

Contact Optimization Marketing

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INDUSTRY INSIGHT

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Contact Optimization is the marketing strategy for an increasingly individualistic marketplace. It enables marketers to effectively apportion marketing messages through all customer segments - resulting in better long-term results and client relationships.

This white paper provides a step - by - step plan for testing and implementing a Contact Optimization plan at your organization.

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Overview

Consumers today are inundated with marketing messages received through a multitude of channels. These channels range from broad-based media like television and radio to targeted, personalized communications like direct mail. Traditional direct marketers using RFM techniques target high value consumers even more vigorously, sending them the greater share of overall marketing efforts. It is increasingly challenging to get your brand's message through without overrunning your budget or oversaturating (and annoying) your best customers. Most importantly, it is evident that campaigns built by selecting discrete groups of customers from the top down, based on previous purchasing behavior, are no longer yielding the Return on Investment that top executives are seeking.

The solution to this is Contact Optimization. This strategy enables marketers to apportion marketing messages through all customer segments. It lets them amplify the impact of campaigns through the careful coordination of channels, all while maintaining a consistent brand voice and a balanced budget.

This paper briefs marketing executives on the benefits of employing Contact Optimization and describes the steps involved in moving companies toward the successful implementation of this strategy. While the example used in this white paper involves a multi-channel marketer – catalog, Web site, and retail – a Contact Optimization strategy can be utilized by virtually every organization with a database of customers.

What is Contact Optimization?

Let's look first at the way most marketers develop their campaign plans. Catalogers, for example, might determine beforehand how many catalogs their budget allows them to mail to their existing customer base. To maximize results, they will choose the groups with the best performance on previous catalogs based on RFM criteria. (More sophisticated managers will know that R, F, and M should not be weighted equally.) They will also

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consider how various customer groups will react to product mix in the forthcoming catalog, and may employ regression or other models.

Veteran marketers do in fact select the right groups to receive the latest catalog. The problem is that there are high potential individuals whose names do not reside in these groups, and these individuals will not receive a catalog or any other communications. In addition, those in the right groups may be over-promoted and companies will wear out their welcome too quickly. Getting short-term results is the focus, but these results often erode as time passes.

Contact Optimization, on the other hand, considers all the individual customers in a company's database, and looks at all the channels and business units used by these customers to transact business and to communicate with the company. Marketers no longer have to group customers by what products they purchase. Based on buying potential and on customer preferences for communications, the contact strategy plan designates the type and frequency of contact the marketer will employ. Certain customers are worthy of receiving two catalogs and a phone call. Others, with lower buying potential for particular products, are not ignored but are sent minimal-cost emails to drive them to the Web site. Migrating less profitable customers to less expensive online buying can have an enormous impact on a company's bottom line.

Even with the current legislation about telemarketing and email, outbound phone calls and emails to "best customers" must still be considered vital in the communications mix. Just as companies utilize opt-ins in their email programs, they should make opt-ins a requirement for telemarketing.

Contact Optimization marketing provides companies with a number of benefits over traditional campaign management processes. It requires enterprise-wide marketing, a real benefit in itself. It helps build loyalty because communication is both more frequent and more targeted. It spreads out the marketing budget so that each promotion can be a success unto itself, and so that present promotions do not rob revenue and profits from future promotions. And, in the end, Contact Optimization marketing offers significant increases in Return on Investment.

How to Move to Contact Optimization Marketing

There are five steps involved in moving your company from traditional campaign management to Contact Optimization marketing.

1. Assess your current marketing programs.

You'll want to look at what data you currently capture from your customers – communications and touch points as well as transactions – how you gather that data, and how you use it. You have to examine both your database and organizational structures. If they are

siloes, that will have to change to make Contact Optimization marketing work. You need to consider how direct mail plans and email plans are formulated and what the results have been overtime. Particular attention needs to be paid to loyalty programs because the customers in these programs are normally more contact-worthy.

2. Set your goals.

As indicated, you will be looking for increased ROI. This will not be on an individual campaign basis, but overall. Your goals should specify percentage lifts in repeat buying as well as dollars of increase in customer lifetime value. Both of these goals tie directly into increasing loyalty.

3. Develop the Contact Optimization model.

You want to identify a target customer population for a whole season. Factors in the model will certainly include traditional RFM and product preferences, but should also weigh purchase channel preferences and communications channel preferences – the two may be quite different, as well as customer-provided preferences on frequency of communication. The model breaks the customer population into segments, then slices those segments based on the products being marketed.

Seasonality and product or service affinity should be factored in as well. Some customers buy only once a year, always at the same time – so direct mail promotions to them at other times could potentially be productive. Email contacts could be the answer.

In addition to data residing on the base, the model can include overlays of demographic and attitudinal data. The model should be designed to yield an ideal number of contacts for each individual in the target customer population and what the mix of contacts should be – direct mail vs. email vs. telemarketing. Within this mix, the nature of the direct mail contacts can be delineated – full catalog, mini-catalog, or reminder postcard/self-mailer.

4. Design and execute tests of the model.

One panel of the test, the control group, would be selected based on the older campaign management methodology. Individuals in this panel would receive only the catalog. Panels from the model would be based on adhering to the contact frequency and mix suggested and on raising/lowering frequency and/or changing the mix. Other panels could hold frequency, but test the timing between contacts. You can also test using email as a sales medium unto itself or as a support medium (announcing that a catalog is on its way, or that a retail outlet in the neighborhood is having a sale).

5. Measure the results.

Over a season, how did the panel adhering to the model compare to the control group and to the panels in which number, nature, and timing of contacts were changed? You need to analyze total purchases, not just mail purchases. Did only those customers

designated to receive emails contribute to your profitability? Did email contacts raise ROI among those customers who had previously only received catalogs? Beyond the season, you'll want to look at lifetime value among the customers chosen by campaign management methodology vs. customers getting the contact frequency/mix specified by the model. In other words, what effect does Contact Optimization marketing in year one have on succeeding year loyalty and results?

Moving to Contact Optimization marketing doesn't happen overnight. While steps one through three can be accomplished relatively quickly once a commitment is made, testing and measuring how the model performs can take up to a year. The incentives for taking immediate action are clear. Contact Optimization marketing lets companies communicate with the individual customers most likely to buy through channels that provide the best Return on Investment. Contact Optimization marketing speaks with one voice with a frequency based on customer preference. It is the marketing strategy for an increasingly individualistic marketplace, strengthening the customer's relationship – and lifetime value – with your brand.