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**DEVELOPING AN UNDERSTANDING OF THE USE
OF MARKETING DATABASES IN CANADIAN INDUSTRY**

by

Andrea Turner, B. Comm.

A Thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfillment of
the requirements for the degree of

Master of Management Studies

School of Business
Carleton University
Ottawa, Ontario

May 1998

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in partial fulfillment of the requirements for
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Thesis Supervisor

Director, School of Business

Carleton University
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Abstract

Based on the currently available literature in the area of database marketing, little is known about how marketing databases and the information that they contain are being used by Canadian organizations. This research provides baseline information about their use and is focused on gathering information about the perceived advantages and disadvantages of the use of marketing databases, identifying how the information in marketing databases is being used in marketing activities, and examining how the information itself is maintained. In addition, this research provides a first attempt at the development of an index of sophistication.

The research revealed that the advantages and disadvantages cited extensively in the literature received mention by the respondents interviewed for this thesis. However, they were not as highly mentioned as was expected. The most common use of the marketing database was found to be in direct marketing campaigns. In addition, marketing databases are maintained in very different ways across organizations and no one ideal way is suggested.

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Chapter 1 Introduction

The use of database marketing as a marketing tool began in the 1980s and continues to grow daily.

Canadians purchase over \$11 billion in goods and services a year through Canadian-based direct response media. The industry is growing at an annual rate of 4.3%. Canadian direct marketers and their suppliers provide over 210,000 full time jobs to the Canadian economy (Canadian Direct Marketing Association, 1997).

However, neither the actual ways that Canadian organizations use database marketing nor the entire process of database marketing have been well researched. Little information about its use is available. There is no research, that the researcher could find, to show how firms obtain, maintain, and use information about individuals and other organizations. Baseline research is becoming more necessary as the use of this technique by Canadian organizations continues to grow. It is also important to have more information about how marketing databases are being used because the government is producing legislation in this area.

First, it is important to define what is meant by the term database marketing (other definitions are available in section 2.2.2). For the purposes of this research, it is defined as:

Managing a computerized relational database system, in real time, of comprehensive, up-to-date, relevant data on customers, inquiries, prospects and suspects, to identify our most responsive customers for the purpose of developing a high quality, long-standing relationship of repeat business by developing predictive models which enable us to send desired messages at the right time in the right form to the right people - all with the result of pleasing our customers, increasing our response rate per marketing dollar, lowering our cost per order, building our business, and increasing our profits (Hughes, 1991).

This research focused on developing an understanding of the use of database marketing by Canadian businesses. The study centered on the types of marketing databases used by Canadian firms, the advantages and disadvantages realized by their use, the way the information they contain is used, and the way they are maintained.

This area of research is important because many firms are increasingly relying on new techniques such as database marketing in order to obtain and keep customers. In order to use database marketing effectively, a fuller understanding of how businesses are using databases is needed.

This research will, first and foremost, be of benefit to the firms using database marketing but it will also be helpful to other groups. Consumers who have concerns about privacy and the environment need to know exactly what businesses are doing with the information that they have. As well, the government is struggling with the privacy issues and how to develop policy in this area, and any additional information that provides a better understanding of the current situation will be beneficial. Finally, this research will provide information that can and should be added to marketing curricula in order that marketing students can gain an understanding of one of the new topics in marketing which at the present time receives little attention in formal training.

The research was exploratory in nature and was conducted in two waves. The first wave, which was conducted during the fall of 1994 and spring of 1995, consisted of one-on-one interviews in Ottawa and telephone interviews to Toronto and Montreal with 2 types of organizations - direct marketing consultants and owners of marketing databases. Thirty interviews were conducted with direct marketing marketers in organizations which help clients to use their lists to target customers and prospects. This category would include

organizations such as advertising agencies, marketing service bureaus, and list brokers. The other thirty interviews were conducted with individuals in organizations who maintain, compile and use their own lists. The list that was used to select the sample was obtained from the Canadian Direct Marketing Association. The second wave of research, conducted in the fall of 1996, was a follow-up fax survey to the same 60 respondents who consented to be interviewed during the first wave. This was an attempt to provide a longitudinal view of the use of marketing databases.

This thesis is divided into several sections. Chapter 2 will review the existing literature on database marketing and related fields. This review includes an examination of the reasons for the rise of database marketing, its advantages, issues confronting the marketer with its use, and what is known about how it is managed within the firm. The review will conclude with a discussion of the strengths and weaknesses of the available literature in this area. Chapter 3 will outline the research area, question, and objectives, while chapter 4 describes the methodology that was used in this research. Chapter 5 will provide the data analysis of, firstly, the telephone and face-to-face interviews, and secondly, the follow-up fax questionnaire. Chapter 6 will provide a general overview of the findings of the research. The final three chapters will discuss the implications of this research, its benefits and limitations, and the finally, the conclusions which were derived from this thesis.

Chapter 2 Literature Review

2.1 Overview

The literature available in the area of database marketing, when this research was first undertaken, was almost non-existent. While more and more about marketing databases is becoming available, there has yet to be published any baseline information about how Canadian businesses as a group are using the information that they have at their fingertips. As a result, background information on database marketing for this thesis includes the few directly related academic pieces as well as newspaper articles, papers produced by database marketing consultants, reports of interviews with people working in this field, and information from trade associations such as the Canadian Direct Marketing Association (CDMA).

Section 2.2 of the literature review will consist of definitions of some of the important terms used in this area. These include: direct marketing, database, and database marketing. While little theory is currently available in the area of database marketing, the third section attempts to provide a theoretical perspective of this subject through an explanation of relationship marketing and its ties to models such as predictive modeling and the Recency, Frequency Monetary (RFM) model. The fourth section outlines the reasons for the rise in database marketing, including the high cost of traditional channels, its applicability to many industries, technological changes, the Free Trade Agreement, environmental concerns, and the recession. The fifth section examines the many potential advantages that can accrue to businesses and consumers as a result of the use of database

marketing while the sixth section reveals four of the key challenges confronting the marketer. The four most important, and most often discussed, factors are: privacy issues, government regulation of the industry, environmental concerns, and the complexity of developing a workable strategy with this tool. Each of these will be examined in turn. While these are issues which confront all marketers, not only those using databases, they are important issues whose effects are particularly evident in the use database marketing. The seventh section deals with an explanation of what is known about how the database marketing process is managed within the firm, including which types of information to include in a marketing database, and where this information can be obtained. The eighth section examines what is known about the current level of sophistication of use of database marketing by organizations and the ninth section outlines the research propositions which can be derived from a review of the literature. The final section discusses the strengths and weaknesses of the existing literature.

This literature review is an attempt to highlight the important issues which have been written about in the area of database marketing. It also focuses on the areas in which little research or writing has been done. It certainly provides the justification of the need for additional research in this area and shows how this thesis research is an important step in building this necessary knowledge.

2.2 Definitions

2.2.1 Direct Marketing

Direct marketing and direct selling have been around for years but have really been growing in popularity over the past two decades. In 1990, direct marketing was a \$7.8 billion business that employed 200,000 in Canada (Morin, 1992). The Direct Marketing Association defines direct marketing as

an interactive system of marketing which uses one or more advertising media to effect a measurable response and/or transaction at any location (Kotler and Turner, 1993).

So, this definition of direct marketing serves to include many forms of marketing other than direct mail which usually comes to mind when the term direct marketing is used.

Other forms of direct marketing include: interactive television, telemarketing, some types of print advertising such as subscription forms in magazines, and marketing through the Internet.

2.2.2 Marketing Database and Database Marketing

The success of employing direct marketing in a firm depends on acquiring knowledge about customers, whether they are old, new, existing, or potential. Firms have used database marketing to help accomplish this. Prior to defining the term database

marketing, it is first necessary to establish what is meant by the term database before a discussion of its use for marketing purposes.

Nash describes a database as “any collection of information, including marketing results or sales data” (Nash, 1995). While this definition mentions only marketing results or sales data, a database can be as simple as a list of current and former customers or it can be an elaborate list of customer and prospect names complete with other relevant information such as address, phone number, previous purchase behavior, lifestyle, and response to advertising campaigns.

Database marketing involves the use of the information contained in the database in a strategic way as described in the following definition of database marketing proposed by Stan Rapp in Maximarketing which states

Database-driven marketing is any marketing process in which useful, relational information about prospects or customers is stored in the company's database and used to continue the relationship or stimulate sales (Shaw, 1993a).

The National Centre for Database Marketing defines the concept as:

Managing a computerized relational database system, in real time, of comprehensive, up-to-date, relevant data on customers, inquiries, prospects and suspects, to identify our most responsive customers for the purpose of developing a high quality, long-standing relationship of repeat business by developing predictive models which enable us to send desired messages at the right time in the right form to the right people - all with the result of pleasing our customers, increasing our response rate per marketing dollar, lowering our cost per order, building our business, and increasing our profits. (Hughes, 1991).

This is a very comprehensive definition which clearly illustrates the fact that a firm's use of database marketing is not simply compiling a list of customers and mailing information to them every time the company has a new product. The data which are compiled about customers need to be analyzed in order to understand customer motivation and the use of this information could provide significant benefits to the firm such as decreasing the level of waste in direct mail campaigns, increasing sales volume, and being able to target people who will be interested in the product or service.

A most important point to be taken from this discussion is that proponents of database marketing argue vociferously that databases can have a strong positive impact on how a company does business. Further, there are more and more advocates of database marketing freely expressing this view. However, in order for database marketing to be effective, its introduction and use must be well understood. Unfortunately, that is not the case in many firms. From the 1950s to the early 1980s "direct marketing's credo was simple: put a lot of stuff in the mail and people send you money" (Libey, 1992). With the use of marketing databases by organizations, this attitude has begun to change. But as the importance of this tool to business continues to grow, research is needed so that companies know how to implement and effectively utilize database marketing.

2.3 Relationship Marketing and Database Modeling Techniques

As is evident from the definitions of database marketing in the previous section, one of the main reasons for using a marketing database is to foster the development of a long-term customer relationship. This notion is supported in the literature by several authors:

Aftermarket selling is continuous selling. It doesn't pay to put together a database unless you're going to continually sell to the same customer. It means always thinking about 'What is the next product or service I can offer my customers?' (Geller, 1996).

A detailed knowledge of customers' needs and past purchasing habits helps a firm in building long term customer relationships ensuring customer loyalty and increasing the possibility of cross-selling" (Fletcher et al., 1990).

The purpose of using database marketing is to seek to maintain the closest contact with your customers, often through direct marketing, and to build the relationship (Christopher et al., 1991).

This a shift from traditional marketing theory which emphasized concepts such as market share and consumer orientation. Market share is defined as "the percentage of total industry sales accounted for by a particular firm, whether overall or within a given product category" (Papadopoulos et al., 1988). In addition, traditional marketing techniques focused on the development of a consumer or customer orientation meaning that organizations should be creating products which meet the buyers' needs.

In contrast to this, relationship marketing considers share of consumer to be paramount. Rather than emphasizing sales of a particular product or product category, it measures sales to a particular customer or segment of customers. In addition, it has expanded the traditional view of consumer orientation from what Christopher calls 'transactional marketing' to 'relationship marketing'.

The objective of relationship marketing is to turn new customers into regularly purchasing clients, and then to progressively move them through being strong supporters of the company and its product, and finally to being active and vocal advocates for the company thus playing an important role as a referral source (Christopher, 1991).

Christopher further suggests that while the traditional marketing mix of product, price, promotion, and place are the principal elements used to turn prospects into customers, other elements of relationship marketing, such as customer service, people, and internal processes, are those which are used to move customers into clients, supporters, and ultimately advocates for a company's products and services.

So, relationship marketing narrows the focus from share of market to share of customer. But, at the same time, it expands the number of processes and people to be included in the relationship between buyer and seller and includes an on-going dialogue between organization and consumer that is facilitated by the information in the marketing database.

The customer is asked questions such as 'When do you next need help? And 'What other products might interest you?'. The responses are analyzed by the computer and used to trigger future contacts. In this way, the database marketer develops a dialogue with each customer. The dialogue moves the customer towards purchase, ensures that he remains satisfied after the purchase, and that he purchases additional or replacement products later on. Without this, the result is a one-way flow of promotion, most of it wasted (Shaw and Stone, 1988).

While very little marketing theory has yet to be applied to the subject of database marketing, the two models described later in this section serve to illustrate that measurement techniques have evolved with the idea of relationship marketing and have as their goal measuring and increasing an organization's share of the individual customer.

Modeling techniques such as predictive modeling and the calculation of the lifetime value of a client through the Recency, Frequency, Monetary (RFM) model (described later in this section) have advanced the idea of a marketing database from a list of customers with isolated, individual contacts with an organization to the development of a tool for managing long-running relationships.

According to Stephen Shaw, Vice President of Marketing and Sales for Spectrum Decision Sciences, a predictive model is one that "seeks correlations between the behavior of customers and their characteristics" (Shaw, 1992a). It identifies the factors that are most predictive and weights them according to their relative contribution. The weightings are combined into an overall probability estimate or score. The individual scores are then computed for each customer and customers are then ranked from high to low. The highest scoring customers represent the most eligible target group.

It is predictive modeling and other tools like it, that allow database marketing to be used as a strategic tool rather than simply a list of names and addresses. One of the most common applications of predictive modeling is to target prospects more efficiently for direct mail. Once the prospects have been ranked by their ability to respond, they are grouped into deciles. The expected response rate is determined for the entire decile, and the marketer can then determine how deep into the pool of potential customers to mail. So, predictive modeling can help businesses to eliminate the prospects that are least profitable for direct mail. It can also be used to determine sales needs. If you determine that 5% of the market are the most likely responders, you are able to calculate the number of sales attempts that your firm needs to make.

An important use of predictive modeling, which developed in the 1980s, was its utilization of a “customer’s product purchasing history to group products according to the customer’s propensity or affinity to purchase multiple products from the same groups” (Nash, 1993). In other words, existing customer data can be used to determine exactly which criteria separate prospects, people who may or may not be interested in the product, from suspects, people who are likely to purchase the product.

Another measurement technique that can be used to evaluate customers in the marketing database and build relationships with those who are most profitable for the organization is to determine the lifetime value of a customer. This is the value that a customer will provide to the organization over his or her lifetime. This ‘value’ can be calculated using the RFM model. Recency is the recency of the last purchase made by the individual. Frequency is the frequency of the purchases made by the individual. Monetary involves adding up the monetary value of all purchases made by the customer. Determining the lifetime value of a customer can allow an organization to focus its attention on its most valuable customers, sustain relationships with them, and provide the ability to profile these customers in order to find and target others like them.

2.4 Reasons for the Rise of Database Marketing

How did the use of database marketing begin and why is it flourishing? First, it is necessary to look at the rise of direct marketing as a whole in order to understand how companies arrived at the use of databases in marketing in the first place.

In a 1992 issue of Marketing, Donald R. Libey suggests that direct marketing has progressed through three epochs. The first one began in the 1950s and continued until the early 1980s and was a time when direct mail was considered to be the most important advertising vehicle of the direct marketing tools. During the 1980s (the second epoch) the focus shifted towards the "mail smarter" attitude and the use of databases as a marketing tool arose. Through the use of database marketing, the quality of mailing lists increased. Mr. Libey suggests that the third epoch beginning in the United States in 1991 will be characterized by the use of interactive technology or an

electronic soup of mail, telephone, television, cable, magazines, electronic bulletin boards, cellular phones. In addition, databases, on-line computer linkages, video-conferencing, picture phones and a plethora of new technologies are on the way...At the centre of marketing strategies, there will be a linked consortium of shared database users joined in a consolidated database that eliminates the massive redundancies that now exist (Libey, 1992).

Libey's article stresses the important role that database marketing will play in the future. Because of its increasing role in marketing activities, it is extremely important to understand, both from a consumer and business perspective, how the database marketing process is managed. The consumer perspective focuses on the issues of a) potential loss of privacy and b) environmental concerns; while key business concerns include a) the

potential for government regulation of the industry, and b) how to implement and use database marketing to the firm's full advantage.

There are many reasons for the use, and now widespread acceptance, of databases as a marketing tool. Background literature shows that the key reasons for increased use of the database marketing tool are: the high cost of traditional channels, its applicability to many industries, technological changes, the Free Trade Agreement, environmental concerns, and the recession. Each of these will be discussed briefly in turn.

2.4.1 The High Cost of Traditional Channels

The high costs of traditional communication and distribution channels have created a need to seek alternative marketing tools.

Personal selling costs in the United States rose more than 160% between 1975 and 1986, a pace much higher than inflation and nearly twice as high as the increase in sales per salesperson during this period (Cespedes and Smith, 1993).

Network television has also become less cost effective as viewership shares have declined and specialized cable channels have gained viewers. The use of a remote has also allowed potential customers to avoid commercials by 'muting' or switching channels and this has reduced television advertising effectiveness because advertising is neither being seen nor heard. These changes in traditional marketing tools have created the need to look for alternatives and, as shown above, database marketing offers promise.

2.4.2 Applicability to Many Industries

Because of the cost efficiencies of database marketing as a medium, it can be used in customer loyalty programs, frequency or trade-up promotions, new product introductions, line extensions, retail support promotions, and the list goes on. “It works with every type of situation: industrial products, business services, consumer packaged goods, utilities, appliances, fundraising.” (Nash, 1993) The adoption of database marketing will only continue to grow as new industries find ways to successfully apply it to their businesses.

2.4.3 Technological Changes

Technological progress during the 1980s made it more economical to build databases, and new software made it easier to cross-classify information from different sources. Meanwhile, computer networks have become more common, allowing organizations to share data more easily and launch joint marketing efforts (Cespedes and Smith, 1993).

With as little as a personal computer, companies can keep track of their consumers. Other types of technology such as scanners in grocery stores allow businesses to keep tabs on exactly what a consumer purchases. Thus, due to available technology, the use of database marketing is easier and more economical.

2.4.4 The Free Trade Agreement

A third reason for the rise of database marketing is the signing of the Free Trade Agreement between Canada and the United States. "...we (Canadian direct marketers) sell just under 50% per capita of what U.S. direct marketers sell. There's still big, big potential." (Pollock, 1992). Because of that potential, American direct marketers are looking to market their products in Canada. Canadian marketers need to better target potential customers in order to protect their market share from U.S. competitors entering the market. This situation may become even more serious as agreements such as the North American Free Trade Agreement are signed.

2.4.5 Environmental Concerns

With regard to direct mail specifically, there has been concern in the past that direct mail is wasteful and harmful to the environment. The reasoning was that all of the flyers going to uninterested parties were a waste of paper, and therefore, trees. However, the use of database marketing means that less direct mail is being sent and that only interested parties are being targeted. Harold Greenberg of Publicite Pinnacle in Montreal even mentions the fact that companies are cutting down on paper and cost by using self-mailers, instead of separate envelopes for returning a response (Chiasson, 1992).

2.4.6 Economic Climate

The recession has also had an effect on the types of marketing tools that are chosen. Many traditional forms of advertising such as television were/are simply not feasible for firms operating during a recession. Companies could not afford to waste advertising dollars and therefore needed to find mechanisms whereby sales and interest in their products could be achieved by less expensive means. Donald Libey pointed out that as the level of use of direct mail increased during the 1980s, Canada Post continued to raise the postal rates (Libey, 1992). This may be a significant reason in the growing tendency for companies to be more selective in who they target in their campaigns. There is good news however, as

Canada Post will soon take measures that will permit it to launch new products that will ease access to lower postal rates for businesses that serve smaller lists. This will encourage use of direct marketing by small and medium businesses and will stimulate this form of marketing in less populous areas such as the Maritimes and the Prairies (Marketing, 1992a).

A decrease in postal rates will only serve to make database marketing and direct marketing as a whole more affordable than they already are and increase their use in the future.

2.5 Advantages of Database Marketing

As the definition of database marketing proposed by the National Centre for Database Marketing demonstrates, the implementation of this tool in a firm can provide many benefits to the company. This section of the paper will examine the positive impact that the use of database marketing techniques can potentially have on both the company and the consumer.

2.5.1 The Three Ts

Cespedes and Smith suggest that database marketing can help improve efficiency in what they call the three Ts: targeting, tailoring, and tying. Because companies are working with a defined customer or prospect list, database marketing can help improve the targeting of current and potential buyers.

Even if the messages and products remain constant, the process allows companies to waste less effort, money and other resources by not promoting to individuals who are unlikely to respond. (Cespedes and Smith, 1993).

Libey calls targeting "the total, enlightened, informed individualism that replaces mass, unsolicited marketing" (Libey, 1992). Database marketing also allows companies to tailor marketing messages and products more specifically to customer wants. As a firm learns more about the heavy users of a product or service through these type of marketing campaigns, it can provide different variations of the product mix to most customer sets. By

taking advantage of relationships the company has developed through targeting and tailoring, it can create and maintain better ties.

Over time, customers can receive more relevant messages and products, and the vendor can lower selling costs and increase retention rates. (Cespedes and Smith, 1993).

2.5.2 Bottom Line Benefits

The definition of database marketing that was provided at the beginning of this paper also suggests some benefits of this tool which were alluded to in Cespedes and Smith's discussion of the three Ts. The definition states that the use of database marketing will: please customers, increase response rate per marketing dollar, lower cost per order, build business, and increase profits. The fact that customers will only get so-called 'junk' mail dealing with subjects which interest them, may please them but, as discussed later, not all customers will be pleased by the use of database marketing. The other positive elements of the definition all relate to targeting which was discussed earlier. Patrick Whitten of CIT Research Ltd. states that this aid will support marketing strategy by:

categorizing and selecting records to mail to the most likely purchasers of a particular product, storing details on prime clients, their buying history and other particulars relating to personal contacts, providing a system to determine which sales approaches have the most success (Whitten, 1991).

Because your marketing efforts are targeting only those consumers who are good prospects and you know which sales approaches have the most success, your response rate per advertising dollar should be higher. An example of this is a company called Compusearch. It can tell marketers

how likely it will be that consumers, arranged by variables such as income, age and ethnicity (200 demographic variables in all), will buy upwards of 1,000 individual products, ranging from luxury cars to dishwashing liquid (Marketing, 1992b).

This will, in turn, translate into lower costs and higher profits and allow marketers to assess whether the return on investment in targeting to a particular area will likely warrant the cost of a direct marketing campaign there.

2.5.3 Low Cost and Accessibility

Two other positive aspects of using database marketing as a tool are its low cost and accessibility. Until about four years ago, clients had to call firms such as Compusearch and ask them to run the research program that they as clients required. That is no longer the case. Much of the information is now stored digitally on CDs and rented to clients on an annual basis.

Depending upon the software programs chosen, rental fees can range up to about \$50,000 per year. The company will do individual searches for clients, but for those with a business big enough to warrant it, the yearly rental gives them the flexibility to run research programs whenever they want. (Marketing, 1992b).

Not only does the yearly rental provide flexibility for the firm but it also makes prospect information much more accessible than was previously the case. Addresses and other related information are updated regularly so the information is more accurate and needed information can be obtained quickly.

As well, for Compusearch in particular, a full day training course gets users on-line and there is a phone hotline to address customer questions. As more companies enter the market, selling lists and maintaining them for customers, the costs of this service are also declining. The example of Compusearch shows the flexibility, low cost, and accessibility of database marketing and these are important reasons for its growth in popularity.

2.6 Challenges Confronting The Marketer With the Use of Database Marketing

The use of database marketing appears to have many potential positive outcomes for the company and may avoid the displeasure of consumers who are inundated with 'junk' mail in which they have no interest. Most of the literature focuses on the positive aspects of the use of database marketing and no real disadvantages are mentioned. Instead, there are some important challenges which confront the marketer with the use of this technique which should be carefully examined before the choice is made to implement it.

2.6.1 Privacy

One major concern is the issue of privacy.

...interviews with consumers, individually and in focus groups, suggest that they are still largely unaware of how information about them is gathered, and used, but that, once made aware, they express standards for information use that are typically higher than most company guidelines or the current legal standards. (Cespedes and Smith, 1993).

The Cespedes and Smith article from which this information was obtained made no mention of the specifics such as sample size, so the accuracy of this statement rests on the fact that the article contains research in various areas related to database marketing which all seems to support the same consumer view.

This view is also supported by a privacy study conducted by the Canadian federal government in 1992 which found that

Concern about privacy in Canada today is very high. Only three per cent of respondents are 'not at all' concerned about personal privacy - 50 per cent are 'extremely concerned' with 92 per cent at least 'moderately' concerned (Department of Communications, 1993).

The study also found that

it is situations that involve lack of control, consent or awareness which appear to be more troubling to Canadians and 54 per cent of respondents expressed extreme concern about data linking (Department of Communications, 1993).

A study by Culnan (1993) asked respondents if there were types of personal information that should never be shared with another company without written permission. Responses included (1) financial information (71%); (2) information on lifestyle or 'vices' (23%); (3) demographic information, including race or marital status (18%); (4) medical information (17%); and (5) information on an individual's buying practices (8%). Twelve per cent of respondents felt that no personal information should be shared without permission as opposed to 4 per cent who felt that any information could be shared without permission.

Therefore, privacy of information is a major concern for companies considering using database marketing as they may suffer a consumer backlash for their efforts. It is also important to note that concern over privacy varies depending on the type of information that is being shared with other firms.

Some suggestions have been made on how to deal with the privacy issue. Firstly, it is necessary for companies to establish their own internal codes of ethics and screening procedures and strictly adhere to them. Peggy Kat, database marketing manager for Maclean's Magazine emphasizes this point.

We screen all offers to make sure that they are in line with the code of ethics that we go by. They all have to be above-board. Anything deemed questionable is screened out, including sweepstakes and travel offers. (MacKinnon, 1993).

Bruce Moore Russell Direct Response screens list applicants by asking them to supply a sample of the material for which they need the list and they have to provide a detailed outline of their plans.

A second suggestion is to pay consumers for their personal data. David McKendry, the chairman of the Canadian Standards Association on Privacy, thinks consumers should be asked for permission to use their personal data.

Personal information is valuable and maybe consumers should be financially compensated for allowing their information to be used (MacKinnon, 1993).

But, how would a price be set?

Thirdly, the individual should be provided with a measure of control over his/her personal information. A Department of Communications (1993) study found evidence that: knowledge and familiarity tend to diminish concerns; most respondents are more comfortable with situations in which the process is explicit; Canadians find privacy intrusions more acceptable when they have some sense of control over the process; and

situations where there is a clear personal or societal benefit are much more acceptable than when the benefit is solely by a private interest.

Similar results were found in an American study. It revealed that positive attitudes toward the use of personal information for direct marketing resulted from an understanding of the benefits to the consumer, of the type of information being used, and of the ability to control the personal information (Louis Harris and Associates, Inc., 1990).

As is now evident, there are many potential gains to be made for companies which decide to use databases in their marketing efforts. There are, however, also some very serious drawbacks and the solutions proposed above do not actually solve the problems but merely compensate for them. Many of these problems would be eliminated or reduced if both consumers and companies (marketers) had a better understanding of how the database marketing process is managed and used in marketing efforts.

However, it should be pointed out that not everyone feels that there is a problem with privacy. Mark Morin, President of Direct Marketing Strategies, states in his article, Dispelling Misconceptions of Direct Marketing, that there are two bald faced lies about direct marketing. They are that (1) direct marketers keep huge databases of sensitive personal information on customers, which they routinely sell and (2) direct marketers have access to privileged information (Morin, 1992). He insists that the only information available to direct marketers is what the customers themselves provide to companies. This demonstrates the fact that there is still much work needed in this area in order to understand these disparate points of view and their ramifications. There may be a very large gap between how direct marketers feel about the use of personal information and how

consumers feel about it which needs to be resolved in order to make the technique more useful and effective.

2.6.2 Government Regulation of Database Marketing Practices

The second issue is that of government regulation of database marketing practices. Companies which choose to implement direct marketing practices may suffer strict regulation at the hands of the federal and provincial governments. In the United States and Canada, regulations to protect consumers from unwanted telephone calls, mail and faxes have been implemented, such as the United States Telephone Consumer Protection Act of 1991. Regulation of the industry may also come from other governing organizations as confirmed by Dave Osborne of Bruce Moore Russell Direct Response. He stated that his company's practices are governed by the Canadian Direct Marketing Association's (CDMA) Code of Ethics.

CDMA members, which represent about 80% of all direct marketers in this country, must comply with guidelines that call for fair business practices, full disclosure of terms of offer and various policies regarding the use and rental of mail and telemarketing lists, including the right of individuals to have their names removed. (Pollock, 1992).

So, the limitations of what a company is and is not able to do with the information that it acquires and the backlash that may result from decisions that it makes are important factors to consider when deciding to use a database in a marketing strategy.

Some views that have been expressed about government regulation of database marketing include:

- (1) Governing bodies and trade associations must continue to regulate the industry in order to protect the consumer's right to privacy. Companies will simply have to comply with the guidelines or suffer the backlash that will undoubtedly occur.
- (2) Consumers should have a mechanism so that they can have their name removed from lists should they so choose. As has already been mentioned, this is a service that the CDMA provides and with a phone call or letter, a consumer's name is purged from the databases that all CDMA members sell. Dave Osborne of Bruce Moore Russell Direct Response also stated that his company purges names of consumers who ask without consulting the clients to whom he is sending the list. The only way that the names are not purged automatically is if the company demands that they not be.

And while this seems like a reasonable solution, it should be pointed out that a privacy study conducted by the Department of Communication (1993) found that only 18 per cent of respondents reported that they knew of legislation or an agency that helps Canadians deal with privacy. So, many Canadians are unaware of a name removal option and who to contact to exercise that option.

2.6.3 Environmental Concerns

Another threat associated with the use of direct marketing and the use of databases is an environmental one.

Environmental and privacy concerns are widely felt in the community, and if the direct marketing industry does not answer these concerns in a way acceptable to the public, governments may answer with legislation that could severely restrict or add to the cost of direct marketing in Canada. (Pollock, 1992).

Direct marketers would tend to argue that the increased use of database marketing by marketers will reduce the amount of wasted mail that is sent to households and is therefore a positive environmental measure. It could, however, just as easily be argued that as database marketing grows in popularity more marketers will use this tool and the amount of mail sent will continue to grow. This once again illustrates the gap between the perceptions of marketers and consumers and is an issue that must be resolved.

2.6.4 Complexity of Developing a Workable Strategy

Perhaps the most difficult problem facing companies is that "although the basic premise of direct marketing is simple, developing a workable strategy can be complex" (Morin, 1992). As discussed in Section 2.4.3, technological advances such as more powerful personal computers and scanner technologies in grocery stores now allow organizations to more easily keep track of their customers. However, the developing a strategy to use and maintain the information is more complex. Mark Morin points out that the company needs an "intimate understanding of the purchase decision for its product, a precise definition of its target audience, a long term vision and excellent planning" (Morin, 1993). These things are not easy to determine or maintain and many companies do not even realize that they should be in place even before the rise of database marketing begins. Database marketing may also be hard to adopt as

it can require substantial capital investment, and may demand a new knowledge base among workers. The strict scientific methods used in database marketing put pressure on marketers to find and hire well-trained specialists who are hard to find in Canada (Canada Post Corporation, 1993).

If the process of database marketing was well understood, then this aspect of database marketing would not be a problem for so many firms.

Another example of the difficulties associated with implementation is the duplication of names on lists. Careful monitoring of lists is important because if companies buy lists from more than one firm or combine an in-house list with one that has been purchased, the potential for duplication exists. This is, however, becoming less of a problem as 'cleaning' technologies, packages which point out missing, incomplete, or duplicated data, are being used to increase list quality. These are simply a few of the implementation issues which may make developing a workable strategy difficult.

Similar implementation difficulties have occurred in the telemarketing industry. Many people believe that telemarketing's purported benefits of increased sales, cost reduction and market share enhancement are virtually automatic....However, for every success in telemarketing, there are probably failures - or at least marginal results (Marshall and Vredenburg, 1988).

A study done by Marshall and Vredenburg found that about 40% of the industrial telemarketers surveyed reported achieving a high degree of success with telemarketing while 20% of respondents reported that their firms had not been very successful with it (Marshall and Vredenburg, 1988).

Successful firms were significantly more likely to have carefully managed the implementation of telemarketing in their salesforces. Companies that established specific goals and had clear cut plans before beginning telemarketing were more likely to be successful. Successful firms were significantly more likely to use dedicated, specialized telemarketing representatives, to incorporate a bonus or commission into their compensation package, and to provide telemarketing reps with specialized facilities to enable telemarketing reps to conduct their responsibilities effectively (Marshall and Vredenburg, 1988).

This research was exploratory so no definitive causal links between action and success can be drawn but these are very useful indications of what needs to be done.

This is certainly the type of research that needs to be done in the database marketing field. This would help businesses to better understand how to achieve a successful adoption and implementation of this tool. As is the case with telemarketing, there are so many important factors that foster successful implementation of database marketing that developing a workable strategy is a complex, difficult, and time consuming process.

2.7 How Database Marketing is Managed Within the Firm

To date, very little has been written or researched about how the database marketing process is managed within and between firms. Some very general suggestions with a few guidelines have been provided by two articles.

One of the most detailed accounts is provided by Mark Goodman in his article Focus - The Key to Marketing Nirvana. He states

two things must be developed and integrated: 1. computer database technology; 2. corporate commitment to managing long-term customer relations (Goodman, 1992).

These are important goals for the company, however, nowhere does it state what type of commitment is to be made to the customer nor is there any kind of direction provided for how to integrate it with the computer technology.

He does make some other more useful recommendations (Goodman, 1992):

1. In some cases, 'a complex relationship-marketing program' may need a sophisticated database management system but most situations call for simpler systems.
2. A real potential barrier can be found in the advertiser's organization and marketing strategy so the key is to keep the focus on the customer. The company needs to make a commitment to 'relevant on-going dialogue'.
3. A mechanism must be put into place to request and capture customer feedback, which can then be measured against pre-determined objectives such as revenue, return on investment, transaction activity, customer service levels and complaint occurrences.

4. A customer focused strategy recognizes customers' sensitivity to environmental issues and their desires for ad messages relevant to their interests. It also recognizes the consumer's right to privacy by limiting the need for knowledge gained through third parties.

Stephen Shaw expresses these same ideas but in a slightly different form. He outlines what he calls 'five pillars' to an integrated marketing program (Shaw, 1993a):

1. Monitoring consumer behavior. Changes in purchase patterns and product preferences can be monitored and action taken to influence customer decisions.
2. Predicting customer behavior. The rich amount of data stored in databases can be mined for predictive variables that signal how customers are likely to behave in the future.
3. Segmenting customers. One can segment customers into homogeneous groups that share similar behavioural and demographic characteristics.
4. Determining Customer Value. The net present value of future earnings from individual customers can be estimated to guide the allocation of marketing resources.
5. Managing customer relationships. Messages are tailored to individual needs and preferences. Response history is captured and used to tailor future messages.

2.7.1 Which Fields of Information Belong in a Database

As has been previously stated, a marketing database is much more than a list of names and addresses and while the contents of a database will vary depending on the industry in which it is being employed, there are some types of data which are present in almost every database.

For companies involved in direct marketing, a typical database would include the following elements: name, address, source of name, date of first purchase, dollar amount of first purchase, purchase history, status flags, mailable, bad debt, credit limit, demographics, alternate addresses (Nash, 1993).

While most of this information would be familiar to anyone operating a business, a few of these elements are not as common. The 'mailable' element would give the business, marketer, or salesperson, an indication of how the customer likes to be contacted. This could include the method, eg. telephone or mail, the language of communication, and the frequency, eg. monthly, yearly. Status flags can indicate if this person is a current client, a lapsed client, or has never been a client.

The 'source of name' is a very important field to capture. It indicates where the name of the suspect, prospect, or customer, was obtained. This is significant for several reasons. Firstly, if you obtain a profitable customer from somewhere, you may want to know where that name came from so that you are able to obtain others. Conversely, if a name source, for example, a list obtained from a list broker, was not profitable, then you would want to avoid that type of list in the future. Finally, the name source may provide

valuable information about the type of appeal which would cause the current or potential consumer to respond.

2.7.2 How is the Information In the Database Obtained

When building a database, the data tends to come from many sources because businesses rarely have all of the information about their customers in one system.

In 1995, Nash described four potential sources of names for an organization's database:

1. Existing names, usually obtained from promotions, contests, inquiries. However, he pointed out that these names may simply indicate an interest in the contest or promotion rather than the product or service that the firm has to offer.
2. Compiled and survey names. These would appear on lists purchased through a list broker.
3. Custom-built lists. This involves testing outside sources to find out which data sources offer the highest response rate for the firm and attract the right type of customer.
4. Name generation offers. It often makes sense to develop promotions in which the primary or secondary objective is to get names.

While names may be obtained from a variety of sources, information about these individuals can also come from many sources. Data sets which are commonly used and combined to create a marketing database are:

- (1) Third party credit card data
- (2) Retail sales slips
- (3) Warranty Cards
- (4) Order Processing Files
- (5) Store Card data
- (6) Inquiry names gathered from questionnaires
- (7) Demographic Overlays
- (8) Rented or Traded Lists of other companies customers (Nash, 1993).

While these four sources from which to obtain names and the types of information that can be attached to these names all provide an excellent starting point for a firm wishing to build-up its database of prospects, suspects, and customers, they provide little information that actually tells the business how to go about building their own database. There are no specific guidelines such as to how to implement these ideas, how to manage the database once it is in place, and how to know if it is not performing correctly.

2.8 Current Level of Sophistication of Marketing Databases

Prior research indicates that current marketing databases and their use is not very sophisticated.

Most surveys reported a low level of sophistication of customer information held within information systems. In an early study, it was found that while the vast majority of systems could supply information about customers and sales, customer and competitive analysis was seldom reported as the reason. The development of sales targets was often the only use of the data (Fletcher, 1983).

Doyle et al (1985) also report a significant proportion of British companies were unclear about their customers' needs and while paying lip service to a customer orientation, only half of those interviewed could state with any degree of precision who their customers were, whereas fewer still understood how buying decisions were taken.

A Direct Response survey in 1988 found that companies were under-exploiting their current databases: although nearly all involved in database marketing had a computer system which was able to store, sort and extract customer information, only 40% could perform any sophisticated analysis of marketing campaigns, and less than 50% kept information on potential customers. These findings are corroborated by another Direct Response survey in June 1988 which found that 54% of companies did not know and could not guess roughly at how much of their business was due to direct marketing efforts (Fletcher et al., 1990).

The researcher did not find current research indicating a lack of or high degree of sophistication in the use of marketing databases by organizations. For this reason, an attempt will be made to determine the current level of sophistication of use of database marketing of the organizations contacted for this research.

2.9 Strengths and Weaknesses of the Existing Literature

The existing literature on the subject of database marketing has focused on three main areas. The first is the potential benefits of this tool. As reviewed above, they include such things as reduced costs, better targeting of customers, and increased sales. The second focus has been on all of the issues confronting the marketer with the use of database marketing such as privacy concerns, government regulation of the industry, and environmental concerns. The final category of extensive writing has looked at the reasons for the beginnings and rise of database marketing as a tool. All of these elements have been very well explained in the existing literature.

A criticism of the literature is the lack of depth and this could be attributed to the fact that very little academic literature has been produced on the subject. This lack of depth is very evident when examining articles which deal with the advantages that can be obtained from the use of database marketing. The articles state that database marketing will allow a company to do things such as 'better target its customers'. However, there is no mention of what types of information the company must have in its database to do so, how the information is to be used, and the steps to take from the capture of information to the actual changes in targeting. This lack of precision may be one of the reasons that many companies that have the potential to capture and use consumer information are not doing so, or are not doing so effectively.

In addition, a balanced view is not presented in the literature. No real disadvantages are brought forth to offset the myriad of advantages that have been described. Instead challenges, or consequences, of the use of this tool are cited.

There are also many aspects of database marketing that have been almost completely ignored. As has been pointed out, how the entire practice of database marketing is carried out has not yet been fully investigated and is not well understood. Questions such as: What types of companies buy or maintain lists? How can a database be successfully implemented? How is the information obtained actually used in marketing efforts? and How are the system and quality of information maintained?. There are so many facets of this tool that have not been investigated in the existing literature.

As will be explained in greater detail in the following chapter, the objective of this thesis was to develop an understanding of how Canadian organizations who have databases are managing their use. This baseline research helps to answer the questions that are not being addressed in the current literature. This research which provides a greater understanding of how marketing databases are being used by Canadian businesses is necessary because it enables businesses to better utilize database marketing, governments to better legislate in this area, and provides information to the Canadian public about how their personal information is being used. The next section of this thesis outlines the research area and objectives that were addressed in this research.

Chapter 3 Research Area and Research Question

3.1 Research Area

As established in the previous section, there are many gaps in the existing literature referring to database marketing. This research attempted to fill some of those gaps and provide direction for in-depth research into some of these areas. Specifically, it provides baseline information about what is presently occurring in Canadian organizations and adds to the body of knowledge in this area.

3.2 Research Question

This research focused specifically on:

How do Canadian organizations who have implemented marketing databases manage their use?

The literature review supports the above question as the primary research objective because very little academic research has been produced on the subject of database marketing. The information that is available describes potential advantages and disadvantages of the use of database marketing but lacks the depth to provide an organization with any useful information on how to implement a marketing database, the information to be collected and its sources, how the marketing database can be used by organizations, and how the information and the database are maintained.

3.3 Data Analysis Plan

The overriding objective of the study was to develop a clear understanding of how Canadian businesses, in Toronto, Montreal, and Ottawa, with high interest in and use of database marketing, are managing their marketing databases. In order to achieve this objective, the results of the research will be analyzed in three ways. Firstly, an overall picture of what is occurring in Canada will be developed through an analysis of the responses from all participant organizations.

Secondly, respondents will be split into two groups; 1) owners of marketing databases and 2) direct marketing consultants to organizations that have their own marketing databases. These two groups will be compared. (The research propositions below incorporate the need to compare these two groups which will be referred to as 'owners of databases' and 'direct marketing consultants'.)

These two groups were chosen for several reasons. These two groups received slightly different questionnaires because the pre-test revealed that different questions were applicable to the direct marketing consultants and the owners of databases. The questionnaire had to be altered to reflect this.

Secondly, direct marketing consultants appear to be at the forefront of developments in the marketing field. This became evident from the review of the literature which revealed that most of the literature available in the area of database marketing has been written by direct marketing consultants. This fact would lead to the expectation that direct marketing consultants would be more sophisticated in their use of marketing databases and this is something that should be tested.

Finally, because direct marketing consultants have a reputation to uphold in the industry and with their clients, there is an expectation that they would adhere to higher standards than individual owners of databases.

The other comparative type of analysis that will be undertaken in this thesis is based on the size of the organization interviewed. Organizations which have one hundred or fewer employees will be contrasted with organizations with greater than one hundred employees. This split was chosen to be as close to a median split as possible given that categorical information was collected for this question. This comparison will be used to test whether larger organizations are more sophisticated in their use of marketing databases. The literature highlights the complexity of developing a workable strategy, the fact that a marketing database requires a large cash outlay at start-up, and that it requires the availability of a specialized base of human resources. This would lead to the expectation that larger organizations would have the resources necessary to more fully develop the database and its uses.

Prior to the research being conducted, the researcher had the intention of comparing organizations operating in English and French environments to see if there were differences in the use of databases in these two environments. However, due to the high refusal rate in Montreal, only 11 interviews were completed with organizations operating in a French environment. Therefore, this type of comparison is not possible because of the small sample size and will have to be reserved for future research.

3.4 Research Objectives and Propositions

As previously stated, the overall objective of this research was to provide a greater understanding of how Canadian organizations, which are highly involved in database marketing, manage its use. However, that major focus was broken down into more specific objectives:

Objective #1: To develop a profile of the type of organization that uses a marketing database.

This simply involved capturing some of the organization's demographics such as the industry in which the organization operates, the organization's sales/donations, and the number of employees. In addition, information about the respondent was also collected. This information included the interviewee's position in the organization, his/her age, and the number of years he/she has been working in the organization. The data collected from the demographic questions will help to profile the type of organization that has and uses a marketing database.

Objective #2: To determine the types of advantages and disadvantages that organizations can realize through the use of marketing databases.

While the advantages and challenges of the database are well-documented in the literature, it is important to obtain some insight into which of these documented advantages and challenges most affect Canadian organizations, how they can be measured, and to get

some information about the type of effect that the database can actually have on one's organization. This will help to provide more depth to the information that has been provided in the literature.

This objective can be further divided into specific research propositions:

Proposition 1: The advantages cited in the literature - targeting, tailoring, tying, bottom line benefits, and its low cost and accessibility - should be those advantages mentioned by the majority (at least 50%) of interviewees.

These advantages are expected to be cited by interviewees because this is one of the few aspects of database marketing that has been well-documented in the literature. The literature also positions these advantages in such a way that they appear to be universal benefits of having a marketing database. This research will examine whether or not at least 50% of respondents cite the advantages from the literature.

Proposition 2: The modeling techniques discussed in the literature review, predictive modeling and the calculation of the lifetime value of a customer using the RFM model will have greater cited use by direct marketing consultants compared to owners of marketing databases.

This is expected because, as was highlighted in Section 3.3, direct marketing consultants are at the forefront of the marketing industry and have the most experience with database marketing and techniques such as predictive modeling and the RFM model. It,

therefore, makes sense to expect that the direct marketing consultants whose databases were described in this research would have a higher usage of techniques such as these.

Proposition 3: The challenges to the use of database marketing discussed in the literature include privacy concerns, government regulation of the industry, environmental concerns, and the complexity of developing a workable strategy. These challenges are expected to be mentioned by at least 50% of interviewees.

As with the first proposition, these well-documented challenges to the use of database marketing appear to be universal to organizations using database marketing. This should be tested in order to determine if the concerns cited in the literature truly affect the majority (50%) of all organizations using marketing databases.

Objective #3: To understand how marketing databases are currently being used by Canadian organizations.

This is an attempt to learn about the role of databases in the direct marketing activities of the interviewee organization. It provides information on the types of information that the business stores, how the information is obtained, how it aids the firm in its direct marketing activities, how often it is used, and how the sale of its information is handled and controlled.

This is the key area in which available literature is lacking. This information could benefit organizations who have just implemented marketing databases by providing ideas as to how they can use their database to their advantages. However, this data is really important to consumers who have concerns about how the information that is obtained about them is really being used.

Based on the limited literature available about how to actually implement and use marketing databases, the following propositions have been developed:

Proposition 4: A core set of contact data should be present in the majority (at least 50%) of the marketing databases described by interviewees.

In 1993, Nash described a core set of data which should be present in a marketing database. This set includes; name, address, source of name, purchase history, status flags, whether or not the person wishes to receive mail, bad debts, credit limits, and demographics. Given that the purpose of the database is to maintain on-going contact with the customer, information such as name and address should be present in all databases. In addition, information such as purchase history and credit history are necessary items to track in order to further the relationship with the customer. Therefore, it is expected that, at a minimum, at least 50% of interviewees will cite these core data elements as being part of their database.

Proposition 5: The main uses of the marketing database, which were often cited in the literature as advantages of the database ie. targeting (segmentation), tailoring, tying (building a relationship) will be the same uses of the database that are cited by at least 50% of these interviewees.

As highlighted in Section 2.3, the main purpose of a marketing database is to help in building a relationship with the customer. The ways in which it can do this is by targeting specific customers based on individual characteristics, tailoring a message designed to appeal to the individuals, and continuing the dialogue in order that the relationship is sustained. If developing a relationship with the customer is truly the goal of database marketing then these uses should be cited by interviewees.

Proposition 6: Very few organizations (defined here as less than one quarter) will trade the information in their proprietary marketing databases.

Morin (1992) indicated that the idea that ‘direct marketers keep huge databases of sensitive personal information on customers, which they routinely sell’ was a huge misconception by consumers about organizations engaged in direct marketing with marketing databases. For this reason and because writers in the field of database marketing spend a great deal of time focusing on the concerns over potential privacy and government regulation around the information contained in marketing databases, it is expected that fewer than 25% of organizations will trade the information in their databases.

Proposition 7: If organizations do trade or sell the information in their marketing databases, it will be strictly monitored by the organization providing the information. At least 50% of organizations will have some type of control in place.

The literature review, especially the study by Culnan, highlights the public concern over privacy. It is assumed on that basis that organizations share the public concern over the privacy of an individual's information and would have a set of controls in place to govern the trade or rental of database names and related information.

Proposition 8: If information in the marketing database is traded by organizations, it should not be traded to similar organizations. Less than 25% of organizations will trade with or rent to similar organizations.

The purpose of database marketing is build a relationship (Section 2.3 of literature review) with customers and prospects by continuing a dialogue with them over time. It is expected that an organization with a proprietary list will not trade the information about customers contained in the database to similar organizations. If they did, they would run the risk of losing customers to the competitors.

Objective #4: To uncover how organizations are maintaining their marketing databases.

This involved asking about who maintains the database, how often it is updated, whether there is a name removal option and how it is publicized, and the type of equipment used to maintain the system.

This will provide insight into how organizations are able to maintain their information and will give organizations considering the implementation of a marketing database an understanding of the types of equipment that might be required for them to do so. Some specific propositions have been developed about how the information in the database is maintained:

Proposition 9: Most organizations (more than 50%) will have only one database which they use for marketing purposes.

As described by Canada Post Corporation (1993), the implementation of a marketing database may require ‘substantial capital investment and may demand a new knowledge base among workers’. For this reason, it is expected that at least 50% of organizations interviewed will say that they have only one database used for marketing purposes because multiple databases would require high levels of human and financial capital.

Proposition 10: Organizations will have very diverse platforms, software, and update strategies for their databases.

Because little guidance is available in the literature on how to develop a workable database marketing strategy in an organization, and the organizations interviewed are operating in different industries, the researcher feels that organizations will have chosen very diverse platforms, software, and update strategies for their databases.

Proposition 11: A name removal option will be provided by all organizations to their customers and prospects.

All organizations interviewed for this research are Canadian Direct Marketing Association members and as such should be providing and publicizing a name removal option to their customers/prospects. Another reason that this option should be available to individuals is because of the privacy concerns highlighted in the literature. The provision of a name removal option to customers/prospects may give them a measure of trust in the organizations with which they deal.

Objective #5: To compute an index of sophistication as an attempt to determine if there are any real differences between organizations in their sophistication around the use of the database.

As previous research on the use of marketing databases pointed out in section 2.8, companies are not using their marketing databases in a sophisticated way and most are not reaping all of the potential benefit of the use of this tool. For this reason, this researcher has attempted to compute an index of sophistication in order to determine if the organizations surveyed for this research are using their marketing databases to potential.

The simple index computed here is based on three variables; the number of uses of the marketing database, the number of pieces of data stored in the database, and the length of time that the database has been in place. These three factors were chosen by the researcher because they were easy to measure in a consistent and accurate way and they would give an appreciation for the amount of information that the organization captured in a meaningful way about its clients and prospects, how many different ways the database was

contributing to marketing efforts, and the amount of time which the organization has had to devise ways to use the database and to integrate it into its marketing efforts.

Three propositions were developed after reviewing the small amount of literature detailing the level of sophistication of current marketing databases:

Proposition 12: The organizations interviewed for this research will display a lack of sophistication in the way they use their marketing databases. At least 50% of respondents will fall into the low sophistication category.

Based on the literature from the United Kingdom (Fletcher et al., 1993) which indicated a lack of sophistication in the use of marketing databases by their organizations, one would expect to find a similar lack of sophistication among the current research interviewees.

Proposition 13: Organizations that are larger (as measured by the number of employees) will have more sophisticated databases than smaller organizations and their databases will have been in place for longer periods of time.

Literature on the adoption of technology in similar industries (Marshall and Vredenburg, 1988) identified the fact that the implementation of a new technology is very difficult without senior management commitment, and that its development requires significant resources, both monetary and in human capital. It seems reasonable to expect that larger organizations which have larger pools of financial and human resources and have

a larger power base at the senior level will have larger and more developed marketing databases.

Proposition 14: Owners of marketing databases will be less sophisticated in their use of marketing databases than the direct marketing consultants who were interviewed for this research.

Direct marketing consultants should be in the forefront of what is occurring in the marketing field and so they should be more sophisticated than owners of marketing databases operating on their own. Based on the review of the literature, there is evidence to support the fact that direct marketing consultants are more advanced in the area of database marketing. Most of the information available in this field has been written by direct marketing practitioners and very little has been published by individuals from organizations with proprietary marketing databases.

Chapter 4 Methodology

This research was conducted in two waves. (The original methodology in the thesis proposal involved only one wave of research, but an additional wave was later added.) The first wave was a series of face-to-face and telephone interviews with owners of marketing databases and direct marketing consultants. Wave two involved revisiting those who responded to the first wave of research in order to determine if changes had occurred over time in their use or perceived use of marketing databases.

4.1 Methodology - Wave One

4.1.1 Population

The population for this study included all Canadian businesses who perform some type of direct marketing activities, as defined in Section 2.2.1.

4.1.2 Sampling Frame

The sampling frame for this research included all members of the Canadian Direct Marketing Association (CDMA) in Ottawa, Montreal, and Toronto, in 1993. The reason that this membership list was chosen is that it represents many firms in Canada who perform extensive direct marketing activities. As well, it provides contact names of those individuals who are directly involved in the marketing activities of their respective firms so

that the time consuming process of qualifying leads was not necessary. The membership list for 1994/95 was not yet complete when this research was begun and therefore the 1993/94 list was the most up-to-date list that could be obtained.

This membership list yielded 15 organizations in Ottawa, 29 in Montreal, and 105 in metro Toronto. The organization types and response rates for each of the cities are provided in Chapter 5.

4.1.3 Sampling Method

Face-to-face and telephone interviews were used. The face-to-face interviews were conducted with all Ottawa members of the CDMA who agreed to participate in the research.

The telephone interviews were conducted in Toronto and Montreal. Toronto was chosen because it has the largest number of organizations performing direct marketing activities in Canada and is the most highly represented in the CDMA membership guide. Montreal was selected because it is also very highly represented and because it would also afford the opportunity to see if there are differences between businesses operating in English and French environments.

The pre-test revealed that there are basically two groups of organizations, direct marketing consultants who help their clients to use marketing databases, and owners of marketing databases. The direct marketing consultants whose employees were contacted for this research included advertising agencies, marketing service bureaus, and list brokers. Owners of marketing databases were from a variety of industries such as financial services, charitable organizations, museums, airlines, etc. Because these two groups of potential

respondents were very different in their responses to some of these questions, they were treated as two different populations. In Ottawa, all firms were selected because of convenience and accessibility. The researcher was able to conduct the interviews in person. obtain for qualitative examination some of the direct mail that was sent out using the marketing databases, and in some cases, to tour the facilities. It provided a valuable opportunity to gain further insight into the use of databases. For organizations in Toronto and Montreal, the list was divided into direct marketing consultants and owners of databases and random sampling from each group was performed in order that even samples were obtained from the two populations.

4.1.4 Sample Size

The sample size selected for the first wave of the research was sixty organizations because it provided thirty responses from direct marketing consultants and thirty from owners of marketing databases. This was also the most reasonable number given the time frame and budget for the research. The pre-test revealed that the average completion time for the interview was one hour. The CDMA membership list contained only fifteen potential interviews to be conducted in Ottawa. This left forty-four interviews to be split between Toronto and Montreal. It was too expensive for the researcher to conduct face-to-face interviews in Toronto and Montreal and it was also not feasible to do them face-to-face because of time requirements. With only two interviews possible each day, the interview process in these two cities would have required at least two weeks in these cities. This was beyond this researcher's budget.

4.1.5 Survey Instrument

As was previously stated, the survey instrument for this wave of the research was an interview which was conducted face-to-face in Ottawa and by telephone to Toronto and Montreal.

While most of the questions in the interview were straightforward, it was found that probes were necessary for some of the questions. These have been included in brackets after the questions in the interview.

Mail-out questionnaires were considered as a tool in place of the first wave interviews but were later discounted. Face-to-face testing of the questionnaire revealed that certain questions had to be reworded or were not appropriate for organizations operating in the field of direct marketing. Moreover, it was felt by the researcher that the information from participating organizations that could be captured through a mail-out questionnaire would not provide the depth or richness of data that was necessary to truly understand how marketing databases are being used in organizations. This research was to be exploratory and a rigid questionnaire without human contact would not allow the exploration needed. See Appendix A for the interview questions that were used for the owners of marketing databases and Appendix B for the interview questions for direct marketing consultants.

4.1.6 Pre-test

The pre-test was conducted with direct marketing consultants in five Ottawa organizations. This provided the researcher with valuable feedback about the wording of questions and revealed that the interview questions needed to be customized depending on whether the interviewee organization was a direct marketing organization helping other organizations to use their marketing database or an organization using its own marketing database. Many of the advantages that would accrue to organizations which own databases would be similar to those obtained by the clients of the direct marketing consultants rather than the direct marketing consultants themselves.

This led to the preparation of one version of the questionnaire which was used for the interviews with direct marketing consultants which asked about how their clients use their marketing databases and another version about their use by owners of marketing databases.

4.1.7 Timing of the Interviews

The pre-test of the questionnaire occurred in July and August of 1994 just prior to the defense of the researcher's proposal in order that the questionnaire would be finalized for the defense. The first wave of research, the interviews with sixty organizations, took place over several months due to difficulties in contacting respondents. They began in November of 1994 and continued through to April 1995.

4.2 Methodology - Wave Two

4.2.1 Sample

The second wave of research took place in October 1996 and its purpose was to determine what changes, if any, had occurred in the use of marketing databases during the past two years. For this reason, the sample for the second wave of this research consisted of the sixty respondent organizations from the first wave. This provided the researcher with a means of making a comparison between how databases are currently being used and how they were being used at the time of the first wave of research.

4.2.2 Survey Instrument

While a questionnaire was not a suitable instrument for the first wave of research, it was more appropriate for the second wave. The purpose of the follow-up was simply to confirm whether or not the information that was provided during the initial interview still accurately described the current use of the marketing database by the firm, and if it did not, to describe the changes that had occurred. This questionnaire consisted of a letter explaining to the respondent the nature of the research and provided a reminder of the responses that were provided during the course of the original interview. The second page then asked whether or not the information that the respondent had previously provided was still correct and if it was not, to describe the changes that had occurred since the time of the initial interview. The owners of marketing databases were asked for a description of any

aspects of the database that had changed since the interview. For direct marketing consultants, it asked whether or not the information given during the initial interview still represented the advantages and disadvantages that their clients receive from their marketing database. Copies of the follow-up fax questionnaire for owners of marketing databases and direct marketing consultants can be found in Appendices C and D respectively.

Chapter 5 Data Analysis

5.1 Introduction

The information obtained through the interviews will be examined according to the research objectives outlined in Chapter 3. The first section of this analysis will be an attempt to profile those respondents and organizations that use marketing databases. The second section will look at the advantages and disadvantages that the organizations interviewed receive from database marketing. The third section will examine how the information contained in the marketing database is being used by the organization. The fourth, and final section, will describe how the sixty organizations who were interviewed maintain their marketing database.

As described in the methodology, responses to the interview questions will be compared according to whether they were owners of databases or consultants in the direct marketing industry and based on the size of the organization interviewed (≤ 100 employees vs. >100 employees). Comparisons between groups will be reported only where differences occurred.

The second part of this data analysis section will examine the results of the follow-up wave of research which was conducted in the fall of 1996. The final section of the data analysis portion of this report is the creation, by the researcher, of an index which measures in a very basic way the level of sophistication of the marketing database being used in an organization.

5.2 Wave One - Face-to-Face and Telephone Interviews

5.2.1 Timing of the Research and Response Rates

The pre-test of the questionnaire took place during July and August of 1994. Face-to-face and telephone interviews for the first wave of research were conducted from November 1994 to April 1995 and the second wave of research, a fax questionnaire, was sent out and received during the month of October 1996.

As outlined in Section 4.1.4, sixty organizations were contacted for interview. The intention was to interview all fifteen organizations in Ottawa and to divide the remaining interviews equally between the cities of Montreal and Toronto. However, there were a high number of refusals from Montreal because some respondents indicated that they did not maintain databases for marketing purposes. Therefore, a much larger proportion of interviewees were from the Toronto area than originally forecast. Random sampling within the list of 105 Toronto organizations was conducted and once the sample size of sixty across the three cities was reached, the first wave of research was complete. A summary of the response rates for each of the three cities of interview can be found in Table 5.1.

Table 5.1
Research Response Rates

City of Interview	Sample Population	Respondents	Refusals	No Contact
Ottawa	15	13	1	1
Montreal	29	11	10	8
Toronto	105	36	0	0

5.2.2 Findings - Research Objective #1

To develop a profile of the respondent organization that uses a marketing database

As noted in Table 5.1, 13 face-to-face interviews were conducted in Ottawa, and by telephone in Montreal and Toronto with 11 and 36 organizations respectively. Sixty percent of the interviews were conducted with organizations in Toronto simply because Ottawa and Montreal had more limited pools from which to draw a sample.

Most of the people who were interviewed about the use of marketing databases were senior position holders in their organizations. Twenty-seven percent of respondents were presidents, general managers, or owners of the organization. Another 37% were vice-presidents or directors, and 15% were managers. Only 21% of those interviewed held positions below the middle management level. When organizations were contacted and solicited for an interview, there was often a need for the researcher to be directed to the person with the greatest knowledge of databases. The positions of the people to whom the researcher ended up speaking seems to indicate that responsibility for databases is held at fairly senior levels in the organization.

The interview questionnaire placed respondents into 4 age categories; under 30 years, 30 to 45 years, 46 to 60 years, and over 60 years. However, only one respondent fell into the over 60 years of age category. Almost 70% (68.3%) of respondents were under the age of 45. Ten percent were under the age of thirty years, 58% between the ages of thirty and forty-five years and 32% were aged 45 years and over.

Seventy-three percent of respondents reported working for the organization for less than ten years. Another 22% had been with their organization for between 10 and 20 years. Seventeen percent of respondents said that their organization had fewer than 10 employees. Almost half (46%) worked in an organization of between 10 and 100 employees and the remainder of respondents (37%) operated in large organizations of greater than 100 people. In addition, of the 60% of interviewees who would provide the information, all except 3 were from organizations with revenues/donations of more than \$1 million with 1/3 in organizations with revenues of more than \$20 million. See Table 5.2 for the percentage of organizations by their amount of revenues/donations.

Table 5.2
% of Organizations By Amount of Revenues/Donations

Revenues/Donations (\$)	% of Respondents
<\$1 million	5
\$1-\$10 million	25
\$11-20 million	10
>\$20 million	20
Refused/Don't Know	40

Respondents were also asked to self-select themselves into an industry. The organizations indicated that they operated in the following industries:

- 1) marketing service bureau - 13%
- 2) not-for-profit - 20%
- 3) direct marketing - 25%
- 4) ad agency/communications - 15%
- 5) other industries - 27%.

5.2.3 Research Objective #2

What types of advantages and disadvantages can organizations realize through the use of marketing databases?

5.2.3.1 Effects of the Database on the Organization

In order to assess whether or not organizations truly perceived particular advantages and disadvantages to the use of the marketing database, interviewees were first asked whether or not the database had had an effect on their organization. Ninety-seven percent of respondents said that it had and all respondents except one indicated that this effect was a positive one. This is important because determining the effects of the database can give some insight into what new users of marketing databases can expect in their organization.

Table 5.3
% and Number of Respondents
By Effect Measurement Method

Measurement Method	% of Respondents	# of Respondents
Customer response/business up	73	44
Time saved/greater efficiency	18	11
Response reports/testing	12	7
Shift in focus of business	13	8
Less prospecting/smaller mailings	2	1

Table 5.3 above shows that almost three quarters (73%) of interviewees said that in order to measure the effect of the database they look at customer response and increases in business. Eighteen percent said that they measure the effect through time saved and greater organizational efficiency. Other methods of measurement that were

provided include; response reports/testing programs, a reduced need for prospecting and reduced size and number of mailings, and noticing a shift in the way that business is done. As one interviewee put it

Part of the effect is the change in marketing communication disciplines and techniques that we have been using...It has shifted some of our revenue base and some of our profit base. Number two, it has caused some of our people internally to have to learn some new techniques to learn and become more knowledgeable about some direct marketing techniques. I can't say that it has really significantly increased our business. In our case, it has probably more changed where the business is coming from and how it is being done. (respondent interview #29, direct marketing consultant)

5.2.3.2 Benefits Which Accrue to the User Of The Marketing Database

Proposition 1: The advantages cited in the literature - targeting, tailoring, tying, bottom line benefits, and low cost and accessibility - should be those advantages mentioned by the majority (at least 50% each) of interviewees.

Table 5.4
% of Respondents Citing Advantages of the Database

Cited Advantages	Literature Advantage	% of Respondents
Better Able to Target	Targeting	57
Better Able to Segment	Tailoring	42
More Accurate/Up-To-Date Info.	Low Cost & Accessibility	15
Ease of Access to Information	Low Cost & Accessibility	13
Predictive Abilities	Not mentioned	13
Ability to Analyze	Not mentioned	13
Obtain Customers	Bottom Line Benefits	12
Customer Retention	Tying	8
Cost Reductions	Bottom Line Benefits	3
Can Cross Sell	Tying	3

As shown in Table 5.4 above, the responses given by interviewees have been grouped according to the type of advantage that was described in the literature and this reveals that this research did not fully support this proposition. A majority (57%) mentioned targeting (better able to target) as a major benefit. While the other advantages cited in the literature received mention by large numbers of interviewees, none were by more than 50% of respondents. This is an indication that the advantages described in the literature are still the main advantages to be realized through the use of a marketing database.

The interview respondents indicated two primary benefits of using a marketing database. In addition to the 57% of respondents said that the advantage for them was that it allowed them to better target individuals with the appropriate information, 42% said that database marketing provided the means with which to better segment the market. While this is not a majority of respondents, it is a large proportion.

All other responses were mentioned by thirty percent or less of respondents and included: more accurate/up-to-date information, information that was easily accessible, the means to analyze the market, and predictive abilities. This was an open-ended question in which similar responses were later grouped to facilitate analysis. The average number of benefits cited by respondent was 2 (mean=1.8). A test of proportion for each of these remaining advantages supports the idea that these advantages have been cited by less than 50% of respondents.

Proposition 2: The modeling techniques discussed in the literature review, predictive modeling and the calculation of the lifetime value of a customer using the RFM model will have greater cited use by direct marketing consultants compared to owners of marketing databases.

The research did not support proposition 2. Only 13% of respondents mentioned the use of predictive modeling and they did so by citing it as an advantage of the marketing database in that the information in the database gave them 'predictive abilities'. But, it is cited by only two direct marketing consultants and 6 owners of marketing databases.

The lifetime value calculation is employed by almost half of respondents. It is used by 50% of direct marketing consultants and 43% of owners of marketing databases. However, a Chi-Square test revealed that the difference between its use by direct marketing consultants' clients and owners of marketing databases is not significant (Pearson Chi-Square = .605). Therefore, the proposition that use of predictive modeling and lifetime value calculations would have higher cited usage by direct marketing consultants has not been supported.

5.2.3.3 Disadvantages of the Database

Proposition 3: The challenges to the use of database marketing discussed in the literature include privacy concerns, government regulation of the industry, environmental concerns, and the complexity of developing a workable strategy. These challenges are expected to be mentioned by at least 50% of interviewees.

The research revealed that the challenges highlighted in the literature are those which remain relevant for the organizations interviewed for this thesis. However, issues

related to the complexity of developing a workable strategy for the marketing database are perceived to be the main disadvantages of database marketing rather than concerns over privacy. It should also be pointed out that 25% of respondents felt that there were no disadvantages whatsoever to using database marketing.

Table 5.5
% of Respondents Citing Disadvantages of the Database

Disadvantages	% of Respondents
Cost and difficulty of maintaining good data	38
None	25
Lack of company flexibility/support	20
No appropriate technology	5
Information overload	5
Demand for database exceeds capacity	5
Privacy issues	5
Amount of paper generated	3
Potential for unethical behavior	2
Other	5

As presented in Table 5.5, the issue of privacy, one of the main concerns mentioned in the literature, was mentioned by only 5% of interviewees in this research. Most of the responses seemed instead to be focused around the challenge of developing a workable strategy which was cited in the literature as one of the major challenges to the use of database marketing. The difficulty of developing a workable strategy was highlighted by interviewees through the mention of the cost and difficulty of maintaining good data (38%), a lack of appropriate technology (5%), and the demands for information placed on the database exceeding its capacity (5%). In addition, twenty percent of respondents mentioned that there is often a lack of company flexibility and support where the database is concerned. Because a marketing database often requires the addition of

specialized personnel to the organization, it may require a large initial cost outlay in order to set it up, and its results may not initially be apparent. Obtaining support for the marketing database is often difficult. As one respondent indicated, “You really need someone who is a bit more visionary - who can sit back and wait for that payoff” (respondent interview #39, owner of a marketing database). Another indicated that senior management ownership of the database is necessary. On average, each respondent mentioned only one disadvantage (mean=1.2).

A third challenge described in the available literature centered around the environmental concerns in using a marketing database. These concerns were mentioned by two of the respondents who indicated a problem with the amount of paper generated through the use of database marketing.

The final concern cited in the literature - government regulation of the industry did not appear to be a concern for any of the organizations interviewed for this research.

Therefore, while many of the challenges to the use of database marketing that were cited in the literature were mentioned by interviewees, the proposition that these challenges would be described as disadvantages of database marketing by at least 50% of those interviewed is not supported in the research. None of the disadvantages were cited by 50% or more of interviewees.

5.2.4 Research Objective #3

How are marketing databases currently being used by Canadian organizations?

5.2.4.1 Types Of Information Stored In The Database

Proposition 4: A core set of contact data should be present in the majority (at least 50%) of the marketing databases described by interviewees.

The literature describes a 'core data set' of contact data as being; name, address, source of name, purchase history (including purchase dates), status flags, whether or not person wishes to receive mail, bad debts, credit limits, and demographics. However, many of these data elements did not receive mention by the majority of respondents.¹

Table 5.6
Whether Majority of Interviewees Mentioned
Each Element of the Core Data Set

Core Data Element	Whether Mentioned
Name	Yes
Address	Yes
Purchase History	Yes
Source of Name	No
Status Flags	No
Whether or not person receives mail	No
Bad debts	No
Credit limits	No
Demographics	No

¹ The literature in this area was prescriptive and may simply represent a wish list of information for a database rather than what an organization will possess or require.

Table 5.6 above lists the core data set outlined in the literature and whether or not each of these items in the 'core set' was mentioned by more than 50% of interviewees. Only the elements of name, address, and purchase history were mentioned by at least 50% of respondents.²

So, the proposition that the elements of the core data set would be cited by at least 50% of respondents has been partially supported. While there is a core data set among the organizations interviewed, it is much smaller than the one described in the literature. Many of the core elements described in the literature are not present in the databases of the organizations interviewed for this research and this will have an effect on the future uses of the information.

5.2.4.2 How The Information Is Obtained

Several sources may be used to capture the information contained in marketing databases. The most common method of obtaining information for the database is through customer contact (82%). This very often takes the form of responses to promotional offers. Other important data sources include: prospecting and the use of purchased lists (55%), Statistics Canada or other demographic overlays (45%), and research such as customer surveys (25%). Other less common methods were from internal sources, telephone books or newspapers, cheques, and trade directories.

² Unaided recall was used to obtain the responses for the advantages and disadvantages of the marketing database. So, these results should be viewed as highlighting the top-of-mind information available to the organization.

The average number of sources used by respondents in gathering information for the database is 2 (mentioned by 43% of respondents). Only 20% of respondents use exclusively one source while 27% use three sources, and 10% use 4 sources.

5.2.4.3 How The Information In The Database Aids In Marketing Activities

Proposition 5: The main uses of the marketing database, which were often cited in the literature as advantages of the database ie. targeting (segmentation), tailoring, tying (building a relationship) will be the same uses of the database that are cited by at least 50% of these interviewees.

Table 5.7
% of Respondents Citing Uses of the Marketing Database

Uses of the Marketing Database	% of Respondents
Direct Marketing Campaigns	48
To select specific characteristics	28
To target customers	18
Customer loyalty/relationship marketing	15
Understanding customers	12
To coordinate marketing efforts	12
Testing and tracking	10
To find leads	8
To generate customer response	8
Other	10

Table 5.7 demonstrates that while targeting (segmentation), tailoring, and tying were mentioned by the respondents, they were cited less than 30% of the time. The main use of the databases was described as being for the purposes of direct marketing campaigns (48%) which is a wide ranging use and could involve all of the above activities. Further probing on the database's use in direct marketing campaigns would have been useful but was not possible given the time constraints for the interview. Therefore, the results are not conclusive for this proposition.

5.2.4.4 The Rental Of Information

Proposition 6: Very few organizations (defined here as less than one quarter) will trade the information in their proprietary marketing databases.

In order to test this proposition, respondents were asked 'Do you sell or rent the information that you have captured in your database to other organizations?'. Just over half, 32 of 60 organizations, said that they do rent the information in their marketing database to other organizations. Therefore, the proposition that few organizations will trade the information in their proprietary databases is not supported.

Proposition 7: If organizations do trade or sell the information in their marketing databases, it will strictly monitored by the organization providing the information. At least 50% of organizations will have controls in place.

Thirty-one of 60 organizations interviewed described some form of control mechanism governing the rental or trade of the information contained in their organization's marketing database. Therefore, more than 50% (52%) of organizations interviewed do have controls in place which govern the rental and trade of information in the database. A test of proportions yielded a z-score of 1.09 and, therefore, at a 95% confidence interval, the null hypothesis that the true population proportion is 50% cannot be rejected.

Interviewees identified several different types of controls which are placed on the rental of information. These controls include; receiving a sample of the promotional literature which the list is being used to distribute (43%), seeding the list with names

(35%), allowing one-time only rentals (18%), and adhering to Canadian Direct Marketing Association guidelines (10%). Other less popular answers included; monitoring the timing of mailings, trading according to the mail/don't mail flag, and releasing only segments of the database at a time.

Some of the respondent organizations place the same controls on list rental every time a list is rented, even if it is the same organization that is continuing to rent. Other organizations that were interviewed indicated that viewing a sample of the promotional literature is done the first time a client rents a list but that a sample may not be requested every time this client rents a list.

While the majority (52%) of respondents indicated that their organization had in place some form of control mechanism over the trade or rental of information in the database, the types of controls used were not consistent across organizations.

Proposition 8: If information in the marketing database is traded by organizations, it should not be traded to similar organizations. Less than 25% of organizations will trade with or rent to similar organizations.

Because the goal of database marketing is to build a relationship with the customer, it was proposed that organizations who do rent or trade their client information would only do so with organizations who were not similar to them. However, 53% of those who do rent their database information rent it to organizations who operate in industries similar to their own. This is a much larger percentage than the proposed 25% and a test of proportion revealed a z-score of 5. Therefore, this proposition is not supported.

During the course of the research, it became obvious that charitable organizations very often trade the information in their databases with other organizations. So, organizations who did not self-select themselves into the not-for-profit category were analyzed separately. The results revealed that 33% of organizations excluding not-for-profits trade the information in their databases to similar organizations. While the charitable organizations are accounting for a large proportion of those organizations who do trade to similar organizations, there is still no support for the proposition.

5.2.4.5 Decisions About The Use and Frequency Of Use Of The Marketing Database

While no specific propositions were developed with regard to how decisions about the use of the marketing database are made and how frequently marketing databases are being used by the organizations interviewed, this knowledge will contribute to a better overall understanding of who is directing the use of the database in the organization and whether the database plays a major or minor role in the marketing activities of the organization.

Decisions about how the marketing database is used for marketing purposes by the organization are most often made at the managerial (40%) or executive (38%) levels. The managerial level would include positions such as operations manager, circulation manager, group account director, or direct marketing manager while the executive level would include executive vice-president, owner, president, or director of marketing. Another 15% of respondents said that decisions are made by the department as a whole.

Only two respondents provided answers other than these, which were that decisions are made at corporate headquarters or by an outside consultant.

Respondents were also asked how often the marketing database was used in marketing activities. The term 'marketing activities' was defined, in this case, by the interviewee himself/herself and could include any activity which the organization deemed to be marketing. It would include activities such as customer contact, direct mail campaigns, advertising, segmentation of the market, etc...

There was little consensus among respondents as to how often the database is used for marketing purposes. Answers to this question ranged from continuously to yearly and as needed. The largest number of respondents (27%) said that the database is used on a monthly/bi-monthly basis and another 30% stated that the use was quarterly or on an even less frequent basis. So, only 43% of organizations interviewed are using their database for marketing purposes more than once a month but the majority of those indicating that their use is more than once per month are using their database continuously or on a daily basis.

5.2.5 Research Objective #4

How are databases maintained?

5.2.5.1 Maintenance Of The Database

a) Number of Databases Employed By The Organization

Proposition 9: At least 50% of organizations will have only one database which they use for marketing purposes.

Because of the cost and difficulty of maintaining good and accurate information in the marketing database, it was proposed that most organizations would say that they have only one database that they use for marketing purposes. However, only 23% of the 60 organizations interviewed indicated that the database around which the interview centered was the only one employed by the organization for marketing purposes.

A test of proportions yielded a z-score of -4.186 and, therefore, the null hypothesis that the population proportion of organizations with one database only is 50% or greater when the sample proportion is 23% is rejected. Seventy-seven percent of organizations use multiple marketing databases so the proposition that organizations would have only one database for marketing purposes is not supported.

b) What Type Of Equipment The Database Uses

Proposition 10: Organizations will have very diverse platforms, software, and update strategies for their databases.

Because little directional information was provided in the literature on how to develop a workable database marketing strategy in one's organization, one proposition of the research was that it would reveal inconsistent strategies across organizations in terms of the platform for the database, the software used to extract information, and the database's update strategy. This was most certainly the case for the platform and the software but the timeframe for updating the database information was fairly similar across organizations.

(i) Database Platform

Forty percent of databases reside on mainframes, 28% on personal computers, 17% on networks, and another 10% are on both mainframes and personal computers. In addition, 1 database is stored on a mini computer and another organization uses a mainframe, a personal computer, and a network. So, while the largest number of organizations maintain their database in a mainframe environment, a variety of platforms are employed. In 82% of the cases, the database is maintained in-house and only 11 of the 60 respondents said that their database was maintained externally by another firm.

(ii) Database Software Used

Similarly, a variety of software types is used. Thirteen percent of organizations use a canned, off-the-shelf software package. Almost half of the interviewees use a completely customized piece of software, and just under a quarter of respondent organizations have purchased a canned software package which has then been customized to suit their needs. A large number of 'don't knows' occurred when interviewing direct marketing consultants who were not clear as to what types of software their clients were using.

(iii) Marketing Database Update Strategy

The most popular answers when respondents were asked about how frequently the information in the database is updated were 'continuously' by 48% of respondents and 'daily' by another 28% of respondents. Only 11% said that it was monthly or less frequently with another 7% indicating that the schedule was variable.

5.2.5.2 Name Removal Options

Proposition 11: A name removal option will be provided by all organizations to their customers and prospects.

Because the sample population for this research was the Canadian Direct Marketing Association membership list, it was proposed that all organizations participating in the research would offer and publicize a name removal option to customers and prospects. The results of this research reveal that most organizations do provide this option to individuals with whom they deal. However, far fewer of them actually make public this option to their customers and prospects.

All but seven of the sixty interview respondents (12%) indicated that their organization provided a name removal option to the clients in their database. Therefore, this proposition cannot be rejected. Of the 53 organizations that do provide a name removal option, two-thirds of them actually publicize this option to the people to whom they market. All member organizations of the Canadian Direct Marketing Association are expected to provide a name removal option to their customers. For the seven respondents who indicated that the option is not provided, it may be a case of respondent ignorance of this aspect of their marketing.

5.3 Wave Two - Fax Questionnaire

5.3.1 Introduction

The decision was made in August 1996 to conduct an additional wave of research. The researcher made this decision for two reasons. The first was that the original interview data was, in some cases, almost two years old. Database marketing and the use of databases is a fast changing area of marketing and it was important to the researcher to determine if changes had occurred during the past two years which would limit the research findings to being applicable only to a specific time frame. Secondly, this additional research provides a longitudinal view of the use of marketing databases by Canadian businesses. The questionnaires, one for owners of marketing databases, and the other for direct marketing consultants, are included in Appendices C and D, respectively.

5.3.2 Response Rates

Of the 30 fax questionnaires sent to the owners of marketing databases who were contacted during the first wave of research, 11 completed responses were received. This provided a response rate of 37%. Only 3 responses out of 30 questionnaires sent to direct marketing consultants were received for a response rate of 10%. This low response rate from direct marketing consultants is reflective of the fact that people employed in the direct marketing field move positions a lot and so they may no longer have been with the company or may have moved on to another position in the organization. Evidence to

support this notion can be found in the results of the first wave of this research when respondents were asked how long they had been with their organization. As previously reported, almost 40% had been with their respective organization for 3 years or less.

With a low response rate and small numbers of respondents, results from this wave of research can be interpreted as directional only. However, this was the purpose of the follow-up fax questionnaire. It was used to get a sense of whether or not great changes had occurred in the use of marketing databases by the organizations interviewed.

5.3.3 Findings

Six of the 11 respondents in organizations who are owners of marketing databases indicated on the fax reply form that the information that had previously been provided to the researcher was still representative of the way that things are done in their organization. Of the remaining 5 organizations, 4 have indicated that while the provided information still represents their current situation, they are undertaking new initiatives to make enhancements to their marketing databases. These enhancements would include switching from a mainframe to a Windows environment, looking at having the database maintained by an outside resource, adding a customer contact tracking system, and adding individual behavioral data to existing information.

Only one organization indicated that it now does things differently than was previously reported. This respondent said his/her organization no longer maintains a database for marketing purposes but keeps only a customer database. This means that the organization is no longer using the information that it stores in order to market to the

customer but rather uses the databases as a way of storing its transactions with its customers.

While the response rate from the direct marketing consultants is small, all three respondents indicated that the advantages and disadvantages to the use of database marketing which they identified during the initial interview still represent the advantages and disadvantages that their clients receive. Given that there has been very little change on the part of those who own databases, it seems reasonable to assume that the responses given by direct marketing consultants based on the actions of their clients would not have altered significantly during the 1.5 to 2 years since the initial wave of research was completed.

5.3.4 Impact on Wave One Research

The impact of the second wave of research on the initial interview results is to confirm their continued basic validity. Other than one organization with ownership of a database that indicated that it no longer markets, using its database, respondents have indicated that the information that they reported is still true or that they are continuing to make enhancements to their database such as improving the quality of data and ease of access to it. This wave of research lends confidence that the results originally obtained still represent the strategic use of marketing databases and database marketing techniques by Canadian organizations.

5.4 Index of Sophistication of the Database

5.4.1 Development of the Index

One element of the analysis of the data gleaned from the interviews with respondents in different organizations was to develop a method to classify organizations according to the sophistication of their use of their database.

The researcher has named this classification method a ‘sophistication index’ which can be scored out of a potential 9 points based on the three measures and their corresponding values below:

1. the number of uses of the marketing database by the organization
 - 1 = 1 use of the database
 - 2 = 2 uses of the database
 - 3 = 3 or more uses of the database
2. the number of pieces of data stored in the marketing database
 - 1 = 1 to 4 items
 - 2 = 5 to 7 items
 - 3 = 8+ items
3. the length of time the database has been in place in the organization
 - 1 = less than 5 years
 - 2 = 5 to 10 years
 - 3 = greater than 10 years

A score of 0 to 3 points indicates a low level of sophistication, 4 to 6 is medium, and 7 to 9 points demonstrates a high level of sophistication with regard to the marketing database.

5.4.2 Propositions

As described in Section 2.8, potential propositions were outlined about what the results of the development of the Index of Sophistication would reveal.

Firstly, the researcher believed that based on the literature from the U.K. which detailed a general lack of sophistication in the use of marketing databases, that organizations would be revealed to have a generally low level of sophistication in their use of marketing databases.

Secondly, it was thought that larger organizations would have had databases in place for longer periods of time and would be more sophisticated in their use of them. This is based largely on the fact that there is great difficulty and cost in maintaining accurate information in the marketing database and to developing the database in the first place. It is therefore assumed that larger organizations would have greater capabilities.

Finally, it was expected that users of marketing databases would be less sophisticated in their use of marketing databases than would the direct marketing consultants who were interviewed. The reason for this is that direct marketing consultants should be in the forefront of what is occurring in the marketing field and so should be more sophisticated than organizations operating in different fields.

5.4.3 Results

Proposition 12: The organizations interviewed for this research will display a lack of sophistication in the way they use their marketing databases. At least 50% of organizations will fall into the low-level sophistication category.

The results of the development of the index of sophistication reveal that 43% of the organizations interviewed for this research fall into the low-level sophistication category, 25% into the mid-level sophistication, and the remaining 32% into the high-level sophistication group. A test of proportion was conducted in order to determine whether or not the observation of 43% low-level sophistication organizations was significantly different than the 50% expected from the proposition. The results of this test revealed a z-score of -1.08 and at a 95% confidence interval the null hypothesis cannot be rejected. Therefore, the proposition that at least 50% of organizations would fall into the low sophistication category cannot be rejected on the basis of this research.

Proposition 13: Organizations that are larger (as measured by the number of employees) will have more sophisticated databases than smaller organizations and their databases will have been in place for longer periods of time.

Table 5.8
Length of Time the Database Has Been In Place
By the Size of the Organization

Length of Time Database In Place	Small Organizations (≤100 employees) %	Large Organizations (>100 employees) %
<5 years	31	52
5-10 years	33	24
>10 years	36	24

The research does not provide support for this proposition. Instead of the largest organizations (defined as greater than 100 employees) having their database in place for the longest period of time, it was found that small organizations (those with 100 employees or less) had the largest percentage of databases in place for more than 10 years. In addition, as reported in Table 5.8, more than 50% of large organizations had had databases in place for less than 5 years at the time of interview. A Chi-Square test revealed no significant difference in the length of time a database has been in place based on the size of the organization (Pearson Chi-Square = .262).

The second part of this proposition was that larger organizations would be more sophisticated in their use of marketing databases. However, this is also not supported by the research.

Table 5.9
Level of Sophistication By the Size of the Organization

Level of Sophistication	Small Organizations (≤100 employees) %	Large Organizations (>100 employees) %
Low-level	40	45
Mid-level	20	35
High-level	40	20

As shown above, 40% of small organizations fall into the high-level sophistication category while this is true of only 20% of large organizations. Again, however, a Chi-Square test revealed no significant differences in the level of sophistication of organizations based on the size of the organization (Pearson Chi-Square = .252).

Proposition 14: Users of marketing databases will be less sophisticated in their use of marketing databases than the direct marketing consultants who were interviewed for this research.

The final proposition which was that direct marketing consultants would have higher levels of sophistication than those reported by owners of marketing databases was also not supported by this research. Direct marketing consultants are more concentrated in the low sophistication category while owners of marketing databases are more evenly spread among the three levels.

Table 5.10
% Respondents At Each Sophistication Level
By Organization Type

Organization Type	Low-Level Sophistication %	Mid-Level Sophistication %	High-Level Sophistication %	Total %
Direct Marketer	48	19	33	100
Database Owner	38	31	31	100

However, these observed differences between the groups were not significant (Pearson Chi-Square = .538).

Chapter 6 Findings of the Research

This section presents a general discussion of the overall findings of this thesis research.

6.1 Advantages and Disadvantages of the Database

Most organizations observed an effect caused by the introduction of a marketing database into their organization and in all but one case, the effect was a positive one. The majority of respondents look at customer response and increases in business in order to measure this effect. Another 18% said that they measure the effect through time saved and greater organizational efficiency and all other methods received only small mentions.

While the advantages cited in the literature were mentioned by the organizations interviewed for this research, one particular advantage of the database came out strongly both in the literature and during the course of the interviews. The ability to target the appropriate customers in marketing activities is the main advantage to database marketing.

While this ability to target one's audience, one of the 'Three Ts' cited by Cespedes and Smith, was mentioned by more than half of respondents, the remaining 'Ts', *tailoring* and *tying*, were described as advantages of the marketing database by only 42% and 11% of respondents respectively. The low cost and accessibility of data was described by respondents as having more accurate and up-to-date information (15%) and the ease of access to information (13%). Only small numbers of respondents cited any of the bottom line benefits described in the literature. Twelve percent of respondents said

that the database helped them to obtain customers while another 3% said it provided cost reductions for their organization.

Modeling techniques were not mentioned by the majority of interviewees. The calculation of the lifetime value of a customer was mentioned by fewer than half of interviewees and predictive modeling received no mentions. This may be an indication that marketing practitioners have advanced the area beyond the current capabilities of organizations with marketing databases.

One of the reasons that bottom-line benefits may not have been described as advantages of database marketing is because the advantages derived from the database were often indicated by respondents as being 'difficult to measure'. This is because it is often difficult to attribute an increase in sales or contact with customers and prospects to a specific element of a marketing campaign. The role that has been played by the marketing database is not always clear, nor is it easy to assign a dollar value to that role. However, respondents did indicate that an attempt at measurement was made in several different ways.

Table 5.11
% of Respondents Citing Advantage Measurement Methods

Advantage Measurement Methods	% of Respondents
Calculate LTV	47
Calculate miscellaneous statistics	40
Revenues/sales results	18
Calculate return on investment	18
Calculate response rates	17
Do comparisons	7
Have more info. about customers	5
Time saved	5
Reduced costs	5
Do cost/benefit analysis	2
No real measurement done	5

Table 5.11 contains the advantage measurement methods for the marketing database. The most commonly used method was the calculation of the lifetime value of a client which was mentioned by almost half (47%) of respondents. The lifetime value calculation involves trying to determine the amount of revenue or the 'value' that a customer will provide over his or her lifetime.

In addition to the lifetime value calculation, 13% of respondents said that the marketing database provided them with predictive abilities. Most of the other measures mentioned involved some form of financial calculation such as calculating return on investment (18%), looking at revenues and sales results (18%), and the calculation of other types of statistics such as cost-benefit analysis (42%). Other less mentioned measures were non-financial in nature and included looking at response rates, time saved, cost reductions, doing comparisons between segments, and having more information about customers and markets. Only 3 of the 60 respondent organizations (5%) indicated that they did not attempt any real measurement of the advantages associated with the database. See Table 5.11 for the percentage of respondents citing various measurement methods.

The challenges highlighted in the literature are those which remain relevant for the organizations interviewed for this thesis. However, issues related to the complexity of developing a workable strategy for the marketing database are perceived to be the main disadvantages of database marketing rather than the concerns over privacy which tend to be the main focus of the literature.

As for how the disadvantages of database marketing are measured, two responses received the majority of mentions; costs (33%), and time lost (28%). Other mentions

were; response from customers (8%), opportunity costs (7%), human resources (7%), seeding and testing the list (5%), and 3% indicated that there the disadvantages are not measured.

The questions asked around the advantages and disadvantages of the marketing database were open-ended questions. Perhaps, using an aided recall method for the advantages and disadvantages in future research in this area would elicit further information around the advantages cited in the literature as well as the concerns of the public.

6.2 Data Contained in the Marketing Database

There is a core set of contact data which is present in the majority of databases. It includes; name/company name, address, products purchased, and the amount of purchase/donation. However, this list is not nearly as expansive as the data set recommended in the literature. There was a small set of information that was captured in the marketing database by more than half of the organizations interviewed. This core data set included;

1. name/company name (88%) - depending on whether or not the organization was a business-to-consumer or business-to-business marketer
2. address (87%)
3. products purchased (65%)
4. amount of purchase/donation (55%) - the dollar figured stored in this field depends on whether the organization interviewed was a for-profit or not-for-profit organization.

There is a wealth of information stored in marketing databases and when respondents were questioned about the fields of data that they store, they often responded with answers such as 'everything under the sun' or 'you name it, we store it'. The unaided recall on this question or the expectation by the interviewee that the researcher would know that everyone who has a marketing database stores name and address are two possible explanations for why contact information such as name and address were not cited by 100% of interviewees.

When asked to specifically name fields of data, the list became extensive. The average number of pieces of data stored by the organizations interviewed was 7

(mean=6.65). Table 5.12 lists all of the data types mentioned and the percentage of respondents who indicated that they store this information.

Table 5.12
Types of Information Contained in the Marketing Database

INFORMATION TYPE	% OF DATABASES
Name/Company Name	88
Address	87
Products Purchased	65
Amount of Purchase/Donation	55
Telephone Number	47
Date of Purchase/Donation	47
Promotional Piece Responded To	33
Other Demographics	33
Credit/Banking Information	27
Gender	22
Date of Birth/Age	17
Language Preference	17
Other Promotional Information	17
Geographic Information	13
Fax Number	12
Interests	12
Current Equipment/Situation	12
Attitudinal/Opinion Information	10
Internal Company Information	10
Name Source	10
Key Contact	8
Position Title	8
Mail/Do Not Mail Flag	8
ID Number	5
Type of Business	5

6.3 How The Database Aids in Marketing Activities

While respondents mentioned many ways in which the marketing database aids them in their marketing activities, many respondents were not specific about their use. The largest indicated use was in direct marketing campaigns. Interestingly, relationship marketing, the primary purpose of maintaining and using a database, does not figure highly

in the minds of those interviewed. This is also made evident by the fact that these organizations are trading with other organizations who are operating in industries similar to their own.

The literature did not devote very much time to how the marketing database should actually be used in marketing activities. Many of its uses were instead cited in the form of the advantages previously mentioned such as its use in targeting appropriate customers, tailoring an appropriate message, and tying the customer to an organization in the form of a relationship. The organizations interviewed described very similar uses but their responses to this question varied more than those of other questions. In this case, no one response was given by the majority of respondents. The most common way that the information in the database aided in marketing activities was its use in direct marketing campaigns (48%). This is, however, a far reaching category as these campaigns and how the database comes into play will be different for every organization interviewed. Some organizations said that the information allowed them to better understand their customers, while others mentioned that they used it to select specific characteristics of customers, to target customers, for customer loyalty and relationship building, to understand customers, and to coordinate specific marketing efforts.

6.4 Use of the Marketing Database

For those who make use of their database once a month or less, their infrequent use of the database for marketing purposes could be one of the reasons that one of the main stated disadvantages of the database is the cost and difficulty of maintaining

accurate information in the database. If the database is not constantly in use, it could be difficult for the organizations to maintain the accuracy of information such as address and telephone number.

6.5 The Rental/Trade of Database Information

The results around the issue of trade/rental of information in the database revealed some surprising information. The majority of organizations are trading the information in their marketing database and they are doing so without having in place consistent controls. This provides evidence that the privacy concerns of the public are not very relevant to the organizations who are in possession of their names. Further, this issue is highlighted by the fact that many of those interviewed said that a name removal option is either not provided, or not publicized, to those with whom they deal.

Just over half, 32 of 60 organizations, do rent/trade their information. None of the organizations who were interviewed for this research sell the information in their databases. The fact that the majority of organizations trade the information in their databases is surprising because the attention focused on privacy concerns in the literature led to the proposition that very few organizations would trade their information. However, the fact that only two organizations in sixty saw privacy concerns as a disadvantage of database marketing may mean that most organizations do not feel that trading or renting an individual's information is an issue.

Of those organizations who said that they do rent/trade the information in their database, a large number are doing so with organizations similar to their own. One reason for doing this is that charitable organizations, in particular, have found that individuals who make donations to one organization tend to also give to others. So, organizations trade lists in the hopes of finding valuable prospects who will become customers on their own databases. While all charitable organizations who trade their information indicated that they do trade it with similar organizations, one-third of the other organizations participating in this research also indicated trade or rental to similar organizations.

This research also found that while the majority of organizations interviewed had some form of controls in place governing the rental/trade of information, these practices vary by organizations. This may be an indication that consistent controls across Canadian organizations do not exist with regard to information rental. These controls help the organization to monitor what is being sent out to their clients/membership, and when the piece is being sent. Previewing the literature and seeding the list allows the list owner/manager to examine the copy and ensure that nothing which would be offensive to their clients will go out to them. In addition, seeding the list allows the list owner to receive the piece as any other name on the list would and ensure that the timing of the piece does not conflict with any other planned database contact with clients/membership.

6.6 Name Removal Option

Most organizations do provide a name removal option to individuals with whom they deal. However, far fewer of them actually make public this option to their customers and prospects. All but seven of the sixty of the interview respondents (12%) indicated that their organization provided a name removal option to the clients in their database. However, of the 53 organizations that do provide a name removal option, only two-thirds of them actually publicize this option to the people to whom they market.

‘We actually didn’t publicize it. If they said that they did not want to be solicited, they would be tagged’ (respondent interview #14, direct marketing consultant). They indicate that a name will be removed or suppressed only if a request is made by the person in question. One of the main difficulties with this is that because of the high volumes of traded and rented lists, it is very often hard for the consumer to track down which organization has their name and is trading their name to other organizations. This is placing the onus of severing contact on the consumer instead of on the organization itself.

Organizations that do promote the option to have one’s name removed from a list use several different methods to impart that information to the public. The most common method is to promote it in the promotional material, through general means (17%), or with a box to be checked indicating that the prospect/client wishes to be removed from the database (27%). Other methods used are; to provide a telephone number, an option on the yearly renewal form, a newsletter, or by mailing out a pamphlet to prospects and clients outlining their rights under the Canadian Direct Marketing Association guidelines.

In addition, most of the organizations to whom the researcher spoke said that while names of those who do not want to receive mail or be traded to other organizations are suppressed, the name continues to be resident on the company database. More importantly, only one respondent out of 60 indicated that his organization sends out a pamphlet which outlines to the prospect or customer his/her rights in this area. It may appear from the customer perspective that the organizations are trying to hide something from them.

6.7 Maintenance of the Marketing Database

These results seem to indicate that there is not a consistent methodology in place for the development and maintenance of databases because the equipment on which the database is maintained varies widely between organizations as does the type of software. This may also be an indication that there is a lack of appropriate database software available in the marketplace given that such larger numbers of organization customize canned pieces of software or use a completely customized piece in order to maintain the marketing database.

6.8 Wave Two Research

The second wave of research demonstrates that very little has changed over a two year time period in how these organizations maintain and use their databases. Respondent organizations were indicating that they were expanding the use and scope of the organization's marketing database.

6.9 Index of Sophistication

This research demonstrates that a simple index to determine the level of sophistication of a marketing database can be computed and should be further tested over time. The research and development of the index of sophistication revealed that while most organizations do not fall into the low sophistication category, there are 43% of organizations who are classified as low sophistication by the index and are not using their databases to their full potential. As well, there was little evidence to support a difference in the level of sophistication of use of the database based on whether the organization was database owner or the client of a direct marketing consultant.

In addition, there was no support for the proposition that a larger organization was more sophisticated in its use of a database than a smaller organization. Therefore, one conclusion may be that additional human and capital resources or length of experience with the database will not determine the level of sophistication.

Chapter 7 Implications of the Research

This research has several implications for current marketing practitioners and the development of theory in the area of database marketing.

This research provides baseline information explaining how businesses are managing their databases, reveals that they are being managed differently in every organization, points the way to future research areas, and provides enough baseline information about the use of databases that a comprehensive questionnaire can now be developed around this subject matter.

Firstly, this was an unexplored area and this study has helped to provide an understanding of how marketing databases are being used by Canadian businesses. It will:

- 1) inform marketing educators and business about the use of this tool in Canada, 2) provide information to the government and trade associations such as the CDMA about what is actually occurring in Canadian industry, and 3) tell consumers which types of personal information are being captured and how they are being used.

Secondly, this research has revealed that marketing databases are being managed differently in every organization. Different platforms and software are being used to store the information, rental/trade of consumer information is controlled very differently depending on the organization interviewed, and the types of information stored and sources for that information are also extremely variable. Because of the overwhelmingly positive response to the effect of the database on the organization, this research has revealed that there is no evidence that one type of database or management method is better than another.

Thirdly, this study has helped to point the way to future research areas. As discussed above, databases are managed differently in every organization. However, an area for further investigation is the success factors which will lead to successful use of the marketing database in the organization. In addition, as this was an exploratory study conducted on a general level with a sample of only sixty organizations, it has revealed some aspects of the management of database marketing in Canadian businesses or specific groups which should be examined in more detail. For example, the issue of the trading/renting of the information that an organization has about its customers and prospects is an interesting area which could be investigated more fully. More information about the types of organizations which are renting the information of others is vital from a consumer perspective in that the public needs to be reassured about who has their personal information, the purpose of its use, and how the use of that information is being controlled.

Finally, this thesis has provided an understanding of how database marketing is being used that someone else can build on. It is the first rigorous investigation of how databases are being used in organizations and it has provided enough information that a more detailed questionnaire could now be developed and sent to a much larger sample than was possible in this case.

Chapter 8 Benefits and Limitations of the Approach

There are many benefits and limitations to this research as it is an exploratory and pioneering study in the area of the use of database marketing in Canadian businesses. The benefits include the chosen sampling frame of organizations and the research method.

Firstly, the sampling frame chosen for the research, the 1993-94 Canadian Direct Marketing Association Membership Guide allowed direct access to organizations which were interested in and involved in database marketing. In addition, the contact names and titles supplied in the guide simplified the task of locating the individual with responsibility for the database. In a sense, the CDMA Guide qualified contacts for the researcher.

Secondly, the chosen research method of face-to-face and telephone interviews allowed the researcher to receive more information than a questionnaire would allow, to receive answers to questions and explanations in the interviewee's own words, to probe on topics of particular interest, and to view promotional material or tour facilities. This provided a depth and richness of information that would not have been possible with any other method.

There are four main limitations of the research. Firstly, there was a lack of theory to apply to this area. Secondly, the use of the 1993-1994 membership list for the Canadian Direct Marketing Association may mean that the results of this research may not be generalizable to other CDMA members and to non-members. Thirdly, the small sample size for the research means that inter-group comparisons are not always possible. Finally, the position held by the respondent may have had an effect on the type of data obtained.

Firstly, there was a lack of theory on which to base this research. At the time the questionnaire was developed, little theory in the area of database marketing was available. For this reason, specific research hypotheses could not be developed because there was no concrete theory in the literature to support them. Instead, this thesis provides solid baseline information about marketing databases upon which future theory can be developed.

Secondly, the sampling method itself may affect the generalizability of the results. As stated in the methodology, proportional sampling was used with random selection of respondents. As the proportions of interviews with direct marketing consultants and owners of marketing databases in Toronto were determined by the distribution of organizations in Ottawa and Montreal, it meant that the research may be generalizable to only certain groups. Few owners of marketing databases from Toronto were contacted due to the fact that very few direct marketing consultants were found in Ottawa and Montreal and therefore had to be taken from the Toronto pool of potential respondents.

Thirdly, the small sample size meant that some inter-group comparisons were not possible. The original intention was to compare the use of marketing databases in organizations operating in English and French environments. However, the lower response rate from organizations in Montreal precluded these comparisons. Further, research into the usage of marketing databases across different industries may shed additional light on whether or not there are differences in how organizations manage their databases.

Finally, because most respondents were managers or above in their organizations, the data provided during the interview may have been more strategic than operational. Some use and maintenance information may have been missed due to a lack of awareness on the part of interviewees.

Chapter 9 Areas for Future Research

While this research does provide a good base of knowledge on the topic of database marketing which was previously lacking, there is still much work to be done. There are several areas in which additional research could be pursued. There is a need for a greater understanding of 1) the success factors in the implementation and use of a marketing database, 2) the advantages and disadvantages which accrue to organizations through the use of database marketing, and 3) how the information in the marketing database is actually used in direct marketing activities. In addition, more inter-industry/inter-group comparisons are needed in order to reveal where there are differences in the implementation, use, and maintenance of marketing databases.

Firstly, as highlighted in Chapter 7, marketing databases are managed in a wide variety of ways. It is important that future research focus on the success factors which will allow an organization to successfully implement and use a marketing database in its organization. This will advance the theory in the area of database marketing by providing a means of comparison to traditional marketing techniques. It will also serve to prepare organizations contemplating implementation of a marketing database.

Secondly, a better understanding of the advantages and disadvantages obtained by organizations using database marketing is needed. As the research revealed, many of the advantages and disadvantages cited in the literature were not widely cited by interview respondents. This may be in part due to the fact that unaided recall and open-ended questions were used for these topics. Future research could focus on using aided recall methods in order to determine if particular advantages and disadvantages are perceived by

all organizations. These views could then be contrasted with those of the public on issues such as the privacy concerns of database marketing.

Thirdly, a greater depth of understanding is needed around how the information is being used in marketing the organization's products and services. The main use of the information contained in the marketing database was cited by respondents as 'in direct marketing campaigns'. Direct marketing campaigns could involve segmentation, the tailoring of a message, and developing a relationship with customers, among other elements. This general usage information would be complemented and enhanced by a more in-depth investigation of the uses of database information by organizations. An example of this is organizations that indicated that the information contained in the marketing database is used to segment the market. Insight into how this segmentation was done and how the information in the database is then used to reach the market segments will provide a more complete picture of the use of databases by Canadian organizations.

Finally, as the research has revealed, there is a great deal of variation in the practices of owners of marketing databases when compared with those of direct marketing consultants as well as differences between organizations of varying sizes. An expanded sample across many different industries, cities, and with organizations of varying sizes many reveal additional inter-group differences than have been reported in this research.

Chapter 10 Conclusion

This research was a first attempt at discovering how Canadian organizations that have high usage of database marketing actually are using the information that they have about individuals. It also provides baseline information about the types of information they use and maintain and where they obtain this information.

However, it only serves to highlight the fact that more research is required in this area because database marketing will continue to increase as a tool of Canadian organizations. The main reason for this is best highlighted by a quote from Lois K. Geller:

It's a lot easier to cater to your customers, to get them what they want and need, when you're able to see them as individuals. And, as idealistic as it seems, it's a lot easier to care about your customers when you know who they are (Geller, 1996).

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Appendix A
Interview Questionnaire - Owners of Marketing Databases

On the phone, you told me that your firm had a marketing database, which you referred to as _____. This is the database I'd like to discuss today.

Firstly, I'd like to ask you about your database marketing activities and the advantages and disadvantages that you have realized from them.

1. Is the database that we are going to discuss the only one related to marketing activities that your firm uses?
2. How long has the database been in place?
3. Specifically, what are the advantages of database marketing for your business unit? (If respondent only mentions one or two advantages, ask "Are there any other advantages?")
4. How are these advantages measured? (If there are many advantages, might have to ask "How do you measure _____?" and state each advantage in turn.)
5. Do you feel that there are any disadvantages or barriers to success of database marketing for your business unit? (If only one or two disadvantages or barriers are mentioned, ask "Are there any other disadvantages?")
6. How are these disadvantages or barriers measured? (If there are many disadvantages or barriers, might have to ask "How do you measure _____?" and state each disadvantage in turn.)
7. Has the database had an overall effect on your business?
8. What type of effect has it had? (If asked "What do you mean?", ask "Was the effect positive, negative, or not visible?".)
9. How do you measure this effect?

Now I'd like to spend a few minutes discussing how the database is used by your firm.

10. What types of information does your business unit store in the database?
11. How is this information obtained by your business unit?
(May have to ask this question for each piece of information if there are many pieces or it appears to come from many sources.)
12. How does this information aid you in your direct marketing activities?
13. How often is the information used in direct marketing activities?
14. Do you sell/rent/trade the information that you have captured in your database to other organizations?
15. If you do, to what types of firms do you sell/rent/trade the information?
16. What types of controls do you place on the sale/rental/trade of the information contained in your database? (May have to determine if it is only control on a first-time sale to an organization or whether the control is permanent, so ask "Do you do this every time?".)
17. Who decides how the database will be used?

I'd now like to discuss how your firm maintains its database.

18. Who is responsible for the maintenance of the database?
19. How often is the information contained in the database updated?
20. What types of equipment are used to maintain the database?
(What type of computer? What type of software?)
21. Does your business unit provide a name removal option to businesses or consumers?
22. Is this option publicized to the businesses and/or consumers that your business unit deals with?
23. How is this option publicized?

Just to finish up, I'd like to ask you a few questions about the business and you personally.

24. In what industry would you place your business unit?
25. Approximately, what were your company's sales (in dollars) in 1993?
(If firm is a multinational operation, ask for figures for the Canadian division.)
26. How many employees are there in your business unit?
27. What is your position in the firm?
28. How long have you worked for this firm?
29. Into which age category do you fall?
- ☐ < 30 years ☐ 31-45 years ☐ 46-60 years ☐ 61+ years

Thank you very much for taking the time to help me with my research.
Would you like me to send you a copy of the results of the completed research?

☐ Yes ☐ No

If Yes, please fill in the information below.

Name: _____

Address: _____

Appendix B

Interview Questionnaire - Direct Marketers

On the phone, you told me that your firm deals with organizations who have marketing databases. Today, I would like to discuss some general information about marketing databases as well as one of your largest clients with a marketing database.

Firstly, I would like to ask you about database marketing activities and the advantages and disadvantages that your clients have realized from them.

1. Is the database that we are going to discuss the only one related to marketing activities that the client that we are discussing uses?
2. How long has the database been in place?
3. Specifically, what are the advantages of database marketing for your clients? (If respondent only mentions one or two advantages, ask "Are there any other advantages?")
4. How do your clients measure these advantages? (If there are many advantages, might have to ask "How do they measure _____?" and state each advantage in turn.)
5. Do you feel that there are any disadvantages or barriers to success of database marketing for your clients? (If only one or two disadvantages or barriers are mentioned, ask "Are there any other disadvantages?")
6. How are these disadvantages or barriers measured? (If there are many disadvantages or barriers, might have to ask "How do your clients measure _____?" and state each disadvantage in turn.)
7. Has database marketing had an overall effect on your client's business?
8. What type of effect has it had? (If asked "What do you mean?", ask "Was the effect positive, negative, or not visible?".)
9. How does your client measure this effect?

Now I'd like to spend a few minutes discussing how the database is used by your client.

10. What types of information does your client store in its database?
11. How do they obtain this information?
(May have to ask this question for each piece of information if there are many pieces or it appears to come from many sources.)
12. How does this information aid you in their direct marketing activities?
13. How often is the information used in direct marketing activities?
14. Do they sell/rent/trade the information that they capture in their database to other organizations?
15. If they do, to what types of firms do they sell the information?
16. What types of controls are placed on the sale/rental/trade of the information contained in the database? (May have to determine if it is only control on a first-time sale/rental/trade to an organization or whether the control is permanent, so ask "Is this done every time?".)
17. Who would you normally deal with in the client organization with regard to the marketing database?

I'd now like to discuss how your client maintains its database.

18. Who is responsible for the maintenance of the database?
19. How often is the information contained in the database updated?
20. What types of equipment are used to maintain the database?
(What type of computer? What type of software?)
21. Does the organization provide a name removal option to businesses or consumers?
22. Is this option publicized to the businesses and/or consumers that your client deals with?
23. How is this option publicized?

Just to finish up, I'd like to ask you a few questions about your business and you personally.

- 24. In what industry would you place your business unit?
- 25. Approximately, what were your company's sales/revenues/donations (in dollars) in 1993? (If firm is a multinational operation, ask for figures for the Canadian division.)
- 26. How many employees are there in your business unit?
- 27. What is your position in the firm?
- 28. How long have you worked for this firm?
- 29. Into which age category do you fall?
 - ☐ < 30 years ☐ 31-45 years ☐ 46-60 years ☐ 61+ years

Thank you very much for taking the time to help me with my research.
Would you like me to send you a copy of the results of the completed research?

☐ Yes ☐ No

If Yes, please fill in the information below.

Name: _____

Address: _____

Appendix C
Follow-up Fax Questionnaire - Owners of Marketing Databases

November 14, 1996

[Name]
[Address]

Dear Sir or Madam:

I am a graduate student in Management in the School of Business at Carleton University in Ottawa. I am conducting a study on how Canadian organizations are using marketing databases. This study is important because very little information about the management and use of databases is currently available at a time when the use of this technique continues to grow in importance.

I began this thesis research in 1994 and conducted an interview with your organization about its use of databases. I would like to be able to update the information that I got from your organization with up-to-the minute data about your current use of databases. While you may not be the person in your firm who was contacted for the initial interview, any information that you can provide about how your organization uses marketing databases is critical to this research study. To express my appreciation for your participation, you will receive a summary of the findings of my thesis research.

When I last spoke to you, or the person who previously held your position, I was told that you have a database which you referred to as '_____'. You stated that in this database, you capture _____, _____, _____, _____, and _____. You also stated that the main way in which information is added to the database is through _____ and _____. Finally, you said that the information that you keep is used to _____, _____, and to _____.

If all of the information that you previously provided still represents what is in the [Name of the database], how information is added to it, and how the information is used, then simply check the appropriate box on the attached sheet and fax it back to me. If there have been changes since we last spoke, could you please outline on the attached sheet what those changes are and then fax it. If you would prefer to discuss with me personally what your organization is currently doing with its database, then feel free to contact me at the phone number provided below.

Your answers will be held in the strictest of confidence and the data will be used in aggregate form only. Due to the restricted sample size of the original interview, every response is important to my research and I would appreciate a reply to this fax as quickly as possible.

If you would like any more information about my research or have any questions about the survey, please feel free to contact either myself at (613) 731-4552 (ext. 1265) or my thesis advisor, Judith Madill, at (613) 520-2388. Please return your completed survey by fax to my attention at (613) 736-5367.

Thank you very much for your participation.

Andrea Holroyd
Candidate
Master of Management Studies

FAX RESPONSE SHEET

ATT'N: ANDREA HOLROYD

The information that I previously provided to you represents:

_____ the way that things are still done in our organization.

_____ the old way that things were done.

Please indicate any changes to the information that I provided about your organization in my cover letter.

I would like to receive a summary of the results of this thesis research.

Name: _____

Address: _____

**THANK YOU FOR YOUR HELP IN PROVIDING A BETTER UNDERSTANDING
OF HOW MARKETING DATABASES ARE BEING USED IN CANADA.**

Appendix D
Follow-up Fax Questionnaire - Direct Marketers

December 4, 1996

[Name]
[Address]

Dear Sir or Madam:

I am a graduate student in Management in the School of Business at Carleton University in Ottawa. I am conducting a study on how Canadian organizations are using marketing databases. This study is important because very little information about the management and use of databases is currently available at a time when the use of this technique continues to grow in importance.

I began this thesis research in 1994 and conducted an interview with your organization about how it helps its clients to use their databases. I would like to be able to update the information that I got from your organization with up-to-the-minute data about the advantages and disadvantages of database marketing for your clients. While you may not be the person in your firm who was contacted for the initial interview, any information that you can provide about how firms are using marketing databases is critical to this research study. To express my appreciation for your participation, you will receive a summary of the findings of my thesis research.

When I last spoke to you, or the person who previously held your position, I was told that you help your clients to use their databases. You said that the advantages of database marketing are _____ and _____. You also stated that these advantages are measured through the use of _____ and _____. Finally, you told me that the main disadvantages of database marketing are _____ and _____.

If all of the information that you previously provided still represents the advantages that your clients derive from the use of the database, the measurement techniques for these advantages, and the disadvantages that your clients experience, then simply check the appropriate box on the attached sheet and fax it back to me. If there have been changes to this information since we last spoke, could you please outline on the attached sheet what those changes are and then fax it. If you would prefer to discuss with me personally what the advantages and disadvantages are for your clients, then feel free to contact me at the phone number provided below.

Your answers will be held in the strictest of confidence and the data will be used in an aggregate form only. due to the restricted sample size of the original interview, every response is important to my research and I would appreciate a reply to this fax as quickly as possible.

If you would like any more information about my research or have any questions about the survey, please feel free to contact either myself at (613) 731-4552 or my thesis supervisor, Judith Madill, at (613) 520-2388. Please return your completed survey by fax to my attention at (613) 736-5367.

Thank you very much for your participation.

Andrea Holroyd
Candidate
Master of Management Studies

FAX RESPONSE SHEET

ATT'N: ANDREA HOLROYD

The information that I previously provided to you:

_____ still represents the advantages and disadvantages that my clients are receiving from the use of their marketing database.

_____ no longer encompasses all of the advantages, disadvantages, and measurement techniques for my clients.

Please indicate any changes to the information that I provided about your clients' use of marketing databases in my cover letter.

I would like to receive a summary of the results of this thesis research.

Name: _____

Address: _____

**THANK YOU FOR YOUR HELP IN PROVIDING A BETTER UNDERSTANDING
OF HOW MARKETING DATABASES ARE BEING USED IN CANADA.**

IMAGE EVALUATION TEST TARGET (QA-3)

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