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Core strategic asset or just a tactical tool: How UK companies view the value of their customer databases

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Abstract

The paper describes a research project commissioned by the Institute of Direct Marketing and undertaken by the University of Strathclyde School of Marketing that investigated the value that organisations place on their customer databases. While the research clearly identified the importance of the customer database as a revenue generator, the results also demonstrate that in many organisations the full potential is not being realised, particularly in developing and supporting corporate strategy. From the detailed findings the research team have developed two frameworks or models which organisations can use firstly to assist them in maximising the value to the overall business of their databases and secondly to assess methods for establishing directly or indirectly the value of the database as a corporate asset. The findings also establish the factors which organisations in the survey felt were inhibiting them from developing the full potential of their databases.

Background

From the 1970s onwards, the computerised customer file or database became the key technology-based tool to support home-shopping companies and the direct mail marketing channel within a growing range of organisations across the UK economy. During the 1990s further developments in technology and marketing practice have seen the customer database moving more centre stage within organisations to support direct channels and business-to-business relationships. The key factors behind this trend include the following.

- Research in the USA¹ identifying the improved profitability of those organisations focusing on customer retention has been instrumental in encouraging companies to adopt this strategy for competitive advantage, leading to the development of loyalty schemes, lifetime value calculations to identify key groups of customers, marketing campaigns to cross- and up-sell etc.
- Direct and interactive marketing becoming mainstream channels as

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organisations decide to cut out intermediaries and refocus the sales force to concentrate on key customers.

- There has been increased application of technology to support/facilitate relationships with customers, such as data warehouses, OLAP/ROLAP analysis tools, campaign management and customer contact tools, the development of call handling and the Internet as core customer contact channels, sales force automation tools, extranets etc.
- The trend towards a holistic and customer-centric approach to managing relationships with customers — CRM in the business-to-consumer sector and KAM in the business-to-business field — and the need to drive this through knowledge of the customer and the totality of their relationship with the organisation. Much of this is led by the highly publicised work by Peppers and Rogers² on ‘one-to-one’ marketing.
- The move towards integrated and media-neutral marketing.
- The development and implementation of knowledge management concepts and the associated use of intranets to distribute and gain access to information.

The customer database should be viewed as a core corporate asset

Overall, this shift in emphasis from product to customer in terms of where the enterprise derives its shareholder value should in theory lead to the database being viewed as vital to achieving strategic business goals — a core corporate asset.

However, there is little up-to-date published information available about whether the factors described above are influencing a change in corporate thinking from that described in research undertaken in the late 1980s,³ when organisations in the UK reported very limited use of their databases, mainly to support operational or tactical activities.

In order to provide a more up-to-date picture, the IDM commissioned Strathclyde University School of Marketing to research the current situation within the UK. The research project was sponsored by the New Media Markets Division of the Royal Mail and managed by the IDM Research Steering Group (RSG).

The RSG was set up in 2000 as part of the IDM’s objective to investigate key issues facing the direct marketing industry and encourage debate about the implications. This new group, chaired by the director of research at the IDM, comprises a small number of senior practitioners plus an academic adviser. The group is mainly responsible for devising and commissioning a programme of original research projects primarily funded through sponsorship, syndicates or partnerships from within the industry or with academic institutions.

This was the first project managed by this new group.

Objectives

The specific objectives of this project were to:

- explore how organisations owning a customer database value this asset

- identify the criteria which can be used to evaluate the contribution of the database to the overall performance of the business
- investigate the role played by the database in achieving marketing goals
- identify any barriers that inhibit the effective use of customer databases.

Research structure

The Strathclyde research team developed a two-stage approach to the project. First, a small number of in-depth personal interviews were conducted by members of the team within organisations that own customer databases. The results of this stage were then used to build a detailed questionnaire mailed to a sample of senior marketers in over 2,100 UK organisations drawn from the FAME database to represent key industry sectors. Following a number of follow-up contacts, a response of 7 per cent was achieved. The first step by the research team was therefore to assess whether this level of response provided a valid, or representative, base for analysis. The steps in this review covered:

- analysing the consistency of responses received
- comparison of early versus late responders
- industry sector profiling
- follow-up of non-responders and an analysis of reasons for non-response.

This review indicated that based on the profile of responding organisations (Table 1) and reasons ascertained by the research team for non-response, the objectives of the project could still be achieved.

Research was also undertaken through Stirling University to identify the boundaries within current financial and management accounting conventions that might inhibit or prevent a customer database being added to a company balance sheet, and whether it would be possible to develop a similar approach to that which has made it possible to add brands to the balance sheet, based on the work undertaken by Interbrand and other specialists.

The interviewing was undertaken during 2000, with the detailed report being presented to the IDM and the Royal Mail in mid-2001.

Table 1: Profile of responding organisations

Sector	%	Annual sales turnover	%
Financial services	26	<£10m	23
Retailing	14	£10m–£50m	28
Publishing	13	£51m–£100m	11
Telecommunications	9	£101m–£300m	11
Automotive	9	£301m–£1bn	11
Travel	8	>1bn	16
Entertainment	8		
Utilities	7		
Media/advertising	6		

Combination of qualitative and quantitative research

Discussion of the findings

This paper describes a framework developed from the research which it is hoped organisations will find of value in helping them think about how to maximise the value which can be obtained from customer databases — both as a tactical tool to support marketing activities and as a source of knowledge for developing the long-term strategy of the organisation, including in both cases the effective measurement of performance. What is presented is essentially the generic approach to achieving best practice. The authors recognise the limitations of this, and that there are several issues that can influence the situation within individual organisations and industry sectors, such as:

A generic approach

- differences in database specification, requirements and applications
- availability of data — some types of data will not be available at all, other data may be difficult to collect, gain access to or add to the database
- overall business objectives and strategy.

However, these limitations should not detract from the value that organisations can gain from the overall framework when assessing the role and potential for their own databases. The purpose is to help readers take a broader view of what can be achieved from a database that they can then apply to their own particular organisation. For analysis purposes, the data were grouped by industry sector. The key differences between sectors have been included in the paper.

A strategic framework for managing a customer database

The critical importance of the database to the future survival of companies was highlighted in the findings, with organisations claiming that on average over 48 per cent of overall revenue for the organisation was generated through this source. However, the results also underlined the fact that organisations recognise that there are substantial latent benefits still to be exploited through their database, with respondents estimating on average that they currently utilise only 53 per cent of the full potential they could provide. The research team have therefore developed the framework described in this section of the paper from the key findings to help organisations realise greater potential from their customer databases.

Only 53 per cent of the customer database's potential utilised

The research covered a broad range of topics relevant to the overall objectives of the project. The detailed findings from these topics were distilled within the analysis phase to a number of key building blocks that the research team see as a checklist which organisations can use firstly to assess whether they are gaining the maximum value from their investment in a customer database, and secondly to develop effective action plans and strategies to fill any identified gaps (Figure 1).

This is a tool that can be used at various levels within the organisation. For board-level management this framework provides a template for setting strategic goals for managing relationships with customers and implementing new key performance indicators (KPIs) to measure

Figure 1: A building-blocks model for effective customer database (CDB) use

How to realise greater potential from your customer database

progress. It positions the customer database as a core source of information for managing the business. Marketing management can utilise these building blocks to help improve marketing planning and ensure that the database is used to support and facilitate all aspects of meeting customer needs — and ensure that the information contained within the database is widely available to all areas of the enterprise to underpin the overall customer-centric strategy. Used effectively, marketing management can apply this model in raising the profile of marketing throughout the organisation and demonstrating the value being added to the business through investment in marketing strategies. Conversely, the template offers management accountants the opportunity to monitor the return on investment within business plans. Finally, these building blocks provide a valuable aid for developing a customer-centred culture, and for training marketing and customer service teams.

The main points from the research supporting each of these building blocks are summarised in the remainder of this section.

Setting objectives for a customer database (BB 1)

The findings show that the most common objectives were in line with using a customer database to support the wider requirements of a customer relationship strategy, rather than simply supporting direct marketing operations (as was the case in the findings from the research conducted by Fletcher *et al.*⁴ in the late 1980s) (Table 2).

However, the detailed findings by industry sector indicate that organisations in the financial, insurance and publishing sectors are less likely to mention the more customer-focused objectives, especially compared to those in the travel and automotive sectors.

Customer retention

Table 2: Objectives of the customer database

Objectives	Importance
Increased customer retention	4.59
Increased knowledge of customer preferences	4.23
Enhanced customer relationships	4.23
Improved customer service	4.23
Increased knowledge of our customer needs	4.20
Enhanced cross-selling	4.05
Automation of reporting procedures	4.00
Increased customer acquisition	3.98
Increased up-selling	3.86
Reduction of marketing costs	3.59

Scale: 1 = not at all important; 5 = extremely important

The database as a source of knowledge to support marketing (BB 2)

Table 3 demonstrates that the database provided the organisations within the sample with a wide range of information to support decision making from a customer knowledge perspective, rather than simply focusing on tactical marketing.

The table indicates that the main role of the database is as a source of knowledge primarily derived from transaction-related data, and it is much less likely to provide a source of insights on the attitudes and needs of customers — a role generally fulfilled by traditional market research. This suggests that organisations are generally not taking advantage of the opportunities now available to enhance their understanding of their customers by marrying survey research data to databases using new modelling methods.

From the overall findings in the survey it was also possible to identify those organisations gaining greater value from their databases. In the context of the database as a source of marketing knowledge, these organisations rated the database more highly than others in the sample. In particular, the research indicates that organisations in the telecommunications and utilities sectors appear less likely to view their databases as providing valuable insights to support marketing strategies.

Table 3: Database as a source of knowledge

Marketing knowledge/insights	CDB usefulness
What type of people are my present customers?	4.16
How can we best contact them?	3.93
Are our individual products/services selling to the type of people we thought they would sell to?	3.78
What is their sales potential for the future?	3.73
What is the lifetime value of each of our customers?	3.67
When are they most likely to buy?	3.62
How can we keep them?	3.44
What type of purchase channels do they use for our products?	3.32
Where can I find more like them?	3.18
What type of people are my future customers likely to be?	3.13
What are the present needs of my customers?	2.93
How satisfied are my customers?	2.82
What would be the future needs of my customers?	2.80
What do my customers like most about our products/services?	2.78
How would our customers like to see us improve?	2.69

Scale: 1 = not at all useful; 5 = extremely useful

**What type of people
are your present
customers?**

Achieving the strategic objectives of the firm

Marketing activities that benefit from the database (BB 3)

As Table 4 shows, the database is seen to be playing an important role in helping to achieve the strategic goals of the organisations within the sample. The value in understanding customers and then feeding this knowledge back into the database for marketing purposes is also underlined. However, the limitations of most databases in enabling organisations to measure their performance within the context of the overall market should not be overlooked. The database was seen to be of less value in supporting new product development, probably due to the limited information held on customers' attitudes and needs, and there appears to be little appreciation of the potential role for the database in promoting the organisation to the wider base of stakeholders. This role is likely to become more important if, for example, organisations wish to demonstrate to shareholders the return from investments in CRM technologies and strategies.

Overall, the key message here is to develop a culture that empowers people to see the database as a key source of knowledge to support the setting and achieving of goals across the whole enterprise.

Operational applications: Using the database to achieve benefit (BB 4)

The findings here show that the main operational application continues to be for constructing and implementing direct mail campaigns (Table 5).

The implication is that for many organisations, the revenue generated from traditional direct mail will still form a major justification for developing a customer database rather than facilitating the overall management of the relationships with customers, despite the wider uses shown in the earlier tables. The message here is for organisations to take a much more lateral view when building a business case and identify the wider applications and benefits across the organisation. For example, while the database is apparently used extensively to support customer care and telesales activities, the opportunities to use customer information

Table 4: Marketing activities and the database

Marketing activities benefiting from CDB use	CDB contribution
Achieving the strategic objectives of my firm	4.49
Contacting our customers more effectively	4.44
Better targeting of our customer segments	4.22
Better segmentation of our customer base	4.18
Becoming a more knowledge-based company	4.02
Identifying cross-selling opportunities	3.80
Clarifying our marketing objectives and strategies	3.64
Delivering better value to our customers	3.62
Enhancing up-selling efforts	3.59
Better positioning of our products/services	3.55
Developing better sales offers for our customers	3.44
Reducing our marketing costs	3.44
Developing better products/services for our customers	3.22
Improving our image to our suppliers and other partners	2.74
Improving our image to our shareholders	2.61

Scale: 1 = no contribution at all; 5 = great contribution

Table 5: Operational applications of the database

Uses of the customer database	Perceived usefulness
Compiling mailing lists	4.84
Customer profiling	4.30
Contact management	4.12
Measuring customer retention	4.07
Campaign effectiveness assessment	4.02
Segmentation	3.98
Measuring customer value	3.88
Measuring customer acquisition	3.81
Lead generation	3.63
Customer care/service system	3.56
Prospect bank	3.46
Sales cycle tracking	3.31
Billing	3.08
Scripting in a call centre	2.58
Ordering system	2.28

Scale: 1 = not at all useful; 5 = extremely useful

to help build scripts or to track sales and generate orders seem to be underexploited. It is also interesting to note (Table 6) that the Internet channel is already seen as having a close relationship with the database — but is this simply a replacement for direct mail rather than harnessing the wider opportunities available from this channel to manage the individual relationships with customers?

Information flows from the database (BB 5)

More than any other finding from this survey, Table 7 clearly underlines the current narrow, tactical role played by the customer database and the need to raise its status as a core source of knowledge to build strategy and measure business performance. It perhaps also illustrates a narrow perspective taken by marketers and the failure of the marketing team to orchestrate the organisation to respond to the needs of customers.

These results suggest that the board and finance management either do not see the database as providing useful information to drive the overall business, or are unaware of its potential — despite the earlier finding that the database generates on average nearly half the overall revenue of the organisation, and is viewed by respondents as having the potential to offer substantial further benefits. This could reflect a product-based philosophy, supported by the finding that direct mail remains the core use of the

A narrow perspective

Table 6: Channels linked to the database

Customer channels supported	Extent of support
Direct mail	4.81
Customer service department	3.79
Telesales	3.68
Field sales force	3.44
Internet (e-commerce)	3.41
Retail	3.10

Scale: 1 = not at all; 5 = extensively

Table 7: Information flows from the database

Organisational functions/positions	Amount of information they receive
Marketing department	4.66
Sales department	3.88
Customer service department	3.45
Managing director	3.21
Accounting/finance	3.14
R&D department	2.89
IT department	2.40
Production department	2.16
Human resources department	1.56

Scale: 1 = very little; 5 = substantial

database, rather than the more enlightened view that customers, rather than products, generate value.

The results also show the poor usage to support R&D, production and HR. One could argue, for example, that HR strategy should take into account the profile of customers when recruiting and training customer-facing employees.

Who manages the customer database? (BB 6)

The survey clearly indicates that the database is likely to be in the firm control of the marketing team (Table 8). However, the findings suggest that other activities also have a stake in the management and control of this asset, especially sales, but also IT and customer service.

The analysis by business sector indicates that within telecommunications, utilities, retail and automotive the customer service department plays a much greater role, with a much reduced role for marketing in the case of telecoms/utilities. This may indicate differences in terms of customer 'ownership' within these sectors.

Data in the database (BB 7)

The findings indicate a narrow focus in the range of data held in the database – primarily customer details, contact history and transaction history (Table 9).

This table clearly highlights the opportunities for adding in internally

Table 8: Managing the database

Organisational functions/positions	Control/ownership
Marketing department	4.52
Sales department	3.27
IT department	2.98
Customer service department	2.88
Managing director	2.67
Accounting/finance	2.35
R&D department	2.32
Production department	1.78
Human resources department	1.37

Scale: 1 = very little; 5 = substantial

Marketing or IT?

Table 9: Types of data in the database

Data held in the CDB	% of companies with data
Customer details	97.73
Contact history	95.45
Transaction data	95.45
Loyalty scheme data	55.81
Market research information	52.27
Customer service data	51.16
Data obtained/bought from outside the company	48.84
Complaints	45.45

sourced data to assist in the management of relationships with customers — customer service information and complaint history are prime examples. The case for utilising traditional market research data has already been described in the context of an earlier finding.

Measuring marketing effectiveness (BB 8)

As shown in Table 10, the findings indicate that while the database is used for generating a wide variety of important statistics, the emphasis is on tactical sales and product data rather than measures of strategic importance or ones focused around the customer.

All of the measures identified in Table 10 add value to the organisation's ability to measure its performance and ensure that the output is effectively applied to managing the business — 'what gets measured gets managed' — but the earlier findings indicate that these statistics may in fact have a limited audience, possibly primarily within the marketing team, rather than informing and educating the wider organisation and top management.

Assessing the value of the database (BB 9)

This is a critical output in terms of the research objectives — do organisations measure the value that the database delivers to the organisation, and if so, how is this achieved? The results indicate that organisations utilise a wide number of the options posed in the questionnaire, but as in the earlier findings there are several areas where

Table 10: Measures of marketing effectiveness

Indicators	Importance
Number of sales generated per campaign	4.51
Number of potential customers reached per campaign	4.40
Sales by segments	4.21
Revenue per customer	4.20
Marketing contribution to profits	4.10
Effectiveness of different contact strategies	4.09
Long-term value of a customer	4.07
Cost per sale generated in a campaign	4.05
Opportunities identified	3.95
Sales contribution to profits	3.85
Effectiveness of advertising campaigns	3.75
Effectiveness of different marketing mix elements	3.66
Share of customer business	3.60
Level of customer satisfaction	3.24

Scale: 1 = not at all important; 5 = extremely important

Tactical or strategic use?

**Quality of data held
is a key indicator of
the customer
database's value**

the situation could be improved to the overall benefit of the business (Table 11).

It is particularly interesting to see that data quality issues receive such an apparent high degree of consideration, as many industry commentators see a failure to address this topic as a major hurdle in implementing CRM strategies and technologies. For example, Nick Siragher, in his recent book on implementing CRM projects,⁵ asserts that data are the weakest link in a CRM programme, with corrupt or missing data items making the solution virtually worthless.

However, it is equally interesting to have identified in the results the relatively low attention paid to the costs of managing and maintaining the database. This could indicate either an attitude that the database has reached the status of core infrastructure necessary to the survival of the business, or that insufficient attention is being paid to the costs in this area. Finally, if the customer database is to be the key source of a single customer view to facilitate CRM, then organisations need to pay greater attention to the proportion of customers held in the database and the level of detail held about them relevant to business goals.

Barriers to progress (BB 10)

The final building block in the framework covers the barriers that respondents felt limited the role of the customer database. Here, the findings showed some interesting differences between those organisations where the database was perceived as delivering a high level of benefit to the organisation, shown as HV in Table 12, and those where respondents viewed the customer database as providing a more limited role in supporting business activities, shown as LV in the table. The categorisation of companies into 'HV' and 'LV' organisations was based on the aggregated results of the extent to which the database was scored by respondents as contributing towards the success of the activities listed in Table 4.

Of key importance is the finding that in both types of organisations, data quality issues are rated as the most important barrier. This, and the previous finding showing that organisations view data quality as a major

Table 11: The value of the database

Value assessment criteria	Usefulness
Volume of business generated through the database	4.52
Quality of data (recency, accuracy, completeness)	4.50
Relevance of information to your business strategy/objectives	4.33
Fitness for purpose	4.21
Percentage of existing customers held on the database	4.20
Ease of use	4.20
Quality of descriptions of the relationships customers have with your company	4.05
Level of detail	4.00
Level of sophistication	3.79
Compatibility with your existing systems/other databases	3.55
Skills required to use the database	3.55
Costs related to the maintenance of the database	3.27
Costs related to the management of the database	3.23

Scale: 1 = not at all useful; 5 = extremely useful

Barriers to data quality

measure of database value, underline the importance of developing a culture where data quality is a core aspect of business strategy and part of the culture, supported by processes, training and KPIs which ensure delivery against targets. Other factors of importance are seen to be related to IT issues such as fragmented systems and skill shortages, plus the costs of developing and maintaining the database (Table 12).

While all organisations appear reasonably optimistic about internal relationships, commitment from the top and organisational culture (but this view is less optimistic in LV organisations) and structure as barriers to progress, they may well be underestimating firstly the importance of legislation, such as the impact of the 1998 Data Protection Act on CRM activities if the principles of transparency and informed consent are not applied when processing personal data, and secondly the availability of experienced specialists. The relatively low level of importance as barriers of factors such as culture, structure and commitment compared to the common view that these can be critical in the failure to implement CRM strategies perhaps indicates that these issues have proved of less importance where a database is primarily in place to support tactical marketing, particularly direct mail, where the impact on the overall enterprise is likely to be far less significant. These organisations may find that the situation becomes infinitely more complex if the database becomes central to a future CRM programme. Finally, respondents in most cases appear to feel that database product vendors have provided them with valuable support.

Ascribing a financial valuation to a customer database

The research phase did not provide any meaningful evidence that organisations had as yet attempted to create a financial valuation for their database, or thought of repositioning it as an asset within the company

Table 12: Barriers to progress for the database

Barriers to progress	Importance	
	HV	LV
Data quality (quality of information available)	3.3	3.6
Lack of information technology specialists	3.2	2.7
Highly fragmented systems	3.0	3.3
Cost of developing the database	2.9	3.3
Lack of skills for meaningful analysis of the data	2.8	2.6
Cost of maintaining the database (in terms of software needed)	2.8	2.8
Inability to integrate multi-channel strategies	2.7	2.5
Cost of maintaining the database (in terms of information input)	2.7	3.0
Legislation about customer privacy	2.7	2.4
Cost of maintaining the database (in terms of hardware needed)	2.7	2.7
Lack of company-wide commitment to the use of the database	2.6	2.9
Lack of support from vendors of customer database software/hardware	2.6	2.5
Organisational culture	2.3	2.9
Organisational structure	2.2	2.6
Lack of board-level support (ie a champion)	2.1	2.6
Fragmented marketing and sales organisation	2.0	2.2
Poor relations between IT and marketing	1.9	2.1
Poor relations between sales and marketing	1.7	2.0

Scale: 1 = not a barrier at all; 5 = a major barrier. HV = high value of CDB to the organisation; LV = low value of CDB to the organisation

balance sheet. In fact, current accounting conventions make this difficult to achieve, if not an impossible objective. What the research team have developed is a three-part framework which organisations can use in assessing the most appropriate options for them within current conventions (Figure 2). This final section of the paper describes the suggested approach and some of the key points which need to be considered.

The framework is divided into three modules:

- the treatment of the costs involved in the development, operation and maintenance of the database
- the potential to create value through the database
- appraising the customer database as a strategic investment.

Module 1: Costs of developing, operating and maintaining the database

The accounting perspective

This is the first level shown in Figure 2. The rules are different depending on whether the database is developed by or on behalf of the organisation or whether it has been bought, such as through a merger or acquisition.

Figure 2: A holistic approach to the valuation of customer databases

New development

As regards expenditures, according to Statement of Position 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use', issued in March 1998 by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, three categories of such expenditure can be capitalised and therefore included in a company balance sheet:

- the costs of any materials and services consumed in developing the database
- any payroll and payroll-related costs for employees who devote time to the project
- any interest costs incurred in developing the database.

It is not possible to capitalise any general, administrative or overhead costs. These must be charged as incurred, together with any costs, particularly labour costs, incurred in operating the database. Any costs incurred in upgrading or enhancing the capacity or functionality of a database can be treated in a similar way.

The often short-term nature of software and systems means that it might be wise to accelerate the writing down of assets such as database software.

In terms of deployment, SSAP 13 Accounting for Research and Development specifically excludes market research. The implication is that database information cannot in itself be treated as an asset, only the system holding the data, as described above.

Acquiring a database through mergers or acquisition

Here, the database can be treated as an intangible asset, based on the goodwill associated with the overall transaction, but the amortisation is still based on the cost of the investment similar to a new development.

The overall problem the above conventions are unable to address is that the customer database, whether built or acquired, is likely to appreciate in value rather than depreciate over time.

The management accounting perspective

Module 2: The potential for value creation

This second module in Figure 2 summarises the potential for attempting to establish the market value of a customer database. In the information age it is highly likely that organisations which have developed a customer database will have a greater market value than a similar organisation which has failed to do so. The database then becomes an element within the intellectual capital of a business, one of a number of items contributing to the 'hidden value of the business'.

Current practice is to represent the key factors contributing towards overall business performance as scores within the 'balanced scorecard' methodologies as described by Kaplan and Norton.⁶ It is therefore recommended that organisations should consider the opportunities for developing inputs to a balanced scorecard model built around the database — using the building-block framework components as described

in the previous section of the paper, where each block represents a scorecard.

The finance perspective

Module 3: Appraising the customer database as a strategic investment

This module looks at the potential for evaluating the worth of investing in a customer database as a corporate business project.

Here, three widely applied options are possible candidates.

- Payback method — based on the estimated timescale to begin to show a return on the initial outlay.
- Accounting rate of return — this entails estimating the percentage return on the investment and deciding whether this represents a worthwhile use of funds.
- Discounted cashflow — this reflects the time value of money. Where a positive net present value is projected, the investment is generally considered worth pursuing.

The latest thinking centres on the development of strategic investment appraisal models which recognise that time is a critical dimension in creating competitive advantage. A version of these models challenges business to recognise three types of customer-related benefits:

- those which can be stated in monetary terms
- non-financial benefits which can be translated into a notional monetary term
- other benefits which, while they cannot be easily financially quantified, have a major impact on the competitive edge of the organisation; these are seen to be growing in importance.

The ‘other benefits’ represent the key challenge for organisations — identifying those that matter, and trying to develop scores from which progress against business objectives can be measured using a strategic planning matrix that aligns benefits resulting from specific projects with the achieving of strategic goals. The building-blocks framework could be used or adapted to develop a group of benefits associated with the customer database. In addition the findings also identify areas which could be included in the monetary benefits — costs of developing and managing the database, business levels/revenue generated through the database, customer value etc. The cost of poor data quality can also be quantified, for example the lost business due to customer records being out of date or containing inadequate/inaccurate information.

Conclusions

As described in the first section of this paper, the original brief from the IDM identified four key issues to be addressed through the research. The extent to which these have been achieved can be summarised as follows. The relevant building blocks from the framework described in the paper are shown in brackets.

No structured approach

How do organisations value their customer databases?

The findings uncovered no real evidence that suggested the organisations included in the research had developed any structured approach to estimating the overall financial value to the organisation. However, many organisations used a number of criteria to assess the extent to which the database was able to deliver value to the organisation or to calculate the costs incurred in its operation (BB 9). What the authors have therefore attempted to provide is a framework that they believe would help organisations think about how to establish a financial value for the database, or use data from within it to help measure the business performance of the organisation.

**Narrow perspectives
... narrow audience
and limited value**

Criteria used to evaluate the contribution of the database to the overall performance of the firm

In revenue terms the findings underline the overall importance of the database to the organisation. However, the research also indicated that many organisations will not be achieving the full potential offered by the database in terms of how it could contribute towards improving the overall performance of the enterprise — the extent to which organisations claimed to view the database as a key strategic resource was to some extent undermined within the detailed findings, which tended to expose a much more tactically based reality. The findings, for example, show that organisations used a number of measures, but these were often at a tactical or operational level. In terms of the likely value of the database in supporting CRM strategies, several key areas for performance measurement were less likely to be used, particularly those that would help assess the attitudes and needs of customers (BB 2 and BB 8). Finally, the results also indicate that the overall potential value to the organisation was limited by the generally narrow audience who benefited from information drawn from the database — especially in terms of flows to support senior management and finance.

Role played in achieving marketing goals

The findings indicate that it is the marketing team which benefit most from the customer database. This is the team most likely to own and manage it (BB 6); they are the main recipients of information drawn from it (BB 5) and it meets a broad base of their information requirements (BB 4); it is most likely to be used operationally to support tactical marketing, especially direct mail (BB 4); and it is widely used to measure marketing performance (BB 8). In comparison, organisations in the survey were much less likely to use the database to support other related activities, such as customer service (BB 4). The results also indicate areas where more value could be extracted, especially in supporting front-line departments.

Barriers that inhibit effective use of the database

The research underlines the importance of data quality as a key inhibitor (BB 10), followed by IT issues, such as integration with other systems. Development and operation costs are further factors, and skill shortages.

Data quality a key barrier

The importance of any of these factors should not be underestimated. Data quality is a crucial issue, often neglected until too late a stage; organisations underestimate the need to invest continuously in the maintenance and development of the database if it is going to keep pace with corporate objectives and changes in the market-place. In the survey, poor internal relationships, lack of commitment, culture and organisational structure emerge as lesser challenges for most organisations. However, it could be argued that the relatively narrow applications and usage of the databases in the survey indicate that the greater challenges under these headings encountered in implementing full CRM strategies had yet to emerge for many of these organisations.

Applying the findings

As mentioned at the beginning of this paper, there is no doubt that the role of a customer database will vary between organisations and within industry sectors. In addition, the availability of data and opportunities for updating records will constrain the value or range of applications. This should not prevent organisations from developing a vision for ensuring that this asset is used to add maximum value to the business. The two frameworks or models described in this paper have been developed from the findings to help organisations identify ways to address this issue. The main model, containing ten key building blocks, can, the authors believe, be applied in three ways:

Value building blocks

- first as a simple checklist to ascertain the current status and role of the database and identify gaps where the full potential has not been realised
- secondly, to build scorecards which can be used as inputs to an overall business balanced scorecard
- thirdly, it provides opportunities to develop KPIs to monitor the overall role of the database.

The second model summarises the opportunities available to assess the financial value of the database and the overall value that the database delivers to the organisation.

The components of valuation in the context of a customer database raise some interesting issues as to how this value is established and leveraged. For example, capturing a financial value within a database, such as the revenue from an individual transaction, does not necessarily lead to that information being used to deliver added value to maximise the opportunities from customer relationships and achieving business goals. In addition, the operational systems that are used to collect, process and transfer data can fail to optimise the value of a given piece of data if that value is not recognised. Finally, there are the processes for integrating and analysing data and using the outcome to derive added value greater than ‘the sum of the parts’ — the knowledge management processes within the organisation. All of these can lead to organisations failing to realise the potential of their databases. However, these valuation issues also vary by business sector, and it is important for organisations to

ensure that their investment plans reflect the optimum channel management strategy for their businesses rather than simply building an investment model which overestimates the realisable value to the business of collecting customer data. Unless these, and other factors such as the importance of data quality, are recognised and addressed then it will be difficult for organisations either to decide the priority that should be given to investing in customer data or to achieve the aspirations shown in the research for exploiting the potential perceived to be available from the database.

So, while the findings suggest that databases are probably fulfilling a wider role than suggested in earlier papers, there is sufficient evidence within the research to indicate that many organisations do not view the customer database as a key strategic asset that can support or facilitate the wider strategic agenda of the enterprise. Applying the two models contained within this paper will hopefully help organisations reposition their databases to meet this role — crucial to any organisation migrating from traditional marketing strategies to a CRM-based future.

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