Chapter 3 Integrating Information Technology in the Marketing Process

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Objectives

- Explore the impact of information technology on the marketing function
- Highlight e-marketing and online distribution techniques
- Present the concepts of customer identification and customer modelling
- Pinpoint the evolution of sales forecasting
- Apply dynamic pricing and yield management principles to cultural products
- Understand Relationship Marketing

Introduction

Over the last decade, the information technology revolution (particularly the combination of the Internet, database systems and computer analytics) has transformed the marketing function for the arts, bringing a level of sophistication previously reserved for bigger – and richer – industries.

Computers have brought about three "awesome powers."[1]

1. *The power to record*: companies can now store millions of customer records, with many characteristics for each – not just names and addresses, but age, gender, marital status and family configuration, and buying habits and history.
2. *The power to find:* Individuals can be selected from a database by one or multiple identifying characteristics.
3. *The power to compare:* Information on customers with one set of characteristics can be compared to customer information using a different set of characteristics.

Combining these three powers with the speed, interactivity and affordability of Internet communication sets the ground for a marketing revolution. It leaves few, if any, aspects of the marketing mix untouched, transforming the very notion of artistic product and its pricing, promotion and distribution strategies. For companies it brings the promise of more efficiency and for customers the promise of better service.

This revolution has just begun.

According to a famous forecast made by Gordon Moore, co-founder of Intel (the world's largest microprocessor company), the processing power and storage capacity of computers double every 18 months.

This prediction was made 40 years ago and has held true since then. If it still holds true over the next decade, this could mean up to a hundredfold increase in capacity – enough to meet any conceivable need for computation. At the same time, the price of computers has been falling steadily. Furthermore, mobile phone technology offers the prospect of new, unchartered marketing territories.

This chapter will address some of the most salient innovations brought by the integration of information technology into the marketing process.

3.1 E-Marketing

E-marketing is the application of the Internet to direct marketing. Direct marketing, which consists of direct connections with carefully targeted individual consumers both to obtain an immediate response and to cultivate lasting customer relationships,[2] is not new: Catalogue sales have been around for a long time. However, it has been rejuvenated by e-marketing. The Internet makes it possible for an organization to weave a dense, customized relationship with each individual customer, with the goal of better meeting consumer needs.

3.1.1 Direct Marketing Principles

In a direct marketing campaign, an organization sends a specific, usually time-limited, promotional offer directly to individual customers via mail, telephone or e-mail as opposed to via mass media such as billboards, press, radio and television. This generates a direct and rapid response in the form of an order, a subscription renewal, a request for further information, or a visit to a retail outlet or to a Website.

Mass media are effective for promoting fast-moving consumer goods but have proven less efficient for cultural products. In the field of culture, targets are usually too small, products too complex and budgets too limited for organizations to take full advantage of mass communication techniques. Moreover, the impact of advertising is undeniable but difficult to precisely measure. One can never be sure that an advertisement has been seen, understood and remembered, since communication goes one way: from the organization to its target. Separating the effect of advertising from other factors influencing consumers is particularly arduous.

Finally, promotional spending for consumer goods has been growing steadily and tends to overpower products with smaller budgets. Because of this constant growth, the multiplication of media and the resulting advertising omnipresence, consumers tend to become immunized to this type of marketing and shield themselves from the communication avalanche by ignoring most advertising messages.

Direct marketing can address all of these concerns. It offers several advantages:

- More accurate targeting, since only those consumers whose buying potential has been identified will be contacted with a customized offer. With traditional advertising, targeting is only as precise as the audience of a given medium. For example, an advertisement in a newspaper will be seen – and perhaps read – by the newspaper's readers, who are not all current or potential customers of the product being advertised.
- Accurate return-on-investment measurement of a promotional campaign, since the rate of response to the offer and the cost per contact are known. For example, if 1,000 letters promoting a specific offer are sent out and 20 people respond, the return on investment can be calculated by dividing the revenue from the 20 sales by the total cost (time spent framing the offer and drafting the message and costs for paper, printing, envelopes, and postage and handling).
- A more personalized, two-way communication stream with the target, since the latter is encouraged to respond directly. This consumer feedback is essential for improving the service offered and customer satisfaction.
- The ability to send dense messages and complex offers without with the space limitations of traditional media.
- Reduced lead time between the initiation of the offer and its reception by the customer, since the offer can be sent at any time, independent of formal publication schedules.

For all of these reasons, direct marketing is becoming the main means of communication for many cultural organizations.

3.1.2 Advantages of E-Marketing

The media traditionally used for direct marketing (mail, telephone) are still very much in use, but present some limitations:

Mail. Mail offers many formats for direct communication: letters, postcards, brochures, catalogues, samples, tapes or CDs. In many countries, the postal service offers discounted prices for mass mailing. It is nonetheless a relatively expensive and slow means of communication.

Telephone. Telemarketing (i.e., using the telephone for direct marketing purposes) is faster and more interactive than mail, but it is also more expensive. Calling people is time-consuming and labour-intensive. Telemarketing is regulated in some countries: Individuals can have their phone number "delisted" to avoid receiving sales and marketing calls.

E-marketing is a much more attractive and cost-efficient way of reaching customers. Access to the Internet is growing rapidly. In fact, the vast majority of cultural consumers are already connected. Sending an e-mail costs a fraction of the price of making a phone call or purchasing a stamp. E-marketing is as interactive as telemarketing but is much less intrusive, as the customer does not have to answer an e-mail message immediately. The lead time needed to launch a campaign is very short: It takes only a couple of hours to draft a message, extract a list of e-mail addresses and send an e-mail – against two to three weeks to draft, format, print and expedite a letter. As answering e-mail is easier and faster than answering a letter (no stamp or posting), the response rate tends to be significantly higher for e-marketing campaigns. Moreover, an e-mail can have multiple lives: It is easy to forward it to friends, thus transforming customers into advocates for the company.

For all of these reasons, the return on investment is vastly superior for an e-marketing campaign than for a mailing or telemarketing campaign. However, the flood of "spam" (unauthorized commercial e-mails) has tainted the image of e-marketing. In reaction, several countries have adopted restrictive legislation to curb the flow of unwanted e-mails. It is thus preferable to ask each customer for permission to send promotional e-mails, and to promptly remove their e-mail address from the database if they refuse. Also, the company should avoid sending each customer more than one or two promotional e-mails per month.

3.1.3 Application: Steppenwolf Theatre Company (Chicago, Illinois, USA)

In the 30 years since its founding, Steppenwolf[3] has become a beacon of theatrical excellence, receiving unprecedented national and international recognition. It has also grown from wild beginnings into a marketing powerhouse – without losing an iota of its artistic relevance.

Traditionally, Steppenwolf has relied heavily on its subscription base to sell the 200,000 tickets it makes available each year.

The cost of attracting and retaining subscribers (season-ticket holders) is far lower than the cost of attracting single-ticket buyers, but, like many theatres in the United States, Steppenwolf has experienced an erosion of its subscription base.

Amy Singer Kaissar, a subscription consultant, explains: "Across the US, a seismic shift in ticket buying trends is underway. The subscriber, the member, and the season ticket holder are not renewing. They may still be coming, but they are not purchasing tickets up front and in bulk. This shift, which began in the late 1990s and continues today at an ever increasing rate, cannot be ignored. This sea change affects theatres, museums, symphonies, opera companies, trade organizations, sports teams and more. For theatres, long dependent on a guaranteed audience who pays up front, the waning is critical."[4]

Steppenwolf will thus have to rely more and more on single-ticket purchases – a costly proposition. "Selling single tickets can cost you 50 cents on the dollar in advertising," complains Executive Director David Hawkanson.[5] "If you take a page in the *Tribune,* the dominant newspaper in Chicago, you pay to contact its 1.8 million readers, but less than 4% of them actually go to theatre."

Whereas subscribers buy an entire season before a single performance has been presented (which guarantees audience levels and builds an organization's cash flow), single-ticket buyers are unpredictable – tending to buy at the last minute. With traditional means of communication, an organization lacked the time and the money to react to poor attendance. But because of the Internet marketing single tickets is faster and cheaper than ever before.

This is why Steppenwolf decided to invest in e-marketing, and to collect e-mail addresses by asking every ticket buyer for an e-mail address. "We place inserts in our program saying, 'Win a dinner at the restaurant next door by filling in this questionnaire'," explains Hawkanson. "The prospect of getting a free meal gets us a lot of information on our customers!" Steppenwolf has already gathered a database of 50,000 e-mail addresses. This database is an excellent tool for promoting ongoing or forthcoming shows, and it allows for quick corrective action in the case of lower-than-anticipated attendance. It takes only a couple of hours for the theatre to define a promotional offer, draft a message, source the database for prospects and e-mail the offer at very low cost.

Steppenwolf uses e-marketing not only to sell tickets but also to strengthen its relationship with its audience. “E-marketing is the easiest and most effective way to inform our audience,” says Hawkanson. “If you pick up the paper today, you will read one review. We will give you six reviews to read in our e-newsletter. Feeding the intellectual curiosity of our audience is immensely important to us. We also use e-mails to build loyalty among our subscribers, particularly first-year subscribers, who always have the lowest rate of subscription renewal. We can track their subscription usage rate. We can e-mail them a reminder a day before each performance they have bought. If they don’t attend one of the performances, we can send them an e-mail the next day and tell them, ‘We didn’t see you last night – anything we can do?’ They need to be reminded that they have subscribed and that they can take advantage of a series of benefits, because they tend to forget. If they don’t use their subscription, they won’t renew it.”

E-marketing is also a great tool for turning single-ticket buyers into subscribers. “The best way to have a single-ticket buyer come back to the theatre is to send him a promotional offer for another play as soon after the performance he attended as possible,” explains Marketing Director Erin West.[6] “That’s where e-marketing comes in. The day after you come to Steppenwolf, I can send you an e-mail saying, ‘We are so glad you could come and see our show. Here is a two-for-one ticket offer for any other show you would like to come see over the next three months. We hope to see you again soon.’ You could not have done this even five years ago, because getting the information about these customers out of the system [and] designing, printing and mailing a promotional letter was so laborious and time-consuming.”

“We have also launched a blog,[7]“ concludes Hawkanson. “We need this new outlet to share what our guests think about our new plays. We are also looking at ways to use phone text messages to keep our customers informed. All this will deepen our interactive relation with our audience. This is where we are going.”

3.2 Online Distribution

3.2.1 Principles

Direct marketing often leads to direct distribution. Since the consumer responding to the offer orders the product from the company directly, the company can do away with intermediaries and resellers. This model best fits cultural organizations that host live audiences (theatres, symphonies, museums), because tickets can be easily mailed or printed from the Internet.

Online distribution offers clear advantages over traditional, "bricks and mortar" retail operations:

It is faster. The transaction takes place in real time, without delay or call back.

It is cheaper. There is no intermediary fee, no printing or mailing expenses, and no data-entry costs, since patrons enter their information themselves when they purchase their tickets.

It is better. Customers can buy their tickets at any time of the day or night, from anywhere in the world, and most of the information needed to complete the transaction is only a click away.

It is also more reliable: Selling online allows for better and more detailed sales reporting and analysis and for increased information on the profitability of marketing initiatives.

Inventory computerization has also allowed for tighter control – which has always been a challenge. "We have a huge number of unique products on sale at any given moment," comments Alan Levine, Chief Information Officer at the John F. Kennedy Center for the Performing Arts in Washington, DC.[8] "Every single seat for every single performance is a unique item. So at the Kennedy Center we have as many as a million and a half unique items on sale at any given time. And we can only sell that seat once. We have to know what seat is next to it, because most people come to the show with someone else and they want to sit next to that person. So you have to be able to pull up a thousand of those seats and show their relationship to each other. And it all has to be done in real time. Subscriptions add a layer of complication. But ticketing follows strict rules: You can only sell a seat once; if you sell two seats they should be next to each other… And in software, if you have rules, you can program them."

An online distribution operation should be fully integrated and connected with the traditional, retail channels the organization might retain. That combination of online and traditional distribution is often referred as “click and mortar” distribution.

The Internet has also proven to be a very effective means of distributing music, images and film, although fostering piracy for these products. When it comes to selling non-digital products to consumers, the big challenge of “last mile logistics” arises. The last mile is the link between an online ordering process and physical product delivery. In contrast to store-based retailing, online shops have to deliver the product to consumers’ homes, not just to stores. Last mile logistics has turned out to be a crucial factor in e-commerce. Severe delivery problems can occur, especially during periods of high demand such as holiday seasons. A customer who is disappointed because of poor delivery service is unlikely to shop online again.[9]

3.2.2 The Importance of a Good Website

A good Website is essential for online distribution. Yet many sites are substandard. They are unclear or even unreadable. Their navigation is counterintuitive and inconsistent. They lack basic product, price and availability information. All of this leads shoppers to become frustrated and fed up, never to return. It is also a waste of money. Developing a Website does not come cheap, and a bad one can damage the reputation of an organization.

For Eugene Carr, CEO of Patron Technology, “a great arts Website is a carefully structured collection of Web pages designed and organized to achieve a measurable goal, one that supports your organization’s overall mission as well as your bottom line. A great arts Website offers visitors the information they want in the fastest way, with the fewest number of mouse clicks and the least amount of confusion. Such a Website is essentially a machine for marketing.”[10]

The goals of a Website should be clearly prioritized. The Website should primarily be a tool for selling products, sharing product information and collecting e-mail. It should not be a showcase for creative and technical prowess. Therefore it should be controlled by the marketing department, not by the information technology department. A careful analysis of the site’s visits should provide important information leading to improvements.

Particular attention should be given to the layout of the site. Navigating it should be logical, simple and intuitive. Unnecessary clicks should be eliminated. For instance, it should take no more than four clicks to complete the checkout process, and no more than two for express checkout. No order should be taken if the inventory is unavailable, and there should be no price surprises during checkout. In the case of physical goods, the site should have comprehensive order-tracking capability and offer precise delivery times. The site should be updated frequently, and inquiries posted on the site should be answered in a timely manner.

"Don't make me think!" exclaims Steve Krug, a renowned Website consultant. "It's the ultimate tie breaker when deciding whether something works or doesn't in a Web design. It means that when I look at a Web page, it should be self evident. Obvious. Self explanatory. If you have room in your head for only one usability rule, make this the one. Actually, there is a close contender: get rid of half the words on each page, then get rid of half of what's left."[11]

The development of a Website should be guided so that it will naturally attract visitors by earning top ranking on the major search engines (such as Google and Yahoo!) for selected keywords. The company should understand how people are searching for its products. Visiting the sites that are earning top ranking might give clues about how to improve the company's site. To optimize the chances of its site being picked up during a customer's Web search, a company might start the text of each Web page with relevant keywords, use these keywords as the links to the page and link each page with other relevant Websites.

3.2.3 Application: Sydney Opera House (Sydney, New South Wales, Australia)

The Sydney Opera House is Australia's leading performing arts centre, producing an eclectic mix of artistic and cultural activities and staging 2,400 events annually. Its magnificent site, its iconic shell-shaped building and its 3,000-seat concert hall attract more than four million visitors per year.

The Opera sought ways to expand the online experience of its patrons by enabling them to use the Internet to check availability, select seats and buy tickets in real time. To offer patrons the best service possible through their ticketing transactions, the Opera upgraded to a cutting-age ticketing system with a Web interface. The result was clear: Online ticket sales increased significantly and now account for over a third (sometimes even 80%) of all single-ticket sales.

"Our online box office initiative has transformed the way we sell," says Claire Swaffield, Director of Information Systems for the Opera.[12] "First, it allows us to handle a much larger sales volume in a given amount of time. We sold approximately 60% of concerts for the Scottish comedian Billy Connolly online. We were able to support multiple transactions so that three concerts sold out within the first on-sale day. No way could we have handled that before. It's terrific to watch the Web channel ticking over and users coming through and being able to transact really, really quickly. We also can run our online box office for as many hours a day as we want, allowing our customers to buy tickets at any time of the day or night. Last, we now can capture, store and extract much more customer data than with manual transactions. We have a tremendous capability to market directly to our audience. More customers wanting to make purchases via this sales channel can now do so with amazing reliability. We have invested a lot of time and energy in our online distribution capability, but we are blown away by some of the things that we can do with it."

3.3 Customer Identification

3.3.1 Principles

John Wanamaker, the father of modern advertising, said: "Half the money I spend on advertising is wasted. The trouble is, I don't know which half." To avoid such waste, and to best prepare for an e-marketing campaign, an organization must first identify among its pool of existing or prospective clients those most likely to respond favourably to an offer. Today, technology enables enterprises to identify each customer individually and to use this information to approach him with specific offers.

The organization should collect all available and accessible information about each customer: contact information (name, address, phone number and e-mail address), data needed to assess his interest in the product being promoted (demographics, psychographics, consumer behaviour, satisfaction level, transaction details, etc.) and "clickographics" (Web site-visiting behaviour and online transaction history). Some data, such as birth date, are stable and will need no alteration. Other data, such as satisfaction level, will need constant updating.

Collecting all these data will help the organization get a better picture of the needs of each customer as well as his or her potential value to the company. If it knows which customers are more valuable, the enterprise will be able to prioritize its competitive efforts, allocating more time and resources to those customers who are likely to yield higher returns. Knowing the needs of an individual customer makes it possible to cater to those needs, and by doing so to lock in the customer's loyalty, increasing his value to the enterprise.[13]

The organization can ask its customers for information during direct transactions. Alternatively, it can buy the information from a third party or get it from an organization targeting the same audience, in exchange for information about other consumers. Consumer information is then consolidated in a computerized database for easy access and updating – particularly after each transaction with the customer.

Capturing, integrating and leveraging all available customer data require a solid process, documented rules and the discipline to use the data effectively. But the rewards are great: consistent, quantifiable, clean data ready to be easily converted into actionable marketing intelligence.

3.3.2 Consumer Data Integration

Ultimately, of course, the purpose of collecting customer information is to develop a closer, more profitable relationship with the individual customer. In many cases this relationship will be facilitated by the availability of information that will make the customer's next transaction simpler, faster or less costly. Remembering a customer's logistical information, for instance, will make the reordering process easier for him. Remembering this type of information will also lead the customer to believe he is important to the company, that his patronage is valued.[14]

However, many arts organizations still operate with a silo mentality, whereby each function (advertising, fundraising, subscriptions, ticketing/box office, client accounting) is relatively autonomous and maintains a separate customer information system. Often these systems are not compatible and it is virtually impossible to gather all information about a given customer in a single file. Any extraction and reconciliation requires extensive manual effort.

As a consequence, the organization approaches its customers in a disorderly manner. Patrons receive an uncoordinated array of offers and solicitations – sometimes conflicting – from the marketing, box office and development departments. Also, they have to call a different department for each individual transaction. Furthermore, donors are not acknowledged as such when they book tickets, which probably shakes their loyalty to the organization and weakens their bonds with it.

This needs to change. Every piece of data on an individual customer must be integrated within a single file, to reveal one complete picture of the customer available throughout the organization. Once a customer's identity is fixed, it should be linked to all of his transactions and interactions, at all points of contact and within all of the enterprise's different operating units and divisions.[15] Therefore every database in the organization – front and back office, marketing and finance – must be connected, or, better still, integrated.

A customer who returns to a different part of the organization should be recognized as the same customer, not a different one. In other words, the customer who visits the Web site today, makes a purchase in the shop or at the box office tomorrow, and calls the toll-free number next week should be recognized as a single customer, not three separate ones. The data on customer identities maintained in the enterprise's databases must be made available to the people and functions within the enterprise that need access to it.

In a service organization, it is especially important that customer-identifying information be made available to frontline personnel.[16]

3.3.3 Application: Royal Albert Hall (London, United Kingdom)

London's Royal Albert Hall, home to the BBC Proms and rock concerts alike, has been a favourite with music lovers for more than 130 years. It stages 365 events and performances per year, for an audience of 1.27 million people.

It recently completed an eight-year, $120-million renovation and redevelopment program. "Towards the end of this program, we started to concentrate on our business practices," remembers Sarah Woods, Director of Customer Relations.[17] "We thought that, after refurbishing this fabulous building, we needed to rethink the services we offered our customers. Central to that vision was the concept of having an integrated system that would record all of our customer details across the organization. We knew this would enable us to capture a single view of each customer's relationship with the Hall."

The Hall held more than one million customer records scattered over several databases. The management team recognized that, if properly integrated within a single information system, this asset could offer much greater benefits than were currently being exploited. Two consecutive dark days enabled the Hall to close its box office and convert data from all the customer records and more than 600 live performances into the new database. "Although the conversion process had been tested a number of times prior to this point, it was still an unsettling prospect for the team," says Woods. "It was an extremely ambitious project and one that could not have been achieved without allocating two full-time staff members to ensure we kept to the deadlines we had set for system set-up, testing and training." At the end of the 48-hour period, all key data had been checked and the box office started selling tickets using the new system.

A new version of online ticket sales went live the following day. "Through integrating our new database with the Web solution, there has been an increase in the amount of customer data collected for marketing purposes," adds woods. "When booking online, customers are given the option of informing the Hall about the type of events they are interested in. This information is recorded as preferences within their account and can be used for e-marketing and direct mail campaigns."

For many years the Hall had wanted to know its audiences better. It was finally able to do so. A program of audience research was launched, using the data held. “We started by investigating the levels of loyalty within different audience sectors,” says Woods. “We ran queries on frequency (how often people attend our events) and on crossover (how many different type of events – ballet, opera, concerts – they attend).”

But the Hall went further. It crossed its internal database with an external database called Mosaic,[18] which consolidates a vast amount of psychographic and behavioural data from 400 different sources (census bureau, house price listing) and align them with postal codes. “The data that we hold in our database tells us a lot of information about the ticket purchases at the Hall but doesn’t really tell us what our customers do outside,” explains Woods. “What magazines do they read? What TV programs do they watch? Where do they shop? What do they buy? Since we know where they live, we can merge Mosaic’s data with ours, and answer all these questions. We get a fine portrait of each customer. For example, such customer comes to the Hall 10 times a year. He likes booking in our restaurants. He attends ballet and opera but also came to see Eric Clapton in 1987. He reads *The Guardian* and shops at Marks & Spencer, probably votes Conservative, etc. It’s a very precise tool. Each time we tested it by entering our own personal data, the result was 99% spot on.”

Such information proves very useful for preparing direct marketing campaigns, informing future programming choices and attracting potential sponsors. “If we can prove that a large proportion of our audience shops at Marks & Spencer, then we can approach this retail chain to talk about sponsorship,” concludes Woods.

3.4 Customer Modelling

3.4.1 Principles

"If you can look into the seeds of time, and say which grain will grow and which will not, speak then unto me," wrote William Shakespeare. The challenge facing many companies that amass huge customer data is to make sense of it. By modelling these data, a company can do just that, and add the missing link to understanding customers: predicting future behaviour.

Modelling refers to the process of predicting a household's behaviour by comparing the demographic and/or behavioural characteristics of buying households with non-buying households. The modelling process involves searching all the data collected from a company's existing customers (age, income, education, marital status, household configuration, home ownership, etc.) and crossing these variables with consumer behaviour data, in search of correlations. It relies on capturing relationships between explanatory variables and the predicted variables from past occurrences and exploiting them to predict future outcomes.

Simply put, modelling is looking at customer behaviour changes over time as clues to future behaviours. The company analyzes past consumption patterns for each client and follows the evolution of its relationship with him over time, from his first transaction to his defection. This evolution is called "the consumer life cycle." From all the information gathered, the organization can extrapolate a series of standard consumer profiles.

By examining the life cycle of one customer against several consumer profiles, the organization can forecast when, how and how much a customer will buy. For instance, it can predict that a customer who fails to make a second purchase within 30 days of his first is unlikely to return and make any further purchases. Armed with this knowledge, the company can contact the customer before the 30-day deadline with a promotional offer.

Such predictions rarely take the form of absolute statements. They are more likely to be expressed as values that correspond to the odds of a particular event or behaviour taking place in the future.

This process requires the use of powerful software, built on sophisticated statistical models such as regression analysis (see Forecasting Methods, below). By analyzing historic information and applying it to current customer data, this software can predict future events, with varying degrees of accuracy, based not just on the amount of data collected but also on the power of the analysis applied to the data. The final form of a model is a statistically derived equation that can "score" each household and rank it according to its likelihood of responding to a particular marketing offer over time.

Targeting only those consumers who are most likely to buy can lead to a substantial increase in response rate, which in turn can lead to a significant reduction in cost per acquisition. Apart from identifying prospects, modelling can help to identify the most effective combination of products, price, promotion and distribution channels for targeting a given consumer.

Modelling is already widely used in identifying the risk or opportunity associated with a specific customer or transaction and making customer decisions. One of its applications is credit scoring, which is used throughout the financial services industry. Scoring models process a customer's credit history, loan application and other data in order to rank-order his likelihood of making credit payments on time.

3.4.2 Customer Lifetime Value

The net value of all these anticipated transactions over the entire history of a customer's relationship with a company is called the customer lifetime value. From a customer's stream of positive contributions, including product and service purchases, an enterprise deducts the expenses associated with that customer, including the cost of maintaining a relationship with him. For instance, relationships usually require some degree of individual communication, via phone, fax, Web, mail, e-mail or face-to-face meetings. These costs, along with any others that apply to a specific individual customer, will reduce the customer lifetime value.

Sometimes the costs associated with a customer outweigh the customer's positive contributions, in which case the customer lifetime value is negative.[19] Unless serving this customer is explicitly part of the company's mission, he should be weeded out.

Customer lifetime value tells a company exactly how much each customer is worth, and therefore exactly how much time, effort and money it should spend to acquire each new customer and retain each existing one. The use of customer lifetime value as a marketing metric tends to place more emphasis on customer service and long-term customer satisfaction than on maximizing short-term sales.

Instead of constantly struggling to acquire more and more new customers, the company can focus on keeping its existing customers longer and selling to them repeatedly. An organization that offers multiple products can concentrate on cross-selling (i.e., selling a given product to the users of another product) or up-selling (i.e., selling a superior version of a given product to the users of an inferior version). For instance, a performing arts organization can identify, among its single-ticket buyers, those who demonstrate potential for greater involvement with the organization and concentrate on converting them into subscribers and then donors.

3.4.3 Application: Stratford Festival of Canada (Stratford, Ontario, Canada)

After years of collecting, aggregating and analyzing data on its audience, the Stratford Festival of Canada, the largest classical repertory festival theatre in North America, has developed a sophisticated customer modelling system to better allocate its marketing resources and make more informed, wiser decisions.

"We completely re-engineered our business," says Lisa Middleton, the Festival's Audience Development Director.[20] "We analyzed every business process, every rule or practice, and asked ourselves, 'Why do we do this?' We were focused on putting the customer at the centre of our organization and [on not] having him or her be several persons: a member, a single ticket buyer. Our ultimate goal was to have one single view of a customer."

The company has merged customer data, census data and past sales data to create a predictive model of lifetime value of customers. It has segmented its database of 400,000 patrons by using two criteria: value (how much a patron buys) and behaviour (why, what, when, where and how he buys).

The value segmentation variable ranks patrons according to their purchasing pattern. For instance, "preferred" patrons have attended the Festival each year for the past four seasons and are in the top 10% of the spending bracket.

The company gives them significant attention, contacting them by mail, phone and e-mail. “Conversion” patrons have attended the Festival once during the past five seasons and have no history before or after that visit. They are usually contacted only via low-cost methods, such as e-mail.

The behavioural segmentation variable allows the company to better understand what offer might get a response from a patron. For instance, “Standard Fair” patrons seek entertainment and attend only the musicals and the popular Shakespeare plays, whereas “Non-Standard” patrons seek artistic stimulation and attend more experimental productions on smaller stages and the lesser known Shakespeare plays. This information allows the Festival is able to develop “variable printing on demand” (VPOD) mailings by printing customer-specific text and/or images onto the materials sent to a patron according to the segment to which he belongs. It allows it to develop a personalized relationship with each patron by acknowledging what he saw last and to present what he might enjoy seeing next.

By cross-examining and correlating the two variables, the company can model customer behaviour and identify which patrons have the potential to move to a higher spending bracket, and what type of promotional incentive or discount should be sent to them.

3.5 Sales Forecasting

3.5.1 Principles

"Prediction is very difficult, especially if it's about the future," said the Danish physicist and Nobel laureate Niels Bohr. No marketing strategy is complete without forecasting future sales, yet forecasting entails many paradoxes. The future can be predicted only by extrapolating from the past, but we can be fairly certain that the future will be different from the past.[21] This prediction should factor in uncertainty, which is by definition unpredictable.

It is often said that there are two types of forecast: lucky and wrong. This is why, since ancient times, most oracles have had the wisdom, when predicting the future, to use double-meaning, conditional, obscure and general wording that cannot be checked against reality and to tell people what they want to hear.[22]

But here, too, information technology has greatly improved our ability to forecast and to estimate uncertainty. It is now possible to analyze all past sales and to track, in real time, the actual level of booking for a given event over a lead-in period. By crossing historic sales data with booking data, one can calculate and recalculate future booking demand and continuously update the forecast.

Forecasting has several uses.

To answer "what if" questions. In considering which strategy and tactics to use, the key is to estimate the outcomes of the various strategies and tactics, typically the sales and profit levels. The simplest "what if" question is: What will happen next year if everything remains as it has been in the past? This makes the forecast basically an extrapolation.

To help set budgets. Sales forecasts become the basis of a budget because they specify both sales levels to be attained and, by implication, the resources needed. All pro forma income statements are based on a sales forecast.

To provide a basis for a monitoring system. Deviations from forecasts serve as warnings to management to re-examine a market and their strategy in it. Both positive and negative deviations from forecasts can lead to a better understanding of the marketplace through an examination of the underlying causes.

To aid in production planning. With more companies and their channels moving to just-in-time production and distribution systems with low levels of inventory, accurate forecasting is becoming even more critical.[23]

A good forecasting process starts with a sourcing of the database for historical sales data, in order to analyze sales over time. Any peaks or valleys in the sales series will alert a good manager to try to uncover the factor that has caused such a sharp change.[24] It is also possible to determine seasonal trends (winter vs. summer, midweek vs. weekend, afternoon vs. evening).

Due to the prototypical nature of many artistic products, it is often difficult to build a consistent sale historic. For instance, comparing the sales of one play to those of another might be irrelevant because of the different natures of the two plays. It is then necessary to break down each product into subcategories. For instance, some plays are new while others are from the repertoire; some are avant-garde, others traditional; some are comedies, others tragedies; some have a long run, others a short run; and some feature well-known actors, others up-and-coming actors. It is then possible to group these plays into clusters (e.g., new, short-run comedies with famous actors) and compare the sales of the plays in the same cluster through time.

A forecast must also take into account all the factors that can influence sales. These can be grouped into two categories:

1. External factors over which the company has little or no control, such as the state of the economy, demographic changes in the population, costs of basic resources, weather variations and competitive forces.

2. Internal factors, which the company can control. Essentially, these are the four elements of the marketing mix: product, price, place (distribution) and promotion.

Forecasting can be thought of as the process of assessing possible outcomes under likely combinations (often called scenarios) of all these factors.[25] Producing a forecast for each possible combination of factors is a tedious task at best. This process is greatly facilitated by computer analytics.

3.5.2 Forecasting Methods

A large number of methods have been developed for forecasting. Some rely on judgement (of the sales force, of a panel of experts). Some rely on customer feedback using market surveys. Some rely on simple sales extrapolations using past sales data and adding a growth coefficient through time.

Some of the more sophisticated forecasting methods rely on modelling to determine causal relationships between all the variables that can affect sales and sales results.

Regression analysis is the most commonly used modelling method. It consists of analyzing past sales and finding a statistical correlation between variation in sales and each independent factor – whether external or internal. Each factor is then assigned a coefficient, called the lift, which measures its influence over sales variations relative to all the other factors. A big coefficient indicates that this variable has more impact on sales than others. For instance, when processing past sales data for a cluster of plays, one could discover a strong or weak correlation between variations in promotional activity and variation in attendance. The same process can be reiterated for each individual factor. One can go a level deeper, by dividing that promotion factor into subcategories (coupons, two-for-one tickets, sweepstakes…) and comparing each with variations in sales.

Today, most personal computers have enough memory and computing power to run a sophisticated, multi-level regression analysis.

Once the lift of each factor is determined, it is possible to create scenarios by combining assumptions for external factors (e.g., the economy will remain stable and competition promotional activities will increase by 10% over the forecast period), with decisions for internal factors (price increase or decrease, more or less promotional activity), and to forecast sales under these conditions. One can also assess the accuracy of such a forecast. This is often a function of the quantity and quality of the data collected. Obviously, more accuracy in a forecast is better than less, but at some point the cost of improving the forecast will exceed the benefit.[26]

No forecast is ever completely accurate, but as the French mathematician Henri Poincaré (the father of chaos theory, which has had a great influence on forecasting) said, “It is far better to foresee even without certainty than not to foresee at all.”

3.5.3 Application: Steppenwolf Theatre (Chicago, Illinois, USA)

Chicago's Steppenwolf Theatre Company[27] has developed sophisticated analysis tools on both the development and marketing sides that can provide immediate feedback on which promotional offer is working and which audience segments are responding to it.

This capability comes in handy at a time when Steppenwolf, like many American theatres, is experiencing an erosion of its subscription base and has to rely more and more on single-ticket purchases – which are much less predictable. "For the performing arts, the big issue on the table is our declining subscription base," says Erin West, Steppenwolf's Marketing Director.[28] "We need to change our relationship with our audience, figure out how to engage them in a new way. We can use technology to do it.

"In the last two years we've spent a lot of time working on predictive models for revenue. In addition to the basic demographic information that we collect at each transaction – addresses, education, gender, income, ethnicity – we're now collecting more subjective information about what they think of the play: overall experience, play content, playwriting, acting, design. We ask them to grade each item on a five-point grid from Excellent to Poor. We're tracking all of those different indicators very closely. We run them against sales to see if and how they correlate with box office revenues. For the overall experience, we're particularly looking at Excellent, because we think it's a motivator for strong word of mouth. This is very preliminary. We're still trying to gather the data and trying to massage it, look at it and see what it tells us.

"What if we could know that when 45% or more of our audience tell us that they had an excellent overall experience for a given play, that means we're going to hit our revenue goal, or more? And if we have 25%, we're going to bring in X number of dollars? That information could give us, in the first few weeks of a run, or even in the first week, an indication that we're not going to meet our revenue goal for the play. We then can change our marketing strategy accordingly. We can decide to brace ourselves and commit additional resources to promoting the play. Or we can decide to cut our losses, stop investing time, energy and money for that play and concentrate on maximizing our chances for the next one.

"We're also integrating other data that factor into revenue over time: which actors are in the play, time of the year, length of the play, known or unknown author and title. We try to find out if there are other indicators behind sales history that would be useful in predicting sales. "

"We also track week-by-week sales for the other plays of the season and historic sales from the five previous seasons. So at a certain point we can say, 'Alright, if this continues at this point, all the other plays are at 30% of their final goal,' and we project it out. It adds a sense of predictability. It's not completely refined and it's not an exact science, but we're getting pretty good at it. Basically, at opening we can predict the sales for the nine-week run. For the last play, we were within 3% of where we actually ended up."

3.6 Dynamic Pricing

3.6.1. Principles

"The cynic," Oscar Wilde wrote, "knows the price of everything and the value of nothing." Matching price and value has always been difficult, particularly in the arts. The aesthetic value of a cultural product is eminently personal and subjective. Demand/price elasticity for the same cultural product can vary from one consumer segment to another. Demand for a product can also vary from one time period (a day, a week, a month) to another. Lastly, price itself influences value perception: Since all that is rare is expensive, we often assume that what is expensive is rare.

Setting a fixed, standard price for all customers does not allow organizations to take advantage of these variations. If a cultural organization wants to maximize profits, it has to develop a *dynamic pricing* policy. Dynamic pricing sets different prices for the same product according to the consumer segment, consumer behaviour or time of consumption – not according to the costs of producing the product. The organization can set in advance the different prices at which it will sell the same product to different customers. This process is called *segmented pricing*. Alternatively, the organization can negotiate the price with each customer during the transaction. This process is called *negotiated pricing*. Because of the evolution of information technology, each consumer can instantly compare the quoted price with the price of comparable products and make a better-informed decision.

3.6.2 Segmented Pricing

If an organization observes demand/price elasticity variations from one consumer segment to another, it should try to understand the consumer preferences behind these variations and structure its prices accordingly. For example, a performing arts organization can scale its prices for a given show using the following parameters:

Location of the seat relative to the stage. Orchestra, balcony or lodge seats can be sold at vastly different prices. This difference is not necessarily correlated to variations in acoustic or visual quality from one seat to another.

Time and date of the show. Demand for a given show can vary according to three factors: time of day (matinee or evening), day of the week (midweek or weekend) and time of year (different seasons, school holidays). A price scale could reflect these variations.

The organization could then divide its inventory into seat allotments for each price category, allowing each customer to purchase the ticket that best fits his budgetary or time constraints. The organization will thus be able to improve attendance and income.

After analyzing past sales, the organization could decide, before the start of the season, to change the seat allotment or the price for each category, to better match demand. For example, if the orchestra seats in the first 10 rows sell better than those in the next 10 rows, the company could raise the price of the first 10 rows or move rows from one category to another.

The company could also entice its customers to buy early by basing its pricing on the date of purchase. These anticipated sales will improve its cash flow.

This approach to pricing is far removed from the traditional "one price fits all" policy.

3.6.3 Yield Management

Until recently, it was difficult – even seemingly impossible – to change the number of seats or the price in each category *during* a season. This is now feasible.

The evolution of information technology and online distribution, the accumulation of consumer information in large databases described above and the manipulation of data with powerful mathematical tools have given rise to a new, scientific pricing technique, Yield Management (also called Revenue Management or Real-Time Pricing).

According to Optims,[29] a French software company, this technique "calculates the best pricing policy for optimizing profits generated by the sale of a product or service, based on real-time modelling and forecasting of demand behaviour per market micro-segment. It offers an excellent solution to the problem of comparing supply and demand thanks to differentiated pricing and systematic control of the inventory for sale in each price category. All players benefit from using this concept: the producer gains in increased turnover and revenue; the end-user enjoys lower prices for the same quality of service."

This pricing method was developed for the airline industry and has spread to other industries, such as tourism and hotels that share the following characteristics:

- Production capacity is fixed but demand for services fluctuates.
- Variable costs are low.
- Inventory is perishable: Services cannot be stored if not sold.
- Services can be sold through reservation before the date of production and consumption.
- Demand/price elasticity varies from one consumer segment to another, calling for segmented pricing.

Many cultural organizations fit this model, particularly in the performing arts field, and can use this pricing technique.

Implementing Yield Management requires careful planning, to ensure that consumers do not respond negatively to variations in price.

3.6.4 Negotiated Pricing

Theoretically, the maximum profit is reached when each product is sold at the highest price possible, dictated by supply and demand. This point cannot be reached when the price structure is set in advance. To achieve this goal systematically, the enterprise must negotiate the price of each product with each customer, in order to reach each customer's reserve price (i.e., the maximum price he is willing to pay for that particular service).

Negotiated pricing for cultural products goes back to ancient times. Christie's and Sotheby's, the world's two leading auction houses, have been using this method for more than two centuries. In the performing arts, "scalpers" have mastered the technique. Until recently, however, negotiated pricing could not be used profitably for most cultural products. It was limited to rare and expensive items and relegated to the resale or grey markets.

But the Internet has opened up a new era: Online auction sales are growing exponentially. Any cultural organization can now use an auction site such as eBay, the world leader in its field, to sell its inventory. It can also plug auction software into its own Internet site. This is already common practice in the field of sports and could be extended to culture and the arts.

3.6.5 Application: Chicago Symphony Orchestra (Chicago, Illinois, USA)

Historically, performing arts organizations have not been well equipped to react to poor attendance, to take advantage of box office successes and match price with customer value. They usually set their pricing scale at the beginning of one season and review it at the beginning of the next. But setting a fixed, standard price for all customers does not allow them to take advantage of demand variations. Demand/price elasticity for the same cultural product can vary from one consumer segment to another. Demand for a product can also vary from one time period (a day, a week, a month) to another. Lastly, price itself influences value perception: Since all that is rare is expensive, we often assume that what is expensive is rare.

To remedy this, the Chicago Symphony Orchestra, one of the world's leading orchestras, has developed a dynamic pricing policy, setting different prices for the same product according to consumer segment, consumer behaviour or time of consumption – not according to the costs of producing the product.

The CSO uses the wealth of consumer data it collects to understand, anticipate and react to customer behaviour. It then structures its prices accordingly. After analyzing past sales, it can decide, before the start of the season, to change the seat allotment or the price for each seat category, to better match demand. For example, if the orchestra seats in the first 10 rows sell better than those in the next 10, it can raise the price for the first 10 or move rows from one category to another. But the CSO goes further: It also changes the price for each category *during* the season. It calculates the best pricing structure for optimizing revenues, based on real-time modelling and forecasting of demand behaviour per market micro-segment. This pricing method, called Yield Management, was developed for the airline industry.

"We scrutinize the sales for all of our concerts regularly and highlight high-demand concerts as increased revenue opportunities," explains Melanie Kalnins, Manager of Marketing and Sales Analysis.[30] "We look at the number of tickets sold for each price category and the pace at which they sold and compare this to historic trends. We then increase the price of the categories that sell the best and the fastest. We tend to be more cautious at the beginning of a season because we need affirmation that preliminary strong trends will continue. But as the season progresses, we gain assurance that anticipated 'hot' concerts continue to sell, and we decide to raise the price by up to 30%. During our 2005/06 season we increased the prices of 74 concerts (out of over 200) and improved our revenues significantly."

3.7 Relationship Marketing

3.7.1 Principles

This deep knowledge of each customer, the capacity to understand his taste and preferences and to predict future transactions, profoundly transforms the marketing function. In fact, it announces the end of traditional mass marketing – the primary objective of which is to sell products to unidentified consumers, using the same rationale and message for every consumer – and opens a new era of relationship marketing, the primary objective of which is to deepen the relationship between the organization and each customer in order to increase sales.

This customized relationship, from One to One,[31] is in itself a source of wealth for an organization. It builds customer loyalty by tailoring services to consumer profiles, by offering the services when customers want them and by allowing customers to critique the offer made.

The Web permits consumers to submit their specifications online directly to the company. In fact the value a customer adds by inputting his preferences makes the relationship richer and the customized product or service worth more.

Seamless interaction with customers is in no small part a function of customer data integration. “Today, each operator in our call centre can instantly have any individual customer records at his fingertips,” explains Sarah Wood of London’s Royal Albert Hall. “Our box office now operates what we call a ‘one-stop shop.’ With one phone call, customers can book their entire experience at the Hall, including ticketing, parking, catering requirements and tours of the building. Box office operators get a single-screen view of the customer, which details their entire relationship with the business, and use this information to offer a more tailored, better-informed service.”

But this type of Customer Relationship Management (CRM) necessitates significant investments in software and hardware, an ongoing information-gathering process and the ability to customize offers. To be profitable, it also requires that priority be given to high-potential clients. All of this is not always possible – or desirable – for cultural organizations.

Moreover, a large portion – perhaps a majority – of CRM technology implementations have failed miserably. Some of the problems with CRM implementation are technological, but the vast majority of failures stem from other factors, including a lack of supporting vision, the absence of an overarching customer strategy, failure to align new technological capabilities with management practices and business processes, inadequate education and training of personnel, and insufficient attention to the kinds of success metrics that are more appropriate for a customer-focused strategy.[32]

3.7.2 Total Experience

In a seminal book titled *The Experience Economy,* Joseph Pine and James Gilmore urge every company to find inspiration in the performing arts to improve their customer services. "Work is theatre," they write. "Whenever employees work in front of customers, an act of theatre occurs. Every action contributes to the total experience being staged. Business performances must rival those featured on Broadway. With theatre as the model, even mundane tasks engage customers in a memorable way."[33]

Ironically, by focusing all energies on the art on the stage or on the walls and neglecting all other aspects of customer service, many arts organizations make theatre seem like work. Although a common reason for subscription non-renewal is dissatisfaction with the quality of the art, there are many cases of "audience abuse": arrogance towards customers, inflexible ticket-exchange policies, unannounced seasons, last-minute schedule changes, ticket-issuing mistakes.

While audience reaction to a new play or exhibition is not controllable, the above aspects are: Management can train staff to be customer-friendly, ensure that queries are answered promptly, and so forth.

Some innovative arts organizations have begun to "script" the customer experience beyond the mere attendance at the play. For example, the Pasadena Playhouse in California has recruited a Customer Experience Manager whose mission is to ensure that every aspect of the subscriber experience is complete, fair, uniform, fiscally responsible and artistically interesting. The theatre has adopted a flexible and innovative ticket-exchange policy: Should a patron not enjoy a performance, he or she can go to the box office at intermission and request a credit in the form of tickets to another show during the same season.

"We have to make our guests happy the moment they get in," says David Hawkanson of the Steppenwolf Theatre Company in Chicago. "For instance, we greet every new subscriber with a welcome card placed on their seat for their first visit. We have to make them think, 'This is different – I walked in here and somebody greeted me.' We're constantly telling our box office people, our front of house people – even our parking people: 'You are the first impression. Whatever you do, however you look, however you treat that person…you have more power to create a positive feeling for that evening than the actors on stage do. And if you screw it up on the phone or at that box office window, if you don't have the right information and create the wrong impression, then you screw it up for the actors on stage. They don't have a chance if you didn't do your job well.'

"We want our guests to think of their experience with us as more than a retail exchange. We want to make sure that, when they meet a friend who asks them why they go to Steppenwolf, they can talk about it with a sense of ownership – even if they didn't like our last play. We work constantly at deepening our relationship with them, by improving the whole arc of their experience with us. Increasingly, the arc of experience will start online – when a client buys a ticket, and finish online – when he posts his comments about the play he just saw on our blog. Our Website will be the first and last point of contact."

3.7.3 Application: Metropolitan Opera (New York, New York, USA)

The Metropolitan Opera is a giant in the performing arts field, with 240 performances of 30 different operas every year, 800,000 tickets sold annually, a 4,000-seat auditorium and annual operating expenses of more than $220 million (roughly what it takes to run the next five largest opera companies in the United States). [34]

Until the mid-1990s, despite the Opera's artistic achievements, technical prowess and audience acclaim – or because of them – little attention was paid to marketing, box office management or customer relations. "When you regularly sell 92% or 93% of your seats with very little marketing effort, you can become a little bit complaisant," admits Stewart Pearce, Assistant Manager for Operations.[35] "We were not as customer-friendly as many other organizations, and we got away with it because tickets were selling well."

"The box office was not even automated," recalls Smeeta Sharon, former Assistant Manager for Business Affairs.[36] "After a customer requested tickets, he didn't have confirmation that he actually had seats. That confirmation happened when he received the tickets in the mail, many days or weeks later, sometimes after the performance! We didn't even record our financial transactions in a simple, efficient way:"

As for customer satisfaction, the company was operating blind. "We had no mechanism to capture the voice of customers and collect their complaints," adds Sharon. "We had no idea how they felt about us. If you don't measure it, you don't know it and you can't change it."

Something had to be done. "We had to make a long-term commitment to improve our customer relations, even if, at that time, our budget was balanced and everything seemed fine," says Pearce. "With 93% tickets sold, we didn't have a lot of unused capacity to face our growing expenses. We couldn't keep on raising our ticket prices by 6% or 7% a year as we had done in previous years. So we had to market more smartly, more cost-efficiently, and leverage our ticket sales into increasing fundraising."

But how to convert frustrated patrons into donors? "If we had been rude to a client, why would he give us another dime?" asks Sharon. "He might still buy tickets from us, because he loves opera, but he'll certainly not contribute to our fundraising campaigns. We had to delight our customers so that they would remember their great experience with us when we asked them for support. So I started to read every letter sent by customers…and realized that their experience was often less than delightful."

But where to start? "We reviewed every operation of our box office, marketing and development functions," recalls Sharon. "We tried to remove bottlenecks and duplication of effort." A separate, customer-centric department called Customer Care was created to act as a single interface between the customer and the company. It would regroup full-service agents capable of handling every transaction for a customer. Inversely, all the Met's departments had to go through Customer Care to contact the customer.

"If the marketing department decides to over-market to these constituents and it clashes with our fundraising efforts, then it's the role of the Customer Care Department to say, 'No, you're annoying the constituent, you're sending too many mailings, you're making too many phone calls,'" explains Sharon.

To be fully efficient, Customer Care employees needed to have instant access to all information about a patron. But the data available was highly fragmented and resided in different systems. “We had three separate databases,” says Sharon, “a ticketing one, a subscriber one and a donor one, plus a multitude of Excel spreadsheets that people kept on their personal computers. Any extraction and reconciliation required extensive manual effort. Bridging these databases would always be a problem. We needed to operate all our functions from a single platform, with a single database.”

The Met soon realized that no existing system integrated the ticketing, fundraising and marketing functions on a single platform, and none could handle its 1.5 million customer records and its transaction volume. The Opera would have to develop a brand new system in house.

This revolutionary new software is called Tessitura. Because it uses a single database of information, Tessitura empowers the user organization to record, track and manage all contacts with its constituents, conduct highly targeted and cost-efficient marketing and fundraising appeals, handle all ticketing and membership transactions, and provide detailed and flexible performance reports. Marketing and fundraising targeting can be based on any criteria, attribute or data point in the system. All data are maintained in complete synchronization.

“Tessitura tells us something about almost every Met patron,” says former General Manager Joseph Volpe, “from pattern of residency to pattern of ticket-buying, history of charitable contributions to, as far as we can determine, spending habits. There are 1.5 million names in the database, of which somewhere between 300,000 and 400,000 are active. It is an indispensable tool for finding out who our vast audience really is. The moment the Met’s telephone order-taker hears your name or phone number, we know who you are.”[37]

A key benefit of the system is the ability of relationship managers to have a real-time full view of each constituent – history, preferences and all contacts with the institution. “Tessitura allows you to capture customer issues,” explains Sharon. “If you call and complain that the podium light in the pit was too high and disturbed your viewing of the opera, it will be recorded as a customer issue. And at the end of the season, when we run a report to see all customer issues under auditorium experience, the report will show how many people complained about the podium light or bad ventilation or bad seats.

We can ask the house manager to fix these problems. If you sat next to someone you didn't like at a fundraising dinner and you happened to mention it to someone on staff, their job is to add it to your record the next day so that we don't seat you next to this person again. Tessitura allows you to capture every single contact point with a client."

Because of its real-time Web-ticketing application, the system drastically reduces data entry – which is done by patrons themselves when they buy tickets online – and reduces the time and cost of the transaction. It helps to reduce the costs of direct mail by better targeting marketing materials, and it enhances client satisfaction by responding immediately to all customer service issues.

Tessitura has been adopted by many arts organizations, including the Sydney Opera House, Royal Albert Hall, the Stratford Festival of Canada, Steppenwolf Theatre and the Chicago Symphony Orchestra.

3.8 Building Trust

Gathering more and more detailed information about current and potential clients raises some concerns about privacy, particularly when an organization seeks to collect financial, medical or personal information.

Gathering this information through the Internet is even more problematic, since the public, open nature of the Internet does not guarantee confidentiality. Internet communication has an inherent capability to mine, store, organize and transport information about those who use it – often without their knowledge. "You have zero privacy on the Internet anyway. Get over it," warns Scott McNealy, CEO of SUN Microsystems.[38]

Moreover, Internet users can fall prey to criminal activities, such as unauthorized disclosure (interception of sensitive transaction information when transmitted without prior encrypting), data alteration (the altering of customer data during transmission to a company's database) and "phishing" (posing as a legitimate business via digital communications for the purpose of extracting information such as social security numbers, credit card numbers or bank account numbers).

In many countries, these concerns have led to legislation regulating the gathering process in order to protect consumer privacy – particularly that of minors.

To fully exploit the potential of applying new information technology to the marketing function, an organization must not only conform to all regulations in place but also define and publish a clear code of ethics, to reassure its clients. Each consumer should have the right to know what type of information has been gathered about him, to know what the organization plans to do with the information, to refuse to have the information shared with any other organization, to have full access to the information and to be able to modify the information. If an organization breaches its code of ethics, it will lose the trust of its customers.

Lose customer trust and everything is lost.[39]

Summary

The information technology revolution (particularly the combination of the Internet, database systems and computer analytics) has transformed the marketing function for the arts, bringing a level of sophistication previously reserved for bigger – and richer – industries. It has left few if any aspects of the marketing mix untouched, transforming the very notion of artistic product and its pricing, promotion and distribution strategies. For companies it brings the promise of more efficiency and for customers the promise of better service.

This chapter explored and illustrated some of the most salient innovations brought by the integration of information technology in the marketing process:

E-marketing (i.e., use of the Internet for direct marketing purposes) allows for more accurate targeting than traditional advertising; it is also more cost-efficient than mailing or telemarketing.

Online distribution is often faster and less costly than the traditional "bricks and mortar" alternative and allows for better service, tighter control and finer customer data harvesting.

Customer identification becomes instantaneous with information technology. All the information collected during a direct online transaction can be accessed as soon as the customer contacts the organization, providing a clear picture of what the customer needs or what value he might represent.

Customer modelling is looking at customer behaviour changes over time as clues to future behaviours. The organization uses all the data it has collected to analyze the consumption patterns of each client and follow the evolution of its relationship with him, from his first transaction to his defection.

Sales forecasting is greatly improved by the information technology revolution. It is now possible to analyze all past sales and to track, in real time, the level of bookings for a given event over a lead-in period. By crossing historic sales data with booking data, the company can calculate and recalculate future booking demand and continuously update the forecast.

Dynamic pricing sets different prices for the same product according to each consumer segment, consumer behaviour or time of consumption, instead of according to the cost of producing the product.

This deep knowledge of each customer – the ability to truly know his tastes and preferences and to predict his future transactions – has transformed the marketing function. In fact, it announces the end of traditional mass marketing, whose primary objective is to sell products to unidentified consumers, using the same rationale and message for every consumer, and the beginning of the era of ***relationship marketing,*** whose primary objective is to intensify the relationship between the organization and each customer in order to increase sales.

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