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Inbound channels can deliver up to 30 times the sales conversion rate of traditional, outbound direct mail

Capgemini and Epiphany have conducted research into the usage, benefits and potential of Inbound Customer Marketing

The world of targeted marketing is moving on a pace. Organisations no longer rely just on direct mail to get their message across.

The norm is fast becoming: multi-channel with the call centre, web site, e-mail and SMS all joining the fray; multi-stage where a number of contact events are tracked prior to making the sale; and insight driven, where consumers are targeted based on their predicted behaviours or the occurrence of specific events in their lives.

Organisations are starting to develop operational models, where market and customer insight drive identification of customers for offers, which in turn drives campaigns. Results are fed back to improve the level of insight.

While this may seem straightforward, it takes time to achieve. In particular, it requires greater alignment between marketing, sales and service, and tighter integration across the channels. However, the newfound sophistication is starting to pay dividends. In retail banking and telecoms, for example, we are seeing a few organisations achieving sales conversion rates for outbound campaigns increasing from a typical 1–2% to a healthier 7–10%.

But the sheer number of offers that organisations are making available means that the majority of consumers ignore them unless they are timely and relevant. Furthermore, privacy legislation now forces companies to obtain their customers' permission to market to them directly. With unprecedented levels of consumer debt, regulation also now requires companies to ensure that any offer made to any consumer is fair.

Inbound Customer Marketing (ICM) is the practice of offering a customer a product or service when the customer has initiated the contact. It is a maturing concept in call centres and on the web. Simple approaches to ICM apply business

rules and use basic customer information—such as segment and profile—to determine which offer to extend to the customer.

Sophisticated approaches, such as real-time marketing, use real-time learning algorithms, often in conjunction with the scores derived from predictive modelling of customer behaviours, to calculate the best offer to make to the individual customer at that point in time.

Independent research into ICM, commissioned by Capgemini and Epiphany, shows that a few companies are consistently achieving up to 50% sales conversion rates on cross-sell, up-sell and retention offers. Yet despite these tangible benefits, there is a long way to go before ICM is common practice.

Focusing on the Retail Banking, General Insurance, Travel & Leisure and Telecoms & Media sectors, the research reveals how ICM is being used, the benefits it is generating and the opportunities that exist to improve performance.

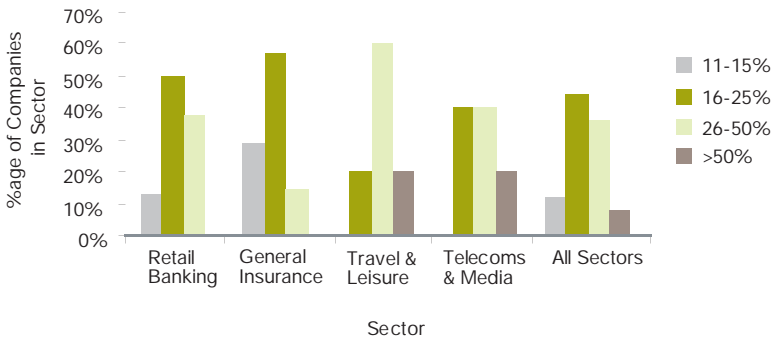
ICM generates a healthy return on investment for the majority of organisations that use it

Figure 1 shows that only 12% of organisations are achieving a “disappointing” return on investment (ROI) of less than 15%. 44% are achieving over 25% ROI.

The picture looks healthiest in the Travel & Leisure and Telecoms & Media sectors, where no companies are in the disappointing bracket and 7 in 10 are achieving above 25% ROI. There are two reasons for this. First, it is easier to sell Travel & Leisure and Telecoms & Media products to existing customers, than it is financial products—which consumers tend to buy after more shopping around. Second, a higher proportion of Travel & Leisure and Telecoms & Media companies

A few companies are consistently achieving up to 50% sales conversion rates on cross-sell, up-sell and retention offers

Figure 1. Percentage of Companies Achieving ROI from ICM, by Sector



(approximately 12% higher for the call centre and branch network, and 65% higher for the web) are using real-time learning algorithms and predictive models. These allows them to structure their offers to fit consumers' needs better.

ICM is becoming more widespread, but real-time marketing is not

Figure 2 shows that 2 in 3 companies across all four sectors have implemented or are implementing ICM in the call centre and on the web.

Retail banks have had simple offer prompts in their CRM systems for many years. Travel & Leisure and Telecoms & Media companies have now leapfrogged them in terms of ICM usage and sophistication. Insurers are lagging behind.

Real-time learning algorithms have yet to make an impact on companies' investment plans, with only 16% using them in the call centre (the most widely used channel for ICM). This is primarily because organisations still feel they need to bring their general CRM capabilities up to scratch.

In addition, there are few real-time marketing products available and they are simply not well known or understood. Importantly, the best sales conversion rates on cross-sell, up-sell and retention offers are being achieved by companies that are using real-time marketing.

The correlation between ICM sophistication and performance is unclear, but real-time marketing, plus the scores from predictive modelling, produce the best results

There is a wide range in performance within each level of sophistication and we see this in each sector and in each channel. This suggests that the approach to ICM is not the only factor that affects performance. The length of time using ICM does not appear to be significant in this respect. However, the right marketing skills are critical—to define offers that will sell and to build the logic that determines which offer to make (or whether to make one at all).

The ability to deliver those offers and close sales effectively is also of paramount importance.

These have profound implications for the skills required in Marketing departments and the capabilities required in the channels

Figure 2. Percentage of Companies With ICM Implementations, by Sector

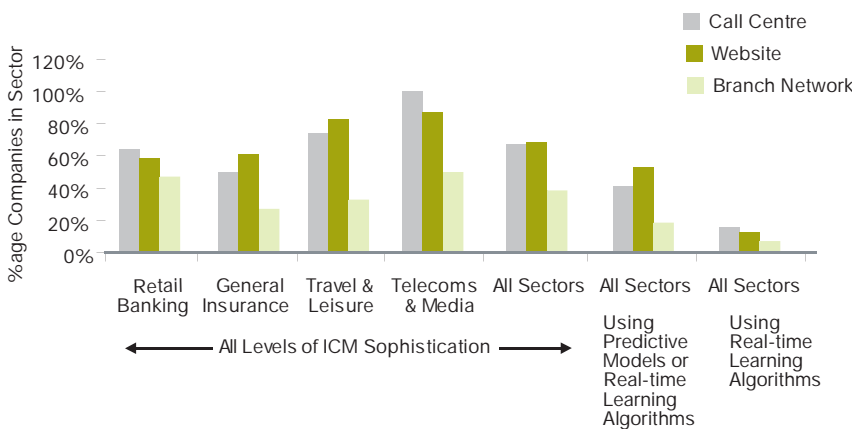
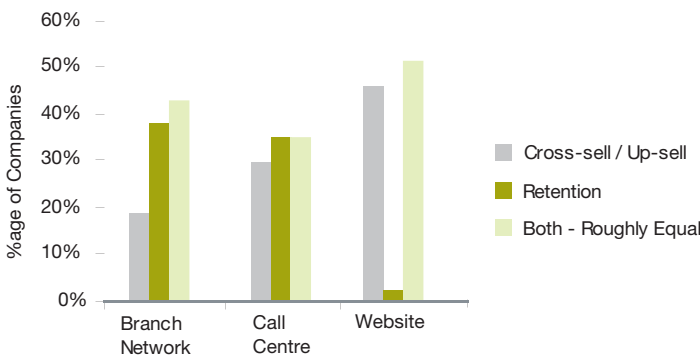


Figure 3. Key Areas of Benefit from ICM, by Channel



The approach to ICM is not the only factor that affects performance... the right marketing skills are critical

The best performers use real-time learning algorithms, generally in conjunction with predictive models

—particularly the sales skills at the front line and the design of the web site.

While the correlation between sophistication and performance is unclear, the best performers are using real-time learning algorithms, in conjunction with predictive models.

From a sector perspective, Telecoms & Media companies are leading the way—half of them are using real-time learning algorithms to achieve sales conversion rates of over 40%.

Different channels are better suited to different objectives

Figure 3 shows organisations' primary area of benefit from ICM in each of the channels—cross-sell/up-sell, retention or both.

This indicates that where there is more human contact, then it is better to drive retention offers. It is easy to see why the personal touch would be important for retention.

The opposite is true for cross-sell and up-sell offers. This is because these offers are often seen as more threatening to consumers, who feel less "sold to" on the web. They are also harder for the sales agents, who need to focus their attention on the benefit of the offer to the consumer if they are to communicate it effectively.

This distinction between the channels, in the consumer's perception, is important when determining which offers to make through which channels.

This research has also shown that there is no correlation between sales conversion rate and channel, suggesting that companies have implemented ICM in isolation from a defined multi-channel marketing strategy.

These findings demonstrate the importance of defining the role of each channel and how they align/integrate with each other when developing an ICM strategy.

From the experience we have gained with our clients and the results of our research, a picture has emerged about the use of inbound channels for customer marketing

ICM is evolving. We have moved on from the days when everyone who walked into their bank branch was offered a credit card. Companies are using customer data to inform their decisions on what, if any, offer to make to the customer. Many are getting the results of predictive modelling to the front line and are achieving sales conversion rates many times those from outbound channels.

There has been a greater focus to date on deployment in the call centre, but investment is now turning towards the web as a priority channel for selling and driving customer satisfaction.

Few companies have made the leap to using real-time learning algorithms. These take account of the details of the specific customer interaction and adjust the decision rules in real-time as offers are made and their success measured. Some companies that have embraced these technologies are achieving even higher sales conversion rates, up to 50%, but they recognise that their strategy, people and processes are just as important as the technology.

The top telcos are the star performers in terms of sales conversion rates.

Mobile telecoms operator, O₂ Ireland, is a client of Capgemini and Epiphany and is achieving excellent results from ICM. *"We had a clear understanding of the benefits we wanted to achieve and how we were going to achieve them," says Paul Farrell, O₂'s Marketing Director. "We executed an integrated programme to develop customer insight, marketing offers and ICM capabilities together."*

If other telcos and companies in different sectors do the same, there is no reason why they shouldn't achieve similar results.

Sector Perspective

Retail Banking

Retail banks are achieving a level of return on investment that is consistent with the three other sectors overall. 13% are achieving less than 15% ROI and 38% are achieving over 25% ROI.

While they have invested in ICM broadly in line with the three other sectors overall, banks are investing to a lesser degree looking forward.

Many are getting the results of predictive modelling to the front line and are achieving sales conversion rates many times those from outbound channels. The best performing banks are achieving sales conversion rates over 20%.

They have a more complex portfolio of products than telcos, yet they are using simpler means to help their people determine which offers to make. Only 18% of banks are using real-time tools in the call centre and branch network. With their sales conversion rates under 20%, they are not yet achieving the benefits these tools offer over less sophisticated approaches.

In summary, while the retail banks have used "prompts" systems for many years, they have now been leapfrogged by Travel & Leisure and Telecoms & Media companies. It is time to focus on developing their ICM strategies.

General Insurance

General insurers are achieving a level of return on investment that is well below that of the three other sectors. 29% are achieving less than 15% ROI and just 14% are achieving over 25% ROI.

They have invested less in ICM than companies in the three other sectors. However, current development rates mirror those across the other sectors, so insurers have the opportunity to learn from the other sectors' experience.

33% of insurance companies are still achieving sales conversion rates of no more than 10% on ICM. The best performers are achieving sales conversion rates over 30%, so ICM can work in this sector.

While many insurers are using predictive modelling to determine who to target with which offer, real-time tools have barely appeared on their radar screen. Other sectors' performance with these tools suggests there is a significant opportunity for insurance companies.

In summary, with the insurance market softening, ICM (and especially real-time marketing) could be a major weapon in the fight to reduce customer churn and increase revenues.

Travel & Leisure

Travel and leisure companies are achieving a level of return on investment that is better than all three other sectors. There are no companies achieving under 15% ROI and 80% are achieving over 25% ROI. 20% of companies are achieving above 50% ROI.

However, investment has largely been at the simpler end of ICM and, within this context, there are cases of sales conversion rates over 40%.

Those companies that are using predictive modelling or real-time marketing tools are achieving sales conversion rates below 20% in the call centre. This suggests they may have focused more on the technology than on developing their marketing and sales capabilities.

Travel & Leisure is the only sector where there has been a greater emphasis on ICM through the web channel than through the call centre. While current development will bring parity across these channels, there is actually a greater focus now on developing the branch network.

In summary, travel companies have achieved high returns on their investment, but for a limited level of investment. With the right business focus, they should be ready to move up a gear and take advantage of the benefits of real-time marketing.

Telecoms & Media

Telcos and media companies are achieving a level of ROI that is close to that of travel companies. There are no companies achieving under 15% ROI and 60% are achieving over 25% ROI. 20% of companies are achieving above 50% ROI.

Unlike travel companies, they have pioneered the more sophisticated approaches. Their need for sophistication in targeting offers is a direct result of the level of competition, the high customer churn rates and the range of products/services in the sector. 50% of telcos and media companies have implemented real-time tools in the call centre and 38% have done so on the web. These figures are significantly higher than in the other sectors. Penetration of these tools in the branch network is growing, but is still at just 13%.

Sales conversion rates are the best. Half of the companies using real-time tools achieve rates over 40%, with a quarter

above 50% on cross-sell, up-sell and retention offers in the call centre.

In summary, telcos and media companies are ahead of the other sectors in terms of sophistication and performance. The next stage for them is to align their channels within a multi-channel ICM strategy.

Strategy, people and processes are just as important as the technology



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About Epiphany

Epiphany® provides CRM software solutions that increase profitability at the largest consumer-oriented companies by making every customer interaction intelligent. With over 475 customers—including nearly 35 percent of the Fortune 100—Epiphany powers deep customer insights and optimises each relationship from both a revenue generation and customer retention viewpoint. Built on the industry's most advanced, service-oriented architecture, Epiphany software solutions address problems that span business silos, departmental functions and geographic locations, and result in rapid, measurable ROI. With a suite of blended marketing, sales and service solutions, Epiphany enables global organisations to align touchpoints, processes and technologies around the most valuable enterprise asset—the customer. With worldwide headquarters in San Mateo, CA, Epiphany serves customers in more than 40 countries worldwide.

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