

Insights from the Evaluation Process

*By Jim Wheaton
Principal, Wheaton Group*

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In 1986, I participated in a comprehensive evaluation of service bureau capabilities. Last year, I was asked by a direct marketing client to do the same. In the interim, I worked for a service bureau for close to ten years.

I wrote a Request for Proposal for my client and received nine written responses. The participating service bureaus represented the complete spectrum, from the largest organizations to a couple of regional niche players. Ultimately, we interviewed four companies and invited three to participate in a test job.

Similarities and Differences – 1986 vs. Today

It was fascinating to witness the changes that have transpired in the intervening fourteen years. Data and reports, for example, generally are now transferred electronically, and often in the form of Word and Excel documents. However, the evaluation also confirmed a long-standing impression of mine that, in many ways, the service bureau world is stuck in a perpetual time warp.

Processing, for example, generally is still performed on mainframes, and some of the record matching algorithms are basically unchanged. More importantly, many service bureaus have not fully confronted the challenges of today's dynamic database marketing environment. Often, account people operate as reactive order takers rather proactive strategic partners. Generally, these individuals have never been direct marketers, and often view their assignments from a very narrow processing perspective.

Typically, whenever an account person encounters a job request that cannot be handled by off-the-shelf application software, he or she forwards it to the service bureau's standalone programming department. Invariably, the programmers have even less exposure to direct marketing than the account people. Often, they are also faced with a large backlog of programming requests. The lack of grounding in direct marketing, combined with of an overwhelming workload, can make it difficult for them to complete their assignments accurately and on time.

Methods of Differentiation

Some service bureaus have differentiated themselves by enhancing their merge/purge algorithms to such an extent that they are able to squeeze a couple of additional percentage points of deliverable, unduplicated records out of the raw names and addresses that they process. During the evaluation,

for example, one well-known firm introduced us to a separate specialist for each major merge/purge function. Throughout the presentation, the focus was always on the small fractions of improvement that could be had by placing one's business with this service bureau.

This approach, however, can be likened to carefully shining a rotten apple. I recently chatted with a direct marketer who uses this same service bureau for its merge/purge processing. When I noted that his vendor has the most sophisticated merge/purge software in the business, he responded that the quality of the algorithms is irrelevant because his account manager is an unthinking button pusher.

The direct marketer added that he would gladly trade a couple of percentage points of scrubbing prowess for a company that would act as a truly proactive and innovative data processing partner. All in all, he is disenchanted with this "blue chip" service bureau, and is looking to make a change.

The Need for a New Paradigm

The direct marketer's complaint is very similar to what I have heard from other clients of this – and other – service bureaus. It is apparent that many such firms have evolved to optimize the processing of standard, batch, direct mail jobs. However, they are not adept at responding with creativity and innovation to one-off, ad hoc requests; requests that are the norm in today's demanding, ever changing database marketing environment.

Many service bureaus have become large, unwieldy battleships. There is a shortage of nimble PT boats. These are the firms that recognize that, when it comes to data processing, there is a solution to just about every problem; and that often it is just a matter of mixing and matching available applications software with a dash of creative thinking and custom programming.

Consider a modestly sized, pure-play cataloger. As such, it works with a service bureau that focuses on small catalogers, and whose capabilities have evolved over the years to match the needs of that market. Recently, an unusual opportunity arose that required a sophisticated distance analysis. Without revealing confidential details, the project required: 1) multiple distance calculations from each customer's residence to specific, physical entities scattered across the country, and 2) the creation of intricate, distance-driven analysis files.

This is a type of project with which retailers, and retail-oriented service bureaus, are very familiar. However, it generally has no application to small, pure-play catalogers. Therefore, the aforementioned catalog-oriented service bureau did not possess the files required to do this type of work.

This would not have been a problem, except that the service bureau took about a week to definitively conclude that it was not equipped to do the work, and then made no effort to find a creative solution – to, for example, locate a subcontractor, or secure temporary access to the needed files. Instead, the response to the cataloger was that ... it was on its own.

As a result, the cataloger had to scramble to find another service bureau to perform the necessary distance calculations, so that an independent consultancy could produce the analysis files. All in all, the experience did not endear the service bureau to its catalog client.

The cataloger ran into similar problems with another project that required the assistance of the service bureau's programming department. Unfortunately, the department was swamped with work and pressed by deadlines. As a result, it took over five weeks to complete what should have been accomplished in a matter of days. Throughout the entire ordeal, the cataloger continually had to prod and cajole the service bureau to focus on the project.

Getting back to the service bureau evaluation, my client was frustrated with its incumbent bureau – a well-known company with a national presence – for these same sorts of reasons. There was little complaint about the batch processing that was performed in support of the regularly scheduled direct mail drops. The service bureau did a solid job with these. Instead, the frustration was with the problems that took place whenever it was called upon to assist in ad hoc projects.

The service bureau did its best to satisfy my client's special requests. Generally, however, it failed because its employees were narrowly focused data processing professionals. No one involved with the account had the database marketing perspective to provide my client with what it truly needed. Instead, the service bureau, over and over, mechanically executed the required job steps. With every inevitable misunderstanding, the process had to be repeated.

Consider, for example, a request to perform a series of complex, one-off steps to create files for specialized backend analysis. The service bureau ran the job multiple times, over many weeks, before finally getting it right. And the failure was not due to a lack of effort. However, the request was initiated to support a data mining initiative, a topic with which the account team had no familiarity. Working in a knowledge vacuum, it was difficult for the team to be successful.

Hypothesis for the Current State of Many Service Bureaus

Why have so many service bureaus failed to fully adapt to the times? My hypothesis is that it is because merge/purge has been a perceived commodity for years, and therefore has become a self-fulfilling prophecy. In such an environment, service bureaus tend to compete on price. And, all too often, direct marketers get exactly what they are paying for in terms of quality.

In contrast, the 1986 service bureau evaluation with which I was involved generated immense industry interest. A co-worker and I were invited to present the results of our study at a major DMA tradeshow. Also, the editor of a leading industry journal sat in on the speech and asked us to publish our findings in what turned out to be a series of six articles.

By the early 1990's, however, the focus on service bureaus and merge/purge algorithms had pretty much vanished. The industry had moved onto other topics such as neural networks and open systems data warehousing technologies. Merge/purge had become a perceived commodity not worthy of attention by our industry's movers and shakers.

Increased Need for Data Hygiene

Ironically, cutting edge service bureau work is more critical today than it was in 1986. This is because the quality of the data is worse than it has ever been. In the 1980's, most direct marketing orders arrived via the mail. Now, inbound call centers capture the bulk of the transactions, many of which contain glaring misspellings and address element omissions. This is particularly true of small to mid-sized firms that cannot afford to integrate real-time hygiene technologies into their CRM infrastructure. And, Internet data presents its own name and address quality nightmares.

Powerful merge/purge software is essential for correcting many of these problems, so that the information reflected on customer databases is accurate. Name and address hygiene has significant ramifications for data mining and quantitative analysis. It is important to identify records that correspond to multiple orders by the same individual, and consolidate them into a single customer view.

Consider the analytical ramifications of two legitimate duplicates that are not consolidated. During the building of a predictive model, an actual multi-buyer will appear to be two separate – and less desirable – single-buyers. Likewise, during a lifetime value analysis, one relatively valuable customer will be represented as two not-so-valuable individuals. (The opposite, of course, will be true whenever an illegitimate consolidation takes place.)

Final Thoughts

So, what was the most important lesson that I learned from the service bureau evaluation? First and foremost, to not get all that hung up about the data processing “bells and whistles,” even if they provide a couple of additional percentage points of deliverable names and addresses. With the widespread adoption of electronic data transfer capabilities, the “bells and whistles” portion of merge/purge work can now be subcontracted to the largest service bureaus without jeopardizing turnaround times. This is a development that is complemented by the spread of the Application Service Provider (“ASP”) business model throughout the industry.

Instead, concentrate on what really is important. Look for a company that will become your valued and proactive database marketing partner, and one that will rapidly respond to your requests with creativity and innovation.

Jim Wheaton is a Principal at Wheaton Group, and can be reached at 919-969-8859 or jim.wheaton@wheatongroup.com. The firm specializes in direct marketing consulting and data mining, data quality assessment and assurance, and the delivery of cost-effective data warehouses and marts. Jim is also a Co-Founder of Data University www.datauniversity.org.