



A Smart (Data-Driven) Way to Select Catalog Mailing Lists

By Jacob Ensign, Business Analyst, JMH Consulting, Inc.

In these difficult economic times, while continuing education units are trying to cut costs and optimize revenues, we cannot ignore one of the largest marketing expenses: your catalog. Deciding to cut catalog-mailing altogether could save you a lot of money, but it could cost you in registrations.

In this article, we discuss a simple yet rigorous model to optimize your catalog-mailing lists and explain how to:

- Identify which carrier routes are most likely to generate profit
- Select existing carrier routes that,
 - you should keep mailing to because of their high level of profitability
 - you should stop mailing to in order to reduce waste
- Select “safe” test carrier routes so you can tap into new markets with minimal risk
- Use carrier route potential profitability as a way to decide how many catalogs to send

The idea

Each term, you have the opportunity to measure the success of your catalog mailing as a form of marketing. Your catalog should be used both to encourage past customers to return for more classes and to encourage those who have never enrolled to become customers. Thus, every time you mail catalogs, you could divide your recipient list into two groups:

- Customer list: a list of addresses for past class enrollees and catalog-requesters usually stored in your registration system
- Purchase list: a list of addresses for potential customers who usually come from purchasing a mailing list from your clearinghouse

To determine whether addresses are good candidates for inclusion on a list, we must compare the historical performance to an objective metric. Using your marketing budget as a baseline, we can easily generate a margin of success, similar to ROI, for each carrier route within each list. This will allow us to compare carrier routes in an objective way and to ensure that those we select will help meet marketing goals.



As you build the lists, this process ensures that you only include addresses and carrier routes that ensure marketing can meet its budgeting goal, thereby minimizing the risk of mailing catalogs to unprofitable carrier routes.

The process

The combined process for building mailing lists is broken into two phases: building the customer list and revising the purchase list. Before we start analyzing the lists, however, we need to set an objective measure based on the marketing budget, called the return on investment (ROI)¹.

For each carrier route, we will calculate the ROI as follows:

$$ROI = \frac{\text{Total revenue} - (\text{Cost per catalog} \times \text{Number of catalogs mailed})}{\text{Cost per catalog} \times \text{Number of catalogs mailed}}$$

For example, if a carrier route generated \$10,000 in registrations and received 2,000 catalogs that cost \$0.50 each to print and mail, then the ROI for that carrier route would be

$$ROI = \frac{\$10,000 - (\$0.50 \times 2,000)}{\$0.50 \times 2,000} = \frac{\$10,000 - \$1,000}{\$1,000} = \frac{\$9,000}{\$1,000} = 900\%$$

Overall, this carrier route seems to be a good investment. For each dollar spent in catalogs to that carrier route, we received nine dollars in registrations. On the other hand, a carrier route that generated only 100% ROI (each dollar spent yields one dollar in revenue) would make for very expensive marketing. Instead, we need a point between those two that separates the good carrier routes investments from the bad ones.

We can compare the ROI of individual carrier routes to the following carrier route comparison margin (CRCM):

$$CRCM = \frac{100\% - \text{Marketing budget as percent of total revenue}}{\text{Marketing budget as percent of total revenue}}$$

For example, if your desired marketing budget is 15% of total revenues, then your comparison margin would be

$$CRCM = \frac{100\% - 15\%}{15\%} = \frac{85\%}{15\%} = 567\%$$

¹ In actuality, this ratio is not the ROI. The ROI should include all expenses related to acquisition of revenue. In this analysis, however, we are only counting the expense of mailing catalogs in our ROI equation.



Thus, any carrier route with an ROI above 567% is a good one. Anything less is going to prevent your marketing department from reaching its budgetary goal.

With this objective standard for comparing carrier routes, we can now build a smarter mailing list.

Building a smart purchase list

By applying the comparison margin to each carrier route purchased from your clearinghouse for inclusion on the mailing list, you can determine which of those carrier routes historically performed well. Analyzing the purchased list from previous terms is a great way to measure the marketing effectiveness.

Our smart purchase list will include addresses from both the existing markets (carrier routes you have already mailed to) and some new markets (carrier routes you have not mailed to). The first list is called the past purchase list; the second list is called the prospective purchase list.

Refining a past purchase list

The purpose of refining the existing purchase list—the one you bought from your clearinghouse the previous term—is to stop sending catalogs to ineffective addresses. Effectively, altering this list is about refocusing catalogs on groups of potential customers that are more likely to enroll in classes.

Refining the past purchase list involves the following steps:

1. For each carrier route included on your purchase list from the previous term, compute the total amount of revenue generated from new customers, i.e. those who did not exist in your database before the previous term.
2. Compute the carrier route ROI (using the formula above) for each carrier route on this list.
3. Select the set of carrier routes with the highest ROI, such that their cumulative ROI is as close as possible to the CRCM that you computed earlier (567% in our example).

By refining the past purchase list, we can reduce the number of catalogs that we will mail overall. If the past purchase list successfully acquired new customers, then the number of addresses on the purchase list is smaller. Likewise, since the previous step identifies carrier routes that are not worthwhile or profitable to send to, we can ultimately send fewer unprofitable catalogs.

Defining a prospective purchase list

The purpose of defining the prospective purchase list is to tap into completely new markets and groups of potential customers. By identifying carrier routes in which you already get a substantial amount of business and (assuming that the “neighbors” of your existing customers are similar to your existing customers) mail catalogs to other likely candidates who live there.

Defining the prospective purchase list involves the following steps:



1. First, we will focus on carrier routes that were on a previous purchased list. From your registration system, compute the total revenue from existing customers (those who existed in your system before the previous term) and the total revenue from new customers (those who did not exist in your system before the previous term for carrier routes on previous purchase lists.
2. Perform a linear regression analysis to compare income from existing customers to income from new customers. This will give you a reasonable way to forecast the carrier route ROI for the next term.
3. From your registration system, compute the total revenue from existing customers in all carrier routes NOT included on a purchase list in the previous term. Use the results of the regression analysis to forecast the amount of new business that your continuing education department could expect from these carrier routes.
4. Use the forecasted income for these carrier routes to compute a forecasted carrier route ROI.
5. Select the set of high forecasted ROI carrier routes, such that their cumulative forecasted ROI is as close as possible to the CRCM that you computed earlier.

Remember, none of these carrier routes was included on the purchase list in the previous term, so none of these carrier routes would be on your refined purchase list. In refining the purchase list, as described in the previous section, we focused our catalog-mailing efforts to *proven* profitable carrier routes. In defining a prospective carrier route list, we focus our catalog-mailing efforts on finding *likely* to-be-profitable carrier routes to target.

Building a smart customer list

The customer list is the list of customers from your registration system who are on your mailing list. Your smarter customer list is one that includes only customers who continue to be likely students for future classes. To determine who these people are, we need to discover how far back in time we should look for likely repeat business.

Conceptually, we want to understand how often people wait one year, two years, three years, or even longer before taking another class. We measure in money we received in the previous term from customers whose last enrollment was one year ago, two years ago, three years ago, or longer.

Building the customer list involves the following steps:

1. From your registration system, pull a list of customers who enrolled in the previous term and their second-to-last enrollment date. Measure how long each of those customers waited before taking a course in the previous term in years (or terms, quarters, months, etc.) before.
2. Compute the total revenue that you earned the previous term from customers who waited 0–1 years, 1–2 years, 2–3 years, etc.



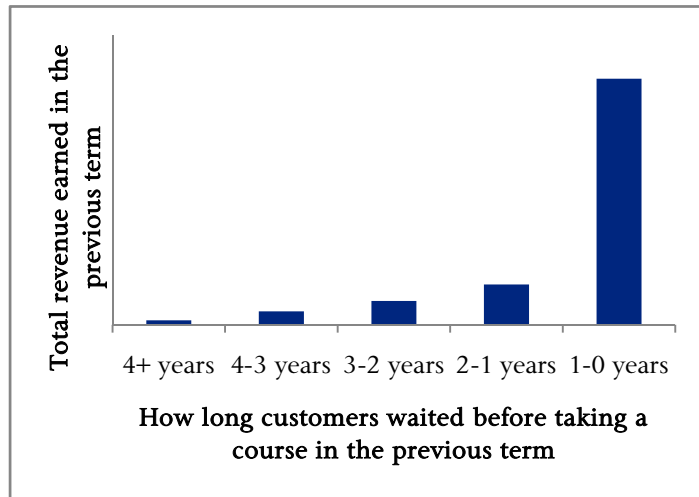
3. Compute the catalog mailing ROI of customers who waited 0–1 years, 1–2 years, 2–3 years, etc.
4. Select the length of time (0–1 years, 0–2 years, 0–3 years, etc.) such that the cumulative catalog mailing ROI is as close to your CRCM as possible.

This chart shows an example of the trend that you can expect. Naturally, we can expect that the 0–1 year category will be much larger than the 1–2 year category—customers that are more recent are more likely to do more business with you.

The mailing list is now a simple combination of your purchase list and customer list. There will be some overlap as some customers will be on both lists, so be sure to have your clearinghouse de-dupe.

Final thoughts

In this article, we outlined a process for optimizing your catalog mailing list. This process increases the chances that you convert potential customers into paying customers, and it reduces the risk of wasting marketing budget on junk leads.



The approach outlined is a smart one in that it touches three identifiably different audiences:

1. **The customer list** includes existing customers who you hope to turn into repeat business.
2. **The revised purchase list** includes non-customers in existing markets that generate a substantial amount of business.
3. **The prospect purchase list** includes non-customers in markets that you are likely to convert into business.

Best of all, we built all three of these lists using rigorously analyzed data. This means that we can improve our mailing each term that we apply this process. Additionally, this method, which consistently selects the smartest list based on the previous term, will update as the economy fluxes and changes. Every term, using this process, you can feel confident that you are selecting the smartest mailing list for your continuing education program.

To see more of our research and analyses, visit our website at www.jmhconsulting.com or our blog at www.jmhconsulting.com/blog