David Jefferies
is head of marketing in the
high-volume document
messaging technologies
division at Pitney Bowes.
Previously he has worked in
B2B marketing positions with
increasing responsibility for
marketing communications and
product marketing.

How to reflect commitment to customers in your budget allocation

David Jefferies

Received (in revised form): 29 September 2005

Abstract

This paper identifies the proportion of direct marketing budget that industries are committing in order to develop relationships with existing customers and, conversely, the proportion of spend that is being directed towards prospecting activity. It provides an insight into the battle plan of key UK industries and indicates a definite about-face in the balance between customer acquisition and customer development over the last two years. The paper analyses the findings and reveals the extent to which the customer is king across a range of vertical sectors.

Introduction

Today's multi-channel environment has made it easier than ever for consumers to switch suppliers. Consumers are acutely aware that the balance of power has shifted in their favour, and suppliers operate knowing that bad service, or even perceived bad service, is more likely to be met with defection.

Many industries are experiencing unacceptable levels of customer churn, and are urgently focusing on keeping the customers they already have. Common business theory has it that it can cost up to ten times as much to gain a customer as to retain one.

But what exactly is the marketing balance today? No business can survive on a strategy of customer retention alone. Yet prospecting activity serves as expensive firefighting if existing customers continue to depart in droves.

A recent Pitney Bowes report¹ identifies UK budgetary allocation among a broad range of UK industries to establish the customer/prospect marketing divide. Crucially, the report is able to compare and contrast 2005 findings with those from 2003 — the first time this survey was conducted.² Results from 2003 revealed that marketing to existing customers accounted for 43.5 per cent of budgets, with prospecting activity still in the ascendancy.

The 2005 survey targeted marketers from a sample of the UK's top 1,000 companies to establish today's picture, with results providing an essential yardstick for marketers in their strategy development.

The activity of one's peers helps identify the trends in marketing consensus, as well as helping strategists to differentiate profitably from the norm. The Pitney Bowes report pinpoints exactly these trends.

Keywords: direct, marketing, communication, spend, CRM, budget

Customer churn

David Jefferies
Pitney Bowes Ltd
Document
Messaging Technologies
Raleigh Way
Feltham, UK
TW13 7NQ
Tel: 020 8465 4614
Fax: 020 8465 4646
E-mail: david.jefferies@pb.com

Key findings

- Marketing to existing customers currently accounts for 53 per cent of the budget of UK direct marketers.
- This figure has risen significantly since 2003 — up 10 percentage points from 43.5 per cent.
- The biggest swing from prospecting activity to existing customer spend comes from the sectors of publishing (the marketing budget devoted to existing customers has risen by 18 percentage points), credit cards (up 16 points) and restaurants (up 20 points).
- The retail sector, hotel sector and restaurant sector devote more budget (all 57 per cent) than any other industry to marketing to existing customers.
- The mail-order sector has seen the biggest swing away from marketing to customers — down 14 points from 56 per cent in 2003 to 42 per cent in 2005.
- The mail-order sector and travel sector (–5 points) are the only vertical sectors to show a swing away from customer communications.

Analysis

UK marketers believe that marketing to existing customers has overtaken prospecting activity across UK business as a whole. Each of the major vertical direct marketing industries (apart from the mail-order and travel industries — see later analysis) has increased its spend on direct marketing to existing customers since 2003.

Clearly, companies are beginning to extract real value from their investment into CRM solutions, enabling them to target key segments more successfully and with real cost efficiency. It is only recently that businesses have been able to translate the sophistication in place at the data extraction and data analysis stage to the despatch stage of the communication cycle. Previously, lack of investment in the hardware and software responsible for physically producing mail packs meant companies were having to compromise in terms of segmentation and personalisation in order to ensure communications actually left the door on time and on budget.

Even over the last two years, however, awareness of the importance of this stage of the cycle has grown. Businesses are moving away from the ‘silo’ approach to campaign management — where elements of the communication cycle are handled remotely and/or disparately — to a more integrated, closed-loop approach.

Indeed, progress has been such that many analysts have now switched attention away from CRM towards a new (related) line of strategic thinking — customer communication management, or CCM, to add another acronym to the mix. As the name suggests, CCM is directly focused on determining the best and most cost-effective way for engaging in a continual, profitable dialogue with customers.

An effective CCM strategy combines hardware and software — often integrated to fit a company’s existing legacy system — to provide end-to-end communication solutions from document composition all the way

**Increased spend on
DM to existing
customers**

From CRM to CCM

through production and despatch. This can be scaled up or down to suit businesses of any size.

Many business may not yet be aware of CCM as a strategic possibility — and the phrase will certainly be alien to customers (just as the acronym CRM remains alien to the British public at large). Yet businesses now recognise the value of existing customers and are directing increasing budget towards communicating with their patrons. The majority of UK businesses now have the wheels of CCM in motion — whether they recognise the phrase or not! As knowledge of this communications strategy permeates, so businesses will continue to refine their operations in order that outgoing communications serve to strengthen further the bond with existing customers.

Customer focus

Several factors have undoubtedly contributed to the trend away from customer acquisition — whether by design or default.

Restricted electoral register

When electors apply to register they are now given the choice of ‘opting out’ — and approximately 20 per cent of electors have done so.

Prospecting is hugely reliant on data volume, and any reduction in the quantity of data places increasing pressure on marketers to achieve the same (or improved) level of response from a smaller pool.

E-mail opt-in

It is now illegal to target consumers with e-mail marketing messages without the consumer first opting in to receive the message. This legislation came into effect in December 2003 — some months after this survey was first conducted in the spring of that year. There is little doubt that the legislation is partly responsible for a swing towards customer communications.

The opt-in ruling only applies to prospecting activity — any existing customers are governed by opt-out legislation.

So e-mail marketing is both powerful and economical — if the consumer’s permission can be obtained to use this channel. But as the use of e-mail becomes more highly regulated, direct mail remains the most reliable method of communicating with the full range of customers and prospects alike.

The most astute marketers are combining e-mail with conventional direct marketing to great effect.

Dated data

Today, the tired nature of lifestyle lists is causing marketers to pause for thought.

Recently, lifestyle list owners have concentrated on refreshing the data held on existing contributors rather than attempting to grow the lists to provide more prospects. Only 15–18 million people have filled in questionnaires — less than half the UK adult population. These people

Opting out

2003 EU Directive on Privacy & Electronic Communications

Lifestyle lists

Loyalty schemes for data capture

are highly mailed and less and less receptive — let alone responsive — to marketing messages.

Loyalty schemes

The proliferation of available loyalty programmes is also an obvious indicator of a more customer-centric approach. Today, many analysts are slightly more sceptical about the true value of such schemes. One argument suggests that customers now belong to so many programmes that their behaviour can hardly be said to be 'loyal'.

Such programmes remain valuable for data-capture purposes, however, particularly if the data are used to predict trends and inform future campaigns.

Re-evaluating the approach

Industry sector analysis — Proportion of direct marketing budget devoted to existing customers

Credit cards

Currently, the credit card industry is believed to apportion 51 per cent of its direct marketing budget to communicating with existing customers. This figure has grown 16 percentage points from 35 per cent in 2003.

This is a considerable turnaround from a sector often saddled with the 'junk mail' tag.

The credit card sector is re-evaluating its approach to zero-rate deals, in a bid to discourage so-called 'rate hoppers' from jumping from one offer to another. A study from PricewaterhouseCoopers found that people who transfer credit card debts from one zero-rate deal to the next are costing the industry more than £1bn a year in lost revenue.³

Bad news for 'rate hoppers' could be good news for loyal borrowers. Credit card companies must focus heavily on customer retention, and analysts foresee a targeted decline in the rates charged to some borrowers to prevent other lenders cherry-picking the most profitable customers.

Figure 1: Proportion of direct marketing budget devoted to existing customers

The new focus on existing customers is naturally reflected in the sector's marketing spend.

Retail

The retail industry currently spends 57 per cent of its direct marketing budget communicating to existing customers. This figure has risen from 42 per cent in 2003.

This implies that the retail sector will continue to focus on data capture and one-to-one marketing at the expense of above-the-line techniques (at least at a national level). The sector recognises the need to compile data on individuals, their purchasing patterns and buying preferences in order to inform store stocking, in-store marketing and promotions, new product development and general store management.

Increasingly, stores are becoming more recreational — for example, the trend for coffee bars in bookshops. Here, customer footfall remains the main objective. Appropriate offers, tailored to the individual's personal range of needs or interests, are most effective at attracting regular footfall. In-store promotions then serve to maximise impulse spend.

Tailored offers

Insurance

The insurance industry currently devotes 52 per cent of its direct marketing budget to communicating with existing customers. This figure has risen from 41 per cent in 2003.

The insurance industry has not traditionally generated a huge amount of correspondence with customers (averaging just three communications per customer per year). It is perhaps because of this lack of regular correspondence that investment into CRM has been slow in this industry. Yet, as non-traditional players begin to crowd the market, competitors are having to adapt to survive.

The industry is still very highly intermediated, and better integration between the underwriter and the channel is vital in today's competitive multi-channel climate. Insurers will use direct customer e-communications to make direct personalised offers, but will then feed sales enquiries back through to their channel partners, providing opt-in laws are adhered to. In this way, active cross-selling or retention initiatives can be pursued direct with the customer, while at the same time being seen measurably to support the intermediary community.

Adapting to survive

Banks

The banking industry currently spends 52 per cent of its direct marketing budget communicating with existing customers. This has risen from 50 per cent in 2003.

Recently, much has been made of the massive reduction in mailings by the banking sector. These survey results indicate that a reduction in prospecting activity is impacting on overall volumes. But the sector has invested heavily in CRM solutions and is now seeing steady returns from this investment. A policy of quality not quantity is being adopted — with the marketing focus redirected towards existing customers.

As a sector benefiting from relatively low customer churn, one might

Quality communications

expect to see banks reward loyal customers by investing more budget in communicating with them. These figures suggest that banks are resting on their laurels, having traditionally not witnessed high levels of defection. With new market players continuing to emerge, such a stance may suddenly require rapid reassessment.

Restaurants

Leader of the pack

The restaurant industry currently leads the pack in terms of budgetary spend on direct marketing to existing customers (57 per cent).

This sector may not be recognised as a traditional proponent of direct mail, yet the figures emphasise the extent to which businesses of all sizes are switching on to the benefits of best practice below-the-line communications.

Restaurant managers are acutely aware that competing on price is ever more difficult. Instead, restaurants are attempting to sell the 'experience' in a bid to attract repeat custom. Creative direct marketing lends itself perfectly to this approach.

Publishing

Value over volume

The publishing sector has shown the second biggest swing to customer communications (up 18 percentage points to 50 per cent) since 2003.

Major players in the publishing market are recognising the importance of reader value over reader volume. The new buzzwords are 'reader communities', 'interactivity' and 'alternative income streams'.

A number of players are introducing affinity partners into their publications, offline and online, in order to enrich the 'reader experience'. These affinities go well beyond temporary reader offers, and now extend to a variety of information services, clubs, discount arrangements and so on, available to readers of a given publication. We are also seeing a two-tier approach which offers greater privileges to subscribers over news-stand purchasers.

The importance of news-stand sales will remain; however, many publishers are being held to ransom — especially by the increasingly powerful grocery multiples — over the cost of news-stand presence. The major move towards reader community development marks the fight back from the publishing community.

Hotels

Tough competition

The hotel industry currently devotes 57 per cent of direct marketing budget to existing customers. This is up from 48 per cent in 2003.

A steady swing towards existing customers in this sector indicates how tough the competition for trade has become in a recovering market.

Many hotel chains have now taken to promoting theme nights or events such as wine tastings, gourmet evenings or fashion displays in order to boost mid-week or out-of-season takings. Here, direct mail is used to offer previous patrons targeted, incentivised offers.

Smaller, independent hotel and restaurant companies are also taking advantage of affordable database marketing solutions and mail creation technology to develop their marketing skills.

Charities

The charity sector currently spends 47 per cent of its direct marketing budget communicating to existing customers. This has grown from 39 per cent since 2003.

In a society where the whole culture of charitable giving stands in need of revival, prospecting activity still accounts for over half of direct marketing budget. But there is an increasing focus on developing existing donors over the expensive business of attracting new ones.

Certainly, the biggest players in the charity sector are recognised for producing direct mail campaigns of real impact. Effort must be maintained to ensure that this initial impact is not lost, and donors courted to encourage long-term relationships.

Telecoms

The telecoms industry currently allocates 52 per cent of its direct marketing budget to communicating with existing customers. This figure has risen from 48 per cent since 2003.

Given the massive levels of customer churn prevalent in the industry, it is arguable that customer development budgets should be considerably higher in order to stem defection and nurture profitable customers.

Tariff price wars have been proved to be ineffective in capturing long-term customers, and attention has turned to bundled service packages and robust customer service as the key differentiators. Yet bundle deals seem primarily aimed at attracting new customers, rather than retaining existing ones. And customer service is far from exemplary in most cases.

The direct marketing attention afforded to existing customers has increased over the last two years. But the pace of change is seemingly still too slow.

Travel

Current direct marketing budget devoted to existing customers equals 47 per cent. This is down 5 per cent on the 2003 figure.

The terrorism threat, coupled with a slow economy in Europe, have made the travel and holidays market very difficult.

Within this business climate, travel companies face massive competition — both from high-street and web-based rivals — with price still representing the major battleground. In the main, price deals target new customers, rather than being used to incentivise previous customers to travel with the company again.

During this challenging time for the industry, one might expect to see companies focusing more on rewarding those customers who have shown a willingness to travel rather than devoting the majority of their budget to attracting new trade.

Mail order

The mail-order industry is spending 42 per cent of its direct marketing budget on communicating with existing customers. This figure is down from 56 per cent in 2003.

In recent years the mail-order industry has seen unprecedented growth

**Stemming customer
defection**

A difficult market

Drop in communications

and the market is now more crowded and competitive than ever. In this climate, prospecting activity has taken on more significance.

Despite the drop in communications to existing customers, the percentage remains reasonably high. Different media may well be employed to fulfil prospecting activity and customer communications. For example, the cost efficiencies of e-mail may encourage mail-order firms to prospect via this medium (although opt-in laws will need to be strictly adhered to). Direct mail will continue to be used in order to deliver brochures and catalogues. Certainly, online presentation of catalogues would be more cost-effective, but customers still appreciate the look and feel of published material. Indeed, any costs saved through online prospecting could be channelled back into brochure production to differentiate further on quality.

Existing customer communications such as bills and statements will also be utilised by the most savvy mail-order marketers. These communications are already being despatched, so, by adding marketing messages to the documents, marketers can cross-sell to customers at little or no extra expense.

Conclusion

UK businesses are now devoting more budget to developing relationships with existing customers than to prospecting activity. Every industry, bar the travel and mail-order sectors, has increased spend on existing customers over the last two years.

This is an about-face from recent years, when prospecting activity was given precedence and market share dominated the thoughts of marketers from all industries.

Customer retention has become a major issue. Consumers are increasingly aware of the power shift in their favour and of the ease with which they can switch allegiances at the click of a button.

It is an accepted mantra that attracting new customers costs more than retaining existing customers. The CRM industry has boomed on the back of this statistic and CRM solutions have been widely adopted across British business.

Only now, however, are businesses beginning to ensure that their customer profiling and data-modelling work is physically translated into the communications sent to customers. Undoubtedly technology is playing a significant role here, enabling communication production to become more creative, more flexible and more targeted without costs escalating.

Analysts (and subsequently executives) are paying increasing attention to CCM — the process of managing every element of the communication chain (from creation to despatch) to maximise the impact of customer-facing documents. Technology — both software and hardware — is helping businesses of every size to make every document deliver, where even standardised communications such as invoices or statements are being transformed into informative, cross-selling vehicles.

Ultimately, marketers will continue to deliver a combination of customer and prospect campaigns — and across a combination of

Affordable technology

Maximising impact

channels. No business will survive without reaching out to new audiences. But it is those companies excelling with their direct marketing communications to existing customers that stand to gain. Such a focus will do more than stem attrition. In a climate of mass competition, the rewards will be greater share of customer. And, at a time when consumers hold many of the cards, loyalty is more valuable than ever.

© Pitney Bowes

References

1. Pitney Bowes (2005) 'If you don't look after your customers, somebody else will: How marketing budget allocation reflects the growing commitment to existing customers', October, Pitney Bowes, UK.
2. Pitney Bowes (2003) 'The Customer/Prospect Ratio: Customer development or customer acquisition? How direct marketing budget allocation will change 2003–2005', July, Pitney Bowes, UK.
3. PricewaterhouseCoopers (2004) 'Precious plastic 2005: Consumer credit in the UK', November, PricewaterhouseCoopers, UK.