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DATA MINING PRIMER "Do you want fries with that?"

*By Bruce Gregoire, President
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If the Little Leaguer in your family is a buyer of a baseball bat, what is the most likely item they would buy with it? Of course, a baseball. But the reverse may not be true - if they buy a baseball, they may be more likely to buy a glove. This scenario may be obvious to your child, but not so obvious to your marketing staff, unless they are using Data Mining.

Data Mining is all about correlations and patterns, revealed with statistical tools. The term itself is instructive - Data Mining (in the marketing sense) describes the process of "drilling down" into a database of customer data to retrieve valuable "gold nuggets" of information. The most familiar example is Amazon.com – when you log in, the Amazon database recognizes you, drills down into your buying history, and recommends a new title for you to purchase. This is a specialized version of Data Mining known as a "recommendation engine", where customers that fit your profile are grouped and statistically analyzed based on their buying patterns. It is obviously a very effective approach for cross-selling.

Direct Marketers can employ Data Mining techniques on a smaller scale than Amazon, and still achieve considerable success. Here are just a few examples at 3 levels: customer, product, and promotional offer:

1. Keeping customers – Data Mining can predict "churn", when a customer is about to lapse. This is highly effective in the telecom industry where churn is a significant problem, but can also be used in membership associations. For example, if a member's attendance at association events drops off, this may correlate highly with his/her membership renewal lapsing.
2. Increasing response – Data Mining pros will tell you that response can be "lifted" by targeting specific groups with appropriate messages. In the Washington DC area, fundraising is a major industry. According to Bob Pattison of MarketMiner, "Solicitations requests may need to be tailored differently to late baby boomers than to the World War II generation. For example, in upgrading a phone pledge from \$50 to \$100, the offer of a premium can be pivotal. In other cases it may simply be the need to be asked to give more. Data Mining tools can help determine the difference".

3. Fine-tuning promotional offers – data mining can reveal that a timely promotional offer will boost lifetime value of a customer. One example is a client of Desktop Marketing who promoted a series of 7 management seminars to middle managers. Data Mining showed that if a middle manager could be persuaded to attend a 2nd seminar, the likelihood of completing the entire series of 7 was dramatically increased. Thus, marketing staff implemented a promotional strategy to offer a discount for the 2nd seminar immediately after the 1st was ordered.

Data Mining is not yet a mainstream analysis technique, so the talent needed to make it succeed is not readily available. You may need to hire consulting services if you are unable to find the right staff person to employ. But the good news is that data mining tools are becoming more powerful and less expensive. For instance, Crystal Reports is a widely available product that is used by many marketing analysts, and costs less than \$500. Of course, it needs to be customized for this purpose. More specialized Data Mining products for marketers include MarketMiner (less than \$15,000) and SAS (somewhat higher).

It has been estimated that in the next 3 years there will be more data generated worldwide than in all recorded history to-date! Direct marketers will need to employ wider use of Data Mining techniques to survive this landslide – and successfully analyze marketing campaigns.

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