



Penn, Schoen & Berland
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Silent Marketing: Micro-targeting

by

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Introduction

TiVo lets you get the entertainment you want. Xbox allows you to create the gaming experience you want. Google, MSN and Ask.com let you find the information you need. Time Magazine named 'You' – everybody, not a specific individual – as 2006 Person of the Year. The old days of 'you' being force-fed whatever a TV network or editor or advertiser decided to give to you – and everyone else – are long gone. Today your expectations are much higher; generic messages and offers for broad swaths of the population lack interest. What you are looking for, and have been coming to expect, are messages and offers that are micro-targeted and, by definition, most relevant for you.

What is Micro-targeting?

Micro-targeting has become a buzz word in marketing today. But many people who like to talk about micro-targeting still don't really understand what it is or how it works. Some say any direct mail effort is micro-targeting. Others say any communications program based on a detailed customer segmentation is micro-targeting. Some describe click-through ads on the Internet as micro-targeting. And a few describe ad placement on things like cell phones as micro-targeting. They are all wrong.

Penn, Schoen and Berland (PSB) is a pioneer in developing micro-targeting and micro-messaging and has been applying these techniques with great success in the political arena. We are now bringing it to the corporate world. Our definition is:

- **Micro-targeting is creating customized winning messages, proof points and offers, accurately predicting their impact, and delivering them directly to individuals.¹**

Twenty years ago targeting based on zip code was revolutionary. Ten years ago targeting based on the household with only a general idea of what the response might be was considered leading edge. In micro-targeting we now operate at the sub-household level targeting individual people within the household and we know very accurately how they will respond.

Another way to think about micro-targeting is as an advanced, precise psychographic segmentation that uses a proprietary algorithm to determine a combination of demographic and attitudinal traits to assign individuals to each

¹ A message is an overall theme or idea such as 'Just Do It', a proof point is a fact that supports the message such as 'Nike is an NBA Sponsor', and an offer is 'the new Air Jordan 2007 shoe is now available for \$125.00'.

specific segment. It is beyond traditional zip code, neighborhood, and strictly demographic targeting. It is a new level that combines attitudes, available consumer data and demographics to find like-minded people (often very different demographically) who are motivated by similar things and predict what they will do. In the Bloomberg mayoral campaign in New York City, for example, African-American homeowners in Queens were sent the exact same direct mail message as the Staten Island Italian-American homeowner with the same impact on their respective voting behaviors.

But, at PSB, we see the potential of micro-targeting in the corporate context as greater than just focused on fine-tuning a direct mail piece. We also see micro-targeting as the basis for aligning messaging, offer and the entire customer experience with individual customers. The insights generated from micro-targeting not only inform downstream activities like communications but also upstream activities like product development as well as operational ones like call centers. Micro-targeting we believe will become an organizing principle and way of life for many companies.

A lot of us call micro-targeting ‘silent’ marketing. That’s because if you survey voters or consumers during or after an effective micro-targeting campaign they will have a hard time recalling big, dramatic announcements or a catchy ad or the ‘big idea.’ What they will recall is *why* the candidate or offer is appealing to them. Micro-targeting done right is stealthy – it flies below the radar.

The ‘silence’ of micro-targeting conveys an enormous competitive advantage when going against a traditional marketer relying upon mass media and general ideas. That’s because the traditional marketer does not realize what is going on until it is too late. Since they are focused on mass media and looking for the ‘big idea’ and offer from the competitor that never appears, they have a hard time seeing the micro-targeting efforts. And even when they can see them, often times it is just a portion of it – the tip of the iceberg – and they cannot gather enough information to understand how it works. They are clueless except for seeing, usually too late, the erosion in their appeal, intent, loyalty and advocacy.

Why?

There are two drivers pushing the world into micro-targeting. First is that traditional mass media advertising is horribly inefficient. Take a car ad for example. Between 90 and 95% of the people who see a car ad in mass media are not even looking to buy a car! This outdated approach has been kept alive, in part, because of a lingering comfort with the status quo (and of course, clients love seeing their own ads on TV and in print). But as technology advances, improving analytical capabilities at lower costs, micro-targeting becomes a viable alternative to the traditional shotgun approach.

Secondly, and perhaps more importantly, the mass media that the old model is heavily based on is in rapid decline, being replaced with a far more fragmented communications and customer influencer environment. It is becoming increasingly difficult if not impossible to saturate consumers with a single message and offer. And as the media fragments, it becomes imperative to move away from one idea or execution to multiple messages and offers tailored to each of hundreds if not thousands of media and influencer sources.

When?

While there certainly will be a lot of hype around micro-targeting, we know from experience that it is not appropriate in all circumstances. Micro-targeting tends to do best when media costs are very high (as in major cities), or where no dominant local media outlet exists (as in many suburbs), or where competition is intense but the differences between the competitors are very minor (think of newer advanced DSL from telecoms vs. internet via cable). Where it tends not to be as cost-effective or efficient is in rural areas where traditional media costs are low and media usage tends to be less fragmented – at least for now.

How?

The core process for micro-targeting entails:

1. Inventory available relevant data sets for the target population and determine costs; identify which variables will most likely predict purchase or voting behavior
2. Develop psychographic segmentation model to understand what drives behaviors in the target population
3. Using the psychographic model, create a range of feasible messages and offers (feasible are ones a company or political candidate can reasonably claim and deliver) – a strategic message / offer matrix
4. Create message and offer mock-ups
5. Test vs. competing messages and offers
6. Develop an algorithm that assigns each individual to a segment and predicts how likely **each person** in the target population will be to vote or purchase based on what message and offer combination they could be shown
7. Create influencer model (who and how much various people, organizations and media influence the decision maker) and develop marketing communications mix strategy – typically a combination of targeted media, direct mail, Internet, targeted events, and PR
8. Develop final concepts and test vs. competitors

9. Finalize benefits and costs
10. Field micro-targeting campaign by delivering the optimal message, proof points and offer to each individual using techniques such as direct mail, event invitations, call center scripts, PR and internet ads
11. Track impact and update as needed

Though there is a core process, variations do occur. Some clients – due to time or budget constraints – will skip over a step or two. But ultimately the result is the same: every individual in the target population and/or geography has a distinct action coefficient that accurately predicts their behavior after being exposed to a particular message and offer. Two people within one household may get very different messages and offers based upon what the model shows they are most likely to respond to and act upon. People who are likely to act will get messages and offers, people who are not likely to act will be skipped over saving, in some cases, millions.

Political Case Study

Michael Bloomberg, Mayor of New York City

Michael Bloomberg had a problem. A popular incumbent, he nonetheless faced running for re-election as a Republican in a city where 80% of voters were registered as Democrats.

The traditional approach to political communications would have targeted voters with special messages targeted to:

- Women
- Seniors
- Democrats
- Independents

However, our experience has shown this approach to be wasteful, outdated, and ineffective at winning close elections.

In our work for Mike Bloomberg we evaluated over 200 variables and segmented one of the most diverse cities in the world into seven separate and statistically distinct categories that were defined by primarily but not exclusively by psychographics – the motives behind voting behavior. Based on each of these segments we developed a range of potential messages and alternative executions.

To develop the micro-targeting framework, we created a proprietary algorithm to predict how every individual voter in NYC would respond to different combinations of the potential messages and executions. The input to this model included:

- Demographics
- Psychographics
- Geography
- Voter history
- Lifestyle data
- Consumer data
- Responses to survey questions and alternative messages

Based on the predictions of the model we then identified the optimal communications for each of the 4.2 million voters on file. These communications were then sent out via a mix of direct mail, phone banks, email, field agents, and event invitations.

In the past, political messages in NYC campaigns would have been sent based simply on demographics. In this campaign, we targeted individual voters based on shared issue concerns even if the demographic profile did not match. For example, we went with the very same 'Forward vs. Back' crime message to both middle aged white Catholics in Tottenville in Staten Island and to senior black homeowners in Saint Albans in Queens.

The results? Bloomberg won by 57% to 38% vs. 50% to 48% in his first election. Afterwards, *The New York Times* wrote:

[Penn, Schoen and Berland] develop[ed] sophisticated psychological portraits of city voters – identifying never before identified voting blocs based on people's shared everyday interests and concerns, not their broader racial, cultural or ideological differences.

[November 15, 2005]

Corporate Case Study

The corporate world is lagging significantly behind the political world in implementing full micro-targeting programs. It is such a radical change from the traditional, and increasingly less effective, mass-media approach to marketing that there is a natural tendency in the corporate marketing community to approach something new like this with caution.

In the corporate case study described below, PSB has worked successfully with this and other major companies to apply many of the key concepts behind micro-targeting, particularly a far more targeted approach to messaging that we call 'micro-messaging' to their business problems.

Regional Bell Operating Company (RBOC): Applying the concepts of micro-targeting to the corporate world

It's no secret that the past decade has been tough on the Regional Bell Operating Companies (RBOCs). Wireless has taken massive amounts of share away from the profitable land line business, the internet has become a viable and cheaper alternative for transmitting voice and data, and cable companies have taken the lead on entertainment and high-speed Internet access. And emerging technologies such as WiMax threaten to cut further into the business of the RBOCs. From a dominant monopoly provider of voice and data 20 years ago, RBOCs in many markets find themselves today to be the underdog in an ever weakening competitive position.

In one particular case, a major RBOC had lost the dominant position in a major U.S. metro area primarily to a cable company. This same cable company was threatening to do the same in another city and region where the population and economy were rapidly growing – a critical battleground then for both the incumbent RBOC and the challenger cable company. To avoid losing yet another market, the RBOC decided it had to act.

The cable company came in with an aggressive traditional saturation marketing campaign. It had entered the state offering cable television and high-speed internet, but then began to offer low-cost local and long distance internet-based telephone service (VOIP) as well.

With the growing interest in high-speed internet, the cable company was able to leverage its cable internet offer to position itself as the high-tech provider and the telecommunications company of the future. It cast our client as being slow, old-fashioned, and out-of-date.

With its internet and low-cost telephone bundle offer, the cable company began to draw customers away from our client. In the state's largest city, which was experiencing record growth, our client – the RBOC – was actually losing lines. In 'political' terms, our client needed to turn everything around from being the unresponsive and out-of-touch fat-cat incumbent and run as a feisty populist challenger to build credibility and salience even with its own customers.

Our client knew it needed to change how it communicated with consumers in the market. It realized that traditional marketing approaches – direct mail, cold calls, TV and other paid advertising for mass market – wouldn't work. Rather, it knew it needed to make a fundamental change to its marketing approach in this state, and needed a dedicated team to focus on this effort.

Management then launched a 'Winning the State' initiative, signaling a commitment to the market with a dedicated team, resources and financial support.

Executives assigned to this initiative immediately began by outlining their vision and success metrics.

The team also realized they needed to bring in outside support to help shape, develop and implement the new strategy. They brought in the company's ad agency and brought in PSB – a firm known for winning 'political' battles using micro-targeting and sophisticated message testing – to assess the current competitive situation, review current marketing efforts and develop a new strategy going forward.

Working collaboratively with the team, PSB developed a new kind of research and communications strategy that would approach consumers in a whole new way. We needed to be able to individualize and localize the message for a range of audiences and situations. Using a combination of exploratory focus groups and in-depth quantitative research, we were able to develop a strategic matrix of potential key messages and proof points (hard facts that support the claims made in the message) – our 'micro-messaging' approach.

As the ad agency began developing its ads, we tested them using our political 'Combat Testing' method. Combat Testing is designed to test arguments and offers within a competitive context, and to measure how each message and offer moves the needle among specific audiences and individuals. This methodology permits 'gaming out' of a variety of competitive scenarios to see where the best opportunities are to attack opponents and build the case for our side. Moreover this form of head-to-head testing is generally two to three times more accurate than traditional research.

The campaign didn't stop with advertising, however. We also conducted research with key employee groups including Sales Reps, Technicians and Installers, and Call Center and Technician Supervisors/Management to give us a full view of the consumer experience and concerns at all the key touchpoints for the brand. This allowed our client to work on improving the customer experience and increase customer satisfaction with the brand.

To help connect more directly with customers, our client 'localized' its operations in that market. It opened up a local call center within the state's largest city (previously calls had been handled from an out-of-state center) and staffed it with local operators and customer service staff who knew the area. They also set up a team of specialized field representatives to work the street and provide a proactive sales presence for current residents and new people moving into the area.

The results for the client within this initial state have been dramatic:

- ✓ An increase in customer retention
- ✓ A reduction in competitive loss and a growth in connections

- ✓ An increase in call volume and completed sales
- ✓ Increase in awareness of other product offerings such as high-speed internet and television service
- ✓ An increase in customer satisfaction

Key Success Factors

1. **In-depth Quantitative Research Is Essential:** The key to any successful micro-targeting campaign is to design it around a rigorous quantitative research approach. Since a virtually infinite number of possible combinations of messages, proof points and offers exist and the target population can often times be in the millions, only quantitative research techniques can analyze such massive amounts of data and determine which combinations work best for each individual. While focus groups can inform the design of the messages, proof points and offer – only quantitative research can identify the right combination for each person.
2. **Use Combat Testing:** It is critically important to test messages, proof points and offers on an equivalent, head-to-head basis against competing offers. This will serve both to focus and sharpen your own micro-targeting and provide a far more accurate prediction of future impact. Traditional research based on historical benchmarks or looking at things like appeal or purchase intent in isolation tends to be only 20 to 30% predictive. Using combat testing with head-to-head comparisons increases accuracy to 70 to 90%.
3. **Align the Message, Proof Points and Offer:** It is hard to unlock the full potential of micro-targeting unless you have message, proof points and offer aligned. In too many cases companies take a shotgun approach offering too many products and services to their customers. The result are confused customers and, often times, employees are as well. Our experience clearly shows that targeting the offer as well as the message typically results in substantial increases in sales.
4. **Re-Allocate Your Marketing Spend:** Micro-targeting largely abandons the ‘big idea’ ad, the standardized offer and mass media communications that have been the basis of marketing for the past 50 years. Many major companies such as P&G have come to recognize the limitations of the traditional model and are already shifting marketing spend to more micro-targeting friendly venues like PR and the Internet. However, without having a quantitatively based micro-targeting model underlying and organizing these efforts, the full benefit of these shifts cannot be fully realized. Market spend shifts substantially in micro-targeting: much less is spent on a few showcase ads and much more is spent on many low-cost ads, PR, direct mail, events, and Internet and, of course, research. While much has been

said about 360° marketing, a well run micro-targeting campaign comes closest to realizing this promise since marketing spend is much more evenly spread out across the various elements of the mix.

5. **Don't Tell Your Opponent What You are Doing:** It is very important not to tell your opponent that you are doing micro-targeting especially if they are doing traditional 'big idea' approaches to message and offer communicated through (diminishing) mass media. If your opponent is in the traditional marketing mindset, and most are, they will be looking for your 'big idea' in mass media too. When they don't see it they will assume, incorrectly, that you are doing nothing. As a result they will almost always cut back on their market monitoring or react slowly to any changes. By the time then they realize they have a problem it is too late. But if you tell them you are doing micro-targeting or release data on your perceptual gains too soon, they can react sometimes very successfully. The best micro-targeting campaign is the one where no one – the mainstream press or the competitor – knows about it until after you have won.

Caveats

When considering a micro-targeting program there are several caveats to keep in mind:

1. Many highly experienced, prominent and successful PR and marketing people both on the client side and in agencies lack the analytical skills and understanding to properly design and lead a micro-targeting project. It is very important to look closely at the background and experience of those involved before undertaking an effort like this.
2. Traditional agencies, moreover, have an economic disincentive in many cases to undertake projects like this. Since the agency economic model is based on producing relatively few and very expensive ads placed in a handful of communication venues, they find it far less profitable if not unprofitable to do the analytics, detailed planning and many relatively small yet more customized communications required to implement micro-targeting.
3. Manage costs carefully. Given the complexity of the implementation of a micro-targeting campaign it is very important to carefully manage costs, far more so than with a traditional campaign. If proper controls are not in place, the large number of 'small' costs incurred can quickly add up to a very big cost. Micro-targeting has a partially undeserved reputation for being costly. This perception occurs for two reasons. Marketers understandably cautious about a new approach will often hedge their bets by doing both traditional marketing and micro-targeting. Secondly line

items like research, PR and alike typically rise dramatically which gets noticed even when the overall cost drops as dollars shift.

4. Mass media advertising can sometimes still play a role. To build broad-based awareness mass media is often a good alternative. But to generate familiarity and a call to action, micro-targeting is best at presenting the specific information that is most relevant and most likely to be accepted by the individual.

Summary

As the communications world continues to fragment, as people's lives and interests become more focused and specialized, and as consumer expectations of personalization continue to increase, micro-targeting is emerging as the most potentially powerful technique for politicians and businesses to succeed.

While micro-targeting is primarily used in reference to communications, PSB believes that the ideas behind it will find a much broader application in the corporate world, potentially impacting all customer-facing functions. For example, product development at most companies would benefit greatly from deeper and more specific customer insight such as that provided by micro-targeting. Everything from call centers to sales training can be impacted by micro-targeted as the messaging, offer and customer experience are aligned with individual customers.



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