



Making data count

Good data processed quickly and seamlessly is critical for modern businesses. Get it right and it will improve profitability and company valuation. Get it wrong and it may cost you dearly.



Think of “Big Data” and what springs to mind is likely to be cyber-attacks on critical infrastructure, security leaks, identity theft. More Edward Snowden and the National Security Agency than profit. But in the business world, data is a treasure trove. It can mean the difference between scattering services aimlessly into the wind and directing them to loyal customers who want them. It’s a calculable part of the bottom line. Or turn that around: companies that fail to fully embrace the value of data will quickly be placed at a competitive disadvantage.

“All companies have massive amounts of intellectual property, and not just traditional forms such as patents, copyrights and trademarks. Some just understand better how to protect and leverage those assets,” says Daren Orzechowski, Sourcing & Technology Transactions partner at White & Case in New York. “For almost every company, regardless of their industry, data and the tools to dissect, compile and analyze that data are now true business drivers.”

A properly managed database can increase profitability. Sound database management can help focus goods and services, increase sales of a major business line, promote operational efficiency, prevent customer losses and diversify income. Conversely, undervaluing or undermaximizing data means undervaluing the business in a sale or merger situation. The business chief who doesn’t know the value of his data is in danger of being outsmarted by those who do.

Some types of companies have historically been better than others at making databases profitable in their own right. Publishing houses, particularly business-to-business specialists, often rent segments of their database to their sell-side readership, usually with fulfillment to prevent list replication. A professional conference company might exploit its database of customers – often high-net-

worth individuals – to sell financial services or other services of vendors that provide support to those in the relevant industry. At the other end of the scale, some companies are little more than customer databases combined with human know-how. The independent introducer earns a small proportion of the hedge fund assets he raises armed with little more than a book of high-net-worth contacts.

For what it’s worth

Valuation consultants assign a risk-reward profile to a database by measuring the varying degrees of loyalty (i.e., the repeat business rate) of its customers, then slicing the database into various levels of risk. It is obvious that the continued business of the most loyal customers carries the least risk, because few of them fall off each year. The next level carries a bit more risk: perhaps 20 percent of customers fall away each year. Another slice of the database may be difficult to maintain, requiring frequent sales and promotions. Just keeping 20 percent of customers from year to year might be too expensive.

In a niche market, the higher the proportion in the top segment, the more valuable the database. The greater the proportion you can migrate to the top segment, the more valuable it is.

But before looking at retention and conversion, it’s worth discussing the idea that particular customer segments have an inherent value. Take UK-based clothing catalogue company Boden. It sells well-made, traditionally styled and fairly costly clothes to upper-middle-class devotees and as a result its database is highly valuable, says Kelvin King, director of Valuation Consulting Co Ltd. By contrast, a company selling cheaper fashion items caters to a more fickle clientele with an inherently higher customer lapse ratio.

Beyond the individual company proposition, the big difference between the two is the extent to which their business niche has become commoditized. Generally

speaking, the more commoditized the niche, the less loyal the customer base. By contrast, the value of the mass-market database rests on scale and mass communications rather than on the identity of particular customers. The companies use the same information to analyze different markets and execute different marketing plans.

Know your customer and stay in touch

Valuation Consulting’s King says sophisticated database owners know “a lot” of work needs to go into data to unlock its asset value. He doesn’t mean just keeping contact details up to date. He means using customer relationship management (CRM) technology to unlock a database’s potential.

CRM at its best is an interactive process that enables companies to intervene in the buying cycle, even in highly commoditized industries such as insurance. An insurance provider might commission a customer intelligence solution to help predict lapses, segment customer populations and calculate cross-sell, up-sell and next-best offers.

Groceries represent another commoditized area: big supermarkets now individualize offers at the cash register based on buying patterns. Some stock items that don’t meet store demographics but are favored by big-ticket customers. After all, Wal-Mart doesn’t want customers doing their weekly shop at Safeway for want of a particular brand of frozen vegetables.

Records of positive feedback from customers can also improve valuation, especially when the company can show it uses that data to act on market trends. Ford might get feedback from its website or through social media, which is more immediate and valuable than information trickling back from dealerships. It might also use centralized sales and servicing data to offer deals on new cars within timescales appropriate to the customer,

preventing them from migrating to a new brand. The ability to connect this data with particular customers or segments of customers can be very powerful.

Data drives the new economy

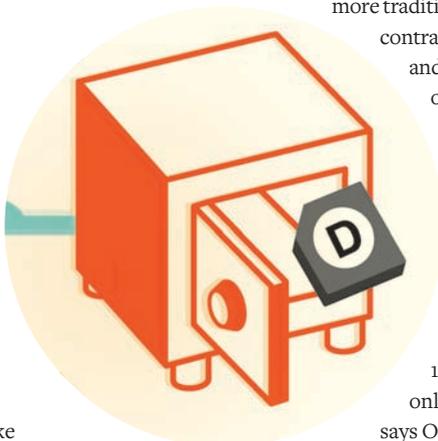
The market for data has changed dramatically over the past few years. The focus has shifted from data volume to quality and Data-as-a-Service (DaaS) platforms have grown rapidly. Data businesses, like salesforce.com’s Data.com, offer data records for purchase, clean existing data records of a customer to correct them and even add certain supplementary or missing information to customer records so a company can further build out its database assets.

Salesforce.com, consistently recognized as one of the world’s most innovative companies, was quick to realize the value of making current customer data available within its various cloud computing platforms and CRM technologies.

“Companies need to know who their customers are and how to connect with them at every touch point. To do this, companies need their customer data to be complete, clean, current and accessible on demand in their systems and devices that drive those interactions,” says salesforce.com attorney Gabriel Stern. “These are the characteristics of today’s premium data offerings, which is a departure from how traditional data providers structure their contracts and sell information to their customers.”

Data providers have two ways to protect their data product offerings. The first uses technological safeguards to

stop the flow of unauthorized information. If the customer does not pay or violates the terms of use, the provider simply blocks access to the data or the feed that provides data to the customer. The second, more traditional, method uses contracts and agreements and onerous terms of use.



“In that model, the company essentially says to the user, ‘You can have this customer data, but you can’t do the following 100 things with it, only this one thing,’”

says Orzechowski. “In practice, customers don’t want this. And in any case, what are you really going to do if the user doesn’t comply with your contract? The data providers who realize this and adjust their pricing models will succeed.”

Rules of the road

Poorly collected data is a potential legal time bomb, which could cause a serious dent in a company’s asking price. By closely inspecting a target company’s database, acquirers can find flaws and holes that will seriously deflate the purchase price or may frighten buyers away altogether.

For example, data obtained by “data scraping” may be virtually worthless to an acquiring company if its collection was not authorized. The field is rapidly evolving and becoming more geographically nuanced. During the summer of 2013, for example, a San Francisco judge allowed classified ads company Craigslist to invoke the controversial Computer Fraud and Abuse Act to effectively stop a company called 3Taps from collecting its classified data by means of data scraping and making it

available to others. While the issues are still being debated, the court found that Craigslist could revoke access to and use of what is essentially a public website by sending a cease and desist letter to 3Taps and blocking its IP address. Such reasoning highlights the importance of a legal review of a site's work flow and data collection practices.

"Good data" by contrast is collected transparently and in compliance with the privacy and computer-related laws of all the countries in which the company operates. The customer knows what the company will do with their information and who has control over it.

But achieving compliance can still be a tall order, particularly for web-based businesses and multinationals. Privacy laws can contradict each other across national boundaries and are often too complex for a company to be 100 percent compliant worldwide. Some jurisdictions require companies to have a data protection officer, for example, while others insist a regulatory authority is notified about data gathering. US federal law does not yet uniformly require notification in all instances, but most US states have breach notification requirements. This requirement is also on the horizon in Europe, but has not yet been implemented.

The solution is not as simple as aiming for a gold standard of privacy everywhere, says Carsten Casper, an analyst at Gartner: a company can overspend on compliance and still fall foul of privacy laws.

He says, "Our customers are struggling to find the right balance between avoiding legal risk and being

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Daren Orzechowski, Partner, White & Case, New York

cost efficient. There's no silver bullet, no right or wrong. It depends on the specific situation.”

Casper gives as an example a myth that is spreading like a forest fire: that data must be stored locally. It's not always true and it's costing companies needlessly, says Casper. Even the concept of location is unclear. Do we mean physical, legal, logical or political? The location of the server holding the data? Or the legal entity in charge of processing the data? A website may be based in the United States, but have a subsidiary in Ireland with servers. The public may regard them as the same company, but the law focuses on which entity signed the deal. Companies should make

sure privacy agreements are signed by the correct legal entities or are broad enough to provide proper coverage.

In the end, regulatory fear can often drive decision making.

A Gartner poll published this September found nearly 90 percent of organizations polled had at least one full-time staff

member devoted to privacy, while nearly a third of respondents had boosted privacy staffing since last year, the most significant increase since the firm began its privacy surveys in 2008.

"Privacy compliance can seem academic, but people do get genuinely concerned because you can be fined by a regulator or otherwise penalized and, while the amounts are not usually very large, the public relations costs can sometimes be impossible to quantify," says Orzechowski.

Even the meaning of "privacy" varies geographically. Americans might have grown to accept companies tracking their movements – they generally accept a "lack of privacy" as a trade-off for the ability to find the nearest ice cream parlor on a hot summer day based on the location of their smartphone. Europeans, on the other hand, have historic reasons for finding tracking intrusive. They generally assume that they are not being tracked or profiled unless they have specifically agreed to it.

Protect, build and benefit

Finally, all valuable assets need protection. Yet "the traditional forms of protection – such as a copyright on a book – are not easily applied to data and databases," says Orzechowski. "They are not easily covered by traditional IP protections and some would argue they do not have protection under any default rules." As a result, careful contracting is essential.

The expense of keeping data current and clean is worth it though, because while a great database can add millions to a company's price tag, a poor one can shave millions off, or kill a potential deal altogether. "This makes the ordinarily boring issue of compliance more interesting. Big Data has a real-world impact on business," says Orzechowski.

