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5 Foolproof Strategies For Precision Direct Marketing In the '90s

[Subhead]

A Response-Building Guide

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['Welcome' letter from Dir. of Mktng.]

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Strategy #1: Boost sales with details

[Subhead]

Data enhancement.

If you're like many companies, your customer list contains little more than names and addresses — not much help for target marketing. But, you can enhance your data with valuable demographic, socioeconomic and lifestyle data, turning it into a powerful target marketing tool.

Data enhancement is simply a process of matching the names and addresses of your customers with other lists that contain demographic and lifestyle information on a large percentage of U.S. households -- then appending that data to your list. Enhancement adds vital demographic information, such as age, income, occupation, marital status and children's ages. You can add socioeconomic data, including car and home ownership, as well as lifestyle data on hobbies, activities and even mail order purchase information. If you market to businesses, you can enhance your file with such details as number of employees, total sales volume, yellow page ad size, SIC code and more.

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[Subhead]

Enhance with household-specific data.

The information that is added to your list should be based on data specific to each individual household. Beware of adding data that has been inferred about the household from neighborhood census averages. Census averages tell you that 50% of the households have children, but they can't tell you which households have children. Therefore, it is not nearly as accurate or reliable as household level data.

Once your list has been enhanced, you can take advantage of today's most sophisticated and productive direct marketing techniques, achieve better response rates and enjoy increased profits.

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Strategy #1: Uncover hidden treasures.

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Modeling and analysis.

Here are three ways to use your enhanced data, each one more powerful than the last.

1. Data Profile Analysis (DPA).

A DPA is an inexpensive tool that gives you a snapshot of your customers by groups or segments. It compares your enhanced customer file to a larger reference population and highlights characteristics that are over- or under-represented. The result is a profile of your customers based on one data element at a time. For this reason it is called a "uni-variate" analysis.

A DPA helps you better visualize who your audience is. However, it does not identify combinations of factors that could be important to you. For instance, 11 singles may be an under-represented group on your list. But, "high income" in combination with "singles" could be a strong prospect. Therefore, a DPA is an excellent tool for helping you select lists and media, but it is not a statistical model for selecting prospects.

Advantages:

- > Fast and inexpensive
- > Easy to understand because it's descriptive

- > Reveals what data is important in your file
- > An excellent first step in better understanding your customers

Disadvantages:

- > Not as powerful as a multi-variate model
- > Describes a typical customer, but cannot identify promising segments
- > It can oversimplify your customer by using averages

[DPA screenshot, w/ caption:]

This is just a small part of a Data Profile Analysis. By looking at all the factors on a DPA, you might discover, for example, that your typical customer household has a \$50,000+ income, a working woman, mail order buyers, the presence of children, bank and other retail credit cards, as well as an interest in wine and foreign travel.

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2. CHAID Analysis.

A more powerful tool for using your enhanced customer file is a CHAID analysis. An acronym for Chi-squared Automatic Interaction Detector, a CHAID identifies the particular combination of factors that represent your best customers. Because it looks at multiple factors at the same time, it is referred to as a "multi-variate" analysis.

A CHAID takes your enhanced customer file and, using mathematical formulas, builds a model of your best customers. The result is a tree, which shows how the universe of prospects is broken down into target groups. Each target group is defined by a unique combination of demographic, socioeconomic and lifestyle information.

You will use your CHAID model to identify and market to prospects who have the combination of characteristics that perform well on your model.

Advantages:

- > Reveals customer groups that could be very responsive
- > Easy to understand because it's descriptive

- > Ignores combinations that impact only a few prospects
- > Narrows the degree of risk in your direct marketing

Disadvantages:

- > Takes longer to produce and use

[CHAID screenshot, w/ caption:]

As you can see from this abbreviated CHAID tree diagram, this company's best prospect has a bank card and a luxury vehicle. However, those who have a bank card, a luxury vehicle, are married and invest in real estate are also strong prospects.

3. Regression Analysis.

As the most powerful analytical tool available, a multi-variate regression analysis uses the critical buying factors from your customer files to create a mathematical model that targets prospect groups for your marketing campaigns. By assigning 'scores' to individual records in your database, the regression model can be used to select the specific records that match each marketing goal. With regression analysis you can model such sophisticated marketing factors as response, activation profitability and the likelihood to return, or not pay, and so on.

Advantages:

- > More predictive than a CHAID
- > Models behaviors, as well as demographics and lifestyles
- > Includes all combinations no matter what their percentage of the universe
- > Narrows the degree of risk in your direct marketing

Disadvantages:

- > Requires some training to be used effectively
- > Requires additional time and expense for each mail program
- > Results are not descriptive, but mathematical, so it is more difficult to understand

[Regression graph, w/ caption:]

This graph illustrates the impact on response rates @ using a regression model. The one flat line shows the overall response rate. The curved fine shows an example of the lift enjoyed with the use of a regression model.

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[Headline]

Strategy #3: Breathe new life into old names.

[Subhead]

Profitable uses for enhanced customer lists.

The key to successfully using enhancement and modeling is to take any list that is under-performing and make a portion of it perform better. Direct marketing promotions using CHAID or regression models help you pick out the most likely respondents to your offers so that you can market to fewer people, enjoy higher response rates and a lower cost-per-order. Here are just a few-of the profitable uses for enhanced customer lists.

Reactivate former customers

Mail a reactivation program to a group of former customers, then build a model of the individuals who respond. Next, pass your entire inactive customer file through the model and mail only to those that have the characteristics that performed well.

Cross-sell and up-sell

Take the segment of your customers who have purchased product "A" and model them. Then use that model to pass the names of all the customers who do not own product "A" through the model. Market only to the ones who fit the profile of product "A" buyers.

Target mailings to customer segments

Use your enhancement data to segment your file into groups of people who share common demographic, socioeconomic and lifestyle characteristics. Then direct offers to those segments most likely to purchase certain products or services.

Maximize list rental income

If you rent your customer list to outside firms, enhancing your data with demographic, socioeconomic and purchase behavior will make your file more attractive to a greater number of renters. And, you can command higher rates for the additional selections available.

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Strategy #4: Market to proven buyers.

[Subhead]

Improving the performance of rented lists.

If you haven't been able to make rented lists profitable, or would like them to be more profitable, enhancement and modeling are the answer.

Whether you have a catalog company, sell business-to-business, offer financial or insurance products, are in publishing or retail, or use direct mail or telemarketing to acquire new customers, enhancement and modeling can work for you.

Here are just a few examples:

Boost response to rented lists

Use the model you built of your customers, then run all rented names through that model. Mail only to those names that fall into your high responding segments. For an even stronger model, conduct a mailing and build the model from those who respond to the mailing. This model will perform even better on future new customer acquisitions.

Build retail traffic

Use your customer model to select names in a geographic area around your locations that are likely customers. This is far more cost-effective than marketing to everyone in your area's zip codes.

Retain customers and build loyalty

If you're a company that depends on a long customer life to make new customer acquisition profitable, you can build a model of those customers who take advantage of a special promotion, but then cancel. You can then use this model to suppress names on rented files that have the same characteristics as the profile.

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Strategy #5: Make data enhancement your greatest asset.

[Subhead]

Finding the right resource.

Data enhancement, modeling or analysis is only as good as the company who provides it. Enhancing your customer list with inaccurate or incomplete data can be costly and unproductive. Here is a short analysis you can conduct on the firm (s) you are considering for your enhancement services.

['Yes/No' checkbox list:]

- > Do they use household level data, not projected census data?
- > Do the lists used for enhancement contain data from high-quality, multiple sources?
- > Can the resource provide you with case histories of firms who have used their services successfully?
- > Has the firm been providing data enhancement and modeling for over five years?
- > Is the resource financially stable? Can they maintain the necessary long-term relationships?
- > Is there more than one individual in the company knowledgeable about their enhancement and modeling services?
- > Is data enhancement and analysis a primary function of the firm, or only a sideline?

[Subhead]

How "smart" is your data?

Are you getting the maximum benefit from your lists? Take this quick "60-Second Audit" and evaluate your data strategies.

['Yes/No' checkbox list:]

- > Our customer file contains more than name and address.
- > We capture all behavior data on our customers, such as date of purchase, item purchased, purchase amount, purchase frequency and method of payment.
- > We capture demographic information, such as age, income, sex, marital status, number and age of children. Or, if business-to-business, we capture number of employees, SIC code, years in business, annual sales and more.
- > We capture which customers responded to specific promotions.
- > We capture phone vs. mail response.
- > We can segment our files based on any data that has been captured.

- > We track our customers by household, as well as by name.
- > We run our data through National Change of Address (NCOA) quarterly and remove duplicates at least twice a year.

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How much money can YOU make with data enhancement?

Did you know that a small increase in your response rate can give a big boost to your bottom line? And relatively small investments in data enhancement and analysis can increase response rates from 15%-300%! To see what your savings might be, take a minute to read the example below. Then plug your own numbers into the worksheet that follows.

EXAMPLE:

[Graphic: Cost analysis table; see screenshot or PDF]

NOW, USE THIS WORKSHEET TO CALCULATE YOUR OWN SAVINGS!

[Graphic: Cost analysis worksheet; see screenshot or PDF]

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Data enhancement -- Q&A.

Q: How large does my file have to be to take advantage of enhancement and modeling?

A: Files of any size can be enhanced and modeled. However, for your results to be accurate and predictable, your file should contain close to 50,000 names or more.

Q: How much does enhancement and modeling cost?

A: The cost varies. The additional cost for enhancement and modeling almost always pays for itself in the higher response, savings and additional sales you will enjoy. There is usually a flat fee for the development of the model. Once you've rented your prospect names, there are costs for running those names through the model and selecting those that have the same characteristics.

Q: I will obviously be renting more names than I will use. Do I have to pay for the names I don't use?

A: It is essential that you obtain a "net name" agreement from the list rental company. This means you pay a running charge for all the names, but a rental charge only for the names that match your model. Otherwise the cost-effectiveness of using the model will be diminished.

Q: Do I have to pay for the data used to enhance my internal files each time I use it?

A: No. Once your files have been enhanced with the data, you may continue to use the data for your marketing programs.

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[Contact information]

[Mini-corporate profile]

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