

The Evolution of Relationship Marketing: Reaching an Audience of One*

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Abstract: Relationship marketing has taken the place of segmentation, the strategy which has been used in the past years in making connections, in direct marketing. Relationship marketing has been used to motivate to make sure that customers are stimulated, influenced and motivated to action and be loyal. However, the hindrances to a real individualized relationship marketing are technology, cost and methodology.

The technology exists today to leverage customer data to create messages that reach customers as individuals and adapt to their constantly changing needs and understandings. The author explains how to use the technology for truly one-to-one communication.

Picture yourself in a Middle Eastern bazaar hundreds of years ago. It reeks of sweat and camel, sweetened by the wafting of cumin- and curry-doused meats and vegetables roasting over open fire pits down the alleyway. The crowded marketplace is a transaction paradise. Everywhere, buyer and seller are frenetically bargaining in the timeless pursuit of a good deal. There's plenty of shouting and posturing, but merchandise is moving.

Now, picture yourself among the flies on a wall, listening in on a particular conversation. In your enclave, a rug merchant is trying to persuade a prospective customer to purchase a particular rug. Saphir, the rug merchant, describes in detail the craftsmanship of the rug, the ornate tassels, the rarity of the wool. Saphir sells and sells, and sells some more, never giving Ahmed, the shopper, an opportunity to get a word in edgewise. Saphir is not listening; he's selling. This puts off Ahmed, who eventually worms his way - politely - out of the sales pitch and back into the bustling crowd.

You follow Ahmed to the next rug merchant, Karim. Karim welcomes Ahmed warmly and asks how he may be of assistance. Ahmed explains his needs. Karim listens intently, probing where necessary to fully understand Ahmed's needs and wishes. Karim produces several rugs that may satisfy Ahmed and listens again as Ahmed shares his opinions of each. Karim pulls out a new rug and describes it in a manner that makes Ahmed smile. He has been understood. The rug is exactly what he desired! After a brief ritual haggle over price, Karim has a sale. Ahmed has a rug. Both buyer and seller are pleased with the transaction.

Some time later, Karim runs into Ahmed at an elephant auction. He asks about Ahmed and his family, and learns that a new baby is on the way. After the auction, Karim searches through his rugs for a soft remnant, which he fashions into a baby's rug. He presents the rug to Ahmed upon Ahmed's next visit to the bazaar.

Over the years, Ahmed purchased many rugs from Karim and referred many friends to the rug merchant. Ahmed enjoyed his relationship with Karim, who would always provide him with a satisfying rug at a fair price. Meanwhile, Saphir had long since been driven out of the rug mercantile

and was reduced to hawking camel hair fly swatters in an alley behind the bazaar.

Fast forward to the present - the transaction process is essentially the same, but the bazaar is vastly different. Today, we are inundated with direct mail, the Internet and e-mail. We're bombarded with ads on TV, radio, newspapers, magazines, mass transit, billboards and Web sites. The pace is fast and the choices are abundant. Rising above the noise to get your message heard by the right people at the right time is a monumental task.

Segmentation strategies have been widely used for the past several years in an attempt to identify the right types of people at (hopefully) somewhere near the right time. Unfortunately, segmentation isn't cutting it. You have got to be able to reach and connect with people as individuals to move them to action. You also need to keep their business for a lifetime. Otherwise, you could find yourself hawking camel hair fly swatters on some cable shopping network.

Relationship marketing has emerged as the successor to segmentation in bang-for-the-buck direct marketing. Companies are looking for ways to cut through the bombardment of TV, radio, newspaper, email and Web-based messages that their customers suffer through daily. If their advertisements are really effective, they may create awareness or even stimulate interest from customers. Direct mail might 'even be targeted well enough to influence the purchase in the company's direction.

Relationship marketing has been poised to ensure stimulation and influence - and motivate the customer to action. Once customers, relationship marketing holds the promise of keeping them loyal. In order to deliver on the promise, relationship marketers must reach and adapt to each customer as an individual.

The primary barriers to truly individualized relationship marketing, or one-to-one marketing, have traditionally been cost, technology and methodology. Creating individually tailored messages has had historically higher development and fulfillment costs than direct mail. Also, the technology required to generate unique messages and manage the fulfillment logistics has only recently become available. Most importantly, the methodology necessary to combine the communication arts, behavioral science and software/systems engineering required to develop individual relationships via mass media simply does not exist in a majority of the direct marketing firms chartered with delivering one-to-one programs.

However, these barriers are falling. A key success factor for the 21st century will be a company's ability to combine the intimacy of conversation with the reach of mass media to develop a unique dialog with each of their customers - a dialog that spans multiple delivery modalities and involves all corporate resources, from the switchboard to the back office. Industries, such as healthcare and publishing, are already taking advantages of new techniques and strategies to get closer to their customers. And they are already reaping results.

Are you Market-Focused or Customer-Focused?

A major tenet of one-to-one, or tailored, communication is that the focus is on the individual customer - not market share. Let's say you're marketing a new combination eraser/cotton swab called

Goo-Tips to everyone who likes to clean their ears with their pencils. For argument's sake, you sell Goo-Tips for a dollar and net \$.25 per Goo-Tip sold. Your competition, Waxy-Nub, beat you to market (with an inferior product, of course) and has 52 percent of the market. If the company is market-focused, a Goo-Tip customer is worth \$.25 today (\$.63 for the quarter), so you are allocated \$.02 per forecasted sale to find and acquire Goo-Tip users. You don't have much to spend, so you buy targeted ad space and as much in-store promotion as you can afford. And you hope that your spend has created more Goo-Tippers than Waxy-Boys.

If the company is customer-focused, you're working to create Goo-Tippers for a lifetime. Common sense and many marketers agree that it's cheaper to keep a customer than find a new one. The customer-centric marketer looks at the lifetime value of a customer, in this case \$50 (\$2.50 a year for 20 years). Now, how much would you spend to get \$50? More than the \$.02 per forecasted sale. The customer-centric marketer can afford to invest in building a relationship with the Goo-Tippers.

It's Good to Be the King

In this era of relationship marketing, the customer is king. This notion runs deeper than the adage, "the customer is always right." Not only is the customer right, the customer now fully appreciates the role of demand in a supply and demand economy. Treat the customer right, anticipate the customer's needs, and adapt as the customer changes and the customer will reward you with loyalty.

In order to form and build a relationship, you need data. Businesses collect all kinds of transactional data from their customers, but rarely collect and use data about the customer. In order to reach individuals, you need to know more than just what they have purchased. You need to know about them - their lifestyles, attitudes, interests and such. Customers are beginning to understand and treat their personal data as currency. Successful relationship marketers will treat that currency with the same respect and security as any other valuable possession placed in their custody.

Your Database is Your Memory

Making valuable use of the data your customers provide is essential. Think of your corporate and marketing databases as your one-to-one memory. Tailored communication can be viewed as a physical representation of interpersonal conversation. When we converse, we draw from two "databases" in our brain. The first database stores all of the things we know (content). The second database stores attributes about the people that we meet (profiles). When we talk, our brains infer context based on what we want to say and to whom we are saying it. What leaves our mouths has been tailored to place our content in the appropriate context for our audience. Sometimes, this works well. Other times, we have opportunities to further refine our profiles as we extract feet from our mouths.

As you collect more data about an individual, your probability of being able to accurately predict how that individual will react to a given message increases. Over time, you can have fewer, more concise interactions with an individual and still achieve your communication goals because you know what to say and how to say it.

The Benefits of One-to-One

So, why one-to-one? Why should you invest in relationship marketing instead of just stepping up your advertising and targeted direct mail campaigns? There are many reasons to devote a significant amount of your marketing spend on the lifetime value of your customers, but here are four major ones:

1. Increased response rates
2. Better customer retention/extension
3. Improved compliance
4. Greater customer loyalty

Increased Response Rates

Frankly, tailored communications get better results. For instance, one tailored communications program we developed for a pharmaceutical company generated a 29 percent response rate, where the response was a completed 33-item questionnaire. The response came from a mailing to a two-year-old list (a traditional direct marketing program from the same list generated less than 1 percent). Another client saw a 250 percent increase in refill rates for an over-the-counter product. Recall rates for a managed care client's tailored program was 33 percent higher than recall of a non-tailored program. Our experience is indicative of the outcomes that can be generated by developing unique relationships with each of your customers.

Better Customer Retention/Extension

By creating a dialog with your customers, you have a better opportunity to anticipate their needs and position your offerings accordingly. Returning to the Goo-Tips example, effective relationship marketing will help you know when each customer will need more Goo-Tips (resell), whether a particular customer could take advantage of Goo-Caps for ball point pens (cross sell), and when to position a customer for pens and pencils with built-in Goo-Tips, called Goo-Writers (up sell). Effective marketers simply match people with needs to products with solutions. Being able to position your solutions to an individual's needs not only generates a sale, but also creates a happy customer.

Improved Compliance

By developing strong relationships with your customers, you can help them to use your products as directed, perform regular maintenance and buy new products at optimal times. An educated, informed customer tends to be a more loyal customer, since they are getting the most and best use from the product.

Greater Customer Loyalty

It stands to reason that customers who have invested in a relationship - by buying your product, using it and providing you with personal information - and are receiving benefits from that investment will be more loyal. By creating an individual bond with the customer, you can keep them habitually interested in your solutions and knowledgeable about appropriate cross sell, resell and up sell opportunities. Tailored communications allow you to put the right product in front of the customer at the right time, positioned to exactly match the user's needs.

Requirements for a True One-to-One System

Unless you *outsource* your relationship marketing programs, constructing a system capable of creating and sustaining individual relationships with your customers requires an interdisciplinary mix of people and resources throughout your organization. Although the financial and coordination burdens may seem daunting, the dividends paid from a relationship marketing investment more than justify the expense.

To minimize development costs and maximize fulfillment efficiencies, build toward these four attributes of a true one-to-one system:

1. Object-based tailoring
2. Multiple media delivery
3. Seamless systems integration
4. Relevant, intimate, two-way conversation

While these are not the only attributes of a relationship marketing system, they represent a significant evolution from traditional direct marketing practices.

Object-Based Tailoring

The first attribute of a true one-to-one system is the ability to link data points within an individual profile to discreet content elements via rules. Content can be any message element - such as text, illustrations, layout elements (e.g., article location, font size, page jumps, page count), multimedia, audio or video - that will be used to create the final tailored message. By linking profile points to content objects, messages are generated in real-time based on the collection of rules that are appropriate for a given individual. This provides a much greater level of sophistication than traditional segmentation or database publishing. For instance, object-based tailoring offers the opportunity to "nest" tailoring (tailor objects within objects). Nested tailoring delivers subtlety, which has traditionally been an element of human interaction that print and electronic media have not been able to replicate. Nested tailoring provides a greater opportunity to fine-tune a message for a particular individual.