Marketing Options Models[1]

By
Kent Leahy

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Predictive models alone cannot maximize total response, but only response per quantity mailed. The same can be said of predictive models used in conjunction with any of the other standard marketing outcome metrics. However, the use of customized marketing options on unique market segments to meet more precise customer needs and desires does have the capability of enhancing overall customer behavior, thus segment-based marketing represents a giant step forward from mass marketing.

Contemporary approaches to segment- based marketing involve first identifying *actionable* market segments and then developing marketing options (marketing mix) likely to have the greatest appeal to each segment. Test mailings with appropriate test and control cells for each segment are then used for verification purposes.

A predictive model on the winning cell for each segment can then be developed in order to determine those most likely to behave in accordance with the desired outcome metric of interest. In this manner, each customer can be ranked based on their model score, conditioned on their receiving the optimal combination of available marketing options appropriate for their particular segment.

Segment-based marketing thus fosters the more dynamic and aggressive marketing view that there are no ?bad? prospects or customers per se, but only those awaiting the appropriate incentives or stimuli to behave in the desired manner. It thus places the burden on marketing and marketing support including analytics to find the right marketing options necessary to induce the desired behavior.

Marketing options models (MOM) are a underutilized method of integrating predictive and descriptive segmentation in a manner that increases the likelihood of getting the right marketing mix or marketing options to individuals on one?s file. MOM goes one step further than other methods by attempting to capture ?within-segment heterogeneity? or differences that can exist among individuals within a given

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qualitative segment in terms of the most appropriate set of available marketing options having the greatest appeal.

Segment Development

Actionable strategic segments can be formed *a priori* utilizing marketing ?intuition? or domain expertise and/or based upon previous market research studies. They can also be determined *post hoc* or empiricallyby utilizing any of a number of statistical or data mining techniques such as *cluster analysis, LC* and *CHAID*.

Likewise, many data sources can be used to derive such segments, including behavioral or transactional data, demographic data and sample survey data. Survey data can be used not only to develop the segments themselves, but also as overlays to gain insight into what marketing strategies or available marketing options may be most attractive to each segment. If sample survey data is used, however, a ?link? will be needed in order to assign survey values for individuals not involved in the survey. A predictive model is sometimes used for this purpose using demographic and/or behavioral data as predictors.

In spite of their greater potential for optimization, such segment-based marketing can still be sub-optimal. No matter how well defined or conceptualized or empirically determined market segment(s) may be, they invariably contain *untapped heterogeneity*, thus not everyone within a given qualitative segment will necessarily be attracted by the same marketing option(s) found to be optimal for his/her *assigned segment*.

Depending on the nature of the data (and the method used in developing the segments), such within-segment heterogeneity can be symptomatic of the presence of further *micro-segments* in the data which can remain deeply buried or subsumed within larger segment(s). It can also be the result of latent or unobserved differences between prospects/customers along a single or several dimensions (variables) not available for use or otherwise not employed in the development of the segments. Likewise, it can also be a function of <u>classification error</u>, as for example, in the case when errors are made in classifying individuals in the entire base file based on results from a sample survey. Thus a number of factors can cause an individual within any given defined segment to deviate from his or her segment in terms of those marketing options having the greatest appeal.

Marketing Options Models

Marketing options models incorporate a solution to the unclaimed heterogeneity problem in that they have the capability of determining the optimal combination of available marketing options likely to appeal to individual customers *independent or apart from their membership in a specified segment.* The major advantage of MOM is thus in their ability to address intra-segment customer preferences so that no one is inappropriately ?locked into? receiving those marketing options deemed optimal for his/her predefined segment.

MOM also contains the added functionality of having the capability of identifying further *micro- segments* in the data and the potential information needed to develop customized marketing options likely to appeal to these newly mined segments. As

such, MOM has a distinct evolutionary quality to it in the sense of having the ability to discover ever-finer segments within larger segments for the purpose of satisfying more precise customer desires and needs. In this sense MOM is quite in keeping with the CRM mantra of getting the *right offer, the right premium*, *the right message, through the right channel at the right time* to the *right person.*

MOM supplies the end user with a rank ordering of customers on the base file on the appropriate outcome metric of interest, including ROI, since not all marketing options have the same cost. The score for each individual is conditioned on their receiving the optimal combination of marketing options available for him/her and not just those found to be most appropriate for the qualitative segment he/she belongs to or has been assigned. It thus not only combines *predictive* and *qualitative* (*strategic*) segmentation in the manner of best-of- class segment-based target marketing, but goes one step further by attempting to capture any residual within-segment heterogeneity which is an inevitable outcome of any attempt to fit individuals into a limited number groups, much like that of trying to fit an octopus into a shoe box.

Part 2 will explore the inner dynamics of marketing option models.

Kent Leahy has been involved in database marketing analytics/data mining for almost 20 years with various companies including American Express, Donnelley Marketing, Citibank, and The Signature Group. He has published articles in the Journal of Interactive Marketing, AI Expert, Direct Marketing, DMA Research Council Newsletter, DMA Research Council Journal, Quirks and DM News among others. He is currently vice president with TMI Associates, Inc. of North Caldwell, N.J., and can be contacted at kentjleahy@al.com.