Maximizing Customer File Performance – Tips and Methods You Can Use
By Chuck Romans and Susan Keipper

Most educational marketers treat all of their customers the same, even though some will purchase multiple times and spend thousands of dollars while others will buy only once and spend less than a hundred dollars. Marketers must understand that customers have varying potential. To get the most out of any customer database, it is advisable to allocate the most resources to those with the most potential and as little as possible to those with the least potential.

There are a number of database marketing techniques that try to identify the best-performing segment of customers, as well as unprofitable segments. That is the essence of the various targeting models. There are regression models, multi-level regression models, CHAIDS, neural nets, and other types of statistical methods to score customers' and prospects' potential based on past performance and/or demographics. However, these methods can be very expensive and difficult to cost-justify for many education marketers. In addition, organizations that have had limited experience in database marketing should not start with complex modeling.

One of the most tried and true methods of predicting customer file response is by using the Recency, Frequency and Monetary Amount (RFM) analysis technique. As with all analysis techniques, this should not be considered is a guarantee for all marketers. All techniques should be tested and validated before making adjustments to the marketing strategy.

RFM is a fairly simple technique of ranking customer records by three distinct values and combining the values to establish a ranking. (Note: The actual value of the recency, frequency, and monetary amount rankings will vary depending on a customer's file. Each quintile group should have an equal number of customers.)

Recency of purchase can be a very powerful value to determine response. A school that purchased last semester is more likely to respond to a mailing than a school whose last purchase was three years ago. However, there are more than two values to recency. To test recency in your mailings, sort your customer file from most recent purchase to the oldest. Divide the entire group into five equal segments or groups and label each group based on the date range. For example:

Recency Quintile Score	Purchase Period
5	0-3 months
4	4-12 months
3	13-20 months
2	21-24 months
1	24+ months

Frequency is the second factor in the analysis. The more an institution or individual purchases, the better the prospect that he or she will buy again. However, marketers must also remember that customers who have just purchased for the first time may become frequent buyers in the future. Therefore, the lower ranked institutions by frequency are likely to respond better than those with a low recency ranking.

To rank by frequency, just follow the same the method as recency. Sort the customer file by most number of purchases to the least. Divide into five equal groups and assign a quintile score.

Frequency Quintile Score	**Number Times Purchased**
5	10+
4	7-9
3	4-6
2	2-3
1	1

Monetary amount is the last element. Monetary values can be determined using total purchases by existing customers or the average value of customers' purchases. In the education market, total purchases makes the most sense if the data is available. Apply the same concept of ranking by rating from high to low and assign a quintile score.

Any one of the RFM elements can be effective in predicting response. However, the most effective use of the rankings is to note all three scores on each record and sort the database using the scores. At the top of the file you will have customers whose RFM ranking is 555; these are customers who made a purchase most recently, who purchase frequently, and who have spent the most. The bottom of the file will be the poorest performing group. Somewhere in the middle of the list is a break-even point that can be calculated. To do that, a response tracking mechanism needs to be established.

Usually, a test file needs to be created to validate whether RFM is predictive of response. However, in the education market, many customer files are relatively small so the entire customer file can be used instead of a test group. The chart that follows shows a sample response table:

Top				*Bottom*			
Cell Value	# Mailed	# of Resps.	Resp. Rate	Cell Value	# Mailed	# of Resps.	Resp. Rate
555	300	25	8.33				
554	300	24	8.00	243	300	4	1.33
553	300	23	7.67	242	300	4	1.33
552	300	22	7.33	235	300	3	1.00
551	300	24	8.00	230	300	2	0.67
550	300	20	6.67	225	300	1	0.33
542	300	23	7.67	220	300	1	0.33
				218	300	1	0.33

The response rate per cell is rarely, if ever, a straight line. In the above example, the number of pieces mailed in each cell is the same because it is a test mailing. If the entire customer file is scored with RFM, then the number of pieces would vary in each cell.

As with any model or analysis, RFM needs to be applied in conjunction with product and customer file knowledge. If a company markets a wide variety of products with large price variations, then that needs to be factored into the process. For example, a company may market professional development seminars, classroom materials, and administrative software. In this case, the cost per product may range from $25 up to $500 or even more. Therefore, if RFM is applied indiscriminately, it would skew the results because of the varied nature of the business. This can be controlled by adding another value for product category. This would be a PRFM, or Product, Recency, Frequency, Monetary Amount score. The concept and application remain the same.

Product segmentation. If a company carries a number of different products, it is important to analyze sales by product line in order to evaluate which products are the most profitable for the company. Total revenue, number of customers, and average order size should be evaluated *for each product line*. In most cases, you should be able to determine which products are producing the highest portion of your total sales and which ones should then receive the most marketing and sales dollars. This evaluation can also help determine which products you may want to drop. You should also have some idea about the shelf life of your products and monitor sales trends as the product nears the end of its shelf life. In many cases, you may be allocating marketing and sales dollars to the wrong products. For example, a company currently carries 385 assorted items in its catalog—but only 21 of those products produce 82% of the gross revenue. These top 21 products are the ones that should receive the greatest attention and marketing and sales dollars.

Geographic segmentation. It is important to analyze your business geographically to determine which states are your top producers. In the education market, the old “80-20” rule works very well. It is not unusual to have 20 states produce about 80% of your business. Identifying these top-selling states allows your company to focus its marketing and sales dollars there. In addition to reviewing sales by state, it is also valuable to analyze sales by school district to look at which districts within a state should receive priority.

Another way to analyze business in the education market is to look at whether the school is in a rural, suburban, major metropolitan, or inner-city location. You may find that some of your best customers are from inner-city schools that get special federal funding for your program or product.

Institution versus individual buyer. In the education market, it is often difficult to distinguish between orders in which the contact person/decision maker is clearly indicated and those that come in via a purchase order from a business office, in which case the name of the actual decision maker has been lost. In some cases, one purchase order may cover a variety of products and services that will be distributed throughout the school system. One way to solve this dilemma, besides trying to get all orders placed with a contact name, is to separate the database into two categories: orders placed by an educational system (i.e., school district, resource center) and orders placed by an individual.

In general, the orders placed by an educational system should be larger orders (more revenue per order) and the items will probably be used throughout the system. It may also be helpful to look at orders placed by a district-level administrator versus orders placed from the school building level.

Customer by title. In the school market, one of the most important pieces of information in a customer database is the job title (position) of your customer. This can help you target all future direct mail efforts and is an important component in understanding your customer profile. When analyzing customers by title, however, it is also important to take into consideration your previous mailing and marketing patterns. For instance, if 80% of your buyers are principals and you have been marketing equally to three or four different titles, then it is clear that principals are probably your primary market. If, however, you have been marketing *only* to principals, it wouldn't be unusual to have 80% of your customers as principals—and then you would need to look at the job titles of the other 20% of your customers to determine where there might be other opportunities.

Customer by funding source. As you build your customer database, it is important to try to gather as much information as possible about how your program or service is funded by the school. Is the money coming from the regular annual operational budget, or is it coming from federally funded programs or state-funded programs? If you find that 60% of your programs are paid for through Title I, then you will probably want to watch that funding very carefully and also plan some alternative options to pursue in case that funding changes.

Customer by marketing source. One of the greatest challenges is to gather accurate information about the real marketing source. What most marketing managers want to know is, how did the customer first learn about the product or program and what motivated him or her to finally purchase it? There are often many challenges inherent in getting accurate information about marketing sources. For example:

- There can be a delay of as much as two years—or sometimes even more—between the initial marketing effort and the final close of sale.
- Marketing materials are often passed along from one educator to another.
- Many schools order using purchase orders rather than order forms.

One way to overcome these challenges is to give every product a marketing code that will tell you what marketing strategy generated the sale.

About the Authors:
Susan Keipper is the CEO of MMS Education, a full-service consulting, market research, marketing and sales organization specializing in the education market. Since 1977, MMS has helped numerous clients improve their sales, profitability and market penetration through effective use of database marketing. For more information about MMS and its online CRM system, EdReach, please visit mmseducation.com.

Chuck Romans is Vice President of Products and Services at Market Data Retrieval, a Company of D&B. MDR is a leading provider of marketing information and services for education marketers. Chuck can be reached at (203) 225-4880 or via e-mail at cromans@dnb.com. Visit MDR’s Web site at www.schooldata.com.