Can You Afford A Customer Database?

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Can You Afford A Customer Database? Written By Robert Riggal From RR ConsultancyThere are many reasons for developing a customer database and one good reason for not having one: cost.
In many areas of the hospitality sector, pubs and fast food especially, the economics of developing and managing a customer database are, at best, marginal.? However, due to a combination of changing technology, falling development and input costs, and increasing competitive pressures, customer databases are becoming increasingly feasible in other sectors.
Customer databases have long been established in the hotel market: front of house technology, corporate customers, relatively high individual sales prices and margins, repeat purchasing patterns and several other factors have made databases essential business sources for all hoteliers. The economics are not so clear in the restaurant or other hospitality sectors.
The breakeven analysis for database development is fairly simple, in theory, but a little more complicated in practice.? Basically, the cost of developing and maintaining the database plus the direct promotion costs have to be covered by the incremental sales margin from the sales generated by the promotion(s) using the database.? Simple?
So, the fixed costs of the promotion (plus any additional database costs) need to be divided by the contribution margin from each response to the promotion.? Naturally, the specific economics vary according to each operation, but if the fixed costs are about ?2000 for a 5000 mailing (circa ?0.40 per piece) and the contribution margin (gross margin less any direct wage costs) per person (or party depending upon the conditions of the promotion) is ?10, then the breakeven volume required to cover costs is 200, or a 4% response rate.
Clearly, these economics do not work well in a pub but can be considerably better for a hotel or restaurant, with higher spend levels. The basic breakeven analysis can be modified by several additional considerations: How many of these customers might have visited the hotel / restaurant without the promotional prompt?? How many of the customers are truly incremental? Are wage costs relatively fixed or are additional hours required to meet to increased demand?? How are database development costs apportioned?? Should future income flows from new customers be included in the equation or should each promotion be assessed independently?
Besides encouraging customers to revisit, what other reasons are there for maintaining a database?? Perhaps two good general reasons: to better understand them and to communicate with them, other than through promotions.? Firstly, the database will give an indication of how far customers travel, where they live, in which areas and allow some profiling to be undertaken. This will help target new customers.
Secondly, the database can also be used for direct research purposes: to ask customers why they visit you, for what type of occasion, how often and where else they might visit.? These questions can, of course, be asked during their visit to your premises, but, usually, this option is more expensive and captures fewer customers than a mail shot.
So, can you afford not to have a customer database?

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