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Affording Delightful Prospects

An Update on Prospect Pools,
Usage and Best Practice

Response One, 2008

01225 480 480

Response One Ltd, The Old Dairy, Melcombe Road, Bath, BA2 3LR

Media Sales
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Management Summary

- Prospect pools continue to grow in popularity, replacing cold list buying for customer acquisition campaigns, as companies seek ways of understanding and managing their relationship with prospective customers better, while also reducing campaign data costs and improving response rates

- However, leading organisations are managing to extract a number of further benefits from their prospect pool activities, including:
 - Optimising contact strategies
 - Integrating media planning across all channels
 - Understanding channel performance and interdependencies
 - Ensuring data compliance
 - Scoping available markets for new products
 - Evaluating the effect of involving affinity partners
 - Providing management information for strategic company development

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Section 1 – Why Prospect Pools?

Introduction

Building a prospect database or prospect pool is not a new idea. As long ago as the late 1990s, major mailers such as Littlewoods and Readers Digest were building such national prospect pools for their new customer acquisition activities, with the aim of addressing the twin pressures of a decline in the availability of 'fresh' data, along with gradually declining response rates. Since then, the idea of prospect pools has gradually grown in popularity, and is now employed by some 10-15% of consumer-facing organisations. However, with this significant minority reaping the benefits of a prospect pool strategy, and with a well-publicised decline in response rates from traditional cold list buying, a watershed moment has been reached. As more and more organisations approach an investment in prospect pools, we have written this paper to act as a guide, and to help avoid some of the key pitfalls that lie along the path.

Over the last few years, the term "prospect pool" has been in many ways 'interpreted' to suit the commercial interests of different marketing services. Most prevalent has been the adoption of the phrase by data owners to apply to their large universe products. These manifest themselves as some form of near-universal mega-list, providing millions of names each with hundreds of attributes. Whilst useful in their own right, as a starting point on the road to full prospect pool creation (especially since opt-out from the electoral roll was made law some years ago) they may not be as effective as bespoke prospect pools.

A prospect pool, in its best sense, is a prospect relationship management database that has been created with an individual company's needs in mind. Multiple sourcing of datasets is used to obtain the best mix of records which will prove to be as responsive and analysable as possible in respect of the profiles which that company is seeking to reach. It also provides the most cost-efficient method of obtaining and licensing data sources which, when combined, provide the richest source of 360° information that is pertinent to understanding the prospective customer and enabling communications to be appropriately targeted.

This paper seeks to re-appraise the current situation regarding prospect pool creation, its advantages over cold list buying, its economics, and the benefits that accrue when good practice is followed. It will deal with seven principal issues: going bespoke; multi-sourcing and depth of coverage; control over contact frequency; integration of niche lists; improving response; efficiency and strategic deployment; and supplier independence. A series of secondary considerations are then covered.

Prospect pools versus cold lists

The vast majority of companies marketing to consumers still use cold list buying to fuel their customer acquisition campaigns. However, many organisations are experiencing diminishing returns (in terms of response and sales) over time, if they are still sticking to cold list buying as their principle prospecting method. In a world where the consumer is becoming much more marketing-savvy, and where expectations from those consumers that marketing communications be increasingly relevant to them as individuals are growing, prospect pools mark the next generation evolution of new customer acquisition. That a significant minority of firms are now using prospect pools – around 10-15% - marks a turning point between early adoption and mainstream activity.

As a company's customer base grows, the key customer segments within it, and their behaviour, changes. As campaigns roll out, actual patterns of response and other warm data help to refine targeting profiles, balance of channels used, and volumes that have to be mailed to reach target return on investment. These refinements benefit from access to a pool of prospect data that can be used for analytical enhancements, model adjustments, available market scoping, strategy testing and much more. None of this can be easily achieved without a departure from traditional cold list buying. The advantages of prospect pools over cold list buying may be summarised as follows:-

- Contact frequency can be controlled, avoiding the unwitting and often wasteful repeat mailing of the same individual, and testing the productiveness of different contact frequencies across key target segments
- Depth of data – when a pool is drawn from multiple sources – provides a rich, analysable, prospect database, which helps improve targeting models and verifies underlying data accuracy
- The power of relevant niche lists – almost always higher-performing but low volume – can be captured and modelled across a wider prospect base
- Data planning makes use of a rich database which can be used to test out strategies and scenarios across multiple channels
- A train-of-thought analysis front end allows simpler analyses to be performed by non-technical marketers
- Proper links can be established between prospect pool and customer database, allowing warm data (actual transactions and/or responses) to be incorporated, and learnings and enhancements shared within the pool and across the totality of customer and prospect marketing
- The appearance of people on multiple lists helps to verify direct marketing responsiveness

- Propensity models can be tested and compared - as targeting needs subtly change – across a rich overlay drawn from different data sources

This paper now examines a number of these advantages in more depth, before moving on to a checklist of what to look for in a prospect pool.

Section 2 – Key Benefits of Prospect Pools

Going Bespoke

Many independent commentators now agree that, in building a prospect pool, single sourcing is not the optimal approach. To draw the pool from one provider will probably help to deliver better outcomes – in terms of analysis, efficiency and response – than cold list buying, but will not match the results that are obtained from a multi-sourced, bespoke prospect pool. Much information from most single sources will in large part be modelled rather than actual. Moreover, different datasets betray different intrinsic propensities. Each has been built to serve the needs of a particular group of businesses or sectors. As such, a single data source will not be specifically tailored for an individual company's needs and therefore cannot be expected to deliver equivalent response rates and functionality. The datasets used to build a prospect pool for an automotive company, for instance, should focus on data relevant to lifestyle aspirations, family lifestage, and creditworthiness. Yet in a closely related field, the automotive aftermarket (service and enhancement products), sheer proximity to a dealership or service centre will be far more significant in prospect selection and scoring. Equally, psychological indicators - in terms of attitudes to risk and financial security – will be of great significance to general insurance and life & pensions providers respectively, where they would have little significance for car companies, electronics brands or retailers (unless the retailer has diversified into financial services). And so, with just a little contemplation, the very different needs of each sector, and indeed each individual business, become evident.

Multi-sourcing and depth of coverage

So, to deliver return on investment, a prospect pool needs to be tailored to the individual company, and that often means records in the pool should be sourced from several suitable sources. Typically, a handful of main data sources would be chosen, and a hierarchy of selection developed to license a selection of records based on a balance between responsiveness, richness of attributes, accuracy/recency and cost. Here, the relationship between the prospect pool architect/manager and the various data owners from whom the prospect records will be licensed, is critical. For a start, there are a handful of instances where less respectable organisations have abused the data owner's license terms, causing a certain wariness amongst data owners when a new pool is being built. Abuse tracking is starting to diminish this concern, but it still remains. So a prospect pool builder with existing links to a wide range of data owners is best placed to negotiate the most favourable licensing agreements, and therefore usually comes from a media agency or list broking background, combined with the analytical skills that are so necessary to making a prospect pool perform to its utmost.

Many suppliers will claim to have the majority of the UK adult population in their universal "prospect pool" or just within their list. However, just having volume coverage isn't enough to make a pool deliver strong results, you also need depth. Including more than one large base file of data and overlaying important variables from different sources enables a more detailed picture to be built up of the prospect universe, in particular the target audience of a brand or product, and this in turn strengthens targeting. Getting hold of similar pieces of information from different sources is a great way to maximise the quality and verify the accuracy of the data within a pool, particularly if that piece of information (for example, date of birth) is vital to a campaign's success. Any prospect pool strategy should focus on quality over quantity.

Control over contact frequency

Compared to standard cold list buying, this is the most obvious and most tangible benefit of a prospect pool. Cold list buying means that names come in all the time from different sources and it is extremely difficult, if not impossible, to keep a centralised view of who is receiving what, how often and when. Many organisations unintentionally re-mail prospects over and over again, simply because the same name is repeatedly bought from different data suppliers without any means of monitoring this fact. Frequent mailing of a highly responsive person may be the right thing to do; however, without a way of controlling the process and monitoring the effect, there will undoubtedly be wastage. A well constructed pool enables this wastage to be removed completely whilst at the same time providing a controlled test environment for different contact strategies. This may be a simple point, but proves hugely cost-beneficial in practice.

Integration of niche lists

Niche lists should not be forgotten either. Although unable to deliver the overall volume requirements of a prospect pool, well targeted niche lists will always be higher performers than lifestyle or modelled data. In fact, relevant and highly targeted niche lists should always form part of any mailer's strategy whether they use a data pool or not. This is because niche lists, if planned and bought well, are tightly targeted to a client's audience and will deliver the strongest results. Many pool suppliers forget about these lists because they are too small and too expensive to form part of the base of a pool solution. This is a mistake. They need to be planned in and bought so that they can be loaded to the prospect pool and an integrated and cost-effective campaign planned every time. This in turn delivers the strongest response rates, allows all contacts to be tracked, returns learnings to refine targeting after every campaign and maximises returns against the available budget. The pool's job should be to deliver cost-effective volume that performs consistently well but sits below the top performing niche lists so that the overall campaign delivers to target. Being held in a single repository available for

analysis and targeting refinement, means response analysis can compare niche data and pool data performance and relationships. So can the subtly changing typical customer profile be regularly compared to actual campaign results, so that the selection models can be tweaked to optimise performance.

Improving Response

A prospect pool has to deliver value. It needs to maximise response while also minimising cost. However, 'response' is not most productively viewed solely on a campaign by campaign basis. Any direct marketing professional will know that if the same models are applied to the same data sources, then response diminishes over time. A multi-sourced prospect pool already creates a richer and more diverse data-base for direct marketing activity. But the second crucial element is that it enables regular analysis. The data in the pool is licensed for multi-use over a period, as well as being hosted in a single repository where response data can be flagged in and propensity models refined over time. None of this is possible for firms buying data on a campaign by campaign basis – they are simply not allowed to retain the data and its attributes for such analytical activity.

Changing patterns of existing customer behaviour can also be input into models and compared with that of newly recruited customers originating from the prospect pool. Being able to retain records with their response history also allows – after a suitable period – the identification of serial non-responders who may conform to the selection model, but who steadfastly refuse to express any interest in the offers they are receiving.

At all events, understanding patterns of response allows contact strategies to be optimised. Who is worth devoting additional communications resource to? Who is not responding because they receive too many communications, or mistargeted ones, or is being offered a product that they may buy as their second or third purchase from the company, but not their first. This secondary analysis might inform an adjustment of the current propensity model. Just as likely, however, would be the discovery that the model is perfectly accurate, but non-response has simply been a matter of timing. Equally, the ability to compare the profile of long-term customers with newly gained customers sometimes reveals significant differences between the groups, even though they conform to the same targeting model. Perhaps newer customers prefer different types or frequencies of communications. All this then becomes important to long-term customer value forecasting, as newly attaining customers may be identified as having more or less long-term value than the historic customer base. And that in turn strategically informs customer recruitment strategies, in that all firms want to put most resource into recruiting those customers likely to stay the longest and be the most valuable over time.

Efficiency and strategic deployment

Many suppliers of pools focus only on the technical execution of a solution and therefore either completely omit, or show weakness in, the planning and strategy elements that they think are key to return on investment from a prospect pool. Building a technically efficient system that, for example, integrates data processing and links in with different multi-channel deployment methods (such as email), allows users to execute campaigns efficiently and effectively. Optimal solutions also often employ systems that allow train of thought analysis so that a user's ability to plan strategic campaigns is greatly enhanced. By integrating the investigation, planning, data processing, deployment and response tracking, tactical campaigns and their measurement can be deployed in a fraction of the time of a traditional campaign. And, with the right tools in place, a lower level of technical skill is required, allowing marketing users to execute campaigns without involving IT personnel.

This is a very timely point during an economic downturn. Time from campaign conception to delivery is much reduced when all prospect data is sitting in a pool, and can be viewed and analysed by non-technical marketers. In a period when organisations need to respond very fast to market and customer opportunities, a prospect pool system that facilitates, rather than hinders, event-triggered campaigns provides a major competitive advantage.

At a higher level, the difference between a truly good prospect pool and a large box filled with data is in the strategic deployment. It is always advisable that a client ties in data planning with its prospect pool solution, because it is the strategy employed on top of the data that makes or breaks any such project. Important factors to consider in this area are:

- Incorporation of warm data – something that is extremely beneficial to building robust models and refining them over time, monitoring response, transferring learnings and gaining behavioural insight.
- Advanced analytics - pools should be set up to enable constantly refined modelling and are the only place that segmentation of cold records can be performed meaningfully and cost effectively.
- Multi-channel tracking - responses to campaigns no longer always come back through the outbound channel of contact, and online in particular is seen as a growing channel of purchase. When all warm data sits within the prospect pool solution, one can cross-reference who buys online (or elsewhere) with those people sent direct mail and therefore can work out what impact each mailing has on other channels.

- True list performance - understanding which lists perform and which do not is key to ongoing campaign success. Yet few organisations take into account the data's position in the selection and deduplication hierarchy. In a pool each list can be given a "true" response rate as if it had been mailed independently of any other lists. This helps ensure that list planning is based on accurate results.

Prospect pools need to be regarded as living databases that provide fully integrated Prospect Relationship Management systems - interacting with relevant prospects at relevant times with relevant messages in order to convert them into customers. This is impossible to achieve without a fully functioning, strategically deployed prospect pool.

The independent supplier

A hugely significant factor in obtaining an optimal pool is to use an independent supplier who is not themselves a data owner. If a data supplier offers a pool solution, there is a natural tendency for it to be populated first and foremost with their own datasets before alternative sources are sought – sources that may in fact be more appropriate to the client's marketing needs. Likewise, software suppliers will tend to populate a pool solution with data that fits their systems, rather than creating a bespoke IT framework and software application that it builds up from the client's specific and individual needs. So investors in a prospect pool strategy are well advised to look for a supplier that is software-independent, data-independent and acts entirely in the best interests of their clients. Best candidates will be firms with a list and media planning, analytics, data processing and database hosting background, especially one that can join up all of these services to provide a one-stop shop that does not compromise on the client's specific requirements.

Section 3 – Further Considerations

Over and above these principal considerations, there are a number of secondary matters which organisations considering a prospect pool investment need to consider. They include: not buying an over complex solution; obtaining measurable return on investment; and getting added value from management information.

Buy what you need

The introduction to this paper noted that some organisations have had prospect pools over-sold to them – receiving a complex structure that is far more than is needed to show relatively rapid return on investment, and is also often too unwieldy and complicated for in-house marketers to relate to their campaigns and other requirements. More mature prospect pool investors have therefore come to demand that their pools are not over-specified, and astute providers are ensuring that their clients only 'buy what they need'. Even from a purely technical point of view, more data is not necessarily good – unnecessary data costs more, clogs up your systems performance and, from an analytical perspective, often obscures the clarity of insight. Just because one customer group is universally fond of the colour blue is not necessarily causal to their buying propensities. Coincidental characteristics need to be eliminated from the pool – at least in its early stages.

In our experience, most propensity models require just 10-20 highly significant variables each to drive them. There is also a significant, if minority, proportion of targeting models which operate powerfully on just half a dozen variables. Having said which, many firms will have a number of distinct product lines or categories, as well as several distinct customer profile groups, meaning that typically there will be five or six key propensity models at work at any one time. The prospect pool therefore has to be designed to serve all those requirements, and therefore might have a likely maximum of 40-50 variables (many basic ones, such as age, gender, income estimate, etc, will be common to all models). What is likely is that the essential variables, dictated by the firm's customer profiles and behaviour, rather than what commercial providers individually have on offer, will not come from one source. Multiple data sources also provide a richness of overlays that translates directly into response performance. We have noted that unnecessary or unproductive data is potentially harmful to response rates, clouding analytical results. Yet at the same time, too little data undermines the ability to discriminate the very best prospects. Again, in our experience, records appearing in more than one underlying source have obtained double the response rate of those appearing in just one single source.

Return on Investment

A bespoke prospect pool, however, is not a small investment. Arguably, many prospect pool architects have over-complicated the issue, trying to build the perfect solution at very high cost, rather than focus on short to medium-term delivery of bottom-line value for the company and its customers. This is a typical first generation problem suffered by many business solution initiatives, the closest parallel being the CRM systems and services industry. Yet just like the evolution of CRM solutions, the business world has learnt that while over-specified and over-priced prospect pool structures are not the answer, neither is some impossibly inexpensive 'silver bullet' alternative, such as universal, one-size-fits-all mega-lists. In our experience, bespoke prospect pool return on investment (ROI) typically takes 12-24 months. Bottom-line benefits on an individual campaign basis can be seen very quickly, but for capability, insight and cost-benefits to accrue into a sum that equates to the original investment, a cycle of a year or two is usually required. This is usually acceptable to finance directors so long as reporting systems regularly deliver updates on performance to show that the pool is on track to deliver tangible payback.

Strategic Forecasting and Management Information

This last point, regarding long-term customer value forecasting, takes us into the realms of strategic management information – a secondary, but powerful, benefit of building and managing a prospect pool. Huge resources tend to be devoted to R&D and market research, aimed at spotting and developing new product and/or market opportunities. However, markets, once identified and validated through research, need then to be scoped to understand the size of the market opportunity. Firstly, customers are surveyed about a new product – they are, after all, the best prospects for new offers. But then the whole marketplace also needs to be sized in order to understand whether and how to launch the new product or service. Here the prospect pool comes into its own. Not only does it cover a far greater volume than the customer base, but having been designed as a prospect universe (in relation to existing customer profiles), it offers the opportunity to match the profile of customers interested in the new product to similar people across the whole population. No longer is the prospect pool simply delivering more efficient and effective customer acquisition campaign, it is now offering a strategic window on the whole available marketplace – information that is critical to taking the company forward and guiding its future, including such areas as merger and acquisition strategy.

On a technical point, it should be remembered that there is an axis between analysis and suppression which can often trip up prospect pool initiatives. In terms of campaign execution, a company needs to know that all necessary suppressions are in place and up-to-date, avoiding the embarrassment, upset and brand damage that comes from approaching people who have moved, died or asked not to be

approached. At the same time, suppressed records need to remain present in analytical exercises, otherwise the results will be skewed. Take the example of a retailer. There may be a significant proportion of people who do not want to be mailed, emailed or telephoned, but who are nevertheless within a store's catchment area, and are viable prospects. Many studies show that word-of-mouth transmission of good customer or prospect experiences are powerful at driving custom, so just because an audience is not reachable by post, phone or email does not mean, in this multimedia world that they need be ignored. To restrict prospect pool analysis purely to the execution of direct campaigns is to waste its value for overall market scoping and insight.

Emerging Benefits

We have remarked on the importance of integrating activity across different channels, and prospect pools are an essential tool with which to control multi-channel activity, as well as testing and monitoring the performance of each channel, both stand-alone and in various combinations. The importance of a totally objective approach to channel performance is underpinned by recent research amongst UK consumers¹ which shows that traditional media – direct mail, TV advertising, newspaper advertising – are the most effective methods of getting prospective new customers to visit a company's website with serious purchase consideration. This contrasts with the rather poor view consumers have of online social network advertising and sponsored links – even amongst the 18-30 age range.

Some practitioners have realised that prospect pools can provide the basis for multi-channel contact management systems for all prospects. E-mail addresses, telephone numbers, doordrop information and channel preference can be built in up-front, providing the opportunity to create an ongoing picture on preferred touchpoints for each group of prospects.

This enables a full testing strategy to be constructed so that results are always robust, learnings maximised and true media-neutral planning possible. Moreover, it also provides a means of understanding the impact that a direct mail pack may have on responses that come in through other channels. Ongoing analysis that matches back responses from all channels to the original mailing files enables the true responsiveness of direct mail to be tracked. This is much easier when a prospect pool has been created, since it contains regular feeds of customers and/or enquirers and these will be automatically matched against the prospect universe (and mailing history) as standard. For example, a person who signed up through the internet or by using a phone number appearing in a press ad may actually have received a direct mail pack in the week prior to this response and therefore we can infer that at least part of the response should be attributed to direct mail. In our

¹ Response One, *Online Turn-on?*, March 2008

experience, where clients have employed this kind of tracking, we have seen uplifts in attributable direct mail response of up to 30%. This technique also enables tracking to be done at individual, family and household level and consequently provides interesting and useful information on the levels of pass-on

Finally

In conclusion, well executed prospect pools, tailored to a single company's needs and customer profiles, delivers substantial value. In one former survey of prospect pool users², key benefits were identified as (1) a single prospect view (in harmony with the idea of a 'single customer view), (2) savings on customer acquisition costs, and (3) improved response rates. Yet anecdotal evidence shows that much more value is being squeezed out of the prospect pool structure, including: improved campaign process efficiency; enhanced prospect understanding; propensity model refinement through the incorporation of response analysis, integration with customer intelligence, harnessing niche list performance; market scoping and long-term customer value forecasting; and total advertising media integration, along with objective channel performance evaluation.

Finally, the most important question for most firms looking at a possible prospect pool initiative is, "Will this work for us?" Certainly, annual campaign volumes will be critical. One pundit³ has put forward a magic qualifying threshold ratio of 1:2, where 1 = campaign volumes per annum, and 2 = size of prospect pool. This is an arbitrary measure, but reflects an overall truth, in that some degree of volume is necessary to deliver return on investment in the 12-24 month period mentioned earlier in this paper. Return on investment will, in any case, be dependent on how much effort is put in by the client to exploring additional ways of using output from the prospect pool. And in hard commercial terms, few suppliers will be able to provide a viable, bespoke solution for less than £40k. Some discussion is currently underway amongst small collectives of closely competing companies, to see whether they can commission a shared niche data pool. The jury is still out on this approach but, if their customer profiles are sufficiently similar, the initiative might work. However, most of the growth in prospect pool activity to the end of the decade is likely to be amongst organisations with a substantial existing investment in direct and database marketing. These firms have the experience of list buying, understand their company's dependency on direct marketing, and are keen to seek more efficient and effective ways of maintaining their response and conversion rates in the modern world of multi-channel marketing.

² Tank!, *Prospect Database Usage*, 2005

³ Berry & Rowson, *The case for multi-sourcing prospect pool data*, 2005

Section 4 – Prospect Pool Buyers Checklist

Prospect Pools – Buyers Checklist

- Start with the end in mind – work back from outcomes
- Use an independent, not a data owner – get true objectivity
- Demand a multi-source approach, which also incorporates and harnesses the power of relevant niche lists, and integrates warm data
- Focus on quality, not quantity
- Look for a fully integrated solution that covers investigation, campaign and media planning, data processing, multi-channel deployment and response tracking, tactical initiatives, hosting and reporting
- Ensure a hosted solution can be remotely accessed if that fits your needs
- Get a solution that is fully scalable – if it works you will want to extend its use
- Allow and authorise co-operation between customer database and prospect pool management – the route to best value
- Try to get the solution to integrate easily with other media planning tools – most firms nowadays are trying to get their advertising media to work more effectively together
- Make sure that you can incorporate new datasets at a later stage – understand what this will cost
- Extract marketing and management information benefits – this information can guide business strategy
- Demand transparent and regular reporting – the best suppliers will give you a window on individual campaign and overall solution performance
- Make sure you can still activate tactical initiatives and are not tied to fixed schedules or restricted usage
- Pick a firm that can offer analysis and insight – it's a major advantage of prospect pooling
- Make sure that all compliance issues are covered by the supplier – data protection, suppressions, licensing transparency, etc