



The Rest of the Story

What Really Drives Customer Behavior

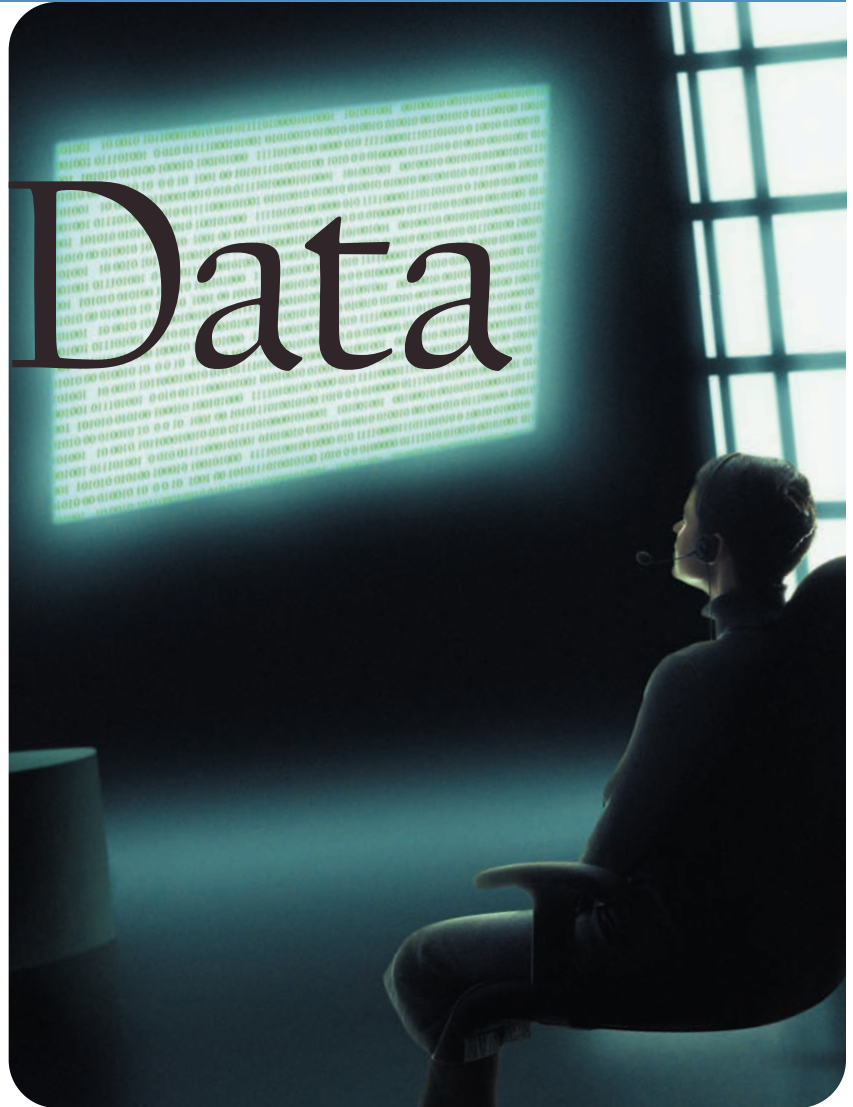
High-Definition Data

Recent advances in data profiling provide marketers with actionable insights into the how and why of their customers' and prospects' behavior

Considering the media scrutiny—as well as the political outcry—over data-collection processes employed by a number of high-profile U.S. companies, one might assume that when it comes to customer knowledge, American business knows it all. The sheer volume of data collected is massive; the number and variety of sources from which consumer information is gleaned—from credit applications and transactional histories to self-reported surveys and website registrations—appears to be endless. And did we mention the astonishing abundance of readily available public information?

So why, in this era of high-definition digital data possibilities, are a surprising number of otherwise sophisticated marketers still viewing their customer information in black and white?

For one thing, organizations are not seeing their customers in full view at all, but in isolated snapshots. That's partly because the majority of legacy information management systems still in place throughout the business world can't fully and efficiently integrate data from a variety of sources. In addition, many marketing managers are not sure how to accurately correlate information from multiple channels and draw conclusions they're confident enough to stand behind. Finally, pre-2000 infrastructure simply wasn't designed to support a 3D customer view. Consequently, like the blind men describing an elephant, managers find themselves mak-



ing multimillion-dollar marketing decisions based on what they know, which is limited to only one part of the beast.

But those who embrace the new age of data profiling can gain fresh, revealing and potentially profitable insights about their customers and prospects. By appending data from a variety of sources to their customer files and utilizing advanced modeling tools, marketers are making relevant and actionable discoveries about their customers' attitudes, orientations and ultimate behavior. And the resulting strategic plans are bearing fruit.

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Moving Beyond the Black and White Data View

In the premiere issue of *The Rest of the Story*, I wrote that a key part of the ALC mission is to help our clients “understand the ‘why’ beyond the ‘what’ when it comes to consumer behavior.” In other words, the often overlooked aspects of data marketing that can bring a great deal of power—and increased productivity—to the entire process.

In that same issue, we ran an article entitled “Life-Changing Events as Powerful Transaction Triggers.” Our assertion is that tracking particular life-cycle events, such as starting a family, moving to a new home, kicking off a new business, sending kids off to college, etc., offers an incredibly effective way to target prospects with specific, relevant offers. In this issue, you’ll find a follow-up article, “Why Milestones Consumers Buy” (page 6), that discusses research we recently commissioned to flesh out the real impact of those life-changing events on consumer purchasing patterns. For example, you might be intrigued to learn that:

- New business owners are 61% more likely to acquire a new major credit card, 89% more likely to remodel their homes and 129% more likely to purchase a home security system than the control group.
- New homeowners are 108% more likely to purchase life insurance than the control group.

- The recently engaged and newlyweds are 150% more likely to travel internationally than the control group.
- New parents are 145% more likely to apply for a loan than the control group.
- Empty nesters spend less time online overall, but rely on e-mail for communication significantly more than other audience segments.

This issue’s cover story, “High-Definition Data,” continues to make the point that there is a lot more to modern data marketing than many people—even seasoned industry practitioners—may realize. In this era of high-definition data analysis opportunities, we must stop drawing critical conclusions and making far-reaching marketing decisions based upon what is essentially an outmoded, “black and white” view.

I hope *The Rest of the Story* keeps delivering the unexpected for you. If you have any comments or questions, please don’t hesitate to contact me at donn.rappaport@alc.com or at 609-580-2800. I’m eager to hear from you.

Regards and thanks for reading,

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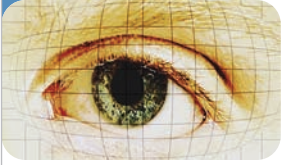
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Data Drives Relevance

When data powers creative—and, in particular, when it’s used in combination with proven research techniques and intelligently applied technology—the results can be exhilarating

Customer-centric marketing is certainly not a new concept. As far back as the 1950s, management guru Peter Drucker introduced the concept of “outside-in” corporate planning. He was probably not the first business savant to realize that products and services should be built around what buyers wanted to buy, rather than what companies wanted to sell.

The concept was slow to catch on, though, as generations of marketers focused on product features to inform their creative. In fact, for decades, the operative theory was, “build a better mousetrap and the world will beat a path to your door.” No mention was made, of which segment of the world will beat that path to your door, nor was there any inference that various segments of the marketplace would be motivated by different product features or offers.

By the late '90s, that marketing tenet was clearly bankrupt. Sure, you could still build a better mousetrap, but before you could say “globalization,” any number of competitors would knock off your product and bring it to market faster, with more features and at a lower price.

Too much of a good thing? Dealing with the “data glut”

Smart marketers soon began to see Drucker’s wisdom: Talk to your customers in a language they understand, about the things they care about, and you’ll rise above the competitive din. The key to doing that, of course, is data. And technology has been effectively employed to ensure that marketers don’t want for data. In fact, today’s marketers face a data glut and an unprecedented number of ways to gather, analyze and exploit it to inform both the destination and content of their creative efforts.

This might sound like good news for marketing strategists. But if a little knowledge can be dangerous, a surplus of it can be even more so. “Clients love technology and what it promises,” observes Sally Moren, Strategic Director of leading direct marketer Wilde Direct. “But relevance is still the key to effec-

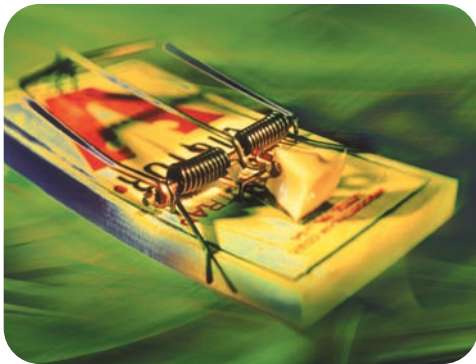
tive creative, and applying data without consumer knowledge is just playing with a new toy in the hope that a random walk will produce results.” Her prescription to guard against this mistake: a dose of good old-fashioned consumer research techniques, such as focus groups, surveys and plenty of testing based on the results.

“People will tell you what they want if you ask them in the right way,” says Moren. “Then you can pick the two to five pieces of data that match the attitudes revealed and test each one, alone or in combination, to see what works. This goes for targeting segments and for the way you sell the product as well.”

A simple yet powerful example of successfully blending new product features with data-based knowledge to drive sales is the recent success of one of Wilde’s clients, a large insurer that offers group life products to members of the American Dental Association (ADA). When the insurer decided to extend the allowable age for additional life coverage, Moren’s team at Wilde knew that the offer should appeal to a specific segment of the ADA’s population: members over the age of 62. Writing new creative to emphasize that it was now possible to add life coverage in spite of advanced age and delivering it to the appropriate members proved highly successful.

This sounds like applying basic common sense; of course older people would be interested in a product designed specifically for them. But without knowing the age of each member, the opportunity to truly leverage the data to maximize performance would be lost. “You don’t have to append 25 pieces of data and come up with a very complex formula to drive every product sale,” Moren observes. “There are often only one or two critical drivers that will close a sale, and you’ll usually find out what those are by asking the customer directly.”

The bottom line is that the value of the vast quantity of available data is a function of the underlying knowledge of the needs, attitudes and orientation that drive customer behavior. Optimum results are achieved by combining a history of transactions and variable messaging to deliver different creative packages to different people based on past actions, or by traditional research methods extrapolated to specific data points. Taken together, it all spells “relevance.”





High-Definition Data

Profiling tells you who your customers are, how much each is worth and what to spend against the market segments you serve

CONTINUED FROM PAGE 1

Consider these real-life examples:

■ A major financial institution, selling both retail and business products, was confident that its “sweet spot” among business customers was larger companies (i.e., those with \$5 million or more in annual sales). In fact, not only did its marketing strategy focus on larger organizations, but its salespeople were actually encouraged to ignore smaller ones. Appending data on company size to customer files and performing a strenuous regression analysis, however, revealed that

more than three-quarters of its aggregate annual profit came from companies with sales of \$1 million or less. “You screwed up my business plan,” said the company’s Chief Marketing Officer when he saw the results. “But better to learn the truth about customers now than find out three years from now.” The dis-

The goal is to identify your best customers, so that you’re in the best possible position to go out and find others who “look” just like them.

covery triggered a completely new strategic focus on marketing to smaller firms.

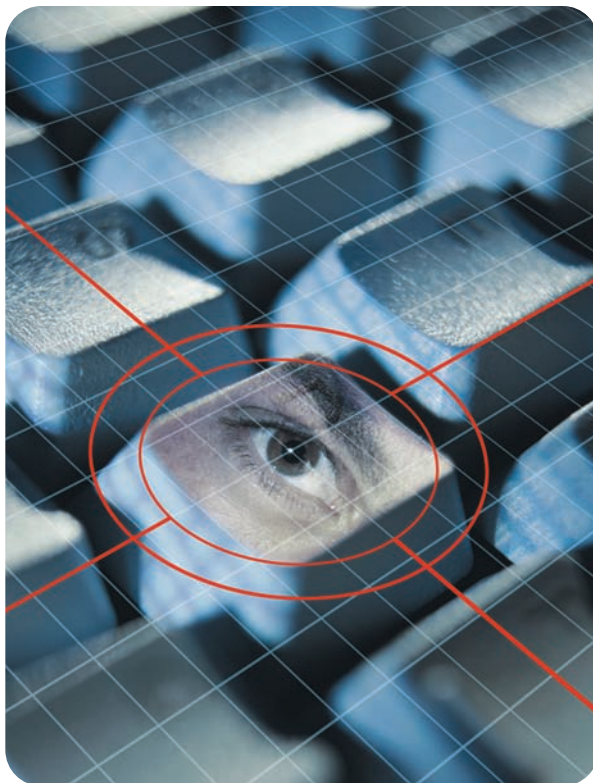
■ A large direct marketer and retailer of desktop computer products and peripherals possessed data showing that its average high-end customer generated sales of \$1,200. That figure became the cornerstone of its customer development strategy. But profiling analysis, built around consolidating all transactions emanating from a single family home address, showed otherwise: The actual value of that customer was \$2,358, almost twice as much as the original assumption. Obviously, this finding led to a new, much more robust CRM strategy.

■ The publisher of a leading magazine for parents was challenged with turning around declining subscription renewals. Data appending, modeling and analysis revealed that its best candidates for renewal—and those most likely to renew at full price—were parents of children under 8 years old and, moreover, that the presence of both a boy and a girl predicted significantly higher renewal rates than those exhibited by parents of a single child. Armed with this information, the Circulation Director was not only able to tailor her renewal efforts far more precisely, but was also able to boost her new subscriber acquisitions efforts by targeting parents of more than one child.

■ A leading distance-learning provider observed that a relatively small percentage of those who enrolled in its programs actually completed the full curriculum. Those who did were very profitable; those who dropped out early were extremely costly. The challenge: How could it identify in advance which students were most likely to remain enrolled or drop out? Appending age and various life-cycle attributes to its enrollment files and modeling against student payment history provided the answer. The company is now able to target promotions to market segments most likely to stay enrolled, dramatically reducing its attrition rates.

Profiling tells you what you don’t know

The core of any profiling program is an organization’s



existing house file, complete with its transactional data. The date of the customer's initial transaction, what items were purchased and through what channels, the profitability of the transaction (with a solid understanding by all parties on how profit is measured) and any follow-on sales are all taken into account. The goal is to identify your best customers, so that you're in the best possible position to go out and find others who "look" just like them. Regarding your less profitable customers, while your organization may not want, or be able to "fire" them, knowing this information can lead to a refinement in strategy that will result in a closing of the gap. Once you know who your customers truly are, and how much each is worth to you, you can make informed decisions about how much to spend against each of the various market segments you serve.

Recency of transactions is widely recognized as a main driver in many companies' ongoing selling efforts, and it's an equally critical factor in profile analysis. Annual attrition on a typical catalog or retail file, a magazine subscriber file or a non-profit organization's roster of donors can be 50% or more. It would be a miscalculation to assume that, just because the fundamental purpose of your product or service hasn't changed, your buyer's motivations or characteristics also have remained the same. Customer databases are dynamic and must be analyzed regularly to make sure that the basic assumptions supporting your business model are still valid.

How do you determine which attributes to key on in a profile analysis? Most experts agree that it's probably equal parts scientific examination and intuition, with even a little magic thrown in for good measure. Certainly, it's a great deal of trial and error. In any case, it's crucial to keep an open mind and maintain solid analytical capabilities. The financial services marketer cited above was sure small businesses were not his organization's prime target, but was willing to retool his strategy once it was clearly demonstrated otherwise. The publisher still can't quite understand why two children—in particular a boy and a girl—should be more viable prospective subscribers than a family with a single child or two girls or two boys. But both were prepared to capitalize on the discovery of the unique data "spike" that signaled a defining difference between their optimum target markets and the general population.

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Using Insights to Drive Action

Profiles aren't static. Optimally, they create insights that drive business decisions," says Owen McCorry, President, Customer Acquisition and Development at ALC. The question is, what data is most useful? "It really is more art than science," he says, "It's helpful to not shut yourself off from any potential source of insight. How does a marketer identify its best prospects? Its worst? What do they look like demographically, psychographically, transactionally, behaviorally and attitudinally? That's the beginning of our analysis."

A marketer looking to enhance his sales efforts behind a product most often purchased by affluent buyers, for example, might look to append several data sources, such as credit files, vehicle ownership information and private aircraft ownership—each available from a separate source. Once the data sources are selected, the current customer file must be properly segmented according to whatever variable or variables are most important in that particular sales process (e.g., lifetime value or annual profit contribution), and the matching process begins, one variable at a time. Typical data match ratios may range from below 20% to as high as 50%—obviously the higher the match rate, the greater the value. As with most data analysis, the best course is to test and validate before executing a profile on an entire file.

"Almost all marketers have at least a static snapshot of their customer," notes Patrick Hanrahan, President of Eagle Eye Direct, an ALC strategic business partner. "Essentially, they know what happened. But less often do they really understand how or why it happened. Working with our clients, we focus our attention on how they know what they know, how we can construct a good high-definition view of the customer file over time and on the assumptions about their customers, both good and bad, that we need to test in order to refine their marketing efforts. That process then forms the basis for building a long-term and effective profitability model."

To learn more about profiling, contact Owen McCorry at 609-580-2800 or via e-mail at owen.mccorry@alc.com.



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THE REST OF THE STORY



Web-based Lead Generation: “Just-in-Time” Marketing

Reaching customers when they're ready, willing and able to respond

Timing is the difference between a warm lead and a hot prospect. A warm lead may exhibit all the attributes of a hot prospect, with one exception: He or she just might not be quite ready to consummate a transaction. Online lead-generation programs can put timing to work for a marketer.

What makes online lead generation most intriguing is that the web is a huge, virtually limitless data-generating engine. Consequently, it offers marketers the ability to design and create an almost ideal prospect file that can be mined at will. That, coupled with the web's ability to track what people do online—the pages they

visit, where they click and how often—enables marketers to motivate prospects to effectively raise their hands and yell, “Sell to me, sell to me. I'm ready, willing and interested in what you have to offer.” That's what makes them “hot” prospects.

“Just-in-time” marketing allows marketers to reach consumers at that exact moment that they express a particular interest or need (i.e., via the web pages they visit).

Generating web-based leads

Here's an illustration of how such a program works. A major hotel chain, with a number of its destinations aligned with top-tier golf courses, wants to pro-

mote a holiday golf package. The hotel chain advertises in golf magazines and travel publications, and sends direct mail to lists of identified golfers who are affluent enough to take advantage of its offer. An analysis of occupancy rates, however, reveals that there is still remaining capacity for the holidays. So the company renders web versions of its direct mail and print creative promotions. The marketing manager negotiates to run the company's ads on a number of web networks that deliver sites that reach people with the demographic and psychographic profiles of the chain's target audience. In his negotiations with the web networks, the marketer delineates the criteria that

will trigger the hotel's promotion to be served up.

The criteria may be as specific as a “demonstrable interest in golf vacations” to a “broader interest in golf or travel.” It may be based on an inferential data points (i.e., an interest in a new golf club being introduced to the market or a particular car—assuming the hotel knows that a significant percentage of its golf package guests drive a particular type of car). Or the selection criteria might include frequency of demonstrated interest (the prospect has searched golf-related topics at least four times during the past week). Web-based technology then tracks the clicks and serves the appropriate creative when the criteria are satisfied.

Note that the hotel's ad may not pop up on a golf-related site at all. It might appear on a page related to travel, health or even cars. Nonetheless, when the ad is served, there is a relatively high incidence of eliciting a response; higher, that is, than the same ad reaching a universe of prospects who have not exhibited a similar degree of interest in golf travel-related topics.

Ideally, the hotel chain not only gains web access to the responders who have identified themselves by responding to the ad, but also generates a prospect list of e-mail and postal addresses of qualified candidates that it can then follow-up on with e-mail and direct mail promotions.

Marketers usually pay the websites or networks a cost-per-lead fee to run their promotions. Generally, the more intricate the criteria delineated—and the more refined and narrowly targeted—the higher the cost of the lead.

Making it pay

For marketers, the idea that prospects will raise their hands and shout, “sell to me!” is incredibly enticing. But the world of online publishing is vast, still largely uncharted and growing at a dizzying rate. And it's fraught with pitfalls. For one thing, there currently is no reliable and comprehensive directory of websites and web networks. For another, web reporting and record-keeping is questionable, at best. Lastly, certain websites have been found to artificially hype the response to the ads they run by directing their own employees or other non-qualified prospects to respond. So marketers must beware.

Working with partner Windy City Advertising, ALC has developed a web-based lead generation



“Just-in-time” marketing allows marketers to reach consumers at that exact moment that they express a particular interest or need.

program on behalf of a number of its clients. We've identified specific websites and networks we know to be good response generators for specific types of offers. We know, for example, that sites where visitors are already used to supplying information, such as job search portals, can be particularly productive.

One way to reach a lot of websites quickly and efficiently is to employ an affiliate model. Companies like Commission Junction and Linkshare have established affiliate networks that contain hundreds of web publishers. They'll run a marketer's promotions where they believe they will be most productive.

The key to success in online lead generation, as in traditional direct mail, lies in speaking in a language that your best prospects understand about things they care about. The development and testing of offers is equally critical. "Remember," explains Owen McCorry, President, Customer Acquisition and Data Development at ALC, "these people were going down the road, gathering information in a very directed way. You want to divert them onto your road. To do that effectively, you must present an offer dramatic enough to stop the prospect in his or her tracks and compelling enough to get them to respond."

Minding the economics

It is important that a marketer understand the economics of online lead generation. A marketer must first determine the value of a lead (in other words, what is he or she willing to pay for it?). This is simply a function of the projected rate of conversion from lead to sale and the lifetime value of a sale. A high "bounty" for a response doesn't necessarily guarantee acceptance or widespread distribution. Depending on response and conversion rates, a program that pays a website publisher \$80 for a completed application may be less profitable to the website than a program paying \$0.50 for an e-mail lead. It's helpful for a marketer to develop case studies showing how other sites have profited from running a particular promotion.

The payoffs of effective online lead generation programs for marketers can be significant. Because a marketer only pays for valid responses, reduced financial risk is certainly an important benefit. As is his or her ability to test different creative and different offers quickly, easily and inexpensively. But the ability to reach someone at the exact moment they are expressing a particular need or desire for a particular product or service remains the key benefit of online lead generation.

Why Milestones Consumers Buy

Earlier this year, ALC launched a new division—Milestones Data Marketing—created specifically to enable marketers to capitalize on the special purchasing dynamics of people who are in the midst of certain life-changing events. Initially, Milestones focused on people starting new businesses, purchasing new homes, getting engaged or married, having babies, sending their last child off to school or retiring. "We intuitively knew that those market segments would exhibit extremely active buying patterns marked by both exceedingly high value and frequency," says Chris DeMartine, ALC Vice President, Analytical Research Group. "But we didn't have the empirical data to back up those beliefs."

To rectify that situation, ALC commissioned Decision Analyst, Inc., one of the country's leading analytic research firms, to conduct a study linking the impact of such life-changing events with buyer behavior.

"The research went well beyond our expectations," DeMartine observes. "It helped us better understand the why, what and how behind consumer decisions."

DeMartine points to the owners of new business as a prime example: It's no surprise, he explains, to find that new business owners exhibit a much higher incidence of owning Blackberries than the population overall. But what may come as an intriguing surprise to marketers is that new business owners are also twice as likely (55% vs. 27%) to be involved in further coursework or career training than the control group and 18% are more likely (71% vs. 60%) to shop online.

"This is statistically valid data, based on multiple, stratified samples of the U.S. population," notes DeMartine. And it's exactly the kind of data marketers can employ to develop better targeting, increased relevance and more productive promotions. It can help smart marketers differentiate themselves from their competitors and be heard above the increasing noise in the marketplace.

To receive a free copy of the Milestones Data research report, compliments of ALC, contact Darren Amato, ALC Vice President, Sales, Milestones Data Marketing, at 609-580-2952 or via e-mail at darren.amato@alc.com.



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THE REST OF THE STORY



Moving Marketeters Forward, *Faster*

Since its inception, the Direct Marketing Association's List Vision event (formerly known as "List Day") has been an educational high-water mark for up-and-coming data marketing professionals. Yet the event has offered little for senior marketing information executives.

In an effort to create real value for industry leaders, Fran Green, President of ALC's Data Management division, organized a task force of a dozen of the industry's marketing top practitioners to create *Fast Forward* 2006. DMA President John Greco was so intrigued with the concept that he made it a full-day lead-off event for List Vision.

According to Green, almost every aspect of *Fast Forward* 2006 differentiated it from all prior data marketing events. "We started by featuring speakers from industries related to, but outside, our own," she notes. Presenters and panelists included John Kilcullen, President and Publisher of Billboard Information Group and founder of the *For Dummies* book series; Michael Zimbalist from *The New York Times*; Alan

Momeyer, Vice President of Human Resources for Loews Corp.; and Mark Stevens, marketing strategy/communications consultant and author of *Your Marketing Sucks* and *Extreme Management*.

Even the day's four educational tracks—covering Branding and Positioning, Recruiting and Retaining Top Talent, Data Integration and Consolidation and Data Security—offered the event's

100 attendees a different perspective. "Our focus was the future of the industry," says Green. "It's not about how we're doing things now, but an objective and strategic look at how we will, should or might be doing things in the future."

Sometimes, an event has a kismet that makes it an immediate success. In the case of *Fast Forward* 2006, attendees got a very special opportunity: Forbes President and CEO, Steve Forbes, had agreed to serve

Fast Forward 2006



as luncheon keynote speaker. Just prior to the gathering, Forbes Inc. announced it had sold a minority stake in its key media properties to Elevation Partners, a \$1.9 billion private equity fund, whose members include co-founder U2 frontman Bono. So participants got a first-hand accounting of the transaction and its impact from the key principle in the transaction.

"We may not have that sort of luck every year, but we know every *Fast Forward* from this point will feature its own brand of excitement," observes Green.

Fast Forward: Steve Forbes, Fran Green, President, Data Management, ALC and John Greco, DMA President

List Vision: Mary Ann Buoncristiano, Executive Vice President of Customer Acquisition and Development, ALC, ALC Ron Davis Award winner Haley Fenster and Owen McCorry, President, Customer Acquisition and Development, ALC

List Vision



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