



SOCIETY OF ACTUARIES

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Direct Marketing: Part 3

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Pragmatic Testing

While the professional follows the dictates of classical statistics when possible, he or she also recognizes there are times when a classic statistical approach cannot be used. What approaches can be used with small mailings or very limited budgets? Fortunately, there are three pragmatic "rules" for small test mailings.

The Rule of 50

Decisions should be based on at least 50 responses. Credible decisions cannot be made with less than 50 responses. Note that we are not directly interested in the size of the mailing, only in having the test cell(s) of sufficient size to generate at least 50 responses. Be cautioned that the implied error tolerance can be significant with only 50 responses.

The Rule of 5

If you are basing a rollout or subsequent

test on a small initial test, the rollout should not be more than five times the mailing size of the prior test. That is, if the initial test mailing was 6,000 pieces, the subsequent mailing should not exceed 30,000 pieces. The initial test implicitly had a relatively large acceptable error tolerance; therefore caution needs to be exercised in any subsequent rollout. After all, we are trying to be pragmatic in our approach.

The Rule of Small/Large

Small-test mailings can be used to test for large differences. However, testing for small differences in responses still requires large tests. Clearly, the difference between 50 and 51 responses is not credible. Make sure you are being practical, not foolish.

These rules lead to two important corollaries:

- **Corollary 1:** You can structure tests so that any one cell is not credible, but by combining results, valid conclusions may be drawn. This is best illustrated by an example. A mailing of 18,000 names can be divided into

12 cells to test three lists and four creative packages. Each cell would mail to about 1,500 people, and conclusions can be drawn by combining the results for each list and each package. The table illustrates the results of such an approach and shows that packages B and C are better than the other two and that list 2 is inferior to lists 1 and 3. Again, caution should be exercised where the difference in results is not large.

- **Corollary 2:** Since small tests can only effectively test for large differences, only the major variables should be tested using small-scale mailings. That is, concentrate on testing lists, offers, and packages.

The answer to the questions about the size of test mailings noted in Part 2 of this series is that small test mailings can be used effectively. With these three rules, there is no excuse for not testing.

RESULTS OF MAILING TO TEST FOUR PACKAGES AND THREE LISTS

Package	List 1 Response		List 2 Response		List 3 Response		Total Response	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
A	20	1.33%	14	0.93%	22	1.47%	56	1.24%
B	24	1.60	15	1.00	28	1.87	67	1.49
C	26	1.73	19	1.27	25	1.67	70	1.56
D	13	0.87	10	0.67	18	1.20	41	0.91
	83	1.38%	58	0.97%	93	1.55%	234	1.30%

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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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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