

Know your customer

With data mining a standard competitive tool in the West, Chinese companies should be scrambling to catch up

The promise of e-commerce has always been to make procurement and shopping more convenient, productive and pleasant. One large step in that direction has been the ability to personalise the service experience to give customers exactly what they want, when they want it. To do this, businesses must first learn about their customers.

This is easy enough at a mom-and-pop store. The owners are likely to know most customers' names as well as their purchases and preferences. This allows small businesses to offer personalised service, increasing customer satisfaction. But how can a large company more accurately target its marketing and customer-service efforts?

Digging for data

Data mining allows companies to evaluate customer data to provide appropriate service and marketing for all customers. According to [Andreas Weigend](#), who has taught on the subject at business schools in the US, Europe and China, "Companies can automatically tailor their service for each customer to incorporate his or her likes and dislikes, consumer behaviour and budget. This does not necessarily mean that all customers will get top notch service, but rather that they will get a level of service most appropriate for their value as a customer."

A prerequisite for data mining is that companies be able to collect massive amounts of data. A second ingredient is a company's domain knowledge—its experience and proprietary know-how of the industry—which is used to define rules on how the data is manipulated. Lastly, data miners must apply the appropriate methodology for the desired output. This output can take many forms, such as the scorecard, which simply ranks customers according to a set of predefined criteria and rules.

Employing data mining in marketing and customer service can be especially valuable in two of China's fastest-growing industries: financial services and telecommunications. Both deal in intangible services and track user activity in a detailed fashion, mainly for billing and accountability purposes. Consequently, these companies have already accumulated data that—if properly digested and acted upon—could be valuable to their businesses.

For the most part, however, Chinese companies have treated these efforts as IT issues. Many, including the Industrial and Commercial Bank of China (ICBC), have invested vast amounts of money into expensive data-warehousing solutions from such providers as IBM. When this provided few results, some companies purchased specialised software from data-mining companies such as US-based SAS. But the data produced by the IT department were not

particularly useful in these companies' marketing efforts.

The decision on what output and technologies a company ultimately employs must be a function of its business realities. Systems implemented according to the designs of IT—rather than those of marketing—departments often do not incorporate important domain knowledge. As a result, output cannot be understood by senior management, marketing professionals or customer-care managers.

More than IT

Data mining requires management-level commitment to change. Not only must output be aligned with the marketing management's needs, companies must also invest time in training their customer-service and marketing departments to apply the new tools.

The data-mining challenge comes at a critical time for China's banking and telecommunications sectors. The clock is ticking on the implementation of WTO-related reforms that will open the sectors to overseas investment. Meanwhile, foreign competition in these sectors has made huge advances in data-mining-supported marketing over the past few years. Their experiences and systems will be easy to duplicate across markets with minimal adjustment.

Chinese companies in these sectors are aware of the issue, but so far have been unable to act. "The main problem is that many of the moves required go against the grain of embedded processes of large Chinese companies," says Christina Ye, partner at Shanghai-based management consultancy BlueprintChina. "Such a customer-focused model would require sweeping changes on a management level to clarify, decentralise and speed up decision-making so individuals can take action on data-mining output." The changes could enflame company politics and require that IT departments be subjugated to the needs of marketing teams, to a certain extent.

Many companies have so far chosen to avoid these internal conflicts. But the companies that make the necessary changes now are likely to be rewarded. After all, they still have considerable advantages over foreign rivals in terms of existing customer base and access to government organs, as well as their access to markets, channels and physical infrastructure.

Unfortunately, most large firms lack strong decision-making power and are subject to government-mandated management rotation policies that discourage rocking the boat. It is hard to imagine most high-value customers being content with the service levels of past decades once they are given a choice. To stay competitive, companies must act by taking small, manageable steps now.

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