



# Optimising Campaigns

## White Paper

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Intelligent Marketing

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# 1 Introduction

## 1.1 Purpose of Document

This white paper is intended to provide advice and guidance to Marketing Professionals who are looking to optimise their communication strategy.

## 1.2 Overview

Marketing professionals in the current climate are continually required to justify and prove the success of their communication strategy. The success of their communications can be measured in many ways depending on the strategic objectives of the business and can cover:

- acquiring more customers.
- maximising customer spend through,
  - increasing spend of existing customers.
  - increasing frequency of spend of existing customer.
- improving customer profitability.
  - reducing the cost to serve.
  - increase number of profitable customers.
- extending the customer lifecycle through,
  - retaining more customers.
  - re-activating lapsed customers.

If we look at the objective to maximise customer spend and consider a company's products, a traditional approach is to communicate with all your customers offering them all products or services. This would on first appearance, maximise your response rate, as it would guarantee all the existing customers are made aware of and thus given the opportunity to purchase your products. However, not all customers are the same and different messages and offers will illicit different responses.

So to optimise campaigns we need to:

'Ensure the right individuals get the right messages, with the right offers, through the right channel at the right time and right frequency to increase the return on investment of a business'

This white paper will look at the topic of optimising campaigns for all of the identified objectives and complete a journey through the options and approaches available to achieve this goal.

## 2 Basic techniques for targeting the right individuals through the right channel

### 2.1 Setting and example scene

To help with the journey lets look at a traditional mail order business that has been trading for 10 years, with 1 million customers, 5 major product groups, 3 million purchase transactions and trade via the internet, call centre and postal channels. They currently acquire 10,000 new customers a month, with 25,000 transactions completed a month on average and have an approved budget to target 1 million prospects during the next year. The existing communication strategy is currently product led and involves 12 mailings a year of the mail order catalogue containing all 5 of your product groups, sent monthly to all customers.

### 2.2 Should I communicate to all my customers?

Within the monthly communication 1 million catalogues are being mailed each month, resulting in 12 million mailing pieces a year. This has huge cost implications in terms of postage and catalogue production for a current response rate of 2.5% assuming that all transactions are as a direct result of the monthly communication.

The existing communication plan assumes all 1 million customers are active and can be reached via mail, which given that on average over 10% of the UK population moves house each year, is unlikely. The inclusion of redundant communications within your campaigns is inappropriate and will adversely affect your response rates and ROI (return on investment). To ensure that only target individuals who have the ability to respond the following suppressions, could be applied:

- Has the individual been identified as deceased through any of your source systems or via the application of industry suppression files?
- Has the postal address associated with an individual been identified as 'goneaway' through any of your source systems or via the application of industry suppression files?
- Have any of the customer contact details been identified as changed through an internal process or via industry change of address files.
- Has the email address resulted in a hard bounce on the last time it was communicated with?
- Has the telephone number been verified as the correct contact number for the individual?

For the identified mail order business, this identified 100,000 customers who have been identified as suppressed and so reduced the monthly mailing to 900,000 catalogues, which will increase the response rate to just under 2.8%, an increase of 10% plus.

## 2.3 Will all my customers use the same channel of communication?

Using the same channel of communication for each of your customers ignores the multiple contact points and preferred methods of transaction that a customer may utilise in their relationship with your business. This is emphasised if we picture a customer or group of customers who have only ever purchased via the internet, have stated email as their preferred method of communication and are being continually sent a catalogue each month by post. This wastage of postage and catalogue production costs may adversely affect the ROI and in the worst case will alienate the customers.

To improve the overall communication strategy the segmentation of each communication by preferred channel, will reduce campaign costs and improve the customer relationship. To enable this several key questions must be asked to see if segmentation will improve the campaign:

- Do I have permission to contact the individual by the selected channel? This may be extended to check if the permission details specific to the individual or a particular brand/service of your business?
- Has the customer indicated a preferred channel of communication?
- How did the customer last interact with our business?

For the identified mail order business, we have identified a further 100,000 customers as not wanting to receive future marketing material, so have reduced the monthly mailing to 800,000 catalogues, which will increase the response rate to just over 3.1%, an increase of another 10% plus. (assuming all transactions are a direct result of the monthly communication)

A further consideration is that some active customers are happy to receive emails, so could be communicated with via email, reducing the cost of communication and potentially the cost to serve, which will improve the overall profitability of a campaign.

## 3 Campaign Measurement

To optimise campaigns requires an understanding of the campaign performance and this will require some basic campaign metrics to understand if the campaign is:

- Responsive
- Profitable
- Effective

### 3.1 Key Metrics

In the initial chapter we concentrated on the number of responses, measured as the number of distinct orders. This provides some valuable insight into the success of the campaign, but to look at the profitability and the overall effectiveness of a campaign, a more complete set of metrics is required.

- a) CPO (Cost per Order) - Through the use of associated fixed and variable costs for a campaign, the cost for each order in a given campaign or segment can be identified.
- b) CPA (Cost per Action/Acquisition) - Not all campaigns are aimed at driving increased sales, but cover the acquisition of new prospects through a cold list mailing, via the uptake of newsletters, or online registration, etc. This will provide a metric for cost per action/acquisition for a given campaign or segment using the associated fixed and variable costs for a campaign. This can be combined with the CPO metric if a ratio can be determined between an action and order, so for example if 1 in 25 newsletter subscribers make an order you could surmise that a newsletter action is worth 4% of an order.
- c) ROI (Return on Investment) - This can be measured by several different methods from gross revenue or profit based on the order value. Looking at each of these in turn a physical value or percentage of cost can be determined:
  - i. Gross Revenue ROI - Taking the combined values of all orders achieved through a campaign or segment will provide a revenue based total return, which could be presented as a value or as a percentage of the campaign or segment cost.
  - ii. Gross Profit ROI - Taking the combined values of all orders achieved through a campaign or segment, and subtracting the associated campaign and segment costs will provide a gross profit based total return.
  - iii. Net Profit ROI - This requires a further understanding of costs incurred during the capture and fulfilment of the order, as well as the underlying cost of the product or service being sold. Using these additional costs an estimation of the net profit can be achieved.

### 3.2 Does a good response rate mean my campaign is effective?

Having a campaign with a high ROI and low CPO would lead you to believe the campaign has been very successful but many external factors can influence the customer's behaviour, beyond the direct impact of a communication.

If we take an extreme example of a major sports club, which executes a campaign to highlight the availability of personalised team shirts. The sudden increase of orders from the individuals communicated, may be a direct response to the communication, or could have been affected by the recent cup run and renewed interest in the club that this may generate.

The key here is to understand how effective your campaign has been. This can be achieved through the use of control groups to understand whether the campaign has had a negative or positive effect on the customer activity.

Looking at our identified mail order business, we created a campaign control group of 50,000 customers for the March mailing, who satisfied the selection criteria but were not sent the catalogue. For this campaign we obtained the following results:

Segment	Volume	Number of Orders	Response Rate
March Catalogue	750,000	23,500	3.13%
March Control	50,000	1,500	3.00%

The response rate points towards our campaign being effective with a 0.13% uplift, but a key measure is to understand the significance of the response through understanding the difference between the actual results and the expected results, if the same response rate had been achieved for both segments. This could also be extended to look at the other metrics discussed in the first section of this chapter.

This lack of perceived success by the campaign may be down to the actual communication or the fact that the control group received a catalogue the previous month. To understand the overall affect a yearly control group could be created to check the success of you campaigns across a given year, or even an enterprise control group to understand customer behaviour with no marketing activity.

A secondary affect of control groups is that they can provide indication of increased customer activity not initially recognised through the direct measurable response to a communication. For example, if a communication was sent with an offer which lasted for a limited period, you may discover an increase in sales following this period, compared to the control group, due to people visiting you site subsequently and purchasing a product.

## 4 Customer profiling to target the right customers

At present we have focused very much on the targeting of existing customers and have treated them with a broad brush stroke communication plan. The next step in optimising your campaigns will be to look at the actual customer's details and understand if there are any key factors driving customer activity.

### 4.1 Simple Characteristic Analysis

For the identified mail order business a quick check has been performed on the specific profile of customers who have purchased after being sent a catalogue compared to the entire mailable universe. The general feeling in the business was that our customers were evenly split between male and female, which proved to be the case. However, if you look at individuals who placed an order following the delivery of catalogue a large proportion were female:

	Total	Male	Female
Mailable Universe	800,000 (100%)	350,000 (-44%)	450,500 (-56%)
Catalogue Buyer	250,000	75,000 (30%)	175,000 (70%)

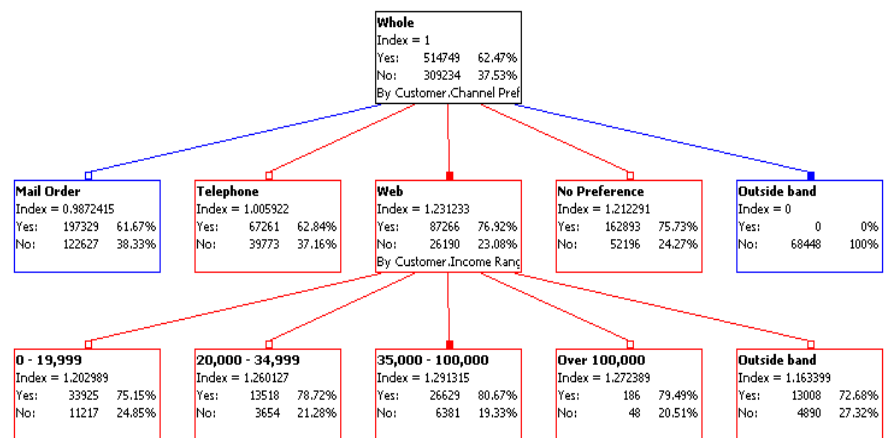
If we index this comparing the actual volume compared to the expected volume we discover that the male customers have a index of -0.68, which means they are under represented and the Female customers have a index of 1.25 so they are over represented.

Using this type of analysis over multiple pieces of information in an automated fashion, with the inclusion of significance measures to ensure the actual result is significant, will provide key insights into the characteristics of a chosen group of customers. This can then be extended to look at key campaign metrics to identify key factors of the most responsive and profitable customers.

## 4.2 Advanced Characteristic Analysis

In the previous section we looked at individual characteristics in isolation, which ignores the potential for interaction between an individual's factors. To understand this, a technique is required to review and present the key interactions between specific variables in a chosen record selection.

CHAID offers a highly visual and easily interpretable method of looking at the key customer groups within a defined selection, such as customers who have purchased after being sent a catalogue. This can be demonstrated through the example shown below for our mail order business.



In this example we have used the customers who have purchased from a catalogue as a base group and have then looked at channel preference and income range to identify key groups of customers. This has highlighted that the channel preference of Web is a key indicator of catalogue purchasing, with an income range of 35,000 - 100,000 being a related factor\*1.

Using these types of analysis techniques, helps build a picture of our customers. This can be used to identify the best type of prospects to ensure customer growth is achieved and the right type of customer is targeted.

\*1 = A key consideration though, is would customers still respond and purchase if sent and email rather than a being sent a catalogue?

## 5 Campaign strategy to target individuals with the right message and offer

So far we have looked at classifying customers and prospects by their characteristics, but have not touched upon sending communications based on actions or behaviour of the customer.

### 5.1 Customer transacting activity

For the identified mail order business we are currently sending a communication on a monthly schedule, but do not respond to given customer activity or behaviour. This ignores the fact that individuals are at different stages in their customer journey with you. For our example business we have 5 key stages:

- Prospect - Have never purchased a product.
- New Customers - Purchased their first product within the last 3 months.
- High Activity Customers - Have purchased multiple products in the last 12 months, and have been a customer for longer than 3 months.
- Low Activity Customers - Have purchased a single product in the last 12 months, and have been a customer for longer than 3 months.
- Lapsed Customers - Last purchased a product over 12 months ago.

Targeting customers with different messages as they go through their lifecycle with you will enable more personalised messages, provided at the right time, to the right customers. After a consultation exercise this led us to replace the existing 12 monthly communications with smaller more targeted communications.

- Welcome Catalogue - Following the purchase of the first product a welcome message is sent to the customer with a catalogue.
- Catalogue Mailing - A quarterly catalogue is sent to existing high and low activity customers.
- Reactivation Mailing - A monthly mailing is sent to lapsed customers offering a staggered set of offers to encourage future purchases, via email or post depending on preference.
- Activation Mailing - A quarterly mailing is sent to Prospects and Lapsed customers who have received all of the reactivation offers to encourage an initial or restart of purchasing.

So for a given year we have the following communications being circulated;

- Welcome Catalogue - 120,000.
- Catalogue Mailing - 1 million. (250,000 per quarter)
- Reactivation Mailing - 2 million. (No catalogue)
- Activation Mailing - 4 million. (No catalogue)

This has greatly reduced the number of communication being sent to each individual in a given year, reducing the catalogue production costs from 12 million a year to around 1.1 million and has provided a communication strategy based on the customer activity.

## 5.2 Customer behaviour

As well as looking at the transactions completed by a customer, other key events or behaviour can drive specific communications. Some key examples of these and further transaction based communications are:

- Selection or change of preferred communication channel.
- Birthday mailing.
- Initial product group purchase activity.
- Top customer mailing by order frequency and value.

## 6 Modeling

### 6.1 Descriptive Modeling

In the previous chapter we defined several customer groups, based on their transactional behaviour and our concept of how the customers look. This may be correct, but there may well be other groups of customers within the business, which could be treated in different ways to maximise their potential. Using a descriptive model an understanding of the key groups of customers could be obtained.

If we again look at the identified mail order business and use a descriptive (cluster) model we could look at the key RFV details to see if our existing customer stages actually fit the customer data we hold. Upon profiling the groups created on: number of products sold; last transaction date and product groups purchased, we discover that we have a new group of customers who are only purchasing product on an annual basis in the end of year sale and hence change our customer stages to:

- Prospect - Have never purchased a product.
- New Customers - Purchased their first product within the last 3 months.
- High Activity Customers - Have purchased multiple products in the last 12 months, including an out of sale product and have been a customer for longer than 3 months.
- Low Activity Customers - Have purchased a single product in the last 12 months, including an out of sale product and have been a customer for longer than 3 months.
- Sale Customers - Have only purchased sale products in the last 12 months and have been a customer for longer than 3 months.
- Lapsed Customers - Last purchased a product over 18 months ago.

Using other information on the customers can help build a better understanding of the important clusters, with the use of profiling to help describe these customer sets.

## 6.2 Predictive Modeling

Several of the key objectives identified at the beginning of this white paper were around maximising customer spend and improving customer profitability. So far to achieve this we have looked at reducing campaign wastage, understanding our customers and communicating based on behaviour. To try and improve campaign performance an understanding of how customers are likely to behave in the future would be a great advantage. By deploying a predictive model we can take what we already know and try to project forward to predict likely future behaviour.

In our mail order business we may want to use a predictive (regression) model to identify the most likely future responders to a campaign. The output would be a response score (or probability) that indicates the customers' likelihood to respond. The required mailing volume is achieved by selecting customers for the campaign in response score order. Inputs to such a predictive model could be explanatory factors such as key personal, demographic, and transactional information etc. This modelling approach could be extended to look at for example:

- CPO
- CPA
- ROI
- Lifetime Value
- Customer Type = High Activity Customer
- Average Order Value

These models could then be used to drive communications to prospects and customers with a high likelihood of responding in an optimum fashion.

## 6.3 Multiple Campaign Analysis

In most cases we have so far looked at campaigns in isolation and to move to the next level of optimising campaigns a more holistic approach is required. In a given period multiple interactions will occur with your customer and prospects, via various communication channels with differing offers and messages. This can lead to a plethora of information being sent, which may result in the customer being overwhelmed with messages or responding to less than optimal campaigns.

To manage this, the ability to know who will be communicated with in future campaigns is required, along with the generation of several models to define the potential value and likelihood to respond. Using this, rules can be configured to ensure for each campaign only the optimum customers are included. If we take our mail order business and assume we have three campaigns being completed in a given month we could obtain the following details.

Customer	Catalogue Mailing		New Product Offering		Bargain Clearance Mailing	
	Response Score	Value Score	Response Score	Value Score	Response Score	Value Score
Mr John Smith	0.132	£40	0.345	£50	0.843	£20
Mrs Jane Smith	0.310	£120	0.514	£90	0.983	£15
Mr Andrew Jones	0.234	£10	0.341	£25	0.978	£20
Mr Tim Roberts	0.521	£80	0.211	£120	0.321	£20
Mr Robert Blackler	0.611	£100	0.122	£100	0.121	£5
Mr Fred Smith	0.712	£60	0.333	£121	0.811	£5

From this we can see that Mrs Jane Smith is likely to respond to the New Product Offering and the Bargain Clearance Mailing, but has a far higher potential value for the New Product Offering. So assuming there are no volume constraints on the specific campaigns the following communication plan would be achieved, based on the likely value.

Customer	Catalogue Mailing	New Product Offering	Bargain Clearance Mailing
Mr John Smith	£5.28	<u>£17.25</u>	£16.86
Mrs Jane Smith	£37.20	<u>£46.26</u>	£14.75
Mr Andrew Jones	£2.34	£8.53	<u>£19.56</u>
Mr Tim Roberts	<u>£41.68</u>	£25.32	£6.42
Mr Robert Blackler	<u>£61.10</u>	£12.20	£0.61
Mr Fred Smith	<u>£42.72</u>	£40.29	£4.06

Note: Underlined value is the selected campaign to be received by each individual assuming a fatigue strategy of only one message per person being sent in a given period.

## 7 Conclusion

Optimising your communication plan is best approached as a series of steps towards meeting your business goals. The key steps are:

- Reduce wastage by understanding who you can and cannot communicate to.
- Define a set of common metrics to provide clear and consistent evaluation of your campaigns.
- Make use of your customer data to help identify key characteristics of known frequent high value customers.
- Extend the communication strategy to respond to customer behaviour.
- Make use of modeling to help define key customer groups and predict future customer behaviour.
- Understand the interaction of multiple campaigns and how this will affect the overall communication revenue.

For further information on this subject and assistance with the creation and analysis of your Customers please contact us on +44 (0) 117 943 5800 or email [info@smartfocus.com](mailto:info@smartfocus.com)

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