

# **Beyond demographics: Add lifestyle information to improve direct marketing results**

**An Equifax White Paper**

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## Executive Summary

Higher mailing costs, lower response rates, and changing consumer trends have led to challenges for many direct marketers. In order to stabilize their return on marketing investment, some marketers will be forced to reduce direct mail volumes. To do this most effectively, savvy marketers will look to improve targeting efforts in order to more accurately identify those consumers most likely to respond favorably to a specific product or offer.

Marketers often employ different types of data for targeting purposes, but one of the most useful and efficient solutions is the utilization of lifestyle data. Lifestyle and interest data offer a cost-effective way to gain insight into consumers' interests and therefore their propensity to purchase a particular product in the near term. Although rates are often higher and quantities can be lower than those available for demographic selects, lifestyle and interest data offer several advantages compared to other lists and can be used in various ways depending on the specific circumstances and desired results. By using lifestyle data in combination with demographics and other types of data, marketers can better target and segment their campaigns, leading to higher response rates, lower customer acquisition costs, and an increased return on marketing investment.

## Introduction

Savvy marketers are seeking better ways to meet their growth goals in spite of current challenges in the direct marketing industry. Although paper prices are holding steady for now<sup>1</sup>, mailing costs continue to climb due to ongoing postage rate increases<sup>2</sup>. At the same time, for many industries, average direct mail response rates are approaching all-time lows<sup>3</sup>.

One factor contributing to this decline in response rates is that consumers are beginning to take more control over when and from whom information is acquired. Not only are consumers more likely to opt-out of marketing communications they perceive as irrelevant, but more people are relying on interactive media for their information rather than waiting for marketers to push promotions to them.

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Another factor is the increased “immunity” consumers have to advertising of all sorts. American consumers received more than 114 billion pieces of direct mail in 2006<sup>4</sup>. Credit card issuers alone sent out 9.2 billion pieces to American consumers, or about 3 per week per creditworthy household<sup>5</sup>. And, that doesn’t even include other marketing communications such as email messages and telemarketing calls, not to mention mass marketing efforts such as commercials, web banners, and even ads on the backs of our ATM receipts. Today’s marketers are increasingly challenged to cut through the barrage of marketing clutter engulfing their customers and prospects.

According to Forrester’s “Five Predictions for Direct Marketing,” marketers will compensate for challenges such as these by mailing less, such that direct mail is relegated in the marketing ranks to a “lower volume, premium medium.”<sup>6</sup> Even with this likely transformation, direct mail will continue to serve a critical need for marketers over the long term. This paper describes one strategy that can help marketers bridge the gap into the new world of direct marketing: By using lifestyle data in combination with demographics and other types of data, marketers can better target and segment their campaigns, leading to higher response rates, lower customer acquisition costs, and an increased return on marketing investment.

## **Knowing your customers**

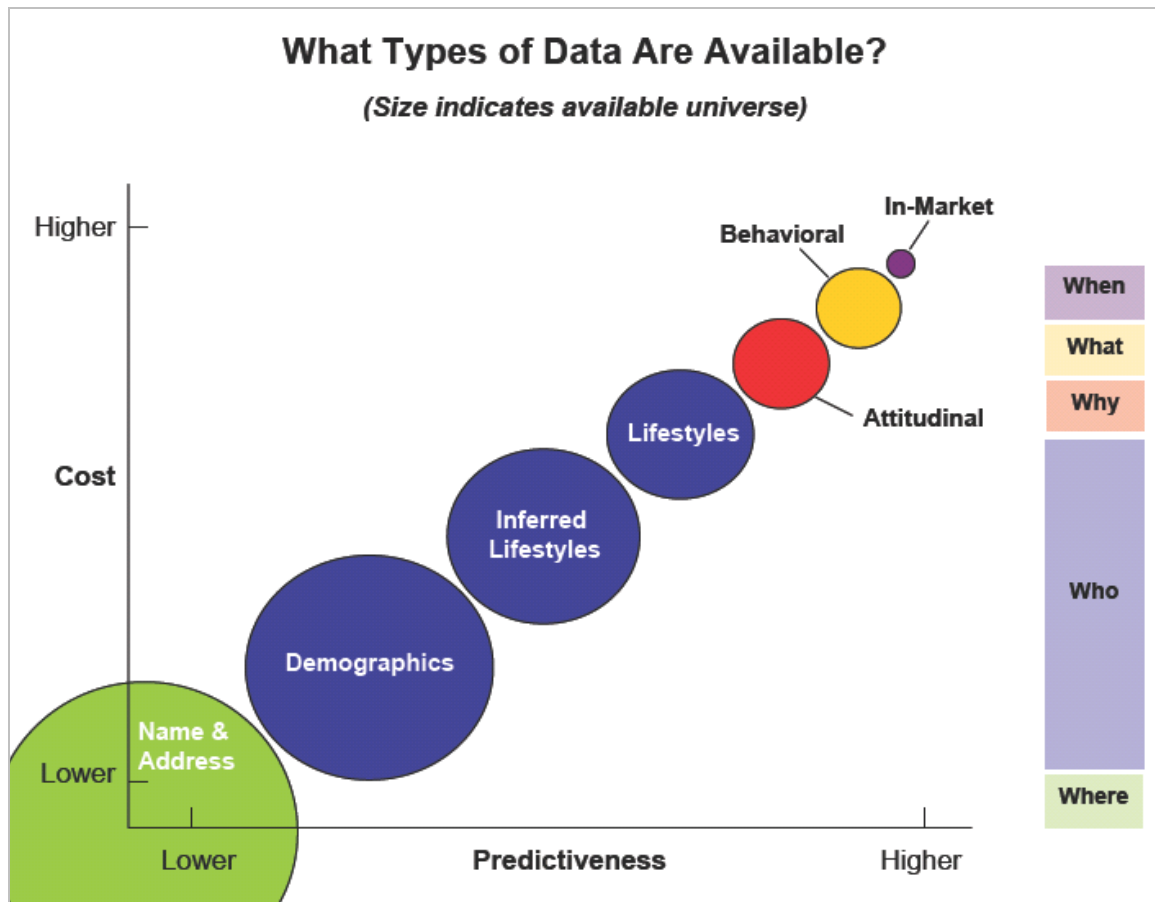
Marketing begins with knowing your existing customers—or, for a new product, knowing who your most likely prospects are. Traditionally, many consumer marketers have based their target markets on where consumers are located and demographic data, such as gender, income, race, age, and home ownership status.

The target market for an upscale grocery store, for example, is easily pinpointed with mailing lists that reach, say, households with income exceeding \$60,000 within a six-mile radius of the store. Demographic factors alone, however, may be less effective in identifying people with a propensity to purchase specific goods and services. Hockey fans in a metropolitan market, for example, may have little correlation to income, neighborhood or age groups.

To increase direct mail response rates in an era of downward-trending results, marketers need a data edge—fresh approaches to list selection that translate into more paying customers at lower customer acquisition costs.

## Combining data types

Let's examine the state of direct marketing in the context of the graphic below, showing several types of data which can be employed to define consumers and their characteristics. Unfortunately, many direct mail campaigns focus only on consumers' physical location and their basic demographic information, as shown in the bottom left section of the chart. These campaigns barely scratch the surface of available knowledge on the universe of prospective buyers.



Marketers relying solely on contact information and demographics to identify buyers are overlooking important information which could help them better define their target market. As described by Steven Permy, Vice President Business Development at CAS, in his DM News article, "Demographic information alone offers far less insight, because it cannot differentiate people's tastes, attitudes and opinions as well."<sup>7</sup> Other types of data, especially when used in conjunction with demographic data, can "paint" a much more complete picture of

current customers and those like them. By effectively using alternative data types, you can zoom in on your best prospects by gaining insights into their interests, their past purchasing behaviors, and indications of expected future purchases.

Marketers can augment demographic data with other data from a variety of sources. The goal is to create logical groupings of consumers who share commonalities in certain demographic, “psychographic” and behavioral traits.

What types of data can augment or replace demographic data? Four broad categories are defined here and are further compared with demographic data in the table on the next page.

1. **Lifestyle and interest** data elements indicate how a consumer spends time and the consumer’s interests, activities, and tastes. Lifestyle characteristics can be collected through self-reported consumer information or inferred from demographic and geographic data.
2. **Attitudinal** data elements measure the values and opinions held by consumers and indicate how they feel about specific topics or issues.
3. **Behavioral and transactional** data elements track purchases or other transactional data (such as product use) over a period of time. Transactional data can be collected within an organization or can be purchased from data providers.
4. **In-market** data elements consist of individuals who have self-reported an intention to purchase products or services within a specific timeframe. This data can provide insight into the consumer’s expected future purchases.

Data Type	Source	Key Attributes	Possible Response	Probable Universe
<b>Demographic</b>	Census; other public records	Quantitative; identifies consumer by age, income, etc.	Lowest	Largest
<b>Lifestyles and Interests</b>	Modeled from known interests using geography and/or demographics to increase universe	Looks at probable interests based on other characteristics	Varies	Larger, but depends on characteristic
	Self-reported surveys	Looks at past and current interests	Very Good	Smaller, but depends on characteristic
<b>Attitudinal</b>	Self-reported from surveys	Qualitative; indicates how consumers view the world and what drives decisions	Very Good	Smaller
<b>Behavioral and Transactional</b>	Company's own data; shared or purchased from other companies	Tracks purchases, product use, etc., preferably over a period of time	High	Smaller
<b>In-Market</b>	Self-reported from surveys	Reveals plans for future activity	Highest	Smallest

Ideally, when selecting a list for marketing planning or mailing, multiple data types would be brought together to give the marketer a clear understanding of who a consumer is, what his or her interests are, and how the consumer has behaved in the past. Based on this information, and with the inclusion of self-reported data regarding a consumer's in-market activities, a consumer's future plans can be predicted with a fair degree of accuracy. Therefore, the marketer can communicate with the consumer at a time close to the expected purchase and with an offer and message that will resonate.

Realistically, though, not all marketers have ready access to such a wide breadth of information, at least not at a cost that translates to a healthy return on marketing investment. Demographic and lifestyle/interest data are the most widely available and the most easy to use. Of course, if other data options are available and affordable, these can further improve the marketer's ability to target and segment the best prospects.

## **Lifestyle information stacks the data deck in your favor**

In order to improve marketing ROI, for many campaigns, marketers should make greater use of lifestyle and interest data. This alternative offers a cost-effective way to gain insight into a consumer's interests and therefore their propensity to purchase a particular product in the near term.

The sources of lifestyle data typically include product registration cards and responses to consumer surveys, which are typically conducted by mail, phone, online, or in person (such as at a shopping mall). Using data collected from these sources, the leading lifestyle databases available commercially offer hundreds of response segments and lifestyle selects, covering almost every conceivable aspect of how consumers live, what they spend their money on and what interests they have. Although rates are often higher and quantities can be much lower than those offered for demographic-based lists, the breadth of data available and the higher response rates that can be achieved make lifestyle and interest selects a superior option when compared to demographic data alone.

Lifestyle and interest data also offer several advantages compared to lists based on attitudinal, transactional, or in-market data. They are usually lower in cost, more readily available, and higher in the number of records obtainable. Moreover, because demographic and lifestyle data can be obtained from similar sources and used in similar modeling and analytic techniques, marketers who opt to use lifestyle data will be operating in familiar "territory."

In many cases, lifestyle and life-stage information is more relevant for targeting than other data types. Marketers of diapers, for example, would prefer to know that there's a new baby in a household rather than know the income, age or race of its occupants. In contrast, marketers of a new country club would probably benefit from a combination of geo-demographic data (such as neighborhood and income) and lifestyle data (such as golf and tennis enthusiasts, executives, and people interested in community affairs).

Keep in mind, though, that not all lifestyle and interest data is created equally. In addition to self-reported data, some companies offer lifestyle and interest attributes that are inferred



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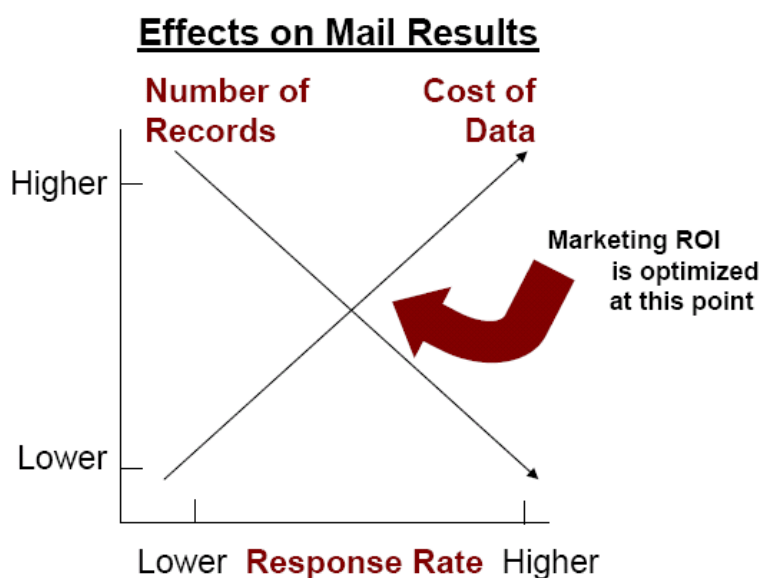
*Lifestyle and interest data can be an important factor in the success of marketing campaigns by enabling marketers to more accurately and effectively identify those consumers most likely to respond positively to a specific product or offer.*

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for an individual through models based on geography, demographics or other lifestyles. For example, a data provider might collect lifestyle information from a small sample of the US population. Then, they would use that data in combination with demographic and/or geographic attributes to identify other individuals in a wider population who are likely to have a specific interest. Available record quantities are often higher and list costs lower, but depending on the model and information used, the response rates can be considerably lower than those typically generated from self-reported information.

### How to use lifestyle data effectively

Lifestyle and interest data can be an important factor in the success of marketing campaigns by enabling marketers to more accurately and effectively identify those consumers most likely to respond positively to a specific product or offer. Using this knowledge, marketers can control direct mail costs by reducing or eliminating mass mail tactics and honing a more targeted mailing strategy. The per-piece cost may be higher, but by reducing the amount of mail sent and improving response rates, most marketers find that the overall return on marketing investment will be higher for campaigns optimizing number of records mailed versus response. This concept is illustrated graphically in the diagram below.



In some cases, marketers can effectively target campaigns using lifestyle data by simply selecting records with lifestyles likely to

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### **Example** **Using Lifestyle Data**

**Problem:** *A Broadband Cable TV company wants to target High-Tech households for bundled offerings including high speed Internet service. For their August campaign, they want to target families for a back-to-school promotion.*

**Solution:** *Using a lifestyle file, the marketer can select households with children 5 and older with a computer present in the home. Then they can eliminate any current subscribers to High Speed Data service, to better hone their target list.*

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indicate interest in the product or service being promoted. For some situations where the marketer already has knowledge of the customer base or target audience and where certain lifestyle characteristics are key indicators of response, purchasing appropriate lifestyle lists will likely satisfy the marketer's basic targeting and segmentation needs.

To accommodate these types of projects, lists are available to segment buyers according to all types of interests, lifestyles, hobbies and buying behaviors. Examples of list selection categories (and specific selects within the category) include:

- Travel and Dining (interest in wines, foreign traveler, RV vacations)
- Hobbies (house plants, fashion clothing, contests/sweepstakes, cable TV)
- Sports and Recreation (gardening, bicycling, running, sailing, fishing)
- Contributions (environmental, political, veterans, volunteering)
- Health (dieting, natural foods, walking, self-improvement)

For more sophisticated needs, it may be more effective to supplement list selection with other tactics (performed internally or outsourced). These additional options, intended to add value by either increasing response rates or increasing available universe, can include:

- Matching a customer and/or prospect file to a national database to append lifestyle and demographic information and then comparing customer profiles to the general population. Through this initial analysis of actual customer data, marketers can be more confident that they are targeting correctly.
- Profiling customers, customer segments or test cells to identify prospects and customer look-alikes. With analytical approaches, marketers can analyze their customer lists and identify characteristics (which may include lifestyles or interests) for more effective segmentation.

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### **Example** **Using Lifestyle Data**

**Problem:** *A credit card company is considering an invitation to apply for an affinity bank card. In the past, ITA offers for this company have flooded them with responders.*

*Unfortunately, those responders were over-extended, had unacceptable credit ratings, or had no credit at all. This company needs a list that will bring a more qualified responder to the door.*

**Solution:** *Start by only selecting names that are age 35+ and have an income of \$30,000 or greater. Then build a matrix model based on available lifestyles and interest data. The first dimension of the model will predict response, and the second dimension will predict which responders will pass a credit screen.*

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- Mapping of key characteristics. For example, mapping can reveal consumers who should be spending more with you, based on their demographic and lifestyle profiles. Surveys or test mailings could then uncover ways to get this group's spending up to its potential.
- Custom models using predictive analysis to address a marketer's specific situation. Predictive analysis is the next best thing to cloning loyal customers. This type of analysis compares the best new responders in your customer file to non-customers from selected databases. A model is built to score individuals in the selected database according to characteristics of the best responders. The result is a ranked list of how closely prospects in the database resemble your best customers. These customer look-alikes can then be used as primary targets for your marketing campaign.

After you have taken steps to identify the target audiences most likely to respond, lifestyle and interest selects can be employed in additional ways to improve marketing ROI:

- Customize mailings with lifestyle content to evoke the interests of the target audience. Even "mass" mailings can speak to the preferences, interests, or lifestyles of key segments.
- When marketing to multiple segments, take advantage of the reduced price and improved quality of color digital printing capabilities which have made customization and segmentation more practical than ever before. With color digital printing, even true 1-to-1 marketing is achievable, using color images, copy, etc., fitting with the specific characteristics or interests of an individual or segment. However, as mailings approach 1-to-1 targeting, printing costs, costs for additional images and copy, and administrative complexity increase and should be considered when determining if more sophisticated targeting or segmentation makes sense for a specific campaign.

- For different segments, identify and use the consumer's preferred channel for marketing efforts. For example, when marketing to tech-savvy consumers, direct mail can steer interested individuals to interactive demonstrations, testimonials and ordering. Or, test email to these segments in combination with direct mail.

## **Lifestyle data improves marketing ROI**

Over many years, the use of lifestyle data has proven to be an effective strategy for improving marketing performance. If you currently use more traditional mass marketing techniques or if you primarily use demographic data to target marketing campaigns, you may consider incorporating lifestyle data into your direct mail efforts. More effective targeting through this type of strategy can help you reduce direct mail costs and increase response rates, leading to a higher return on marketing investment.

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<sup>1</sup> Jim Tierney, "Time to Lock in Paper Supply Agreements?," Multichannel Merchant, January 1, 2007.

<sup>2</sup> United States Postal Service, "New Prices Effective May 14, 2007," <http://www.usps.com/ratecase/>, posted March 19, 2007.

<sup>3</sup> Eric Schmitt, "Direct Mail Faces Year of Reckoning" DM News, January 10, 2007.

<sup>4</sup> Louise Story, "Junk Mail Is Alive and Growing," New York Times, November 2, 2006.

<sup>5</sup> Jim Bruene, "In 2006, 86% of credit card direct mail included online options," netbanker.com, posted March 5, 2007.

<sup>6</sup> Eric Schmitt, "Five Predictions for the Future of Direct Marketing," forrester.com, posted February 16, 2006.

<sup>7</sup> Steven Permuy, "Positioning Data," DM News, November 6, 2006.

## About the Author

### **Michelle Hoffman, Product Manager, Equifax**

Ms. Hoffman has worked in the marketing industry for over 10 years, and, since 2005, has worked at Equifax as a Product Manager for self-reported database solutions. Throughout her career, Ms. Hoffman has been involved in various aspects of marketing strategy and implementation with positions ranging from Account Management for an integrated marketing agency to Marketing and Communications Management. Ms. Hoffman holds an MBA from the University of Denver where she focused primarily on database marketing, marketing analytics, and marketing management. She is currently on the Executive Committee for the Rocky Mountain Direct Marketing Association.

## About Equifax

Equifax (NYSE: EFX) is a global information solutions company and S&P 500 member, with a heritage dating back 108 years. With 5,000 employees, Equifax's presence spans three continents and 14 countries. Leveraging its unique data assets, technology leadership and advanced analytics, Equifax provides solutions that help businesses make critical decisions. Businesses rely on us for consumer and business credit intelligence, portfolio management, fraud detection, decisioning technology, marketing tools, and much more. We also empower consumers to manage their personal credit information, protect their identity, and maximize their financial well-being.

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