

case study: vertical intelligence in retail



Enabling AI in Retail

Using AI to Create Incremental Revenue Through Direct Marketing

Situation:

The Vitamin Shoppe was using an ineffective customer targeting model for its direct mail marketing campaigns. The model used unsophisticated tree-based classification schema for audience selection resulting in ineffective classification with sub par audience selection for direct mailing campaigns.

Vertically Intelligent Solution:

Redevelop the monthly direct mail targeting model using machine learning algorithms to optimize audience selection, identify marketing opportunities to new customers, increase the value of exsistng customers, and reduce offer levels to customers that did not require new incentives to spend.

Implementation was done by creating a new set of independent variables that accurately classified customers and were predictive of customer purchase probability. The “Recency” variable was converted to a recency of purchase variable reflecting monthly spend over total spend. Calculating customer longevity in months rather than weeks also enhanced inputs of long-term customers.

The new model effectivley selected groups, generated a higher response rate lift of more than 2X the old direct mail model. It also provided a higher response rate, higher purchase volume, and higher net marketing contribution compared to the old direct mail model. The new model created an incremental net revenue contribution of \$234,000 per mailing, extending to an annual impact of a \$2.8 million increase in net revenue.

Results

***\$2.8 Million
increase in net
revenue***

Results

***2x efficacy
versus legacy
model***

Results

***Higher net
marketing
contribution***