The Marketing Tale of the NOW, the OFFER, and the FUTURE

A Direct Marketer was having problems retaining customers. They asked their retention team to figure out how to keep more of their existing customers engaged more profitably.

Unfortunately, everything the retention team tried failed. They simply could not improve overall long-term retention rates and profitability. Everyone felt like they should have been doing better, but with each group optimizing their piece of the puzzle, nothing was improving.

Consultants were brought in to take a deeper dive into the response and retention data to determine, not who was right and who was wrong, but to figure out what is best for the Company moving forward.

The Consultants began the analysis using the ***DART*expert** software with a few hypotheses …

Hypothesis 1 … Status Quo

The current methodology being used by the campaign planners was to select list segments that are the most responsive / profitable. In our example, list segments were selected based on the list's initial marketing cycle's ROI (***Note 1***). The report below shows a sampling of the selected segments along with profitability through the initial marketing cycle. Included in the report are segments that were excluded from the mailing (because their ROI did not meet campaign goals) (***Note 2***).

Optimized Thru Year 1

Database: Sample: Magazine — Date: 01/13/2021

Report Name: Plan Projection Summary — Time: 15:25:18

Plan Projection(s):

Optimized for most profitable in Year 1

* Note 1 *

Rank	List Name	Selection	Names Input(M)	Names Mailed(M)	Net Resp%	Net Orders	Year 1 Prf/Ord	Year 1 Profit
1	Homes Monthly	3MO RENEWALS	8.690	6.684	4.73%	316	$3.53	$1,116
2	Masters Publication	GARDEN 1MO HOTLINE $50+	109.914	84.542	3.54%	2,989	$0.91	$2,729
3	Homes BB	12 MO BUYERS	21.651	16.656	3.65%	608	($0.95)	($577)
4	Arbor Day	L 3MO HOTLINE BYRS/MEMB	110.687	85.145	3.37%	2,872	($0.98)	($2,827)
5	Jour/Light Construction	ACTIVES	20.844	16.034	3.82%	612	($1.32)	($809)
6	Mister Fixit	L 3MO DTP NON-AGT	19.721	14.927	4.01%	599	($1.34)	($803)
7	Creative Ideas for Life	6 MO COA	17.342	14.218	2.86%	406	($1.39)	($564)
8	Decorating Journal	L 3MO PD DMS NON-AGT	67.860	49.209	3.38%	1,665	($2.31)	($3,852)
9	Sampler Subs	ACTIVE SUBS	113.948	87.652	3.06%	2,686	($2.53)	($6,801)
10	Homes Monthly	3MO PD NEW NON-AGT	91.023	70.016	2.61%	1,829	($3.03)	($5,537)
11	Homes and Things	L 6MO DTP ON-AGT MEN	56.550	46.296	2.92%	1,351	($3.04)	($4,101)
12	Workshop Catalog	L 6MO CATALOG BUYERS	101.036	77.719	2.95%	2,289	($3.13)	($7,172)
13	Traditional Home	ACTIVE FEMALE SUBS	20.000	15.385	2.64%	406	($3.27)	($1,329)
14	Accents	L 6MO COA	78.416	43.243	2.96%	1,282	($3.74)	($4,790)
15	Argent	L 3MO HOTLINE PAID	104.002	86.516	2.70%	2,338	($4.06)	($9,486)
16	Lifestyle Selector	3MO HL/SFDU/25-44/$35k	47.000	36.154	2.80%	1,011	($4.78)	($4,833)
17	Mister Fixit	30DAY RENEW NPU	40.005	30.772	2.69%	828	($4.81)	($3,980)
18	Handyman	2ND QTR MAIL ORDER BUYERS	25.001	19.231	2.74%	527	($4.85)	($2,555)
19	Decorating Journal	L 3MO PD DMS AGT	0.000	0.000	2.90%	0	($5.16)	$0
20	Bulb	ACTIVE SUBS	0.000	0.000	2.58%	0	($5.89)	$0
	Grand Totals:		***1,053.690***	***800.399***	***3.08%***	***24,614***	***($2.28)***	***($56,171)***

* Note 2 *

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The retention team then took these customers and ran them through the traditional (best) conversion and renewal series. The report below shows how the selected segments performed through 5 marketing cycles (***Note 1***). The first three years being actualized with the last two being projected (***Note 2***).

Optimized Thru Year 1

Database: Sample: Magazine — Date: 01/13/2021

Report Name: Plan Projection Summary — Time: 15:25:18

Plan Projection(s):

Optimized for most profitable in Year 1

* Note 2 * — * Note 1 *

Rank	List Name	Selection	Names Input(M)	Names Mailed(M)	Net Resp%	Net Orders	Year 1 Prf/Ord	Year 1 Profit	Convert NetResp%	Renewal NetResp%	ThruYr3 Prf/Ord	ThruYear3 Profit	ThruYr5 Prf/Ord	ThruYear5 Profit
1	Homes Monthly	3MO RENEWALS	8.690	6.684	4.73%	316	$3.53	$1,116	45.07%	59.39%	$13.59	$4,295	$17.61	$5,563
2	Masters Publication	GARDEN 1MO HOTLINE $50+	109.914	84.542	3.54%	2,989	$0.91	$2,729	56.78%	68.45%	$14.47	$43,239	$21.62	$64,611
3	Homes BB	12 MO BUYERS	21.651	16.656	3.65%	608	($0.95)	($577)	48.11%	63.37%	$10.12	$6,155	$15.15	$9,210
4	Arbor Day	L 3MO HOTLINE BYRS/MEMB	110.687	85.145	3.37%	2,872	($0.98)	($2,827)	28.69%	60.88%	$5.52	$15,851	$8.25	$23,693
5	Jour/Light Construction	ACTIVES	20.844	16.034	3.82%	612	($1.32)	($809)	51.37%	63.37%	$10.51	$6,431	$15.88	$9,718
6	Mister Fixit	L 3MO DTP NON-AGT	19.721	14.927	4.01%	599	($1.34)	($803)	51.37%	63.37%	$10.51	$6,296	$15.89	$9,516
7	Creative Ideas for Life	6 MO COA	17.342	14.218	2.86%	406	($1.39)	($564)	46.20%	65.71%	$9.48	$3,848	$14.78	$6,002
8	Decorating Journal	L 3MO PD DMS NON-AGT	67.860	49.209	3.38%	1,665	($2.31)	($3,852)	43.21%	63.37%	$7.66	$12,745	$12.18	$20,276
9	Sampler Subs	ACTIVE SUBS	113.948	87.652	3.06%	2,686	($2.53)	($6,801)	40.81%	59.05%	$6.59	$17,712	$10.20	$27,404
10	Homes Monthly	3MO PD NEW NON-AGT	91.023	70.016	2.61%	1,829	($3.03)	($5,537)	67.15%	73.88%	$13.58	$24,832	$23.74	$43,417
11	Homes and Things	L 6MO DTP ON-AGT MEN	56.550	46.296	2.92%	1,351	($3.04)	($4,101)	53.91%	71.08%	$10.05	$13,573	$17.47	$23,601
12	Workshop Catalog	L 6MO CATALOG BUYERS	101.036	77.719	2.95%	2,289	($3.13)	($7,172)	30.58%	61.20%	$3.81	$8,719	$6.75	$15,454
13	Traditional Home	ACTIVE FEMALE SUBS	20.000	15.385	2.64%	406	($3.27)	($1,329)	44.00%	79.05%	$7.98	$3,238	$15.82	$6,421
14	Accents	L 6MO COA	78.416	43.243	2.96%	1,282	($3.74)	($4,790)	53.84%	82.95%	$10.35	$13,269	$21.15	$27,115
15	Argent	L 3MO HOTLINE PAID	104.002	86.516	2.70%	2,338	($4.06)	($9,486)	81.24%	82.76%	$17.19	$40,179	$33.41	$78,103
16	Lifestyle Selector	3MO HL/SFDU/25-44/$35k	47.000	36.154	2.80%	1,011	($4.78)	($4,833)	75.70%	81.05%	$14.80	$14,963	$29.15	$29,474
17	Mister Fixit	30DAY RENEW NPU	40.005	30.772	2.69%	828	($4.81)	($3,980)	56.93%	68.96%	$8.82	$7,303	$16.12	$13,343
18	Handyman	2ND QTR MAIL ORDER BUYERS	25.001	19.231	2.74%	527	($4.85)	($2,555)	53.32%	68.96%	$7.93	$4,179	$14.77	$7,784
19	Decorating Journal	L 3MO PD DMS AGT	0.000	0.000	2.90%	0	($5.16)	$0	36.14%	70.16%	$3.57	$0	$8.40	$0
20	Bulb	ACTIVE SUBS	0.000	0.000	2.58%	0	($5.89)	$0	56.59%	80.27%	$8.69	$0	$19.18	$0
	Grand Totals:		***1,053.690***	***800.399***	***3.08%***	***24,614***	***($2.28)***	***($56,171)***	***50.87%***	***70.52%***	***$10.03***	***$246,827***	***$17.09***	***$420,705***

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Hypothesis 2 … New Offer / Package

This second hypothesis is meant to measure the long-term effectiveness of a different offer / package. Perhaps a package that is not optimal through the first marketing cycle does, however, bring on customers who are more likely to convert / renew thus improving the campaign's long-term profitability. The report below shows profitability of different packages through 1, 3 and 5 years. Panel I (the control package / offer) is the clear winner through the 1st and 2nd marketing cycles (***Note 1***). Panels I and F are about breakeven through Year 3 (***Note 2***) but Panel F is the most profitable through years 4-5 (***Note 3***).

TEST PANEL ANALYSIS

Database: Sample: Magazine — Date: 12/17/2020

Report Name: K - Test Panel Results - 5 Mktg — Time: 15:52:22

Campaign(s):

2019-07T 2019: JULY Test Panels

Ranked by List Name

Performance Totals, Profits and Indices are based on activity through the Initial Marketing Cycle.

* Note 3*

List Name	Selection	Key	Names Mailed(M)	Gross Orders	Gross Resp%	Net Orders	Payup/ GOrder	Net Resp%	Convert NetResp%	Renewal NetResp%	Prem$/N Order	Year 1 Prf/Ord	ThruYr2 Prf/Ord	ThruYr3 Prf/Ord	ThruYr4 Prf/Ord	ThruYr5 Prf/Ord
Panel A	Old Control 9/16.97	0A909	20.008	1,117	5.58%	474	42.5%	2.37%	50.12%	70.01%	$0.00	($7.45)	($5.45)	($3.01)	($1.30)	($0.10)
Panel B	Old Control test 9/17.97	0A925	20.009	1,088	5.44%	480	44.1%	2.40%	54.01%	72.69%	$0.00	($5.81)	($3.65)	($0.89)	$1.12	$2.58
Panel C	Old Control test 9/19.97	0A917	20.008	1,183	5.91%	370	31.3%	1.85%	57.95%	75.17%	$0.00	($12.24)	($9.92)	($6.88)	($4.60)	($2.89)
Panel D	Old Package 3rd Class 9/16.97	0A982	20.009	1,142	5.71%	328	28.7%	1.64%	47.13%	68.52%	$0.00	($20.82)	($18.94)	($16.65)	($15.07)	($13.98)
Panel F	**For Cause Cover Test 9/16.97**	**0A933**	**20.009**	**1,114**	**5.57%**	**492**	**44.2%**	**2.46%**	**67.18%**	**87.18%**	**$0.00**	**($6.68)**	**($4.00)**	**$0.08**	**$3.64**	**$6.73**
Panel H	Premium Sticker 9/16.97	0A958	20.010	1,339	6.69%	368	27.5%	1.84%	43.02%	50.16%	$0.00	($23.58)	($21.85)	($20.30)	($19.51)	($19.11)
Panel I	**Control Premium on Pmt 9/16.97**	**0A966**	**20.012**	**1,029**	**5.14%**	**616**	**59.9%**	**3.08%**	**38.76%**	**43.10%**	**$1.50**	**($3.01)**	**($1.45)**	**($0.27)**	**$0.24**	**$0.46**
Grand Totals:			***140.065***	***8,012***	***5.72%***	***3,129***	***40.0%***	***2.23%***	***51.17%***	***66.69%***	***$0.34***	***($9.53)***	***($7.50)***	***($5.07)***	***($3.33)***	***($2.05)***

* Note 1* — * Note 2*

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Hypothesis 3 … Optimize Initial Segment Selection based on Future Response

This third hypothesis is meant to measure the long-term impact of selecting segments based NOT on their initial marketing cycle profitability, but based on each segment's 3-5 year profitability (including conversion and renewal rates). Another way of putting this is that, unlike hypothesis 1 where we selected the initially most profitable segments and ignore the rest, in this example we will use the 3 year (and 5 year) profitability to determine our segment selections.

The following report shows the difference in long-term profitability when the segment selection is optimized for profitability through year 1, year 3 and year 5.

As you would expect, the "Optimized through Year 1" scenario maximizes profitability in year 1. Likewise, the "Optimized through Year 3" scenario maximizes your 3 year profitability and the "Optimized through Year 5" scenario maximizes your 5 year profitability. What is insightful, however, is the notion that investing an extra $4,750 in year 1 (***Note 1***) can lead to an increased 3 year profitability of $24,569 (***Note 2***).

Interestingly, then when comparing the 3 year and 5 year scenarios, the incremental investment between these two options, the incremental investment of $11,375 (***Note 3***) only leads to an increased 5 year profitability of $16,314 (***Note 4***) which is an insignificant return on investment.

	WHAT-IF SCENARIOS: OPTIMIZATION TIMEFRAME		
Database: Sample: Magazine			Date: 01/19/2021
Report Name: "What-if"			Time: 13:21:51
PROJECTION	**Optimized for most profitable in Year 1**	**Optimized for most profitable thru Year 3**	**Optimized for most profitable thru Year 5**
GOAL			
Marketing Cycles:	Initial	Initial	Initial
Ranking	Year 1 Profit/Ord	Thru Year 3 Profit Per Order	Thru Year 5 Profit Per Order
Target	Names Mailed (M) = 800.000	Names Mailed (M) = 800.000	Names Mailed (M) = 800.000
RESPONSE			
Total Lists Available	20	20	20
Lists Used	18	18	18
Maximum Names	1,526.477	1,526.477	1,526.477
Names Input (M)	1,053.690	1,054.915	1,055.987
Merge Purge %	76.0%	76.1%	76.1%
Names Mailed (M)	800.399	802.732	804.082
Net Response %	3.08%	3.04%	2.94%
Net Orders	24,614	24,420	23,657
Renewal Orders	8,830	9,836	9,823
Year 5 Orders	4391	5186	5667
FINANCIALS		* Note 1 *	
Year 1 Revenue	$418,192	$414,896	$401,932
Year 1 Cost	$474,363	$475,817	$474,202
Year 1 Profit	($56,171)	($60,921)	($72,269)
Year 1 ROI	0.88	0.87	0.85
			* Note 3 *
Year 1 Rev/Order	$16.99	$16.99	$16.99
Year 1 Cost/Order	$19.27	$19.48	$20.04
Year 1 Profit/Ord	($2.28)	* Note 2 * ($2.49)	($3.05)
OTHER			* Note 4 *
Thru Year 3 Profit	$246,827	$271,396	$270,049
Thru Year 3 Profit Per Order	$10.03	$11.11	$11.08
Thru Year 5 Profit	$416,187	$468,023	$484,337
Thru Year 5 Profit Per Order	$16.91	$19.17	$20.47
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Conclusion

The conclusions are two-fold:

- ✓ **Hypothesis 2** shows that changing offer / package results in a significant long-term profitability improvement with a breakeven after year 3 and a gain of $6.27 per order after year 5. But this all comes at an additional initial cost of $3.67 per new order in the first year. If the marketer is looking out 5 or more years, then this offer / package change likely makes sense.

- ✓ **Hypothesis 3** shows rather clearly that selecting initial promotion segments based on 3 year projected profitability will provide noticeable long-term financial gains (in this case about a 3X return on your incremental investment) over 3 years.

What would you do?

This tale, as with all of the great wise tales of the past, is meant to make you think. Think about what is important to you … are you running on an ultra-tight budget and need to optimize year 1 profitability just to survive? Are you cautiously optimistic and willing to invest to optimize your 3 year profitability? Or are you in it for the long haul in which case you definitely should consider both a new package as well as a 5 year profitability segment selection process. No matter the case, always consider the tools that will give you the best view of the future so that you can make a truly informed decision.