Models for Targeting: XYZ Casework

- What do we mean by a targeting model? Classification into likely buyers vs. non-buyers

- Shall we have one model or many (one for each segment or one for each mailing)?

- Define a meaningful response and a set of legitimate explanatory variables (no independent/ dependent variable confounding)

- Training/test approach to model testing: Set aside the test set. Do not look at it. Do EDA and data preparation on the training set alone. Develop targeting model (model specification and subset selection) on the training set alone.

- Evaluate the model on the test set using statistical and financial evaluation criteria.

- Develop specific recommendations for management—which customers should be sent mailings (likely buyers predicted by the model)?

- What is the profit contribution of the model? Without the model, we mail to everyone. With the model we mail only to predicted likely buyers. Using the test set predict costs and sales with and without using the model for targeting.