



Service strikes best DM, mass balance

MARKHAM, ON—Statistical modelling developer, Custometrics, based here, last fall unveiled a service that among other things can find the best balance between a company's mass advertising and direct marketing that yields the greatest sales results and overall return on investment (ROI).

Called Ad-Catalyst, it consists of five components, different statistical modelling systems augmented by proprietary software. Based on a decade of statistical and optimization model development, Ad-Catalyst analyzes all forms of advertising and marketing communications from mass marketing and image advertising to direct marketing, promotions and interactive media.

Direct marketing has always been proficient in measuring and testing campaign effectiveness. What it hasn't understood is how other forms of advertising and marketing influence campaign results. How much does general branding from TV or radio spots, for example, contribute to concrete leads and sales conversions derived from direct marketing programs? Ad-Catalyst purports to answer these kinds of questions and others that have long defied explanation.

"Our mission is to help make advertising a more predictable and profitable activity for our clients," says Custometrics CEO David Beaton in a press release. "The market is looking for ways to make advertising efforts more accountable. Our clients need to know the ROI of all their advertising efforts, and how to systematically improve ROI. We think Ad-Catalyst will help do this."

"The statistical analysis that is the foundation of Ad-Catalyst is based on state-of-the-art modelling and optimization technology," explains Custometrics President Katherine Krass. "The models have seen thousands of data points in many different kinds of market conditions, and are very accurate and robust. This means clients can make decisions based on Ad-Catalyst information with confidence."

One Ad-Catalyst component is an evaluation modelling system that relates advertising and marketing communication activity to changes in sales. It measures campaign ROI, baseline sales or the amount of sales that occur without advertising, market growth potential, and the effect of specific channels or combinations of channels, such as TV, direct mail, print promotions and others.

A second part is a competitive analysis system that looks at the impact on a client's sales from each competitor's advertising.

Another module consists of execution tools that supply data assisting clients and their media buying agencies on media expenditures.

The fourth component is a targeting model that helps clients predict demand and target media in upcoming campaigns, producing targeting provisions for each media.

Finally, an optimization system uses the output of the evaluation and targeting models to predict sales for an upcoming campaign. It recommends spending allocations for specific geographic markets and communication channels and shows what will likely happen when budgets are altered.

Clients had been using one or a few of these statistical models for a number of years, Beaton tells *DMN*. But it wasn't until the summer of 2002 that a telecommunications company applied all of them together with excellent results.

Since then, four other companies have used all five components at once with similar results, he says. All these companies supplied different kinds of services and knew their customers intimately.

The successes convinced Custometrics to package them under the Ad-Catalyst brand and promote it in earnest, he says. It led to the official launch and press release last fall.

Custometrics has been discussing Ad-Catalyst with retailers and others that don't know their customers directly, but have all sorts of transactional store data, he says. It is in the process of putting something in place for some retailers.

It has also begun to approach financial services institutions. It doesn't have a strong prospect here yet, but Beaton believes Ad-Catalyst would be a good fit for financial services.

Custometrics deals mostly with large companies. But Beaton is averse to naming its clients for reasons of confidentiality.

Most clients are Canadian companies with well-known national household brands, he says. Others are in different services sectors and some are in the technology field. Some reside in the New York area and some market across North America and into Asia and Europe.

Currently Ad-Catalyst is a service that Custometrics conducts in-house, he says. The aim in the long term is to provide it as software to companies.

The Ad-Catalyst price tag varies depending on client requirements, he says. Custometrics will go through a discovery stage and work it out with each client. But generally the price ranges into six figures.

"What we're trying to do is get a very rapid ROI. Clients will be breaking even on the service within six months in most cases and will be making a very solid three digit ROI within the project lifetime.

"We found that putting all the five pieces

together and combining client data with these techniques was really getting us to the next level. Part of it was having clients willing to put all these pieces together to make it work. Thankfully, they were very supportive of that and it has worked out quite well."

Beaton began his career in direct marketing and became acutely aware of the value of marketing measurements. He recognizes that striking the optimal balance between mass and direct marketing has been an age old debate.

That balance point is different for different clients in different businesses. But he maintains that once reached it yields the lowest cost per order.

"When we're away from the balance point, we may have too much direct and not enough mass and we're paying a higher price than needed even though the direct marketing is effective. We could achieve better results if we had more mass support for that direct marketing."

Discovering that balance point starts with the evaluation model that measures and assesses what media in which geographic markets are contributing to growth, he says. It uncovers the best opportunities.

Then, the optimization system takes that learning and applies it to the next campaign, he says. It determines the right combinations of markets and media to achieve the best outcome.

Ad-Catalyst is an asset even when applied to just direct marketing, he says. Direct marketers are always attributing an order to the medium from which it was derived. The more difficult determination is to figure out how much synergy exists among different direct vehicles. The models analyze various media, not just individual channels, to come up with combinations that produce the best overall results.

"Even if you're spending all your money in direct, and very few clients do, it would be useful to get an idea of the combination of direct tactics and channels like the Internet and direct mail that will give you the best outcome."

The biggest challenge to creating Ad-Catalyst was coming up with a common language that could be applied to the different ways marketers assess media, he says. Mass marketers evaluate TV far differently than direct marketers evaluate direct mail. He says Custometrics has found a way to bridge those differences through the work it has undertaken.

Along with the usual disciplines, direct marketers need to add measures that take a broader scope, he says. It's more than just comparing the lift on one list to another list. It

involves what will happen with the addition of TV, radio or in-store promotions to the mix.

"I need to know how my direct is going to change as I change those other things. I should know how much direct is adding to what I'm already going to get versus what I'm getting from my mass contribution."

In some cases companies need to pour more resources into direct because they've done a good job of preparing the market, but not enough to bring in the orders, he says. In other cases, they need to do less direct and more mass to do more branding and get the message out.

Beaton concedes that statistical models can devour mountains of data. He believes one reason the techniques are working so well is that so much data is now available at customer and store levels. It's a benefit to clients who aren't referring to even a fraction of all their information to have Custometrics make use of it.

Not only is there often a huge amount of data, much of it is competitively sensitive, he says. It means establishing a great deal of confidence and trust with clients. It's partly why he refuses to name them.

Custometrics has been working with sensitive data since its founding in 1993, he says. Over time it has built a reputation that inspires trust.

As well, the company only extracts data from clients it needs, he says. There are no names, addresses or phone numbers so there are no privacy implications. It's all information assembled in aggregate form.

A new client entails assimilating a lot of data for the first time, he says. So there is a preparation phase where Custometrics merges and analyzes their data. It builds models customized to the client.

This phase may last from a month to three months depending on the extent of the work. But he says Custometrics tries to keep it short so the client can start making decisions based on the models as soon as possible.

Custometrics can get companies on-stream faster with Ad-Catalyst if they have already been applying some of the component models, he says. The company may be working with clients in direct marketing or CRM and Ad-Catalyst is the natural next step.

"We may have been examining how they are doing acquisitions, targeting and direct mail for example. We could quite easily bridge over into the other Ad-Catalyst components. And we can be much more effective with one marketing channel if we're looking at getting them all working properly."

The evaluation and optimization models have been the most popular, he says. The first indicates what is happening and the second tells what to do next.

But the optimization system works best when it has inputs from both the evaluation and target models, he says. Custometrics starts with the evaluation outputs, adds the targeting pieces, and then runs the optimization algorithms. All these parts work hand in hand.

"Evaluation looks to the past, the targeting

and optimization looks to the future. Everyone wants to know the facts of what is happening and what to do better next time. That's where the ROI comes from. The evaluation piece clarifies what is and isn't contributing toward growth and optimization is taking full advantage of that."

The competitive analysis system projects the impact of each competitor's advertising on the client's sales, he says. It's again done from statistical models based on information supplied by the client.

In the sectors engaged by Custometrics, clients have access to estimates of what their competitors spend on advertising, he says. They just don't have details.

"We're able to quantify how many sales they are gaining because a competitor is relatively quiet or ineffective, or how many sales they're losing because the competitor is particularly aggressive and effective. It acts as an additional layer of evaluation. Did I do well in that campaign because of my decisions or because my competitor happened to be inactive?"

The execution tools advising clients and their media buying agencies on media expenditures are actually reports derived from the optimization and evaluation model outputs, he says. They show the optimal investments in media and market combinations and total spending.

"We talk about a cascade of decisions we help clients make. We start with the best total spend, the markets to enter, how much to spend in each, expenditures in different communications, the balance between mass and direct. One output may be a budget for radio by geographic market given we've evaluated how much radio should get in the overall mix."

However, he strongly recommends these reports be used in conjunction with the normal disciplines clients and media buying agencies deploy in calculating markets, media and budgets. They bring some information to light and some science to the media planning exercise.

The baseline sales clients should get without advertising is again determined through a statistical modelling technique, he says. Companies usually aren't advertising in all time periods in different markets to the same extent. Such occurrences are extremely rare.

Thus, there are lots of variations for the model to draw from and lots of observations to make because the analysis is very granular, he says. Advertising changes are studied month by month over a period of years producing a great many data points.

"You'll find the model will often get reads of thousands and in some cases tens of thousands of these data points and reads at different levels of activity. Sometimes it is literally zero and in other cases close to that. And then you read against the sales patterns that are actually taking place and the rest is up to the statistical modelling technique to figure out.

"There is a certain level of sales that take

place whether we do anything as communicators or not. We don't always recognize that. We like to think it is the campaign that is driving all the sales. But that is rarely the case."

Ad-Catalyst has delivered many insights for clients, he says. There were situations where clients underwent pricing changes that didn't appear to show up in their overall sales numbers. But the models revealed significant impacts that allowed companies to adjust and take advantage of sizeable marketplace opportunities.

In other cases, Custometrics found clients were getting little or no returns from geographic markets where they were concentrating much of their efforts, he says. As a result, they shifted their attention to more promising areas.

One company was doing a great deal of direct marketing and was also running radio ads that weren't producing large call volumes, he says. The temptation was to discard radio entirely.

"We advised against it. We found radio was contributing substantially by lowering the cost per order from the other direct activities."

One company was deploying both addressed and unaddressed direct mail, but the response rates from both failed to reveal how they could best be coupled in certain markets, he says. But the models turned up significant differences in results from both approaches in Ontario and Quebec.

In some cases, people are astonished by what the models uncover, he says. Sometimes Custometrics winds up spearing sacred cows or confirming what clients suspected but couldn't prove. When some unexpected nuggets are discovered, it will often suggest further tests and readings for confirmation. In this way, Ad-Catalyst brings the test-and-learn discipline to all kinds of different media.

"We may see that a company is particularly effective when it uses a combination of things that represent only a very small percentage of its efforts. We may recommend making them a bigger part of the total picture and taking another reading to see if we're on the right track."

Ad-Catalyst is also opening more meaningful dialogue between marketers and people in the finance department, he says. It gives marketers a better way of cost justifying their budgets.

The statistical techniques may have some elements of regression and predictive models, he says. But other parts of processes that assimilate disparate data sources and unify them appropriately are proprietary.

Custometrics employs 15 people, five of whom have PhD's, he says. The staff includes statisticians, mathematicians, operations research people, and computer science experts.

There is a statistical modelling group and a group devoted to data management.

However, nobody in the company is dedicated solely to sales. Beaton plans to change that by hiring a sales person this year. ■