

Drake Direct &
the romann group present ...

**How to Move Beyond Exhaustion
of Your Acquisition List Options**

So much to cover, so little time....

Acquiring new customers is key to the long-term health of any direct marketing firm.

In this session we will explore.

- How to make larger, less targeted universes productive
- Understanding and building a clone model to move you forward
- Defining best customers from your database for cloning
- Implementing a regressed clone select in a mailing plan
- Research findings proving the importance of carefully defining names on your database for cloning

New Research Findings!

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Who is this guy standing up here anyway ?

Perry D. Drake

- Vice President and General Manager, Drake Direct
- Published Author, "Optimal Database Marketing," April 2002, Sage Publications
- Assistant Professor, New York University, Masters of Science in Direct and Interactive Marketing
- Instructor, Western Connecticut State University, Certificate in Direct and Interactive Marketing
- Previously Director, Marketing Services, The Reader's Digest Association



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And, who is she ?

Rhonda Knehans Drake

- President and Founder, Drake Direct
- Adjunct Faculty, New York University, Masters of Science in Direct and Interactive Marketing
- Previously Database Director, Reader's Digest Young Families Division, Account Director, Information Resources, Inc., and Manager Market Planning and Analysis, Columbia House Video Club

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And, who is the other guy sitting next to her ?

Jeff Grill

- President, the romann group, New York, NY
- Previous agency positions held include Senior Vice President at Young and Rubicam, N.W. Ayer Advertising and Impiric / Wunderman
- Accounts directed while in these agency positions include U.S. West, AT&T (where he launched and was responsible for 1-800-CALL-ATT and Optimum Online) and Comcast
- Previous client side positions include Vice President of Marketing at Cablevision

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Setting the Stage

Prospecting is a necessary and important task for any direct marketer running and maintaining a healthy business.

Seeking an ample supply of qualified prospects or experiencing declining outside list response rates is something we have all faced at one time or another.

So, what can you do?

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If you are experiencing prospecting difficulties...

Consider the following tactics:

- Take a look at who is renting your names and consider testing their names if you have not done so recently.
- Notice which publications your competitors are advertising in and either consider testing space in those publications or test mailing their subscribers.
- If you are noticing a decline in response to core prospect lists, determine if the list owner has recently changed his promotional strategies or sourcing.

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and...

- For large lists, consider testing a special offer similar to that of the list owner's offer.
- Or, last but certainly not least, you can consider **modeling** to help select only the most qualified names for promotion as detailed on the next slide.

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Sorry but we will not be discussing Cindy Crawford !

Response Models

From a list renters point of view, a response model identifies names on an outside list that are most likely to respond to your offer.

Clone Models

From a list renters point of view, a clone model identifies names on an outside list that looks most “like” your best customers (as the list renter defines them).

Note: Unlike response models, clone models will not predict a names likelihood of responding to a particular product offer. Rather, a clone model will only tell you if a certain name has demographic similarities to your “best customers.”

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In particular we will be focusing on...

Clone Models

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As previously mentioned,

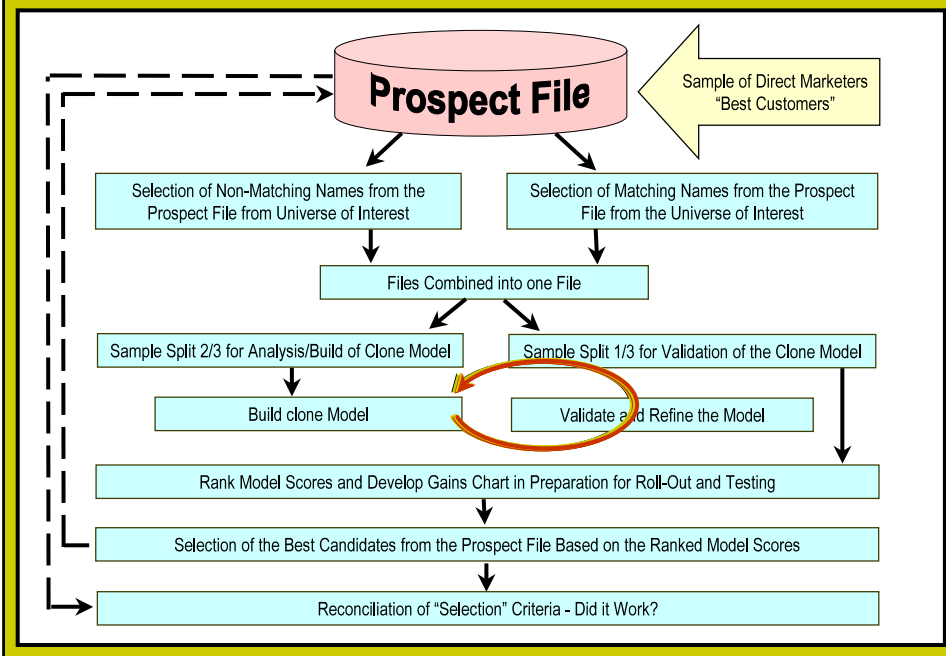
From a list renters point of view, a clone model will give you a rank ordering of prospects based on their demographic similarity to your “best customers.”

Unlike response models, clone models will not predict a names likelihood of responding to a particular product offer.

Rather, a clone model will only tell you if a certain name looks more like your “best customers” than another name.

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Steps to Successful Cloning



So, how does one determine who to promote based on a clone model ?

Making a promotional decision based on the results of a clone model presents unique challenges....

Technique	What is Ranked	Decision
Response Model	Likelihood to respond	Based on P& L
Clone Model	Demographic similarity	Based on testing first

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Successful Cloning -- *Easy as 1, 2, 3*

- 1 Defining your universe for cloning:
 - What is your company's definition of a best customer?
Consider only including those that have a high value for an extended period of time in the product line of concern.
 - Include only customers for cloning that have demonstrated responsiveness in the channel you will be applying the model.
 - Additionally, include only customers for cloning that are know to be responsive to the offer you will be using.

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Successful Cloning -- *Easy as 1, 2, 3*

- 2 Don't define the prospecting universe too narrowly. *For example, for an investment product you might only exclude base on wealth level rather than know mutual fund owners...otherwise you could be excluding entry point investors.*
- 3 Determine if you wish to clone only certain demographic groups on your file. *This is useful if the corporate mission is to tap into a market segment that is under-represented on your database.*

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When Not to Use a Clone Model

If either of the following two conditions are true you must be very cautious in applying clone models:

- 1 You have a brand new promotional strategy (offer and/or source) you are about to implement.
- 2 You wish to get into a brand new segment of customers never before tapped. *For example, you desire to enter the college market and there are no college students on your file.*

If either of these conditions are true you will not have any ideal candidates residing on your database for cloning. You are advised to only consider the use of a response model.

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Response Models Versus Clone Models

	Response Model	Clone Model
Advantages	<ul style="list-style-type: none">▪ The most powerful technique for identifying responders from an outside list to particular promotional offers.	<ul style="list-style-type: none">▪ No initial promotional testing is required.▪ No frozen test files are required.▪ Lead time for implementation is short.
Disadvantages	<ul style="list-style-type: none">▪ Budget considerations due to the need to send out test promotions.▪ Frozen files are required.▪ Long lead times since testing is required prior to model building.	<ul style="list-style-type: none">▪ The model will not predict responders, but only matches to your best customers.▪ Cannot be used to penetrate new segments but only to segments similar to those on your database.▪ Cannot be used to penetrate lists with new promotional offers but only with offers similar to those used in the past.

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Response Models Versus Clone Models

For more information on the pros and cons of each of these two prospecting techniques, see my new book "Optimal Database Marketing" available at Amazon.com or BarnesandNoble.com.

Don't forget to keep in mind...

Regardless of which modeling technique you, as a list renter, decide to employ stay abreast of changes in the list owners promotional strategies (for non-compiled files) and how he is sourcing his names.

For example, if between applications of your "model" the list owner has brought in more names via a different media source or a different promotional offer, you will see an impact to the scoring and hence the predictive ability of your "model."

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Clone Case Study

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Introduction

- In the following case study we are about to discuss, branding was an issue as was prospecting.
- And, as will be seen shortly, the case lent itself perfectly to the use of clones to assist in prospecting:
 - ✓ Prospecting results were needed quickly
 - ✓ No change in the basic offer was being implemented
 - ✓ Some budgetary constraints did exist which did not allow for the use of response modeling
 - ✓ Various creative and offer alternatives prior to cloning were tested and proved ineffective

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Non-Profit Organization - Background

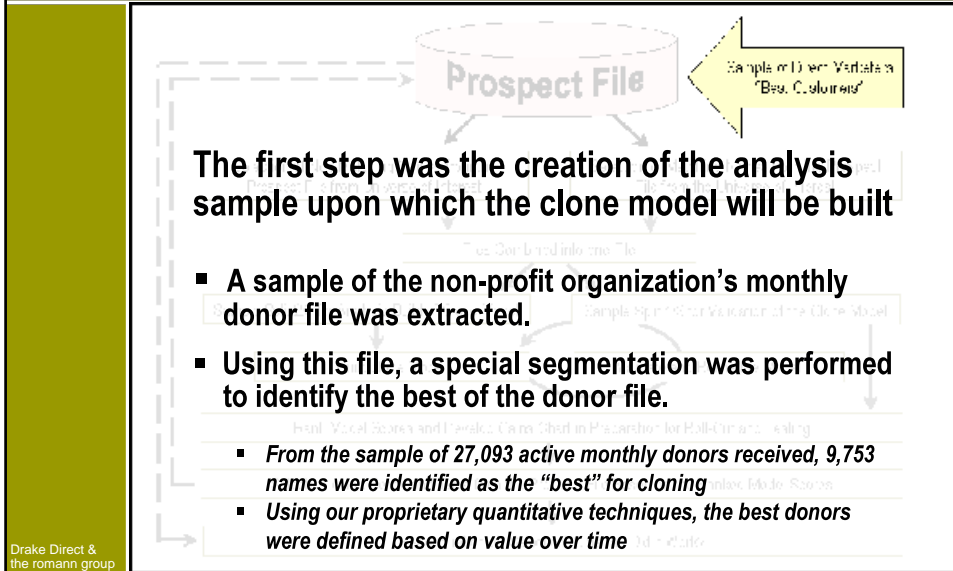
A major non-profit organization (with a religious affiliation) has a large file of donors to various appeals as wells as those that are monthly club donors:

- ✓ *Prospecting was becoming a challenge as most religious organizations share names with each other*
- ✓ *They had exhausted their list of prospects for the monthly donor program*
- ✓ *They were in search of a new pool of prospects that was relatively untouched*
- ✓ *They had tried compiled lists before utilizing simple selects but proved unsuccessful*

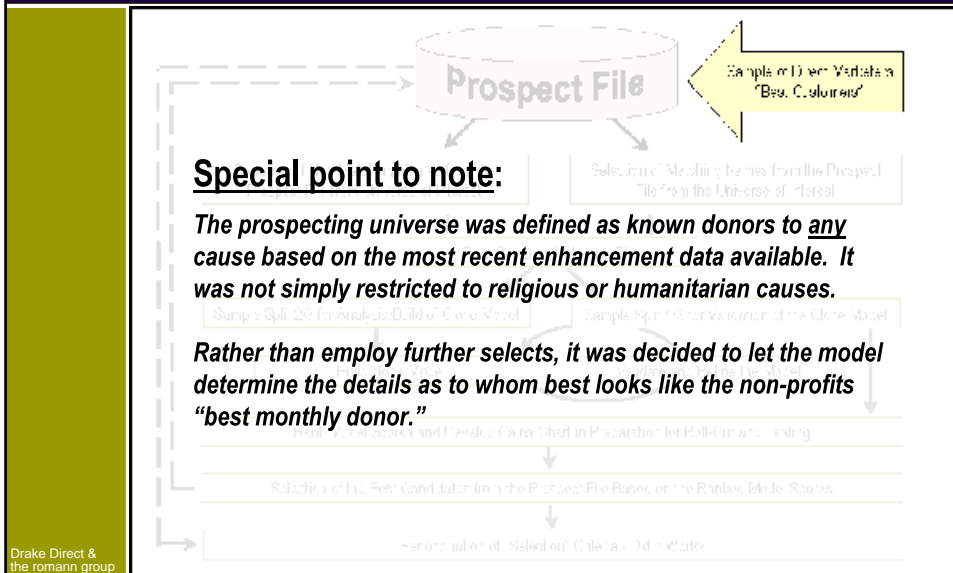
Recommendation: clone a major compiled file.

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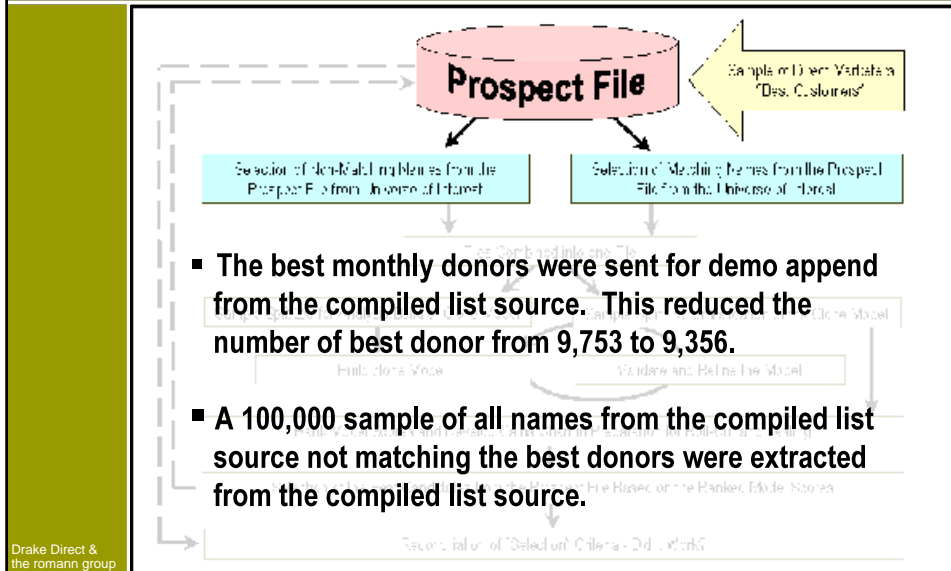
Non-Profit Organization - Methodology



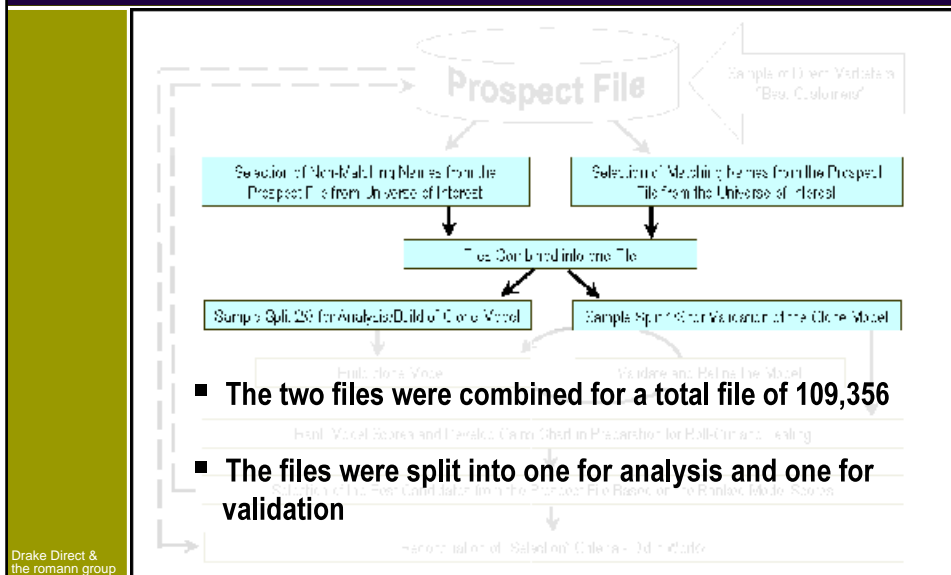
Non-Profit Organization - Methodology



Non-Profit Organization - Methodology



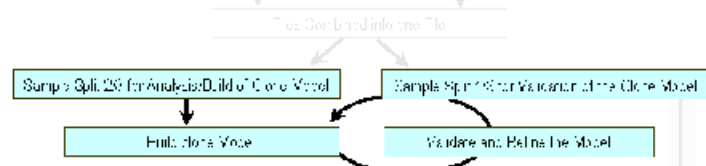
Non-Profit Organization - Methodology



Non-Profit Organization - Methodology

The next step was the creation of the model itself on the analysis sample.

- A stepwise multiple regression model was considered.



- And, no variable was allowed in the model if:
 - It could not be explained
 - It was not found to be significant ($p\text{-value} < 10\%$)
 - It was found to be highly correlated with another variable in the model

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Non-Profit Organization – Model Results

The resulting model contained 16 different pieces of data at both the individual and zip levels. The top four predictors of a best donor are show below in the table:

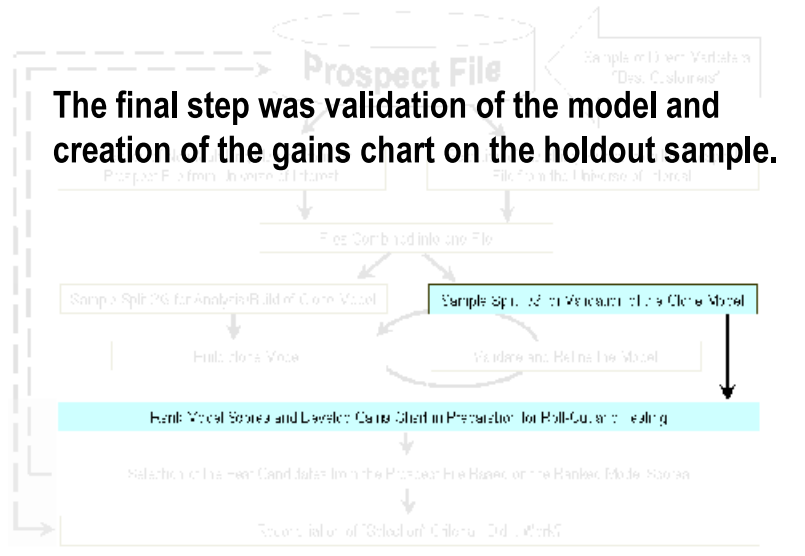
Variable Name	Description of Variable as Used
Donation Activity Indicator	The more of the following donation activities reported by the individual the more likely they are to be a best donor: religious, political, health, general causes
Gender	Females are more likely to be a best donor
Ethnicity	Those that are classified as French, Irish, Italian or Hispanic are more likely to be a best donor
Length of Residence	Those residing at their current residences for 21 or more years are more likely to be a best donor

In summary, the model identified stable middle class family units

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Non-Profit Organization – Gains Results

The final step was validation of the model and creation of the gains chart on the holdout sample.



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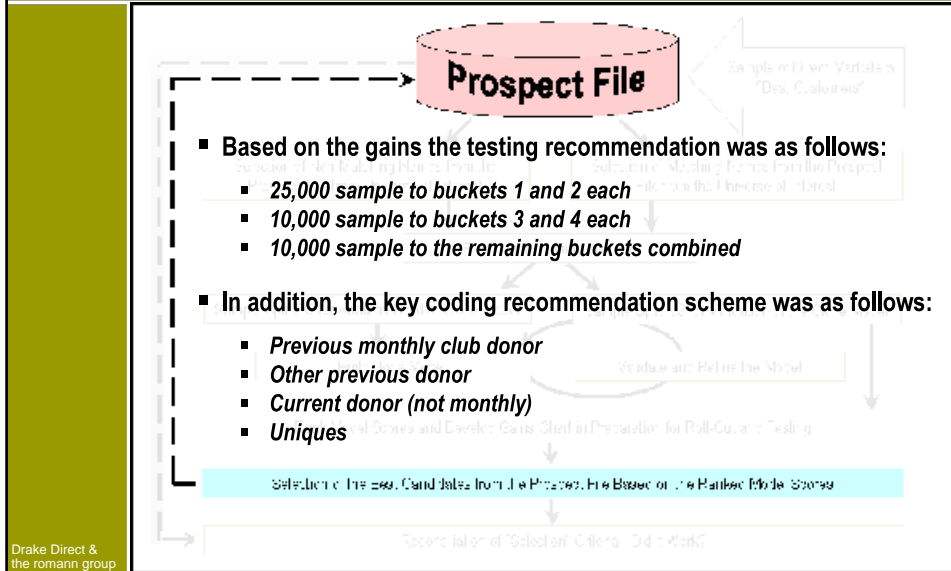
Non-Profit Organization – Gains Results

The top buckets of the resulting 20 bucket gains chart on the validation sample is shown below:

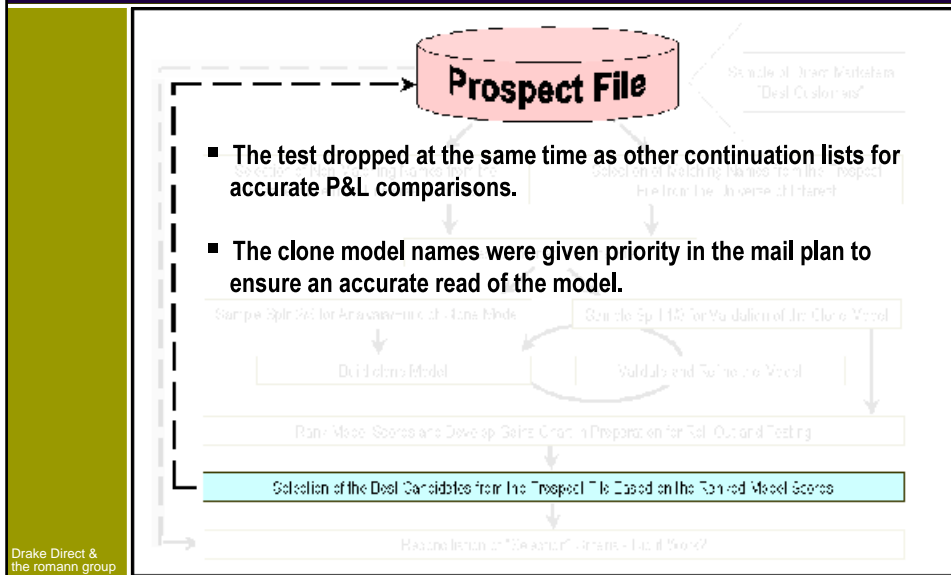
Group/Bucket	Number of Names	Percent of Names	Number of Best Donors	Best Donor Match Rate in Bucket	Gain in Match Rate Over Total	Percent of Best Donors of Total
1 (Top Scoring 5%)	1,822	5.00%	823	45.18%	428	26.39%
2 (Second Highest Scoring 5%)	1,822	5.00%	427	23.44%	174	13.69%
3 (Third Highest Scoring 5%)	1,826	5.01%	296	16.26%	90	9.49%
4 (Fourth Highest Scoring 5%)	1,822	5.00%	266	14.63%	71	8.53%
5 (Fifth Highest Scoring 5%)	1,822	5.00%	198	10.87%	27	6.35%
.
.
.
All	36,448	100.00%	3,119	8.56%	--	100.00%

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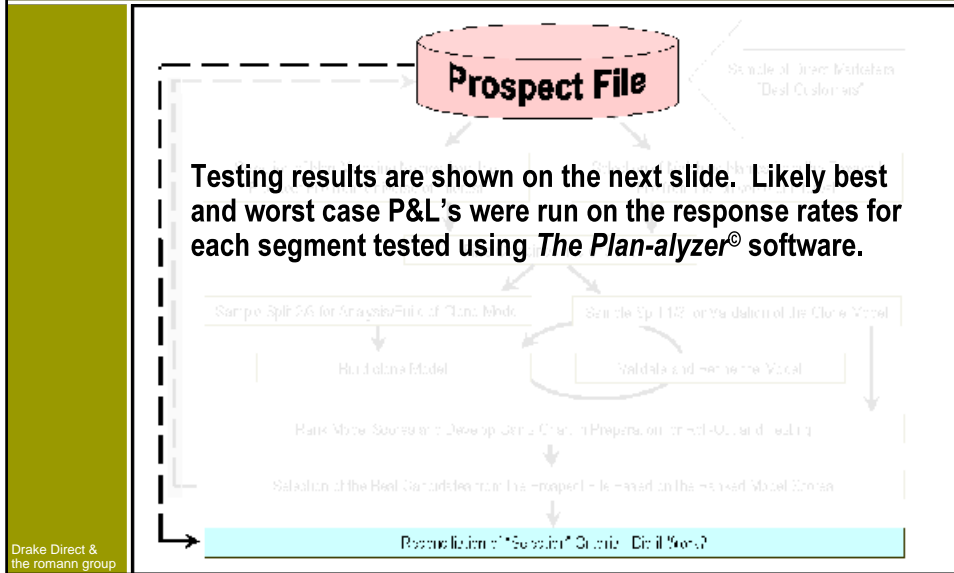
Non-Profit Organization – Mail Plan and Execution



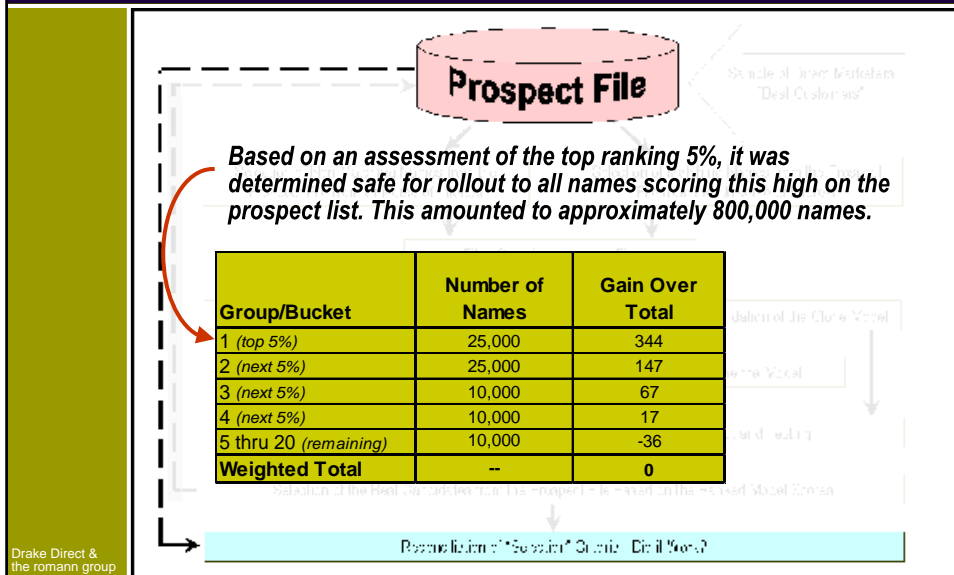
Non-Profit Organization – Mail Plan and Execution



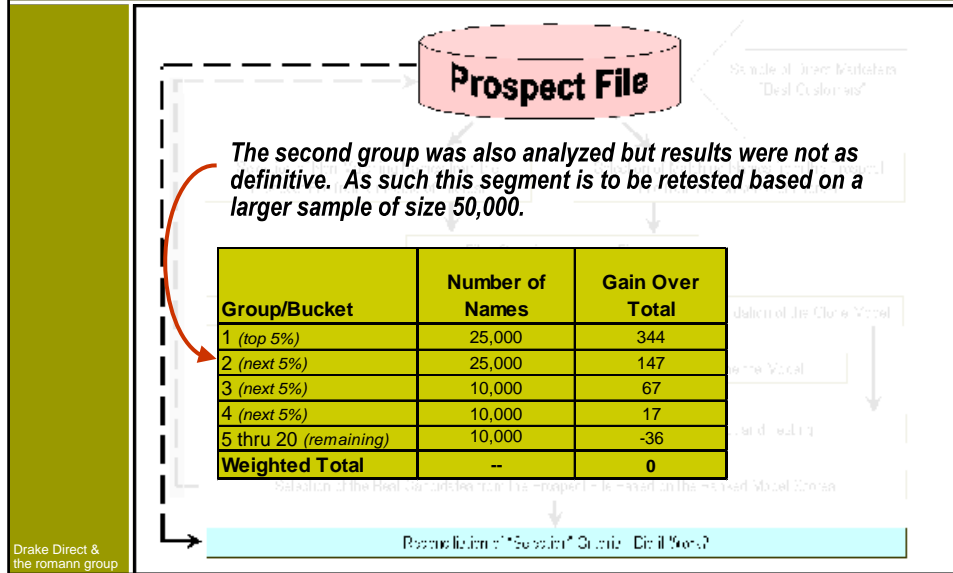
Non-Profit Organization – Testing Results



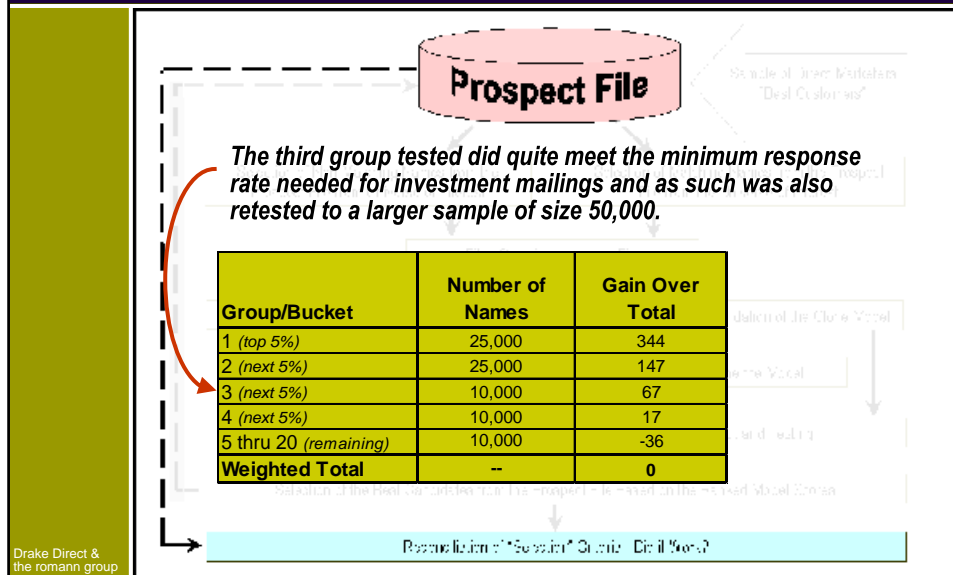
Non-Profit Organization – Testing Results



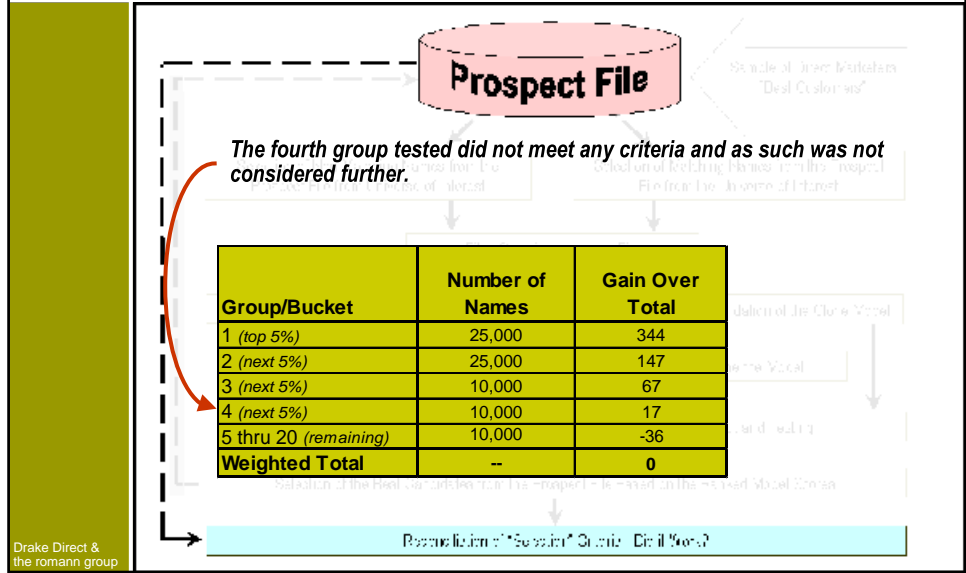
Non-Profit Organization – Testing Results



Non-Profit Organization – Testing Results



Non-Profit Organization – Testing Results



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Research Findings

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Research Background

In an attempt to measure the importance of identifying best customers in gaining greater model strength, models were compared using all “best” names as delivered by the client and using our definition of “best” names after applying various proprietary quantitative segmentation techniques.

This research was conducted on two cases:

- The non-profit organizations file (previously discussed)
- A technology communications company’s file for which we had also built a clone model

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Research Details by Case

Non-Profit Organization

For the non-profit case study the client had originally delivered 27, 093 active donors for cloning. Prior the development of the model, we segmented the file and only used 9,753 of those names for modeling purposes.

Going back to the original file of 27,093 donors, the model was rebuilt and gains were compared between the two models.

Technology Communications Company

For the technology communications study the client had originally delivered approximately 57,000 customers for cloning. Prior the development of the model, we segmented the file using their customer data and only used approximately 33,000 for modeling purposes.

Going back to the original file of 57,000 customers, the model was rebuilt and gains were compared between the two models.

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Research Gains Comparisons by Case

Findings for the non-profit organization are shown below:

Group/Bucket	Bucket Percent of Donors Identified of Total Using Proprietary Segmentation Technique for Identifying Best Donors		Bucket Percent of Donors Identified of Total Using File of Best Donors as Delivered by Client		Difference in Percent of Best Donors Identified by Bucket	
	Incremental Bucket Percents	Cumulative Bucket Percents	Incremental Bucket Percents	Cumulative Bucket Percents	Incremental Bucket Percents	Cumulative Bucket Percents
1 (Top Scoring 5%)	26.39%	26.39%	23.10%	23.10%	-12.47%	-12.47%
2 (Second Highest Scoring 5%)	13.69%	40.08%	12.91%	36.01%	-5.71%	-10.16%
3 (Third Highest Scoring 5%)	9.49%	49.57%	9.80%	45.81%	3.25%	-7.59%
4 (Fourth Highest Scoring 5%)	8.53%	58.10%	8.22%	54.03%	-3.63%	-7.01%
5 (Fifth Highest Scoring 5%)	6.35%	64.45%	6.84%	60.87%	7.74%	-5.56%
*	*	*	*	*	*	*
*	*	*	*	*	*	*
*	*	*	*	*	*	*
All	100.00%		100.00%			--

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Research Gains Comparisons by Case

Findings for the technology communications company are shown below:

Group/Bucket	Bucket Percent of Customers Identified of Total Using Proprietary Segmentation Technique for Identifying Best Customers		Bucket Percent of Customers Identified of Total Using File of Best Customers as Delivered by Client		Difference in Percent of Best Customers Identified by Bucket	
	Incremental Bucket Percents	Cumulative Bucket Percents	Incremental Bucket Percents	Cumulative Bucket Percents	Incremental Bucket Percents	Cumulative Bucket Percents
1 (Top Scoring 5%)	17.91%	17.91%	15.69%	15.69%	-12.40%	-12.40%
2 (Second Highest Scoring 5%)	13.82%	31.73%	12.55%	28.24%	-9.19%	-11.00%
3 (Third Highest Scoring 5%)	11.04%	42.77%	10.68%	38.92%	-3.26%	-9.00%
4 (Fourth Highest Scoring 5%)	8.71%	51.48%	8.46%	47.38%	-2.87%	-7.96%
5 (Fifth Highest Scoring 5%)	7.23%	58.71%	7.68%	55.06%	6.22%	-6.22%
*	*	*	*	*	*	*
*	*	*	*	*	*	*
*	*	*	*	*	*	*
All	100.00%		100.00%			--

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Research Summary Findings

All clone models are not created equal !

What have we done?

- Taken a “target” group from our clients and refined it into a more homogeneous, more desirable group.
- This refined group is used to develop a clone model
- The result is a super-efficient model which identifies the target group in a smaller segment of the compiled file---a higher concentration of prospects.
- This technique saves promotional dollars (by mailing to a richer universe)

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Thank You!

And now for the **book drawing**
and your **free gift bag** with a
chance to win...

Attack of the Clones on DVD* !



* To find out if you are winner, just look inside your free gift bag for a post card sized picture of the DVD cover for Attack of the Clones.

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Any Questions...

Feel free to contact us anytime:

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