



## Industry: National Office Supply Retailer

### Key Achievement: Increased Revenue Through Model Refinement

#### At-a-Glance Details

	Promotion 1	Promotion 2	Promotion 3
<b>Promotion Goals</b>	<ul style="list-style-type: none"> <li>Increase incremental spend</li> <li>Attract new customers</li> </ul>	<ul style="list-style-type: none"> <li>Increase incremental spend</li> <li>Attract new customers</li> </ul>	<ul style="list-style-type: none"> <li>Increase incremental spend</li> <li>Attract new customers</li> </ul>
<b>Offer</b>	\$15 or \$20 off a purchase of \$75 or more; \$20 off a purchase of \$100 or more	\$20 off a purchase of \$75 or more; \$25 off a purchase of \$100 or more	\$20 off a purchase of \$75 or more; \$20 off a purchase of \$100 or more; \$30 off a purchase of \$125 or more
<b>Promotion Length</b>	2 weeks*	2 months	2 months
<b>Response Rate</b>	1%	4.3%	1.19%
<b>Incremental Revenue</b>	\$719,000	\$3,000,000	\$1,960,000
<b>Lift in Spend</b>	16%	59%	27%

\*Promotion length was shortened from 30 days to two weeks due to contractual difficulties.

#### Background

An office supply giant uses the Visa Incentive Network (VIN) as an integral part of its multi-year marketing strategy. The merchant conducted an initial promotion (in 2005) with the goal of increasing revenue by boosting spend and attracting new customers. Based on the strong performance of this campaign, the merchant decided to conduct several additional annual promotions to help achieve its business goals.

To draw in new customers, the promotions targeted (1) non-customers who had spending profiles similar to current customers and a probability of shopping at the promoted merchant, and (2) customers where there was an opportunity to shift category spend from competitors to the promoted merchant. The results from Promotion 1 were used to refine the predictive models used in Promotion 2 and further refined for Promotion 3.

The offers for all three promotions were a dollar amount off a specified spend hurdle. Various dollar-off amounts and minimum hurdles were tested within each promotion to determine the best combination for driving customer action and incremental revenue.

#### Target Audience

The targeting universe was comprised of all eligible Visa Signature and Visa Traditional Rewards cardholders.

The business objective of Promotion 1 was to acquire new customers. Affinity modeling techniques were used to detect cardholders who had spending behavior similar to the merchant’s current customers. These prospects were ranked based on their statistical probability of responding to the merchant’s offer.

A secondary objective was to capture competitive spend. Visa transaction histories were used to find accounts with spend at competitive merchants during the targeting period (the six months prior to the promotion). These cardholders were placed into wallet-share bands based on their percentage of total category spend. The segments selected for mailing were those with significant spend in the category; they represented the greatest incremental revenue opportunity because they would be easier to re-engage and thus more likely to shift spend to the promoted merchant. Cardholders with transactions at the promoted merchant during the targeting period were excluded from participation.

Promotion 2 used results from Promotion 1 to refine the model process, build incremental activity and improve selection criteria. Promotion 3 used results from both previous promotions to incorporate finite response and incremental spend attributes into the model. This increased the model’s ability to select the cardholders most likely to be directly influenced by the offer to shift their spending to the promoted merchant.

Promotions 2 and 3 were mailed to nearly twice as many cardholders as Promotion 1. This is because the VIN database increased nearly 23% between Promotions 1 and 2 and over 35% between Promotions 1 and 3.

To measure the amount of incremental spend generated by the offers, a control group of cardholders was randomly selected from the eligible pool for each promotion. Control groups did not receive the offer.

## Results

Spend of the mailed and control cardholder groups was tracked during all three promotions to determine the incremental lift resulting from the mailings. Based on each promotion's control group activity, analysts were able to estimate the number of customers and the amount of spend that would likely have occurred despite the offer. After these figures were subtracted from the total numbers generated, the results were:

Promotion 1	Promotion 2	Promotion 3
<ul style="list-style-type: none"> <li>▪ \$718,821 in incremental revenue generated by the offer</li> <li>▪ 16% lift in spend among mailed cardholders</li> <li>▪ 80% lift in activity* among mailed cardholders</li> <li>▪ 62% over the required \$75 spend hurdle and 22% over the required \$100 spend hurdle for the overall average transaction</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$3,016,715 in incremental revenue generated by the offer</li> <li>▪ 59% lift in spend among mailed cardholders</li> <li>▪ 59% lift in activity* among mailed cardholders</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$1,962,047 in incremental revenue generated by the offer</li> <li>▪ 27% lift in spend among mailed cardholders</li> <li>▪ 19% lift in activity* among mailed cardholders</li> </ul>

\*Activity means any eligible account making a Visa purchase of any amount at the merchant during the offer period.

Note that the lift percentages are based on comparing cardholders who were mailed the offer to the control group who received no offer.

## Conclusions

- 1. Targeting.** Affinity modeling techniques and targeting cardholders with spend in the merchant's category can be an effective way to bring in new customers, as shown by the redemption rates among all mailed groups in Promotion 1.
- 2. Model refinement.** Refining the statistical model used to determine cardholder eligibility can have a positive impact on cardholder spend, as demonstrated by the difference in the lift in spend between Promotion 1 and the latter two promotions.
- 3. Timing.** The response rates of the three promotions indicate that the offer validity period can have some bearing on response. Promotion 1 was sent during the end-of-year holiday period, Promotion 2 during the back-to-school months and Promotion 3 in Q1 of the year. Response rates of 1%, 4.3% and 1.19% respectively indicate that the back-to-school period offers the greatest opportunity for this merchant.
- 4. Offer.** Coupons with higher minimum purchase requirements produced increases in both average spend and lift in spend, showing that increasing the threshold amount can drive both revenue and spending.

## Recommendations

- 1. Examine and summarize spending patterns to identify prospects.** New predictive variables can be applied to historical cardholder spending patterns to identify customers for whom the receipt of direct mail will generate the highest incremental benefit.
- 2. Increase offer amount for high-spenders.** Best customers in the merchant's category can receive higher offer amounts in future mailings, which may further increase average spend per active account.

## Summary

While this case study highlights three promotions, the merchant has continued to participate and find value in additional VIN campaigns.