



SOCIETY OF ACTUARIES

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## Direct Marketing: The Mathematics of Tests

by H. Neil Lund

*Editor's Note: This article is a reprint from the Fall 1993 NewsDirect issue and is the second in a four-part series. Another article in an upcoming issue of NewsDirect will discuss some pragmatic approaches in testing. Various "rules of thumb" will provide an interesting contrast to the classic approach presented in this article.*

**D**irect marketing literature devotes a great deal of space to test mailings. This article covers the classic mathematics of testing and hopefully clarifies a few aspects of testing.

Some experts advocate including at least one test cell in every marketing effort. Such a maxim may well apply where large-scale mailings are the norm but may be impossible for small-scale mailings. Regardless of the size of an organization's mailing, some level of testing must take place. New products, product changes, new creative, or new lists certainly call for testing. Testing may also be necessary as a result of observing competitors, new technologies or regulatory change or experiencing some spark of creative genius.

Testing is used to confirm or deny hypotheses about markets, products, media, or promotions. Testing can take many forms: focus groups, surveys, simulations, or single- or multiple-cell tests. However, because this series of articles covers the analysis of solicitation, only single- and multiple-cell tests are examined. Single-cell tests are used, for example, when trying a new product, a new marker, and the like. Multiple-cell tests are used when comparing, for example, a new creative package against the standard or control package or comparing the effectiveness of a credit card list against a savers' list. Testing involves not only the analysis discussed in the June 1993 issue of *NewsDirect*, but also two other questions: How many pieces must be mailed to be confident that the test will provide meaningful information? And how

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## Chairperson's Corner New NTM Mission

by Edward F. McKernan

**I** expect this will be my last Chairperson's Corner article for the Nontraditional Marketing (NTM) Section. I have never considered myself an author by any means—as you have probably surmised during the past year. So, consider it a blessing that this is my last one. Coincidental with the Annual SOA Meeting, the gavel will pass on to Carl Meier, who I expect will serve the Section well in his new role as chairperson.

During this last year, the (NTM) Section Council has been very active with a variety of endeavors, many of which will have come to fruition as this newsletter goes to press. These have included:

- The "Bancassurance—Before Today, Beyond Tomorrow" and "Emerging Markets for the New Senior Citizen" seminars
- Programs and recruitment of speakers for the Annual and Spring SOA meetings
- Several *NewsDirect* editions, which have included excellent contributions

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## Chairperson's Corner

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from within and without the Section membership

- The development and publication of the enclosed Product / Channel Directory
- A new Section logo (see the newsletter masthead on this page)

However, probably one of the more enduring accomplishments was the rekindling of the mission statement of the Section.

During my tenure with the Section Council, the NTM Section's purpose and goals have often been the subject of debate considering the variety of interests we serve. If you stop and think about it, the focus of the Nontraditional Marketing Section can be quite dynamic. New nontraditional ventures continue to emerge, and products and distribution channels once considered "nontraditional" often become "traditional" by industry standards. (If the Section were in existence at the turn of the century, the career distribution channel would have been considered nontraditional—but then

again, maybe that will happen once more.)

When do we begin embracing a particular facet of the insurance industry? When do we stop? Do we focus on niche products or niche distribution channels? How do we serve the Section membership in this regard? As an outcrop of the debates surrounding these questions, the Section Council began working on a new mission statement. This was a significant effort considering the different views and industry perspectives represented by your Council representatives. Nonetheless, we balanced our views and developed a statement, which we hope embraces the spirit of the Section, will endure the test of time, and will serve remind us of the Section's charge. Therefore, without further fanfare, I introduce you to the new mission statement of the Section:

*The mission of the Nontraditional Marketing Section is to provide a forum for research and discussion regarding alternative means of accessing potential insurance customers when compared to conventional marketing channels. The primary focus of the Section is on the relationship between customers, insurance*

*and financial products, and distribution channels. As a corollary, a focal point of the Section encompasses specialty products particularly well suited to alternative methods of distribution.*

During our deliberations, we concluded the identity of the Section should not be the result of specific products and/or distribution channels, but rather it is the dynamics of our industry that define our Section. Dynamics that create emerging products and/or distribution channels and these emerging trends define our Section's goals.

I have been happy to contribute to the work of the Section, but have only been able to do so through the efforts of my fellow Council members and SOA liaisons, especially Lois Chinnock. I would also like to take this opportunity to thank two other outgoing members of the Council, Bob Butler and Dick Dutton. Both have made major contributions to the activities of the Section these past three years. In addition, I thank the continuing Council members and friends of the Section for their efforts on behalf of the Section membership. Without the efforts of these individuals, well ... you know.



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