Practical Exercise

A direct marketing company has information on purchasing history of 50,000 existing customers. The company is interested in offering a new title "Art History of Florence". It would prefer to do target mailing- that is to send the offer only to those existing customers whose likelihood of buying the book is relatively high.

In an attempt to come up with a profile of the target customer, the company sent direct mail "pilot" offer for the "Art History of Florence" to 1000 existing customers (chosen at random from the customer base of 50000). Of these, 83 purchased the book. The company now wants to use this information to differentiate buyers from non-buyers. If that can be done then they can score the remaining customers and target among the remaining customers, those who are more likely to buy the book.

For each customer in the database, the company has information on "months since last purchase" (as this variable increases the recency of last purchase from the company decreases) and the number of art books purchased (a measure of interest in the art category). The data from this pilot is shown in the excel file "bookdev".

The cost of mailing an offer to purchase the book to each customer is Rs. 50. If the customer responds and purchases the book, then the net profit is Rs. 300. Hence, too many mailers without success can mean large losses for the company. Therefore, it is advisable to test out any strategy before a full blown application. To help with the testing, 1000 additional mail offer were sent out and the responses from this are in "bookval".