

Database Development: In-House vs. Service Providers

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INDUSTRY INSIGHT

By Susan Harvey
Consultative Services

Whether to outsource a marketing database solution or build and maintain it in-house is a decision that must be made very carefully.

Undertaking an inhouse solution puts great demands on IT resources who may lack an adequate understanding of the direct marketing process.

This white paper examines the risks and benefits of an in-house vs. outsourced solution.

For more information, contact:

Collette Coyne
Director,
Marketing Communications

MBS
570 South Research Place
Central Islip, NY 11722
631-851-5073
Coyne.Collette@mbsinsight.com

At one time or another, every company evaluates the alternatives of developing their customer database using in-house resources vs. outsourcing it to a database marketing service provider.

The desire to focus internally vs. externally is usually driven by twin objectives: to maintain control of proprietary data and to control costs. The idea of having all corporate customer data available and accessible at your fingertips in a multi-channel, all-encompassing data warehouse is every marketer's dream – delivering this at an economy of scale is the dream of every corporate comptroller.

Reality intrudes. All too often, when executed in the real world, these objectives are at counter purposes to each other.

Database marketing is a complex process that is as much art and experience as it is science. Building and maintaining a customer database is much the same. Customers present themselves to a corporation differently by brand, by business unit, by channel, and do so interchangeably as individuals and as part of a household – or, even as their own corporate entity.

Customer allegiances ebb and wane – their names change and their physical locations and household status switch frequently. In short, they present an ever-moving target, not only to capture on a central database but also to communicate with on an ongoing basis. A database needs to correctly match and accrue individual transactions to the correct customer and/or household, and track their promotion contact history. Measuring their response to any marketing effort, by channel as well as over time, becomes a critical complication.

None of the above comes cheaply, in terms of time, effort, or expense. The discipline of continuously aggregating, cleaning and updating, interpreting and analyzing customer data, then applying these insights to marketing efforts and business objectives defines database marketing. The payback period can be long; it depends on how quickly your internal team can master the basics – and how easily the data can be made accessible to marketers in the format and timeliness they require.

Beyond the Numbers. Insight.

Corporations with the resources to accomplish this must still overcome the culture gap between what their IT departments can deliver and what their marketers envision. Any breakdowns in communication cost money, cause delays, and deliver substandard results from several perspectives; not the least of these is the impact on the lifetime value a customer is (or is not) developing with the brand. Business objectives become secondary to technical concerns.

Furthermore, marketers quickly realize that in the hierarchy of internal IT demands, operational systems such as POS, sales reporting, and payroll demand priority. Few marketers can live with the frustration this low prioritization can have on executing campaigns in a timely manner, analyzing response before roll-out decisions are made, or providing an answer to the Chairman's burning question.

Even the few corporations that have succeeded at this daunting task employ database service providers to meet specialized needs. Their combined database marketing expertise enables the corporation to focus on maximizing revenues, streamlining operations, and improving Return on Investment (ROI) for their marketing efforts by business unit and across the brand, or across brands to the total corporation.

For example, a corporation may lack the front-end access tool to enable their marketers to plan and analyze specific promotions, or to manage several ongoing customer segment contact strategies over time. Or they may lack the internal expertise to develop and test predictive models critical to improving ROI. A vendor who is a licensed USPS NCOALINK provider will be required in order to properly cleanse and update data. Finally, they may lack the internal staff with the seasoning and experience to leverage these assets.

Apart from staff "know-how" is the simple dollars and cents issue of head count. In addition to IT staff, database marketers require a team of specialists in such areas as custom reporting, model building and scoring, segmentation strategies, direct and email execution, integrated multichannel marketing, and analysis. A database marketing service provider already has these sophisticated and specialized staff resources and competencies in-house, to be tapped on an as needed basis by their clients.

Starting or transitioning all or part of a corporation's database marketing needs to a database marketing service provider shortens the learning curve. Risk is reduced, along with upfront investment in staff and technology. The database vendor's staff and their combined experience in technology, analytics, and marketing can offset any skill gaps in current corporate personnel. Expertise in email appends, householding and change-of-address processing, and lifetime value models are only some of the ad hoc services a vendor can provide.

None of these however is more important than the added value an experienced database marketing partner can bring to the corporate table in crafting strategy, and developing tactics to maximize customer value and achieve the desired business results. When marketers

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and IT personnel handle database implementation and management internally, their focus is unavoidably diluted from their core responsibilities. Corporate priorities become mixed with data issues and delivery, often at the expense of new initiatives and program execution.

Today's marketing requires insight from a multiplicity of data sources and information that is actionable and measurable. Today's multi-channel marketing environment complicates this challenge. Corporate management's desire to continually improve year-over-year results depends on their marketer's ability to easily access a customer base sufficient in size, with depth of allegiance, and a pool of renewable prospects to meet their stated goals. A qualified database marketing service provider can deliver these capabilities.