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How Epsilon Quietly but Successfully Rose Above the Direct-Marketing Competition

Shop Continues to Grow as Others Sink, but It's Not Concerned About Fame

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NEW YORK (AdAge.com) -- Although it dwarfs many much more famous agencies, Epsilon goes largely unheralded in the marketing world. Not that the agency takes offense.

With \$460 million in revenue in 2008, the CRM giant is bigger than the U.S. operations of ad institutions such as JWT, Y&R and DDB. And while other agencies were sucking wind this spring, Epsilon's second quarter was distinguished by 7% growth as marketers took big gulps of measurable, data-driven programs. But fame hasn't come with size, and self-promotion is one of the only things this rather confident group doesn't claim to have mastered.

"We're gradually changing that," said Bryan Kennedy, Epsilon president-CEO. "It doesn't bother us that we're not well-known. We're happy with where we are."

And where they are, according to one industry analyst, is sitting in leadership positions in some key areas, including database-management platforms and technology, e-mail, data, and loyalty programs.

"As a database company, I put them in the top three serving enterprise class customers," said Bruce Biegel, senior managing director at Winterberry Group, a management-consulting firm specializing in the advertising and marketing-services sector. "They have built an organization over the last six or seven years of considerable scale and made themselves a serious player in the database and digital side."

Data-driven approach

Prior to becoming part of Alliance Data Systems in 2004, Epsilon had four other owners, including American Express. After the ADS deal, Epsilon went on a shopping spree of

sorts, snatching up some significant properties such as Bigfoot Interactive in 2005, DoubleClick's e-mail business in 2006 and Abacus, one of the largest providers of offline consumer data, in 2007. "From a competitive positioning, they are attractively positioned," Mr. Biegel said.

Mr. Kennedy said what distinguishes Epsilon from its competitors, which he identifies as everyone from Acxiom to Digitas to Rapp, is its quantitative, data-driven approach.

"We come at it from this almost math-oriented mindset," Mr. Kennedy said. "But we don't detract any value from what you might see in a very traditional agency setting, which would be the other side of the spectrum and more oriented around creative, the message and the brand. We debate internally on whether marketing is more of a science or an art. We believe it's both, and that's the perspective we bring."

In March of last year, the agency introduced Purple at Epsilon, its creative shop of 300 people. "We had significant creative capabilities that marketers were unaware of. That's why we launched it," said Steve Cone, the agency's CMO and one of its very first employees. Purple is run by David McRae, who said that along with creative services, the unit provides project, account and campaign management.

One of the main tools Epsilon uses for clients is Sonar. The idea behind it is to deliver the most meaningful content to consumers at very specific touch points. Through the tool the agency sets up rules and interaction scenarios, so instead of just pushing out marketing messages haphazardly, it waits for the specific interactions to occur between consumer and brand, and when it does, the channel, which could be point of sale or online, immediately subscribes to the right message/offer and brings it forward to the consumer. Another tool is WebDirect, a web portal connected to data and creative that allows marketers to create and launch campaigns in 24 hours.

Evolving relationships

Epsilon has 2,200 employees spread across 22 offices worldwide, and its client list includes Pepsi, Hilton, AstraZeneca and Barnes & Noble, as well as some of the biggest global players in the consumer-package-goods, financial, tech and telecom verticals.

Mr. Kennedy said the agency pursues database marketing agency-of-record relationships but also does creative, digital, search marketing, banner, websites and branding. That expansion of services is evident in the evolution of some of its relationships.

Lawrence DiCapua, senior manager-CRM at Pepsi, said the relationship went from mass e-mail blasts to trying to break "this big chunk of people into segments." Epsilon works on all of Pepsi's carbonated and non-carbonated drinks.

"All of these brands have different identities, and they all have their own specific targeting criteria," Mr. DiCapua said. "Epsilon has tracked all the different behaviors of people interacting with several different e-mail programs and helped us map segmentation plans through behavioral targeting."

The agency is helping Pepsi figure out social media, an area Mr. DiCapua acknowledged he wanted nothing to do with at first, by including special offers inside e-mails

consumers can share with friends on Facebook and MySpace. "We're in the middle of that test, and so far, so good," he said.

According to Adam Burke, former senior VP-customer loyalty for Hilton Hotels, the relationship between Hilton and Epsilon has become so close that one would be hard-pressed to tell who works for which side in a meeting. "The discussions tend to be very holistic, and you don't tend to see a clear delineation of who does what," Mr. Burke said. "That seamlessness is one of the biggest things I like about working with them." The agency manages Hilton's loyalty program, created the customer-service interface used at Hilton reservations and built the customer-segmentation framework it uses.

Hilton, like Epsilon's other top 100 clients, has been with the agency for more than nine years. "It's a great way to build a business, that long-term tenure vs. a flash in the pan that shows up for the next year or two with something that sounds exciting but just doesn't deliver," Epsilon's Mr. Kennedy said. "That's not what Epsilon's about."

An Epsilon timeline

1969: Tom Jones and Hal Brierley found the agency, calling it Fraternal Systems. Its first client is Mr. Brierley's fraternity, Sigma Alpha Epsilon. At one point the shop repped 40 other fraternities, helping them convert their 3-by-5 information cards and Addressograph-plate alumni records to computer tape; communicate with alumni; and fundraise.

1972: The agency changes its name to Epsilon, which in higher set theory means "is a member of," as other groups such as PBS stations, symphonies, AARP and the Nature Conservancy came aboard as clients.

1975: Epsilon signs its first commercial client, United Red Carpet Club. It also signs the San Diego Zoo, with which it continues to work today.

1982: The agency creates Apple's first customer/mail-order database.

1990: Epsilon is purchased by American Express.

1996: AmEx sells the agency to three investors: Graylock, Bain ventures and Bob Mohr.

2001: Bob Mohr sells Epsilon to Relizon.

2004: Relizon sells the agency to Alliance Data Systems.

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