

## An Anchor Computer White Paper

### Acquisition Modeling

“Not Your Grandfather’s modeling approach”



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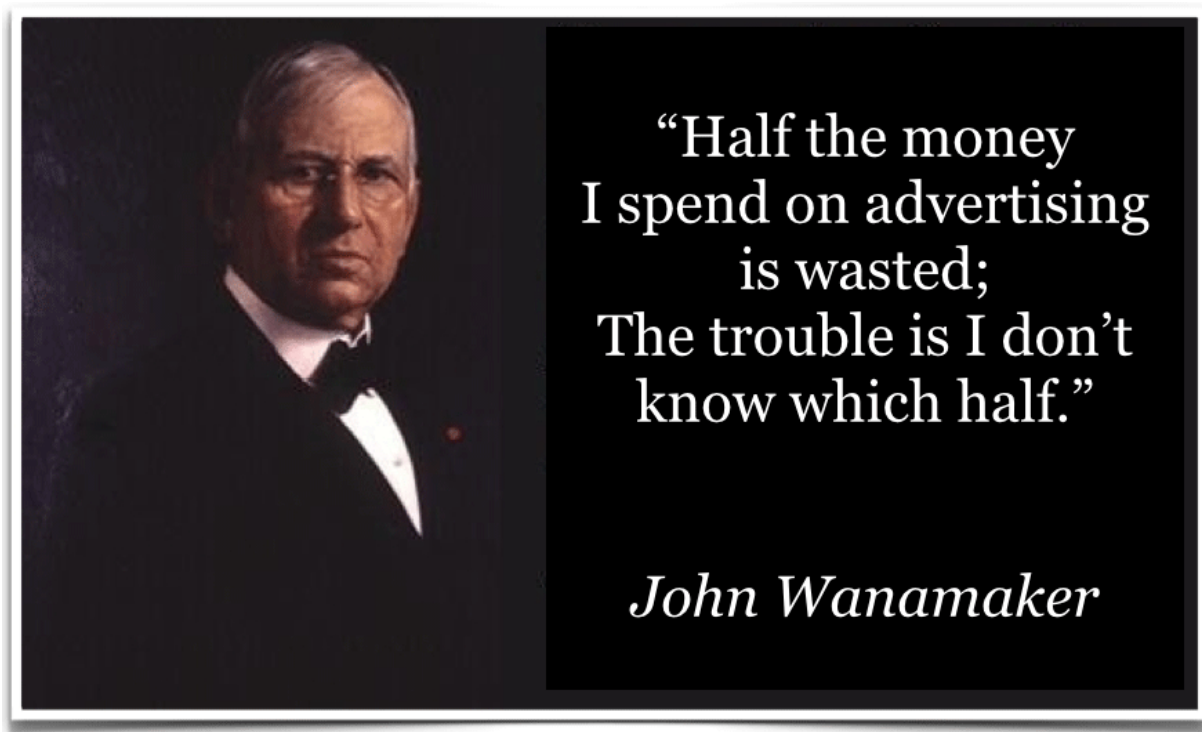
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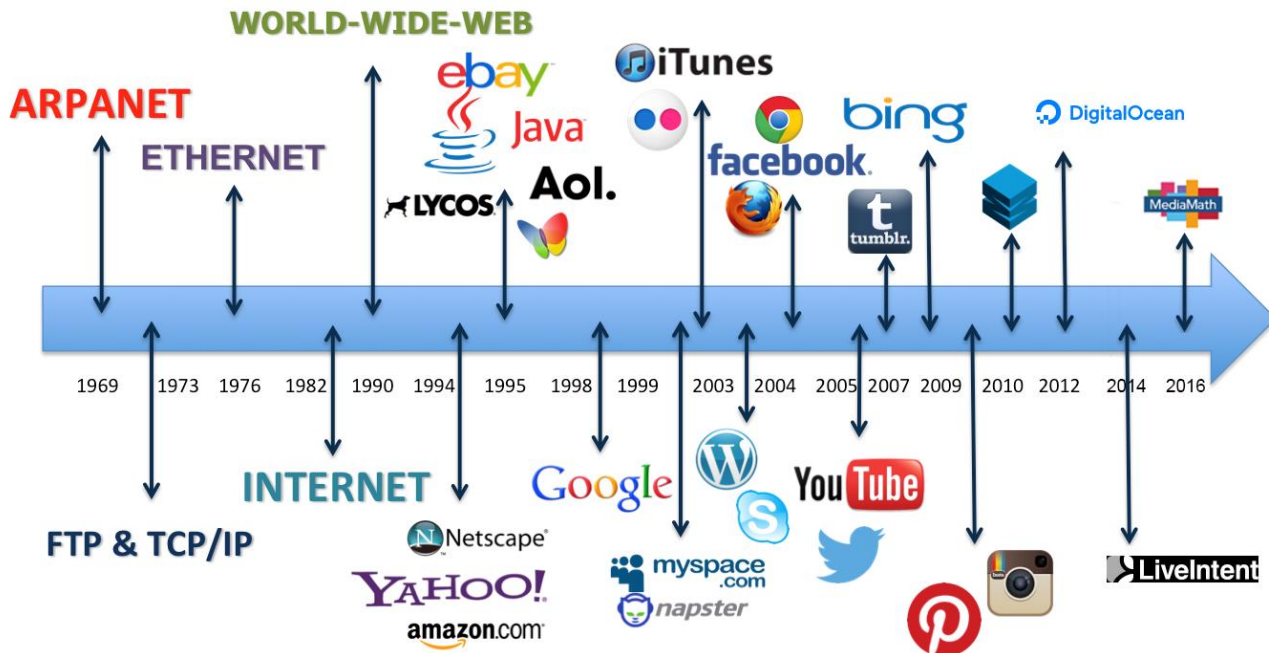
## I. Executive Summary



This is a popular marketing quote, by John Wanamaker, a retail and advertising pioneer and it represents the ongoing conundrum for marketing professionals. ***“How do I best spend my advertising dollars to maximize the success of my business?”*** The question has grown ever more complex in the omni channel, disintermediated, digital world in which we all now must execute. The question now applies not only to “traditional” advertising but across all the media and channels competing for your ad spend; direct marketing (direct mail and email), social media, display, paid and organic search, websites, blogs, etc. This whitepaper will focus on the very simple question of ***“How do I find more new Customers for my business (or contributors for my cause)?”*** We will focus on modern acquisition modeling methodologies to accomplish this.

## II. Introduction

I began my career in retail buying and merchandising in the 80's and our promotions were “weekly specials” with a “percent off” or other bundled savings. We'd advertise in print media, radio, and TV, there was no worldwide web then.



I first began using “data” when I moved from retail into manufacturing, supplying large retail brands like Lands’ End, LL Bean, J Crew and other catalog companies with their private label apparel. Clients began to share data, for decision making, via electronic data interchange (EDI). We projected demand curves, did inventory forecasting, and scheduled production in our factories. It was in the mid-nineties that EDI began to be exchanged via the internet and I began to run my first vendor managed inventory (VMI) programs becoming an integrated partner to my clients, relying on data to manage supply and demand according to a reliable demand curve forecast. We were truly partnering with brands and transcending the typically dysfunctional buyer-seller relationship.

### III. Client Side

We leveraged our supply side data management skills along with our design, manufacturing, forecasting and inventory management skills, to launch our startup catalog company Tiburón. Working with consultants and list brokers we began prospecting for new customers. For acquisition, we learned, catalog brands each had their own Customer “list” and they would exchange lists with similar brands. These exchanges would be facilitated by the list brokerage community. Lists were always more favorable to one partner than the other so all sorts of “deals” were made to try to even things up. Some early adopters started embracing data science. The objective was to find more accurate and reliable solutions than those obtained using business

heuristics and at the same time trying to keep the solutions simple enough so as to not overwhelm. In hindsight the traditional acquisition method was an archaic process ripe for disruption.

#### **IV. Enter the model**

We exchanged lists with J Crew, Coldwater Creek, Freeport Studio and others, “prospecting at a profit” which was terrific, but the best “list” by far was the behaviorally targeted transactional “co-operative” database company Abacus, then a mysterious, dark force disrupting the list brokerage industry. Abacus was a membership based “co-operative” where anonymous clients pooled their data, and Abacus used multiple regression techniques to model a preselected universe built upon a client’s most “synergistic” (closest competitors) active buyer universes. Abacus’ “synergy” model was by far my best list and was my first experience with modeled acquisition data.

So, why do modeling? Modeling enables a more efficient use of resources, replaces trial and error with predictive science, modeling can increase response to your “list,” decrease churn, accelerate speed to break even, enable data driven decision making, etc. Algorithms calculate the unique combination of demographic, lifestyle, income, and hundreds of other predictive data elements that can replace the trial and error methods of the past. The performance gains and increased efficiency increase ROI and optimize your advertising budget. Arguably the “co-operative database” and “variable printing” were the 2 most innovative disruptions of the industry through that era.

#### **V. Going Digital**

Tiburon grew to second tier equity stage in the late nineties when all the PE firms were looking to invest in “internet” companies. The importance of new Internet technology was becoming clear to the catalog and DM industry, however, web commerce was still in its nascent stage and Tiburon, like most direct merchants, did not have a website. An innovator at the time was Catalog City, a web site that consumers could visit to request any of 17,000 catalogs or order merchandise via their online proxy. Catalog City allowed small catalogs like Tiburon to have a presence on the Web. We joined Catalog City and garnered several “online” orders but it was not enough to convince the investors we were an internet play.

The “co-ops,” however, were succeeding, dominating direct marketing acquisition, and proliferating. (They continue to proliferate to this day.) Intrigued by the disruptive mysterious power of the “co-operative” I went to work for Abacus in 1999 and within 2 years we were being



acquired by DoubleClick, quite headily valued, at the promise of joining the online and offline data worlds. Backlash to this union was significant amid privacy concerns and it took 10-15 years to begin to realize the value of the promise of bridging the online/offline worlds. While digital thrived in its silo during the period, it is really just now that we are succeeding in leveraging “de-anonymized” browse and cart data with behaviorally predictive offline data.

## **vi. Future State is today**

DM Acquisition methods have not changed much in the past 18 years. The co-ops still dominate for share even while many marketers lament their lack of innovation and declining performance. Custom modeling has always been an expensive and time consuming process with heavily front loaded, often prohibitive, costs. Success for new prospects from the “co-op” databases, which comes at the cost of sharing your hard earned active buyers with your closest competitors, has plateaued for many brands.

Clients are looking for incremental acquisition solutions that can be delivered in real time and with high satisfaction from a CX perspective.

Predictive analytics is now available “in the cloud” with end-to-end automation that includes cleansing, deduping, appending, modeling and reporting, all in real time. Marketers can build profiles in minutes, no need for data curators, database administrators, or data scientists spending weeks futzing with data. Customer profiles are built for consultative review, delivering valuable insight prior to investing in a prospect campaign. Key elements for marketing campaigns are available in less than 5 minutes for review by the marketing team thanks to modern technology. The algorithms are honed by AI and powered by machine learning but it is not only about the AI, it is about ensuring that the models address specific use cases efficiently and for the right business users. When it comes to predictive analytics 80% of the work is in data prep... modern platforms cleanse the data, dedupe the data, append the data, identify and create your customers’ market foot print in minutes. The cloud enables brands to leverage a very fast distributed environment and in a secure way.

Knowing your Customer this way is powerful in improving your relationships, and maximizing LTV. Knowing your Customer this way enables you to personalize uniquely tailored and perfectly timed messages by channel.

***Mr. Chaid says... “This is not your Grandfather’s modeling approach.”***





- Karl Pearson was arguably the 1<sup>st</sup> great modern statistician
- Pearson chi-squared test
- Pearson correlation coefficient



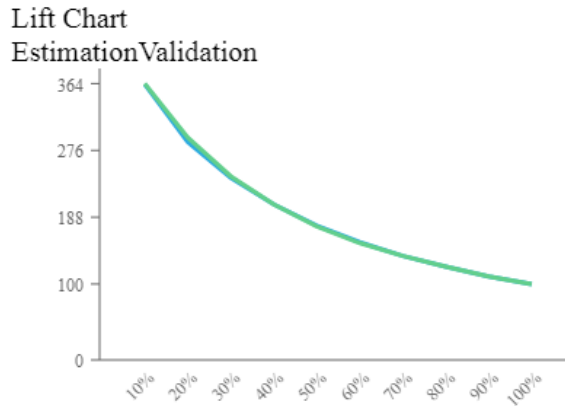
## VII. Case Study - Incremental New Customers

A very niche client had only a small number of outside lists or co-op segments that worked well for them. This had been their acquisition situation for years. They were doing everything well but could not break out. Bound by this “Red Ocean” strategy there was limited success and a static rate of new customer acquisition. Our strategy disrupted this, finding incremental list acquisition that performed well, improving usage terms and CPM, and increasing ROI. By introducing the use of machine learning predictive analytics the new acquisition sources led to reduced cost over time and better results.

After 20 years of working with this client it was difficult to imagine the potential for disruptive improvement over their well-worn prospecting methodologies that provided a steady and predictable result. We chose not to compete in this crowded space of select vertical lists and co-ops, and rather to pursue totally new-incremental prospects with our “Blue Ocean” strategy.

## VIII. Evidence

The lift chart is a more detailed measure of the model performance and the fit. When selecting the top 10% of the population from the predictive model, 3.63 times more customers are identified than would have been identified if we selected 10% of the population randomly.



We now produce >20% of their prospecting circulation with their largest segment which performs at #4 based on response rate only. The cost of this data is significantly lower than their other lists so it is even stronger on a contribution measure.

We took this success even further applying the intelligence to existing circulation and optimizing the mail campaign. By overlaying the predictive data to their existing segments we were able to identify subsets of lists that did not perform. We tested this to verify and are now dropping unprofitable circulation while continuing to feed in successful “Blue Ocean” names.

Online purchases 10+	Online purchases 6-9	Online purchases 1-5	Other
2955%	834%	758%	1123%
2387%	953%	441%	562%
2087%	493%	374%	518%
1905%	337%	184%	1234%
217%	200%	291%	222%
221%	218%	331%	77%
217%	112%	268%	74%
164%	130%	112%	167%
126%	160%	109%	67%
67%	188%	120%	37%
65%	20%	28%	189%
0%	34%	28%	-22%
30%	-64%	6%	52%
-49%	29%	-16%	-24%

## IX. Conclusion

***“How do I find more new Customers for my business (or contributors for my cause)?”***

The time has come to once again disrupt the space. Test a “Blue Ocean” strategy, powered by modern technology, and find incremental new Customers. Reach beyond your existing methods to find greater success.



### **About the Author**

Thomas E. Smith serves as VP Enterprise Solutions at Anchor Computer, a leader in the database marketing and management industry. Anchor Computer specializes in providing marketing professionals with innovative, intelligent and cost effective solutions designed to turn marketing data into actionable, profitable strategies.

Smith previously led a 100+ person Epsilon-Ryan Partnership business unit, growing the relationship marketing and data-management group services which included e-commerce, database marketing and analytics. Smith managed client relationships with many well-known omni channel brands. Smith's experience also includes Merkle/CognitiveDATA specializing in data accuracy, management and analytics.

Smith focuses on strategic client development utilizing a variety of integrated, multi-channel, data-driven solutions to a diverse range of industries and organizations, including; direct marketing, advertising, retail, finance, healthcare, telecom, insurance, transportation, education, public sector, non-profit, and associations.

### **About Anchor**

Anchor's experience in database marketing and data management services makes us the right partner, since 1969. We have enjoyed progressive growth driven by principles of excellence, integrity, continuous improvement, and unrelenting attention to our client's requirements and satisfaction. We have remained innovative and at the leading edge of computer creating better decision-making tools to help our clients create success.

Since 1974, Anchor Computer, Inc. has been providing direct response computer processing services. In 1995, Anchor Database Services was created to provide relational database marketing services and has built over 150 client databases. In 2000, we added a Phone Data Strategies business unit to provide comprehensive telephone data solutions. Key sectors include catalog-retail, financial services, insurance, consumer package goods, not-for-profit and political.

As a Marketing Services Provider (MSP), Anchor Computer provides marketers with a variety of processing solutions designed to enhance data and support marketing decisions, such as:

- Database Hosting and Maintenance
- Phone Services
- Email services
- Data Hygiene; NCOA<sup>Link™</sup> and PCOA
- Merge/Purge

Data enhancement and modeling.

Anchor Computer

1900 New Highway Farmingdale, New York

11735-1509

[E@anchorcomputer.com](mailto:E@anchorcomputer.com)

(800) 728-6262 Phone

[www.anchorcomputer.com](http://www.anchorcomputer.com)

