

Outside List Modeling Options

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The Two Major Outside List Modeling Options

You as a list owner or a list renter, have two basic options available for modeling outside lists:

- Response Models
- Clone or Look Alike Models

Response Models

From a list renters point of view, a response model identifies names on an outside list that are likely to respond to a particular product offer.

How Do You Build a Response Model?

The following steps are required for the development of a response model from a list renters point of view:

- First, select a sample of names from the list owner for testing. Preferably names from a list you have not been able to penetrate in the past but, due to list size, major opportunities exist.
- Next, promote this sample with your current promotional offer.
- At the time of the promotion, the list owner will capture and freeze all characteristics of the names test promoted.
- Once intake is final, the list owner will append your order information to the frozen file.
- The list owner will build a regression model predicting who, in the sample, is most likely to respond to your offer. The dependent variable for this model is the “order indicator” and the predictor variables are all characteristics residing on the list owners file.

How Do You Build a Response Model? (Continued)

- Once the response model is complete, the list owner will score all name residing on the test list using the model.
- Those with the highest score will be the ones most likely to respond to your promotional offer.

Making a Promotional Decision Based on a Response Model

With a response model you will have the typical “response” gains chart.

Names in the sample will be ranked from highest scoring to lowest scoring and cut into ten buckets or deciles. For each bucket of names, the response rate of that group will be calculated.

You will promote those buckets that meet your promotional goals (break-even, 10% profit after overhead, etc.).

More on this topic will be discussed by Pat Zamora of Media Direct.

Define Your List Select for Building a Response Model Carefully

When building any response model, you must pay careful attention to the universe selected for testing:

- Do not apply too many up front selects when defining the list universe for testing response models.

For example, you may believe that those under 30 years of age will not perform well and therefore be tempted to tell the list owner to exclude them from the test. When, in reality, it may very well be that those people on the list under 30 years of age who are working females with no children do perform well.

Let the model do the work for you. The model will dig and examine all possible interactions and pin-point your exact target audience. Do not weaken the strength of the model by applying too many pre-selects. Doing so will increase the odds that you will fail in your attempt at penetrating a list via response modeling.

Define Your List Select for Building a Response Model Carefully (Continued)

- If this is the first time trying to model a specific list take a large enough sample so that a certain portion of the sample can be set aside to validate the modeling results. This will help ensure the model will hold-up in roll-out. Not doing so could lead to a failed first attempt at modeling a new list. Give the analyst the opportunity to validate the results of the new model to help ensure you are successful.

Clone or Look Alike Models

From a list renters point of view, a clone model identifies names on an outside list that matches or “looks like” your best customers (as the list renter defines them).

Unlike response models, clone models will not predict a names likelihood of responding to a particular product offer.

Rather, a clone model will only tell you if a certain name looks more like your “best customers” than another name.



How Do You Build a Clone Model?

The following steps are required for the development of a clone model from a list renters point of view:

- First, define a group of customers on your database you would like clone. I.e., have more of.
- Next, pull a sample of these names from your database and deliver to your list owner.
- The list owner will then match these “best customers” to the files they own that you are interested in penetrating.
- The list owner will place a mark on each of their names that match your “best customers.”
- The list owner will build a regression model predicting who on their list are matches to your “best customers.” The dependent variable for this model is the match indicator and the predictor variables are all characteristics residing on the list owners file.

How Do You Build a Clone Model? (Continued)

- Once the clone model is complete, the list owner will score the set of non-matches using the model.
- Those with the highest score will be the ones most similar to your “best customers.”

Making a Promotional Decision Based on a Clone Model

With a clone model you will not have a “response” gains chart like that generated by responder models. The reason is because you are modeling a match indicator not a response indicator.

Therefore, the gains chart you will receive in the case of clone model is a “match rate” gains chart.

Names in the sample will be ranked from highest scoring to lowest scoring and cut into ten buckets or deciles. For each bucket of names, the match rate will be calculated.

You will then need to decide how to roll-out with such a model. Do you test a sample of all buckets first and then roll-out with those which respond at the highest rate? Or, do you chance rolling out with the top bucket of names and test the remaining buckets? More on this topic will be discussed by James Lynch of The Reader’s Digest Association.

Define Your Best Customers for Cloning Carefully

The most important step in building clone models is the definition of “best customers.” Not carefully defining those names you would like more of on the database will result in a failed model. In particular:

- Take into consideration the *media format* of the promotion for the clones. For example, if you are going to send these clones a direct mail promotion, do not select names for cloning that were generated via television spot ads. Television names may not be direct mail responsive.
- Take into consideration the *promotional offer* you will send these clones and define your best customers as ones that came on file in a similar fashion. For example, if you are going to send these clones a hard offer, do not select names for cloning that you generated via a soft free-trial offer. The composition of names for these two offers will be different.

Define Your Best Customers for Cloning Carefully (Continued)

- Lastly, determine if you wish to clone only certain demographic groups on your file. For example, if the future direction of your company is to create a younger customer base, then you may only want to clone your best customers which are under the age of 55.

Response Models Vs Clones

When should you consider a response model or a clone model depends on your particular circumstances.

Without question, you will be most successful at penetrating a new list with a response model. But there is a cost in terms of time and budget.

When to Consider a Clone Model Over a Response Model?

- If you cannot wait 6-12 months to rollout with a product offer as is required with traditional response models.
- You have no saved analysis files from past product offerings where the customer characteristics were frozen point-in-time of the promotion as is required with traditional response models.
- In the case of smaller mailers:
 - Your budget will not allow for the testing of product offers in order to build traditional response models, or
 - Your budget will not allow for the testing of enough names to yield an adequate number of orders as required for response modeling.

When Not to Consider a Clone Model

If either of the following two conditions are true you must be very cautious in applying clone models:

- You have a brand new promotional strategy (offer and/or source) you are about to implement.
- You wish to get into a brand new segment of customers never before taped.

If either of these conditions are true you will not have any ideal candidates residing on your database for cloning. You are advised to only consider the use of a response model.

Summary of Comparison

	Response Model	Clone Model
Advantages	<ul style="list-style-type: none">• The most powerful technique for identifying responders from an outside list to particular promotional offers.	<ul style="list-style-type: none">• No initial promotional testing is required.• No frozen test files are required.• Lead time for implementation is short.
Disadvantages	<ul style="list-style-type: none">• Budget considerations due to the need to send out test promotions.• Frozen files are required.• Long lead times since testing is required prior to model building.	<ul style="list-style-type: none">• The model will not predict responders, but only matches to your best customers.• Cannot be used to penetrate new segments but only to segments similar to those on your database.• Cannot be used to penetrate lists with new promotional offers but only with offers similar to those used in the past.

Things Outside of Your Control

Regardless of which modeling technique you, as a list renter, decide to employ stay abreast of changes in the list owners promotional strategies.

If between applications of your “model” the list owner has brought in more names via a different media source or a different promotional offer, you will see an impact to the scoring of your “model.”

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