Stuart Nicolle, managing director and found, Purple Seven
Connecting with people – using customer data
to spend less and earn more

Stuart is the Managing Director and founder of Purple Seven, a UK based tickets analysis software firm that offers the award-winning Vital Statistics marketing analysis and communications system, which is currently used by over 500 organisations across the UK, Scandinavia, Australia and New Zealand. A graduate from the University of Huddersfield with a BA Hons in music, Stuart went on to study for an MA in Arts Administration at Anglia Polytechnic and has spent 15 years working with cultural organisations, helping them maximise the value and effectiveness of their customer data. An experienced researcher, lecturer and leading data analyst, Stuart is a regular guest speaker at conferences and consortium meetings across the world.

This workshop looked at how we can move from raw data to useful information for our marketing campaigns. As information, on its own, isn't helpful, wisdom is also required. This seminar provided delegates with key tools of the trade to take them in the strategic direction they needed.

Making the most of your data

[Stuart began by looking at the concept of segmentation and why it is useful].

When looking at segmentation we might want to consider whether it has these characteristics:

- It is possible to measure
- It has to be large enough to earn profit
- It has to be stable enough that it does not vanish after some time
- It is possible to reach potential customer via organisation's promotion and distribution channel
- It is internally homogeneous (potential customers in the same segment prefer the same product qualities)
- It is externally heterogeneous; that is there is heterogeneity between segments (potential customers from different segments have basically different quality preferences)
- It responds similarly to a market stimulus
- It can be cost-efficiently reached by market intervention
- It is useful in deciding on marketing mix

Some of the current arts segmentation models include:

- Balanced Database (Purple Seven)
- Audience Insight (Arts Council England)
- The Values and Impact Study (WolfBrown)
- Bespoke Models – (Baker Richards)
- Culture Segments (Morris Hargreaves McIntyre)
- Mosaic (Experian)
- ACORN (CACI)
- Loyalty Ladder (Indigo)
- Genre

I believe in segmentation as a concept but actually I believe in it delivering a particular level of trust between us as marketers and our customers. That's what this is all about – building trust and as we build trust we build responsiveness.

At a crude level we could say that it is about selling more tickets whilst spending less money. In order to do this, we need to know:

Who to send stuff to?   **(Propensity)**
    - who is most likely to respond to my campaign?
What stuff to send them?   **(Interest)**
    - what will we tell them about – are we going to send them the brochure or something else?
When and how to communicate?   **(Behaviour)**
    - this is down to consumer behaviour – when are they most likely to respond and what sort of message will they respond to?
Why they're even bothering?   **(Motivation)**
    - what is it that is motivating them to get out the door?
    We did some desk research recently using ONS data - and it was clear how difficult it is to get people through their own front door to do anything (restaurant, cinema, theatre). It was all about babysitters, arrangements etc.

These are the cornerstones of our segmentation.

Customer types

We're going to use real data from an organisation in March this year. And we're going to break these customers down first of all into new and existing bookers. So, first of all, in March 2012, we looked at who had been before and who were new attenders. In this example, 63% were new bookers (had never been before) and 37% were repeat bookers (had been to that venue before).

[Stuart asked the participants if they thought they had the same sort of proportion of new or existing attenders with a variety of answers above or below this proportion].

What we tend to find is that it changes by product. So if you have Van Morrison playing, we know that a large proportion of the same people will come back. There will be a high level of repeat booking unless he's never played at the venue before, in which case there will be lots of new bookers.

So, if we now drill down into only the 'new bookers' and see if they attend again – in this case we have all the people who booked for the first time in 2011 and we can see that of these, at this venue, only **13% have made a second booking** since then. That might not seem like a lot but it is relatively high – we usually find a figure round about 9 or 10%. That means that for every repeat booker we need to encourage 40 or 50 first timers through the door.

If we now look at those who did book a second time and analyse these, we can see that **32% of those who made two purchases went on to buy a third or fourth time**.

Then if we look at those who have attended three times, **we can see that 48% of new customers who came three times in 2011 came back** again.

This graph might help us to think more clearly about this. Looking at this, what should we be concentrating our efforts on?
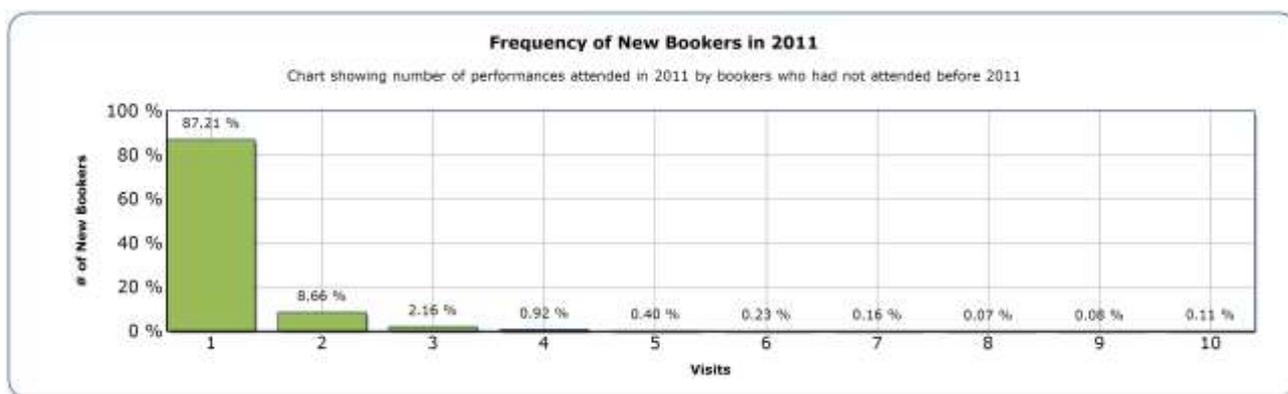
Delegate: look after the 13% very well
Delegate: encourage more of the people who have attended once – the 87% - to come back again.

Yes, both of those are good answers. If we look at what happens when we do this it is clear the effect this has further down the line.

[Stuart showed what happens on the bar chart if any of these 87% come again]

> *To sum up, the more you attend, the more likely it is you will attend again.*

Recency

This is the other part of 'recency, frequency and monetary value' equation. Recency is the made up word for 'how long ago was it since their last attendance'

We're looking at March, so when did they last attend?

23% had attended the month before.
(So a quarter of the repeat bookers had booked in February)

27% had last booked in December or January

26% had booked between 4 and 12 months before

11% had booked between 13 and 24 months before

Then you have to go all the way back to five years ago to get the final few people

13% had booked between 25 and 134 months before

This is what it looks like on the bar chart.

So, you can see that overall it diminishes over time, except for the little spike in March. Why does that happen?

Delegate: annual programming
Delegate: habit

Yes, absolutely – we call them anniversary attenders – people who come for a celebration, habit – people who come at the same point each year. It accounts for about 10% of each month's attenders.

The law of diminishing returns here means that I have to fish in a bigger pool the further back in time we go. So how do we sum this up?

The more recent your last attendance the more likely it is you will attend again

This is 'propensity' – the bookers who are most likely to respond to our communication.

We would like to understand this a bit more. So, if we know that frequency and recency are important variables, then if we could combine them we'd have something quite powerful.

It could also be a valuable part of customer management so we could dedicate some special effort to particular groups of frequency or recency of attendance.

What we've got here is a concept of diminishing returns. In this matrix I've broken it down quite crudely into recency or frequency. Recent was defined as attended in last six months. Frequency was 1 or 2+ attenders.

[Stuart then showed the real numbers of bookers at this venue split up into this matrix of bookers. It showed that overall, those who were most likely to have re-booked were the group of people who had attended most recently and most frequently]. So if you want a really easy way of increasing response rates you could *almost* forget about product type. If you just based your marketing on your recency and frequency you might see something like this matrix below.

8% of those who had been more than two times and had come in the last six months attended in March (2037 out of 24,000). Who gets higher than 8% in their direct mail campaigns? Not very many!

It's interesting that we actually get a higher response from the more recent less frequent attenders (1.4% compared to 0.7%) which suggests that recency is a stronger variable than frequency. When we look at the infrequent not very recent we are talking about 0.2% (which is 333 from a possible 207,000).

This is the entire database. What could we do to increase these percentages? Who could we filter it further?

Delegates: *'those that haven't been for a very long time', 'genre', 'location'.*

Yes, all of these will reduce the numbers and might be in your next stage. Before that, I would look at data protection. This organisation has about 50% of people who have given their permissions so we can double the numbers here.

I have a great hot-off-the-press example. There are two venues with the same touring show. One of them we are working with on recency and frequency and the other doesn't know or use the concept.

We've analysed the mailings they've sent out. We wanted to know who it was they were marketing to.

Organisation 1 sent out

- 4642 pieces of print to their frequent recent bookers
- 1627 pieces of print to frequent attenders who hadn't been for some time
- 1611 pieces of print to customers who'd been once and recently
- 682 pieces of print to people who had been once but not for some time

Organisation 2 sent out

- 449 pieces of print to people who had been many times and recently
- 204 who had been recently and only once
- 691 who had been many times but not for a while
- 1400 who had been once but not for a while

The response rates were very interesting. Organisation 1 knew about recency and frequency and had a better response. Organisation 2 sent more than 50% of its print to people who had been once but not for a while. Why?

Delegate: *because they had been to something similar*

Yes! Exactly.

This is the whole thing about first time attenders, which is a real minefield. If you decide to mail those people who went to this event, this event and that event and 50% of your attenders only come once and not again and 50% are repeat attenders you'd have a small number of repeat attenders but lots of first time attenders in your selection and we know that recency is a strong driver.

And the response is exactly what we expected:

Organisation 1 on the left did much better. Interestingly, Organisation 2 (on the right) did worse even on that first section – though there's no reason why it shouldn't be any different in percentage terms (even though it's a smaller number being sent mail). Organisation 1 broke even and Organisation 2 lost money so it made a huge difference.

Which brings us on to Return on Investment (ROI).

In order to work out our ROI we need measures such as response and the ticket revenue we generated and we need to know how much it cost us to do this. So

ROI = $\dfrac{\text{Total Income Generated} - \text{Total Cost of Campaign}}{\text{Total Cost of Campaign}}$

So using real numbers:

ROI = $\dfrac{£10,000 - £2500}{£2500}$

ROI =   £3

For every £1 spent you get £3 back.

We've used this a lot to argue for bigger budgets because you can go to the finance people and show them how it works, but if you actually show them the real figures – which show that for every £10 they give you you will give them back £30 then you have a good case.

Now let's look at something more involved – audience development.

Audience development

Using recency and frequency you can look at your database and decide what you are going to do about different segments of your audience. We can split it up slightly differently depending on what gives us meaningful segments (eg. deciding on how frequent or how recent the bookers are in each segment). Using your database you can actually know how large it is – how many people are actually in that segment.

There are elements that vary and depend on your own analysis such as you might want to look at when you think people are going 'stale'. Is it 12 months? If they haven't been for 12 months you might decide to try and reactivate them at that point. And we have different degrees of staleness (which we label according to cheeses).

Then you might have several frequency bands; people who come 7 or 8 times a year might be in a different category from those coming 2 or 3 times a year.

What we want to do then is use different communication methods to talk to different sorts of people. What would we send to our very frequent attenders?

Delegate: *you might send them information which has everything on*

Yes, that's spot on because they also tend to be people who are more likely to try lots of different things.

What about our very infrequent or once only attenders?

Delegate: *you wouldn't want to overwhelm them with information because they could be put off*

Absolutely, they are more likely to be product driven – the Van Morrison concert or the one time you put an opera on perhaps. There are other reasons but our research shows they are highly product driven. What do we do with them in terms of communication?

Delegate: *segment them and send them specific tailored information relating to their product interest*

Delegate: *we give them free drinks – an incentive to come back again*

They are both good answers – using knowledge of their behaviour to communicate with them effectively. We've also found that they are people who seem to like the occasional email newsletter – not spending lots of money or talking to them very frequently but keeping them informed of what's going on but not bombarding them.

What about the people who come frequently but have not been recently? What's happened to them?

Delegate: *change in circumstances*

Yes, that's a strong possibility. As a father of two, I can relate to the fact that my theatre going has fallen off a cliff. Ten years on I'm beginning to consider going out again but there is one venue that has mailed me the brochure for nearly ten years – even though I last went about ten years ago. I am collecting all their print and I will take it back to them one day as a reward. So you are in danger of actually putting people off by using the wrong communication method for the wrong segment. They clearly don't understand me and they are destroying their relationship with me.

What do we do with this set of people?

Delegate: give them a programme about the centre now and again?

They're quite a difficult group and it might be people you could do further research with to find out why they're not coming and then respond accordingly to different groups. It's also a question of degree because you might want to try to re-activate them when they're recently stale but actually the longer term ones you might want to leave alone and have a special campaign at some point.

What about our group of people who've been recently but only once.

Delegate: *they're part of the 87% and could be a resource of people who we could convert to become more frequent attenders.*

We have to be careful of relying too heavily on our top segment of frequency and recency – because they need to be replenished as they die/move away etc. This recent but once attended set of people are a key set of people to investigate further.

So we have some strategies which are outlined here.

Ignore is a bit rude for the bottom right hand segment but we need to be realistic about the best use of our resources. This is where email has actually been detrimental – in fact it's been a scourge in some ways - because it's so cheap and now we can email 'everyone on the database' and really annoy people.

<u>Theory into practice</u>

What's the first thing we're going to do when we return to our organisation?

Delegate: *'who's in the top left hand box?'*

And how are we going to do this?

Delegate: *'looking at what might mean recency or frequency means for us'*

Absolutely, and you can do this by trial and error. For example, you can look at the brochures you're sending out and determine who is responding. It means you don't have to change anything immediately – just analyse what you're already doing. That will give you a lot of confidence.

We worked with an organisation that was constantly sending out 60,000 brochures to everyone on the database, including those who had not attended for over 10 years. We asked why they were doing this and they said – *'because if we don't send out these 60,000 I'll get the sack.'*

They weren't too worried about response rates etc – it was the number sent out that was important. So we persuaded them to send out the brochures exactly as before but we split them in two and tagged the two lists. The people who hadn't been for a long time weren't responding very much, as you'd expect. They could then use this as a clear argument to make back to management.

Delegate*: If you split the two lists based on ROI, you could then go and show this to management.*

You might even find that your old list is losing money – so you can show this and spend the money on an interesting audience development campaign.

The good thing about doing this live is that as you get the response rates you could put it into excel and get an idea of when your stale period might be.

<u>Questions</u>

Delegate: *As you look at all the data across organisations do you find a pattern of organisations struggling to let go gracefully of stale data?*

It's about people and structure of organisations. The more traditionally run organisations find it harder. Also, the 'old-school shotgun marketer' struggles because they've been doing things which have worked okay for the last few years and they don't feel they have to change. Usually there isn't anything 'wrong' as such but it gives them potential to be more efficient, to free up time to do other things – and that's usually what they find when they work in this way and that's what we emphasise.

We've found that there this doesn't vary much by country. So we're collecting data from ten different countries at the moment and the customer behaviour is no different at all.

Incidentally, we don't use value [from 'recency, frequency, value']. Why? Because it makes it too complicated for our needs – it turns the 2x2 matrix into a cube.

It is important to think about groups or individuals discretely and perhaps take out VIPs of the equation and deal with them separately but it just becomes too complicated. There's also a thing about descriptive or predictive variables. What we are talking about here is predictive variables. That's what enables us to put people into these categories, and then we might look at other descriptors like - what time they book or price of tickets they'll buy.

It's the next stage you can go into. Once you've put them into these categories you could then look at how they behave and know something more about that segment. Do they book far in advance, just before the event etc? This enriches how you then deal with those people. For example, we've discovered that first time attenders will tend to buy more expensive seats – presumably they don't know the venue so well and it might be a special occasion so they want to secure their good time. Likewise, they are more likely to book in larger groups.

How about geography? We don't find that makes much difference in terms of recency or frequency so it's important to make sure that a rich source of people are not discarded because of geography.

Delegate: *Do you base your recency on attendance or booking patterns? Because we have some people who buy all their tickets in one go when the brochure comes out, for events over several weeks or months,*

The analysis is done on their behaviour – i.e. when they book – but we already have all their purchase patterns laid out. And the people you are more likely to sell your 'distressed inventory' to are the people who have not yet reached their frequency threshold – so you can sell to those people because they have more potential. As long as you are open about that distressed inventory – not that it's rubbish and no-one wants to come.

Delegate: *how far can this become a self-fulfilling prophecy? If you only target one group and they are who you invest in then they are the people who keep coming back and you might be missing an important section of your audience.*

It's an interesting question – and you do have to be careful. However, what we find is that organisations that have been sending out their brochure to the whole database for years on end – i.e. they've been giving everyone the same attention – still have this recency frequency tendency in response.

Recency becomes more challenging the higher the numbers go. With your 'once onlys' it's quite clear cut – we don't do anything about them – we need them to make that second purchase so we can find out more. We need to invest in certain sections though – we just need to be very clear why we are targeting them, what we are expecting and how we are going to do this.

Delegate: *have you applied this model to email marketing? I'm doing a masters in digital marketing and I'm looking at whether segmentation is viable in generating ticket sales.*

Yes, it is. Email marketing is great for certain segments. There are also different types of email of course – and some will like email newsletters, others promotions etc.

We did some analysis of Virgin Atlantic and British Airways email marketing strategies and they both had a strategy of sending an email newsletter out to everyone who had flown with them in the last 24 months as well as two promotional offers via email a month if they had flown recently. They had a threshold after which, if they hadn't taken up one of these offers or flown with them they stopped sending the promo emails and just sent the regular email newsletter.

You could also combine email with other promotional techniques. For example, you could send people a direct mail letter followed by two emails – it's quite difficult to manage but it can be effective.

Delegate: *what about our 'ignore' people – could we start with asking them if they still want to receive our material and to tell us a bit more about them and then build the relationship from there?*

Absolutely, though you need to be careful, because some people might not have attended but would still like to know what's going on because they have an idea that they might like to attend some time – which is why the regular simple email newsletter works well with them.