

Life events - the hidden marketing key to solving customer churn

February 2016





Key Findings

The majority of channels used by marketers are fundamentally dependent on the use of data for targeting, personalisation, content and delivery. Email and online advertising, the first and second most-used channels (86.6 per cent and 62.7 per cent respectively), have data at their very heart.

Reactivation, up-selling, retention and cross-selling combined are the biggest challenge for 55 per cent of marketers, compared to 45 per cent who are focused on the recruitment of new customers.

With an average churn rate of 20.7 per cent, it is clear why acquisition may be the biggest challenge for nearly half of companies. Marketing is having to work hard to refill the “leaky bucket” which, if nothing was done, would be empty of customers within 57 months.

Among the tools which marketing has at its disposal to increase campaign response and conversion rates, those rooted in data are considered as having the biggest impact. The usually headline-grabbing activity of creative design is only ranked fifth with a score of 3.1 out of 5, well below other key, data-driven aspects.

Given the rate of churn identified in this survey and the need to find new customers that this creates, it is surprising that only one-third of marketers (33.1 per cent) realise that a life event not only increases the likelihood that a customer might switch but also presents new customer acquisition opportunities.

Seven out of ten marketers recognise that the most important aspect of a life event is the reason it provides for them to engage with a customer - a

moment of supreme relevance if targeted appropriately. This is twice the level in 2014, suggesting the importance of life event data has gained significant traction in the last 12 months.

It is notable that the single most important life event as rated by marketers is a change of email address, with a score of 3.98 out of 5. With email the most-used marketing channel, it is obviously important to capture this change. There has been a significant increase in the importance of all types of life event to marketing since 2014.

Directly-owned contact channels are a rich source of customer contact data if used effectively. Web sites dominate the way marketers collect data with nearly nine out of ten identifying this as their primary data collection channel.

Marketing is the lead function for setting the data strategy and collecting data. What is striking is that in three out of ten companies a central data management function is responsible - a mature and highly-effective way to ensure data is captured in an actionable, sustainable manner.

Forty-five per cent of companies only use customer data which they have directly captured, whereas half of companies recognise that this view of the customer is only partial and so enrich it with additional data from third-parties. This is a significant shift compared to 2014 when the majority of marketers did use external data enrichment.

More dynamic datasets are still only used by a minority of marketers, such as mobile phone (31.4 per cent) or mobile app usage

(17 per cent), social (21.6 per cent) and life event (17.6 per cent). Typically, these need to be acted on in real-time or within a tightly-defined timescale, which only leading-edge marketers are currently able to do.

Nearly half of companies are validating customer address data both at the point of capture on the web site (46.1 per cent), a significant increase from only 34.8 per cent who did this in 2014. There has also been a rise in automated validation when data enters internal systems, such as CRM (up to 45.3 per cent from 30.5 per cent).

Despite the rapid evolution of technology and the introduction of entirely new cloud-based delivery models, technology remains the principle barrier to data-driven marketing, with 42.9 per cent of companies citing their database or CRM platform and a further 30.8 per cent saying technology is holding them back.

Permission marketing is not only best practice, it will soon be a legal requirement. Yet one third (32 per cent) say there is only a limited understanding of its importance and nearly one in ten (9 per cent) have no understanding at all - these companies are at risk of finding their marketing will either lack the necessary permissioned data resource or is not legally compliant.

If data management technology has advanced, some data quality issues remain intractable. The three biggest problems are data which is incomplete (72.5 per cent), out-of-date (70.2 per cent) or missing (67.4 per cent) - the same top three as were nominated in 2014. Fortunately, all of these issues can be resolved through the use of third-party data and service providers.

1. Why marketing needs data

1.1 Channels used in marketing

It is self-evident from the channels being used that marketing has become data-driven by default. Of the nine major channels used by more than four out of ten marketers, only face-to-face (ranked fifth and used by 44.4 per cent) and print (ranked sixth and used by 43.7 per cent) can make any claim to be accessible to marketers without the use of customer or prospect data.

Everywhere else, channels to market are fundamentally dependent on the use of data for targeting, personalisation, content and delivery. Email and online advertising, the first and second most-used channels, have data at their heart, while SEO is, in essence, a data and analytics activity, rather than an advertising medium.

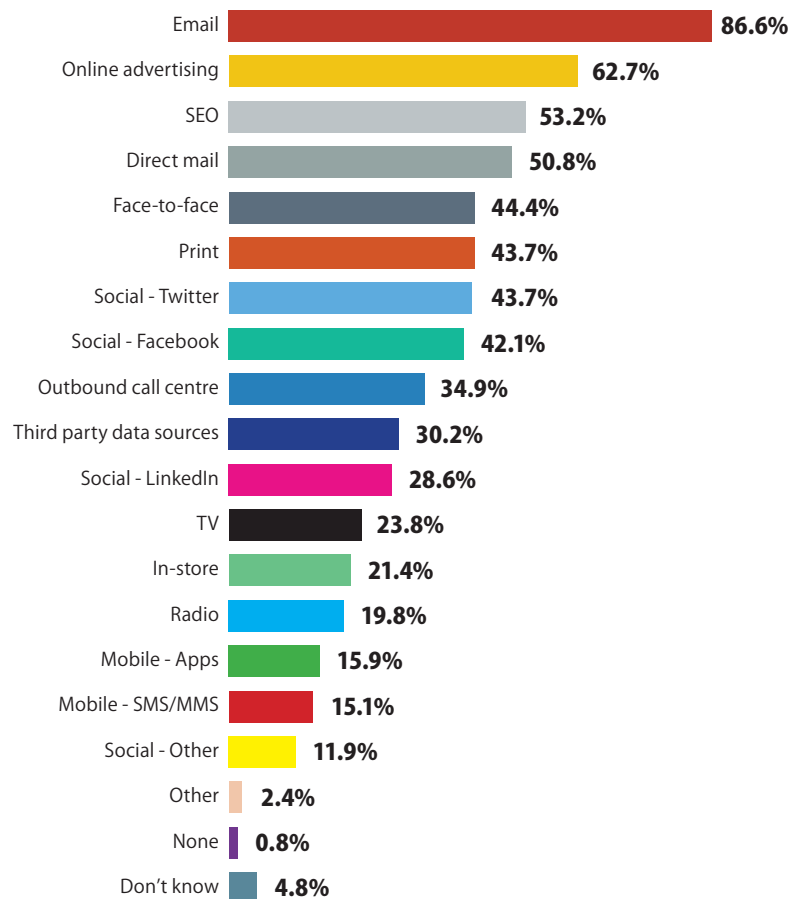
Among more minority channels (those used by fewer than a quarter of marketers), TV and radio are classic broadcast media where targeting is mainly at segment level - although this is changing with the growth of viewing/listening on demand - and in-store is relevant only for products with physical distribution where customer data may be collected by other means, such as loyalty cards or electronic receipts. Mobile channels may currently only be in use by fewer than one in seven marketers, but their presence in the marketing mix will only grow because of the rich data they provide.

1.2 Challenges facing data-driven marketing

Acquisition is still the dominant activity for marketers and the biggest challenge they face, although it has less focus than in 2014 when six out of ten marketers named it their biggest challenge. Prospecting can be an issue for data-driven marketing since it happens at the moment when marketers know least about the consumers they are targeting and have to rely on hand-raising responses to messages and promotions that might appeal to their presumed interests.

If the four different aspects of retention marketing are combined, however, it reveals a different split in terms of what marketers think to be their major challenge - reactivation, up-selling, retention and

Fig. 1.1 - Channels used in marketing



cross-selling have a combined score of 55 per cent, making customer-focused marketing a bigger suite of activities than the recruitment of new customers. This was already evident in 2014 when one-third of marketers said their biggest challenge was keeping existing customers. In 2015, marketers have a more nuanced view of their tasks.

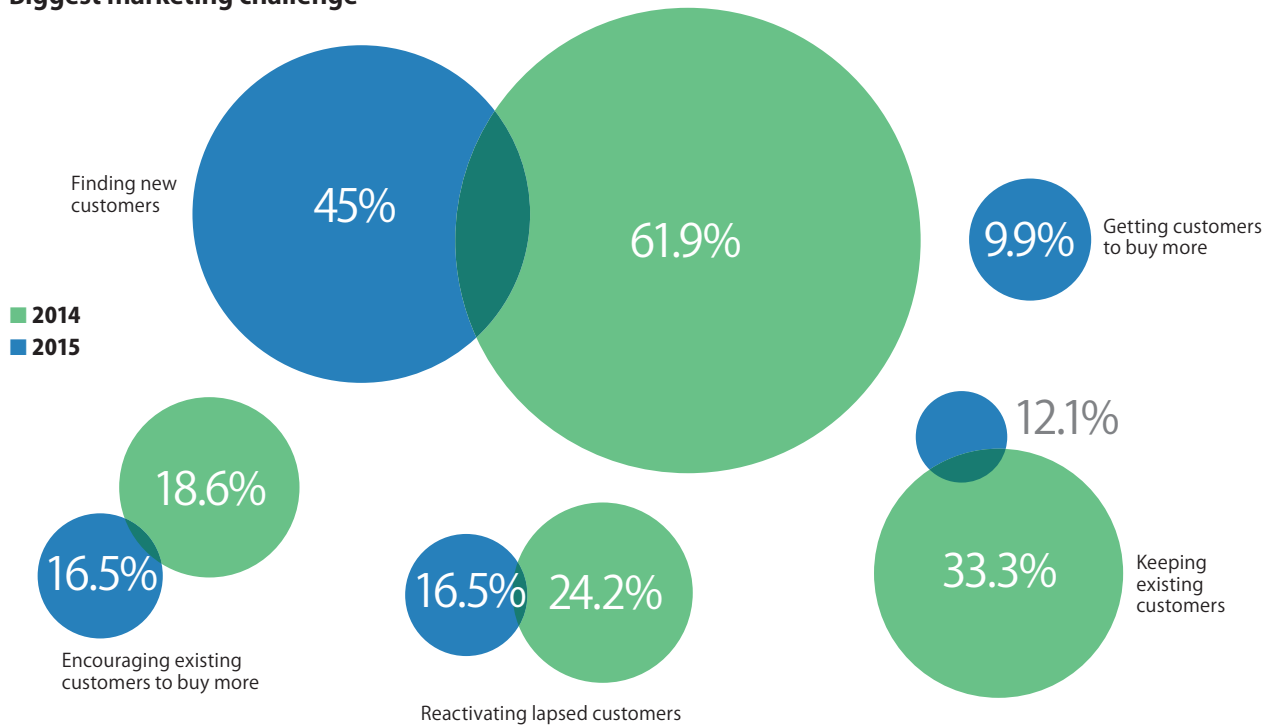
It should be noted that marketers can find measuring these four retention-oriented activities challenging because many of their outcomes occur downstream from the marketing input, so effectiveness is hard to gauge. For example, acquisition

is more often measured by response (such as click through rates or open rates) which are more immediate and easier to directly attribute to marketing activity. Going forward, marketers will have to work harder to directly attribute activities to solid business metrics.

1.3 Customer churn - marketing's biggest driver

For every 1,000 customers which a company has at the start of the year, 207 will have left 12 months later. With an average churn rate of 20.7 per cent reported by marketers in the survey, it is

Fig. 1.2 - Biggest marketing challenge



clear why acquisition may be the biggest challenge for nearly half. Marketing is having to work hard to refill the “leaky bucket” which, if nothing was done, would be empty of customers within 57 months. This is nearly on a par with the average churn of 18.7 per cent reported in 2014.

Some brands are fortunate to have a turnover of customers which is below 10 per cent annually. Since this is only enjoyed by one in five firms (21.6 per cent), it is clear that most customers are in perpetual motion and need the attention of marketing if they are to stay loyal.

Last year’s survey found a particular spike among companies with a churn rate of between 20 and 30 per cent - although this appears to have halved from 19.5 per cent of businesses to 11.1 per cent - that may simply reflect the dramatic rise in marketers who say they do not know this critical metric (22.2 per cent). Up from 14.7 per cent in 2014, this is a concerning trend, especially as it is increasingly common for publicly-quoted businesses to publish customer churn as part of their annual report - a useful indicator as to the effectiveness or otherwise of their data-driven customer marketing efforts.

1.4 Data’s impact on marketing effectiveness

Among the tools which marketing has at its disposal to increase campaign response and conversion rates, it is clear that those rooted in data have the biggest impact. The usually headline-grabbing activity of creative design is only ranked fifth with a score of 3.1 out of 5, well below other key, data-driven aspects.

Fig. 1.3 - Customer churn - marketing’s biggest driver

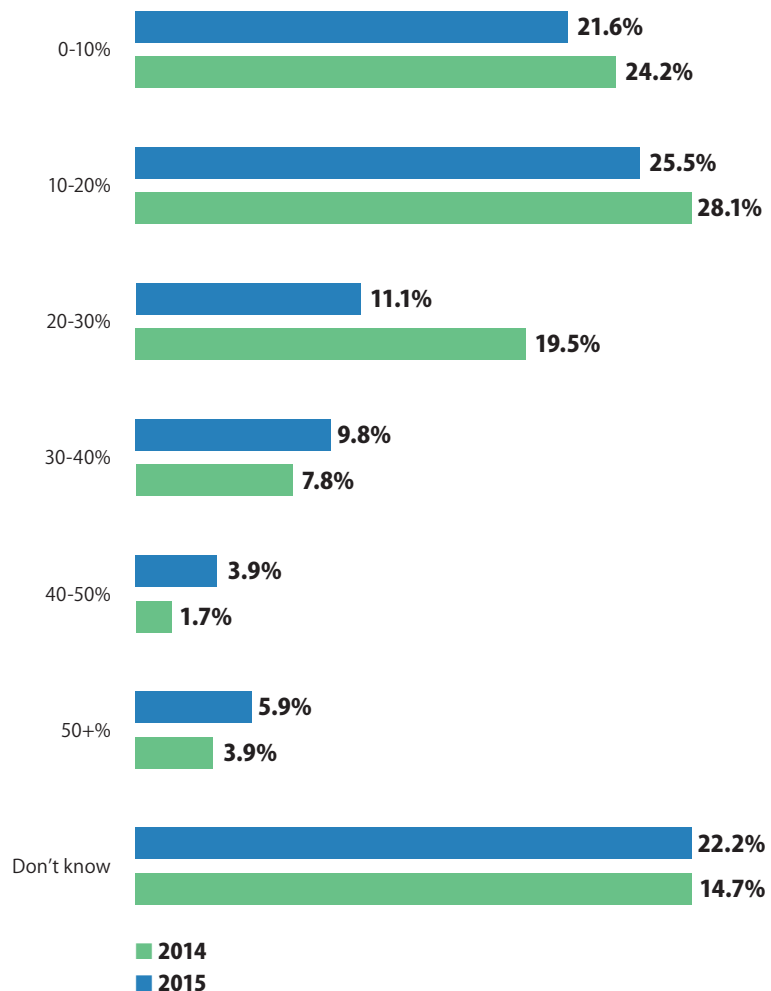
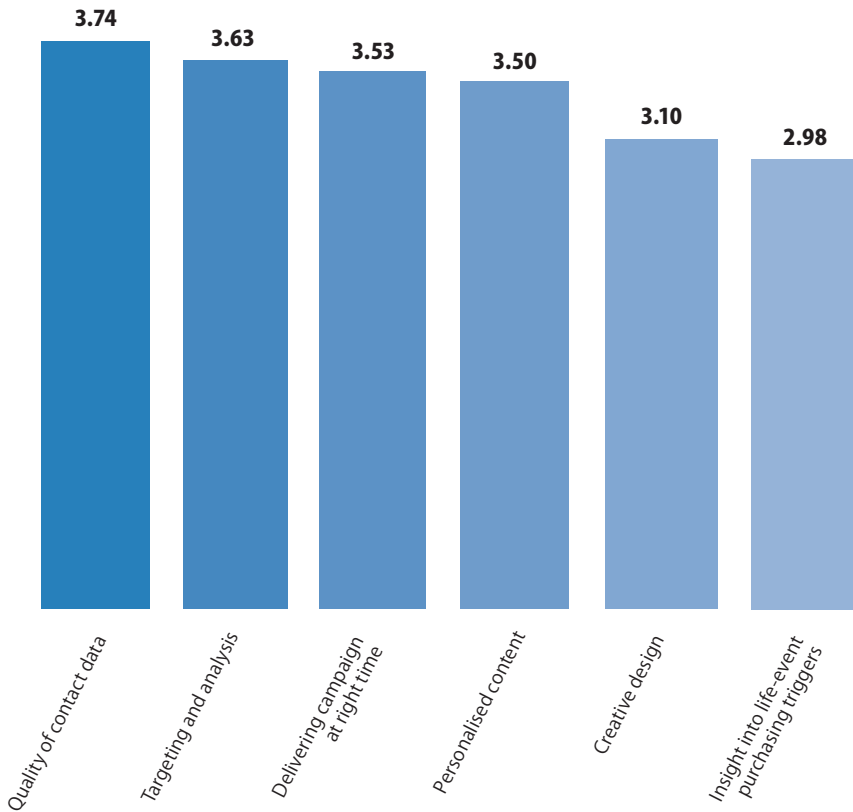


Fig. 1.4 - Data's impact on marketing effectiveness



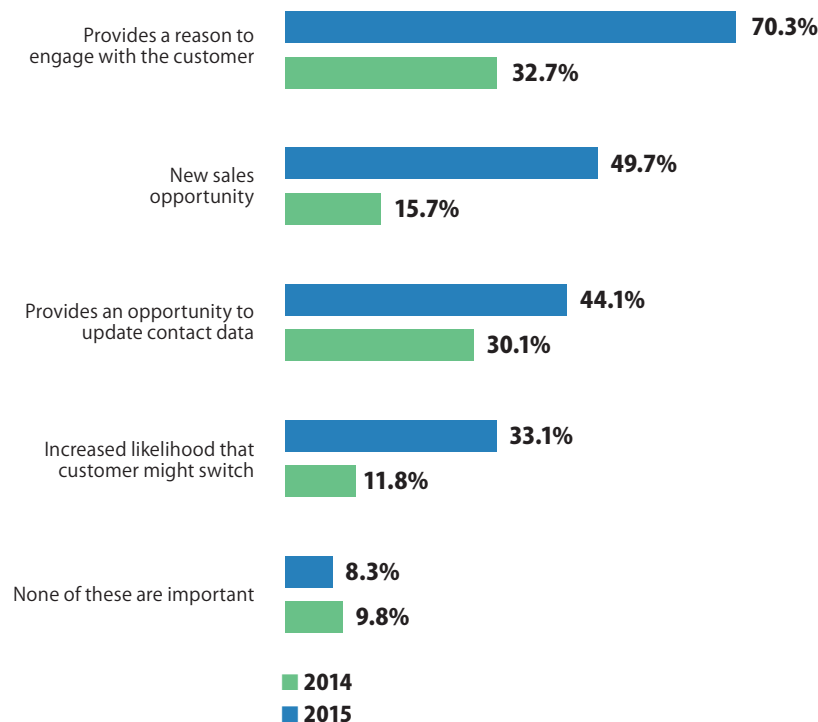
Data quality is the lead dimension since it impacts on both deliverability of marketing in targeted channels and also the perception of messages – in the simplest terms, for example, getting the address wrong means a message either does not arrive or is viewed negatively by consumers.

Marketers clearly understand the work they now need to do in order to make sure their messages have impact, with targeting and analysis achieving the second-highest score (3.63 on a 5 point scale). This is the critical and value-adding aspect of data-driven marketing, modelling behaviour and variables in order to select the most appropriate audiences to ensure messages are welcomed, well-received and directly relevant to specific needs at a specific point in time.

With the right data elements and selections in place, marketers can then focus on two core principles - timing and message - to drive up conversion. Both of

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Fig. 1.5 - Life events and marketing opportunities



these draw on the accurate, profiled data which has been created and are rightly scored highly (3.53 and 3.50 out of 5 respectively) for the impact they have. That life events are not yet strongly seen as the major purchasing triggers they really are, is possibly a reflection of the constraints of current systems, technology and processes to manage such dynamic data and therefore enable marketers to capitalise upon these opportunities.

1.5 Life events and marketing opportunities

There are two facets of any life event that occurs to a consumer - the first is the trigger it provides for the individual to make new purchases or to review contracts with suppliers, the second is the opportunities it creates for marketers in response to these behaviours.

Seven out of ten marketers recognise that the most important aspect of a life event is the reason it provides for them to engage with a customer - a moment of supreme relevance if targeted

appropriately. This is twice the level in 2014, suggesting the importance of life event data has gained significant traction in the last 12 months. This can be seen separately in the 51 per cent of marketers who acknowledged that it would be useful or very useful to identify when a customer might be considering a switch of supplier as a result of a significant life event.

In line with marketing's primary focus on new customer acquisition, half (49.7 per cent) identify a life event as a new sales opportunity - the largest rise year-on-year from just 15.7 per cent in 2014 who saw this. The opportunity to update contact data in the context of a life event - identified by 44.1 per cent, up by 50 per cent from 2014 - shows the value of maintaining contact across this moment in the customer's life.

Given the rate of churn identified in this survey and the need for new customers it creates, it is surprising that only one-third of marketers (33.1 per cent) realise that a life event increases the likelihood that a customer might switch. But the two-thirds who have yet to make the connection between a change of address, for example, and customer churn are not as in the dark as the 8.3 per cent who say that no life events are important to them. The first time these marketers are likely to learn about a customer's life event is when they switch.

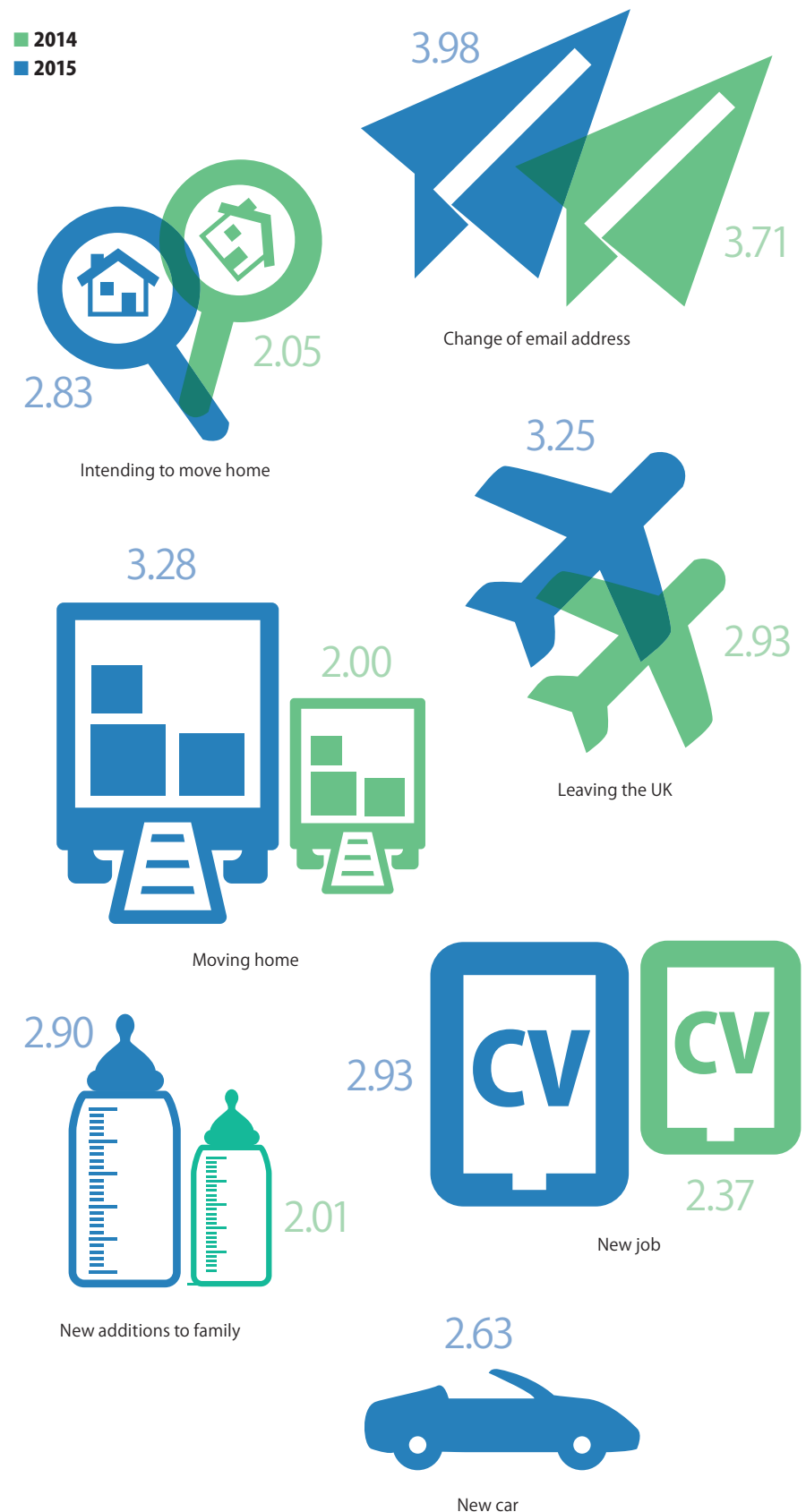
1.6 Importance of life events for marketers

It is notable that the single most important life event as rated by marketers is a change of email address, with a score of 3.98 out of 5. With email the most-used marketing channel, it is obviously important to capture this change. There has been a significant increase in the importance of all types of life event to marketing since 2014, with much higher scores than previously.

Over half of marketers (55 per cent) say that they understand the concept of life event marketing, however, their organisation has yet to realise the value of implementing a strategy based on marketing against these events. By contrast, 24 per cent are running this type of campaign. But for 21 per cent, the term is entirely new.

Life events come in many shapes and sizes from the highly-significant, such as a birth or relocating to another country, to the more transient, such as buying a new car. Each is the trigger for a set of new behaviours to which marketing needs to be alert in order to capitalise on the opportunity to make a sale or to minimise the risk of customer churn.

Fig. 1.6 - Importance of life events for marketers



2. How to implement data-driven marketing

2.1 Channels used to collect customer contact data

Directly-owned contact channels are a rich source of customer contact data if used effectively. Web sites dominate the way marketers collect data with nearly nine out of ten identifying this as their primary data collection channel. Web sites have a dual benefit for marketers - as a source of transactions (or information requests) which open the door to rich layers of information and also as a source of behavioural data even where the consumer is not directly identifiable.

Much of that activity is now taking place via mobile devices and this is reflected in the fact that 42 per cent of marketers name mobile web sites and 29.8 per cent mobile apps as key data sources. These are still outweighed by long-established, even traditional channels including direct sales (55 per cent), contact centres (48.1 per cent) and face-to-face (46.6 per cent), but retail and distribution channels have been overtaken by mobile.

Social media may have established a prominent place in the life of consumers, but they present challenges for marketers as data sources. Just over one quarter are using Twitter and Facebook (26.7 per cent each) or LinkedIn (24.4 per cent), building a base from which to begin consumer interactions that will progressively build rich insights into preferences and likes.

2.2 Functions responsible for data strategy

It is marketing's job to put the brand in front of the consumer as effectively as possible. It is not surprising, therefore, that marketing is identified as the lead function for setting the data strategy and collecting data. What is striking is that in three out of ten companies (29.5 per cent) a central data management function is responsible - this is a mature and highly-effective way to ensure data is captured in an actionable, sustainable manner.

Where CRM, sales or customer service take the lead, there is a risk that the data collected will only reflect the specific needs of those functions and may not cover non-customer data or behavioural, rather than transactional information. But a bigger gap is evident around e-commerce which should play a more critical role.

Fig. 2.1 - Channels for customer contact data collection

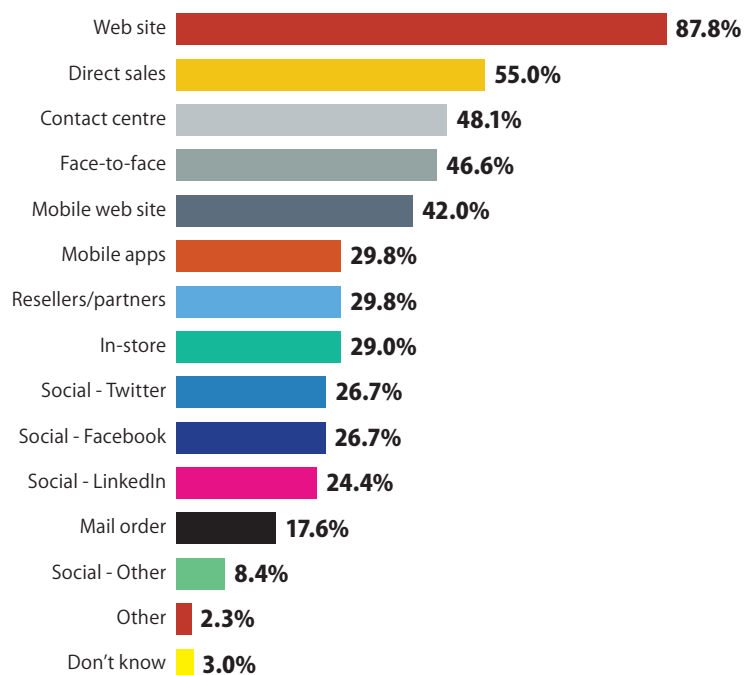
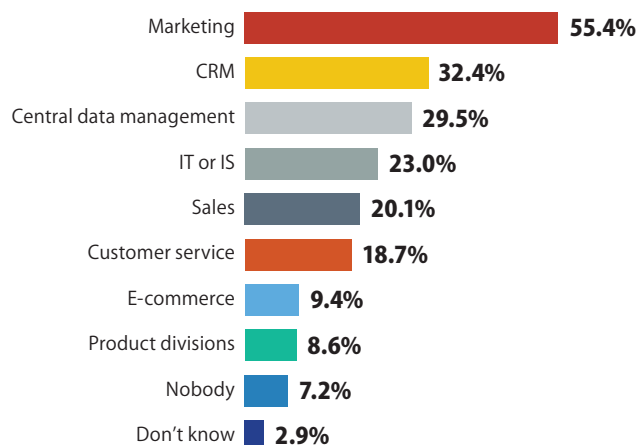


Fig. 2.2 - Function responsible for data strategy and collection



Most problematic for marketers, however, is where the data strategy is led by the IT department, as is the case in nearly one quarter of companies (23 per cent). A technology-led approach may create a customer data resource that is correctly formatted, managed and accessible, but which is unlikely to be built on a positive customer interaction.

2.3 Sourcing customer contact data

With marketing having the lead role in data collection and brand-owned channels acting as the primary sources of customer contact data, it is to be expected that 45 per cent of companies only use customer data which they have directly captured. This information is unique to each business and has obvious value as a result. That may also account for the growth in the number of companies relying on their own data alone compared to 2014.

But half of companies recognise that this view of the customer is only partial and so enrich it with additional data from third-parties. By combining the transactional and behavioural insight derived from direct interactions with information about what customers do elsewhere, a fuller picture can be created which will drive more relevant marketing. Life events are a particular type of data which a third party is more likely to be able to provide. Mapping existing customer data against dynamic life events data can help to identify specific purchase triggers, spend patterns and previously unidentifiable acquisition and retention targets.

2.4 Data collected for marketing usage

Certain types of data have a core role for marketing with postal address a pivotal component used by two-thirds (67.3 per cent), while demographic and life stage data are used by half (51.0 per cent). These are persistent variables on consumers that create matching points for other data types.

Depth and insight are strongest from transactional, behavioural and interaction data - these are being used by more than four out of ten marketers and are being drawn from both online (49.0 per cent), offline (44.4 per cent), digital (45.8 per cent) and location (45.1 per cent). One-third of marketers are tapping the most powerful indicator of consumer strength - financial data.

More dynamic datasets are still only used by a minority of marketers, such as mobile phone (31.4 per cent) or mobile app usage (17.0 per cent), social (21.6 per cent) and life event (17.6 per cent). Typically, these need to be acted on in real-time or within a tightly-defined timescale, which only leading-edge marketers are currently able to do.

Fig. 2.3 - Sources of Customer Contact Data

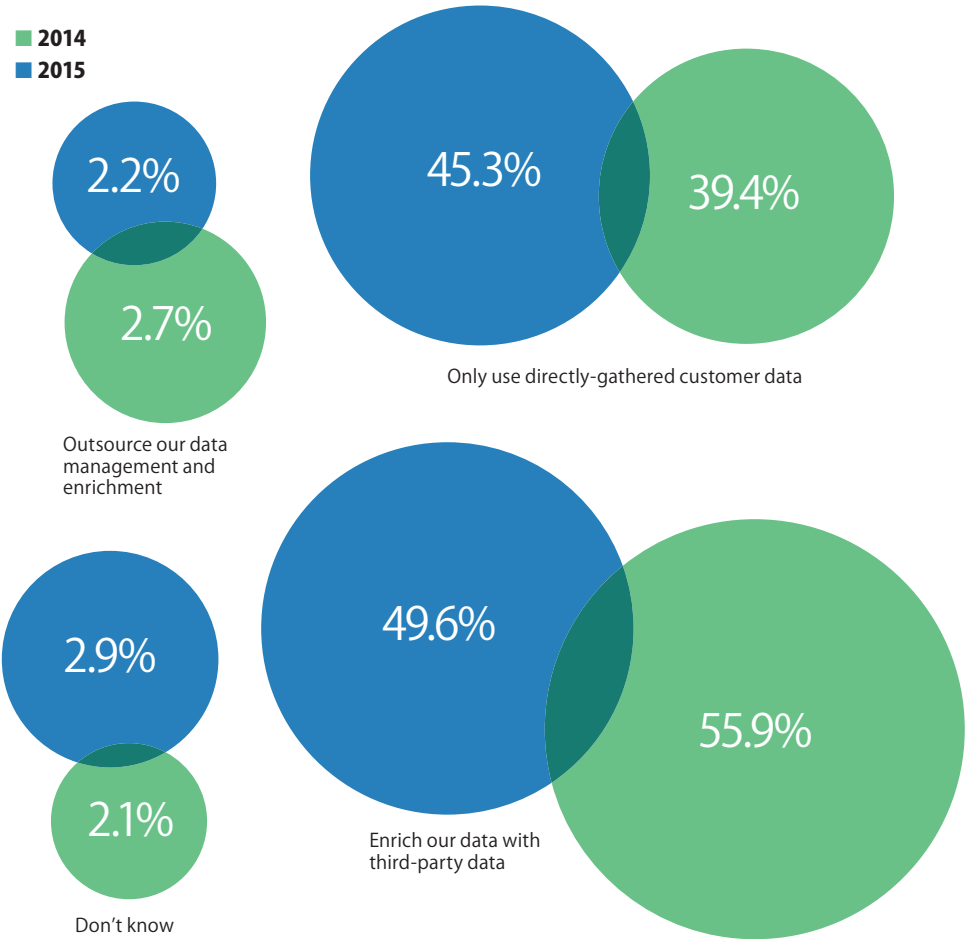
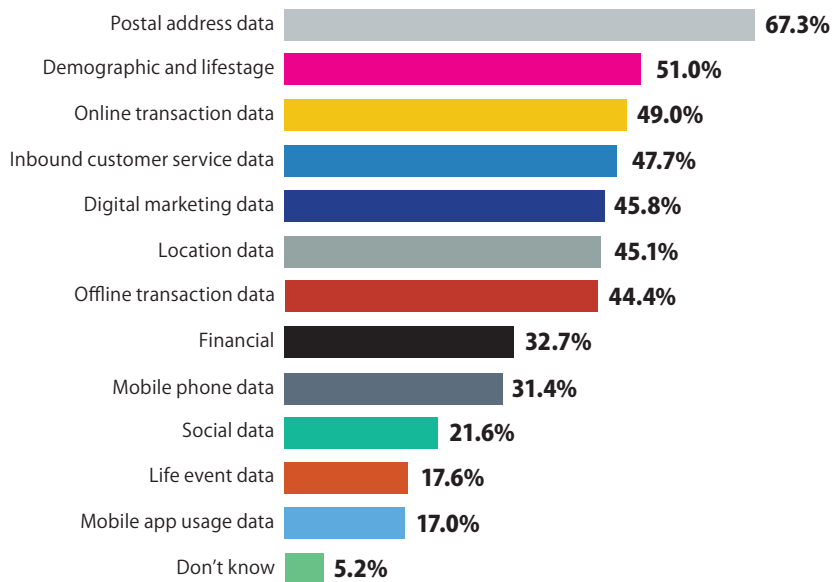


Fig. 2.4 - Data collected for marketing usage



2.5 Types of third-party data used by marketing

What can a third party tell a brand about its customers that its marketers cannot find out directly? Demographic variables are a good example, since many brand categories do not have a natural way to ask these type of questions when interacting with customers, which is why these are the most commonly-used at 44.3 per cent.

Contact details, such as email address (40.5 per cent), enhanced address data (33.6 per cent), landline (22.1 per cent) or mobile phone (15.3 per cent) are essential enhancements if these have not been captured directly. Social media ID is still very much a minority resource, added to customer records by just 14.5 per cent currently, but this is likely to increase.

It is worth noting that although 45 per cent of companies claim only to use directly-collected customer data, only 19.1 per cent insist they use none of the third-party enhancement variables available. It may be that some of these sources, especially address enhancement, have become so embedded into marketing processes that they are no longer recognised as coming from a third party.

2.6 How customer data is validated

Asking customers for their personal information is one thing, ensuring it is correct, accurate and up-to-date is quite another (and also one of the key requirements of the Data Protection Act). Unless contact data has been validated, the risk is that marketing and other business-critical processes, such as billing and statementing, will not be effective.

Nearly half of companies are validating customer address both at the point of capture on the web site (46.1 per cent), a significant increase from only 34.8 per cent who did this in 2014. There has also been a rise in automated validation when data enters internal systems, such as CRM (up to 45.3 per cent from 30.5 per cent). This double-check on accuracy is the benchmark for building confidence across the business in the customer contact data it relies on.

Manual checks may not be that prevalent in the online space (14.8 per cent) but twice as many companies (29.7 per cent) report manual processes in their internal systems - a sharp rise year-on-year. Since automated checking will always leave a residue of un-validated addresses, these manual checks can never be fully eliminated. But it is harder to justify why a fifth of companies are not checking customer address data at all when it is captured on the web site (21.9 per cent) or when it enters internal systems (22.7 per cent). Failure to validate data in this way can only impair business decision making, processes and marketing effectiveness.

Fig. 2.5 - Types of third-party data used by marketing

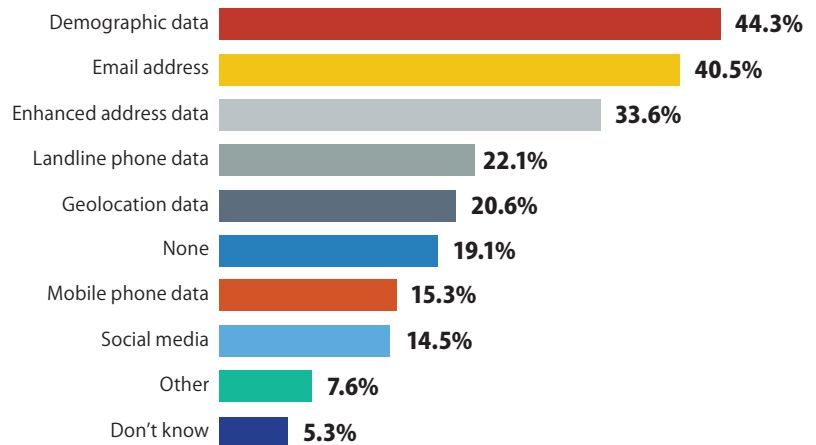
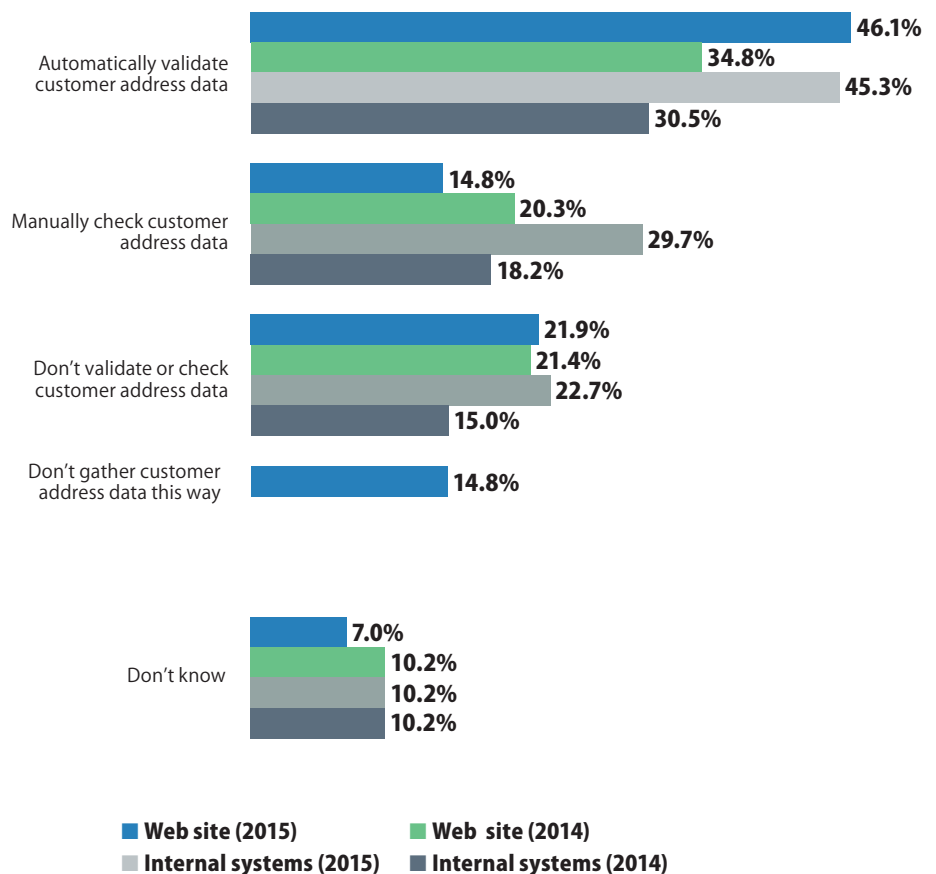


Fig. 2.6 - How customer data is validated



3. The adoption of data-driven marketing

3.1 Main obstacles to marketing becoming data-driven

Despite the rapid evolution of technology in the last decade and the introduction of entirely new cloud-based delivery models, technology remains the principle barrier to data-driven marketing, with 42.9 per cent of companies citing their database or CRM platform and a further 30.8 per cent saying technology is holding them back. It is clear that there is still a lot of investment required by chief marketing officers in order to bring their systems and processes in line, particularly if they are going to capitalise on the opportunities afforded by dynamic data.

Significantly, however, it is not issues with data that are perceived as problems. A lack of required data only ranks fifth in importance for just over the one quarter of marketers (27.5 per cent), with nearly as many (25.8 per cent) blaming a lack of understanding of the importance of customer data. More complex data challenges such as privacy (15.9 per cent) and security (7.1 per cent) are not at the forefront of preventing marketing from becoming data-driven. Perennial issues about culture (39.6 per cent) and budget (31.3 per cent) score twice as highly. It's time for a culture change!

3.2 The importance of permission marketing

Although most companies may not perceive data issues to be an obstacle to their data-driven marketing, there is one critical hurdle they need to get over - gaining their customers' permission for marketing. This is best practice even in the current two-tier framework which demands an opt-in for email, phone and SMS and an opt-out for direct mail.

One quarter (23 per cent) are in a good position for this change since the impact of permission on marketing is well understood in the organisation. Another third (35 per cent) have some understanding on which to build. But one third (32 per cent) say there is limited understanding and nearly one in ten (9 per cent) have no understanding at all - these companies are at risk of finding their marketing will either lack the necessary permissioned data resource or is not legally compliant.

Fig. 3.1 - Obstacles to data-driven marketing

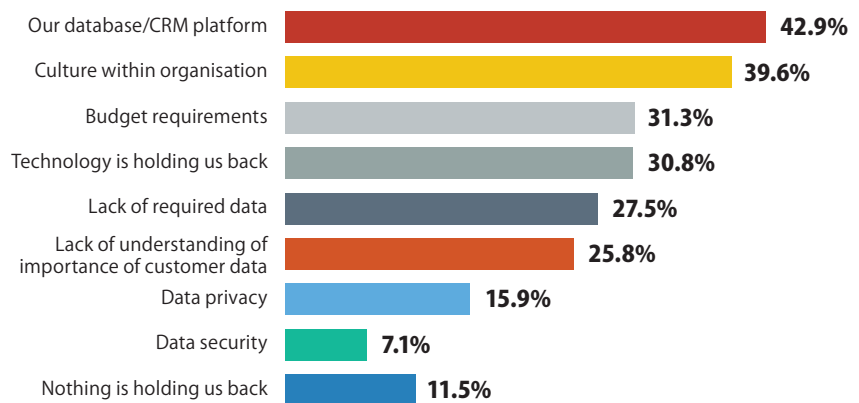
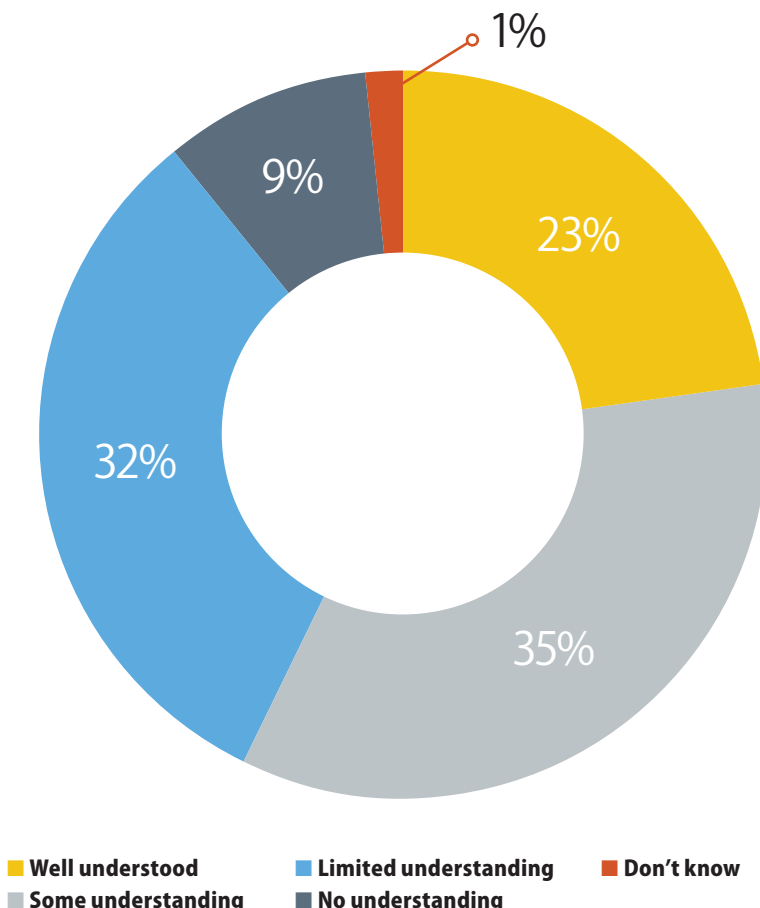


Fig. 3.2 - Is the impact of permissions on marketing understood by other functions?



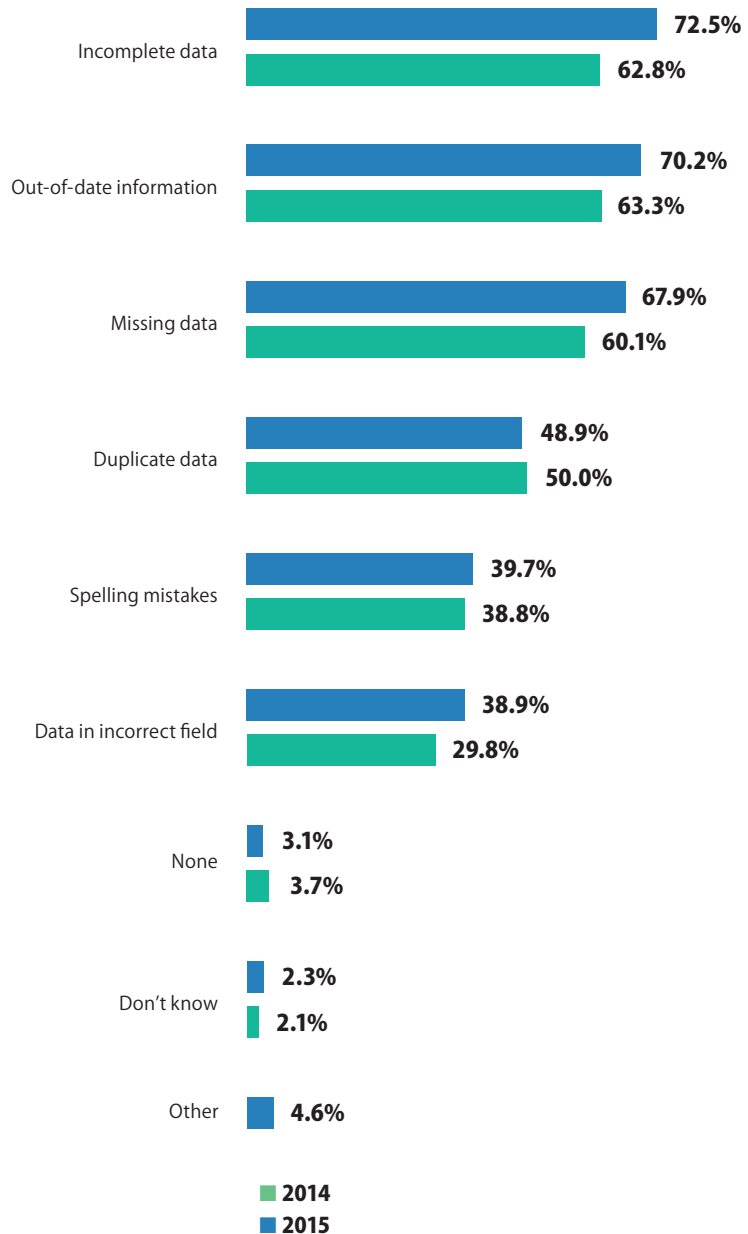


3.3 Causes of poor data quality

A significant challenge for data-driven marketing is the need to maintain data quality. There are many ways in which customer contact data can be wrong and, as a result, either be unusable or reduce the impact of a marketing campaign through reduced relevance, un-deliverability, or poor targeting.

If data management technology has advanced, some data quality issues remain intractable. The three biggest problems are data which is incomplete (72.5 per cent), out-of-date (70.2 per cent) or missing (67.9 per cent) - the same top three as were nominated in 2014. All of these issues can be resolved through the use of third-party data and service providers. More technical processes are required to resolve duplicates (48.9 per cent), spelling mistakes (39.7 per cent) or data in incorrect fields (38.9 per cent). For these challenges there are also well-established processes and third-party service providers who can get marketing data into the right shape.

Fig. 3.3 - Causes of poor quality data





About Royal Mail Data Services

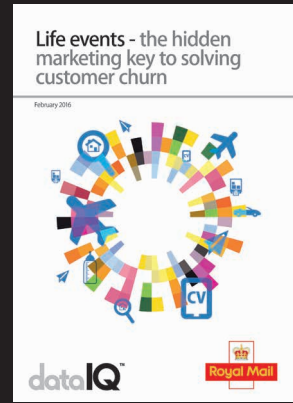
Royal Mail Data Services is the specialist data business of Royal Mail Group. We're committed to helping our customers build data-driven businesses to improve business performance so we're constantly developing new contact and address datasets as well as new ways for businesses to source, capture and use data. Every day we're providing businesses of all sizes with a combination of contact and address data, data insights and analysis, and data quality management services.

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Life events - the hidden marketing key to solving customer churn

Methodology

Royal Mail Data Services conducted an online survey among registered members of the DataIQ community of data, marketing and analytics practitioners during October to November 2015. The self-completion questionnaire was completed by 185 respondents across both business-to-consumer and business-to-business organisations.



About DataIQ

Formed in 1996 DataIQ helps ambitious organisations who recognise data as a valuable asset. We specialise in data consulting, research, audit services and technologies to firstly de-risk data assets and once protected help our clients use their data to drive business performance. We launched the DataIQ programme of events, publications, research and online in 2011 to champion the use of data as a valuable asset and to meet the need from the fast growing number of professionals for specialist help and advice on all aspects of data to drive performance.

Today our community comprises over 5,500 hard-to-reach, cross function data-driven professionals from leading brands and FTSE 100 organisations with over 2,000 having attended our live events, many come again and again.

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