# NAVIGATING THE VALUE OF ETHICAL PERSONALIZATION

## A VALOIR REPORT

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*Marketers today have a dilemma: with a wealth of data and algorithms, they can craft and deliver personalized marketing at a greater effectiveness than ever before. However, they also face a crisis of trust, as consumers are increasingly concerned about how their data is used, sold, and traded. Global regulators are increasing their efforts to protect consumer data, and chief legal and privacy officers want their organizations to manage customer data compliantly and ethically. The rush to regulate has led to global inconsistency, ever-evolving guidelines, and, for many marketers, a whole new set of burdens for data management, auditing, and reporting – with limited tools to manage them.*

*Valoir found that most marketers, faced with the pressure of compliant and trustworthy management of customer data, are erring on the side of caution. Without clear guardrails and software functionality to manage data collection, retention, and usage, marketers are losing 8 to 12 percent of their overall productivity and, on average, losing 8 percent of customer data while missing opportunities for building true customer engagement and customer trust.*

Advertising and marketing have been around for centuries. Targeted marketing – crafting messages and content to appeal to a certain segment of customers – has been around for a long time as well, from early radio ads attempting to connect listeners to certain programs with products that might appeal to them to the advanced targeting and personalization that is prevalent today.

The increase of computing power and the ability of marketers to gather, segment, and act on data with highly personalized and targeted messages are key components of modern marketing automation and the way the Internet is monetized today. Personalization has become more visible – and scrutinized – with the rise of social media. Consumers are encouraged to share personal information in exchange for access to and implied value from social networks, but many consumers don't necessarily understand the implications. The value they provide in exchange for access is data about them: they are the product.

With increased scrutiny on social media marketing in particular, regulators and ethics groups have gotten involved.

For many consumers, it's difficult to make the distinction between what they hear about data privacy and ethics as it applies to social media and how their data is being used by other companies that interact with them. Further exacerbating the problem are advertising that warns about the dark Web and identity theft, stories about how private information is being used and sold without consumers' consent, and headlines about retailers that use "private" transactional information to market to unsuspecting consumers. As one marketer said, "*Increased personalization means sensitive data. When*

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*personalization is wrong people get mad, and when it's right and it reveals something they didn't think they told you, they get really mad."*

In Valoir's 2022 Customer Experience Survey, we asked consumers about personalization in marketing and found that more than one in five consumers worry about how their personal data is used or sold. Other key findings included:

- One in three consumers believe marketing has gotten "way too creepy."
- Only one in four consumers believe they understand how Web site cookies work.
- Two out of five consumers believe they receive messages from companies they never "opted in" to communications with, or find it too difficult to "opt out."

However, for all the negative consumer sentiment, there were positive findings as well:

- Three in 10 consumers are comfortable sharing personal information with a company provided they get something in return (such as a discount or special offer).
- More than one in 10 consumers are more likely to buy from companies that have clear and understandable data privacy policies.

To better understand how companies can build relationships of trust with consumers, enable marketers to engage with customers in compliant and ethical ways that reflect their policies and values, and justify investments in embedding ethical capabilities and data management processes within the software itself, Valoir conducted in-depth interviews with chief privacy and legal officers at numerous Fortune 500 companies; global leaders in marketing and data management; and more than 20 marketing managers and data stewards involved in day-to-day decision making about data collection, use, and retention policies and practices.

Leaders in each domain face different challenges. Chief legal and privacy officers have recognized that regulators won't allow them to simply educate marketers and expect them to make the right choices. Those operating globally must invest in different platforms and regimes for Europe, North America, and China (and those requirements are constantly evolving). They said:

> *The state of the art before was to make policy and train people on it and then hope they don't subvert the rules because they can do it. The law isn't accepting that.*

> *We're paying close attention to the important worldwide regulators. It's a really big deal that you need at least three different platforms for governance regimes.*

> *The biggest challenge we face is the same as everyone: an ever expanding scope of laws and countries that are embracing more data nationalism and multiple systems where we're housing data.*

More than one in five consumers worry about how their personal data is used or sold.

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Beyond chief legal and privacy offices, those involved in the day-to-day implementation and management of policies are looking for external help – in terms of both expertise and code. They said:

> *Vendors need to create utilities for managing the toolset because it has to be different by company – no one will take off-the-shelf GDPR controls.*

> *Our company likes to do a lot of things in house and that really scares me because in many cases it fails miserably when our IT guys think they can take on data privacy issues.*

> *We need someone with a strong background to say [here are] best practices and how you execute them.*

Marketers and data stewards are looking to technology vendors that provide marketing and targeted personalization software to provide not just guidance but capabilities and guardrails within the software itself to reduce risk and reporting burdens and enable them to focus more time and effort on business outcomes.

## Key impact areas

In analyzing the potential benefits of embedding ethical data management capabilities in software, Valoir found there were five main areas of impact: marketer productivity, data loss and retention, developer productivity, customer 360 limitations, and brand differentiation and customer trust.

### MARKETER PRODUCTIVITY

Developing and delivering engaging content through effective targeting and personalization are key ways for marketers to meet their objectives. However, Valoir found that an increasing amount of marketers' time is spent addressing the day-to-day ethical and compliant use of data. This includes manually managing and validating data provenance and other requirements, implementing privacy and data compliance policies, proposing and reviewing processes with legal and privacy officers, and delivering reports and data for auditing purposes to ensure policies and practices are correctly executed. Marketers said:

> *We're really stressed about regulations. Every other day we're getting requests from legal and compliance saying "fill out all this audit information," what are we capturing, what are we doing with it, how do we discard it, and how do we manage all of that.*

> *Anything that would give us more information on data would give us a huge plus. We have a data guy on the marketing team and he's overwhelmed with the stuff we ask him to do, just cleansing and appending missing data.*

> *About 20 to 30 percent of our time is spent on data, and half of that time is running through reports and aggregating data, and it's still pretty manual; probably half of that could be automated.*

Embedding ethical capabilities in software increases marketer and developer productivity, reduces data loss, increases effective data use and retention, and increases customer trust.

Lack of embedded capabilities burdens marketers with a productivity loss of 8 to 12 percent.

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Valoir conservatively estimates that the data burden on marketers accounts for a productivity loss of 8 to 12 percent – or marketers spending three to nearly five hours of a 40-hour work week on data management issues that could be better managed or automated by software. Although clearly marketers today don't spend all their time on campaign creation and execution, the time devoted to data management is growing with data volumes and compliance and ethics concerns.

Key factors impacting where marketers fall in the range include company size and data volumes, geographic locations, current level of investment in data integration, and other data management technologies being used.

## DATA LOSS AND DATA RETENTION

Although marketers are spending considerable time and effort manually addressing ethical and compliant data policies, a common theme Valoir heard from marketers were concerns that their manual best efforts weren't enough – leading them to err on the side of caution in deleting or sequestering data with unclear consent or provenance. Marketers said:

> *For us we have to say we're going to get double opt-in so we have a record inside Eloqua or Pardot or we're deleting it.*

> *Legal asks if we can show provenance, and if we don't have it, I'm not going to waste time digging on that, I'm going to use the limited data I have.*

> *We have a rule that all of our data is deleted after 13 months if the customer doesn't become an account. I can't look at year on year data unless I personally save it. Right now we just delete it completely – it would help if we could just keep pseudonymized data.*

Valoir found that the majority of data loss fell into three main categories:

- Consent-deficient data capture. Lack of granularity in consent management capabilities or unclear communication of opt-in and opt-out requirements meant customers volunteered data that was later deemed unusable by marketers because consent was not clear.
- Insufficient data provenance workflows. Lack of persistent provenance attributes through data distribution and segmentation processes meant portions of data without clear provenance had to be excluded from use.
- Brute force data deletion policies. Without the ability to pseudonymize data or set field-specific expiration controls, marketers were forced to enact broad data deletion policies to avoid risk.

Valoir estimates the average company today loses 8 percent of its first-party data through consent deficient data capture, insufficient provenance workflows, and brute force policies. Key factors impacting whether companies fell above or below the average include the level of sophistication and granularity in data and consent collection, the risk

Marketers are often erring on the side of caution when managing, deleting, or sequestering data.

The average company loses 8 percent of its customer data because of consent-deficient data capture, insufficient provenance workflows, and brute force policies.

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tolerance of the organization, and the number of different silos and marketing workflows where data is distributed.

We found that workaround practices such as personally saving data sets (as referenced in one marketer's comment) are not necessarily widespread. However, it should be noted that such workarounds are not a solution to reducing data loss. If anything, it demonstrates the possibility for human error, and that depending on even well-meaning people to do the right thing can be risky.

## DEVELOPER PRODUCTIVITY

For many companies, the need to address data ethics and compliance requirements in marketing has resulted in a new list of development requirements. Without adequate capabilities in the software for consent and permissions management, data expiry and provenance, and compliance and reporting, organizations' software developers are tasked with building those capabilities. This is problematic not just because of the additional workload placed on developers but because the developers are seldom data privacy or policy experts. Marketers said:

> It takes 30 to 40 hours to build something basic and you're still not sure you're doing it right, and people are asking the same questions from both legal and procurement.

> Our permissions service took five years to build and we're still stitching the data together.

> For our operational teams, it's probably 5 percent of total time. If we need to implement something it may take six months and impact productivity by 10 to 15 percent.

Valoir found that the actual workload of development teams created to address data ethics and compliance issues varied widely by geography (where, in some cases, functionality was mandatory), level of sophistication of marketing practices, and breadth and depth of internal software development resources. However, in the absence of prebuilt capabilities within the software, it is not unreasonable to estimate that up to 10 percent of developer time is required to address ethics and compliance requirements, and that number is likely to grow as requirements evolve.

Developers and data architects further noted that it's not just the loss of productivity – that could be devoted to building innovative and differentiating features and delivering on digital transformation – that is the problem. The broader impact is the sense that their time is being "wasted" on capabilities that should be in the software, and that they're building capabilities based on incomplete requirements that are constantly evolving based on the expertise and input of marketers, legal, and privacy officers.

The reality is that compliance and privacy are not customer-facing differentiators for most companies, so developers are not only outside their area of expertise but could better invest their time in new capabilities to engage customers and positively impact their business.

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## CUSTOMER 360 LIMITATIONS

Although most of Valoir's analysis focused on marketing, effective targeting and personalization is increasingly omnichannel and depends on the effective and ethical management of data across not just marketing applications but sales, service, and commerce, as well. Marketers said:

> *We haven't matured fast enough from a digital understanding perspective to keep up with the technology. We're still redesigning Web sites, portals, and consent.*

> *We are moving to implement* [*new e-commerce capabilities*]. *It's a good way to have some personal data from our customers and personalize our communications, but now all that data has to be managed from a GDPR perspective.*

Chief privacy and legal officers are looking at the impacts of regulation and ethics-focused policies across the organization, and recognize that while marketers have the most experience dealing with those issues today, policies and practices impact all areas where customer data is leveraged. As organizations become more and more data driven, addressing data compliance and ethics at a platform level will become more critical.

## BRAND DIFFERENTIATION AND CUSTOMER TRUST

The final obvious area of impact when marketers attempt to address data ethics and compliance requirements with a limited software toolset is customer trust.

Consumer and press attention tends to focus on when targeting and data use goes wrong. However, Valoir's CX Survey data shows that consumers respond proactively and positively to brands that invest in responsible and ethical data use policies, communicate those policies in clear and understandable language, and embed those policies in not just training or guidance but in the software itself.

Simply put, consumers are more likely to do business with companies they trust. When the ethical use of data is hardwired into data collection, use, and retention and expiration processes, everyone in the organization – from data stewards to marketers to interns – can focus on differentiated and ethical customer engagement.

## Best practices

In planning and implementing data collection, management, usage, and retention and expiration strategies that maximized the value of data while ensuring compliance and ethical use, Valoir found thought leaders were following a few guiding principles:

- Leverage vendor-delivered components whenever possible. Although Valoir found that some Fortune 100 firms were making significant investments in building their own data frameworks, policies, and processes, even those with seemingly unlimited

More than one in 10 consumers are more likely to buy from companies that have clear and understandable data privacy policies, and three in 10 are willing to share data provided they get value in return.

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resources could have benefited from vendor-provided components as a starting point and focused on higher-level components as differentiators of their overall strategy. In smaller organizations, Valoir found that European firms were required by regulators to purchase prepackaged capabilities to ensure compliance – but that firms in other markets could benefit from the 80-20 rule (using 80 percent of standard capabilities and focusing their resources on the remaining 20 percent of special requirements) as a way to reduce risk, increase predictability of development and deployment time, and reduce the disruption associated with upgrades, even in a cloud environment.

- Deploy with flexibility in mind. As regulators continue to address data ethics and compliance issues as they arise, organizations of all sizes must expect that whatever they build today will need to be adjusted in the future (to address new state laws in the United States, for example, or changes brought by regulatory change more broadly in other regions) and look to composable architectures and ethics-as-a-service type models that can be adjusted or upgraded as needed without significant additional coding investment.

- Communicate policies and practices at all levels. The days of educating marketers and hoping for the best are over. However, the need for communication of the underlying principles and goals for the practices being implemented can not be underestimated. Ensuring consumer-facing policies, employee onboarding policies and practices, and ongoing auditing and board-level policies and communications are clear and unvarying are important for both brand and operational consistency.

- Encourage and cultivate data stewardship at every level. It is a combination of technology and culture that ensures the ethical and compliant use of customer data. From the office of the chief legal officer down to marketers, and beyond marketing to service, e-commerce, and sales, an understanding of policies, technology, and best practices ensures companies build relationships of trust while maximizing engagement with customers.

## Looking ahead

It is clear from Valoir's conversations with marketers, legal and privacy officers, and data architects and stewards that many of today's marketing automation solutions are missing key capabilities that would enable companies to more effectively target and market to customers while ensuring data privacy and regulatory compliance. As vendors continue to evolve their solutions, many are making investments in providing these capabilities, but investment needs to increase to close the value gap:

- On the functionality side, increased granularity of consent frameworks, integrated data provenance metadata capture and workflows, and automated identification, archival, and deletion of

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personally identifiable information (PII) are table stakes vendors should be expected to provide.

- Moving forward, vendors will need to invest in frameworks that are flexible and adaptable. Recognizing that regulations will continue to evolve, and that many companies will have to manage data in multiple jurisdictions, frameworks need the flexibility to meet core requirements today while being adaptable for the requirements of the future. Additionally, companies need more controls to set standards at a global level that can be altered to meet local requirements – and more effective data management tools and localization support to ensure they can meet the ethical and regulatory requirements of specific markets and populations.

- For both small and large companies, clear vendor roadmaps are critical. As companies continue to close the requirements gap with in-house development, leading vendors will provide clear roadmaps and detailed feature/function specifics (as well as reliable timelines) so customers can effectively budget current and future development resources and reduce unnecessary development burdens and "throwaway code."

- Finally, cloud vendors are expected to provide thought leadership – not just functional capabilities – to guide customers on the ethical and compliant use of data. Guidance on best practices for developing, communicating, and implementing policies, adapting global policies to efficient localized practices, and ensuring environmental, social, and governance (ESG) policies are a part of culture – not just a checklist – are all areas where vendors should be investing in leading by example and providing guidance.

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