Building a Profit-Producing Database

What Every Marketer Needs to Know to be Successful

Circulation Management Conference and Expo

Rhonda Knehans Drake

Perry D. Drake

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DRAKE DIRECT

Database Marketing Specialists

Session Objectives

- Why Build a Marketing Database
- Top Reasons Why We Fail
- What Functional Areas it Must Support
- Profit Drivers
- Who Will be Using the Database and What it Must Deliver
- What Should be Stored on the Database
- How Often Should the Database be Updated
- Dashboards and Other Tool Considerations
- Should the Database be Built In-house or Outsourced
- An Exercise in Quantifying Profit Potential
- Summary

Speaker Background

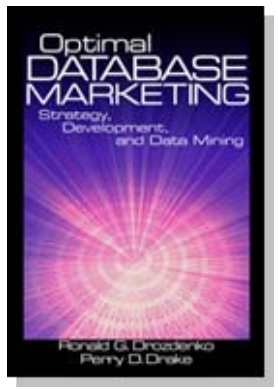
Rhonda Knehans Drake

- Founded Drake Direct in 1996
- Most recently, Rhonda was employed by The Reader's Digest Association as Director of Customer Database and List Management for the Young Families Division where she was charged with the build of a stand alone customer database in support of this new business.
- Prior to this assignment, Rhonda was an Account Director at Information Resources, Inc. In this role, Rhonda lead two of IRI's largest account teams: Clairol and Bristol Myers.
- Rhonda also has extensive club experience.
- Rhonda is an Associate Professor at New York University in the Master of Science in Direct Marketing Communications program teaching "Statistics for Direct Marketers."
- Rhonda earned a Master of Science in Applied Statistics from the University of Iowa and a Bachelor of Science in Economics from the University of Missouri.

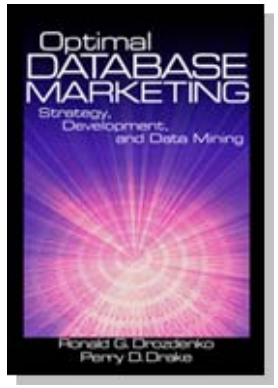
Speaker Background

Perry D. Drake

- Perry joined Drake Direct as Vice President and General Manager in 1998.
- Prior to this, Perry worked eleven years in a variety of roles at The Reader's Digest Association. Roles included:
  - Senior Quantitative Analyst applying segmentation, modeling, test design, etc.
  - Associated Director of Magazine Circulation Marketing responsible for acquisition, renewals, billing and rate base management.
  - Most recently as the Director of Marketing Services overseeing a staff of 40 professionals in support of database marketing efforts for the entire U.S. business.
- Perry is an Associate Professor at New York University in the several programs teaching "Statistics for Direct Marketers," "Data Mining," "Advanced Data Mining," “Analytical Interpretation and Reporting,” “Test Design and Analysis,” and a brand new class titled “Web Mining.”
- Perry received the distinction of being named the "Outstanding Master's Faculty" member for 1998-1999.
- Perry is also the author of the book “Optimal Database Marketing.”
- Perry earned a Master of Science in Applied Statistics from the University of Iowa and a Bachelor of Science in Economics from the University of Missouri.



Don't Leave Early!



- We will raffle off a copy of "Optimal Database Marketing" at the end of the session.
- Free **gift bags** to be handed out to all including:
  - Two additional articles on building an effective database
  - Free point-and-click test planning software "The Plan-alyzer 4.0"
  - Pocket Calculator
  - Laminated "wallet sized" sample size estimator card
  - Ink Pen
  - And much much more
- A chance to enter a drawing for a free i-Pod nano  by filling out a quick industry survey on database marketing practices.

Prior survey results were published in the DMA Statistical Fact Book.

Why Build a Marketing Database

- We build a marketing database for one main goal - to gain a better understanding of our customers in order to increase the customer's satisfaction and the organizations objectives and to do so as efficiently as possible.

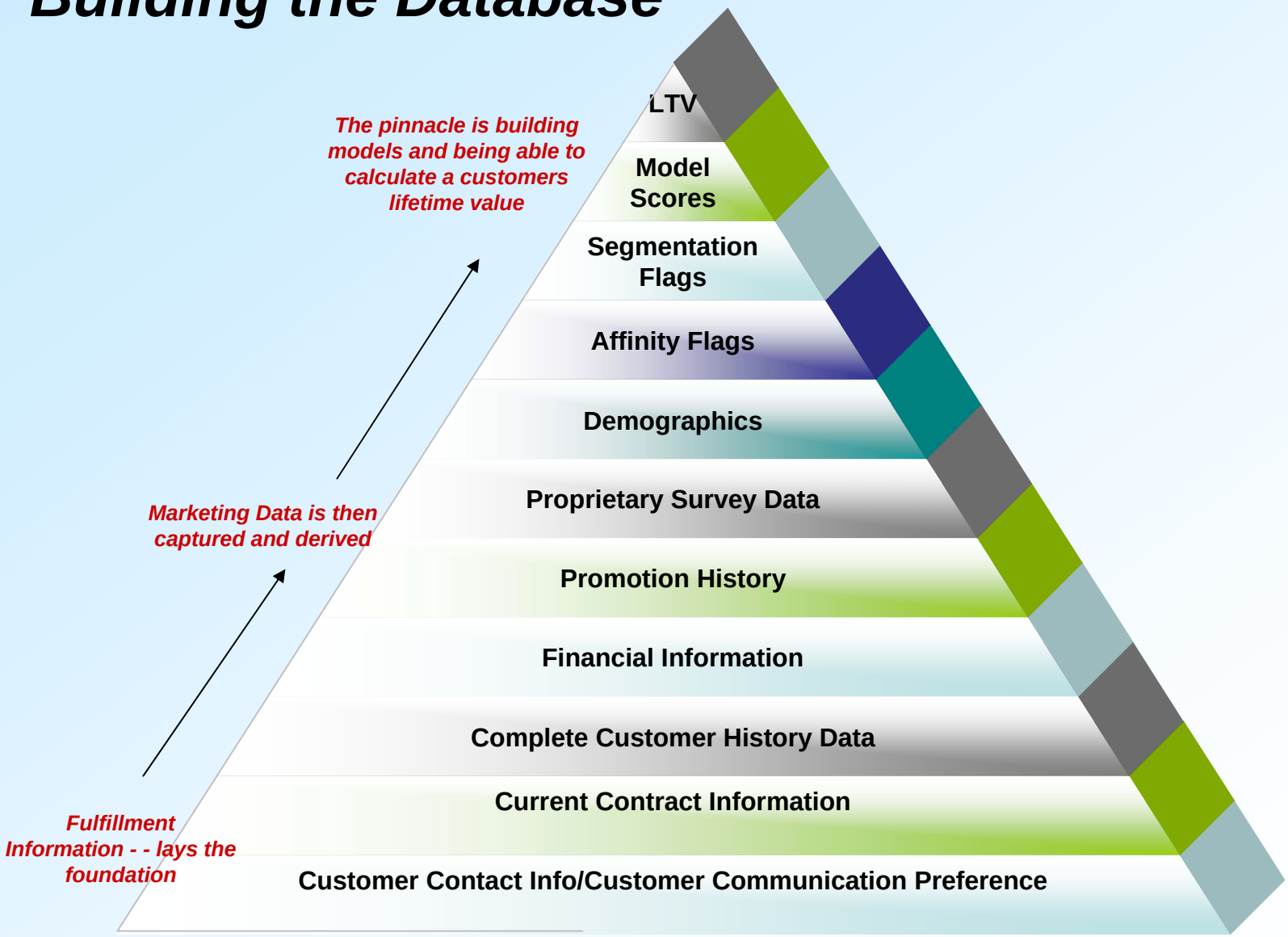
- A fulfillment file will allow you to meet some of the organizations objectives but certainly not all and certainly not in the most efficient manner.

- Throughout this presentation we will reveal what you can additionally expect to accomplish with the build of a marketing database and how you can do so profitably.

Why Build a Marketing Database

- There are three key functions of a marketing database:
  - To maintain your data in an organized fashion
  - To better support corporate functions and,
  - To better support marketing functions

Building the Database



Top Ten Reasons Why We Fail

Many organizations fail in their attempt to reach the top of the pyramid for a variety of reasons. These include:

1. Underestimating the time and resource commitment to build or maintain the database
2. Not having the right support team in place once the database is delivered even if outsourced
3. Not having a plan in place regarding how you will use the database once delivered and how you will quantify the benefits.
4. Inappropriate in scope -- too broad or too narrow
5. Not properly prioritizing deliverables – phased in approach
6. Failure to shift the paradigm at your organization to a information-based decision approach

Top Ten Reasons Why We Fail

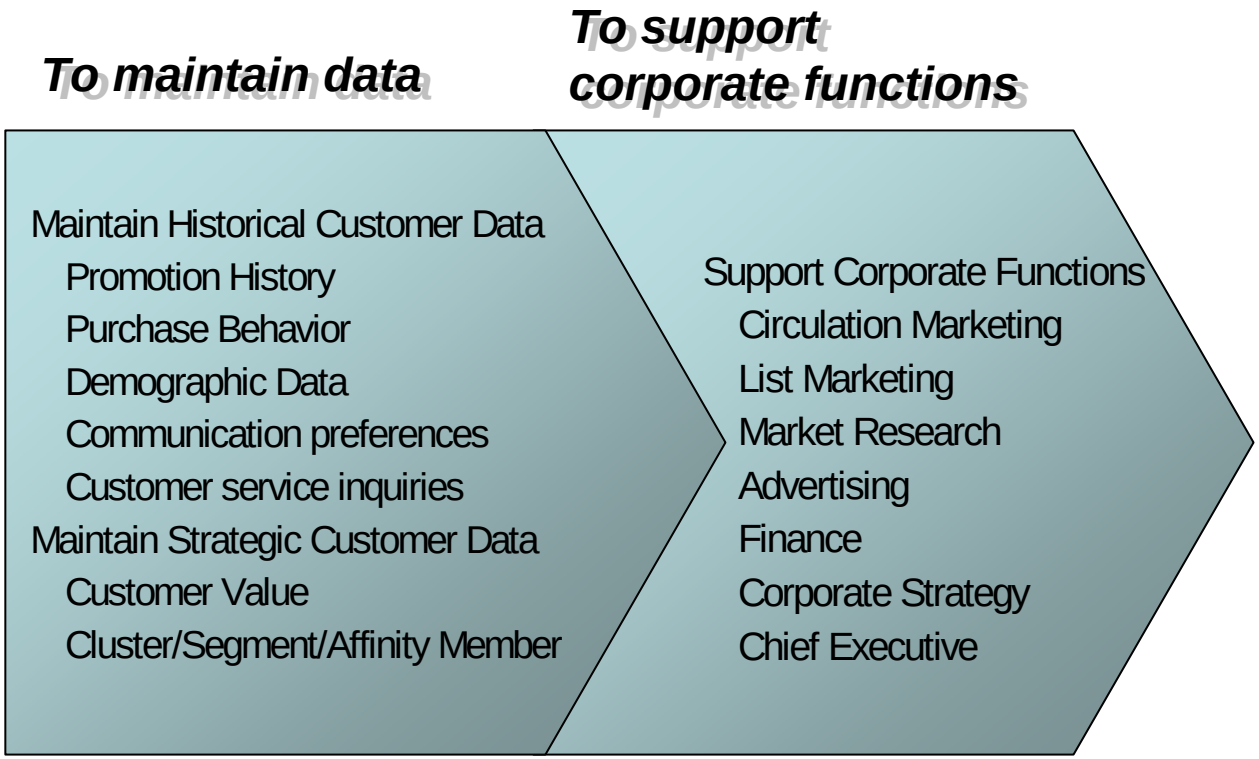
7. Thinking that if you build the database profits will come
8. Failure to realize that your number one priority in the build is getting the data right.
9. Failure to fully assess costs of “add ons” relative to total database costs versus their benefits.
10. Not capturing promotional history or fields typically overwritten at the fulfillment house once you have decided to go forward with the database.

What Functional Areas it Must Support

To maintain data

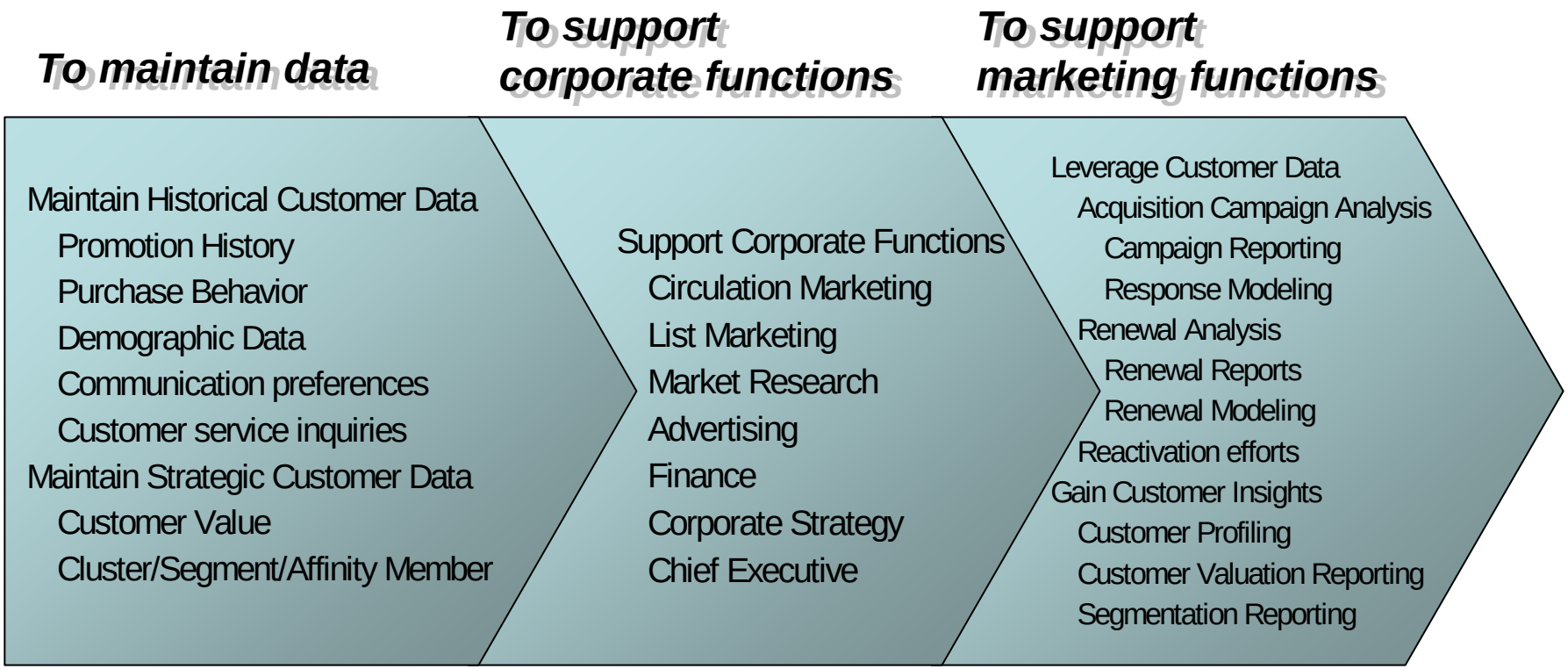
At a bare minimum a database should be a tool to maintain data. Some returns will accrue from better data organization, however, improved data organization alone will <u>not</u> cover the costs of the database.

What Functional Areas it Must Support



Supporting a wide variety of corporate functions makes a database work harder. A database shouldn't be just for the Circulation and List Marketing teams.

What Functional Areas it Must Support

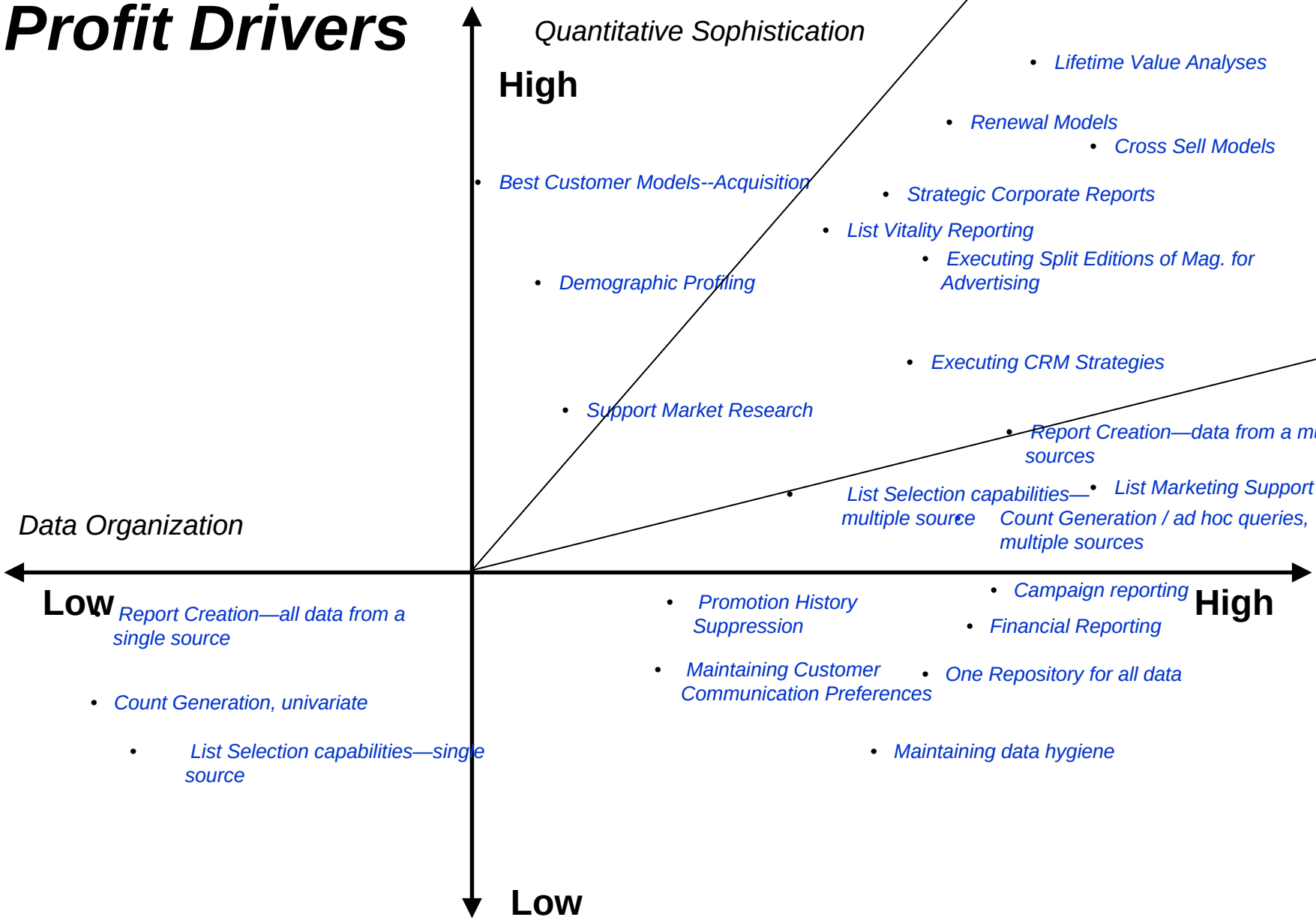


Leveraging customer data to gain efficiencies, better target, reduce mail quantity and identify profit opportunities are the functions that provide the highest return.

Profit Drivers

- There are many key profit drivers in any direct publishing business.
- Some require high quality data in terms of cleanliness, relevance and organization.
- Some require high quantitative sophistication.
- The following slide shows how various drivers of profit map in relation to data organization and quantitative sophistication.
- Some functions can be performed just by virtue of having all of the data readily available and in one place, others require the application of quantitative sophistication to complete.

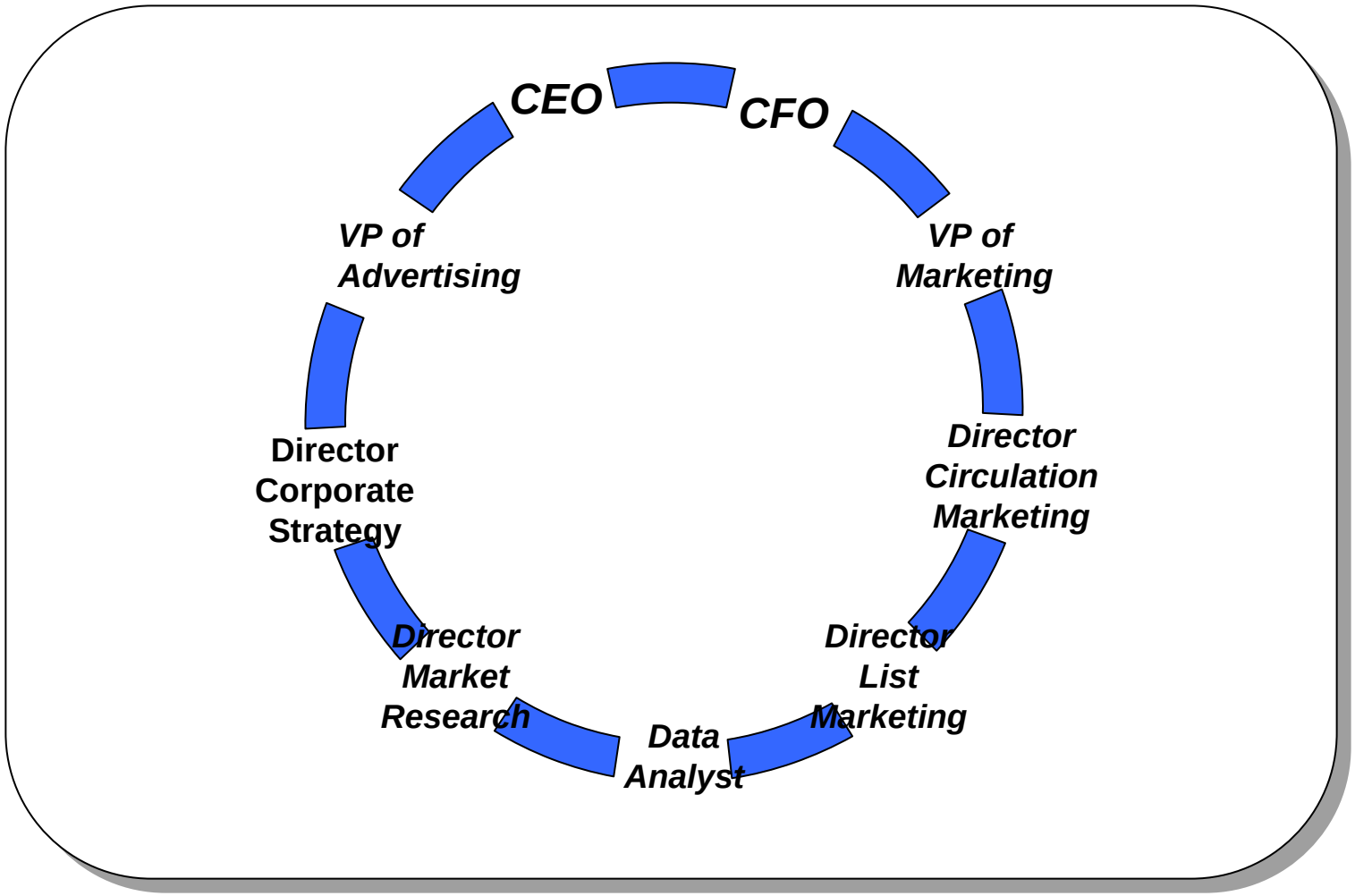
Profit Drivers



Who Will be Using the Database

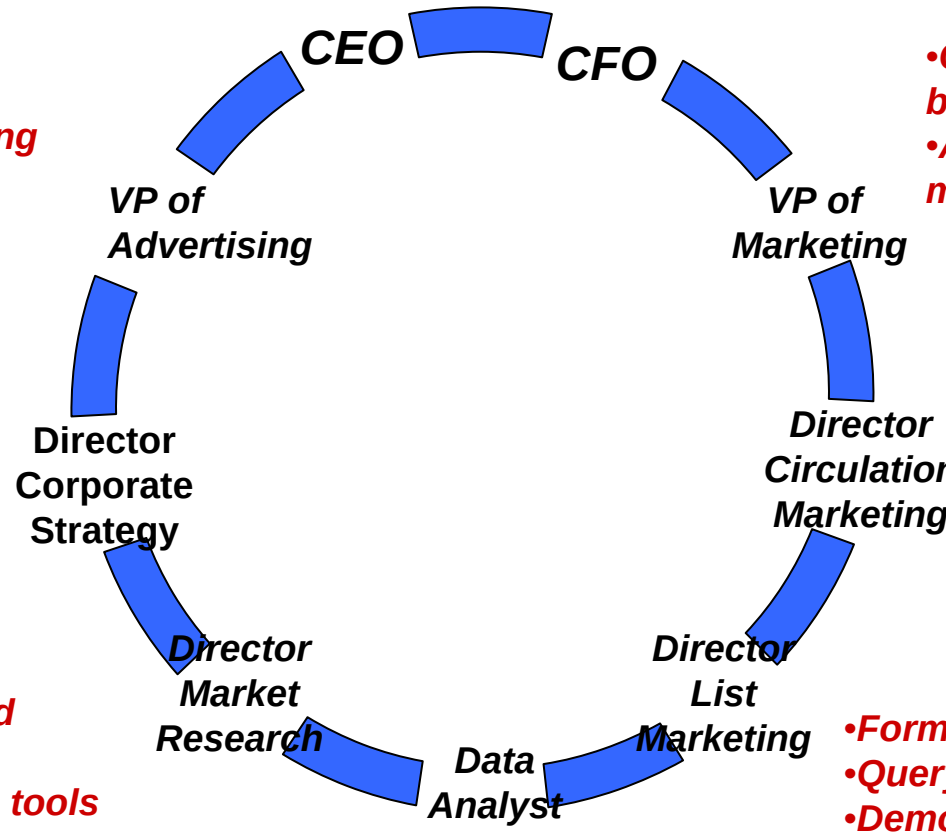
- Keep in mind that there are many individuals throughout the organization that will utilize a marketing database.
- However, typically many of these needs are related in one form or another.
- As such, you will want to involve all in the decision process of what the database should accomplish.
- To following slide shows the relationship between individuals as it relates their specific database needs and desires

Who Will be Using the Database



Who Will be Using the Database

…and What it Must Deliver



- Consolidated information across the enterprise
- Desktop access to up-to-date reports

- Consistent financial metrics
- Cost effective data management

- Demographic profiling
- Query/count tools

- Complete customer behavior information
- Ability to segment/target markets

- Longitudinal analysis
- Efficient tracking of customer purchase patterns

- Historical information on all subscribers
- Campaign reporting tools
- Renewal tools
- Rate base management tools

- Easy interface to add files/variables
- Query/file extraction tools

- Format consistency
- Query and counts tools
- Demographic selects

- Timely data delivery
- Data aggregated in meaningful variables
- Query/report generation tools
- Selection tools

Who Will be Using the Database

…a more detailed view

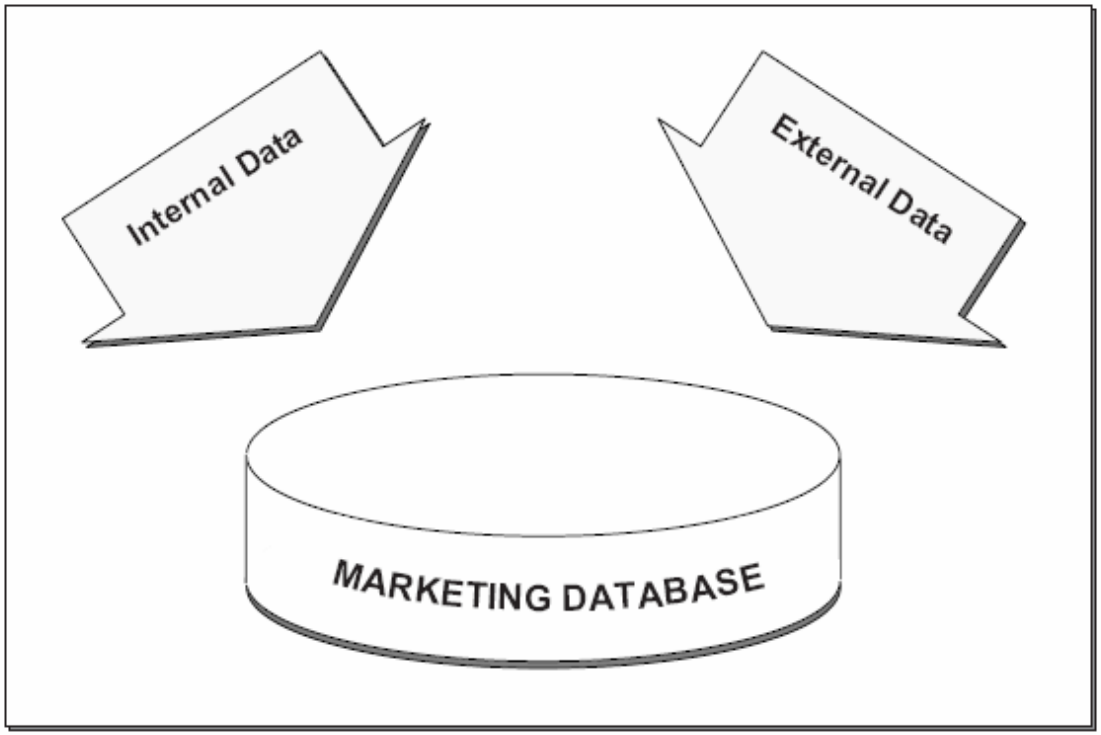
Database Attributes	CEO	CFO	VP of Advertising	VP of Marketing	Director of Corporate Strategy	Director of Circulation Marketing	Director of Market Research	Director of List Marketing	Data Analyst
Query/Reporting Tools			X	X	X	X	X	X	X
Dashboard Reports	X	X	X	X	X	X	X	X	X
Extract/Frozen File Capabilities					X		X	X	X
Variable/New Source Add				X		X	X		X
Data Hygiene						X	X	X	X
RFM	X	X	X	X	X	X	X	X	X
Demographics			X	X	X		X	X	X
Segment Flags			X	X	X		X	X	X
Acquisition, Marketing Costs	X	X		X		X			X
Promotion History			X		X	X		X	X
Customer Purchase Behavior		X	X	X	X	X			X
CRM Tools					X	X			X
Data Mining Tools									X

Who Will be Using the Database
…a more detailed view

- As can be seen, many individuals will need similar access to the database and what is has to offer.
- For example, all functional areas/individuals will want some form of “dashboards” or other reports.
- To ensure success and keep the cost of the database in check, priorities will need to be set for deliverables and features.
- It is best to build in phases ---start out small and build on each success.
- Remember this is a marketing database. The primary focus must first be marketing. Other divisions can then follow.

What Should be Stored on the Database

- There are two types of data housed on a marketing database



Source: Optimal Database Marketing, by Drozdenko and Drake, Sage Publications

What Should be Stored on the Database

Internal Data

- Fulfillment Data
  - Last Bill Effort Sent
  - Total Dollars Paid
  - Expire Copy
- Marketing Data
  - Recency of Order & Promotion
  - Frequency of Order & Promotion
  - Monetary Value of Order
- Customer Contact Data
  - Name
  - Address
  - Email
  - Phone

External Data

- Census Data
  - Average Income in Zip Code
  - Average Age in Zip Code
  - Years Education in Zip Code
- Demo and Psychographic Data
  - Individual Level Age
  - Individual Level Income
  - Individual Level Education
  - Hobbies
  - Interests
- Modeled Data
  - Zip Cluster Codes
  - Other Scores

What Should be Stored on the Database

- Priority should be internal data.
- You will want to convert your core fulfillment data over to the new marketing database. This will include such fields as:
  - *Date of entry*
  - *Number of continuous subscriptions*
  - *Total dollars spent*
  - *Total dollars contracted*
  - *Number of cancels*
- In addition you will also want to populate promotion data as quickly as possible. So, begin building history as soon as you know you are going to build the database. Very important!
- Once these core elements are set you can then begin to enhance the file with external data. To keep the initial development costs in check, external data must be second priority.

How Often Should the Database be Updated

- Customer data updates are driven by external factors
  - On what cycle is the data used? Weekly? Monthly?
  - Availability of updated data
  - Often times a database will employ differing update schedules by data source
- You will also need a standard schedule for maintaining the integrity of your customer data as shown on the next slide.

How Often Should the Database be Updated

Database Maintenance Schedules

Process	Common Schedule
NCOA Processing	Monthly or quarterly for large mailers; two times per year for others
Address Standardization & Customer File De-duping	As needed for legal and postal compliance
Householding of the Customer File	Annually for clean-up of duplicate records
Application of DMA Do Not Promotes	As needed or quarterly. The MPS and TPS are updated quarterly by the DMA.

Source: Optimal Database Marketing, by Drozdenko and Drake, Sage Publications

Tool Considerations

- Remember the database build must come first. The initial focus must be on getting the data correct and setting up your campaign tracking reports.
- Keep your eye on the road!
- Sexy *"dashboards"* are second priority.
- Followed by tools for reporting customer counts, customer migration, customer profiling and data mining.
- Details of which tools to consider and the pros and cons of each is a separate discussion and will not be covered here.

Should the Database be Built In-house or Outsourced

In-House

Pros

- Maintain control of database build
- Current staff and hardware expenses can be allocated to database

Cons

- Added work for an already busy IT department
- Expertise for database build and maintenance may not exist in house
- No vendor experience to advise on database usage and best practices

Outsourced

Pros

- Prior experience in the exact field of marketing database build and maintenance
- Knowledge of usage and best practices available
- Costs and timing predictable—based on contract
- Cutting-edge technology savvy

Cons

- Loss of complete control
- Possible uncertainty of the long-term stability (change of management, etc.)
- Give up proprietary techniques

Quantifying Profit

- The profit potential from a marketing database can be significant…but only if executed properly.
- To simply build the database is not enough. A detailed plan must be put in place as to how it will be utilized and how you will quantify the benefits.
- You can build the worlds best and cleanest database but if you do not have a plan in place or the proper team in place to maximize the use of the database, it will be for nothing – guaranteed!
- The organization will need to shift to an information based enterprise.
- For an average sized publisher, it is not unusual for a marketing database to generate at least $1 million in profit through efficiencies and new opportunities…if implemented properly that is.

Quantifying Profit

Let's illustrate for a average publisher with the following assumptions:

- *A subscriber base of 1 million names*
- *Four titles of equal size*
- *Direct mail represents 2/3 of its subscribers*
- *Annual mail quantity is 20 million*
- *Average response rate per title = 2.1%*
- *Direct Mail package averages $350/M*
- *Average subscription price = $40*
- *Average payment rate = 60%*
- *Average renewal rate = 45%*
- *10 efforts in renewal series*
- *Cost per renewal effort = $0.45*

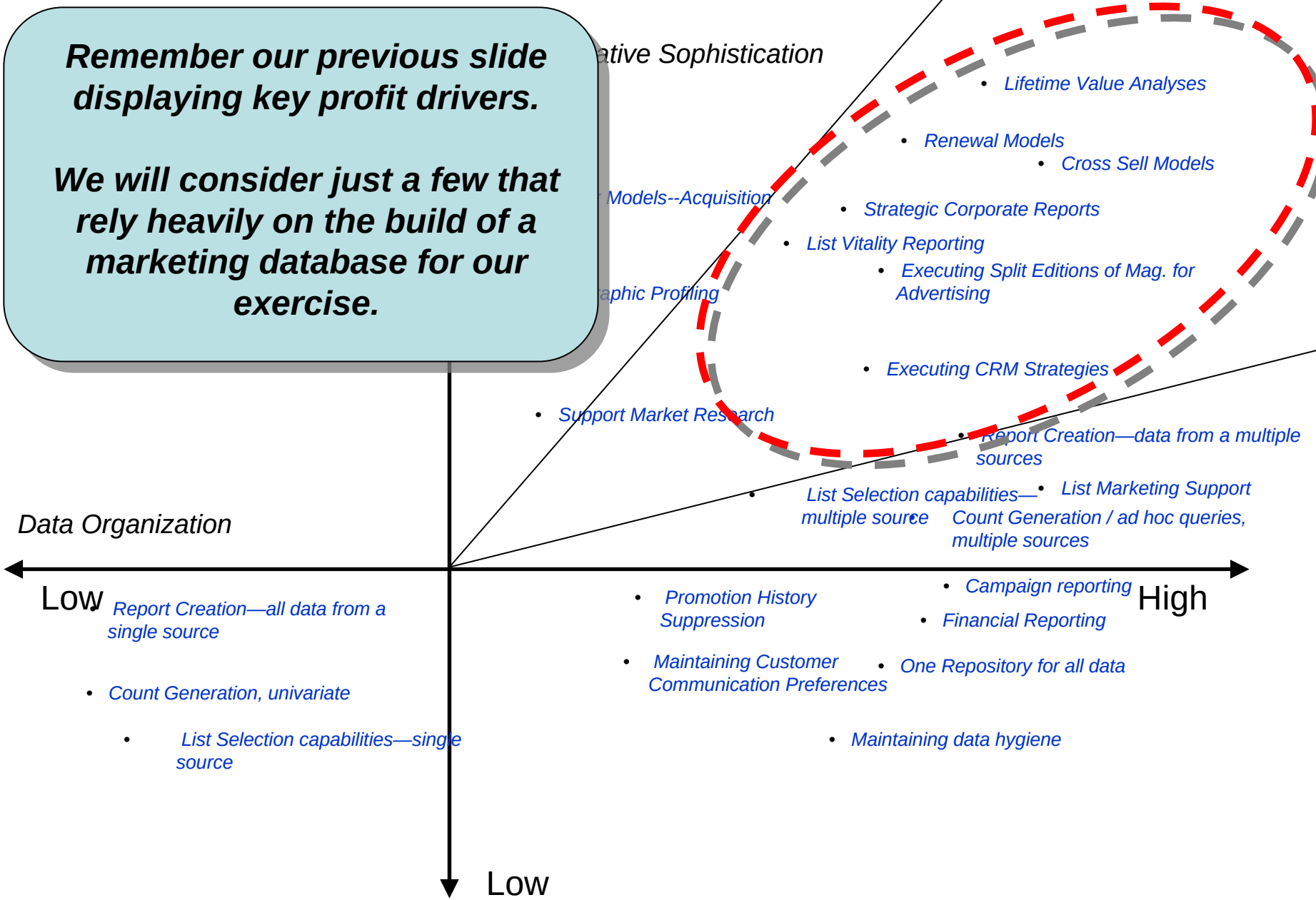
Quantifying Profit

And, to be conservative we will only quantify profit based on just a few of the key profit drivers:

- Efficiencies in Acquisition
- Efficiencies in Renewal
- Cross-Sell Opportunities

In addition we will quantify some efficiencies in:

- Staffing
- Processes


Remember our previous slide displaying key profit drivers.
We will consider just a few that rely heavily on the build of a marketing database for our exercise.
ative Sophistication
Lifetime Value Analyses
Renewal Models
Cross Sell Models
Models--Acquisition
Strategic Corporate Reports
List Vitality Reporting
Executing Split Editions of Mag. for Advertising
aphic Profiling
Executing CRM Strategies
Support Market Research
Report Creation—data from a multiple sources
List Marketing Support
List Selection capabilities—multiple source
Count Generation / ad hoc queries, multiple sources
Data Organization
Low
High
Campaign reporting
Promotion History Suppression
Financial Reporting
Report Creation—all data from a single source
Maintaining Customer Communication Preferences
One Repository for all data
Count Generation, univariate
List Selection capabilities—single source
Maintaining data hygiene
Low

Quantifying Profit

Acquisition Efficiencies

Opportunity	Value
Leverage promotion history file to eliminate 5% of mail quantity	$350,000/year promotional savings
Acquisition models to predict response improving response by 5%	$522,600 gross revenue at base pay rate
Acquisition models to predict pay improving pay by 10%	$52,260
Total	**$924,860**

Quantifying Profit
Acquisition Efficiencies

- Determine worst zip codes for elimination
  - Using zip level data and house data driven down to a zip code level you can determine zip codes that should be eliminated from your outside list mailings at the merge/purge stage
- Using demographic, psychographic and promotion history data, you can improve response
  - Models can be built that utilize promotion history data to help you increase your response rate after the merge/purge process.

Quantifying Profit

Renewal Efficiencies

Opportunity	Value
Leverage renewal models to improve renewal rate by 1 percentage point	$280,000/year
Leverage renewal timing models to eliminate 4 renewal efforts on subscribers with 3+ contracts	$87,750/year
Total	**$367,750**

Quantifying Profit
Renewal Efficiencies

- Determine a subscriber's likelihood to renew
  - Direct renewal efforts towards those likely to renew and away from those not likely to renew
  - Prevents those who initiated the subscription through a 3rd party and who are less likely to renew
- Determine a subscriber's likelihood to renew by source
  - Direct renewal efforts towards those who tend to renew directly through the publisher
  - Reduces efforts to those who renew indirectly
- Determine a subscriber's renewal timing
  - Alter renewal notice cycle to accommodate late/early renewers
  - Saves on mailings that would not receive responses

Quantifying Profit
Cross Sell Opportunities

Opportunity	Value
Increase the response rates of your cross sell efforts by 10% across all titles	$100,000
Total	**$100,000**

Quantifying Profit
Cross Sell Opportunities

- Combine titles fulfilled from multiple houses in the marketing database
  - Different magazines to feed into the same database
  - This creates the cross-sell potential
- Models will predict those most likely to purchase other titles
- Identification of the optimal product stream—maximize lifetime value of customer
- Utilize segmentation and regression models to identify best prospects for next product offer.

Quantifying Profit
Staffing Efficiencies

Staff Involved	Approximate Savings in Percentage of their Time	Approximate Savings in Dollar Amount of Salary
Two Acquisition Marketing Analysts	20%	$24,000
Two Retention Marketing Analysts	20%	$24,000
One Billing Analyst	20%	$12,000
One Cross Sell Marketing Analyst	20%	$12,000
Total		$72,000

Quantifying Profit
Staffing Efficiencies

- Efficiencies in staffing are found for various reasons:
  - Consolidation of data and various sources
  - New tools
  - More thorough and complete reports
  - Ease of data access

Quantifying Profit
Process Efficiencies

Cost	Value	Logic
Data Feeds	$20,000	Because of standardization, feeds take less work and thus cost less
List Rental	$10,000	Less effort to fulfill list requests and inquiries
List Extracts	$25,000	Database eliminates the requirement for various vendors to execute data extracts
Data processing	$10,000	Database houses consolidated data so merge/purge costs are reduced
Total	**$65,000**	

Quantifying Profit

Totaling the Database Impact

Acquisition efficiencies	$ 924,860
Renewal efficiencies	$ 367,750
Cross Sell Opportunities	$ 100,000
Staffing Efficiencies	$ 72,000
Process Efficiencies	$ 65,000
Total	$1,529,610

...and this is only a portion of the opportunity areas!

Quantifying Profit
Totaling the Database Impact

- **There are many other opportunities we have not even considered today given our time constraints:**
  - Efficiencies and gains in the gift/donor business
  - Benefits of being able to integrate on-line data with your off-line data
  - Being able to run split advertising editions on various demographics and other customer characteristics
  - Renewal step up pricing to unique customer segments
  - Reactivation model efficiencies
  - Efficiencies in market research work
  - Increased ability to execute quality market tests

Summary Rules to Build a Profit Producing Marketing Database

- A database should be built to serve the entire organization.
  - The metrics contained in the database should reflect those used by functional areas for decision making
  - The access of information should be flexible and allow individuals to see the data they need in the most convenient manner.
- The highest return on investment is delivered through higher level analytics
  - Acquisition models
  - Renewal models
  - Cross sell models
- An organization will need to shift to an information based enterprise
- Be patient and take small steps to ensure success. Do not bite off more that you can chew or afford in the beginning.

Questions?

Fell free to contact us at

- Rhonda Drake: Rhonda@drakedirect.com
- Perry Drake: Perry@drakedirect.com
- Visit our website: www.drakedirect.com

And now for the drawing…..

- And, don't forget, we have free gift bags in the front of the room for everyone.
- In addition, do not forget to fill out our "database marketing practices" survey for which we will enter you in a chance to win an i-Pod nano.
- *Thank you so much and we hope you have found the session both enjoyable and informative.*