STATISTICS COLLOQUIUM

WEDNESDAY, NOVEMBER 15, 2006
TALK: 4:00 PM — SCIENCE CENTER Rm. 705
RECEPTION: 5:15 PM — SCIENCE CENTER, 7TH FLOOR

“Estimating the Value of a Single Marketing Contact”

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ABSTRACT

Many firms using direct marketing today maintain lists of customers, called “house files,” with which the firm can contact consumers to deliver catalogs, promote products and extend offers such as coupons or discounts. In this paper, we address the problem of determining which of the N customers on the house file should receive a particular marketing contact so that the expected profit for the contact, including its cost, is positive. In the discipline of direct marketing, this problem is called selecting the mailing depth. Previous research has recommended that only short-term profit should be considered, which leads organizations to under-invest and contact too few customers. Some recent research recommends adding incremental long-term profits to this criterion, but there is no clear consensus on how to do so. We identify two additional components of profitability -- the value of having additional information on customers and incremental profits from other purchase channels -- and compare two statistical methodologies to quantify their value. We investigate whether firms can use our new valuation to find additional profitable marketing contacts with their customers. We illustrate our approach by analyzing direct marketing data from two firms using different contact channels.