

Greener Pastures – Efficiency in Targeting and Profiling

To restate the obvious, green is the hottest colour of the season. Environmental issues have touched virtually every aspect of our lives, from the federal election, where environmental stewardship is one of the key issues, to day in, day out household operations (“Can I recycle this?”). Recently, high energy prices have certainly contributed to the conservation ethic in the past year, but the concern about the ecology will likely outlast any short term oil price spikes or other economic factors. The environment, as an issue, appears to be here to stay.

Canada Post and Harris Decima Research recently published a White Paper titled “*The New Environmentalism*”, which provided an interesting and comprehensive look at consumers’ attitudes toward the environment (the White Paper is available at www.canadapost.ca/green). In it, the authors discuss the changes in behaviour consumers have embarked on, and most interestingly, what consumers expect, and will demand, from the organizations with which they do business. Environmental awareness and efficiency (i.e. minimal waste) will soon be an essential part of every business plan, if it is not already.

To quote the “*The New Environmentalism*”, **“In short, consumers are looking for demonstrable, verifiable environmental progress from businesses. They want companies to make commitments that they can meet, and then exceed, starting in their own backyards, in their own business processes and practices. In specific terms, consumers tell us they want two main things from business. First, they want business to take care of their own backyard, just as they are trying to take care of their household’s backyard. Second, they want products made available that have environmental credentials, ideally those that are independently verified”.**

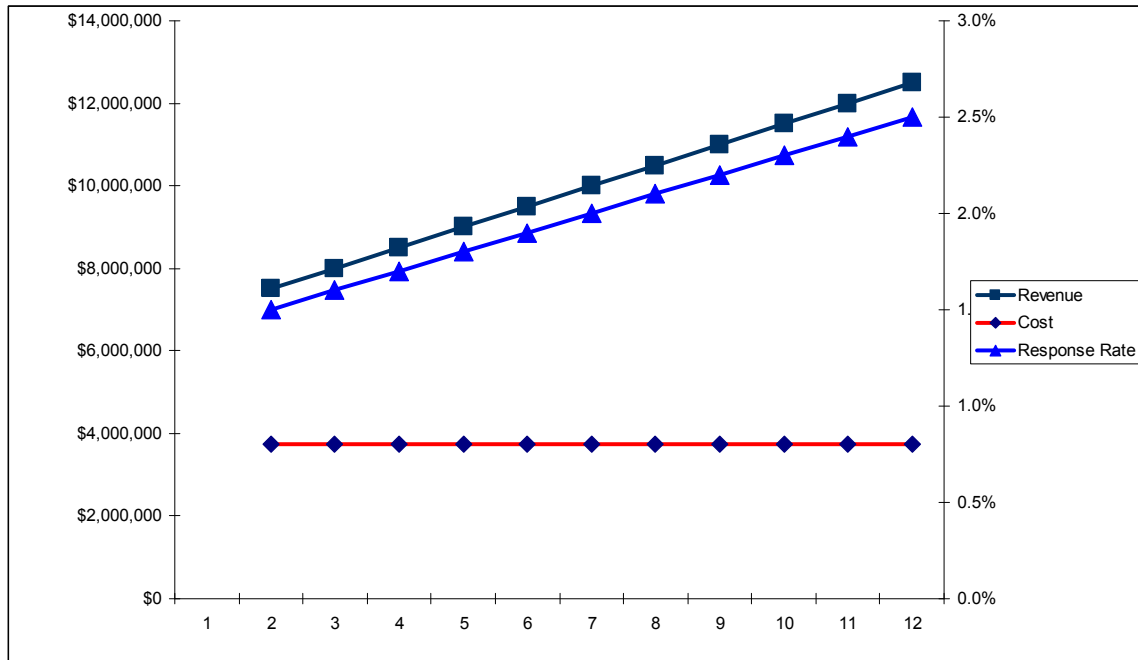
This is where Generation5 can help. Generation5 has developed the most sophisticated consumer targeting capabilities in Canada, with over 12,000 individual consumer characteristics for each of the 800,000 postal codes in Canada. Our recently released household targeting capability (see our recorded webinar at http://www.generation5.ca/pdf/One_Household_At_A_Time.wmv) is showing superior results. Efficient and effective targeting can provide businesses with both a better bottom line and a smaller environmental footprint.

By finding the best prospects for its products, and targeting them as efficiently as possible, businesses can not only save money and increase revenue, but can also enhance their environmental credentials. A hypothetical example will illustrate:

An advertiser typically sends 5 MM pieces of direct mail each year, to a largely untargeted audience. Mailings are based on customer lists, intuition, rented lists and other sources, and the response rate has traditionally hovered around 1.5% per flight. Costs per piece average \$0.75 (including mailing), and revenue per new customer is \$100.

Targeting using quantitative data, based on profiles of the advertiser's current best customers (based on criteria selected by the client) can increase response rates and revenue. Waste and costs are reduced, the balance sheet looks better, and the world is graced by a few more trees. The following chart illustrates the potential of an increase in response rates of 0.01% increments.

Cost Revenue Model – Enhanced Targeting



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Response Rate	Cost	Revenue	Net	% Increase over Current
1.5% (Current)	\$3,750,000	\$7,500,000	\$3,750,000	0.00%
1.60%	\$3,750,000	\$8,000,000	\$4,250,000	13.33%
1.70%	\$3,750,000	\$8,500,000	\$4,750,000	26.67%
1.80%	\$3,750,000	\$9,000,000	\$5,250,000	40.00%
1.90%	\$3,750,000	\$9,500,000	\$5,750,000	53.33%
2.00%	\$3,750,000	\$10,000,000	\$6,250,000	66.67%
2.10%	\$3,750,000	\$10,500,000	\$6,750,000	80.00%
2.20%	\$3,750,000	\$11,000,000	\$7,250,000	93.33%
2.30%	\$3,750,000	\$11,500,000	\$7,750,000	106.67%
2.40%	\$3,750,000	\$12,000,000	\$8,250,000	120.00%
2.50%	\$3,750,000	\$12,500,000	\$8,750,000	133.33%

In this model, costs (and the size of the mailing) remain constant, but effective targeting leads to more efficient use of business and natural resources. An increase of 0.1% in the response rate (a 6% increase) leads to an increase of \$500,000 in net revenue, 13% over the current result. Because of efficient targeting, fewer pieces are thrown away, unread. Only those prospective customers who are most likely to make a purchase will receive the DM piece, therefore there is less waste.

This speaks directly to the demands consumers are beginning to make on businesses: they want businesses to operate as efficiently as possible, using the minimum resources necessary to get the job done, and leave as small a footprint as possible on the environment. This makes good sense in terms of both the balance sheet and the balance of nature.

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