

Precision Marketing

Optimizing Customer Profitability from
a CEO's Perspective

John Oltman, Gresh Brebach and Russ Maney
Seurat Company

S e u r a t

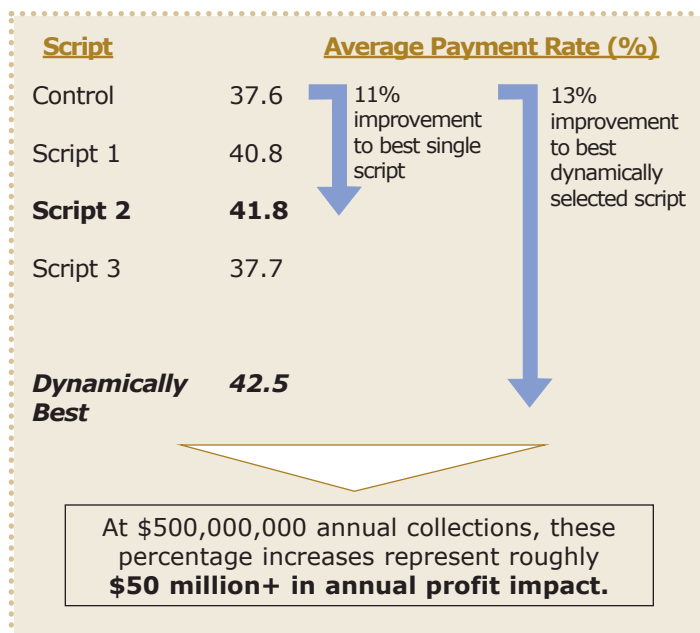
Executive Summary

The year is 2054. Retinal scanners read the eye-prints of passing mall shoppers. Interactive billboards greet them by name, pitching individualized offerings. "Mr. Smith," calls out a twenty-foot monitor, "may I show you a knit sport shirt to match the linen trousers that you bought last week at our downtown store? We have three styles in your size and to your taste." The towering image of the customer service rep smiles as she awaits Mr. Smith's response. Such is the extent to which marketing capabilities will evolve by the mid-twenty-first century -- at least according to Steven Spielberg and the 28 renowned futurists he consulted during the making of the 2002 summer blockbuster movie *Minority Report*.

In reality, this vision is not conceptually radical at all. In fact, it is really just a Hollywood-sized extension of a new marketing paradigm that is already sweeping the business world today: *Precision Marketing*. While today's customer interfaces may be considerably less splashy, the strategic intent is exactly the same: optimizing customer profitability by delivering the right messages, to the right individual customers or market sub-segments, through the right channels, and at the right points in time. Even just using today's technology, this new type of marketing can dramatically improve companies' returns on their marketing spending and corporate profits.

White Paper

The following is a real example of the power of Precision Marketing. A major credit card company has one million accounts a year that go delinquent, representing \$1 billion of debt, about half of which it ultimately collects. A recent study sought to determine how modifications to a standard "first call to the customer" collections script could impact the company's collections efficacy. This study showed that switching to the best single call script (the right message) of four call scripts tested resulted in an 11% increase in collections. Further, the study showed that dynamically selecting the best call script for each individual call from among the four test scripts (the right message to the right person) resulted in another 2% increase in collections. Spread across \$500 million in annual collections, implementing a dynamically selected scripting process can add \$50 million in annual profits to the company's bottom line.



Sounds like every marketer's dream, right? Not so fast. While highly lucrative, Precision Marketing is difficult to execute and involves operational and financial risks. The most common pitfalls are a lack of the analytical capabilities, process innovation, and enabling technologies needed to properly execute Precision Marketing programs. Even if it is just through personalized emails, true Precision Marketing requires a substantial array of components and functionality -- such as data warehouses, analytical tools, and campaign management engines -- all of which need to work together seamlessly. Most companies simply cannot afford the sizable, upfront investments in infrastructure, systems integration, and people required to get it right.

Fortunately, there is an answer to this dilemma: a new breed of service firms called *Precision*

Marketing Outsourcers. These firms provide a much faster, lower risk, and ultimately, less costly path to Precision Marketing, particularly when compared to often disastrous and prohibitively expensive do-it-yourself attempts. Importantly, these companies are not simply offering purchase-and-install software platforms. Precision Marketing Outsourcers offer complete, managed Precision Marketing operations -- on a long-term, outsourced basis -- that are really true extensions of companies' core marketing and customer service activities. Also, the best Precision Marketing Outsourcers offer their services using a benefits-based pricing model. This pricing method lowers a company's upfront capital and ongoing operating costs, in exchange for a share of Precision Marketing's financial benefits. Such pricing arrangements also lower a company's overall financial risk, as it ties the Precision Marketing Outsourcer's fortunes to the actual benefits that it delivers.

Unlike Spielberg's huge talking billboards, firms offering Precision Marketing services on an outsourced basis are not as futuristic as they may first appear. After all, companies have long relied on third parties to supplement -- or even assume complete ownership of -- numerous marketing functions, including: advertising, public relations, market research, sales, and customer support. Precision Marketing Outsourcers represent the next logical, evolutionary step in the world of marketing services firms, driven by companies' ever-increasing hunger to begin Precision Marketing as quickly, painlessly, and profitably as possible.

Introduction

This report provides a detailed definition of Precision Marketing. It then addresses four fundamental questions:

1. What is Precision Marketing?
2. How should companies build the business case for Precision Marketing?
3. Why should companies consider outsourcing Precision Marketing?
4. How should companies partner with Precision Marketing Outsourcers?

The answers to these questions are based on experiences and interviews with over 200 companies around the world. These companies are at the forefront of the emerging discipline of Precision Marketing. Many are already outsourcing all or part of their Precision Marketing activities. These companies include Procter & Gamble, Avis, Bank One, Home Shopping Network, ConAgra Foods, Black & Decker, CITGO, and Wachovia/First Union. This report is also based on interviews with the customers of these companies, as well as with customers of numerous other companies drawn from the consumer goods, financial services, telecommunications, high technology, manufacturing, healthcare, travel, and industrial sectors. These interviews have been collected primarily over the past three years through nearly 100 studies involving more than 90,000 individual respondents.

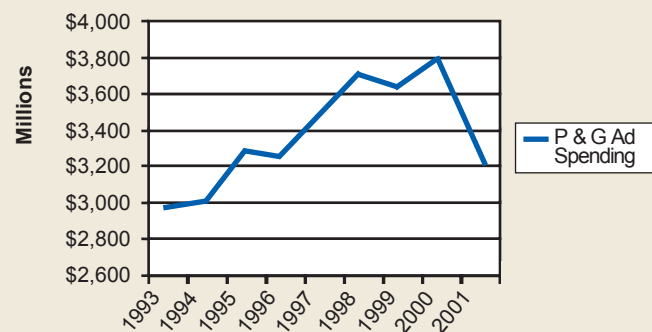
Precision Marketing: The World's Largest Marketer Leads the Way

The U.S.'s perennially largest advertiser and acknowledged master marketer, Procter & Gamble, is also leading the way towards Precision Marketing. Known as the company that invented the "soap opera" and many other mass marketing techniques, this multinational marketing supertanker is now changing its course. In fiscal 2001, P&G slashed its advertising spending by \$600 million, to levels in absolute dollar terms not seen since the pre-tech boom days of 1994. As a percentage of sales, P&G's advertising spend is now at its lowest level since 1990.

Does this mean that P&G has simply decided less is more? Hardly. While P&G's advertising spending dropped nearly 16% from 2000 to 2001, its total marketing, research, and administrative spending changed very little. What is changing is *how* P&G markets.

Many companies, including P&G, have recently discovered that old marketing assumptions are becoming outdated. The numbers above suggest that P&G has learned that simply increasing its mass marketing spend no longer automatically results in proportionate sales growth. Further, new technologies, such as DVRs (Digital Video

Exhibit 1: P&G Advertising Spending (1993-2001)



Source: P&G Annual Reports

Recorders) and Web filtering programs, make it easy for consumers to avoid mass advertising altogether.

Another way consumers are battling back against the ever-increasing amount of information coming their way is by choosing "channels of preference." Some prefer speaking to an actual person, while others prefer interacting over the Web. Still others cling to their paper coupons, statements, and catalogs. With this in mind, Jim Stengel, P&G's Global Marketing Officer, was recently quoted by the *Financial Times* as saying: "The consumer is different today ... we have to look at new channels and new ways of connecting [with them]."

While companies may be reluctant to eliminate traditional ways of reaching consumers, they recognize that a very small subsegment of their customers drive the majority of their profits. For example, McDonald's now admits that most of their profits come from a relatively small number of "very frequent visitors." This means that, for P&G, McDonald's, and other mass marketers, the advertising dollars they spend trying to reach the rest of their less profitable customers are largely wasted.

These trends prompted P&G's new President and CEO, A.G. Lafley, to declare, in a recent annual report: "We're focusing on tying marketing spending more tightly to sales potential and using new approaches to target consumers more effectively." Not surprisingly, Stengel agreed in his recent *Financial Times* interview: "Our investments are going the way the whole market is going -- marketing spending is getting more targeted." Whether the proper adjective is "targeted" or "precise," the message is clear: P&G is attempting to turn itself into the world's foremost precision marketer. As in the days when they set out to become the world's foremost mass marketer, and then did just that, other companies would do well to take heed.

Defining Precision Marketing

Precision Marketing is:

Using sophisticated management, analysis, as well as execution methods and tools to:

- 1. Deliver personal messages to individual customers and market subsegments that are a company's best prospects,*
- 2. Integrate the delivery of these messages across multiple channels, and*
- 3. Optimize the value of the resulting customer relationships across the lifecycle.*

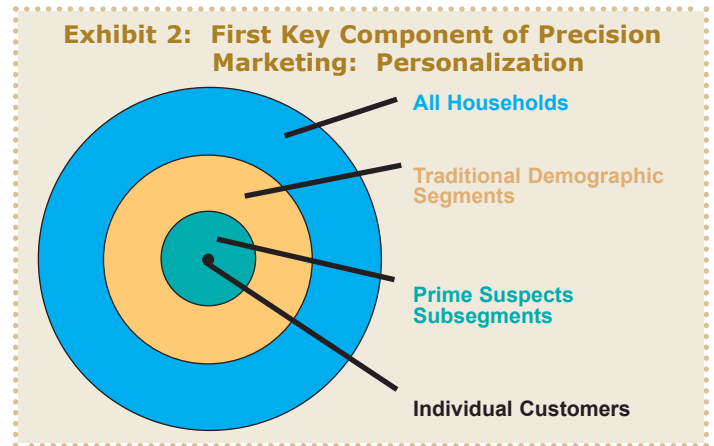
Personalization

Until recently, marketers targeted their messages only through relatively crude techniques, such as by choosing different mixes of broadcast and print media. Breweries, seeking to reach men ages 18-54, would run their ads on sports programs. Cosmetics makers, targeting young women, would buy ad space in women's magazines. These simple methods of targeting very broad customer segments are still in widespread use today.

However, for companies selling products to much narrower market segments, such as families with newborn children or first-time home buyers, this sort of targeting is hit-or-miss at best. The person reading a particular magazine or watching a particular TV show might be in the right age and gender

demographic, but he might have bought a house *last* year and not be planning to start a family until *next* year. The mortgage banks' and diaper companies' expensive ads and airtime are wasted on him.

Now, with the rise of customer data management and marketing message personalization techniques, companies can create customized marketing programs adapted to the *individual* customer (or highly specific customer subsegment) behaviors and circumstances (see Exhibit 2). This is the first key component of Precision Marketing: developing knowledge about customers; using that knowledge to deliver personalized, timely and effective marketing messages that build trust-based relationships; and then leveraging those relationships to gather more insights to further refine subsequent marketing messages.



Source: Seurat Analysis

Channel Integration

Targeting the right customers or market subsegments is just the beginning. The next step is interacting with them through their preferred channel(s). When the Internet first became an economic force, Forrester Research published a seminal report called "The Fourth Channel." In it, the authors argued that the Internet is simply the fourth channel through which companies can interact with their customers. The first three channels are person-to-person, paper mail, and the telephone. Customers routinely interact with companies using all four channels. Often they use different channels at different times or for different reasons, but sometimes they use multiple channels simultaneously.

This second key component of Precision Marketing — integrating marketing and customer service efforts over multiple channels — is often the most difficult. The increased reach and other benefits of a multichannel marketing program are lost if customers become confused or frustrated, such as when service reps in a company's phone center cannot access a customer's recent Web transactions or do not have accurate records of a customer's recent purchases in a physical branch or storefront. In order to be a successful precision marketer, a company must coordinate its marketing message across all channels and synchronize all customer information among channels. The companies' marketing and customer service messages must present a seamless face to customers and potential customers, via their preferred channels.

Optimization

All top companies know that "marketing" does not end when a sale is made. Precision Marketing seeks to optimize the entire customer relationship, by maximizing the lifetime value of customers throughout the entire customer lifecycle. Cross-selling and up-selling opportunities to existing customers are often the most efficient forms of marketing, and satisfied customers are often the best source of new ones.

A comprehensive Precision Marketing program includes marketing and customer service messages aimed at both existing customers and high-potential prospects. It addresses the key issues a company faces at each step of the customer lifecycle, as summarized in Exhibit 3.

Exhibit 3: Key Issues at Each Step of the Customer Lifecycle

Customer Lifecycle:



Key Issues:

What is the nature and magnitude of the market?

What information must be acquired to define and segment the market?

What factors most influence prospective buyers?

How do we acquire the most desirable customers?

How do we build loyalty and trust that will increase customer profitability?

How do we retain our most-valued lifetime customers?

Maximizing the value a company creates across the entire lifecycle inevitably requires transforming a company's customer-facing processes and the subprocesses that support them. Importantly, "transforming" them does not mean merely "redesigning" them. In some cases, the optimum solution is to create entirely new processes where none existed before. In other cases, current but ineffective or inefficient legacy processes must be redesigned. In still other cases, the processes themselves may be adequate, but new or improved reporting, analysis, and decision-making tools must be added in order to increase their performance.

What It Takes to Execute and Achieve Results

The key components of Precision Marketing fall into three broad categories: 1) those that create, maintain, and leverage Customer Knowledge & Insight, 2) those that support a company's Marketing Execution, and 3) the Performance Management metrics, methods, and systems that enable a company to determine its marketing performance and ROI.

Work in each of these categories occurs at three levels. At the lowest, foundational level are the data warehousing, modeling, and analytical engines that drive fact-based marketing decision-making. These analytical tools support a company's individual marketing processes across the knowledge, execution, and measurement objectives. In the middle level are the individual marketing processes themselves. At the top level, these processes are integrated into enterprise-wide marketing solutions that drive a company's overall performance.



Exhibit 4 depicts the key components a typical company must put in place to support Precision Marketing. Importantly, this chart will look somewhat different for each individual company, depending on how many customer subsegments it wishes to target, how many products or services it wishes to market, and through how many, and which, channels it wishes to do so. As a Precision Marketing Outsourcer's mission is to provide these components to companies, this chart also depicts the breadth of integrated services a world-class Precision Marketing Outsourcer must provide.

Exhibit 4: Key Components of Precision Marketing			
Goals Means	Customer Knowledge	Marketing Execution	Performance Management
Enterprise Solutions	<ul style="list-style-type: none"> • Marketing Strategy • Customer Segmentation • CRM Roadmap Development 	<ul style="list-style-type: none"> • Multichannel Management • Marketing Program Management • Creative Development 	<ul style="list-style-type: none"> • Marketing Effectiveness & ROI Analysis • Performance Metrics • Lifetime Value Modeling
Business Process Management	<ul style="list-style-type: none"> • Profile and Dialogue Management • CRM Business Architecture • Marketing Workbench 	<ul style="list-style-type: none"> • Marketing Automation and Campaign Management • Creative Asset Management • eChannel and Contact Center Management 	<ul style="list-style-type: none"> • Performance Measurement Systems • Service Level Reporting • Campaign Effectiveness
Managed Analytics	<ul style="list-style-type: none"> • Online / Offline Data Integration • Data Enhancement • Business Intelligence & Data Mining 	<ul style="list-style-type: none"> • Delivery Platforms • Decision Engines • Real-Time Personalization 	<ul style="list-style-type: none"> • Closed-Loop Customer Analytics • Customer Lifecycle Scorecard • Dynamic Pricing

Source: Seurat Analysis

Customer Knowledge & Insight

Few companies today lack some sort of customer database. The more common problem today is too many databases, rather than too few. Often each line of business, product group or geographic business unit maintains its own customer database, making it impossible to see a single view of the customer. This also makes it impossible to identify the most attractive customers and customer sub-segments, much less market to them or serve them properly.

An example of a Customer Knowledge & Insight-building process that addresses this problem is Profile and Dialogue Management. This data "hub" brings together all of a company's customer data sources, both online and offline, and integrates them into a comprehensive profile of all interactions with each individual customer. This way, regardless of the channel through which the customer next comes into contact with the company, that channel has that customer's contact and order history up-to-date and ready for use to meet that customer's unique needs.

The highest level of Customer Knowledge & Insight is the transformation of the data into accurate customer segmentations, workable customer management roadmaps, and effective marketing strategies. What is a customer's channel of preference? When and how often do they want to interact with the company? How have they behaved in the past and how will they likely behave in the future? Answering these questions -- and thus being able to predict future customer behavior -- requires analyzing customer data with sophisticated tools and techniques.

Marketing Execution

Customer Knowledge & Insight is of little value if it cannot be brought to bear on the front lines of marketing: the contact center agent, the Web site, the email marketing program, the retail store or branch outlet, the employee delivering the product or service to the customer -- in short, at every customer touch point. Most companies consistently fail to leverage the customer information they possess to drive their marketing programs or put it into the hands of the front-line employees who need it. These are failures of marketing execution. They are typically caused by poor technology or poorly designed business processes.

Effective Precision Marketing requires effective marketing processes (many of them automated), integrated across multiple channels. An example is eChannel Management, which is the design, creation, and ongoing support of all a company's online activities. Another example, targeted at a different channel, is Contact Center Management, which is the design, creation, and ongoing support of all a company's phone center operations. A final example is Creative Asset Management, which is the way a company keeps track of the large amount of digital and physical media that it uses to market its products, including pictures, product descriptions, ad copy, etc. (This information is usually scattered throughout a large number of storage facilities and contained in numerous kinds of media, including computer files, audio and videotapes, various disks, and paper printouts, etc.)

Performance Management

It is often said that, "What gets measured gets managed," but for many years marketing expenditures appeared to be exempt from this discipline. A company will not reap the benefits of its Customer Knowledge & Insight and Marketing Execution processes without effective Performance Management. It is just that simple -- if a company cannot (or does not) measure its Precision Marketing efforts, it has no idea if it is doing the right things or getting an acceptable return on its marketing expenditures.

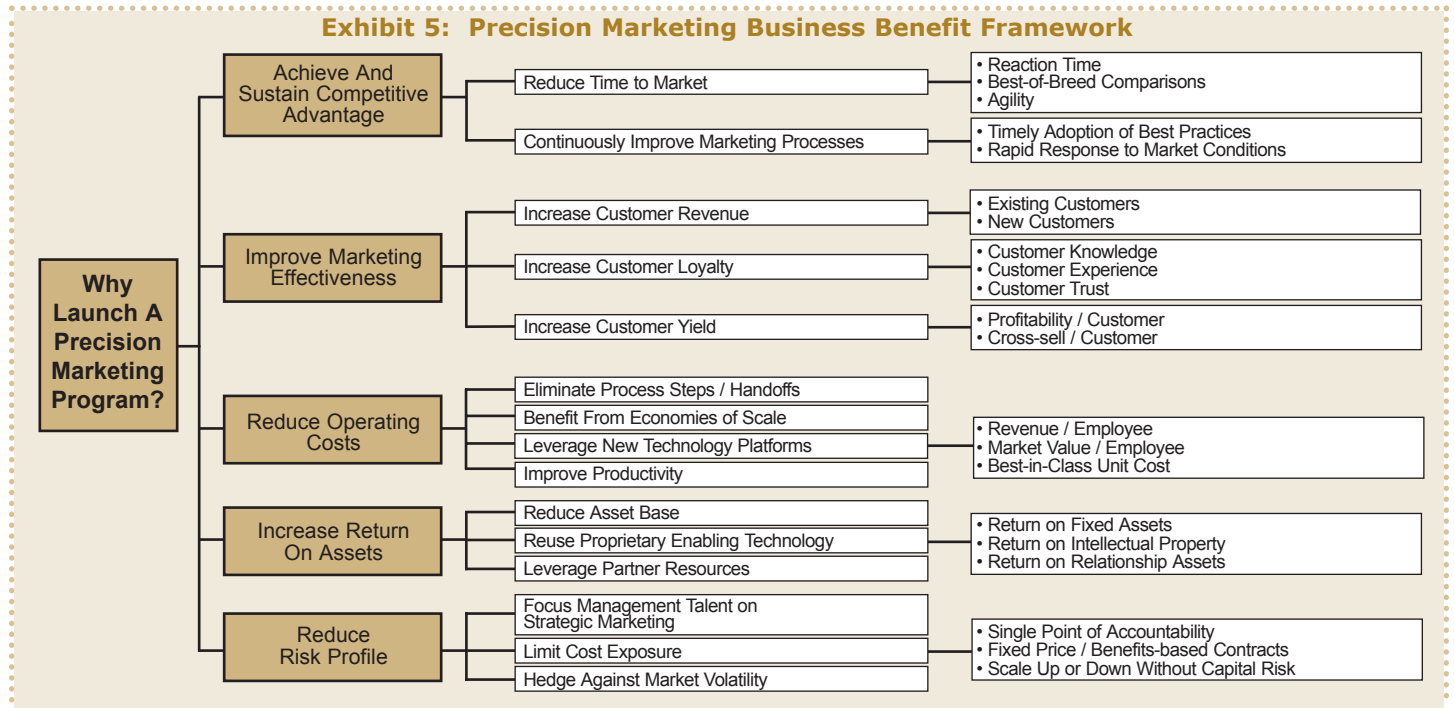
Effective marketing measurement goes beyond devising the right metrics -- although that is obviously an important starting point. Ideally, a Precision Marketing Outsourcer should provide companies with a marketing management "dashboard." The purpose of the dashboard is to enable interim progress measurement and inevitable midcourse corrections, as well as measure final results. Importantly, the measures used should be spread across the entire customer lifecycle. Is the program generating increased sales leads? Are these leads being turned into customers at an acceptable and significantly improved rate? Is the company's "share of wallet" among existing customers going up as a result of new cross-selling programs? Is existing customer turnover decreasing? Are we keeping the right customers?

This information should be on the desktops of employees who need it, in real-time. Closed-Loop Analytics and Customer Lifecycle Scorecards are examples of Performance Management tools that enable companies to make adjustments to their Precision Marketing programs.



Building the Business Case for Precision Marketing

A business case for Precision Marketing must be based on measurable and significant business benefits. As Precision Marketing touches all points of the customer lifecycle and the marketing and customer service processes therein, these benefits can take many forms (see Exhibit 5).



Source: Seurat Analysis

An effective Precision Marketing business case should be based on business benefit performance measures, such as a subset of those shown above. Instead of describing how to do so in the abstract or using hypothetical examples, what follows are three case studies where companies implemented Precision Marketing, with particular emphasis on the resulting business benefits.

Case Study #1

A large bank built its Precision Marketing business case around improving marketing effectiveness (the second branch of the above tree).

Specifically, working with a Precision Marketing Outsourcer, the bank built up a large database of existing and prospective customer email addresses. Then, using this new customer touch point, the bank began providing new, innovative services to serve, inform, and educate customers and thereby increase their loyalty. It also used this channel to cross-sell its services to increase customer revenue and customer yield.

Company: A large retail and commercial bank

- Fourth-largest US bank holding company (assets of over \$300 billion)
- 19 million retail and corporate customers; 3.8 million registered online customers
- 2,800 financial centers and 600 retail brokerage offices

Precision Marketing Program Objectives:

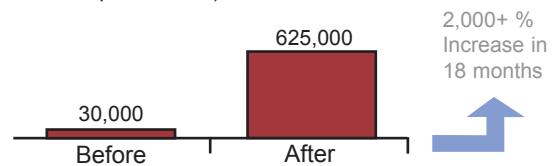
- Take advantage of the Internet's unique marketing opportunities while leveraging the strengths of the bank's existing (non-Internet) multichannel organization
- Personalize the bank's services to address individual customer financial needs and lifestyles
- Create new services to serve/educate customers and to deepen bank's relationship with them

Precision Marketing Program Approach:

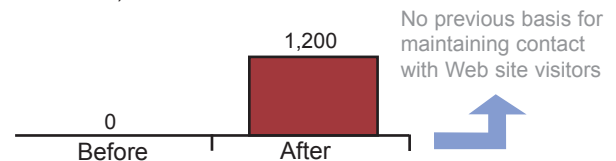
- Developed new customer information database and implemented permission-based interactive marketing programs
- Integrated marketing campaign platforms across all channels (Web, email, direct mail, call center and branches) and developed content management capabilities
- Designed cross-channel marketing programs and developed business rules to promote "cross selling" with one voice

Directly Attributable Business Benefits

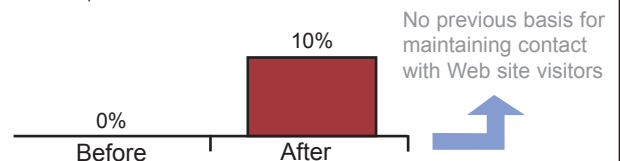
Email Permissions List Size (number of permissions)



Sales Leads Via Women's Retirement Advisory Emails (% converted)



Mortgages Via First-Time Homebuyer Advisory Emails (% of total)





Case Study #2

A large, multichannel retailer needed to optimize its call center through a new sales, service, and order management system, linked to its other legacy IT systems. The business benefit the company used to justify this Precision Marketing program and to justify partnering with a Precision Marketing Outsourcer was the third branch on the tree -- operating cost reduction. However, the company also wanted to increase its revenue from cross-selling, which corresponds to the second branch on the tree -- improving marketing effectiveness.

Company: Large, multichannel retailer

- Consolidated sales in excess of \$1.8 billion per year
- Customer base of over five million

Precision Marketing Program Objectives:

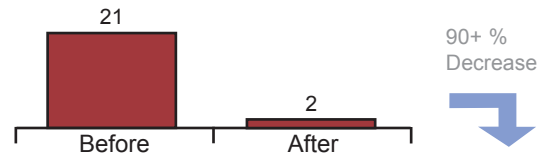
- Devise a new sales, service, and order management system
- Create up-sell/cross-sell programs
- Introduce loyalty programs

Precision Marketing Program Approach:

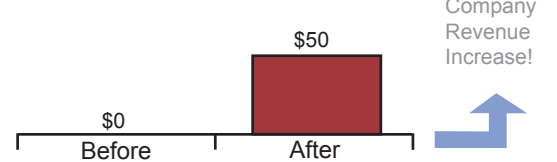
- Linked multiple telephone systems with legacy IT systems
- Improved business rules, auto response mechanisms, and contact center agent scripts with increased emphasis on up-selling and cross-selling
- Implemented new loyalty program processes and functionality
- Integrated all key legacy functions to a common desktop platform for contact center agents

Directly Attributable Business Benefits

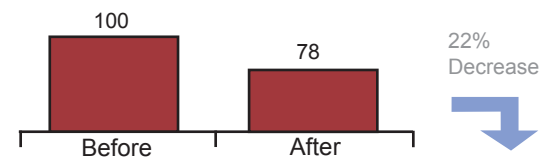
Call Center Agent Average Training Time (days)



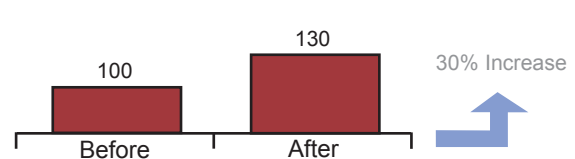
Cross-Sell and Up-Sell Revenues (\$ millions)



Average Call Length (indexed to baseline)



Call Center Agent Productivity (indexed to baseline)



Case Study #3

A large, high-speed Internet access provider already had a Web presence prior to starting its Precision Marketing program, including an eCommerce capability that allowed prospects in its service areas to sign up for its service online. Its Precision Marketing business case was straightforward marketing effectiveness improvement (the second branch on the Precision Marketing benefits tree). The objective was to drive more traffic to the Web site and also increase the percentage of visitors that signed up for the service. The program, executed with a Precision Marketing Outsourcing partner, was very successful, as revenue generation *doubled* to \$3.1 million per month and the conversion rate of Web site visitors to customers increased 44%. By increasing its customer base within its existing service territories, the company also increased its return on these assets (the fourth branch on the Precision Marketing benefits tree).

Company: A large consumer and commercial high-speed Internet access provider

- Second-largest cable modem high speed data provider in North America
- Serves over one million households via cable modem

Precision Marketing Program Objectives:

- Define and execute a cost-effective online marketing strategy to increase the number of prospects to company's Web site (where they can learn about services and sign up online)
- Improve the conversion rates of Web site visitors to customers

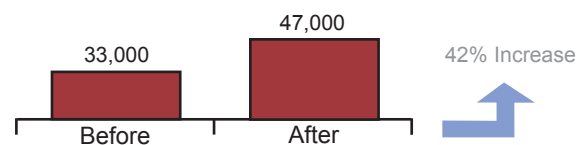
Precision Marketing Program Approach:

- Redesigned Web site to be more sales-centric/promote value and features
- Designed and executed an online Integrated Marketing campaign utilizing a mix of banner ads and direct email
- Designed and implemented a "nurturing" campaign to convert site visitors who didn't subscribe during their first visit

Directly Attributable Business Benefits

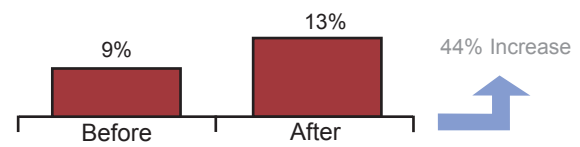
Site Traffic

(number of visitors/month)



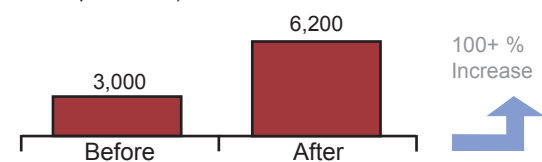
Conversion of Visitors to Subscribers

(% converted)



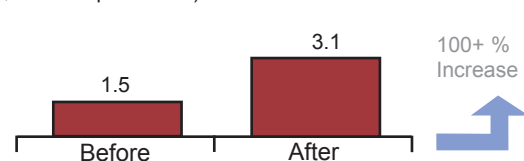
New Subscribers

(number per month)



Revenue Generation

(\$ millions per month)





Outsourcing Precision Marketing

While the overall goal of Precision Marketing -- delivering the right messages, to the right customers or customer subsegments, through the right channels, at the right points in time -- is easy to grasp, actually achieving this goal is a very complex undertaking. The more types of customers a company has, the more types of products it has, and the more channels through which it goes to market, the more difficult Precision Marketing becomes. For many companies that try to make the quantum leap from mass to precision marketing, the inescapable allure of increased marketing effectiveness and higher corporate profits becomes a siren's song towards technology-laced money pits and alienated customers.

The Precision Marketing pitfalls that bedevil most companies fall into three categories. The first is a lack of the necessary skills, technical infrastructure, and experience-based knowledge. Precision Marketing is a new marketing discipline. It is highly dependent on data management tools and sophisticated analytical engines, which are in turn supported by deeply integrated technical infrastructures and message delivery vehicles. Only a very select few companies have these resources in-house. Their competitors must quickly find external sources for them or they will soon see their market share erode. Precision Marketing Outsourcers have stockpiled these resources to meet this market need. They represent the quickest and most efficient way for companies to gain access to the critical resources needed for successful Precision Marketing.

The second pitfall is that, even if a company can find sources for the people and technologies it needs to undertake Precision Marketing, the acquisition costs are often more than one company's capital budget can bear. Particularly troublesome to most companies is the fact that much of the required investment must be made up front, before any marketing efficiency gains and corporate profit increases can be realized. Furthermore, many of these investments, such as for new technology, are capital expenditures, which means they have to be funded from companies' often drum-tight capital budgets. Precision Marketing Outsourcers have already made these investments. They can provide shared access to these resources at a much lower cost and as an operating (instead of a capital) expense.

The third pitfall is that, even if a company can afford the upfront investment required to build its own Precision Marketing programs, the length of time required to do so is often surprisingly long. New technology platform implementations and the subsequent integration of them with legacy systems often take far longer than expected (not to mention also costing more than expected). In fact, the Precision Marketing technology failure rate is alarmingly high, which raises the specter of even longer, rework-driven delays.

Even after companies get their new customer data collection systems up and running, big delays in business value realization are common. They suddenly find themselves drowning in data, which they have no clue how to analyze. After even more time is consumed developing the required analytical engines, companies still need to determine how to leverage the resulting insights in their marketing

White Paper

programs in real time. Precision Marketing Outsourcers have already put in the time to develop market-tested ways of doing these things. Applying their knowledge is the best way companies can speed up their efforts to become precision marketers.

Any discussion of outsourcing Precision Marketing would not be complete without one final point: Precision Marketing is a comprehensive set of processes, not a point solution. In fact, it encompasses and integrates numerous point solutions already on the market. For example, Customer Relationship Management (CRM) platforms are a critical part of effective Precision Marketing, since they focus on managing and leveraging a company's relationships with its existing customers. Similarly, Marketing Resource Management (MRM) point solutions, which are desktop-based technology tools that seek to help marketing managers manage marketing resources, are also a critical part of Precision Marketing.

Company executives should not confuse Precision Marketing Outsourcers with software companies promising to automate transactions or pitching CRM or ERP platforms (see Exhibit 6). Precision Marketing is an ongoing, new way to market to and serve customers, not the latest business software fad. A Precision Marketing Outsourcer integrates data, information, and workflows across a company's many customer-facing processes, using a mutually supporting combination of state-of-the-art technologies that are most appropriate for each individual company's needs. The business benefits are enterprise-wide increases in marketing effectiveness, not just efficiency improvements in areas such as cost-per-transaction.

Exhibit 6: Precision Marketing Outsourcing's Value Drivers

Value Contribution	Enterprise Outcomes	Market Dominance	<ul style="list-style-type: none"> Market Intelligence Market Perspectives Customer Experience 	<ul style="list-style-type: none"> Customer Lifetime Value Market Segment Optimization Speed to Market
	Revenue	Outbound Volume	<ul style="list-style-type: none"> Lift Per Campaign Yield Per Customer 	<ul style="list-style-type: none"> Real-Time Up-Sell/Cross-sell High-yield Customer Penetration
	Profits	Cost Per Transaction	Customer Information / Knowledge	<ul style="list-style-type: none"> ROI by Segment Customer Profitability
Value Drivers				
		Technology	Process & Data	Strategy
		<ul style="list-style-type: none"> Transaction Automation CRM Platforms MRM Software 	<ul style="list-style-type: none"> Process Innovation (e.g., Campaign Mgmt., Profile Mgmt., Creative Asset Mgmt.) Customer Data Integration 	<ul style="list-style-type: none"> Multi-Channel Integration Technology Integration Real-Time Decision Marketing

Traditional ERP, CRM Focus
 Precision Marketing Outsourcing Focus

Source: Seurat Analysis

Partnering with Precision Marketing Outsourcers

Successful partnerships with Precision Marketing Outsourcers are the result of three factors:

- 1) Qualifying a Precision Marketing Outsourcer,
- 2) Creating a long-term partnership, based on agreed financial and operational targets, and
- 3) Establishing a benefits-based pricing relationship.

Qualifying a Precision Marketing Outsourcer

A world class Precision Marketing Outsourcer is able to supply companies the full suite of Precision Marketing Components described earlier in this paper. However, they also bring process innovation, enabling technologies, and superior analytics.

Process innovation is not just a fancy name for the core process redesign efforts of the 80's and early 90's. With the proliferation of product sales, delivery and service channels, and the multiplication of customer touch points, overhauling a company's customer-facing processes is no trivial exercise. Further, linking and integrating these individual marketing and customer service processes into a seamless whole is a very complex task. A world-class Precision Marketing Outsourcer will have the process innovation skills and experience to do so in an effective and efficient manner.

Executing these new or improved processes requires a sophisticated set of *enabling technologies*. A detailed description of the various technical components needed, and the critical integration between them, is beyond the scope of this white paper. However, the need for these technologies and skills should not be underestimated. All of a company's customer interactions, when managed and captured properly, generate vast oceans of valuable customer data. Without the technology needed to manage and manipulate the data, the company's collection efforts are in vain and its Precision Marketing efforts will fail.

For example, Capital One -- a U.S. credit card issuer with 34 million customers -- has spent vast sums on technology to manage and leverage its customer data. According to the *McKinsey Quarterly*, these resources allowed them to test 45,000 variables in their pilot marketing campaigns during the year 2000. However, while McKinsey acknowledges that a typical large U.S. bank is more likely to have a much lower marketing technology budget, even this level of technology spending is still beyond the reach of many companies. Thus, in addition to being a Precision Marketing key success factor in its own right, the need for such technical resources is a compelling argument in favor of partnering with a Precision Marketing Outsourcer.

Perhaps the rarest attribute of all, and the one that makes a Precision Marketing Outsourcer truly world class, is *superior analytics*. An example, just to highlight the meaning of "superior" would be: fractional-factorial and d-optimal randomized, replicated, masked design experiments, followed up with advanced analytic tools, such as mixed generalized linear models, regression trees, and adaptive regression splines, to authoritatively assign the best possible product/presentation/price to every customer. Sound complicated? Well, it is. While the incremental economic value of real analytics over simple cross-tabs is stunning, working at this level of sophistication requires trained professionals, the integration of diverse skill sets, world-class analytical tools, and

overall operational excellence. Gathering these analytical resources in one place requires a scale operation to be economically feasible, which is an incredibly strong argument for seeking a world-class Precision Marketing Outsourcer. For example, Capital One employs roughly a thousand statisticians and marketers. While McKinsey acknowledges that a typical large U.S. bank is more likely to only employ 20 to 50 such specialists, most companies will struggle to gather even this level of internal capabilities.

A Long-Term Partnership, Based on Agreed Financial and Operational Targets

A Precision Marketing Outsourcer must also be a long-term strategic partner. The relationship between it and the company must not be of the "throw it over the wall and let 'them' deal with it" variety. In fact, it must be just the opposite -- a relationship that augments a company's marketing department, instead of replacing it. Marketing departments of companies undertaking Precision Marketing must still make brand strategy, pricing, promotion, product development, and other marketing-related decisions. However, working with a Precision Marketing Outsourcer greatly improves their ability to do so, via more timely, accurate and in-depth marketing data, information, and insights.

The ability to measure Precision Marketing's benefits is central to the partnership between a company and its Precision Marketing Outsourcer. As the three case studies demonstrated, Precision Marketing's financial impact can be measured using specific, quantifiable, and unambiguous metrics. As outlined below, a Precision Marketing Outsourcer who shares the costs of Precision Marketing with a company, in exchange for a portion of the resulting financial upside, is truly united with the company in its zeal to see Precision Marketing succeed.




A Benefits-Based Pricing Relationship

The relationship between a company and a Precision Marketing Outsourcer must be cemented where it counts: right in the company's and the Precision Marketing Outsourcer's wallets. Precision Marketing, whose goal is to literally transform a company's marketing and other customer-facing processes, is a big bet for any senior management team to make. Likewise, helping a company achieve this goal requires a big commitment from a Precision Marketing Outsourcer. As such, these two parties' goals and motivations must be closely aligned to ensure similar levels of trust, dedication, and urgency. The best way to achieve this is through a long-term, "benefits-based pricing" or gain-sharing compensation agreement between the company and the Precision Marketing Outsourcer.

Examples of such benefits-based pricing arrangements might include: setting payment holdbacks or penalties until minimum performance improvement goals are met; making the Precision Marketing Outsourcer's compensation proportional to the company's actual business gains; or, forming a service company "joint venture" between the company and the Precision Marketing Outsourcer, where the ownership level of each is proportional to the resources each commits to the venture. The best such contracts include multiple components, where the company and the Precision Marketing Outsourcer are jointly funding many parts of the program and then sharing in its rewards (see Exhibit 7). Regardless of the specific mechanism, the objective is to align the company's and the Precision Marketing Outsourcer's incentives, so they each fight equally hard to realize the business benefits great Precision Marketing can provide.

Exhibit 7: Benefits-Based Pricing Example

Traditional Time and Materials Pricing:		Benefits-Based Precision Marketing Pricing:
<ul style="list-style-type: none"> • Company pays Precision Marketing Outsourcer at a standard \$150/hour billing rate • Company pays program setup fees • Company funds, approves and manages own media spend • Company pays for use of Precision Marketing Outsourcer's Marketing Platform at standard cost-plus rates • Company keeps all Precision Marketing program benefits 		<ul style="list-style-type: none"> • Precision Marketing Outsourcer and Company set revenue target and goal of lowering company's marketing budget by 15% - 20% • Precision Marketing Outsourcer and Company co-fund program setup fees • Precision Marketing Outsourcer and Company co-fund media spend with Precision Marketing Outsourcer managing and Company approving projects • Company pays for use of Precision Marketing Outsourcer Marketing Technology Platform at cost • Company pays Precision Marketing Outsourcer 30% of Company's revenues after they exceed agreed-upon goals

Source: Seurat Analysis

Conclusion

The year 2054 may come and go without law enforcement officials having acquired the ability to arrest citizens before they commit a crime, which is the premise of *Minority Report*. However, when it comes to Precision Marketing, the future is now. Precision Marketing is transformational, not incremental. Companies pursue it to achieve dramatic, step-change performance improvements, of the size that warrant highlighting on the first page of subsequent annual reports. Precision Marketing will revolutionize a company's customer-facing processes or replace them altogether. Changes of this magnitude require fundamentally rethinking customer strategies, renovating marketing tactics, and replacing legacy systems.

By way of a very brief review, this report makes the following points. Precision Marketing is using sophisticated management, analysis, and execution tools to: Deliver *personal* messages to individual customers and market subsegments that are a company's best prospects; *integrate* the delivery of these messages across multiple channels; and optimize the value of the resulting customer relationships across the customer lifecycle. The key components of Precision Marketing are: Customer Knowledge & Insight, Marketing Execution, and Performance Management. Business cases for Precision Marketing must be based on measurable and significant business benefits. The Precision Marketing pitfalls that bedevil most companies are the lack of the necessary skills, technical infrastructure, and experience-based knowledge; the costs of acquiring these key resources; and the time required to do so. These pitfalls mean that for most companies, partnering with a Precision Marketing Outsourcer is the most efficient and effective way to become a precision marketer. Successful Precision Marketing outsourcing is the result of three enabling factors: identifying a world-class Precision Marketing Outsourcer; creating a true, long-term partnership with that entity, based on agreed-upon financial targets; and establishing a long-term, benefits-based pricing relationship.

Previous waves of outsourcing have flowed through nearly all of the other functions within a business, such as manufacturing, finance, and human resources. Each time, the objective was to bring a new and more effective level of integration, real-time information sharing, and measurement rigor. Until now, marketing was the largest and most conspicuous function yet to be transformed by technology-driven efficiency and effectiveness gains. Precision Marketing Outsourcers provide this level of transformation.

As a suggestion for jump-starting Precision Marketing in a company, executives should do the following:

- Drive consensus about the business importance of Precision Marketing across the entire executive team, including the CEO
- Involve Precision Marketing experts in these discussions
- Conduct a diagnostic to assess Precision Marketing's potential business case benefits, and
- Pilot the use of analytics to test proof points for the upside of Precision Marketing

For companies looking to leapfrog their competition, and who will make the commitment needed to dramatically change their customer-facing processes, Precision Marketing is the answer. P&G's Jim Stengel laid down the gauntlet for the world's best-known marketer in a recent interview: "We must be on the cutting edge of marketing." The cutting edge of marketing is Precision Marketing. To *win* in the marketplace, all companies will need to embrace it.



About the Authors

John Oltman

John Oltman is the Chairman and Chief Executive Officer of Seurat Company. He has a 25-year track record of executive leadership for high-growth outsourcing, software, and business solutions companies serving the Fortune 500. Oltman is known for having led a number of innovations and trends in outsourcing as a source of competitive advantage for clients. In the early 1990s, while at SHL Systemhouse, Oltman initiated transformational outsourcing as an approach for enabling large corporations to achieve significant cost savings while transforming business processes. Under Oltman's leadership as Chairman and Chief Executive Officer, SHL became a \$1.2 billion provider of client/server systems integration and technology-outsourcing services with clients around the globe. Prior to SHL, Oltman held numerous positions as a senior partner with Accenture (formerly Andersen Consulting), including managing the firm's global systems integration and outsourcing business. During recent years, Oltman has been an advisor, board member, investor, and active participant in the operations of leaders such as Exult, Lante, Evolve Software, and Indus International, Inc. Oltman holds a B.S. degree from the University of Illinois and an M.B.A. degree from Northwestern University's Kellogg School of Management.

Gresh Brebach

Gresh Brebach is the former Chairman and a current member of Seurat's Board of Directors. He is a recognized authority on transforming businesses by aligning corporate business strategies with organizational structures, operating processes, and IT infrastructures. Prior to joining Seurat, Brebach was a Director of McKinsey & Co. and the leader of its North American Information Technology/Systems (IT/S) practice. Prior to joining McKinsey, he was the founder of the Information Consulting Group (ICG), an organization focused on information technology consulting, which was acquired by McKinsey. Prior to founding ICG, Brebach was the Managing Partner of the North American Consulting practice of Accenture (formerly Andersen Consulting) and a member of the worldwide Executive Committee of Andersen Worldwide. Brebach has a bachelor's degree in engineering and a master's degree in business administration, both from the University of Illinois.

Russ Maney

Russ Maney is a Senior Vice President for Seurat Company. He is a recognized leader, author, and speaker in the research and marketing professions with over 18 years of proven success in strategic marketing, business strategy formulation, and information technology research. Prior to joining Seurat, Maney was Senior Vice President of Marketing and Customer Service for Darwin Networks, Director of Leadership Strategies for Forrester Research, a senior consultant with McKinsey & Co., and a Technical Brand Manager with Procter & Gamble. Maney earned his bachelor's degree in chemical engineering from University of Kentucky and his M.B.A. degree from the Amos Tuck School of Business at Dartmouth College.



White Paper

About Seurat Company

Seurat Company specializes in Precision Marketing Outsourcing services that help companies increase customer acquisition, wallet share and retention. We improve marketing effectiveness, without long implementation time frames, large capital investments or organizational upheaval. Through benefits-based pricing, we tie our fees to business results. Our flagship portfolio of precision marketing services, called Seurat Suite™, provides the technology, processes, best practices, experts, and infrastructure needed to execute integrated, customer-focused marketing activities. We have served more than 1,500 companies over the last 11 years, including Procter & Gamble, Home Shopping Network, Black & Decker, First Union/Wachovia, Bank One, ConAgra Foods, Triad Hospitals, RE/MAX International, Avis, TV Guide, AOL/Time Warner, and many more.

For more information or to arrange an introduction, please contact us at 1-800-967-4404 or inquiry@seurat.com. Visit our website for periodic updates or to obtain additional white papers and articles. www.seurat.com