

## **Increasing DM response rate of loyalty card customers for a retail chain**

### **Business challenge**

For a big retail chain which has a huge base of loyalty card customers the biggest challenge is to design targeted offers to maximize the response rate of direct marketing campaigns. For the lack of any behaviour modelling, “one size fits all” offers are sent to the entire database which results in substantially lower response rates.

### **Approach**

To design targeted offers, it is necessary to do customer segmentation and profiling of the customer base. Segmentation usually is done with two objectives, first to segment on the demographic data available for the customers like age, income, geography. Second, to profile on the category of purchases a customer does like apparel, cosmetics. But third and the most effective segmentation technique is to use a hybrid model where transaction data is overlaid on the demographic segmentation. This kind of segmentation would help in identifying a typical market basket at a segment level.

Historical data is consolidated using SAS and segmentation is carried out on the base using clustering analysis.

After the segmentation and profiling, response data from the previous direct mail campaigns is consolidated. A response scorecard is built using logistic regression which predicts the probability of a customer responding to any direct mail offer.

Overlaying the response scorecard on the segmentation framework various test offers are designed for each segment.

### **Benefit**

Organization can look at increasing the response rate for the DM campaigns by at least 30% to 40% and thereby reducing the cost of direct mailers substantially.