

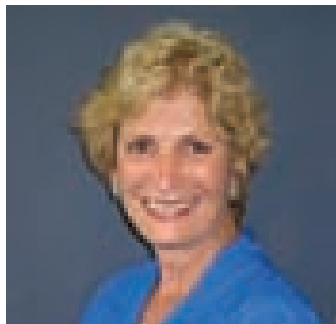
Why promotion history counts in successful data mining

BY ANDREA MISKOVSKY

Successful data mining depends on having rich and valuable customer data on hand to inform marketing decisions, ranging from product purchase history and channel of preference behavior to geography, demographics, and psychographics. Promotion history is often neglected in the data mining process but can be pivotal to its success.

Promotion history is a record of a marketer's communications with a given customer or prospect, including when it was sent, how it was sent (channel of communication), and the offer/creative used. All of this information can be kept on a readily available relational marketing database.

Promotion history creates a customer-centric view of promotional events. This does not diminish the need for tried-and-



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true campaign performance metrics, but it provides an alternative view that enables marketers to connect the dots between the number of times promoted, the nature of promotions, the timing of promotions, and response, all of which are critical in the decision-making process.

Promotion history makes it possible to answer a number of questions, including:

How many times did I have to contact a prospect before they

became my customer? We all know that the cost of acquiring new customers is high, partly because you have to establish your credibility through multiple contacts with prospects. While measuring the return on investment for a given campaign is simple, you need promotion history to measure the cost of acquiring a given customer. Prospecting promotion history provides you with a richer picture of your new-to-file customers.

How many times do I have to contact a customer in order to generate incremental response? Promotion history allows you to benchmark response behavior, accurately compare a customer's behavior to the norm, and calculate the point of diminishing returns in promoting certain customer segments. Promotion history can help you segment your customers to create an optimal contract strategy and related budget.

What type of offer is a particular customer most responsive to? Promotion history helps identify customers who respond only to sales or other offers such as free shipping, or who respond offers that highlight certain product categories.

What channels of communication work best in eliciting a positive response from a particular customer? Keeping track of all promotions in all channels (direct mail, e-mail, telephone) lets you see if a customer is more sensitive to messages in one channel vs. another and/or determine which combination of channels is most effective. As you test and analyze, you should be able to develop contact strategies that alter the mix of promotions.

What is the true lifetime value of the customer? Promotional his-

tory and its associated costs are essential elements in the calculation of lifetime value. While marketers may not use promotional costs on a day-to-day basis to segment their customers and select their campaigns, these costs are a vital factor in the background calculations for lifetime value and other model scores.

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Why using RFV analysis is more important than ever

BY CURT BLOOM

When supermarkets usurped the village shop, some felt the personal touch was lost in retail forever. But today's technology means even the biggest business can talk to every customer as an individual. Personalization is not about mail-merging. It's about understanding the customer well enough to be able to adapt the message to what he or she wants, and to use that knowledge as a platform for increasing customer loyalty, satisfaction and spend.

At the most basic level, you can group and target customers by their address or demographics, such as age. While that might enable you to reach most of those you need to, there will be many others included who have no interest in your proposition. By enhancing your data with lifestyle information and classifications from the Mosaic and Acorn databases, you can focus on your prospects' interests and take a step towards understanding their needs and desires.

However, the greatest success comes when you're able to target customers according to what they do, instead of what they are. Companies are often forced to resort to vague segmentation based on age or geography because they don't know how to ana-



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lyze the data they hold about the interactions customers have with them. One framework for defining customer behaviour is recency, frequency and value (RFV) analysis – hardly a new concept but one that is more important than ever.

Recency is a measure of when the customer last engaged with the business, typically when they last ordered. In the case of e-commerce businesses, it could be

when the customer last logged in or visited the site. The metric is a proxy for that customer's awareness of your brand and a yardstick for the goodwill the customer will feel towards you, which will be high after a positive experience but will decay as the memory fades.

The frequency of orders can hint at how high the customer's demand is for a particular product, and how strongly he or she advocates your version of it, although it's impossible to tell how many orders of similar products go to the competition.

Frequent shoppers are not necessarily the big spenders or the