**Project: LocalArt Targeted Promotions**

**Background:**

LocalArt is an online gallery for local artists to display and sell their artwork. In contrast to its competitors, LocalArt focuses exclusively on the San Jose area, cultivating long-term relationships with up-and-coming artists and developing a loyal, repeat customer base.

Their business model is fairly simple. Local artists partner with LocalArt. Any pieces LocalArt chooses to display (see below on curating work) are shown on the website. Customers set-up an account on the website, log-in, and browse any available artwork. If they choose to purchase a piece, LocalArt handles all of the financial and shipping arrangements for a small commission. Any pieces that are not sold after 12 months are taken down from the website (to reduce clutter.) Over the past three years, the startup has enjoyed continued growth and profits.

According to co-founder Gary Lagosian, LocalArt’s success is predicated on two key features: First, unlike other online art marketplaces, LocalArt curates all pieces shown on its website. Curating artwork has a long history in the brick-and-mortar gallery business. Its purpose is to ensure not only that all displayed artwork is of high-quality, but also that the artwork and artist reflect the culture and vision of the gallery. Lagosian spent many years in the gallery business before co-founding LocalArt, and pushed for the company to adopt a similar model. The results have been unequivocally successful. LocalArt quickly established a reputation for selling impeccable art that captured a unique perspective of the urban, non-Hollywood side of LA. According to Lagosian, “LocalArt’s the place to go to find that one-of-a-kind piece dripping with gritty, LA flavor.” As LocalArt’s reputation grew, so did the number of up-and-coming artists looking to sell their work through the website.

The second feature of LocalArt’s success is its product assortment and pricing. LocalArt offers a variety of pieces at different price points. In contrast to traditional galleries that showcase expensive works targeted at wealthy customers, LocalArt displays a number of moderately priced pieces aimed at middle-income art lovers. This affordability significantly increases LocalArt’s potential market. Moreover, by focusing exclusively on the greater LA area and not maintaining a brick-and-mortar gallery, LocalArt has avoided high overhead costs associated with shipping, inventory and logistics. The result is that LocalArt can afford to charge a fairly small commission on all pieces it sells. (See Fig. 1 for details.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Paintings** | **Jewelry** | **Mosaics** | **Sculpture** |
| **Type** | 8% | 8% | 12% | 12% |

Fig 1: Average commission per piece by category of artwork.

**To Promote or Not Promote:**

LocalArt’s second co-founder Richard Chaderson spent many years working in e-tailing before joining Lagosian to create LocalArt, and is, consequently, a firm believer in using analytics and data to drive the business. While Chaderson entertains long-term goals of one-day incorporating personalized recommendation systems and revenue management at LocalArt, most recently he has been toying with the idea of offering simple targeted promotions. He argues:

*Think about receiving a 10%-off coupon in your email. Maybe that coupon convinces you to visit our site, and when you’re there, because things are just a little bit cheaper, maybe you make a purchase. Maybe you even buy something that’s a little more expensive than you normally would have… Increasing site traffic and increasing revenues are only good for LocalArt.*

Lagosian strongly disagrees:

*People don’t buy art because it’s cheap. They buy it, because it speaks to them. If you offer a 10%-off coupon to customers, all that will happen is that customers that would have bought the same piece of art without the coupon will now use the coupon, and your revenues will go down by 10%.*

To settle the debate, the co-founders agreed to run a small A/B test where approximately 20% of their customers were given a 10% off coupon in their email (expiring in one month). These 20% of customers were selected at random from those customers that had made a purchase within the last 2 years. After one month, LocalArt collected all data on revenues from customers that were offered the coupon and those that were not.

Chaderson has hired you to help him analyze the data. Beyond the question of whether or not promotions like the 10%-off coupon improve revenues, Chaderson has deeper questions about how to best structure a promotion program at LocalArt. Maybe offering a 10%-off coupon is ineffective, but a different type of promotion might be more effective. More generally, how can the data LocalArt now has be used to improve the business? Should they be collecting different data?

The use of analytics in the retail art industry is fairly undeveloped, and Chaderson suspects that opportunities abound. What he needs now is actionable business recommendations with rationale and evidence clear enough to win-over his skeptical co-founder.

**Task**

You should analyze and discuss the accompanying datasets (these are described more fully below). Based on the data and your analysis, write a report summarizing:

* *Your recommendation regarding the promotion campaign*. Should LocalArt offer the 10%-off coupon to all, some, or none of its customers? Which ones? Should it adopt some other type of promotion? Why?
* *Other business recommendations based on insights from the data.* How can these data be used to improve LocalArt’s profits? Your recommendations should be actionable and evidence-based.
* Are there any other insights you can glean from the data that might help the business? In an ideal world, what other data might you suggest tracking at LocalArt? Why?

Do not forget to include graphs, plots, charts or other visuals to support your analysis. Remember: effective business documents are concise and compelling.

**Data:**

**LocalArt.csv**

This file contains demographic and revenue for each customer:

* CustID – A unique id number used to identify the customer
* JoinDate – The date which the customer first joined LocalArt
* DOB – The customer date of birth.
* Gender
* Visits – The number of visits the customer made to the website in the last 3 months
* Paintings – The amount in dollars the customer has spent on items in the category Paintings in the last month.
* Jewelry – Similar to above.
* Mosaics – Similar to above.
* Sculpture Similar to above.

For the avoidance of doubt, we stress that these last four variables correspond to revenue, not the commission earned by LocalArt. In other words, if a customer purchased a painting priced at $100 from the website, this would be listed as an entry of $100 in the database. However, LocalArt would only earn 8% \* $100 = $8 in commission on this purchase. Similarly, if the customer applied a 10%-off coupon to the same painting before purchasing, we would see a $90 entry in the database, and LocalArt would earn 8% \* $90 = $7.20 in commission on this purchase.

**Coupon.csv**

This file contains the Customer ID of each of the customers that was offered a 10%-off coupon by email.