Panel Presentation for the
Federal Trade Commission
June 18, 2003

"Good vs. Bad Marketing: Analytics to the Rescue"

Dr. Dave Schrader,
Teradata, a division of NCR
David.schrader@ncr.com

Good afternoon. I'd like to begin by thanking you on behalf of Teradata for this important opportunity to describe the information collection and usage practices of some of the Fortune 1000 companies who buy and use the Teradata data warehouse product. In particular, I'd like to focus today on the difference between bad and good marketing practices, based on both customer and industry facts and case studies I've gathered. As you'll see shortly, the main difference between good and bad is the use of analytics technologies.

<next slide>

Part of the motivation for this hearing stems from bad practices, so let's start there. These include unsolicited commercial e-mails, often called spam, irrelevant banner ads, and even unsolicited paper mail, or junk mail. Bad marketing people use and abuse these channels by sending out too many marketing messages to too many consumers. Recent statistics show that a typical American this year will receive more than 2600 unsolicited emails, will see roughly 8900 banner ads, and will receive more than 34 pounds of 3rd class mail. As a result, consumers are becoming annoyed and even clamoring for legislation to outlaw unwanted communications.

<next slide>

But it is important to understand that most companies want to behave responsibly so they can create and build enduring customer relationships. Good ones realize that every consumer creates numerous clues about what he or she wants. These come in the form of purchases, browsing behaviors on the web, interactions with call center agents, and even e-mails. It's a balancing act to collect this information without intruding on privacy.

<next slide>

But when it is allowed by consumers, good marketing companies capture these clues in data warehouses and use analytical techniques like propensity modeling to determine what products might naturally be a next good match to each customer. They realize that not all products are relevant to all customers, so they create small customer segments and try to provide individualized offers and customer service. For consumers, this is like going back to pre-computer days, when a merchant might greet you by name when you come in a store, remember what you bought on your last visit, and highlight newly-arrived merchandise that you might like. That's the primary use of customer information –to delight each customer with a great experience.

The way one can distinguish between good and bad marketing is to take a look at two measures: conversion rates, defined as the percentage of people who respond to an offer, and customer satisfaction rates, either measured on a 1-10 point scale or by metrics like return shopping behavior. Bad marketing people who spam get very low rates; one recent example cited 36 responses to 10 Million emails for an herbal supplement, which translates into a 0.00036% response. Very poor – only 3.6 in a Million responded.

<next slide>

By contrast, I’d like to show an example of great marketing at one of our customers, a large international bank. Every day, their Teradata system looks through all the banking activity by their customers for significant individual events, such as a large deposit or withdrawal, gaps between original loan rates and current rates (which may have dropped), and events like CDs coming due. Every night, 370 analytical programs called “event detectives” look for these clues. This system generates 42,000 leads per week, which are then evaluated and handed to personal bankers for followups via the phone or email, at a time chosen by the customer.

This high-touch, relevant approach to banking has paid dramatic dividends. By basing the marketing activity on customer behavior, the bank has seen responses to its campaigns of up to 60%. Average customer conversion rates are 5 times as high as before doing this kind of event-based marketing. Customers like the approach so much that they deposited an additional $2 Billion with the bank within the first 6 months of the program. Finally, because event-based marketing worked so well, the bank decided to stop doing most mass mailings. They cut 75% from their advertising budget and saved $20M in postage costs.

<next slide>

This bank is not unique. Numerous customers of Teradata are reporting similar numbers when they adopt Event-Based Marketing programs. The three steps include (1) detecting key events at the individual customer level, (2) responding with an appropriate offer, personalized to that customer, and (3) measuring the results to know what offers work and which don’t, continuously improving the ability of the bank to please its customers. Good marketing pays off – with conversion rates in

25% to 60% ranges, as well as much higher customer satisfaction numbers.

<next slide>

Across the industry, we're beginning to see numerous statistics that show the profound difference between marketing people who collect the clues and analyze them, and those who don't. This chart shows that good marketing practices can be 11 to 63 times more effective than bad ones. For example, only 1 in 300 people will click-through on a banner ad if it is not targeted correctly, while 1 in 5 people will respond if it's well-matched to their needs. Similarly, companies who do a good job of targeting their physical mail offers can see a factor of 36 difference in their effectiveness by using analytics. The final line of the chart shows the difference in customer satisfaction – a factor of 30 when it comes to repeat buying rates.

<next slide>

In summary, using analytics technologies like the ones Teradata offers can make a huge difference between bad and good marketing. It's a win-win situation, since the company usually spends less money on marketing for a higher return. The consumer benefits, too, because she will receive fewer but more relevant messages, which cause higher conversion rates and higher customer satisfaction.

Thank you for the opportunity to highlight the customer and company benefits of information collection.