

Businesses, Customers, Relationships

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Data mining/data analysis play a critical role in customer **relationship** management.

This is an ugly phrase: we don't talk about 'spouse relationship management';

but it does remind us that the connection between businesses and customers is a relationship.

What kind of relationship?

(Note that increasingly customers are developing 'business relationship management'.)



Businesses want to follow a progression like this...
(perhaps not consciously)

Transaction

Anonymous data



Individual modelling (future value prediction);
group modelling (clustering)

Relationship

Longitudinal data:
Socioeconomic data
1-1 interactions



Lifetime value
prediction

Long-term relationship

Incentive design = binding;
differential price;
differential service;
more and more data



Service planning
New product development



The consequence of this process is **social sorting** - different people have different access to products/services (perhaps at different prices).

Social sorting is certainly not appropriate for government-citizen relationships; nor for employer-employee relationships.

Is social sorting appropriate for business-consumer relationships?

Considerable disagreement about this: differential service/pricing helps everyone by making some services/products available that would not otherwise be economic (Odlyzko's work). But good grocery stores are hard to find in poorer neighbourhoods.



The potential win for customers is the differential pricing and service. They can choose where they want to be on a spectrum...



Anonymous;
default service

Known in detail
(loss of privacy)
better-quality service

Most customers choose a position at the right-hand end - give them a \$10 coupon and get their life story!

Puzzling? Privacy has gone from non-existent to a human right in 100 years.

Everywhere on the spectrum, it's to the customer's advantage to have the business collect good data rather than bad data. If the data is collected anyway, get the benefits.

There was an asymmetry of power: businesses could learn a lot by aggregating data, while their customers were scattered individuals. This has changed as a result of the Internet.

The biggest problem:

As social creatures, customers put businesses into a 'friend' slot, rather than a 'collaborator' slot - and long-term relationship building tends to encourage this. When businesses do not act as friends, customers feel betrayed.

More realism on both sides would help here.



The potential win for businesses is in the binding - more predictability, and costs of retention are much lower than the costs of getting new customers.

Businesses are psychopathic, in the sense that they exist for the narrowest of purposes (even though they are filled with nice people, and often think they have other, kinder purposes).

Some consequences:

- * tendency to think more data means better modelling;
and data is so easy to collect
- * no incentive to protect data, models of users start to look like a potential product



The pressures on businesses to limit data collection and to protect data come primarily from:

- * government regulation
- * public opinion

BUT they shouldn't have to. The cost of breaching trust is the loss of the benefits of a long-term relationship

Businesses need to tie themselves to the mast on this issue: create strong data collection, privacy, and data protection policies, not because of the short-term benefits, but for the long-term benefits.

