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## **Tools for Survival and Growth**

### ***Predictive Models are Changing the Game***

By Bob Stimolo

Most direct marketers receive their orders on their order forms, over an 800 line directly from the respondent, or on their website. They use source codes (on the web they call them promotion codes or offer codes) to track tests and list segments and, for the most part, are able to collect virtually all of the sales data against these source codes.

In the education market, order forms are used as requisitions for purchase orders (if they are used at all). When the purchase order arrives it includes no source codes and often not even the name of the teacher who initiated the order.

Orders received on 800 lines or over the Internet are often placed by school secretaries and other administrators who don't have the promotion in front of them and can't provide the source codes for tracking. This makes school marketing especially challenging in a marketplace already suffering the effects of the recession, budget deficits, and No Child Left Behind legislation.

### **Tracking Direct Mail Promotions**

It is possible to obtain some order information. And basing business decisions on some information is much better than basing them on no information.

For example, tracking can be done effectively (especially among catalog marketers) by prefixing or suffixing item codes or sku numbers. These numbers come through the school purchasing system faithfully and result in the ability to track almost all the sales back to a given catalog mailing.

Most companies choose to add a prefix or suffix to their item codes or sku numbers that are only visible on sales reports. Thus, item 101 becomes 101A in the January catalog, 101B in the March catalog, and 101C in the August catalog. However, for simplicity, the accounting and inventory systems recognize it only as item 101.

### **Understanding Website Activity**

It's even possible to track the activity a catalog creates on a website. As part of the order entry process, request the catalog code that's preprinted near the address area in a special shaded box for easy recognition. Another method is to create a unique URL that's published in the catalog that links to a specific order form that can be tracked back to the catalog.

The complete life of each catalog can also be determined through tracking and the sales data allows adjustments to promotion plans as needed. The mail volume of catalogs with higher sales can be increased while the mail volume of catalogs with lower sales can be decreased.

Tracking information is helpful in determining which catalogs to mail when and in what quantities. Typically the best performing catalogs are mailed between January and May. This represents the major decision-making season preceding the new school budgets which become available on July 1st. For most companies, catalogs mailed between August and December don't perform as well because by the time school starts in the fall, most of the budget monies have been committed.

### **Seasonal Catalogs Vary in Performance**

Even so, there can be dramatic differences in catalog performance based on the month or exact date mailed. Performance can also vary greatly based on the number of pages, the catalog design or style, and the product lines featured.

The performance of catalogs should be constantly measured and adjustments made based on those results. For example, if the January catalog performs better than March, consider increasing the January mail quantity. Or perhaps make a second mailing of the same catalog to the best performing lists again about four to six weeks later.

### **Circulation Management**

The business of deciding how many catalogs to mail, to whom, when and in what quantities is generally referred to as circulation management. One of the generally accepted principals of circulation management is that one invests in prospects in order to turn them into customers. In turn, customers are promoted vigorously in order to generate profits.

Few circulation managers would express a goal to generate profits from prospecting. In fact, a common outlook is to break even on prospecting in order to provide the greatest growth to the customer files. This strategy helps to maximize the customer files as a company asset and yields the greatest net revenue from customer promotions.

### **List Tests**

List selection can have the greatest impact on response but it is one of the most difficult tests to track. The most common technique is to assign a source or promotion code similar to those found on consumer market catalogs and then encourage the respondent to report the code in order to insure that they receive the pricing represented in the promotion. Most school marketers report tracking 20% of their response using this technique.

Consumer marketers often set the expectations for educators. The technique with which most consumer mail order buyers are familiar involves placing a promotion code in a blue or yellow highlighted box in or near the address area on the back cover of the catalog. When the respondent calls an order in to the 800 number, the order entry operator asks for the promotion code and the source of the order is identified.

Unfortunately, in the school market, the respondent is often not the person who selected the items ordered, is reading from a purchase order or requisition form, and doesn't have the catalog handy. Hence the relatively low tracking rate.

### **Bypassing the List Segment**

Some school marketers have decided to bypass trying to track list segments altogether, focusing instead on the performance of the school building or district office. This is done through the development of predictive models.

These marketers reason that the capture rate of source codes for list segments is so low that the data may be biased because only certain individuals in certain types of schools and districts can manage to get the source code through the purchasing system. Hence, the data is unreliable. Instead, they use profiling products and the educator name level to identify their most productive job functions and predictive models to determine which schools to promote when, how often and to what degree of penetration.

### **What Exactly Is a Predictive Model?**

Predictive models are black boxes. Unless you have been trained as a statistician, you will never have a complete understanding of the process. Having stated that, here is a layperson's definition:

A predictive model compares your sales data from your customer schools over a given period of time to the amount of promotion you invested in those schools and calculates a return on investment (ROI) for each school building. The time period can vary but it is mostly driven by how long your business practices have been consistent. Modelers do not like to use data from time periods that include significant changes in how you went about your marketing, for example. The schools are then arrayed from highest ROI to lowest.

Then, this ranking along with numerous demographic data are run through a statistical software program. The program compares the array of your customer schools to each field of demographic data and determines if there is a correlation with this data and the degree to which it exists. When the program determines that there is a correlation with one or more demographic field (i.e., enrollment, poverty level, metro status, etc.) it assigns a score based upon the degree of correlation.

When the program has completed its analysis, it adds the scores for each school and then ranks all schools in the universe from best to worst. Finally, it divides them into tenths, commonly referred to as deciles. Decile 1, now represents the best performing schools for your products, decile 2 is the next best and so forth. The model will tell you the relationship between the deciles so you can determine how frequently and to what degree you want to promote to each decile in a given mailing.

### **The Right Tool at the Right Time**

This is the right tool at the right time for our market. In the current environment we need to be able to manage our risk and a predictive model is the best tool available to do that. With it we can reduce or eliminate promotion to schools and districts that are not productive and increase promotions to schools that are.