



ANALYTIC VISION. BUSINESS IMPACT.

CLIENT CASE

Retailer – Generating Incremental Revenue & Greater Profitability with Lift Modeling

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Generating Incremental Revenue & Greater Profitability with Lift Modeling

Background

As current economic conditions continue to re-enforce the need for improved marketing effectiveness, marketing decision makers are actively seeking better targeting approaches for identifying “incremental” revenue opportunities from their customer marketing programs.

The case below describes how a national retailer is using Lift Modeling for incremental revenue and greater profitability.

Client Objective

Our client, a well-known national retailer, had been observing a declining trend in the profitability of their direct marketing programs. These programs, targeted at existing customers, were designed to stimulate incremental demand for their products through the use of discount offers. While their customer targeting leveraged transaction history and an in-depth knowledge of identified “top customers,” communication cost and thin product margins made it difficult to achieve ROI thresholds on these programs.

Our client was looking for a way to identify which customers would produce a positive ROI in response to this type of campaign. Being able to identify the profitable subset of customers within the campaign would allow the Retailer to improve program performance, and at the same time, redirect funds accordingly for optimal marketing effectiveness.

Our Solution

iKnowtion determined that the best way for our client to identify pockets of profitable customers was to predict incremental activity, rather than total activity, and employed a Lift Modeling approach to do so.

Our client was already savvy in terms of utilizing customer data, using predictive models, and identifying “top customers.” However, “top” customers in terms of revenue contribution are not the same customers who will produce additional revenue in response to a marketing stimulus. The lift modeling approach goes beyond the traditional method of measuring incremental results for different groups (test versus control) in that it pinpoints the individual customers who have the greatest potential (not just the groups). The ability to pinpoint individuals provides our client with the flexibility to take immediate action, thus improving targeting for better program performance.

Our process included the development of a “true lift” framework in order to identify customers with the greatest incremental potential, rather than overall sales potential. During this process we evaluated program treated and control groups to estimate base sales and the impact of the offer on sales, and created two distinct models accordingly.

The first model, which utilized both the treated and the control groups, predicted expected sales. Next, customers in the treated group were evaluated in order to determine the degree to which the offer would influence expected sales. This was achieved by creating a variable which represented the marketing action (offer).

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Through the modeling process, a weight was assigned to that offer variable, representing the importance of that offer in determining sales relative to other known customer characteristics. Finally, we created two regression equations: one including the offer variable and one excluding the offer variable. The difference between these two equations represents predicted incremental sales, providing a measure of lift at the individual customer level.

Alternative Analytic Methods

During the course of this assignment, our client had specified that the analytic solution must be relatively easy to operationalize. In an environment with multiple campaigns executed simultaneously, the client was not interested in an overly complex algorithm that might be hard to code in the system or maintain over time.

Because of this requirement, iKnowtion presented several analytic alternatives, ranging from easy to implement/lower impact to harder to implement/biggest impact. Analytic alternatives ranged from business rules involving only two and then three variables, to a tree-based set of logic, and then finally the lift model algorithm.

For each of the alternative methods, campaign results were simulated by “back scoring” customers. That is, customers were scored based on their status at the start of the campaign, and the results were tracked during the campaign period. This allowed us to recalculate program results based on the different targeting scenarios. Estimated incremental impact and program ROI was presented for each solution, so that our client could assess the trade-offs. This validation process clearly demonstrated how an unprofitable campaign approach could be progressively improved by applying targeting methods at varying levels of sophistication. The lift modeling solution produced the best results.



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The Bottom Line

The Lift modeling solution transformed a previously unprofitable campaign to a campaign with strong, double-digit ROI. In addition, iKnowtion had uncovered a number of insights about this retailer's top customers which led to several marketing opportunities including: a refined segmentation approach, an understanding of key activity that drives profitability, and a lifecycle-based approach to customer development which has helped to build, grow and retain our client's best customers.

For More Information About Lift Modeling

Lift modeling is an analytic technique that is used to improve marketing performance. If you have any questions about it or would like to discuss how it could be used to help your company find incremental revenue, simply call us at (781) 494-9989 or send us a request to talk with an analytic expert at inquiry@iknowtion.com for a free consultation.

If your in-house analytic staff could use help in developing Lift Modeling solutions, we offer several alternatives that may fit your needs.

Proof of Concept

A Proof of Concept can be an effective way to demonstrate the power of Lift Modeling. We can work side-by-side with your analytic staff to leverage past campaigns & demonstrate how Lift Modeling would have impacted your targeting and end results.

Workshop

iKnowtion offers one to three day workshops on a variety of analytic and customer development topics. We can tailor a workshop on Lift Modeling techniques, conducted by iKnowtion subject matter experts at your site with your team of relevant stakeholders.

Webinar

iKnowtion can deliver a custom webinar on Lift Modeling techniques, including relevant client case material.

For more information please contact us at (781) 494-9989 or inquiry@iknowtion.com.