Occam Understand 8

Whitepaper

How much is your customer data worth?

In any time of economic strife, the word value takes on a whole new resonance. Retailers tell us about their value based products, we all look for value for money in what we buy, businesses talk about retaining valued customers. But really, how much do we understand about the value of customers to a business, or the value of the information we hold about those customers. A recently overheard conversation valued the customer base of a medium-sized organisation at £6bn. As fanciful and outrageous as this appears, do we really have any benchmark as to whether this is accurate or miles wide of the mark. And at a time of acquisition and mergers, how do businesses place a valuation on the customers and the information they hold about them?

There have been some interesting studies carried out over the years. At Occam, we worked with a client to determine how much an email address appended to a customer record was worth for them. At that time, it turned out that the answer was £5. Therefore, they could spend half of that on each email address they bought, gathered or sourced and know that they would be making money from it. Collated, this created quite a pool of money to use to invest into gathering this information.

Similarly, another client has recently stated that a 'like' on Facebook is worth £10. This feels high, but they have evidence that this is the case. Again, it creates recognition of how much to spend to drive the required behaviour.

These initial understandings help to start to build the required understanding around a business. How much is each customer worth to me? How much more value is there when I hold certain information about them? Therefore, how much should I spend on getting, keeping and maintaining that information?

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Why? Without our customers we have no business

Competitive edge and continued profitable growth won't be had by failing to recognise and leverage your existing business-critical assets

All businesses need some level of customer data. It doesn't matter how good our product is, without some understanding of who we are selling to there will not be a successful business. For different businesses the level of information needed on each customer is different. If you are selling a small number of extremely high value products each year, then the information needed will be very detailed and the data you hold on each customer or prospect very rich. However, if you are an FMCG business, selling a very high volume of low value products through intermediaries such as supermarkets, you may not hold information on each customer but you do need data on sales, what drives their buying patterns and to whom you should be advertising.

So every business holds customer information, and every business has data on its customers. Does your business regard this as one of its most valuable assets? Does it feature on the balance sheet? Are there strategies in place to grow and protect this unique asset, to manage this asset so that maximum value can be farmed from it over time? If your company's customer data was perceived in the same way as your most successful product or service, what would you be doing differently?

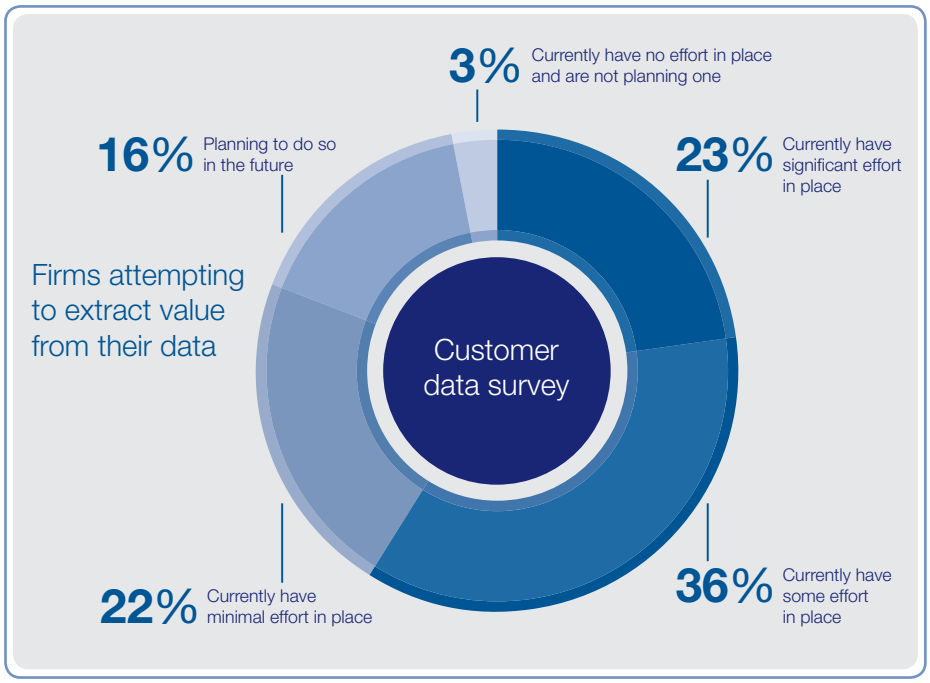
In many ways, consumer data is a company's most important asset, and ought to be underpinning and informing every decision made as a matter of course. A firm with the foresight and business acumen both to recognise and leverage customer data in its business strategy will build the foundations for measurable profitability and growth. A company that fails to recognise the value and importance of a meaningful data strategy will sooner or later come unstuck.

Time and again, it is the end customers who are on the receiving end of the – at best – exasperating, clumsy, and often insensitive repercussions of carelessly used and poorly maintained data. At worst, you'll damage your brand to an incalculable extent. When a customer has a 'good' buying experience they tell three people. When a customer has a 'bad' experience they email everyone they know.

Cutter's survey on customer data revealed that most (59%) of the 106 organisations they surveyed are currently attempting to extract value from their data, whilst the majority of the remaining organisations have some effort in place, or are at least in the planning stages of leveraging their data assets.

Customer information should be seen as a corporate asset, as if it was on the balance sheet where it would be measured and managed properly. Likewise, it should be recognised as key to the brand's overall reputation, which is quite clearly a board level issue.

Data maintenance will undoubtedly rise up the agenda of a Director or board member who becomes aware of the impact it has



Accurate data means you understand who your customers are, and this provides you with the ability to target people at appropriate times, with considered offers, across the right media. This is absolutely crucial for a marketer, as consumers become increasingly tired of inaccurate and inappropriately targeted or timed communications. At a time when consumers engage with brands in real-time, often giving very detailed and precious insights into themselves, to not respond in kind by using these insights and responding in a timely manner is criminal.

How - Treat customer data as a corporate asset

The value of data must continue to rise up the corporate agenda. As its practical value becomes more visible at board level, so it will start to appear on balance sheets.

on consumer perceptions of the company. For all the myths around Sir Fred Goodwin, one that may actually help his reputation is that he sat the customer service team right outside his door. By understanding what the customers were complaining about he knew what needed fixing. True or false, who knows, but the principle is sound.

Determining the overall aim for the 'financial' business case and thus considering the uses of the data, provides the metrics of value and impact on the business. Seek out independent consultancy and support to benchmark, provide options and deliver the required improvements. Engage with the finance teams in the business to understand how they value assets and how data can be recognised by them as a key asset. Talk the right language and get buy-in across the board.

What - Understand what you hold and what is valuable

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It certainly isn't a question of money. According to the DMIS, the average company spends six years building its database content, and invests £424,000 a year to maintain it, a reasonable sum and one certainly large enough to warrant a high-profile place on the corporate agenda. Individual practitioners may disagree but, along with digital and social media, data driven marketing is one of the few sectors to have grown rapidly and proved its worth as an accountable solution. Consequently, data budgets are under less stress than those of other disciplines.

So, while the money is evidently there to pay for it, the problem appears to be confusion over what data is actually worth. The right investment in data planning and management is invaluable to a company. It is impossible to place a value on the benefits. But in order to force data onto the agenda, and ensure it garners the attention it deserves, a system of valuation must be developed.

So how do you value customer data?

Part of the problem is that there is no simple formula to putting a value on the data itself. But there is a solution to determining this and the necessary level of investment that should be assigned to ensure ongoing quality and accuracy. The stages involved cover the assessment of the cost of collecting and maintaining the data, its latency and required timeliness, along with a clear understanding of the uses to which the information is put and the value it will drive and business impact of inappropriate actions as a result of inaccuracies.

Deconstructing the process is a good place to start. The stages involved can be looked at in terms of the assessment of the cost and value driven and, over time, can build up to create an overall view of the value of a customer and the information held on them.

Occam's recommended process

1. Start with customer lifetime value
Many organisations are scared by lifetime value metrics. It sounds complicated and time consuming. However, in most cases an assessment of customer value can be created very quickly and based on some key product information. This can be developed and refined over time to create as complex a model as the business actually needs. Keep it simple.

2. Pick the key drivers of that value for your business This will vary by business and product type. For some it will be a media channel and how products are sold, for others it will be customer information (e.g. age or life-stage, number and age of children), for others it will be brand and attitude driven and for others the key will be buying periods (e.g. insurance renewal dates). The main thing is to have an understanding of these and build a value around the drivers.

3. Create the cost metrics for getting and keeping this information up to date
The cost element of any value modelling is often the hardest part. Costs need to cover the gathering, storing and maintaining of the information both in terms of direct and indirect costs. Often this is too complex to create and proxies need to be built to supplement what is missing.

4. Create a P&L for the customer data and database Once both the value and cost side of the models are in place, a basic P&L can be created to show how customer data and information can help drive the profits of the business. This is then a first step to getting recognition for the value it can bring.

Customer information should be valued in performance terms, not technical storage concepts. Only then will it be managed properly and maintained effectively. Custodians of information often sit within the IT structure of an organisation – this is wrong. Customer information needs to be a business management concern, and a key responsibility of the board.

As soon as data comes into existence, its accuracy begins to deteriorate; monthly updates support accounting cycles, but more frequent refreshes and accurate channel information is required to support contacts for trigger-based communications, via social media, on-line, e-mail or mobile. As such, the cost element needs to take into account not just gathering, but keeping and maintaining the key information drivers up to date.

Summary

So, does your organisation recognise the value of its existing assets?

Maybe you know there's value in there somewhere, but you've no idea how to access it or use it. Perhaps you're living on borrowed time while the bad data time-bomb ticks away beneath your chair. Businesses can simply no longer afford to ignore data as a key business asset. To do so is extreme folly. Start thinking about how much your data is worth because sooner or later you will be called to account for it.

Asset Value Check List:

- ☑ By ensuring that the pivotal role of data is recognised, it will be regarded like any other asset and become very visible to Directors and Shareholders alike
- ☑ Customer information must be seen as a corporate asset, and as such measured and managed accordingly
- ☑ The quest for data quality must become a boardroom issue that permeates throughout the business enterprise
- ☑ Customer information should be valued in performance terms, not technical storage terms. Only then it will be managed properly and maintained effectively
- ☑ Custodians of information often sit within the IT structure of an organisation, this is wrong. Customer information needs to be a business management concern, and needs to be a key responsibility of the board
- ☑ Incorrect data affects the brand image. Organisations need to make this vital link to raise awareness of the importance of customer information
- ☑ There needs to be a clear understanding of the value of a customer and the key drivers of the information needed to sell to that customer.
- ☑ The cycle around how data is updated and used should not be determined by the business, but by the customer and how relevant they expect you to be.
- ☑ Accordingly, the cost of maintaining customer data should be determined by the value placed on it as an asset.

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Occam helps its clients design, build and manage data driven customer engagement architectures to better understand, grow and engage with their customers (traditional, online and socially connected) for profitable business growth. Our unrivalled experience in the design, delivery and support of customer engagement solutions provides organisations with real competitive advantage.

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