# The Wastage of Potential Advertising Opportunities through Existing Customer Communications

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## Principal Findings

£557.5 million of potential advertising opportunity is wasted by UK industries every year.

Specific figures for each industry studied are:

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|---|---|
| Banking | £ 169.5 million |
| Credit Card | £ 154.3 million |
| Utilities | £ 63 million |
| Retail | £ 50 million |
| Fixed Line Telecoms- | £ 45.8 million |
| Mobile Telecoms | £ 42.2 million |
| Insurance | £ 32.7 million |

## Introduction

Marketers face an over-whelming choice of media when planning a marketing campaign, ranging from the more traditional channels such as direct mail, to the latest fad, currently multi-media messaging (MMS). Over the past ten years marketers have concentrated on reaching their customers by creating new channels to market. We have seen the introduction of the call centre, the web and more recently interactive television as marketing media.

'Multi-channel' has become a major marketing buzzword, resulting in more and more companies utilising different media in an attempt to improve customer acquisition, retention and development. But which channels are proving the most effective? A recent study by Pitney Bowes shows that marketers believe direct mail, regardless of competition from new, trendier media, still delivers a high return on investment (ROI) and that SMS is performing less well than hoped. Yet, how much attention do consumers actually pay to the different forms of media? Popular conceptions are that advertisements on television provide a useful break to run to the kitchen for a refill, SMS messages are seen as an imposition and are deleted immediately and direct mail is often thrown straight in the bin. But are these preconceptions accurate? This report investigated each marketing channel and Part 1 reveals the truth behind such presumptions.

However, the argument for most marketers is not an either/or when employing media, as most campaigns are multi-channel in order to reach the optimum number of targets. No one is a monomediac. Therefore the most valuable information is how to combine different channels to drive effective campaigns that deliver measurable business outcomes. A starting point is how much consumer attention each channel commands. Consequently, Group 1 Software commissioned MarketingUK to conduct a research study into which media are the most attention grabbing. This is investigated in the first part of this study. The objective was to rank each channel according to its average attention span. The results ascertain the most advantageous channels in terms of customer penetration.

The cost-effectiveness of campaigns is another issue faced by marketers. With budgets shrinking by the day, surely one would expect companies to optimise their current platforms than looking for leading edge marketing opportunities. But are they? In the second part of this study we examined whether the utility, bank, credit card, telecom, retail and insurance industries utilise their existing customer communications, as a cross-selling or advertising tool. We also calculated the advertising opportunity wasted by each industry.

The number of customer communications (figure 1) was calculated by questioning companies within each sector about the number of bills, statements and customer correspondence sent on average to consumers each year. To produce a figure for the individual industries the results were averaged.

To find the volume of communications mailed per industry (figure 2) the volume of correspondence sent per customer was multiplied by the total number of customers (sourced from various trade organisations).

The usage of existing customer communications as a marketing tool was determined by surveying leading businesses within each vertical segment to determine whether they used their customer communications or bills and statements as a cross-selling or advertising tool. The results were converted into percentages and averaged in order to give an industry wide view.

This last graph (figure 4) depicts advertising opportunity wasted by not utilising existing customer communications as a marketing channel.

It is worth describing how this valuation of wasted advertising opportunity was arrived at. It was decided to base the calculation on the typical cost of a stand-alone direct marketing piece because our panel of media experts and academics felt that it provides the closest parallel medium. After all, the majority of a customer base (across the industries we studied) can only be reached by mail.

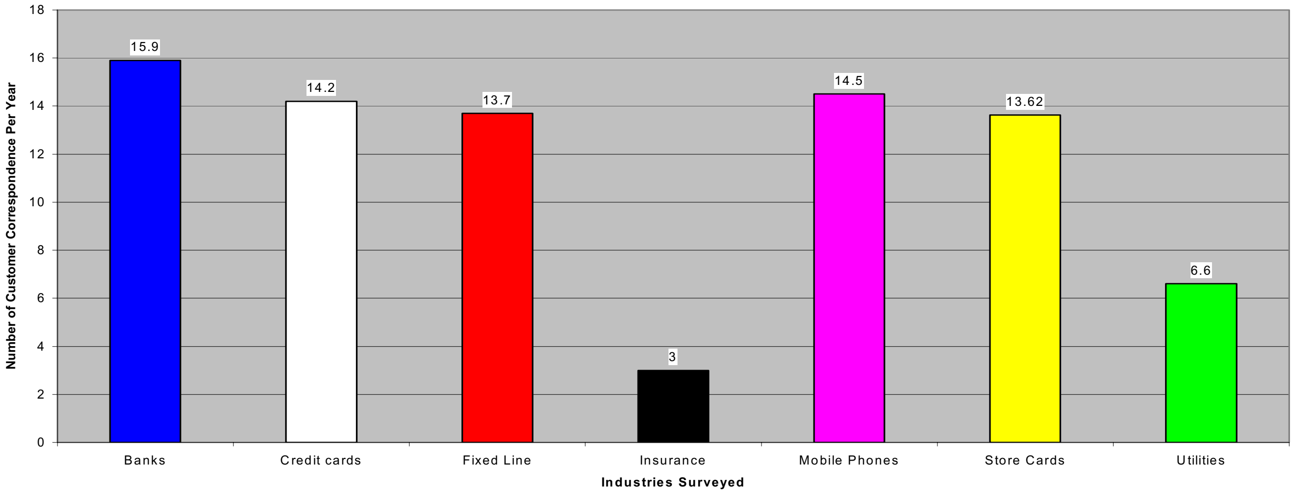


*Figure 1. Average number of customer communications sent per year to an individual customer*

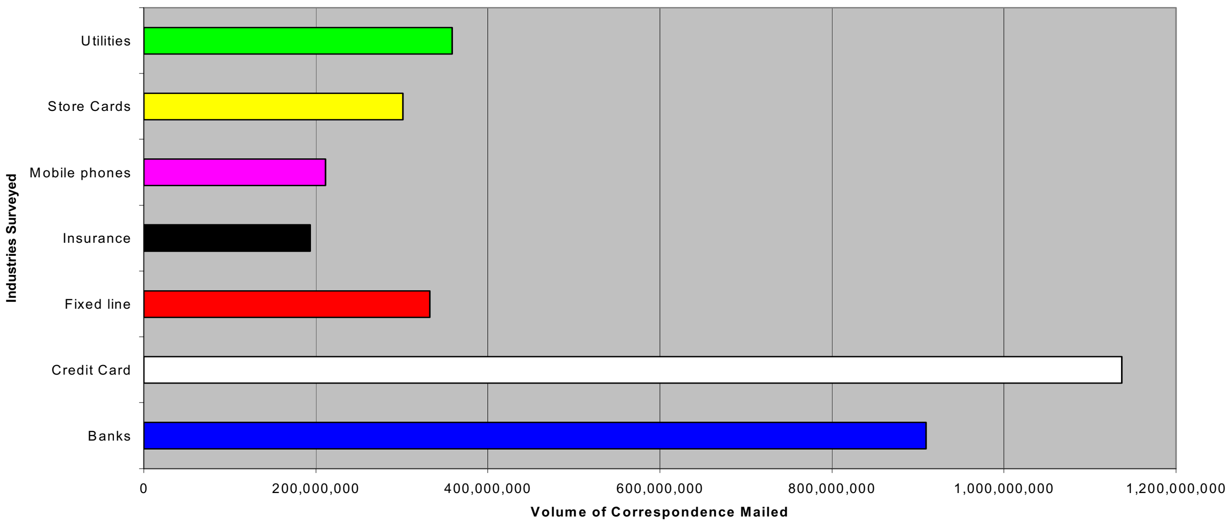


*Figure 2. Volume of customer correspondence mailed by each industry per year*

The typical cost of a direct marketing piece was derived from official information sources such as the Direct Mail Information Service. However, it was recognised that creative freedom and potential creative impact has a level of limitation when 'piggy-backed' with a bill, statement or piece of customer correspondence. A survey among the UK's top 100 DM agencies helped us fix an agreed average suppression level that had to be applied to our valuation in order to take account of these creative restrictions.

## The Banking Industry

The banking industry sends out the largest number of customer communications per client each year (see figure 1). The average account holder will receive 15.9 bills, statements or letters regarding their account. It also wastes the most potential advertising opportunity (see figure 4) on average £169.5 million, per year. In addition, banks are second from bottom of the table depicting the percentage of communications used for cross-selling or advertising purposes (see figure 3), utilising only 12.5%.

It is astonishing that banks waste the highest proportion of potential advertising opportunity, as arguably, they are in the best position to cross-sell their own products and advertise products and services of non-conflicting companies. Banks hold a large volume of data on their clients' financial life, ranging from what supermarket they shop at, to whether they go to a hairdresser every six weeks, all based on individual's account data. This information puts banks in an ideal position to attract affinity partnerships.

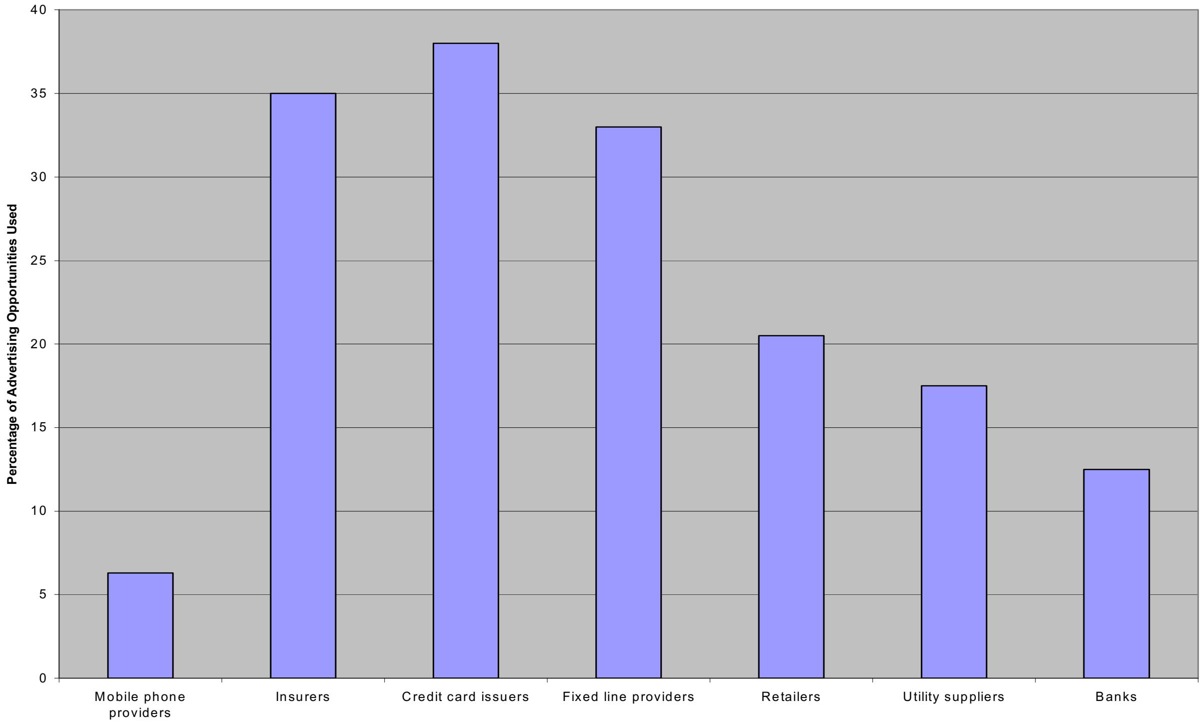


*Figure 3. Industry usage of existing customer communications as a marketing tool*

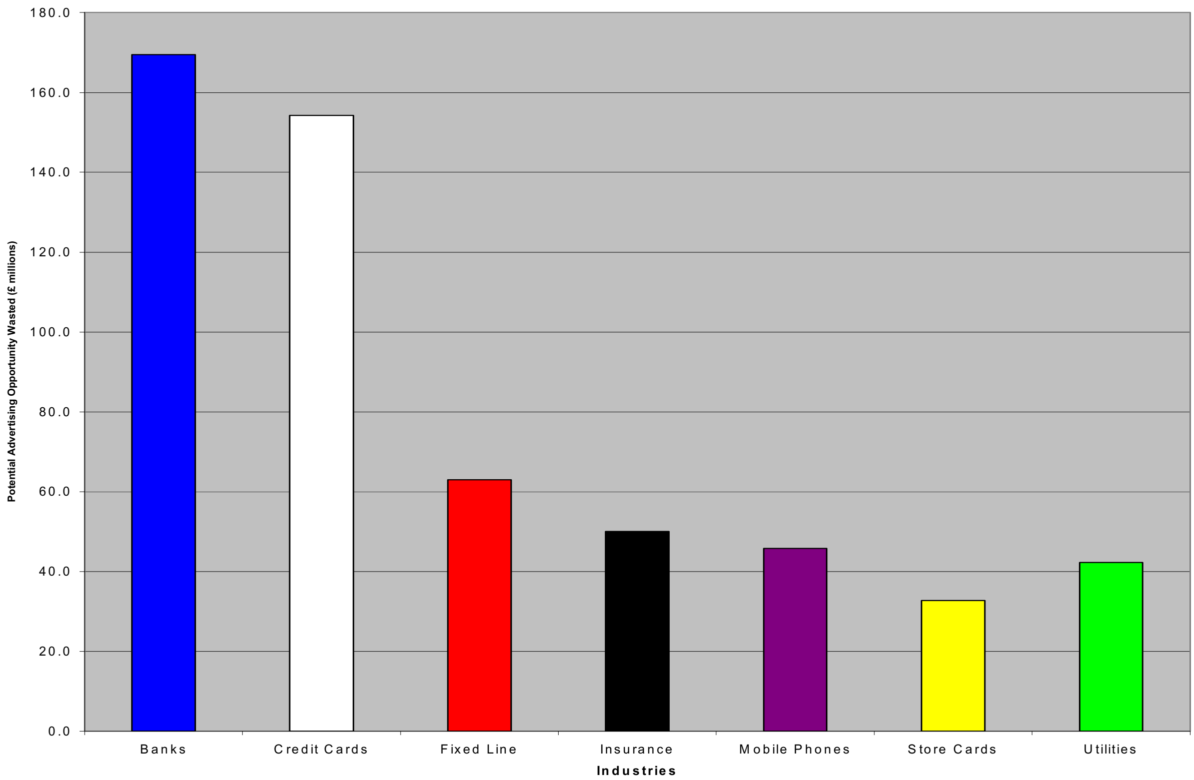


*Figure 4. Potential advertising opportunity wasted by industry per year*

Banks are in the enviable position of having face-to-face contact with consumers at the service desk and one-to-one meetings between account manager and client. This helps to form a well-rounded profile of the customer. This knowledge of the consumer can be converted into advertising opportunity by using the data to cross-sell additional products and services, such as pensions, mortgages and insurance. However, a negligible proportion of retail banks, from those researched, utilise their existing customer communications for affinity partner advertising and only 25% cross-sell products to their client base.

## The Credit Card Industry

The credit card industry is one of the most competitive sectors within the UK and issuers employ some of the most aggressive marketing strategies across the financial services industry. Consumers are bombarded with direct mail, advertising campaigns, leaflets, emails and telephone calls informing them of the deals available. Many offer introductory promotions with discounted APR, low interest rates on balance transfers, and no annual fees. Recent figures show that credit card spending is at an all time high, capturing 45% of the 12 billion growth in outstanding unsecured personal borrowing. The Credit Card Research Group estimates that the credit cards currently in circulation equate to 1.8 cards per adult.

The introduction of internet based issuers and supermarkets offering cards has served to widen the appeal. Application has never been so quick and easy, especially with the advent of online card companies. Simple application processes and the large array of cards available is enabling consumers to play the market, swapping cards regularly in order to take advantage of the best interest rates. Churn is therefore extremely high, yet few issuers are utilising their existing customer communications as an advertising medium – even for retention offers.

LMR/MarketingUK's research shows that only 38% of communications are used as a marketing tool (see figure 4), which - although a low percentage - tops the table of the industries surveyed (see Fig. 3). The 38% is made up entirely of online issuers. It is becoming increasingly obvious that internet credit card providers are beginning to lead the field. Another example is that where certain issuers are notorious for sending out high volume, blanket mailings, some internet issuers have taken a more targeted approach and has reaped its rewards in terms of customer retention and acquisition.

The credit card industry is the largest customer communication mailer in terms of sheer volume, sending out in excess of 1 billion statements and letters each year, averaging out at 14.2 pieces per card holder per year. Of the billion touchpoints, 724,393,120 do not include advertising or cross-selling space, equating to a wastage of £154.3 million in potential advertising opportunity (see figure 4), the second highest wastage, after the banking industry.

### Fixed Line Telecom Providers

The industry has changed significantly in the past decade; households do not only require a fixed line for their telephone, but also for internet connection and interactive TV. The new wave of technology has provoked fierce competition within the industry, with the majority of the main players opting to cross-sell their services, such as broadband, over the telephone. Telemarketing is one of the most expensive marketing mediums due to the manpower necessary to conduct a campaign. A far more cost effective option would be to employ their existing customer correspondence as a cross-selling device.

Fixed line suppliers send out an average of 13.7 customer communications per line per year (see figure 1), the fourth highest of the industries surveyed, and they are utilising only 33% of those mailed (see figure 3). OFTEL maintain that 95% of UK households have at least one fixed line installed, meaning that each year, fixed line providers send out in excess of 320 million customer communications (figure 2). The industry is failing to advertise on 214,788,600 pieces of customer communication, adding up to a total wastage of £45.8 million in potential advertising opportunity.

## Insurance Industry

Insurers are wasting £32.7 million of advertising opportunity each year, the lowest figure of the industries surveyed (see figure 4). However, this is a result of their limited customer interactions. Insurers are the lowest mailers of customer correspondence, with only three pieces being sent to each policyholder per year (see figure 1). Although above average only 35% (see figure 3) of their communications are being used as a cross-selling or advertising medium.

Insurers are experiencing competition from industries that traditionally did not sell insurance, including supermarkets and banks. These industries obtain and deploy a more rounded view of the consumer, whereas insurers have had fragmented, intermediated, infrequent interaction with their policyholders, giving little opportunity to build a detailed customer profile. It is therefore unsurprising that insurers face a quandary about how to understand and retain their customers. Consequently, it is vital that insurers take the opportunity to cross-sell other policies to existing customers via their policy documents. If, for example, a customer takes out building insurance, personalise the policy to include an advertisement for content insurance at an offer rate tailored to the individual's risk profile. Insurance companies spend millions of pounds on uninspiring DRTV campaigns, yet, as proved, customer correspondence commands more consumer attention than any other media. Cross-selling in this way would therefore be a more cost-effective and targeted option.

## Mobile Phones

The mobile phone industry is one of the fastest growing in the UK. There are now 47 million mobile phone users in the UK, 69% of which are pre-pay (OFTEL). Consumers, especially the tech savvy, are obsessed by which phone they own and what tariff they pay. Mobile phone users are therefore extremely clued up on whether they are receiving a good deal. Consequently, the churn rate amongst contract customers (total base currently 14,570,000 – OFTEL) is high. Mobile phone providers, like banks, hold much data on their customers. The information is used to sell new tariffs and price structures to customers over the phone, but not on customer correspondence. The mobile phone industry is bottom of the table (see figure 3) for using its bills and communications, utilising only 6.3%. This inefficiency is overwhelming, since the data necessary to personalise cross-selling suggestions on bills (especially that most powerful and predictive of datasets – transactional information) is readily available. For example: We see that you are using your phone on average for an hour each day. Have you considered our x tariff, which allows 60 free minutes a day to any network? On average, the mobile phone industry sends out 14.5 customer communications per contract every year, the second highest volume of correspondence sent out (see figure 1) per customer. By failing to advertise on their communications mobile providers are effectively wasting £42.2 million a year in advertising opportunity.

## Store Cards

The store card market is booming, with more than 150 different cards available to the shopaholics of the nation. They work on a similar basis to credit cards, in that the consumer receives unsecured credit and a statement once a month. The store card market is less competitive than the credit card industry as retail outlets already hold appeal to their target market, enabling retailers to charge higher rates of interest. An application for a store card is also far more spontaneous than applying for a credit card, generally occurring at the point of sale.

Retailers market store cards as membership to an exclusive club. Card holders can receive 10% discounts on all purchases, are invited to card holder only evenings and sales previews and can receive money back on purchases if they are reduced later in the year. This all contributes to consolidating the relationship between customer and retailer.

Currently, there are 22.1 million store cards in issue (APACS). Consequently, retailers are the fourth largest mailers in terms of volume per annum, with 13.62 letters and statements sent out to each cardholder every year.

Retailers are significantly under average, using only 20.5% (see figure 3) of their customer communications as an opportunity to cross-sell and advertise. By neglecting to intelligently utilise customer correspondence, retailers are wasting on average £50 million of potential advertising opportunity a year (see figure 4).

## Utilities

Deregulation has changed the utility industry significantly, leading to suppliers providing more than one service. "Duel Fuel" deals have proved extremely popular with 70% of UK households buying their core utility products from one supplier (OFGEN). Currently, utility companies are branching out into other sectors, such cleaning, servicing and insurance; building on consumers' perceived trust of the company. Customer acquisition programmes include expensive telemarketing campaigns and door-to-door sales calls, direct mailings and even themed stalls in shopping malls. However, only 17.5% of their existing customer communications are used as an opportunity to cross-sell their additional products and services. Utility companies send out few communications, on average 6.6 to a household per year, the second lowest volume of the industries surveyed. Although a small number of communications, it is essential for marketers to utilise this medium since its untapped potential equates to £63 million of advertising opportunity, the third highest industry of those researched.

## Conclusion

The results of our consumer attention survey indicate the potential marketing strength of the under-utilised media channel of existing customer communications. It is natural for consumers to spend longer looking at their bills, statements and customer correspondence than at an SMS message, as the SMS message is unlikely to be as personal or as anticipated. Yet, marketers spend far more time, effort and money designing, implementing and integrating campaigns through traditional paid-for media than they do on utilising their existing customer communications. It is critical that marketers investigate the potential of customer correspondence as a marketing medium as communications, bills and statements command more consumer attention than any other media surveyed.

Consumer attention figures cannot predict which channels will provide the best return on investment or be most effective at retaining customers, however they are able to give marketers a strong idea about the length of time each channel has to get its message across.

An obvious conclusion is that *all* industries surveyed need to seriously take note of the advertising opportunity wasted by not utilising its existing customer communications. Marketers must examine strategies for implementing campaigns through their customer correspondence, incorporating all existing customer data. The possibility of selling advertising space to non-conflicting companies and setting up affinity programmes needs also to be explored. The power of using customer correspondence as a marketing tool is enormous, but only a few forward thinking companies have begun to explore its potential.

## Methodology

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| Research Base | Senior marketers from UK top 1000 companies |
| Weighted Sample | 15%+ |
| Research Period | January – February 2003 |
| Research method | Telephone and Email Questionnaire, Consumer Diaries, Market Analysis |

## Biography

**Andrew Greenyer** graduated from the University of London in 1983, where he obtained an Upper Second in Mathematics. He then joined the Royal Mail in their Direct Marketing Department, during this period Andrew obtained a Diploma in Marketing. He joined Group 1 Software in 2000 where he is now Director of Customer Relationship Solutions. Andrew has lectured on the Diploma in Direct Marketing and on the subject of Segmentation and Geo-demographics.

# Leveraging Customer Information to Drive Measurable Results in Revenue Growth and Loyalty

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## Abstract

Sustaining brand loyalty and consumer demand has become increasingly difficult for marketing practitioners. Millions of dollars are invested annually in marketing and merchandising programs only to see declining consumer response rates and lower campaign returns on investment. The traditional one-size-fits-all approach to Direct Marketing has lost its effectiveness. It's time to move away from product-focused direct marketing to customer-focused direct marketing. This White Paper provides you with a new way to think about how you can leverage customer preferences and purchase propensity to drive higher response rates and revenue.

## Biography

**Derrin Fund** joined Xerox in 1995 and has held senior marketing and sales management positions in document technologies and systems integration business units. Mr. Fund works with clients to develop direct mail campaigns that generate extraordinary results by leveraging customer data and variable content.