, most importantly, when to make these offers. Notions like a campaign schedule, marketing calendar and the idea that an organisation can plan all its marketing ‘events’ at the start of each year fundamentally contradict the notion that the customer’s actions drive the relationship. Ownership of the customer, customer valuation methods, and the basic product-dominated organisational structure and incentive programmes all present challenges to a true customer-driven business model. Furthermore, business processes and measurement techniques were designed around this ‘one-shot’ premise and would require significant rethinking if a firm were to move to an interactive paradigm.

It is clear that *both* customer and company-driven events have a place in the marketing mix of the future. As branding and customer marketing come closer together, and the deployment of direct marketing techniques is utilised for other ‘non-sell’ related message and behavioural purposes, marketing efforts will have a more varied application. Nonetheless, firms need to recognise the difference between a customer-driven event and a company-driven event, and have the right technology infrastructure to handle both.

What is abundantly clear is that the proliferation of the Web and the onslaught of advertising ‘broadcasting’ is putting the power and control into the hands of the customer. Customers expect offers and service from their vendors to be timely and appropriate. One excellent example of this is a mail-order firm that provides a listing of gift purchases made during the past holiday season. For each person the customer has sent gifts to in the past year, the firm provides the name of the gift receiver, details of last year’s gift, and five suggestions for this year’s gift. Two minutes and eight check-boxes later, the customer has spent several hundred dollars and delighted several family members and friends in the process.

These examples of best practices are quickly becoming the basic expectation of many customers today. Deluged by marketing and advertising messages, they want suppliers to provide an appropriate message with the appropriate offer at the right time.

Interactive efforts of the past

Although most marketing people will suggest that the Web has been the first real driver for interactive marketing, leading companies were practising many of the core principles of interactive marketing as early as 1980. One example of this is the catalogue and telecommunications firms which were building and leveraging call-centre technologies that

**Leading firms
experimented with
interactive
marketing trials in
the '80s**

included decision-tree capabilities. This provided the customer service or telemarketing agent with the capability to carry on a dialogue with the customer about their satisfaction and experience and to follow a path on the decision tree that might (or might not) lead to an offer for products or services. Although the verbal interaction was limited by the training and experience of the operator, plans included the assessment of a customer experience and the 'real-time' suggestion of products and services based on a combination of the dialogue with the customer and the marketing team's customer knowledge.

Some firms have gone further, to outline the customer life cycle over a period of time ranging from one to five years, and to have the marketing systems to monitor and react to certain customer conditions. These efforts, when integrated with all the customer touchpoints (eg customer service, mail, telemarketing, retail) often yielded significant results, since offers could be held until an interaction was prompted by the customer. Once this occurred, the appropriate offer could be made in the context of the dialogue started by the customer. Customer responses are significantly higher in this type of scenario. One recent media company noticed a 60 per cent improvement in response rates when a 'next product to buy' decision was made utilising advanced modelling software and real-time customer information during an inbound call to the call centre.

Despite the valiant efforts of these firms, several factors added significant cost and effort to working an interactive model in the past. First and foremost was the marketing technology framework. Many of these firms built marketing databases and systems five to ten years ago, and as a result focused their technology investments in 'getting the mail out'. This meant that databases were designed for large list pulls, and the technology to monitor for new customer actions was driven by the notion that a query run every day would be able to spot trends in customer behaviour. Although this provided the marketing department with the basic capabilities needed to support an early-stage interactive marketing capability, the system processing costs and labour necessary to support the model were costly and only justified in limited business situations.

**Today's applications
lack integration**

Secondly, firms attempted to adopt the interactive paradigm without consideration for the business process impacts such a model requires. For example, a life-cycle management programme does not fit neatly into the campaign calendar notion that many marketing organisations use even today. With a life-cycle programme, events and offers are being made every day, and as such only an estimate can be made regarding the targeted population on any one day. Furthermore, creative and other activities need to be adapted for a more continuous business model. The idea that an offer is planned, designs are developed and produced, the piece is mailed, and then response is measured is simply not applicable in a life-cycle model.

Finally, the vast experience of most direct marketers with the batch-oriented model means rethinking the entire customer management process and key implications on how to run the business. For example, despite current printing technology advances, print orders are still significantly less expensive as the number of pieces per batch increases, thereby

**Real time
interaction
management
will dominate the
marketing mix in
the future**

providing a monetary incentive to maintaining the batch paradigm. Measuring and forecasting response of an interactive paradigm is significantly more difficult, since the audience and offer are effectively not known until the actual event occurs. Fundamentally, these impacts and others frighten the marketer away from moving to this new model.

The new interactive marketing paradigm

Interactive marketing is the idea that total real-time customer knowledge is leveraged across the enterprise to advance the business of the firm. It is important to note that the business of the firm must include total consideration for the firm's operating strategy. Vendors in the marketing technology space suggest that maximising or optimising customer value is the ultimate end-game for all corporations, but new dot-com business models and Wall Street's valuation methodologies would suggest otherwise. In some firms, the short-term (two to three years) strategy is simply to attract customers or 'eyeballs' to a website. Other firms, for example in telecommunications, seek to gain significant customer share in an effort to drive capital spending and infrastructure development that can be leveraged to stay competitive in the long term.

The major differences between interactive marketing and the direct marketing paradigm of the past are the notions of real-time information and 'guided interactions'. Real-time information is quickly becoming a necessity to stay competitive. Financial services firms want to know if a person is straying from a website when they get to a certain point in the mortgage calculation applet. They want the customer service representative to have full knowledge of this click stream within minutes, so if the customer calls, frustrated with the applet, the customer service representative can make the right suggestion and offer. Cellular network providers want the call centre to know if a person's call volume is down 5 per cent this week. This would then let the representative probe the customer for reasons and potentially make a 'save' during an inbound customer call to request a dropped-call credit.

Traditionally, direct marketing has always included the notion of total customer knowledge and complete integration of all the customer touchpoints, but the proliferation of the Web and the dynamics of the marketplace are demanding real-time customer information. As such, a complete infrastructure must be built within the firm to support a customer information broker capability. Gone are the days where weekly and monthly updates to the data warehouse suffice; customers are asking, even demanding, that everyone and everything they interact with be completely knowledgeable about the total customer relationship.

The second most notable difference in interactive marketing is the idea of 'guided interactions'. Unlike traditional direct marketing, where the interaction is planned outside of any customer interaction, interactive marketing supports the notion of dynamic offer creation. In this scenario, the person interacting with the customer can shape or

guide the interaction and come up with an offer on the basis of both the marketers' knowledge and the real-time discussion with the customer. A classic example includes a discussion with a catalogue buyer checking the status of an order. The service representative may offer the customer different products based on what the customer tells him/her during the call about his/her last purchase. Questions by the customer service representative about the fabric quality of a recent shirt purchase may help pinpoint the style of bedding material to be suggested as part of an up-sell strategy.

Challenges to overcome in moving to an interactive marketing model

There are several key movements in the marketing technology area that are driving solutions today. One is the proliferation of Web-based marketing tools. Many vendors have developed or are developing tools in the personalisation, ad-management, Web measurement, e-marketing and campaign management areas. These tools have significant overlap, often solve a tactical short-term problem, and don't provide support for the entire marketing process — thereby falling short of improving the bottom line. This generates significant confusion in the industry and leads organisations down a solution path that might lock out future business alternatives.

One of the issues with these Web technologies is their pure focus on the Web/e-mail channel. Although the ability to target Web pages, banners and e-mail is important from an overall marketing standpoint, the lack of integration with other marketing efforts (eg customer service, direct mail, targeted advertising) produces a channel silo model that ultimately results in a confusing message to the customer. More damaging is the fact that the marketing department's knowledge of customer segments and appropriate customer actions is not well factored into the design and implementation of these products. Again, this may cause confusing messages for the customer when the Web banner suggests a credit card upgrade while the direct mail offers an insurance package. In the rush to the Web, firms often put together tactical solutions that provide for message management but, in the process, provide a marketing platform that in effect is optimised for sending multiple confusing messages to the customer.

Another issue for organisations focusing on an interactive model is how to coordinate the statistical modelling and recommendation capabilities across the customer touchpoints. Many statistical modelling companies have reinvented themselves as Web personalisation, campaign management and customer service recommendation applications. As a result, a firm is likely to end up with statistical modelling engines at several customer touchpoints that often don't come up with the same conclusion about what is right for the customer.

New entrants into the customer marketing space are being announced every day. SAP, Oracle and many other large firms are vowing to provide a *complete* customer management solution for their clients and thereby putting a new spin on the term 'customer relationship

**Touchpoint
integration must
be considered in
the future**

The business aspects of an interactive marketing approach must be carefully considered

management' or direct marketing that is adding more confusion to the industry and buyers of these tools and technologies. The number of small software start-ups, combined with the increasing involvement of larger players, suggest that the acquisition pace in this space will increase. As such, organisations need to consider carefully the business strategy, funding and approach of any software firms they work with as an integral part of the evaluation process — so future changes in the competitive landscape are considered in the technical strategy to support interactive modelling.

The most significant issues, however, in moving to an interactive marketing model are the 'soft' impacts. Business processes, organisation designs, customer metrics and employee incentives must all be significantly re-evaluated, if not replaced, in an interactive paradigm. Customer valuation metrics must be agreed upon across the entire marketing and sales organisation if we are to expect a consistent handling of customer interactions. Incentive programmes must provide support for the customer life cycle and the overall value of the customer relationship, not the sales quota of the product being pushed by a certain product manager. Finally, senior management and even board-level commitment is required if the customer is to be treated 'as king'. Without this level of involvement, the sweeping changes necessary to move the business strategy, organisation and processes to a customer-oriented paradigm will be difficult, if not impossible, to achieve.

A solution path: The 80 for the 20

For firms moving toward an interactive marketing capability, one of the most pressing concerns is how to shift the business from the current method of operating *without* taking on a multi-year multi-million-dollar project. For firms needing to react quickly to a changing marketplace the 'solution path' might be critical to the viability of the firm.

Two solution paths have been demonstrated to provide the most success in making this fundamental shift. Although solution paths focused on data warehousing, decision support and business process engineering have all been tried, firms that take a channel or centralised marketing perspective most often return the results they need to stay competitive in the short term while planning for the long term.

A channel-focused approach grows a long-term solution by starting with a single channel, and can often be used as an incremental strategy in optimising the customer interaction. Firms that take this approach integrate all the customer knowledge with a flexible interactive marketing capability on a single channel. Typically, this is a great way for firms to optimise the Web experience in the short term. Most importantly, success in a channel-based approach includes the aggregation of all customer information and the leveraging of a marketer's knowledge to shape the channel interaction. Also, success in a channel strategy includes the notification of the planned events to all other channels, so a call centre, for example, can at least be aware of an offer on the Web when a customer or prospect calls. Effectively, a firm taking a channel-based approach provides an incremental interactive

marketing experience one channel at a time while ensuring some basic knowledge of customer and company activities is shared across the enterprise.

A centralised marketing-dominated solution path puts the marketing person's knowledge at the centre of any activity and seeks to drive this knowledge to all the customer touchpoints in a fully integrated manner. Firms taking this path often lead with a customer management (eg campaign management) tool and seek to drive value by combining the marketing person's knowledge with the customer interaction facing applications and business processes. One common example is the deployment of a campaign management application as a driver of who to contact in an outbound call centre. Although firms that start with this strategy often have the best intentions, they tend to add more and more customer touchpoint integration into the initial phase of the project, thereby taking on a total integration effort. The resulting strategy often involves significant up-front investment and does not easily support any return on investment in less than six months, depending on the organisation's situation. Nonetheless, if a firm can be resilient in sticking within a fixed scope, a centralised marketing solution path can provide some quick wins while the bells and whistles are added in future phases.

Conclusion

In summary, the business value a firm can achieve as compared to the cost of moving towards an interactive marketing paradigm will continue to be the benchmark for making investments in this area. At the same time, however, the Internet evaluation methods being used by Wall Street don't suggest that profits are the only drivers of valuation, and subsequently interactive marketing efforts are funded for varied reasons.

The key finding, however, is that the technical underpinnings and strategy used to support interactive marketing must be carefully planned for what will probably be a few years of the most significant change in the industry. Technical capabilities, competitive landscape and marketing goals are rapidly changing for firms wishing to 'get closer to the customer'. On top of this, organisational design, employee incentives and other core business aspects must be re-evaluated if not replaced to support a customer-focused strategy.

Finally, with this changing environment comes the need to deploy solutions in three-month timeframes; effectively to ensure that the original vision and needs outlined during the planning process will still be valid at time of execution and rollout. Time to market continues to be the pressing need, often at the expense of long-term results!