

# SIGNIFICANCE OF DATABASE MARKETING IN THE PROCESS OF TARGET SEGMENTS IDENTIFICATION AND SERVICE

**Joanna Łodziana-Grabowska**

Academy of Business in Dąbrowa Górnicza, Poland

E-mail: JGrabowska@wsb.edu.pl

## Abstract

*The study aims at presenting the position and role of marketing databases in the enterprise's market operations and achievement of sales targets.*

*The study identifies the following elements pertaining to the discussed issue: essence and parts of the database marketing, significance of the database marketing in the process of target segments service, database and customer relationship management as well as the problem of the customers' privacy in relation to their data being used and processed by market entities.*

*It should be emphasized that the informational systems constitute the basic elements supporting the process of sales management and service of the company's target segments.*

*It should be stressed that for the trade marketing the identification of a recipient type is of significance, which is presented in this study with reference to the database marketing. The database may also contain the information on products, departments and sales force involved in a specific marketing action.*

*With such database at their disposal the companies become mobile in terms of their offer adjustment to the market requirements, while by making the customer the central point of their focus, their marketing becomes an essential and effective tool of building their relationship with the customer.*

*The database development in order to identify the potential customers is a significant project of impact on the efficiency of marketing and the process of target market service, both for small and large enterprises.*

**Key words:** *customer relationship management, database marketing, direct marketing, target market.*

## Introduction

The informational systems constitute the basic elements that support the process of sales management and target segments service. It should be stressed that the identification of a recipient type is of major significance for the trade marketing. Due to the market analysis it is feasible to determine the size of a potential market, origins and identity of potential and actual customers, their requirements in the scope of product offer as well as implemented sales tasks and services, the customers' preferences and their variability. With such database at their disposal, the companies become mobile in the context of adjusting their offer to the market requirements, while by making the customer a central point of their focus, their marketing becomes an essential tool of establishing the relationship with a customer as well as an efficient tool at the same time.

In the conditions of the deep worldwide financial crisis, the market entities face the difficult situation of solving the decision-related problems, based on compromise, and choices regarding the initiation of different activities in the area of marketing.

The database marketing provides good results at comparatively low outlays with the use of properly selected applications from the group of IT marketing system solutions, which are presented in the further part of this study.

The following problems have been solved in this article:

- What does the database marketing mean?
- What kind of information are composed by the database marketing?
- What is the significance of the database marketing for the process of target market service?
- Do the data bases seem to be dangerous for the clients' privacy?

## Essence and Elements of the Database Marketing

Database marketing – is a technique of collecting, accumulating, processing and analysing the information on consumers, competition and operational area. Activities in the field of the database marketing are aimed at optimisation of customer-oriented marketing activities, better recognition of the customers' needs and adjusting the offer to their requirements and expectations, better identification of opportunities and threats connected with the enterprise's operations, more efficient management of corporate costs as well as regular monitoring of market trends (Straszewicz, 2006). Database – is a set of mutually related information pertaining to the actual and potential customers, which is to be used in different types of applications, such as for instance customer segmentation and profiling, process of retaining the customer and creating his/her loyalty, simultaneously being the basis for methods of his/her service.

According to the Dictionary of American Marketing Association database marketing means an approach by which computer database technologies are harnessed to design, create, and manage customer data lists containing information about each customer's characteristics and history of interactions with the company. The lists are used as needed for locating, selecting, targeting, servicing, and establishing relationships with customers in order to enhance the long-term value of these customers to the company. The techniques used for managing lists include: 1) database manipulation methods such as select and join, 2) statistical methods for predicting each customer's likelihood of future purchases of specific items based on his/her history of past purchases, and 3) measures for computing the lifetime value of a customer on an ongoing basis ([http://www.marketingpower.com/\\_layouts/dictionary.aspx?dletter=d](http://www.marketingpower.com/_layouts/dictionary.aspx?dletter=d)).

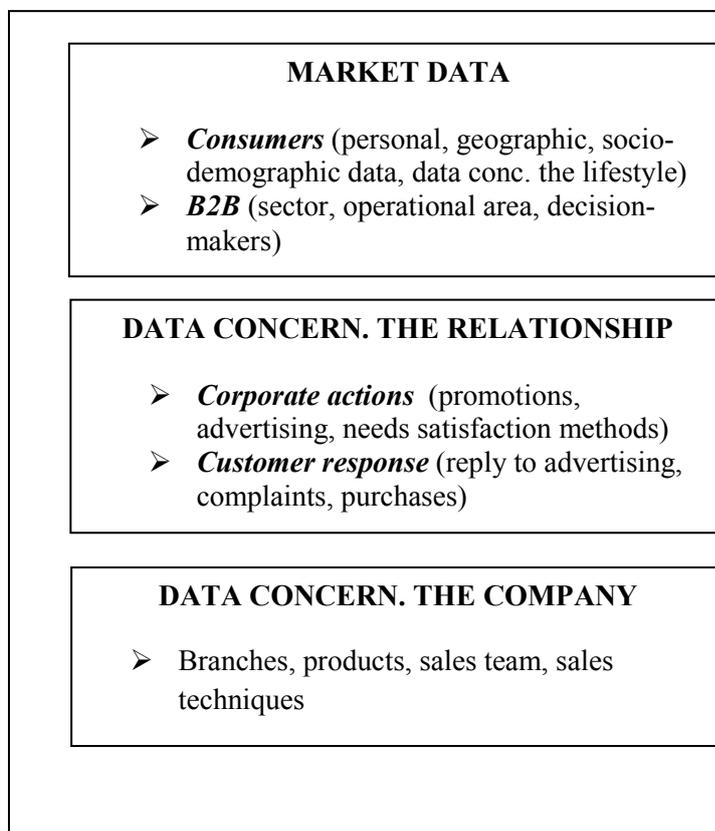
The customer's personal data, data pertaining to single transactions (purchase history), communication with the customer (received mail, motivation stimuli, marketing actions and market responses) constitute the minimum requirements to be met by a decent marketing database. In the database one may also accumulate the information connected with products, corporate actions and sales forces, which are involved in a given marketing process.

Basically three types of data are stored in the database (Figure 1):

- Market information;
- Relationship data pertaining to corporate actions and market, in other words – connecting the target market with a given company;
- Data on the company.

While discussing data, one may distinguish their *internal* and *external* sources. Most companies have at their disposal the basic internal information required for starting a database. These are the information connected with orders and invoices, such as: names, customer's surnames, their addresses, bank account numbers, purchase dates, payment methods, etc. The lists of customers, compiled outside the company, which may be for instance purchased or leased for the direct marketing purposes, constitute the external data. As an example one may quote the lists of people being the newspapers or magazine subscribers or the databases regarding the consumer's lifestyle and habits.

## DATABASE



**Figure 1: Marketing database.**

Such system of data applies both to large and small enterprises. However, the small enterprises due to the specific character of their operations – both in the context of operational scope and diversification – do not create the procedurally designed system. It is built as a useful sub-system of the practical market knowledge. This should in not terms imply that in large enterprises the formalised actions overshadow the pragmatic objectives of the informational system. Simply a wider scope of problems must be covered with a certain – frequently very detailed - procedure of planning the informational and database systems. The database system for small enterprises is frequently supplemented with access to online databases, electronic notice boards and Internet forums. Attention should be drawn to the application software streamlining the company's data. While discussing the possibility of its application for the small enterprise's operations, we may refer to an example of the IT suite MDB Firma. The suite software may be installed on a single PC or may operate in a network, in the following operational systems: Windows 95, 98, Me, 2000, NT and XP. The MS Access constitutes the application database. Microsoft Access – a system for service of relational databases being a member of Microsoft Office suite for Windows. Access databases are saved as single files (mdb format, mde compiled version). Access has its own integrated database engine (Microsoft Jet), which functions as an internal database. There is an option of resigning from MS Jet while using Microsoft Access (adp format), but then all the elements of a database are stored only on this connected server. The exemplary applications include simple software for small and medium enterprises pertaining to data analysis and processing. Microsoft Access may be also used for quick prototyping of database applications.

The base may store data for one or many applications, and at any moment it may be expanded with the data structure for another suite software. The data may be accessed upon entering the base password and users' passwords. The base may contain data from one or many years. These are among others: the software designated for issuing the VAT sales documents, the application registering the orders and bid inquiries (forwarded and received), stock application, the application for issuing the VAT sales documents and purchase registration (it allows for issuing the sales documents: VAT invoices, VAT correcting invoices as well as for purchase registration based on VAT invoices and receipts).

### **Significance of the Database Marketing in the Process of Target Segments Service**

The database marketing assumes that the skill of constructing databases, their adjusting and exploring their potential is of key importance in marketing actions. Due to the database marketing application one may (Straszewicz, Database Marketing):

- Collect the up-to-date and current information on the customer in order to understand their needs and requirements, which allows for quick response to the changing market situation;
- Perform the customer segmentation, identify the most valuable customers for the company and focus on them the marketing and promotional actions;
- Lower the costs of promotional campaigns by precise identification of target groups;
- Increase the customers' loyalty due to relevant actions addressed to the proper target group and with the right timing;
- Improve the customer service;
- Follow the market trends and respond to them with relevant actions, for instance by creating a new product or a new product line, modification of the already existing product, relaunch (e.g. refreshed packaging), introduction of an additional service, etc.

The management of data on the customer has become not only a strategic option but almost a strategic necessity in case of the *direct marketing*. The success of a direct marketing campaign indeed depends on the structure and quality of the applied database. The efficiency of such campaign shall grow together with the precision of defining the actions and their addressing to the relevant recipient. It should be stressed that the new transactions require, in the logical sequence of marketing actions, sustaining the relationship and applying the efficient communication. The company's key customers frequently are small in their number. Therefore it is necessary to analyse very precisely the target groups and new transactions in the context of consolidating the relationships that prognosticate the good co-operation and generation of the customer's significant value for the company. The strategic use of databases and precise segmentation based on identified and registered consumer profiles is a decisive factor for achieving the defined targets and efficiency of the target markets service. The success of each new transaction depends on the skill of identifying potential customers of such profile, which shall enable meeting the needs of a future customer due to the specific character of the company's offer. Therefore the analysis of data pertaining to current customers and storage of useful information thereon in the database shall facilitate in the future the development of a good list of potential customers.

The main advantage of a database is a uniform manner of presenting the relationships with individual customers or segments. This enables better understanding of the consumers' behaviour and the mechanism of the market functioning, and then using this knowledge for the

marketing purposes (Pilarczyk, Mruk, 2006, p. 96). Thus the marketing databases on one hand enable the correct identification of the customers to whom the promotional message, a loyalty program or product offers are addressed. On the other hand, it allows for developing a custom-made message and constructing a specific offer for a specific customer. Such customised and individual offer may generate specific tangible sales benefits and in the time perspective it may establish the relationship with the recipients of services or products. In the conditions of growing competition a single *consumer becomes an asset for the company*, while the knowledge thereof becomes an element that cannot be overestimated. This knowledge allows for taking the right actions, oriented towards meeting the customers' needs. The customer is more and more fed up with the mass advertising, addressed to "anybody" and stops to take notice thereof.

The aforementioned advantages of databases address the aspect of formulating the strategy referred to the relationship with the customer and the process of target markets service. The discussed communication has also the practical dimension for corporate contacts with the target groups. Data placed on invoices demonstrate the frequency of contacts and the customer's value through the value of concluded transactions. These sets of data become the basis for the decision on renewing at the specific time the contacts with the customers as well as development of special offers for them.

### **Database and Customer Relationship Management**

The companies want to know their customers. The key to this knowledge is a CRM (Customer Relationship Management). In the context of the application of tools and technical possibilities offered by CRM, the use of marketing databases acquires a completely new – almost strategic - significance. On the other hand, one should bear in mind that CRM is something more than just a technology, software or hardware. The essence of CRM is the relationships between the consumers and those people who manage the dialogue therewith while the database is a strategic tool supporting the development and maintenance of these relationships (Cannon, 2002, p. 43 ).

With the use of the latest IT techniques, due to which one may analyse simultaneously many variables pertaining to the customer, it is possible to determine in a more efficient way the feasibility and prospects of the co-operation started with a given customer. The database marketing is based on a set of information on the customers stored in the form of a computer database. On the basis of the systematically accumulated information we may analyse and draw conclusions pertaining to the company's promotional strategy, sales strategy, etc. The oriented database allows the company for identification of potential customers as well as better understanding of their needs and expectations. And since already at the starting point its role must involve the precise selection of the group that meets the preliminary criteria, at the next stage, the actions run on the basis thereof are characterised by significantly higher efficiency (generating tangible benefits in a short time horizon). The company reaches precisely those customers to whom its specific product package is addressed. It ignores the accidental and uninterested recipients. What is more, the consumers are targeted with a specific customised offer (Kowalska, 2004).

The marketing database requires proper management. The continuous update of the data is of significance. In this context one may indicate five threats connected with the databases (De Pelsmacker, Geuens, Van den Bergh, 2007, pages 398-399):

- *Incompleteness* – it may be caused by an incorrect procedure of data collection or a compilation of data coming from different sources;
- *Outdated data* – some data very quickly cease to be valid, for instance function, position at work or home address, which may change very suddenly, while the customer's surname remains the same for the entire adult life;

- *Unreliability, undependability* – some data may be untrue since the source of their acquisition is not trustworthy; e.g. the data collected with use of the Internet sometimes contain many fictitious names and addresses;
- *Inconsistency (lack of consequence)* – some data are not automatically updated, though they are related to other data being modified, e.g. the failure to enter the information on a change of phone number due to the change of an address;
- *Copying* – in the database we may find two (or more) sets of the same data due to a different manner of entering their elements; this results for instance in the same promotional materials being sent many times to the same customers, which in turn may cause their irritation and generate costs for the direct seller.

In order to avoid the aforementioned threats at least one person within the organisation should be responsible for the database management.

### **Databases versus the Issue of Privacy**

Since the application of databases becomes more and more common, this phenomenon together with a continuously growing search for recognition of single customers causes that the consumers are interested in the level of knowledge held by the companies with regard to themselves as well as the method of acquisition and application of such information. The detailed data pertaining to surnames, addresses, demographic characteristics, lifestyle, shopping preferences or purchase history constitute a sufficient reason for raising fears connected with privacy.

The literature discussing the issues of privacy suggests that most information on single customers, used for marketing purposes, may be divided into five categories. These are the following categories: demographic characteristics, lifestyle (inclusive of habits connected with media), shopping habits, data on finances and personal data (identifiers) such as: surnames, addresses, insurance numbers (symbols). It has been agreed that the consumers are most willing to provide direct sellers with the information on demographic characteristics and lifestyle, whereas they are most unwilling to share the information connected with finances, household income, credit cards, personal data. Though most consumers do understand the need to provide the information on finances while making a credit purchase, the request for information on income, especially coming from the marketers not dealing with finance or insurance, is met with a deeply negative response. Most consumers wish to have more control over the collection and application of information thereon. Only 33% of the companies inform the consumers about the method of using the collected information pertaining to them. Since the message on the method of data application may be perceived as the first basic step towards permitting the customers for withdrawal of their data from bases, we may assume that the percentage of companies which offer to their customer the control over the distribution of information thereon is actually much below 33% (De Pelsmacker, Geuens, Van den Bergh, 2007, p.402). The Direct Marketing Association strongly recommends the option of resignation – allowing the consumers to remove their surnames from the list by ticking a relevant column in the form.

The problem of privacy is also connected with the control over insolent, unwanted promotional actions such as telemarketing or spam. The Internet has generated new threats for the privacy, connected with the easiness of obtaining, storing and exchanging data in the web. The consumers' additional anxiety is connected with the volume of spam, which due to low costs constitutes an integral element of the commercial electronic mail. In spite of this the research demonstrates that the consumers are more inclined to remove their surnames from phone directories than from e-mail groups. Simultaneously, the deletion of data from emailing lists is more frequent than in the case of mail promotion lists.

The Personal Data Protection Act caused that the mail-order companies began to create

the so-called Robinson Lists (“black” and “grey”). The Robinson List, known in some countries as the Mailing Preference Service or MPS, is a system of the consumers privacy protection successfully applied in many countries. This is a system developed for the people who do not wish unwanted address materials of the promotional and advertising character to be forwarded to their mail boxes. The Polish Robinson List has been run by the Direct Marketing Association since 1996, i.e. its registration by the Resources Registration Department of the Bureau of the Inspector General for the Protection of Personal Data. One should distinguish the Robinson List run by the Direct Marketing Association from the Robinson List run by the Organisation of Market and Opinion Research Companies. The latter pertains to the respondents’ refusal to participate in CATI (Computer Assisted Telephone Interviewing) and has been running since November 2004.

A company purchasing an external database compares it with its “Black” “List and rejects people placed thereon. These people have already expressed their unwillingness to receive the company’s offer, therefore it is not profitable to forward subsequent offers thereto. The “Grey” Robinson List includes the people that do not wish for their personal data to be processed outside the company to which they have entrusted such data. It is of significance at exchange, lease or sale of addresses – it is not allowed to trade in the people included on the “Grey” List” (Sobolewska, 2000).

## Conclusions

Summing up, one should state that the skilful, careful and conscientious development of databases is of key importance for effectiveness of marketing actions as well as efficiency of the target segment process. The database marketing allows for planning of effective strategies targeted at specific identified customer segments as well as at very narrow groups, which often constitute target segments.

The database marketing allows for the customer identification, which is of decisive importance for customisation of business initiatives. The response to the question who the customer is shall be neither easy nor obvious. Therefore the contemporary organisations, in their search for creation of informational resources and potential, being a multi-context presentation of the customer’s characteristics, should develop the marketing database system. The proper identification of the target segments features shall facilitate its service and creation of new-quality long-term customer relationships, i.e. creation and application of the relational marketing. The development and processing of information on the customers constitute in each case the condition of maintaining the good relationships with the target market.

As a result the good long-term relations form the basis for benefits being drawn both by the company and its customers.

Database marketing is a key component of CRM, which uses stored data not only for direct marketing purposes, but to also manage the complete relationship with individual customers and to develop customized product and service offerings. A combination of CRM, content management and business intelligence tools make delivery of personalized information a reality (Caley, 2010).

It is important to assign the proper significance to CRM system, whose practical dimension involves the purchase of equipment and software allowing the company to obtain the detailed information on customer. This in-depth information enables the precise definition of marketing targets. However, one should bear in mind that the decision on investments in CRM should be preceded by the system re-organisation as a result of which the company shall turn into a fully customer-focused organisation. Then the database marketing shall become an essential tool for control of the customer relationships.

The advanced database marketing is oriented towards specific events pertaining to the

consumer. However, in order to boost the processes of initiating the purchase-sales transactions as well as establishing the relationship with the consumer the companies should find the method and resources, which properly involved shall guarantee the correctly functioning, available and regularly updated database.

It should be added that the customers should remain under active observation, which allows for the identification of their changing needs as well as offering to them a product at a right moment. While the precise offer customisation substantially increases the chances of a market success enterprise.

## References

- Barrell, I., (2012). Unlocking sales through Data. *Cabinet Maker*, 7/13/2012, 5796, 24-25, <http://web.ebscohost.com>.
- Caley, N. (2010). Database Marketing for the Small Business Operator. *Home Business Magazine: The Home-Based Entrepreneur's Magazine*, 17 (1), 34-37.
- Cannon, D. A. (2002). The Ethics of Database Marketing. *The Information Management Journal*, May/June, 43.
- De Pelsmacker, P., Geuens, M., Van den Bergh, J. (2007). *Marketing Communication, a European Perspective*. London: Prentice Hall, 397-402. Retrieved 02/01/2013, from [http://www.marketingpower.com/\\_layouts/dictionary.aspx?dletter=d](http://www.marketingpower.com/_layouts/dictionary.aspx?dletter=d).
- Gregurec, I., Vranesevic, T., Dobrinic, D., (2011). The Importance of Database Marketing in Social Network Advertising. *International Journal of Management Cases*, 13 (4), 165-172.
- Hansotia, B. (2004). Company Activities for Managing Customer Equity. *Journal of Database Marketing and Customer Strategy Management*, 11 (4), 319-332.
- Kowalska, S. (2004). Klient rozpoznany z bazy danych [The Client Identified by the Database]. *Manager*; Retrieved 02/01/2013, from <http://www.9477.pl/strony/1/i/3170.php>.
- Labus, M., Stone, M. (2010). The CRM Behaviour theory - Managing Corporate Customer Relationships in Service Industries. *Journal of Database Marketing & Customer Strategy Management*, 17 (3/4), 155-173.
- Pilarczyk, B., Mruk, H. (Eds). (2006). *Kompendium wiedzy marketing [Compendium of Marketing Knowledge]*. Warszawa: Wydawnictwo Naukowe PWN, p. 96.
- Barcik, R., Łodziana-Grabowska, J. (Eds). (2008). *Badanie relacji z klientami jako podstawa strategii biznesowej w nowoczesnej organizacji [The Customers Relations Research as the Basis of the Business Strategy in a Modern Organisation]*, Bielsko-Biała: Wydawnictwo Naukowe ATH.
- Sobolewska, S. (2000). *Marketing bazodanowy [Database Marketing]*. Original publication. Retrieved 02/01/2013, from [http://cennik.masterplan.pl/publikacje/124\\_bazodanowy.php](http://cennik.masterplan.pl/publikacje/124_bazodanowy.php).
- Stone, M., (2012). Reflections on a Life in Database Marketing. *Journal of Database Marketing & Customer Strategy Management*, 19 (4), 214-218.
- Straszewicz, E. (2008). *Marketing baz danych [Database Marketing]*. Retrieved 16/03/2008, from <http://www.dbmarketing.pl/index/action/showword/ida/19/Marketing-baz-danych>.
- Straszewicz, E. (2006). *Słów kilka o marketingu baz danych [A Few Words about the Database Marketing]*. Retrieved 16/11/2012, from [http://www.wirtualnemedi.pl/article/131462\\_Slow\\_kilka\\_o\\_marketingu\\_baz\\_danych.htm](http://www.wirtualnemedi.pl/article/131462_Slow_kilka_o_marketingu_baz_danych.htm).

*Advised by Jozefa Kramer, University of Economics in Katowice, Poland*

Received: December 31, 2012

Accepted: February 05, 2013

<b>Joanna Łodziana-Grabowska</b> Ph.D., Assistant Professor, Associate Dean, The Academy of Business in Dąbrowa Górnicza, ul. Ciepłaka 1C, 41-300 Dąbrowa Górnicza, Poland. E-mail: JGrabowska@wsb.edu.pl, joanan@poczta.fm
--