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OUT

Mark Patron, author of Tank's recent report on UK prospect pool usage, highlights some of the findings and how smarter mailing using existing data can save substantial amounts of money.

## High volume

Over the last ten years, there has been a dramatic shift from mailing list to prospect pool marketing. For example, prospect databases have enabled credit cards to grow from three per cent to 25 per cent of all consumer direct mail (DMIS). Mainly due to their prospect databases, credit card issuers' mailing costs are 30 per cent less than the industry average.

In the 80s, companies like Reader's Digest and Littlewoods built prospect pools based on the Electoral Roll (ER). The ER would be enhanced with RFM (recency, frequency, monetary value) customer data, plus geodemographic information derived from the Census. Reader's Digest had success using regression and derived variables, such as number of orders divided by number of promotions.

The mid-90s saw the advent of databases with national coverage such as Claritas' Lifestyle Universe. US credit card companies entering the UK market lowered their mailing costs by licensing these databases for multiple usage. More recently we have seen mail order, utilities and publishing companies start to build prospect pools.

### The findings

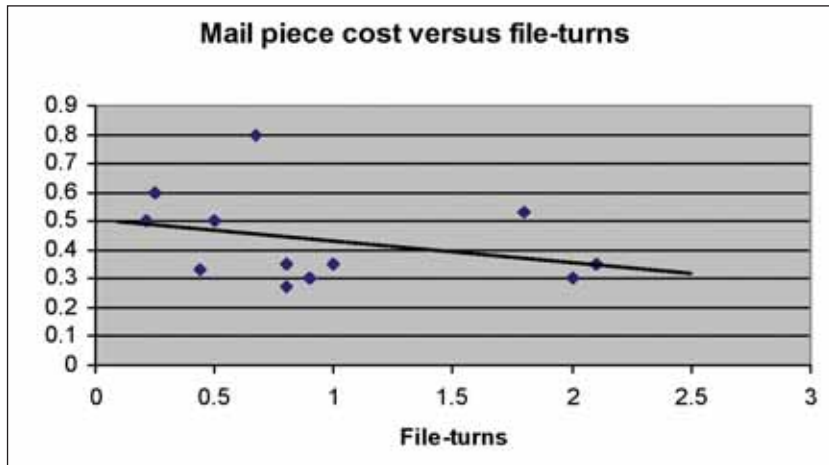
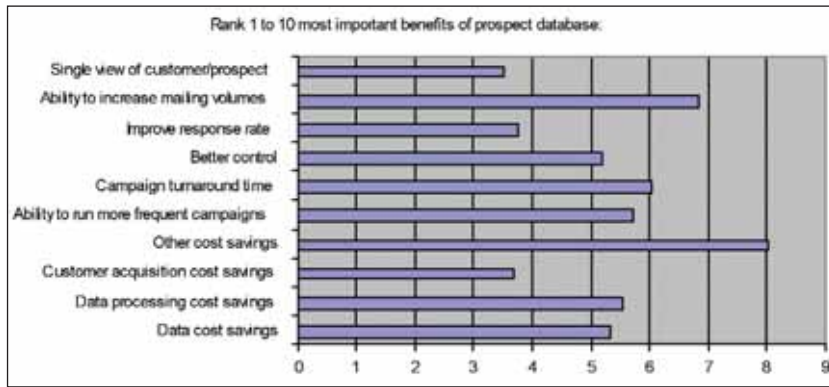
Tank's research, sponsored by ClarityBlue, is the first detailed picture of the use of prospect databases. 27 of the UK's largest direct marketers responded to the survey. Between them, they mailed 370 million pieces last

year and spent £150 million on direct mail. Half of the respondents were also given a telephone interview. The survey found that single customer or prospect view was the most important benefit of prospect databases, with an average ranking of 3.5 out of a possible 1 to 10. Customer acquisition cost savings and improving response rates were ranked second and third.

Experian was the most commonly used lead data supplier, followed by Acxiom. 78 per cent of survey responders had Experian data in their prospect databases and 63 per cent Acxiom data. 22 per cent of responders used Experian as their primary data provider. CACI, Wegener and EuroDirect were the next most commonly mentioned suppliers. The average spend on data was around £700,000 and half of the survey respondents spent more than £250,000. Nearly all respondents spent £20 million pounds on data annually.

Only 26 per cent of survey respondents had multi-year contracts and the average length of contract was one year. 59 per cent of companies surveyed based their data buying decisions on previous mailing results with 41 per cent also basing their buying decision on some form of benchmarking study. No organisation had based their decision solely on benchmarking.

Not surprisingly there is little use of mailing lists with 68 per cent of survey respondents either not using lists at all or for less than 25 per cent of mailings. The majority of mailings were targeted using the prospect



Of the £500 million spent on direct mail generated by prospect databases, £50 million could be saved by holding less data

pool. On average 54 per cent of selections were made using a scorecard.

The average percentage of data lost due to suppressions was over 20 per cent and the average database size was nearly 12 million records. The average number of fields in the prospect database was 370. The data processing spend was typically a quarter to a third of the data spend.

Prospects for direct mail growth look good, with 45 per cent of the advertisers saying they will increase volumes this year and only 10 per cent decreasing. Their telemarketing is set to grow 20 per cent and email to double. The average mail piece cost was 36.9p, for financial services 32.8p, for non-financial 42p, and for credit cards 32p.

**What does this mean?**

The graph highlights the benefits of multi-sourcing data. As the average amount of data from the top data supplier comes down, so does the average customer acquisition cost. Recent research by The Customer Partnership consultancy found that dual sourcing of data gives up to a 20 per cent improvement in response and sourcing from three different data suppliers produces up to a 40 per cent better response. Not surprisingly the average mail piece costs comes down with increasing direct mail volume due to economies of scale.

The survey also highlights the importance of file turnover. The average volume of survey respondents' mailings was 14 million and the average prospect data-

base size was 11.9 million records. Dividing the mailing volume by the database size gives the file-turnover. Taking into account the use of mailing lists, this gives an average file-turnover of 1.

As one might expect, per-mail-piece data costs decrease with higher file-turns; if the same data is mailed twice as often then the unit cost halves. This demonstrates that data suppliers are pricing primarily based on volume rather than usage. What is less obvious, however, is that many other costs also decrease with higher file-turns. For example, data processing costs – which are about a quarter to a third of data costs – also come down. If file turnover doubles due to the database halving in size, then only half the file has to be passed and stored. Another improvement with higher file-turns is the quality of predictive models and scorecard development. If a predictive model is built on the right 20 million records rather than 40 million records, it will work better.

Lower per-unit data and other costs due to increasing file-turns means an overall lowering of mail piece costs. The average direct mailer would reduce their mail piece costs by around 4p per item by increasing their file-turns by half a file-turn. Obviously this improvement would require better data buying as well as variable data processing costs. At first sight these costs may appear to be fixed. For example, cutting the size of a prospect pool by 30 per cent may not immediately lower hardware costs. However it will at least delay an expensive upgrade. The empirical results in the graph indicate that, with time, negotiation and effort, there are real cost savings to be made.

Data quality was universally reported to be growing in importance. The key driver behind this trend seems to be the increasing multiple sourcing and merging of internal and external data leading to more quality issues. Data was becoming a commodity with more and more data suppliers selling the same 40 million names, meaning suppliers focus more on making the sale than how well the data works. Data pricing is inherently inefficient.

Volume pricing works well for mailing lists as suppliers are incentivised to get as many names to work as possible, though this is inherently inefficient – the industry is not set up to give advertisers the right names but as many names as possible. The rate per thousand pricing model does not work well for multi-sourced data. With the greater emphasis on analytics, the cost of people rather than data is fast becoming the key driver. Interviewees talked about the necessity to make the data work harder leading to the greater use of analysis.

**What can marketers learn?**

Marketers using prospect pools should investigate using more sources of data. The way data behaves together is different from on a standalone basis, so it is

important to benchmark a test or pilot sample and then buy based on each data set's economic incremental gain. Judge data on the improvement it offers over the status quo. The last data added to a prospect database may not be as cost-effective.

They should also investigate enhancing prospect pools with aggregated data sets such as those offered by Experian and other large data owners. These files may not work as well on their own, but can work well as an enhancement. Integrating contact strategies across channels where possible is another imperative; saving postal costs by better use of email is one obvious benefit. Consider testing the new email appending products.

Including your own customer data in prospect databases gives many benefits. First, it means that the rich prospect profile built up on the prospect database is not lost when a prospect converts to a customer. Second, customer records can be inexpensively enhanced with external data when building the prospect database.

Complementary predictive modelling techniques such as Chaid and regression have the potential to increase response and reduce volumes. Different techniques have different strengths and weaknesses – it pays to learn where they fit best. For example, regression is not good with interactions, whereas Chaid is. Chaid is good with categorical data while regression is good with continuous data. Using both will normally give a better overall result.

Save money and improve results by buying only data that is valuable and re-invest the rest in better analytics. Developing derived variables, for example, will improve results when using regression. Chaid also benefits from derived variables. A weakness of Chaid is that it will typically only use three or four variables in each selection. A variable derived from a number of other variables will make Chaid's results take more account of the selection as a whole. Examples of derived variables are affluence, number of social concerns, number of credit cards or number of purchases in last 12 months.

Learning from previous campaigns is the way to improve performance now. Track the frequency of mailings to each individual. For loan offers, three or four mailings may be the optimum and seven the maximum. Start to target prospects by their potential value based on predictive analytics.

### What can suppliers learn?

Managing suppliers better is another way to improve performance. Prior to prospect pools, if a mailing list response rate was marginal the mailer would ask the supplier to re-select or remodel their data to improve results. With prospect databases, often the analysis becomes the mailer's responsibility and its difficulty is easily under-estimated. Ask suppliers to review your results and propose ways to improve them.

Suppliers need to stop over-selling and sell what works, even though it is just as easy to output everything, rather only what the client can use effectively. Data suppliers should also develop aggregated or derived data sets for use in prospect pools. For example, present data sets in two formats for modelling purposes: categorical yes/no data and continuous percentile data. Mixed pricing models based on value as well as rate per thousand would also be welcome. The old mailing list price per thousand model no longer works for prospect pools. Align your objectives with clients. If the client differentiates between the value of responses, re-weight your pricing models accordingly.

Client marketers are increasingly using their company buyers in prospect data purchasing. This requires more sales training in negotiating and those salespeople's understanding of prospect database economics needs to improve. Suppliers need to understand how clients are using their data. Suppliers should be more active in following up on results in enough time before the contract renewal date to allow remodelling and profiling work to improve results.

Suppliers should invest in proportion to client revenue and contribution. For example, the investment in account handling for a six-figure account should really be ten times a five-figure account; it rarely is.

As clients move to marketing strategies that better integrate postal and email channels, only suppliers will be handicapped. Postal-only data suppliers should investigate developing or even acquiring email capabilities. Often when client marketers move from mailing list to prospect pool marketing, they also investigate outsourcing their data management so suppliers should consider offering prospect pool data management if they are not already doing so. The commoditisation of traditional data processing work will carry on, with prices continuing to fall. Computer bureaux need to improve their understanding of prospect pool marketing.

Over the last ten years, around 50 per cent of data supplier revenues have switched from traditional mailing list revenues to data licensing in prospect pools. The restructuring of the supplier industry is likely to continue with an increasing polarisation between large one-stop suppliers and smaller niche suppliers. Those in the middle risk being squeezed.

The emergence of data integrators such as ClarityBlue or Information Arts in the prospect pool arena will also continue. These companies' independence from the major data suppliers will be their chief selling point. As well as this, customer analytics will continue to grow in importance so the traditional "profiling is free" model needs updating.

The shift from mailing list to prospect pool prospecting will certainly continue and this is good news – but only for the marketers and suppliers who can capitalise on this industry change. ■

The data industry is not set up to give advertisers the right names but as many names as possible

*This is an extract from the Tank Prospect Database Report. The full report is available from Tank (07074 732659).*