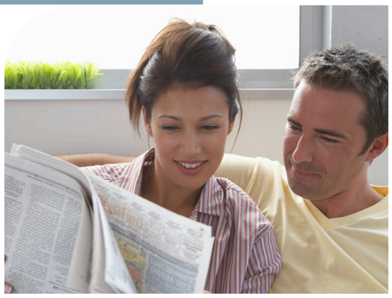
A customer centricity paradox



The 2012 Acxiom and Digiday "State of the Industry" report

Study finds customer centricity is an aspirational goal but not yet a reality for most marketers

Better Connections. Better Results.

A customer centricity paradox

Study finds customer centricity is an aspirational goal but not yet a reality for most marketers

Marketers, whether for agency, media or technology companies, are increasingly aware of the need to connect with consumers … audiences that have more online, offline, social, entertainment, media and communications choices than ever before. The majority of marketers want to understand their customers and engage them with personal, relevant experiences in this era of the empowered consumer.

However, most of us struggle:

- 70% have suboptimal or no ability to integrate customer data between online and offline sources
- 80% don't apply customer value scores
- 74% can't recognize customers in real time

In addition, marketers may be underestimating privacy issues that will affect trust, a customer-centricity imperative. Inadequate investment and lack of strategic alignment hinder the ability to access valuable customer data trapped in customer databases. Poor data integration practices leave today's marketers ill prepared to use addressable data to better understand their audiences and measure success at the customer level.

But, there is good news. We have role models to emulate — trend-setting companies that enable engagement that feels authentic, that enable personalized and integrated experiences, and that do for and not to their customers. Increasingly marketers are focusing on cross-pollinating online and offline marketing in specific, strategic ways. And, with client experiences — captured in the 2011 report and highlighting payoffs for customer centricity that still apply — the upsides have not changed.

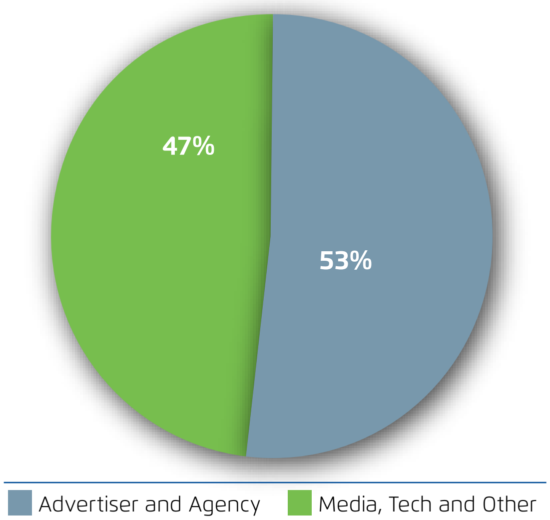
2012 survey background

We distributed the Acxiom and Digiday 2012 State of the Industry survey to 30,000 digital agency, media and technology professionals who either subscribe to Digiday publications or have attended a Digiday conference.

We asked 15 questions on a variety of subjects from marketers' top concerns and challenges to whether or not the respondents' companies have recognition and targeting capabilities. The 259 respondents represented a balanced distribution (Figure 1) from the buy and sell sides of marketing:

- Agencies: 38%
- Media companies: 22%
- Technology companies: 17%
- Advertisers: 9%
- Other: 14% (consultants and educators)

Figure 1:
Balanced distribution of buy and sell



Nearly 72 percent of the respondents work in jobs that they described as either marketing or sales, with most of the remainder representing analytics and audience management.

Nearly two-thirds of the respondents work in finance and insurance, while health care represented another 24 percent. Additional highlights from the industry categories include:

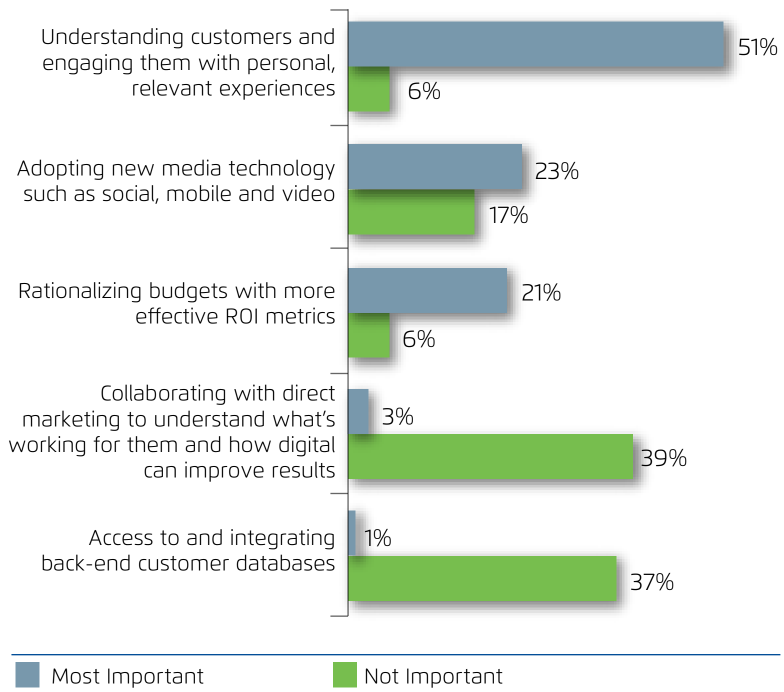
- Retail: 36%
- Travel and entertainment: 33%
- Media and communications: 32%
- Technology: 31%
- Consumer package goods (CPG): 31%

NOTE: respondents could select more than one category.

Results: top concerns and challenges

The survey results (Figure 2) show that marketers' top concern is "understanding customers and engaging them with personal, relevant experiences."

Figure 2:
Top concerns

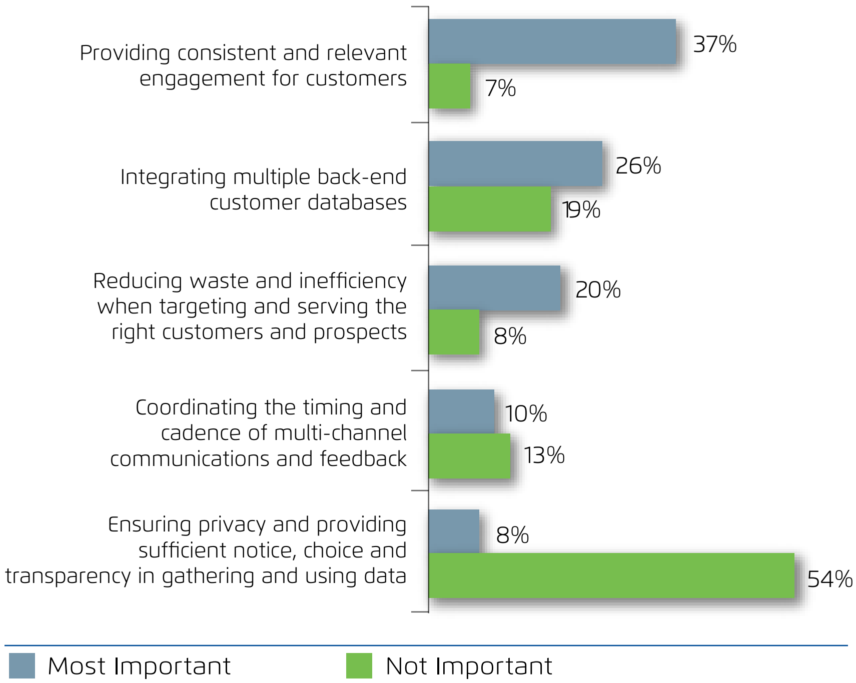


While the difference between respondent groups tells us some are more concerned than others are, most indicate agreement:

- Agencies: 74%
- Advertisers: 70%
- Media companies: 47%

Regardless of buy side or sell side, all groups expressed a common underlying challenge — across the board, agencies and marketers face tremendous hurdles providing consistent, relevant engagement; integrating databases; and reducing waste (Figure 3.)

Figure 3:
Top challenges



One respondent wrote, *"My biggest concern is with finding the most efficient and cost-effective way to integrate all of the above aspects — leveraging the digital path-to-purchase."* Another respondent agreed, "These FIVE concerns are MOST IMPORTANT."

A surprising note: 54 percent of the respondents ranked "ensuring privacy and providing sufficient notice, choice and transparency…" as an unimportant challenge. Given the pace of technology changes and the degree to which data use conversations are highlighted in the media, does this mean most of the respondents believe they have this area covered?

Then where is the paradox?

The first "customer centricity paradox" plays out in the juxtaposition of answers to these questions:

- Which of the following best describes your organization's customer-centric capabilities?
- What is your organization's ability to measure your marketing results at the customer level?

Paradox #1: While most respondents assess their own customer-centric capabilities as high (Figure 4) few can successfully measure response at the customer level (Figure 5.)

Figure 4:
Customer-centric capabilities

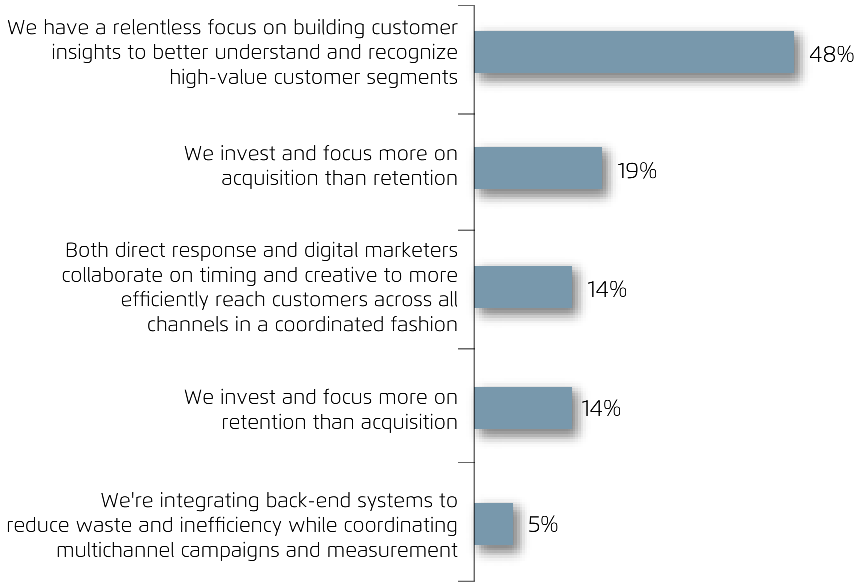
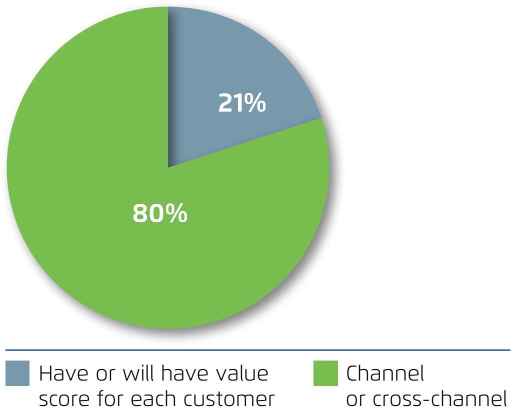


Figure 5:
Few can measure value



Most of today's marketers measure results only at the channel level. One quarter confess their ability is "not great," or "we struggle to measure results at the customer level." A mere 8 percent measure and cross-correlate while assigning a value score to customers. Individually:

- Agencies can do so only at the individual channel level: 38%
- Advertisers say they measure and cross-correlate across all channels: 42%
- Media companies struggle to measure results at the customer level: 36%
- Many technology companies agree: 33%

Paradox #1: while most respondents assess their own customer-centric capabilities as high, few can successfully measure response at the customer level.

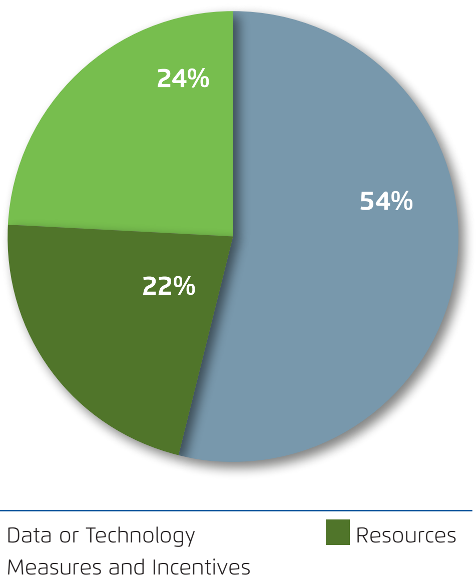
The second "customer centricity paradox" plays out in the jarring disconnect between the answers to these questions:

- Which of the following best describes your organization's customer-centric capabilities?
- What are your biggest barriers to integrated customer-centric marketing?

Respondents emphasized their biggest barriers to integrated customer-centric marketing (Figure 6) were lack of:

- Proper data or technology: 54%
- Measures and incentives: 24%
- Resources: 22%

Figure 6:
Biggest barriers to integrated customer-centric marketing



Paradox #2: So while many respondents said they had a relentless focus on building customer insights to better understand and recognize high-value customer segments it seems this focus is not tightly aligned with their companies' overall investment strategy.

Why the disconnect? Why do companies rank themselves high in customer centricity but low in the capabilities and alignment strategies required to actually fulfill being customer centric?

Paradox #2: while many respondents said they had a relentless focus on building customer insights…this focus is not tightly aligned with their companies' overall investment strategy.

Reality: poor data integration abounds

In the survey responses, one area stands out: poor data integration. It's clear, customer data silos are rampant and impede customer centricity. Specifically, the survey findings indicate:

- Most marketers (16%) assess themselves as poorly integrating data from online and offline sources (Figure 7)
- 14% have channels connected in a centralized fashion to recognize customers in real time (Figure 8)
- 76% have challenges working and integrating across multiple databases (Figure 9)
- 50% of advertisers and only one-third of media company and agency respondents said they could track what customers do in social media and one or two other channels.

Figure 7:
Integrate data from online and offline?

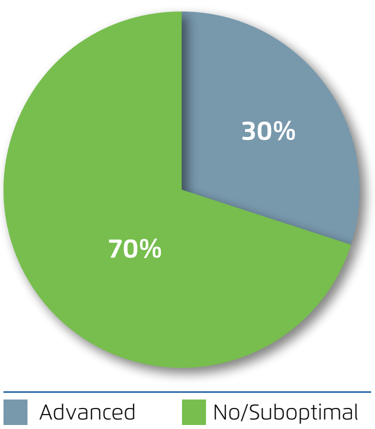


Figure 8:
Recognize customers in real time?

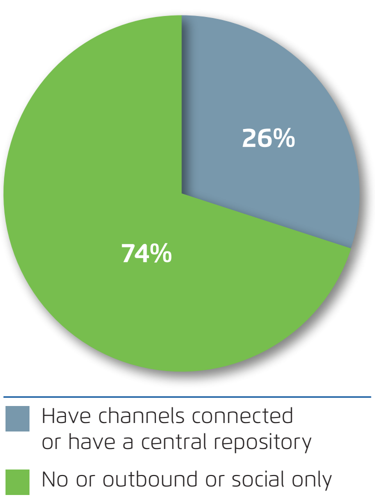
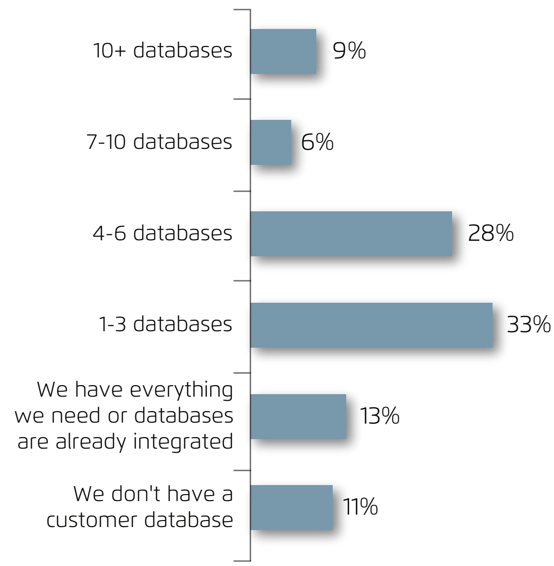


Figure 9:
How many databases for integrated marketing?



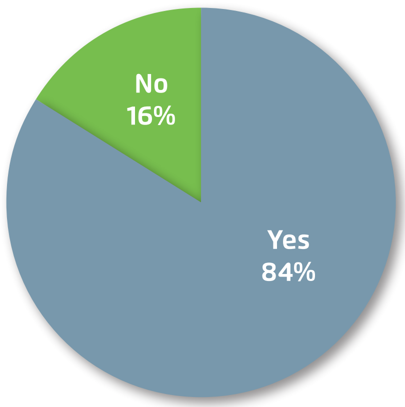
It is clear that customer data silos are rampant and impede customer centricity … 76% of respondents have challenges working and integrating across multiple databases

Beginning the integration dance

There is good news. All respondents in our survey — advertisers (42 percent) agencies (55 percent) media companies (40 percent) and technology companies (47 percent) — are determined to get it right and move forward.

The first step in this journey — blending or borrowing creative from online and offline campaigns to create a more integrated conversation with consumers — is already a slam-dunk for most respondents.

Figure 10:
Most blend creative across online and offline



It is clear that marketers are also using a variety of online targeting tactics (Figure 11.)

Figure 11:
Behavioral leads way in variety of online targeting

But, while marketers are doing some of the basics well, completely closing the loop is extremely hard.

Most marketers assess that they poorly integrate the data that comes back from online and offline sources. The majority conduct their integration efforts as occasional batch updates.

Despite the challenges, marketers want to move forward and see advanced targeting and attribution as top data priorities (Figure 12) citing the following specific deliverables as lacking (in order of importance):

- Addressable data to better understand and reach our audience
- Better understanding results from campaigns to know what's working
- Borrowing creative to coordinate more personalized offers.

In addition, instead of just focusing on acquisition and retention, marketers are trying to move forward by emphasizing holistic customer marketing and branding (Figure 13.)

Figure 12:
What do you need from direct?

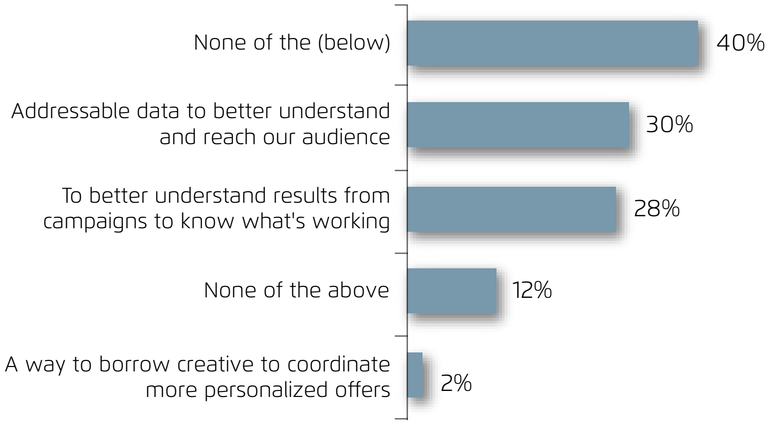
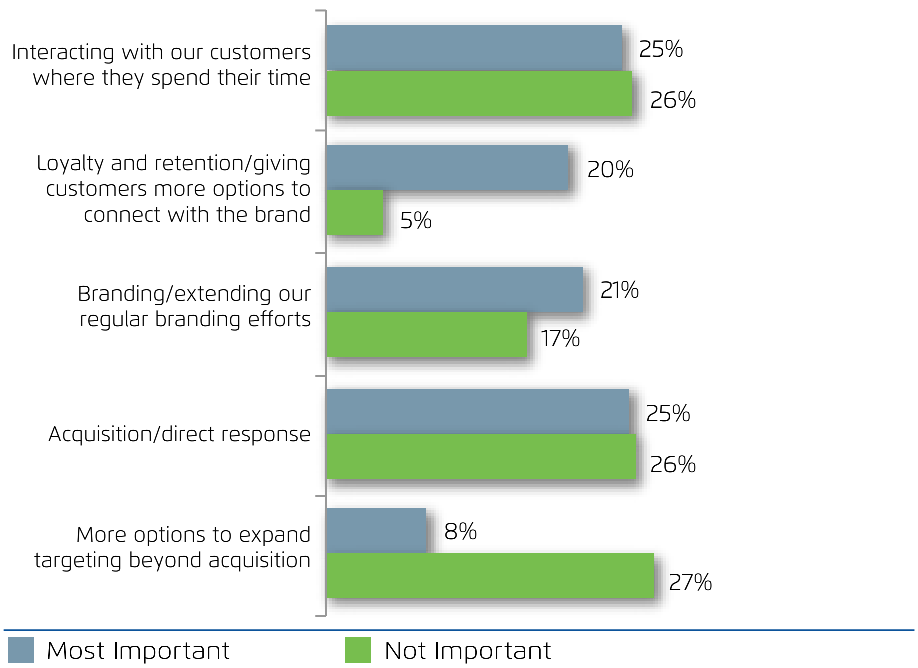


Figure 13:
Emphasis shifting to marketing, branding and acquisition



Customer centricity remains an attractive goal

Let's pause for a moment. Why are we so interested in customer centricity anyway? Is it the statistical proof that holds promise or the intuitive, "this feels right and we can do it" that drives the respondents?

Marketers may claim to be "relentless" in their pursuit of becoming more customer-focused precisely because they believe it can be done. Respondents see a big upside in customer centricity and learning from their top role models.

In our 2011 report, we shared client experiences that generated the following customer-centricity payoffs:

- 15-30% Lift in Marketing ROI
  Experience indicates a potential 15-30 percent increase in return on marketing investment
- 10-15% Increase in Customer Gross Margins
  Make marketing more effective by focusing on improving the value of the customer portfolio
- 5-7% Improved Pricing
  Create value-add opportunities for which consumers are willing to pay more.

And seeing is proof. A majority of respondents consistently recognized five brands as being their "top idols." According to the responses, Amazon, Apple, Zappos, Starbucks and Southwest Airlines are most admired for their common themes:

- Engagement feels authentic to brand
- Institutional memory enables personalized and integrated experiences. These brands do for and not to customers
- Sustaining loyalty/preference … these brands create more value than they capture

Significantly, many respondents felt all five brands have a core customer-centric model and strategy around data, technology, resources, measures and incentives that enable better connections and personal experiences.

Digital advertisers emphasize their top concern is "understanding customers and engaging them with personal, relevant experiences." It sounds so simple on the surface. But the role-model companies driving these trends are working hard and aligning relentless aspirational focus with practical and meaningful data, technology and resource enablers.

The bottom line

Through the survey, 259 digital agency, media and technology professionals described their capabilities, concerns and challenges, their aspirations and beliefs. The results are littered with paradox.

- While most respondents assess their own customer-centric capabilities highly, few can successfully measure response at the customer level
- Many respondents said they had a relentless focus on building customer insights to better understand and recognize high-value customer segments, yet it seems this focus may not be tightly aligned with their company's overall strategy

- Customer centricity is an aspirational goal but not yet a reality for most marketers:
  - 70% have suboptimal or no online/offline integration
  - 80% don't have or won't have customer value scores
  - 74% can't recognize customers in real time
- Inadequate investment and lack of strategic alignment hinder the ability to access valuable customer data trapped in siloed databases
- Poor data integration practices leave today's marketers ill prepared to target audiences, drive activity and measure success at the customer level
- Building trust is a vital imperative, but marketers may be underestimating privacy issues and their impact

But it's not all bad news. Marketers want to move forward. To capture large payoffs, they are focusing increasingly on relevance and attribution. There are role models to emulate — trend-setting companies that enable engagement that feels authentic, that enable personalized and integrated experiences, and that do for and not to their customers. Marketers are cross-pollinating online and offline marketing in strategic ways. There are lessons to learn for those who dare reach for precise customer-centric marketing instruments.

And the payoffs to getting this right — lifts in marketing ROI, increases in margin, and defendable pricing — are all within reach.

About Acxiom

Acxiom is a recognized leader in marketing services and technology that enables marketers to successfully manage audiences, personalize consumer experiences and create profitable customer relationships. Our superior industry-focused, consultative approach combines consumer data and analytics, databases, data integration and consulting solutions for personalized, multichannel marketing strategies. Acxiom leverages more than 40 years of experience in data management to deliver high-performance, highly secure, reliable information management services. Founded in 1969, Acxiom is headquartered in Little Rock, Arkansas, USA, and serves clients around the world from locations in the United States, Europe, Asia-Pacific and South America. For more information about Acxiom, visit www.acxiom.com.

About Digiday

Digiday is a media company and community for professionals who work in the digital media, marketing and advertising industry. Our mission is to connect the industry with insightful analysis and perspective, as well as each other. We provide key insights and information through our online publications and conferences that cover the changes, trends — and why they matter. The focus is on quality, not quantity, and honesty instead of spin. We cover the industry with an expertise, depth and tone you won't find anywhere else. The entire team at Digiday is driven to produce the highest quality publications, conferences, and resources for our industry. See Digiday.com to read or subscribe to our publications or for information on events; join Digiday LinkedIn or Facebook groups; follow us on Twitter @Digiday; or tune into livestreamed and archived video coverage of our events on our Livestream channel.

For more information, visit our website at www.acxiom.com or call 1.888.3acxiom.

The three payoffs, in detail

In the process of publishing our 2011 report, we shared client experiences that generated these payoffs from customer centricity:

15-30 Percent Lift in Marketing ROI

As an industry, our overall report card is not great: 37 percent of all advertising in the U.S. is wasted; 80 percent of online advertising fails to reach its intended target. The culprit for both sad states is the same: insufficient use of the right data. Unfortunately, between 80 and 90 percent of today's advertising is still based on age and gender.

As a result, advertising fails to produce because it's mostly irrelevant; mistimed, misplaced and mis-messaged, failing to capitalize on nuances in individual interests and intent. And when advertising doesn't fully work, marketers simply spend and waste more, adding further to the clutter. Somehow, we've ended up in a state of "more advertising" when it's "better advertising" we need. Thus, a key to improving marketing ROI is to get smarter about the place, time and message of advertising.

On average, by embracing customer centricity, our clients' experience indicates a potential 15-30 percent increase in return on marketing investment. So, it's reasonable to redirect $15 million to $30 million of a $100 million ad budget to better alternatives, dropping the savings directly to the bottom line.

10-15 Percent Increase in Customer Gross Margins

While enormously valuable, making marketing more efficient is just the start. The second opportunity is to make marketing more effective, by focusing on improving the value of the customer portfolio. While some companies can be successful competing on price or distribution or innovation, most companies will need to compete on their ability to attract and serve the right customers.

Our clients see a huge opportunity in adopting this strategy: a 10-to-15 percent improvement in customer profitability.

Therefore, for a company with $1 billion in annual revenue, that's potentially another $100 million to $150 million in gross profit a year.

Driving customer portfolio value is highly dependent on information systems and strategy — the goal is to invest proportionally to customers' projected lifetime value. The best projections of lifetime value are multidimensional, refined from purchases, stated intentions and external measures like share of wallet and influence. Ultimately, you should use customer lifetime value (CLV)-oriented key performance indicators (KPIs) to guide decision-making.

Tactically, leaders start by optimizing their current customer portfolio, increasing focus on relationships with the most potential, while redirecting from those offering less potential. Effective marketers will seek to optimize customer value at every interaction. It's crucial here to recognize return customers and connect vital information about them to engage appropriately.

5-7 Percent Improved Pricing

The first two payoffs, improved efficiency and marketing effectiveness, are complemented by a third, the ability to raise and defend pricing. Why is this important? The answer is that the long-term health of your company and your employees' jobs are at risk if you can't.

Many firms fall into the comfort zone of offering low prices and discounts as the primary incentive to attract customers. Price is easy to comprehend and it does drive traffic, but it can have devastating and resonating impacts on the brand. As an alternative, marketers should create value-add opportunities for which consumers are willing to pay more, but which requires better understanding consumer interests. Multidimensional insight is the foundational key to that understanding.

Our research indicates that for most companies, there is a 5 to 7 percent gross margin improvement opportunity (in addition to the 10 to 15 percent achievable through customer portfolio optimization). So, a company with $500 million in annual revenue has an opportunity for $25 million to $35 million in additional gross profit per year.

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