

Off Target: Are there Ethical limits to Benchmarking and Business Analytics?

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Abstract

Using the United States retailer Target as case material, the paper argues that there should be a moral element in the application of benchmarking and business analytics. The paper offers Confucian ethics as a moral foundation for the application of these powerful business tools.

Key words: benchmarking, business analytics, business ethics, Confucianism

The Master said,

In archery it is not going through the target which is the principle thing—because people’s strength is not equal. This is the old way.¹

¹ Analects, p. 60

1 Introduction

Humanity has much to be grateful for in the development and application of technology. Technology has improved the human condition, increased human capability and productivity and fundamentally changed the human condition. At the same time, the application of technology raises important moral issues. Indeed, one could argue technological knowledge and capability are morally neutral until they are applied, at which time it is possible to decide whether a particular application of technology is moral or immoral. Through the application of Confucian Ethics, this paper will pose the question of the ethical limitations of benchmarking and analytics in the marketing process.

In the latest edition of their well-received marketing text, Philip Kotler and Kevin Lane Keller define marketing as “identifying and meeting human needs” and they characterize marketing management as “the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer value. (Kotler and Keller, 5) Similarly Peter Drucker defined the primary purpose of a business is to create a customer. (Drucker, p. 52) As Drucker observed almost sixty years ago,

“marketing is so basic that it is not just enough to have a strong sales department and to entrust marketing to it. Marketing is not only much broader than selling, it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer’s point of view. “ (Drucker, pp. 38-39.)

From both of these definitions it is clear that not only is the customer relationship important, it is the most important relationship and the justification of the firm. Put simply, without customers there is no need for the firm and anything which damages the customer/firm relationship should be avoided. Therefore, when faced with situations where behavior may jeopardize this relationship a firm must err on the side of caution.

Benchmarking may be defined as “studying best practice companies” in an effort to improve performance. (Kotler and Keller, p. 622) When done correctly, benchmarking can improve those activities and processes which will enhance a firm’s competitive advantage by making them more efficient and effective. Firms should benchmark all processes and practices they perform, especially those that are mission critical. Mission critical processes and practices are fundamental to competitive advantage, while other activities performed well will contribute to a firm’s overall success. Therefore, benchmarking should be an integral part of any business strategic planning process.

According to IBM "(a)analytics and business intelligence are about helping clients build better products and services and helping society solve difficult challenges,

ranging from traffic congestion to food traceability to managing financial risk.” Analytics and business intelligence are "professional services offerings to optimize an enterprise's processes and integrate related technology applications and platforms, which include application-related work."

According to IBM business analytics can:

“Deliver insight to all of your people, in every role

Support all types of decisions with insights based on analytics

Equip people with easy access to business analytics both from desktop and mobile devices

Improve business outcomes now and in the future.” (IBM Website).

These powerful software tools are helpful in developing a firm’s competitive position by improving its understanding of facts, behaviors and relationships. When used correctly, their ability to assist a firm’s ability to predict customer behavior and the products and services desired will go a long way toward the development of a positive firm/customer relationship.

1.1 The Case

Benchmarking and business analytics figure prominently in Charles Duhigg’s article “How Companies Learn Your Secrets” published in The New York Times Sunday Magazine. In it Duhigg outlines how the retailer Target uses technology and information it obtains, which a customer sometimes gives freely, to increase sales. Target assigns a unique guest number to each customer and captures, retains and uses purchasing information in the marketing process. In addition, Target links demographic data obtained elsewhere to the guest number to create a detailed customer profile. Analyses of this data allow Target, or any other company using similar processes, to understand customers and markets and respond accordingly.

Target manages customer registries for significant events such as marriages and births. During the registration process Target requests and usually receives information such as marriage date or due date for pregnant women. Through the use of business analytics Target tracks and examines customer buying patterns for pregnant women since this information was easily available through the baby registry. From this analysis Target learned that in the second trimester of pregnancy a women’s buying patterns changed and if they marketed shrewdly they could not only capture a women’s business for pregnancy products but extend that to post delivery products and to other products which a household might need and Target carried. As a result of this analysis, Target began to analyze not just the buying behavior of those women participating in the baby registry but all female

customers' buying patterns to identify those women who were pregnant and tailor their marketing efforts appropriately.

At first glance this is an excellent marketing process: identify a customer's needs and satisfy them by offering appropriate products. Acting upon information freely given should be acceptable. According to the Target privacy policy

“We share information we collect within the Target family, which includes all Target subsidiaries and affiliates. The Target family may use this information to offer you products and services that may be of interest to you...

We may share information with vendors, business partners and other organizations which are not part of the Target family. These companies and organizations may use the information we share to provide special offers and opportunities to you.” (Target website, accessed 3/4/12)

The privacy policy has several significant features. Target can use this information almost any way it wishes. Target can share this information with almost any organization it has a relationship with outside of Target and its subsidiaries. Customers must opt out rather than opt into their data collection programs. What is not covered in the privacy policy is Target's ability to ascertain and define a customer's needs without the information being freely given. Clearly this includes the buying behavior of women who have not given their reproductive information freely. This use of business analytics provides the opportunity for Target to use this information to identify a very personal and private condition and, perhaps announce it to others. For example, in the article Duhigg relates the incident where a father learned of his teenage daughter's pregnancy from Target's focused marketing materials received at home. Indeed, there may be other personal situations where Target or other marketers should not intrude.

1.2 Confucian Ethics

Confucianism is a situational virtue ethic based upon harmony, hierarchy, and mutually beneficial relationships. Harmony is the fundamental objective of human affairs and the ethical life and the state all people should strive to achieve. If all human activities are performed correctly harmony will be realized.

Confucianism views society and social organizations hierarchically. For society to be harmonious relationships must be fulfilled correctly by all members. This means everyone must understand their position in the hierarchical relationship and be willing and able to act correctly. Correct behavior, or rightness, must underlie every relationship one has, including one's relationship to oneself. If this condition is accomplished a harmonious society will result.

Fundamentally, harmony begins with the individual, who must choose to develop into an ethical person. Self-cultivation prepares the individual with the knowledge necessary to act correctly in any given situation. The ability to act properly is based upon moral knowledge and technical training, where moral knowledge concerns acting properly and technical training refers to the skills needed to perform a role. Every specialized, role whether it is a teacher, parent, or engineer needs both types of knowledge to be successful.

Benevolence, trust and reciprocity are essential virtues in Confucian Ethics. Benevolence has important attributes. A benevolent person wishes the best for herself and others including fulfillment, self-improvement and a moral life. She sets a high standard for herself and by demonstrating proper behavior becomes a role model for others. In addition, by ordering her life properly she contributes to mutually beneficial relationships. To be successful all relationships must be based on trust and reciprocity. The virtues of benevolence, trust and reciprocity are the foundation of Confucian Ethics. Trust means that when someone gives their word they have the capacity and willingness to fulfill their promise. (Hall and Ames, pp. 43, 51. 60) Both attributes of trust are important. One must have not just the desire to keep one's word but also the resources and capacity to realize the commitment.

Mutually beneficial relationships are realized through reciprocity and should be based upon the golden rule "Tsze-kung asked, saying 'Is there one word which might serve as a rule of practice for all one's life?' The Master said. 'Is not RECIPROCITY (sic) such a word? What you do not want done to yourself, do not do to others'" (Analects, p. 301) Reciprocity is the ability to understand at least three aspects of relationships. It requires an individual to understand how he is to behave in a given situation. It requires the same individual to demonstrate empathy toward the recipient of the action so that the recipient will receive the behavior as it is intended. Finally, it requires the behavior to be consistent with a mutually beneficial relationship.

The mutual benefit objective requires someone to pay careful attention to his behavior so that all members of the relationship benefit and not simply himself to the detriment of others. All members of a relationship must approach their responsibilities on the basis of trust, benevolence and mutual benefit. (Mencius, p. 49) Therefore, when an individual confronts a situation where they can gain to the detriment of others, they must behave correctly even if it is at their expense. (Mencius, p. 49)

1.3 Off Target

We began this paper with a brief discussion of marketing and benchmarking. Marketing was defined as providing "superior customer value" and benchmarking was identified as behavior worthy of emulation through the development of "best

practices.” Target appears to have accomplished both through the application of business analytics. Target was able to predict customer needs, in this case pregnancy, through the sophisticated analysis of marketing data and to position itself to be the supplier of choice for not only personal care products and baby needs, but more importantly to secure Target as the supplier of choice beyond these particular needs. This is a coveted position for a retailer or indeed any business.

Is this “superior customer value” and behavior worthy of emulation” or good long-term business behavior? If the customer relationship is considered the most important business relationship then business success is predicated on this relationship. Some may argue that by virtue of doing business with Target, or any business, customers willingly provide information during the transaction. This is true especially when it is a non cash transaction because the purchase information may be linked to a specific customer, as Target does with its unique guest number. This is certainly useful for inventory control and the supply and replenishment of outlets. Target however goes way beyond these activities and targets customer segments some of which are identified without customer knowledge.

In this case Target takes information freely given when pregnant women created a baby registry and tracks and analyzes their buying behavior. With this information, they are able to follow the buying behavior of other women and predict their pregnancy and market accordingly. For these women, information about their reproductive condition was not freely given. To extend this further, Target also has a pharmacy operation. Based upon their open-ended privacy policy, the company could analyze patient prescription information and market other products based upon medical history. If it were not against the law, it could share that information with outside partners for products and services, such as home health care or mortuary services, which Target determines a patient might need.²

A Confucian might ask how marketers should use the information they gather in their efforts to promote their products and services. First off we must understand that the customer/ firm relationship is the center piece of business success and that the customer, not the firm, determines value. However, Target is making the determination about customer needs and is promoting its products and services based upon its desire to not only sell its products but increase its “share of wallet,” which is an easier and less expensive way to increase revenue without increasing market share. This is manipulative and not mutually beneficial.

² The US Health Insurance Portability and Privacy Act prevents organizations such as pharmacies from sharing this information with outside organizations. US Department of Health and Human Services website, <http://www.hhs.gov/ocr/privacy/>.

Confucian ethics requires relationships to be mutually beneficial and based upon benevolence, trust and reciprocity, which results in harmonious relationships. Target knew this was not so. Target was aware their marketing program could be controversial.

“Using data to predict a woman’s pregnancy, Target realized..., could be a public-relations disaster. So the question became: how could they get their advertisements into expectant mothers’ hands without making it appear they were spying on them? How do you take advantage of someone’s habits without letting them know you’re studying their lives? How did target handle the potential controversy?”

According to a Target marketing executive, quoted in Duhiggs’ article,

“With the pregnancy products, though, we learned that some women react badly,” the executive said. “Then we started mixing in all these ads for things we knew pregnant women would never buy, so the baby ads looked random. We’d put an ad for a lawn mower next to diapers. We’d put a coupon for wineglasses next to infant clothes. That way, it looked like all the products were chosen by chance.

“And we found out that as long as a pregnant woman thinks she hasn’t been spied on, she’ll use the coupons. She just assumes that everyone else on her block got the same mailer for diapers and cribs. As long as we don’t spook her, it works.”

In other words, as long as Target used deceit and tricked the customer they would accomplish their goal of increasing revenue.

Conclusion

The archery quotation from the analects is an appropriate metaphor for this paper. There is more to archery than hitting the target just as there is more to marketing than closing sales. Accurately predicting customer behavior is marketing’s target. Strength is a metaphor for ethical behavior. To hit the target without understanding the mechanics of archery is insufficient. To simply hit the target is the “old way,” the process absent ethics. Fundamentally, Target was concerned with their benefit only and was not troubled by their marketing behavior so long as the customer did not know Target could predict a women’s reproductive condition for its benefit. They sought profit at the expense of correct behavior, corporate gain in violation of mutually beneficial relationship and risked disharmony in the customer firm relationship. One should ask a responsible Target executive if they would accept customer behavior that was deceitful, untrustworthy and selfish. One would expect a negative response because the situation and relationship would be one-sided and detrimental to the firm.

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