Editorial

Journal of Database Marketing & Customer Strategy Management (2007) **14**, 87–89.
doi:10.1057/palgrave.dbm.3250047

How can we tell when a new approach to marketing — database marketing for instance — has come of age? One sure sign, I would suggest, is when the company accountants start to take some notice of it.

And not before time.

The jury remains out on a number of marketing fashions. Not least customer relationship management (CRM), which continues to receive, on balance, more brickbats than plaudits from consultancies and the trade press. But there are a number of straws in the wind.

Last year, in a piece published through the *Journal of Targeting*, Professor Malcolm MacDonald argued that ‘the time has come for marketers to [...talk] the language of the boardroom’.

‘That, in turn, requires that they understand:

- the new science of evaluating marketing strategies and Return on Marketing Investment (ROMI);
- how analysis of marketing expenditures and returns can provide a better insight into sustainable competitive advantage, or “super profits”, than financial accounts;
- how to unlock the value of intangible assets and deliver sustainable value for shareholders;
- how to escape the perception that marketing is “unaccountable, untouchable, expensive and slippery”;
- how to evaluate the risks associated with marketing expenditure and linking this assessment directly to shareholder value’.

This is a pretty ambitious challenge.

One might be forgiven for seeing it as yet more marketing hype — the sort of thing that marketing professionals dream about when they wish to be taken more seriously — were it not for a number of factors all coming together in the last year or so.

First, Professor MacDonald is broadly right. Companies cannot — will not — continue pouring unjustifiable expenditure into the marketing pit without some better understanding of what it is doing for them. In this sense, we may be coming full circle — back to the 1960s, in fact, when the whole marketing enterprise was treated with far greater circumspection.

Secondly, the business climate has changed.

Since Enron (and other too big to ignore scandals), the US has demanded a much broader degree of openness from corporate America. It is no longer good enough for the Chief Executive and their favoured firm of accountants to go into a huddle and proclaim all is right with the business. There must be standards of reporting: and there must be compliance and disclosure.

On 15th November, 2004, the Sarbanes–Oxley Act¹ — also known as the Public Company Accounting Reform and Investor Protection Act of 2002 — came into effect. It includes much that commentators and corporate executives acknowledged ‘had to happen’, including new or enhanced standards for all US public company boards, management, and public accounting firms. As Gareth Herschel, a research director at Gartner, puts it: Sarbanes–Oxley is a ‘good

cover story for a widespread desire to be accountable in any case’.

Sarbanes–Oxley includes a range of stipulations with which organisations must comply. The bottom line, however, is that they must understand how the financial reporting process works and must be able to identify the areas where technology plays a critical part. That includes Marketing.

The effect of Sarbanes–Oxley on European organisations is debatable. On the one hand, if companies wish to trade in/with the US, they must comply. On the other, some of its provisions are in direct conflict with current European Data Protection Law. That, in turn, faces organisations with a difficult choice: whether to comply with the demands of the US, or those of their home markets.

What is beyond argument is that Sarbanes–Oxley has led to a sharp increase in interest in Marketing Resource Management (MRM) systems — and a correspondingly rapid growth in MRM to match that demand.

So its about time marketing placed itself on a more accountable footing. There are serious legal demands that it should do so. And new technology is providing it with means that did not exist even five years ago.

The time is ripe for resolving some of the conundrums of valuation. One such is the ‘value’ of the (marketing) database.

After all, it is where many large corporates spend a sizeable amount of their IT resource: in turn, a significant proportion of many marketing budgets overall.

For years, companies have been collecting customer data. At first, this was an almost accidental process: a by-product of doing business. Then came the early prophets of CRM, who told us that we needed something called a marketing database. That is, take the information about customers currently held in operational silos around the company, bring it together in one place, and then develop a strategic plan for dealing with these individuals.

The vision was a good one: the execution often fell far short. Sometimes it was the technology that was at fault. Far more often, it was the underlying data. For years, the data captured was ‘just good enough’. If someone bought an item from you, it was enough if the data captured would enable you to deliver the item — and later on, to pursue that individual for payment in case of default.

Unfortunately, this was a world away from what was needed for marketing. The data required for accurate and intelligent customer development was of a different order of quality and completeness altogether.

First responses to this dilemma have not been helpful. In general, marketing agencies have tended to respond to shortcomings in the marketing database with a Stakhanovite exhortation to ‘do better’.

The marketing database is not ‘fit for purpose’? Simple. Just go out and collect loads more information.

Unfortunately this approach ignores two issues. The first is that the shortfall in the existing database is not something static (bad data collected once upon a time and fixable ‘just like that’). Rather, it is dynamic. The data is poor because of the systems and processes that sit around its collection and maintenance.

Fixing the data without sorting out the source of the problem is rather like turning up with a single tanker of water after an industrial accident has polluted the local water course. Unless you fix the problem at source, it doesn’t go away. Any palliatives you apply will eventually work their way through the system: and you will be no better off than before.

The second over-looked difficulty is the sheer magnitude of the task of ‘fixing’ data. Too often, agencies (and some consultancies) come out with long shopping lists of ‘ideal data sets’. No idea of the cost of fixing — let alone the cost of maintaining the fix once it has been applied

— even though either is likely to be prohibitive and not cost-effective.

Happily that is changing. I have written previously about new data audit approaches that I have been involved in that explicitly relate the cost of an improvement to its likely benefit. Sometimes, it just isn't worth improving data.

This issue of the Journal develops the argument still further. Two important papers show organisations how to value their database from a strict accounting perspective. This is dynamite. Because until your organisation knows how much value their database holds NOW, any and all plans to spend more money on it are pure guesswork. Should you spend a further £100,000 on improving your database? Or £1m?

What will it cost your company if you fail to do so?

There is a certain amount of sleight of hand about some elements of the argument: the case is put for using the current 'shape' of UK tax regulations as one factor

improving your database. That does not invalidate the base arguments: merely adds a slight distortion — as though the question of whether you should eat sensibly was determined by the tax and benefit system, rather than whether it was the right thing to do anyway.

These considerations aside, I believe that the two papers on database valuation — by Kelvin King and by David Reed — move thinking significantly forward in this area.

Beyond that, there is the usual mix of papers with a strategic aspect. They include retention (Stone & Liyanearachchi), churn management (Jahanzeb & Jabeen) and a more technical paper on the use of decision trees for predicting 'future value' (Tirenni, Kaiser and Herrmann).

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Note

1 Pub. L. No. 107-204, 116 Stat. 745.