



The Rest of the Story

What Really Drives Customer Behavior

Tapping the Power of Private Prospecting Databases

Private prospecting databases can deliver higher response rates and lower net costs

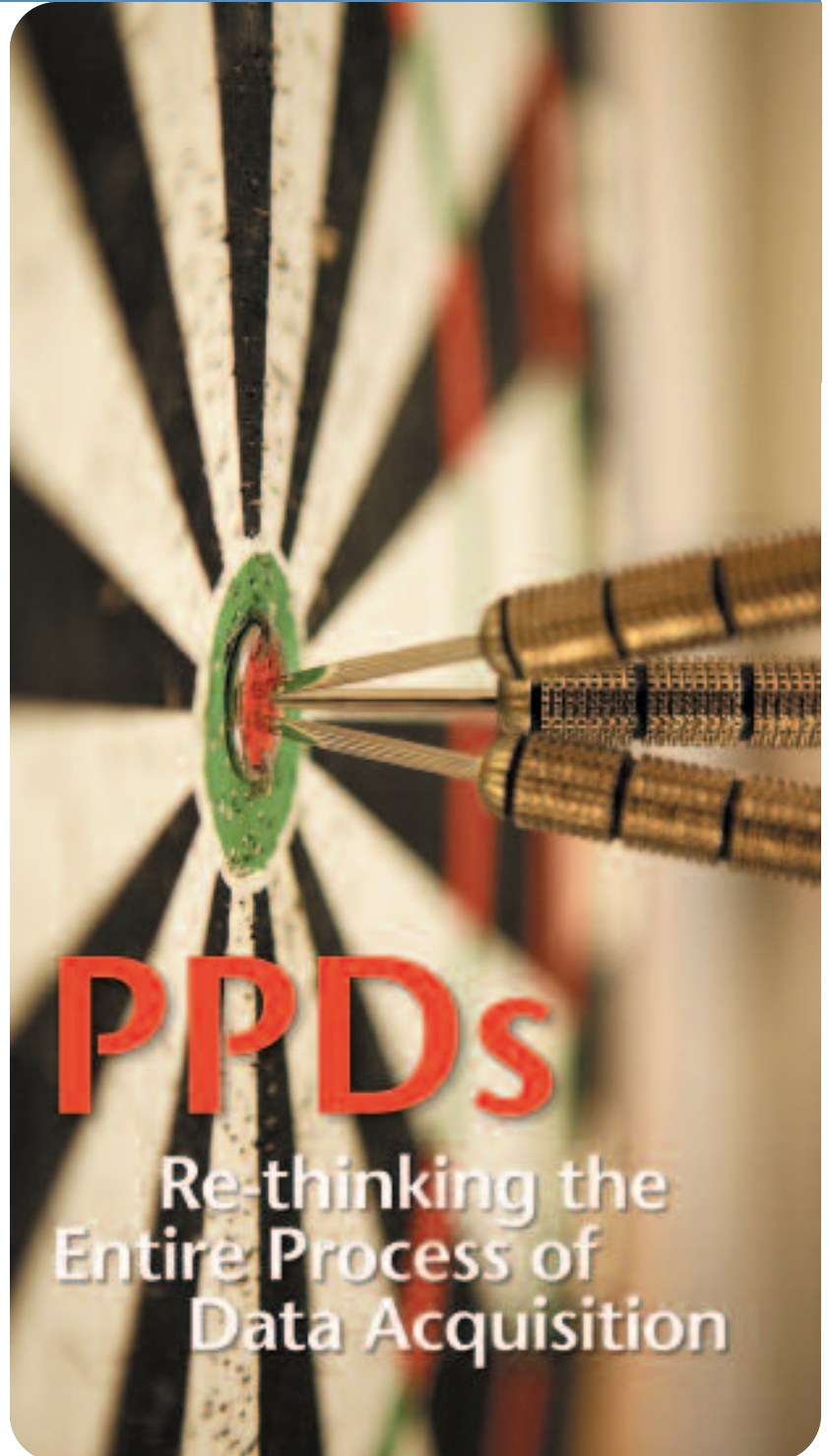
Direct mailers across the country, and in virtually every sector of the marketing world, are reporting a concerning trend: they're seeing their mailing costs go up, while response rates go down. But rather than simply tweaking a mail piece or testing a new offer, some marketers are re-thinking the entire process of data acquisition.

Traditionally, direct mailers obtain data from a variety of sources and then put it through a standard merge-purge process against their house file. They employ individual list selects, or model-derived clusters, in an attempt to mirror the characteristics of their best customers on "outside" or non-proprietary names. But each outside list remains in its own silo.

An alternative approach—one which more marketers, particularly large and frequent mailers, are exploring—is the private prospecting database (PPD), which reduces costs and improves response rates. Simply put, a PPD aggregates a mailer's non-proprietary lists into a master file that can then be sorted, appended, modeled and segmented, similar to a house or customer file.

The key to a successful PPD is the negotiation between the marketer and the owners of the data he or she wants to include in the database. Generally, the data owner provides all or selected segments of his or her customer file (but usually without the actual

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Harnessing the Power of Data Evolution

I was gratified by your response to the premiere issue of *The Rest of the Story*. A number of people called or e-mailed me to say that we did, indeed, achieve our stated goal of educating our readers about something they didn't know, or shedding fresh light on a concept with which they were already familiar.

One of the comments related to the difficulty inherent in any organization that seeks to pursue new opportunities while still engaged in protecting its current revenue base. The president of a mid-sized, multi-channel consumer product marketer said, "I'm committed to the revenue growth and bottom-line profitability we forecast in this year's business plan. I also know that we've got to keep moving things forward and evolving. But moving one foot forward while the other is firmly anchored in the present is a real, and sometimes insurmountable, challenge in terms of securing funding and marshalling the resources we need to do it."

Well, it seems to me it's always been that way. Yes, it's hard, but aren't the stories we love to hear the ones about those business leaders who were able to somehow break the paradigm to succeed?

During the dot.com boom, I felt strongly that organizations with established businesses were at a disadvantage compared to start-ups. After all, the start-ups had no installed customer base to bring around, no legacy systems or bridges to burn. Established businesses had to find a way to harness the power of change in order to move to the next

level, without sacrificing their core business.

"A Tale of Two Silos" (page 3) offers a perspective on how organizations are still struggling with this issue. How can you take advantage of integration without forfeiting accountability or losing the ability to determine exactly where your marketing dollars are generating a good ROI?

The use of data is another example. I first got into this business in the early 1970s, when data was all about demographics. Since then, we've experienced a major data evolution, moving to psychographic data in the '80s, and then to transactional data in the '90s. The next frontier? Attitudinal data.

Check out "Stepping Up to Relevance" (page 6), to learn how it's being used to understand consumer motivations and trends. Marketers can, for the first time, answer the questions "Who will buy?", "Why?" and "How can we most effectively communicate with them?" Attitudinal data will prove to be another part of the story you can't afford to ignore.

Once again, I welcome your comments. Please feel free to contact me at donn.rappaport@alc.com.

Thanks for reading,

Donn Rappaport
Chairman, Chief Executive Officer

WHO WE ARE

ALC EXECUTIVE STAFF

Donn Rappaport
Chairman,
Chief Executive Officer

Susan Rice Rappaport
President,
Chief Operating Officer

Owen McCorry
President, Data Acquisition

Al Kokolus
Vice President, Compilation
and Direct Sales

Fran Green
President,
Data Management

Chris DeMartine
Vice President,
Research and Analysis

Peter DeRosa
Chief Financial Officer

WHERE WE ARE

ALC REGIONAL OFFICES

Headquarters
4300 Route 1, CN-5219
Princeton, NJ 08543
609-580-2800

ALC Tarrytown
Brit Vatne
Managing Partner
britt.vatne@alc.com

660 White Plains Rd.,
Suite 275
Tarrytown, NY 10591
914-524-5400

ALC Minneapolis
Mike Reckinger
Managing Partner
michael.reckinger@alc.com

7616 Currell Blvd.,
Suite 200
Woodbury, MN 55125
651-264-3052

ALC Southwest
David Dotson
Managing Partner
david.dotson@alc.com

99 Trophy Club Dr.
Trophy Club, TX 76262
817-430-5864

ALC West
Laurie Cole
Managing Partner
laurie.cole@alc.com

770 Tamalpais Dr.
Suite 300
Corte Madera, CA 94925
415-945-5478

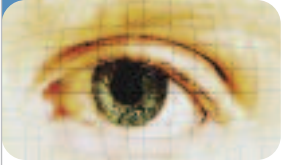
ALC PARTNERS

Belardi/Ostroy ALC
(Formerly ALC of New York)
Andy Ostroy
Chairman & CEO
andyo@boalc.com

Donna Belardi
President
donna@boalc.com

16 West 22nd St.
New York, NY 10010
212-924-1300





A Tale of Two Silos

Integrate or Separate? It's a Moving Target

Now viewed as an integral component of any effective marketing strategy, e-commerce is still just a decade removed from its first halting steps. Early adopters—many of whom didn't fully trust this new tool, lacked the capabilities to manage it and viewed it as more of a substitute than a complement to traditional methods—tended to keep their web operations separate from other platforms. Why? The easier to shut down if things didn't work out.

Because e-commerce has more than proven itself in order-generation and customer relationship

resources, as well as arguments about approach. Now that I'm in charge of both, I only have to think about what's most profitable for the company, not the product. At the end of the day, each unit still has to deliver on its key business objectives, but planning starts from a franchise orientation."

A standalone model

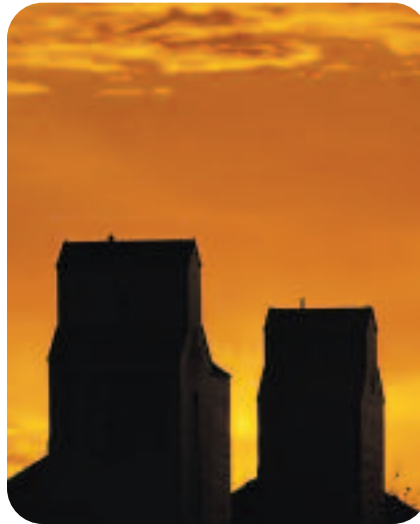
Hearst Magazines' Executive Vice President and General Manager John Loughlin recently decided to take a different tack by establishing a separate reporting path and business unit for Hearst's many magazine websites, including *Cosmopolitan*, *Good Housekeeping*, *Redbook* and *Seventeen*. Like Dow Jones, Hearst has also decided to adopt a franchise orientation stressing lifetime value of customers based on their total relationship, or potential relationship, with multiple Hearst products. But its strategy is quite different.

Hearst's "standalone" approach came out of spending "a fair amount of time looking at how other consumer media companies handled digital media," says Loughlin, "At one end of the spectrum you have Forbes and Forbes.com, which are completely separate business units, and at the other, something like Consumers Union (publisher of *Consumer Reports*), which is fully integrated. We chose to build what we call a 'hybrid' model, which we think gives us the best of both worlds."

Loughlin's model features a separate digital business unit, with its own budget, that controls technical and analytic aspects of all magazine sites. Digital subscription promotion remains physically housed with Hearst's other circulation activities, but reports to the digital unit rather than to circulation marketing. Likewise, content editors for each website remain housed in the editorial departments of each magazine; only their reporting responsibilities have changed. Loughlin believes that leaving the circulation and content staff in a familiar context allows an easy flow of ideas and knowledge about the strategies each unit is pursuing.

Both initiatives are still in their early stages, so expect *The Rest of the Story* to continue to analyze and evaluate the progress organizations throughout the industry are making in integrating on and off-line marketing.

Because e-commerce has more than proven itself in order-generation and customer relationship development, many companies now face a dilemma: integrate all outbound marketing efforts or leave silos separate?



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Two publishing giants—Dow Jones and Hearst Magazines, which co-publish *Smart Money*—are now grappling with what appear to be opposite strategies in responding to this challenge.

Integration works best

Liberta Abbondante, Vice President of Circulation Marketing for Dow Jones, reports that "we're in the midst of integrating our marketing efforts, so we've decided integration works best." She describes the philosophical underpinning of the decision as a move to a franchise, rather than a product strategy. "Before," she says, "the relationship between print and online was often contentious—a battle for



Tapping the Power of Private Prospecting Databases

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transactional data) to the marketer on a regular basis to use as needed. The operative words are “to use as needed.” That means the mailer can draw down names for mailing, enhancement or analysis as quickly and easily as if they were his or her customer names. The marketer reports on actual usage and pays only for each record actually solicited. Depending on the frequency of anticipated mailings, data might be updated monthly, quarterly, bi-monthly or even weekly.

When the PPD concept was first introduced, data owners were reluctant to participate; they didn't trust the marketers to report their usage accurately. Recently, though, either because reporting has gotten better, or possibly because many data owners are experiencing soft sales on the rental of their data, they're coming around, particularly if the PPD is administered by a reputable third party.

Working with list owners

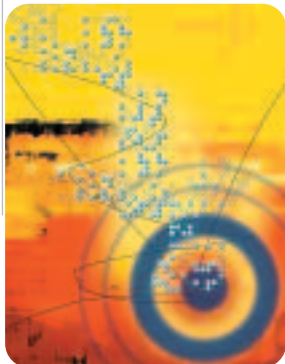
Getting data owners to agree to the PPD idea is not always easy. “Data owners want to know what you're doing with their names,” says Pedro Nogueiro, formerly Vice President of Direct Marketing for GE Capital (see “PPDs in Action below.”) “If I rent you my list for one-time use, I can control when you have access to

it and monitor what you're doing through my seed names. Unlimited use makes some data owners uncomfortable.”

Owners of smaller, more expensive response-based lists also need to be assured that the PPD owner won't append information from their customer files to less expensive compiled names and then mail the cheaper names. This is why third-party database administrators often assemble and manage the PPD project, creating a sort of Chinese wall between the user of the data and outside source files. Jeff Fisher, Deputy Director of Retention Marketing at Dow Jones, evaluated 10 candidates before selecting one to build and maintain its PPD. “We found most list owners are wary of participating in a database housed by the mailer itself,” he says.

Dow Jones is happy with the impact of its PPD on its business. “This was our first private prospecting database,” he says. “Before, we employed the traditional merge/purge processing of individual prospect lists for all our direct mail. A PPD made sense because we were promoting two different publications, we were utilizing multiple sales channels, and we were drawing names in combination from both our house files and outside lists for our acquisition efforts. The PPD has

PPDs in Action



GE Capital offers an excellent example of how PPDs can offer both flexibility and savings. The company's Long Term Care insurance product adopted a PPD strategy three years ago. Pedro Nogueiro, formerly Vice President of Direct Marketing for GE Capital, and now an independent consultant, faced a weekly challenge: providing qualified leads to GE Long Term Care's regional offices and individual sales representatives for telemarketing follow-up. A steady flow of leads generated by direct mail was a necessity. So was geographic flexibility; regions would ask for larger quantities of names depending on a fluid overall marketing strategy. “We needed to have a bank of names ready so that when

reps asked for a specific geographic concentration we could mail and give them leads in six weeks,” he says.

The strategy GE adopted involved acquiring longer-term rights to mail names from a large number of smaller response-based files, in addition to names from compiled lists based on demographic data. The proposition to the list owners was simple: allow us to use your list for six months or a year and we will pay you a fixed price for every name we use every time we use it.

“We looked for lists of responders to higher-value products with a skew toward age 50-plus and higher income,” Nogueiro reports. “Testing had shown us that vertical files like these outperformed our traditional sources by as much as 50% in some cases.”

reduced our list rental costs, among other benefits.”

Another benefit to Dow Jones has been an increase in the use of its house file as a percentage of mailed names. That’s because the modeling techniques they apply to outside names residing in the PPD have significantly reduced the number of outside names required for each mail effort. This is not necessarily a bad thing for the outside data providers, since the usage fee they receive reflects the value of their names to Dow Jones.

Future of PPDs

As long as mailers strive to reduce their in-the-mail costs and increase direct mail response rates, the exploration of PPDs will continue. And while some data owners may resist the trend—and some may never partake—the growing participation of data owners in co-op databases is a step that is analogous to joining a PPD effort. Simple economics will take care of the rest: If large mailers decide that PPDs are the way to go, data owners will have to go along or risk losing data rental revenue that will be hard to replace.

For smaller mailers, those who mail less than 1 million pieces a year, the advantages of building a PPD may not outweigh the costs to build, update and maintain it (see “Is a PPD Right for Your Organization?” right). This problem may be offset somewhat by the decreasing costs of modeling and the willingness of data owners to model their own individual files for specific characteristics and behaviors and offer targeted segments of their files. Either way, a PPD is a strategy few mailers can afford to ignore.

The smaller lists were good performers, but there were two problems. First, large numbers of these smaller lists had to be rented to guarantee the net mailable volume required to keep the lead pipeline filled. Second, ordering these lists and using traditional merge-purge operations to net out the file each week added processing expense that had a negative impact on results. But by merging these smaller files into a single database, GE not only realized a significant savings on processing costs, but could also model the names in a variety of ways designed to improve targeting and ultimately response rates. Modeling costs were offset by the cost reductions accrued to GE because they did not have to pay any special select charges.

Is a PPD Right for Your Organization?

Who stands to gain the most from developing and using private prospect databases (PPDs)?

Answer: Marketers whose mailing strategy reflects some combination of volume, frequency and variety. Laurie Cole, who heads ALC’s West Coast operations, explains it this way: “Private prospect databases are most appropriate for companies that have a large appetite for data. They may simply mail in large volume. Or they may mail smaller quantities on a consistent, regular basis (i.e., monthly or bi-weekly). Or they have a variety of offers that they mail and re-mail frequently to some of the same individuals; they have a number of products that they cross-sell or up-sell.”

A PPD allows this type of marketer to go beyond traditional compiled and demographic-based data sources to gaining greater performance from their mailings than they can expect from even the tightest standard selects on psychographic and behavior-oriented response files. In simple terms, a PPD allows a marketer to treat outside names with the intimacy that until now was reserved for only proprietary customer data. A user can also introduce model-driven selection techniques, based on hundreds of data points, into the external list component of their customer acquisition mail plans. “I’ve never been involved in a database project where the payoff didn’t exceed the investment,” observes Kim Lowenthal, Executive Vice President at ALC.

But what about smaller mailers, those who don’t mail at least 1 million names each year, or don’t mail multiple offers, or who do, but don’t have much cross-over or duplication among the lists they target? Well, for one thing, modeling is increasingly available and affordable for virtually all mailers. More data compilers and owners are offering it to mailers who are willing to commit to a minimum quantity of their records.

“Chemistry among the players is vitally important.” notes Lowenthal. “And it requires a fair amount of trust and a whole lot of communication. But the payoff—in terms of both productivity and cost-efficiency—can be well worth the effort. It’s also an interesting way for mailers to test the waters before jumping in altogether.”



KIM LOWENTHAL,
EVP, Data Acquisition,
ALC



LAURIE COLE,
EVP, Data Acquisition,
ALC



THE REST OF THE STORY



Stepping Up to Relevance

The next level in the data hierarchy gives marketers insights into why consumers buy

There is a data family tree. In the distant past, the 1970s saw marketers applying demographic information—age, income, gender, ethnic background, home ownership, presence of children and other typical census data—to their own and rented files to target their direct mail.

In the early 1980s, demographic data was supplanted, to some degree, by “lifestyle” or psychographic data. It was a golden age that gave birth to many of today’s most popular magazines and catalogs. And when their subscriber and customer files were made available, it opened up critical new doors to marketers’

Many marketers have hit a proverbial wall when it comes to lifting response and reducing costs. In response, a fourth-generation analytical approach is emerging: attitudinal data.

understanding of who was responding to their offers. Searching for a more predictive prospect view, marketers in the 1990s focused more heavily on transactional data—recency, frequency and monetary amount—to separate more from less desirable names.

Most models today use a combination of demographic, psychographic and transactional data to reach prime targets. Applying each set of data has increased predictability and helped improve results.

Fourth-generation data

Until recently, that is. Many marketers have hit a proverbial wall when it comes to lifting response and

reducing costs. In response, a fourth-generation analytical tool is emerging: attitudinal data. We’ve been able to figure out where our customers lived and how much they earned, what they drove and even what kind of magazines they read for three decades, but we’ve never been able to figure out precisely why they made those decisions. Could understanding consumer motivation and developing applications for it, in combination with the older, more established attributes, mark a significant step forward in targeting capability?

That’s the hope, at least, of attitudinal research organization, Yankelovich, who among others in the industry, has recently introduced a set of products that promise a step forward in targeted marketing. The Yankelovich approach involves adding a series of agree/disagree statements to its ongoing MONITOR survey of American consumers, such as:

- “I like to try new products before other people try them.”
- “It is essential to keep up with the latest new technologies.”
- “I go out of my way to learn about and make use of new products.”

A circle filled in next to one or more of these statements helps to identify the respondent as an “Early Adopter,” which in turn will land the household in one of 24 sub-segments (ranging from “Expressive and Exuberant” to “Down to Earth and Daring”) and one of eight macro-segments (“I Am Expressive,” “I Am Down

The Data Hierarchy

1970s First Generation

Demographic Data

Information based on census data: age, income, gender, ethnic orientation, presence of children, their ages, age, value and type of residence, etc.

- **KEY CHARACTERISTICS:** Interesting, but backward-looking; not very predictive.

1980s Second Generation

Psychographics Data

Data about lifestyle, books and magazines read, music listened to, how free time is spent, vacation destinations, etc.

- **KEY CHARACTERISTICS:** More interesting, helped sort out the real differences in people that may appear as demographic “twins;” much more predictive.

1990s Third Generation

Transactional Data

Tracks what consumers actually spend their money on, how much and how often etc.

- **KEY CHARACTERISTICS:** Extremely predictive, but limiting to seasoned prospects.

The New millennium Fourth Generation

Attitudinal Data

The new millennium—Allows a clear understanding of consumer motivations and trends.

- **KEY CHARACTERISTICS:** Highly predictive, and expansive; enables marketers, for the first time, to answer the questions “Who will buy?”, “Why?” and “How can we communicate with them most effectively?”

to Earth”). Yankelovich has appended one of the macro segments and a subsequent micro-segment to each of 225,000,000 households in its database.

Attitudinal data “adds value and texture”

How best to use these new tools? J. Walker Smith, Ph.D., President of the MONITOR division of Yankelovich, offers his perspective: “This is about incremental performance. It’s not a substitute for data that you are using to model right now. Attitudinal data improves performance in the marketplace by adding value and texture to the kinds of behavioral and demographic data you’ve been using.”

So recency, frequency and transaction behavior are still kings of the predictive. But attitudinal data may prove to have considerable value as a sorting device to identify households where the mindset is most appropriate for a particular offer. Optimism, for example, or risk-taking just might make the difference between an acceptable or unacceptable cost per order via a lift in response, be it by decreasing mail quantity or increasing the number of responders.

An added bonus is the potential effect of attitudinal data on creative. The term used is “versioning” and it refers to the insertion of variable headlines, paragraphs, and/or photos into a standard direct mail template. In theory, copywriters and creatives would be better able to add real value to a mail piece by having knowledge of a particular prospect or group of prospects’ motivations. Not everyone is convinced. Emily Soell, former Vice Chairman and Creative Director of both Rapp Collins and Draft, recalls an early experiment in variable creative for an inexpensive home cleaning product, Black and Decker’s DustBuster. Soell and her copywriters crafted entirely different pitch letters aimed at completely different audiences (pet owners, parents with lots of kids, retirees, etc.) and waited for the results. Bottom line: there was no appreciable difference in response. “So much for the power of creative,” she laughs. “But it remains a mystery to me today why there was absolutely no difference.”

But that tale focuses on demographic and psychographic data. Is it possible that attitudinal data may provide opportunity for a more fully nuanced “story” about the target audience? That it will finally allow copywriters and art directors to speak to their prospects in a language they truly understand, about things they really care about?

For direct marketers, performance improvement is key, and attitudinal data offers a promising new opportunity to do just that.

Acting on “Addressable Attitudes”

Attitudinal data is key to the work ALC does in enhancing, profiling and modeling its compiled and managed databases. “We use attitudinal data to improve both customer acquisition and customer development,” says ALC Chairman and CEO Donn Rappaport. “The data works to improve our clients’ reach on three fronts. First, it enhances secondary, tertiary and ancillary offers. Second, it helps us market clients’ data to third parties that want to reach those audiences. Finally, the data works to help us identify additional products and services our clients can market to their customers.”

To maximize those efforts, ALC works with Yankelovich, Inc., which offers critical attitudinal data products and services. The two vital pieces Yankelovich brings to the table are its MONITOR survey—consumer research that dates back to 1958—and its MindBase service, which links the fundamental consumer attitudes and motivations found in the MONITOR studies to specific names and addresses in databases.

“Essentially, we can apply a series of models that we can link to prospect and other lists that help us predict the values people will be likely to hold,” says J. Walker Smith, Ph.D., President of the MONITOR division of Yankelovich. “We call them ‘addressable attitudes.’ We deploy these insights so that attitudes can be used to drive direct marketing programs the same way demographic and behavioral propensity data have been used in the past. It can be used for list selection, to model target groups, to understand how you might develop different kinds of offers and appeals and in a number of other ways.”

“Attitudes speak not only to what you sell, but how you speak to those you’re selling to,” opines Rappaport. “The knowledge you gain from attitudinal data helps you in every area of your marketing efforts, from tailoring your message and developing specific copy, to the structure of your offer and even product and service selection. At the end of the day, it’s about helping you do a better job of selling to any customer group.”



J. WALKER SMITH
President, MONITOR
division of Yankelovich



THE REST OF THE STORY



For Brokers Only: Of Lists and Love

“Today, the event is a forum in which relationships are fostered and strengthened, stories shared and the bonds between brokers, managers and list owners are renewed.”

This years’ ALC For Brokers Only luncheon, held May 3, 2006, brought more than 140 senior brokers and list owners together to hear keynote speaker... Dr. Ruth? It may seem like an odd match, but, as ALC Chairman and CEO Donn Rappaport aptly pointed out, both list brokers and lovers need good communication to succeed, and the diminutive Dr. Weistheimer confirmed his assertion. In addition to Dr. Ruth, attendees heard words of inspiration from Direct Marketing Association President John Greco.



Above: Peter DeRosa, CFO, ALC; Fran Green, President, Data Management, ALC; Donn Rappaport, CEO, ALC; Susan Rice Rappaport, President and COO, ALC



Left: Owen McCorry, President, Data Acquisition, ALC; Stefanie Pont, Broker/Guest

Right: Dr. Ruth with Susan Rice Rappaport

Below: Peter DeRosa, CFO, ALC; Mary Ellen Quirk, Broker/Guest; Lori Magill-Cook, EVP-Data Management, ALC

The first For Brokers Only Luncheon took place in 1996, drawing approximately 35 brokers and rave reviews in the community. “A decade ago, we created this event to say ‘thank you’ to the brokers and to bring our list owners together with a group that has unparalleled influence on data-buying decisions,” explains Fran Green, President of ALC’s Data Management division, and the creator of the event. “Today, the event is a forum in which relationships are fostered and strengthened, stories shared and the bonds between brokers, managers and list owners are renewed.”



The Rest of the Story (copyright © ALC 2006) is a quarterly look behind the headlines, published by ALC. A leading direct marketing services provider, ALC is dedicated to enabling our clients to grow, acquire market share, and maximize bottom-line profitability through the innovative use of marketing data. *The Rest of the Story* is specifically geared to enable ALC clients to keep abreast of news, information, social patterns and industry trends shaping the world of direct response marketing. Here you’ll find ideas and insights you just won’t find anywhere else...strategy you can put right to work to help you acquire new customers more profitably... and maximize the lifetime value of each and every one.



4300 Route 1, CN-5219
Princeton, NJ 08543

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US POSTAGE
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HUDSON, MA 01749

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