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A Database Marketer's Dilemma: When To Stop Marketing?

by Jay M. Jaffe

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Database marketers spend considerable time and money to identify the most responsive market segments. They read countless articles and attend numerous seminars to learn how to find the prospect groups most likely to buy a particular product. The process which identifies the best prospects from the entire universe of

prospects is referred to as modeling.

Modeling only indicates which market segments have the highest probability of responding to an offer; it cannot pinpoint whether any specific prospect will accept a particular offer. Modeling is a great asset to a database marketer because it helps reduce marketing costs by directing offers away from those prospects who have the least propensity to respond to an offer.

But models do not address one of the fundamental business decisions facing database marketers: should the marketer

sell products until the point at which the cost of the NEXT sale exceeds the marketing allowance for the product or until the point at which the AVERAGE cost of all sales exceeds the marketing allowance for the product?

The two following tables demonstrate the difference between the cost of the next sale (sometimes referred to as the marginal cost) and the average cost of a sale. Table I calculates the cost of the next sale. The cost of the next sale is shown in Column (6).

**TABLE I
CALCULATION OF COST OF NEXT SALE**

(1) Decile "d"	(2) # in Decile (2)	(3) Marketing Cost (3)	(4) Probability of a sale (4)	(5) # Sales = (2) x (4) (5)	(6) Cost of NEXT sale =(3)(5) (6)
1	1,000	\$1,000	0.1000	100	\$10.00
2	1,000	1,000	0.0800	80	\$12.50
3	1,000	1,000	0.0600	60	\$16.67
4	1,000	1,000	0.0400	40	\$25.00
5	1,000	1,000	0.0200	20	\$50.00
6	1,000	1,000	0.0100	10	\$100.00
7	1,000	1,000	0.0060	6	\$166.67
8	1,000	1,000	0.00300	3	\$333.33
9	1,000	1,000	0.0020	2	\$500.00
10	1,000	1,000	0.0010	1	\$1,000.00
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Total	10,000	\$10,000		322	

Management of the Solicitation Decision Process

We have covered some analytical techniques and rules that can be used in the study of direct mail solicitation. Now we cover the management of decisions in the solicitation process. Analysis alone is not important in a direct marketing organization. Rather, the making of appropriate decisions based on analysis is what is critical.

There are five key pieces to making the proper decisions:

- 1) Definition of goals
- 2) Delineation of the criteria
- 3) Communications
- 4) Timeliness
- 5) The discipline to act

The pieces are interrelated and each is important.

Every mailing—whether it is a test or a rollout—has at least one goal. That goal may be defined in terms of the TAP:MC ratio (as discussed in Part 1 of the series), converted response rate, or a comparison of “Package A” versus “Package B.” The goal must be stated in writing prior to the mailing. Pragmatically the goal for rollout of a given product or family of products may be stated once a year. The goal of the test, however, must be stated as part of the test process. Only when goals are clearly stated (and are appropriate) can they be evaluated.

The criteria need to be clearly defined. The criteria include the form of analysis to be performed, such as those discussed in Part 1 of this series. But, beyond that, each piece of the analysis needs to be clearly defined. Such questions as “What is included in marketing cost?” or “How do we define converted?” need to be addressed. Most of the criteria will be agreed upon once (or were understood long ago) in the company, but it is valuable to review and reaffirm the criteria annually.

Communication is vital. There are many pieces that need to be coordinated, from postage to a print shop to sufficient fulfillment material. The area performing the analysis needs to be part of this information chain in order to properly set up and evaluate the solicitation. Problems such as delayed mailing or underwriting

backlogs must be noted in solicitation. Problems do occur. The sooner they are noted and corrected, the less likely they are to have a negative impact on the solicitation and on the analysis.

In solicitation analysis and decision-making, timeliness may be as important as godliness. We all work with short time frames and the need to roll out products as quickly as we can. The analysis of each solicitation must be a high priority. The more up-to-date the information is, the better the decision will be. My preference is for weekly analysis updates of all active mailings. Weekly updates allow for the most current information to be available without having the clutter and overload of daily data. The complete analysis of each solicitation should take place as quickly as possible after the mailings drop.

Finally, the company needs the discipline to act. This means committing resources to what is working and hope on what is not working. This is often quite difficult to do because of personal biases. Personal biases often create the faith that the next test or the next change will make the product successful. I know of mailings that were done only because of prestige or because the president liked a particular mailing package. Losing money was “justified” on these bases. It is a common fault. But to be successful, the company must be willing to follow its criteria and measure whether the goals have been met. Actions and decisions must be based on fact and analysis, not bias and hope. This task is possible only if the first four keys of this article are in place; that is, goals and criteria must be defined, open communication must exist, and all analysis must be timely.

The analysis of a solicitation is only as good as the actions taken because of the analysis. Put yourself and your company in the position that all decisions and actions are the right ones.

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A Database Marketers Dilemma from page 9

compensation plan which includes an element based on volume of new sales. Under these circumstances it is easily understandable that a database marketer feels that marketing should continue as long as the average cost of all sales is less than the marketing allowance.

Since there isn't a correct choice between using the next or average cost criteria, why should a database marketer be concerned about the next/average cost issue? It is precisely because there is no single answer to the dilemma that each databased marketer must know and understand the criteria on which their companies make marketing decisions. Not knowing whether to use the next or average criteria in a particular situation could result in a seemingly otherwise successful marketing campaign that turns out to be an unsuccessful marketing program when it is evaluated by senior company officials.

It is not necessary for a company to identify itself as a next or an average cost company sales target environment. Varying marketing criteria between next and average is acceptable providing the decision for a particular situation is made rationally. It takes a bit of planning to be certain that the choice of using the next or the average criteria is integrated into the normal marketing planning routine but this is not really a difficult task.

The easy way out for any company is to ignore the choice between NEXT and AVERAGE cost sales. This attitude is also a sure way to achieve less than optimal profits.

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