

Principles of Direct, Database and Digital Marketing

fifth edition



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The growth of digital marketing is the most important yet unpredictable trend in marketing today. How can the online world be harnessed by the companies of today and tomorrow to grow their marketing impact? What role do information and databases have to play in this system? And why do some non-digital means of direct marketing still remain so powerful?

Alan Tapp's successful text has long been a leading authority on direct marketing, and for this fifth edition he is joined by Ian Whitten and Matthew Housden for the most up-to-date book yet. The authors all bring great expertise across direct, database and digital marketing to provide comprehensive, compelling coverage of the key theory and debates of the fields.

Key features of the 5th edition

- Coverage of all recent developments in digital marketing, including analysis of the seemingly relentless rise of Facebook, Twitter and other forms of social media
- Thoroughly updated case studies covering companies and organisations from sports teams to car manufacturers and non-profits
- A new chapter on Data Protection legislation and its impact on marketers

About the authors

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Case study (continued)

The market soon broke into different sectors, defined by the plethora of different cards that were available. At one end, corporate clients who had high spending power were attracted by the status of 'gold' and 'platinum' cards. These charged a high fee, were exclusively marketed and were highly profitable to the issuers. Another emerging sector was that of the high street charge cards, which gave credit to regular customers of particular stores. One of the early problems encountered by these cards, however, was their impulse nature. This led to a large volume of bad debt being built up, especially among people from lower social profiles. That said, the high debt utilisation (i.e. a low number of dormant cards) made these cards a great success with card issuers.

The mid 1980s saw a new development with the arrival of 'affinity' cards into the UK. These products were the result of partnerships between two businesses: the issuer (for example BK Bank) works with a well-known organisation to provide a credit card branded by that organisation. The card is then aimed at the existing customers of the partner.

There has been a steady growth in the number of these cards and now organisations as diverse as Cambridge University, charities, the Automobile Association and many others, have affinity cards.

However, this has not been the end of the product development. The end of the 1980s saw the fall off in growth in credit card usage as consumers' ability to raise debt dropped off. In 1993 an attempt was made to restart market growth with the launch of 'product based', value-added credit cards. Barclaycard launched a new type of card in partnership with Ford with which customers could get up to £2,500 off a new Ford by accumulating points according to credit card spend. A similar deal was struck between General Motors and HFC Bank, backed by Visa, giving money off new Vauxhalls.

The market-place

The credit card market is highly diverse, with many sectors of the population using credit cards for many reasons. However, there are two sectors in particular that contribute a major part of industry profits:

- Generally well-off sectors of the population. These people tend to be of AB social class, highly educated and they spend money reasonably freely. They will not be too upset at paying either interest or other charges.
- Less well-off people, who may be working class in background and may be tempted to run up quite large credit card bills. A subset of these consumers has been dubbed 'Essex Man' in popular culture.

The market-place is now reaching its mature stage, with the early growth slowing down. In particular, the most wealthy sectors have been exposed to a very high amount of marketing and are largely saturated. In the affinity card sector, charities have been extensively targeted and new openings are hard to find.

BK Bank

BK Bank Limited is a wholly owned but independent UK subsidiary of Chase Chicago, an American conglomerate that wanted to get a toehold in the UK banking sector. BK Bank is a large financial organisation with assets of over £9 billion. These assets are based on lending to companies and individuals on a range of different products, from mortgages to lease, HP, personal loans and credit cards.



Case study (continued)

Origins

BK's traditional form of business was to provide finance through credit cards and loans. However, through the years, BK has moved into a number of new market sectors to provide finance. These include professional groups, industrial concerns, membership groups and retailers. BK spotted these partnership opportunities very early on and was the most profitable group in its sector.

The BK business

The name BK, however, is not well known to the public, even though hundreds of thousands of them make use of its services every day through its various credit cards. The reason for this lack of awareness by British consumers is that BK does not brand its product and services itself. Rather, its products are marketed by business partners. For example, if BK and Thistle Hotels, say, were to launch a credit card, then BK would provide the card processing facilities and the marketing know-how, but the card would be branded by Thistle Hotels with no mention of BK Bank at all. As David DeLorean described it:

'We are like a chameleon in a way. We take on the identity of whoever we happen to be in partnership with. It's a symbiotic relationship and it works very well.'

BK describes itself as a wholesaler of funds, preferring to work behind other companies' own brands. It is BK, however, that does the marketing on behalf of the business partner: BK sets out the product specification, for example the APR rate, loan facilities, etc., and BK does the marketing of the cards, often acting under the name of its partner. If a customer rings in with a service issue, the BK staff who take the call take on the identity of the affinity partner. They will, therefore, answer the phone 'Hello, Red Cross', and so on.

Main business areas

BK Bank's main business is in loans, whether by big-ticket finance to corporate customers, or fixed and revolving accounts to consumers. A fixed-term loan is one that was traditionally offered to consumers by high street banks. Consumers would be expected to pay back a fixed loan in instalments, to which interest was added. These loans were typically 'one-off' affairs. However, the problem with fixed-term loans was that, on average, customer turnover would be 100 per cent in six years, with less than half the customers renewing their loans or taking up another product at the end of each payment period.

The introduction of credit cards marked the start of revolving accounts. These had the advantage of allowing the customer to build up and pay off debt again and again.

Over ten years ago, BK was responsible for the launch of several large retailer credit cards now known in the market. Through this programme it has managed to recruit many tens of thousands of customers, which it has retained on its database. In tandem with this, BK is an issuer of Visa cards in the UK and, additionally, has several large operations that are over-branded with other organisations' names: affinity cards.

Of the customers who use credit cards, about 30 per cent will build up debt and not pay it all off within a month. These are amongst the most profitable customers for BK because they pay interest on longer term debt. The bank also earns revenue through the additional charge it makes of a fixed annual fee of £12 to consumers, other customer charges (for example, late payment fees) and merchant fees (charges levied on retailers for the use of BK's credit cards).

Case study (continued)

Recent situation

In 2009, BK Bank decided to have a major review of its involvement in consumer revolving accounts. This product was making some money, but was rather slow moving compared with other parts of BK business. Costs at the time were high; marketing costs, the capital and ongoing costs of processing and customer service were all biting deep. In return, the revenue payback was quite long in coming. The conclusion of the review, after looking at the situation, was that BK should not continue to market proactively the cards to consumers.

When looked at from the point of view of the prevailing culture at BK Bank, this was not a surprising decision. BK had always gone for a strategy of steady, short-term growth across a broad range of products with no particular commitment to long-term strategy in any one area.

BK's strengths

The company has considerable resources at its disposal. Its marketing budget is fixed on a cost-justification basis and by comparison with the rest of its sector is quite large. It has its own large marketing department, which is able to handle the large volumes involved. BK also has enjoyed good relations with many of the UK's top direct marketing agencies, leading to some award winning campaigns in the past.

BK's advanced systems allow processing costs to be kept to a minimum. It has an advanced relational database that allows any required customer profiling analyses to be done very quickly but, up till recently, BK had not actually used statistical techniques to help with its marketing.

BK had the following data on most of its customers:

- Name
- Address
- Transaction data including date of product purchased, which products: loans, credit cards, insurance, value of transaction
- Marketing history: what promotions had been aimed at the customer, response history
- Age, personal geodemographic details
- What loans were used for, for example car purchase

David had recently been on a direct marketing course and had picked up some basic tips on the use of modelling techniques. He knew that predictive techniques could lower the cost per response for his acquisition and retention activities. However, he needed to get a clearer picture of what could be done.

Used in tandem with the database was a sophisticated inbound and outbound telemarketing system which allowed a screen of customer information to be on every telemarketer's desk. There were over 100 personnel potentially available for a telemarketing campaign. BK Bank had established an impressive system of inbound and outbound customer contact, which it used with customers who had loans (see Figure 5.10).

Staff were well paid and well trained, backed up with good systems. This ensured the quality of customer contact was kept very high. The same outbound operatives were always used with a particular customer to ensure a genuine relationship was built up over time. Customers came to trust the advice they were given. The customer record contained details

Case study (continued)

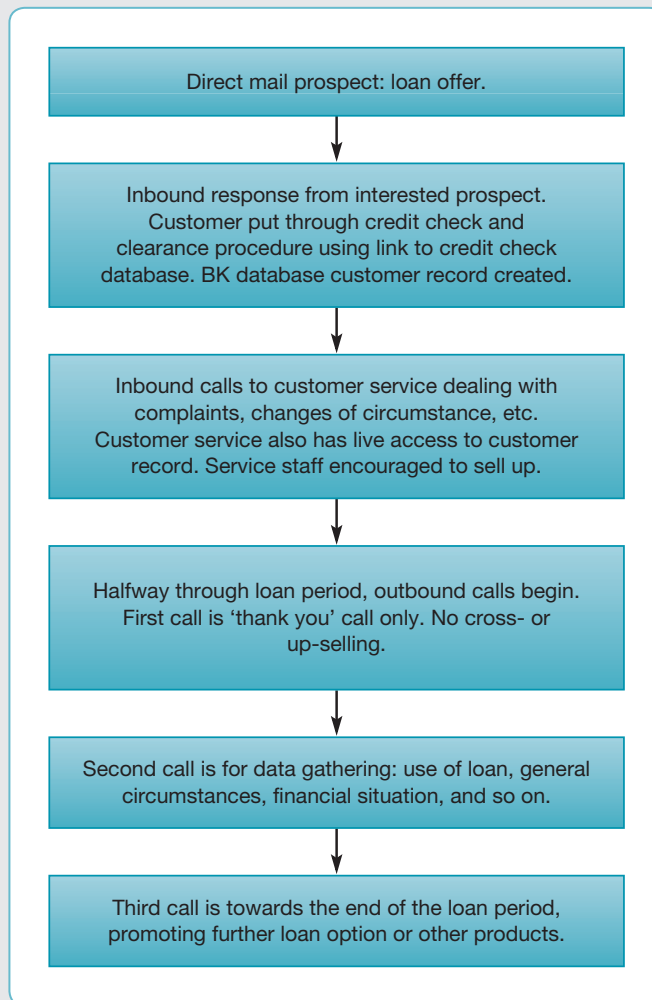


Figure 5.10 Inbound and outbound customer contact

of the last three conversations they had had with BK Bank, so that service and outbound staff always knew what was going on.

BK Bank had carefully tested this relationship building system against controls in which no contact was made, and it knew that the system paid for itself for loan products. A typical loan of £3,000, paid back over five years at 18 per cent APR (Annual Percentage Rate), made a gross profit of £280 per annum. Set against this was the initial costs of acquisition. A typical mailer costing £500 per thousand would generate an average response of 0.2 per cent, although this varied dramatically depending on the affinity partner. Then there were the costs of service and outbound calling, estimated at about £120 p.a. per customer. However, David had found that, under the service and telemarketing system, retention rates increased for loans (i.e. a customer with a loan renews with a new loan or takes up another product on expiry of the original loan) from under 40 per cent to nearer 60 per cent.

Case study (continued)

David's problem now was to decide whether such a system would be profitable with credit cards. The acquisition costs of credit cards were less than for loans; mailers to affinity partners' databases averaged about a 1 per cent response. However, profitability per annum was lower, at about £30 per customer.

The problem

As the fiscal year drew to a close, the marketing department at BK Bank was considering its marketing plan for the following year. David and his colleagues had for some time been increasingly concerned about the consequences of the decisions made four years earlier to slow down activity in the credit card sector. In the meantime, BK's competitors had been far from idle. Using incentives, sales promotions, awarding larger credit limits, removing the annual fees and promoting new uses of credit cards were just some of the tactics successfully employed to renew the momentum of the sector.

Over the last four years or so, BK Bank's recruitment of credit card (revolving) accounts had dropped sharply compared with the early 2000s. BK was, therefore, beginning to miss out on a highly profitable sector. The directors had met and hurriedly decided to restart marketing activity in the revolving-account sector. This decision was hardly surprising to David and his department; after all, the marketing department had been keeping a close eye on the credit card market-place for some 18 months now and could see which way the wind was blowing.

A budget of £600k had been set for marketing activity for 2012–13.

David looked back into the office to see the team looking at him anxiously. He knew they depended on a strong strategy and plan to provide the right start to the new financial year. Fortunately, they had some plans on the table already.

BK Bank's traditional strength had always been to pick up particular niches that were too small and undeveloped for the likes of Visa and Access to bother with but could, nevertheless, be highly profitable. Some ideas (which do not have to be adopted) were:

- 1 The previous year a staff suggestion scheme had suggested what a good idea it would be to have a credit card aimed exclusively at women. A lot of research had been done on this idea and, while not all the findings had been positive by any means, there were some possibilities to be explored.
- 2 David had just finished very fruitful negotiations with Toyon, a major Japanese car manufacturer with a strong UK presence, with the objective of launching a new 'product' based credit card branded as Toyon.

The brief

Your group has been commissioned as a direct marketing agency invited to pitch for the BK Bank account in 2012–13. In your pitch include the following:

- The key issues
- Carefully planned, detailed marketing and direct marketing objectives
- An explanation of the role of direct marketing
- Strategies for retention and revenue from existing customers and strategies for generating new prospects

How will BK achieve competitive advantage?

CASE STUDY

Coventry City Football Club

Introduction

The ticketing manager, Jim Whelan, and the commercial manager, Ron Chippo, got their heads together and decided to approach the chairman with a plan to implement direct marketing to supporters in a more strategic manner than had been attempted to date.

It would be fair to say that, up to now, the use of direct marketing had been patchy.

Club structure

With some exceptions, football clubs have traditionally treated ordinary supporters as somewhat of a 'cash cow'. Senior managers in football have tended to focus their attention on sponsorship and business-to-business marketing – conference and corporate entertainment revenues – while the major supporter focus has been the short-term gains afforded from merchandising. Football clubs have never had classical marketing departments as such. They have tended to organise around ticketing – hence, Coventry City had a Ticket Office Manager – and 'commercial activities', needing a 'commercial' or 'marketing' manager. Commercial activities typically include the main sponsorship deal, perimeter advertising, corporate hospitality boxes on match days, and off-field sales of the ground's facilities, conference hire, wedding hire and so on. Consequently, there is a less developed marketing approach towards ordinary supporters, and it is this that has limited the growth of database marketing. At Coventry, the commercial manager Ron was well aware that there was a cross-over between the ordinary supporter and his corporate guests, and that a database of fans would be of great use to him.

The other major business unit in football clubs is merchandising. At clubs like Manchester United, merchandising is a worldwide operation taking advantage of a global brand. In 2004, income from this source alone for Manchester United is likely to have exceeded £50 million. The rest of the football world is playing catch-up in comparison, but even for a local club such as Coventry City, retail and merchandise is important. The retail manager at Coventry City was keen to get in on the database marketing initiatives being discussed at the club. At the moment the club has two retail outlets, one at the ground and one in the city centre. The retail manager knew that capturing purchase data and linking it to supporters' personal details could help his operations. If only he had time to do something about it!

The second major barrier to database marketing investment was the low priority given to long-term projects. However, while it is sometimes easy to criticise, let us reflect for a moment on the frantic scramble for cash that clubs need to buy and pay players and, hence, stay in their division. The lower divisions are littered with once highly placed clubs who have dropped into a vicious circle of lower gates meaning less money available to buy or keep the players they need to climb the table. It is this unforgiving and volatile nature of football that sometimes militates against the business side of the operation feeling that it can take a long-term approach. As a result, any new ideas had to be very thoroughly sold to the board to stand a chance, and that included direct marketing.

Current use of database marketing

The situation that Jim and Ron had inherited is represented in Figure 5.11.

A few years ago, the only 'direct marketing' from the club would have been the season ticket renewals in June and July. More recently, some affinity marketing had been started, but all on a small scale (see later (Chapter 6) for a section on affinity marketing). A small