Direct Mail to Prospects and Email to Current Customers?

Managing Multichannel Marketing for L'Occitane

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Project Description

Marketers today find themselves allocating budgets among an array of online and offline marketing actions. In this increasingly multichannel environment, firms such as L'Occitane, an international beauty retailer, need tools to assess marketing response across multiple channels in order to understand which marketing actions produce the best sales returns and to make budgeting decisions about which actions to invest in and which customers to target.

A survey study by Ascend2 (2016) finds that 52 % of all companies email (prospective) customers. A key reason for this widespread usage may be that email marketing has low costs and thus is typically profitable. According to a recent study commissioned by the Direct Marketing Association (DMA) Ltd. (2015), the average revenue-based return on investment (ROI) of email marketing increased to £38 for each £1 spent compared with the average ROI of £24.93 reported in 2013. In the same study, approximately one in every five companies reported an ROI of more than £70, which is three times higher than the figures from 2013. As for (offline) direct mail, the DMA notes that the typical response rate is 4.4% and is anywhere from 10 to 30 times higher than digital marketing response rates (Forbes 2017). Firms aim to generate higher ROI levels by launching effective email and direct mail marketing programs. For L'Occitane, present in 70 countries, with total annual revenues of €10.9 billion, managing effective email and direct mail programs to hundreds of thousands of customers is challenging for multiple reasons.

First, higher current customer value does not imply greater responsiveness to direct mails or emails. For example, some heavy buyers may not open the firm's offerings frequently because they already know the firm and its offerings quite well. This would imply that the firm may not need to target such customers aggressively through expensive direct mail, because this type of buyer may pay little to no attention to marketing messages received. However, some light buyers or prospects might be quite responsive to a firm's direct mails, because they provide rich information to them. How much they subsequently buy though is an open question. Second, customer preferences for being contacted by email and direct mail may well depend on their level of interest in the company. In other words, the optimal number of emails and direct mails to send may differ across customers. For instance, a study by Return Path (2015), an industry expert on email optimization, suggests that email frequency optimization should depend on customers' engagement level. Customers may also opt-out of firm contact with a marketing instrument (e.g., direct mail). It is unclear whether that implies they will be more (or less) responsive to the alternative contact method (e.g., email), as they simply do not want to be contacted. Third, customers in different countries likely have different marketing responsiveness to emails and direct mails (e.g., Pauwels, Erguncu, and Yildirim 2013; Sethuraman, Tellis, and Briesch 2011). Moreover, the effects of direct mail and email on offline and online sales will differ limiting their ability to provide guidance to multichannel multinational retailers on marketing responsiveness across countries.

Because of all these challenges, firms, such as L'Occitane, need guidance in the form of a decision support system (DSS) to determine the allocation of emails and direct mails to send to different customers and across countries. In this study, our objective is to provide such a DSS to L'Occitane through (1) linking customers' emails and direct mails with their online and offline purchase behaviors, (2) capturing heterogeneity in behaviors across customer value segments, and (3) incorporating differences across countries.

Methodologically, we estimate Hierarchical Linear Models (HLM) that allow us to assess the online and offline sales responsiveness to email and direct mail at three levels of data aggregation: time, customer value segment, and country. Cross-Random Effects (CRE) models help us evaluate the extent to which sales variation is explained by each of these three levels of data aggregation. Our first empirical analysis uses a rich dataset with every purchase transaction and marketing communications at the individual customer level for 84,110 customers randomly sampled from six countries: USA, Great Britain, Germany, France, Spain, and Italy for a four-year period. The retailer only used two types of marketing actions, email and direct mail, during this period. Furthermore, to evaluate our model-based results, we designed and implemented a field experiment. Our modeling approach therefore consists of descriptive (e.g. cluster analysis), predictive (e.g. multilevel econometric models) and prescriptive (e.g. optimization, field experiment) models.

Substantively, we aim to answer the following questions:

1. How do email and direct mail responsiveness vary across customer segments for online and offline sales?
2. To what extent is sales variation explained by customer value segments, country effects, and time effects?
3. What is the optimal number of emails and direct mails to send to different customer segments to maximize financial impact?

Our research accomplishes the following goals. First, we compare online and offline sales responsiveness to email and direct mail. Second, our approach considers prospects and current customers in a continuum ranging from low-value to high-value customer segments. Third, we implement our segmentation approach across various countries, allowing for cross-country differences in marketing effectiveness. Fourth, we examine the extent to which sales variation can be explained by customer value segments, country effects, and time effects. Finally, and most importantly, we provide recommendations on the optimal number of emails and direct mails to send to different customer segments to maximize financial contribution.