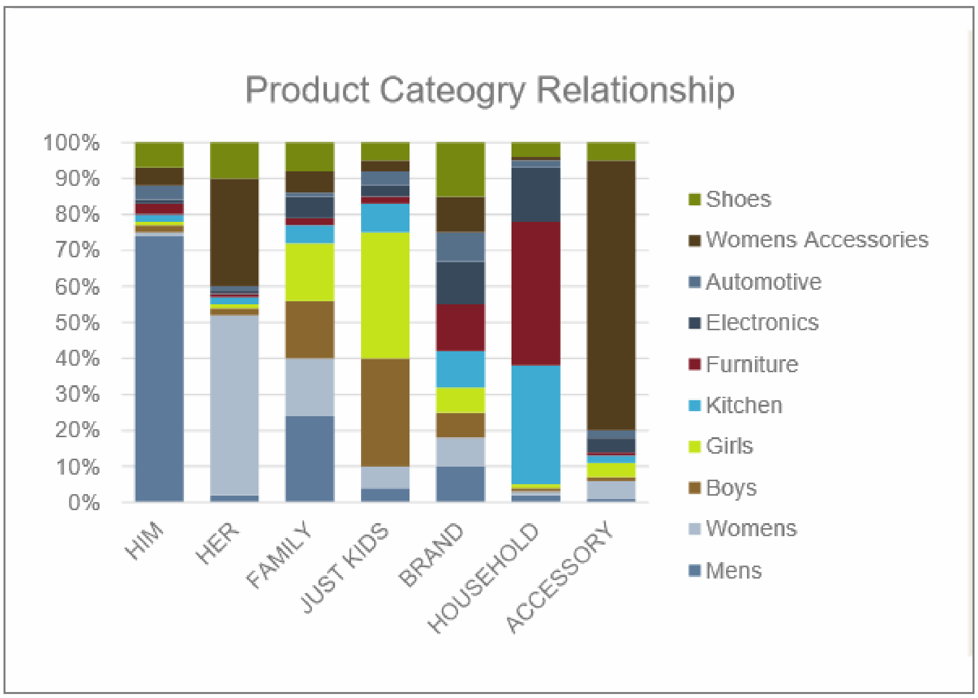
How Can I Increase the Value of My Marketing Investments Using Predictive Analytics – A Real Life Use Case

In my last blog, I discussed how predictive analytics can increase your marketing bang for the buck by giving you clear insight into where to spend your marketing dollars. In this entry, I'll give you a real-world example of how a retail department store chain with multiple product categories decided who to target for a store mailer using analytics and customer segmentation.

To determine their target audience, the retailer wanted to gain a better understanding of their customer segments and where money was being spent across those segments. The first step was determining which customers shop which categories. Working together, we mapped over 2 million customers, identified spend by product category and then clustered customers by product category and category spend.



As a result, we provided recommendations to focus product related marketing to select customers. There were a number of areas that garnered some attention, but one in particular was the household spending category. We decided to take a closer look at this area.

We saw that a good portion of customer spend was in this household category, which was primarily the retailer's furniture department. The retailer decided they wanted to do a mailer for their household department to drive business to their furniture category.

But who should they send the mailer to? Where would their marketing spend be most beneficial?

Typically that question is answered using a Recency, Frequency and Monetary (RFM) model. RFM analysis is used to determine which customers are the best ones to target based on how recently a customer has purchased (recency), how often they purchase (frequency), and how much the customer spends (monetary). RFM analysis is based on the marketing axiom that "80% of your business comes from 20% of your customers." Taken further, customers who have purchased from you recently are more likely to buy from you again, customers who buy from you more often are more likely to buy again and customers who spend more are more likely to buy again.

For the household category, particularly furniture, we suspected something different. RFM models over weight for recency and frequency. (If you shop more frequently you've likely shopped more recently.) We suspected that furniture shoppers, particularly those that only buy furniture may not shop that frequently. To correct for this we developed a customer momentum model that looked only at the weighted annual spend for each customer over the last three years. After we used the two models, RFM and Customer Momentum to segment a pool of customers based on their purchasing behavior, we determined that there were two primary customer clusters who shopped the household category:

- High recency, frequency and monetary value customers with moderate to low customer momentum — Their momentum was low because they bought frequently, but didn't spend much.
- Customers who had a very high momentum based on the high dollar amount they spent, even if their RFM score was low. There was a high propensity for these customers to buy in this particular category though less frequently

We overlaid a purchase window model over both segments to identify the most likely customers to respond and did a split test with a 10% hold-out control to determine the impact.

The customers in the first group had a higher response rate compared to the RFM model. Following the successful test, the retailer was able to improve the results of future mailings by using the customer momentum model as its champion.

Going forward, this allowed the retailer to engage an already existing market, but in a more focused, targeted way. They focused on those customers that they knew were more likely to come in again soon, who had a history of spending in this category. The customers who are already visiting your market are the ones who are more likely to respond to a direct mailer.

Predictive analytics, RFM modeling in this particular instance, enable you to better understand your target markets and be more specific communicating with actual and potential customers.

For more information about using dimension models and predictive analytics, you can listen to my previously recorded webinar "Optimizing Customer Experience" where I give provide examples of customer dimension models and predictive analytics for increased marketing spend value.

Learn more about predictive analytics and customer optimization by listening to our three-part analytics webinar series, found at http://www.decisionfirst.com/resources/upcoming-webinars/.

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