We highlight the two principal types of external information used by direct marketers to improve the effectiveness of their targeting, geodemographic and lifestyle segmentation systems, and to evaluate their effectiveness as target marketing tools.

Whereas transactional data provides the basis for much of the segmentation that is applied to well-established existing customers, geodemographics and lifestyle data provide useful information for the segmentation of prospects and recently acquired customers. They can also be used to segment customers in market segments that hold little transactional data about each customer, such as automotive.

The first method we look at – geodemographics – uses statistics on residential neighbourhoods to categorise consumers according to the types of neighbourhood in which they live. It gives pointers to the lifestyles, product needs and channel preferences of people who inhabit each of the country’s 1.5 million residential postcodes.

The second method we look at – lifestyle segmentation – uses questionnaires to seek out information on the lifestyles of individual prospects, by asking them
straightforward questions about themselves. This approach provides more detailed information than geodemographics on the demographics of the consumers it covers; information such as product purchasing, leisure interests and media usage. However, the consumers about whom it does provide information are restricted to those UK households, many millions nonetheless, who have volunteered this information.

After discussions about both methods we offer a table comparing the relative strengths and weaknesses of the two approaches.

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Since 1974, when he built his first demographic system in the UK, Richard has specialised in the development and application of segmentation systems and software. These were developed first in government applications at the Centre for Environmental Studies, refined at CACI, where he built both the US and UK versions of ACORN and, since 1985, at Experian, now one of the world’s largest information companies. The team which Richard built at Experian has been a centre for innovation in the application of a wide range of classifications for supporting one-to-one marketing.

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Chapter 2.5

Using geodemographic and lifestyle segmentation systems

Introduction

Information about customers and prospects lies at the heart of direct and interactive marketing. It is only when information is known about them that customers or prospects can be assigned to a particular segment. And only once that consumer has been placed within a segment can he or she be treated in a differentiated way, maybe reflecting that consumer’s needs, aspirations and potential for purchasing different products or propensity to conduct transactions via a particular communications channel.

The information that enables organisations to put consumers into appropriate segments typically belongs to one of two broad types: ‘internal’ and ‘external’ (or overlay) information.

We use the term internal to describe information collected by an organisation about the consumers with whom it has a trading relationship. This information is often captured for the purpose of managing that relationship, but can equally well be used for marketing purposes. Such information might cover product purchase details, including dates when and locations where products were purchased, communications history and information about the customer such as sex and date of birth.

The term external we use to describe information collected about consumers by external organisations, typically specialist information services vendors, and which is supplied to another organisation for the purpose of enriching the information they hold about each customer. The motivation of the vendor is likely to be to make a profit from supplying the same or similar information to multiple businesses. In this chapter we will be dealing with two forms of external information – geodemographic data and classifications, which are derived mostly from official information registers; and lifestyle data derived from the responses to consumer questionnaires distributed to the public at large.

Part I: Geodemographic data and classification systems

What is meant by geodemographic data?

The term ‘geodemographic data’ is used to describe descriptive information on the type of neighbourhood in which individual consumers live. Typically this information is derived from information held on government registers which, for reasons of data protection and confidentiality, can only be supplied to potential users in summary form, i.e. at the level of the residential neighbourhood. This information can be used, for example, to locate areas with high or low concentrations of people aged 25 to 44, of professionals and managers or of single people, of Mercedes owners or houses sold for more than a million pounds.
While in the early days of geodemographics most geodemographic data sets originated from the census, data sources that can be accessed at neighbourhood level are now very much more diverse, including information from the electoral register, the Driver and Vehicle Licensing Agency, the Land Registry and Companies House.

While it is possible to use individual items from these databases for geographic targeting, and many organisations do, the sheer volume of information known about an area can be daunting to analyse. Besides which many organisations want to target people on the basis of multiple characteristics, for example pensioners who are owner-occupiers and households with children who own cars. Geodemographic classifications, which put individual postcodes into categories on the basis of the types of people who live in them, therefore constitute a form of data reduction. This both simplifies the complexity of data otherwise required for targeting and allows users to define and target groups which are multidimensional in character. Specifically a geodemographic classification system groups together individual postcodes which are broadly similar to each other across a wide mix of demographic variables. From a list of the postcodes in which its customers live marketers can, as a result of these systems, analyse their customer files according to the types of neighbourhood in which customers are particularly likely to live.

If you want to target a particular demographic group, say pensioners or single parents, there is no way that a geodemographic classification, however well designed, will deliver as high a level of targeting effectiveness as a segmentation system based on person or household level data. Even in the most geriatric postcodes in Great Britain, pensioners will still comprise less than 65 per cent of the population.

If we know that 35 per cent of the people in a given group are retired, we know that the chance of any one individual in that group being retired is slightly better than one in three. We also know that a promotion to that group will reach 250 per cent more retired persons than if it were addressed to a similar-sized group of which only 10 per cent are retired. What we must not do is think of the first group as though it consisted solely, or mainly, of retired persons, since nearly two-thirds of it is not.

If on the other hand you want to target owners of gas-fired central heating or readers of The Guardian – groups that cut across many demographic axes – then a geodemographic segmentation system is likely to deliver a level of discrimination as good as and often better than any one person-level demographic, such as age, household composition, social class, income or gender. An intelligent way of looking at a ‘where you live’ classification is as an extra demographic variable, typically as predictive as age, income or social class, but which has the benefit of being known about each and every one of your customers, not just the few that you have managed to survey. Indeed recent analysis of the Target Group Index market research survey shows that, on average, the type of neighbourhood in which a consumer lives is more predictive of his or her purchasing patterns than any of the person-level demographic characteristics commonly used by market researchers such as age, occupation, income and terminal education age.
The census as a geodemographic data source

Until 1979 each of the UK’s proprietary geodemographic classification systems relied exclusively on the decennial census as its sole source of information for classifying neighbourhoods. Today, although it is no longer the sole source of statistical information the census continues to contribute the largest number of data characteristics for the building of these systems.

Although the last census was undertaken in 2001, it was not until 2003 that this new information was fed through into the geodemographic classification systems used by marketers. Until then they were reliant on statistics from the 1991 census. While the 2001 census will remain an important data source until 2013, it is evident that for the classifications to retain their discrimination over the next ten years the census will have to be supplemented by a number of additional data sources which can be updated on an annual basis.

These are likely to include the electoral register and the Postcode Address File, information from shareholder and company registers, summary statistics from the Land Registry and the Driver and Vehicle Licensing Agency and data on home valuations used by the council tax system. In future it is not impossible that these various data sources will be supplemented by a number of data items collected under the government’s ‘Neighbourhood Statistics’ initiative.

Administration of the census

Every householder is obliged by law to complete and return a census form. Until 2001 these forms were distributed and collected by a team of census enumerators, each of whom covered a small geographic area containing on average 150 households and known as an enumeration district (ED). By contrast, the 2001 census relied on the ‘post back’ rather than the manual collection of questionnaires and as a result ‘output areas’ (OAs) for which statistics are now summarised are independent of the collection method and, as a result, are designed to be as socially homogeneous as possible and not to cross postcode boundaries. The coincidence of output area and postcode boundaries makes the linkage of consumer addresses to census areas much easier and more accurate than used to be the case.

These output areas constitute the smallest available building block for which census statistics are published by the Office of National Statistics (ONS). Equivalent statistics are also published by ONS for other levels in the administrative hierarchy, such as wards and parishes, local authority districts, counties and regions. ONS has left it to the commercial agencies it has appointed for this purpose, to create and disseminate equivalent statistics for the various levels in the postcode hierarchy above the individual postcode (such as postcode sectors and postcode districts), for media circulation areas and retail zones of influence.

Anyone can purchase a full set of statistics for each of the 150,000 output areas in England, Wales, Scotland and Northern Ireland, whether directly from ONS or from a census agency. The questions in each of the censuses from England, Scotland and Wales are broadly similar; those from Northern Ireland rather less so. Despite these differences the generation of geodemographic classification systems based on the 2001 census is the first to cover the entirety of Great Britain with a consistent classification system, even if separate ‘local’ systems have been developed for London, Scotland and Northern Ireland.
**What does the census tell us?**

The 19 questions covered by the 2001 census fall broadly into three broad categories:

1. Questions relating to people’s gender, age, their household composition, marital status, ethnic origin and religion
2. Questions relating to the houses in which they live – number of rooms, tenure, housing type and amenities
3. Questions relating to people’s work – whether they are in work, self-employed unemployed or sick, the occupational status of job they do, the industry sector in which they work and the mode of transport they use to travel to work

Prior to 2001 census statistics were published only in the form of ‘counts’, such as the number of persons aged 0 to 4, the total number of persons and so on. Census users were then given the opportunity to combine these counts to create ‘variables’. For example, to create the variable ‘the proportion of persons aged 0 to 4’, the user would divide the appropriate numerator, in this case persons aged 0 to 4, by the corresponding denominator, total persons. The 2001 census, for the first time, made available a file containing a list of key census variables, created by dividing relevant numerators by appropriate denominators.

Notwithstanding this the number of statistics published for each output area is many times greater than the number of questions asked or the number of key variables published. Many of these statistics, such as number of local authority tenants living in overcrowded conditions or the numbers of black owner-occupiers, are constructed using the answers from more than one census question. This gives the user the opportunity to consider different forms of measuring what may otherwise seem a simple variable. For instance should access to a car be expressed as the ratio of cars to households, the ratio of cars to adults, the proportion of households with access to a car or even the proportion of children living in households with access to a car?

Given the range of information covered by the census, what therefore is the value to a geodemographic classification of non-census data sources? One benefit of these additional data sources is that they include topics not covered by the census. Another is that the data which they contain is more up to date than that covered by the census, important when considering localities such as London Docklands, whose social composition has changed significantly since the time of the last census. A third benefit is that many non-census data sources allow us to examine the demographics of unit postcodes which are typically much smaller geographic units than census output areas.

The electoral register and the Postcode Address File are two data sources which allow census agencies to monitor changes in the size of the population at a very local level. Tracking population change over time is important since we cannot accurately infer the numbers of customers per thousand population in a local area penetration using customer counts on our file if the population or household counts in the base area against which we compare this is inaccurate.

Likewise, through a careful examination of the electoral register it is possible to infer the numbers and proportions of addresses according to their household composition. Electors’ first names are increasingly being used to infer their life stage – people called Mabel are typically older than people called Chloe – and their
family names as well as their personal names to infer their ethnic origin; Socrates Economides is more likely to be a Greek speaker than would be Ernest Driscoll. Both these information items are useful targeting tools in their own right as well as summarised at postcode level.

The Postcode Address File is also parsed by census agencies to identify instances of addresses with formats which are indicative of rural areas (farm) or houses in multiple occupation (flat 2a). In my own road, Broadlands Road, London N6, the occupier of number 16a is likely to be a worse prospect for selling gas to than the occupier of Talbot House.

Because its topics are determined by government rather than marketers, the topics included by the census cover the various manifestations of deprivation in more detail than the various manifestations of affluence. This is why data sources such as the Land Registry and the DVLA are useful for enabling us to identify postcode sectors with extremely rich people, for example where houses sell for more than £1 million and where residents drive cars costing £50,000 or more. Shareholder registers and Companies House supplement our knowledge of where the truly rich live, with local information on the number of shareholders and company directors.

With the success of the government’s ‘Neighbourhood Statistics’ initiative it is not inconceivable that these non-census data sources will in due course include information on hospitalisation, educational attainment and crime.

**Why and how should I use census statistics?**

Whatever the decision – where to site a new shop, what mix of products to stock in it, which local newspapers to place advertisements in, which names and addresses to mail, which script to use for an inbound caller or a website visitor – the prime need of all marketing activities is efficient targeting tools. Though the government may be reluctant to describe its own communications activities as marketing, the same principles apply to communication in the fields of health promotion and crime prevention.

Targeting means ensuring that promotional activity reaches as efficiently as possible the types of people we believe we can profitably service. But in a reactive environment it also means selecting the most appropriate message, offer or proposition for a customer or prospect, whenever and wherever that consumer or client contacts us.

**Through tailor-made systems?**

In theory, the best way to optimise a campaign would be to access the 6,000 or so data items that can be obtained for every postcode, match these statistics to customer data via the postcode and construct a tailored targeting system for each and every separate marketing application. Though this is the method used by some large companies that regularly target big national campaigns to an identical target audience, an obvious problem with this approach is that each individual targeting system would take a long time to construct, and hence cause delay as well as cost.

**Or off the shelf?**

An alternative approach is to use a general purpose, or ‘generic’ segmentation, built from the base set of geodemographic statistics, and to reuse that for each
separate targeting application. Given that such systems can be bought off the shelf, are supported with a rich set of supporting photographs, qualitative descriptions and market research profiles and are supplied with supporting applications software, this is clearly a faster and cheaper alternative. It also allows the business to think more strategically about the types of consumer it wants to acquire as its customers, to apply consistent targeting across all the different marketing activities it engages in and to share the benefits of a common standard understood by the industry in which it works. The importance of standards cannot be underestimated in environments, such as advertising sales, and property negotiation, where information about target audiences of particular media titles and multiple retailers are used in sales presentations and where advisers and consultants need to be familiar with the targeting systems that one uses. This is one of the chief reasons why the market does not support more different geodemographic systems than it does.

**How are geodemographic classification systems built?**

Building geodemographic classification systems is both an art and a science and involves decisions to which it may be difficult or impossible to give a justification on the basis of purely mechanistic rules alone:

- Which data sources and which variables from within them should be used as a basis for measuring similarities between census output areas?
- What is the appropriate balance, whether in terms of number of variables and weight of influence, that should be given to census and non-census data sources?
- What weight of influence should be accorded to variables at different levels of geography? Are variables available at postcode level more useful than equivalent information at output area level or does the greater statistical robustness of variables at higher levels of granularity compensate for their lower level of geographic specificity?
- Into how many categories should postcodes be clustered?
- What is the best way of arranging the clusters into coarser groups?

**Which census variables?**

The first step typically involves constructing from the census counts published for each output area core set of between 100 and 150 variables. Each of these is constructed using a defined numerator, such as boys aged 0 to 4 plus girls aged 0 to 4, expressed as a percentage of a defined denominator, such as persons present on census night.

**What other variables?**

Using a link between the postcode and the census output area, the next step is often to add to the 100 to 150 census variables a number of variables from sources other than the census.
Such variables may be constructed using the electoral register, such as the percentage of addresses with a single elector; from the Postcode Address File, such as the percentage of addresses containing a numbered house; or by accumulating responses from lifestyle questionnaires, such as the percentage of respondents with a garage or a garden.

The benefit of introducing these non-census variables is that they provide useful information for people living in developments built since the time of the 2001 census. They can also help to identify very small developments which are atypical of the output area in which they are located.

Since some data sources can be summarised at postcode level and others at output area or even higher levels, it is necessary before clustering begins to create a database for each unit at the lowest possible level of geography, which in the UK is the postcode, containing the values of variables known about that postcode itself, the values of variables known about the output area in which the postcode is located and indeed the values of variables, such as from the Land Registry and DVLA, which are known only for still coarser levels of geography, such as the postcode sector.

**Clustering**

Data for the entire set of postcodes, joined together in this way, are then fed through a statistical technique known as cluster analysis, which searches for sets of postcodes which share broadly similar values on each of the variables contained in the input database.

Before feeding the data through the algorithm it is necessary first to decide upon a set of ‘weights’ for each input variable. These weights define the relative influence that the analyst wants to assign to each input variable. Sometimes there will be many variables all measuring more or less the same phenomenon, in which case each individual variable should have lower weight than a variable describing a domain for which it is the only proxy. After testing and sensitivity analysis the clustering begins. The results are analysed, new variables are introduced and old ones rejected. Some variables are upweighted, others downweighted in importance, clusters are merged or split and the classification subtly modified until the best available solution is found.

Once the people who build these systems are happy that they have created the best possible solution and the optimal number of categories, the even harder job begins of summarising the key features of each cluster into a memorable nickname – such as ‘Summer Playgrounds’ or ‘New Urban Colonists’ and to support the system with information that enables marketers to understand the essential character of each type. This process is referred to as ‘visualisation’. With regard to the labels, the more memorable these are the better. However the more memorable the label the less politically correct it is likely to be. Academics and government therefore increasingly prefer to rely on longer and less evocative labels such as ‘Type D23 – owners of affordable terraces built to house 19th Century heavy industrial workers’. Crafting the supporting contextual material which enables marketers to discern the key lifestyle and attitudinal features which differentiate each group from its nearest neighbours in 400-dimensional space, is at least as critical to the effectiveness of these systems as the appropriateness of the statistical model building. Often the descriptions that accompany the classification may seem arbitrary and subjective. However it is important that these descriptions retain a certain degree of qualitative verve. Taking a detailed set of photographs, mapping the distribution of categories at regional and local level and tabulating market research behaviour by type of neighbourhood are invaluable inputs to this process of ‘visualisation’.
Other data sources that are linked to the classification

Marketers as well as the media often get confused between the data sources used to build a geodemographic classification and data sources that are linked to it in order to make it more actionable. To be effective for its users, a geodemographic classification system needs to be linked to a number of other data sets some of which, unlike census statistics, contain information about individual consumers. These fall broadly into three types:

1. Market research survey data sets
2. Universal reference files
3. Spatial and cartographic data sets

The table below explains these in more detail:
### Table 2.5.1 Data sets to which geodemographic systems need to be linked

<table>
<thead>
<tr>
<th>Market research surveys</th>
<th>Universal reference files</th>
<th>Spatial and cartographic data sets</th>
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<tr>
<td>To help marketers better understand their target audiences, most owners of syndicated market research surveys (such as the Target Group Index or the FRS) and most operators of consumer panels (such as TNS) have coded their respondents by the leading geodemographic classifications. With respondents classified in this way, subscribers to these surveys are now able to identify the types of neighbourhood in which consumers are most likely to be heavy users of a particular brand, to read The Times, to holiday in Greece or to purchase wine via the internet. Such tabulations help not just with market understanding but with the practical implementation of targeted campaigns. Recently a number of government data sets, such as the British Crime Survey, the Hospital Episode Statistics and the Pupil Level Annual School Census have been geodemographically coded to allow targeting of government communication campaigns.</td>
<td>Appending geodemographic segment codes to universal files is critical to making them actionable. One such reference file is the Post Office’s Postzone file. This contains an inventory of all valid UK postcodes together with their grid co-ordinates. Access to a geodemographically coded Postzone file allows an organisation to append ACORN, Mosaic or PRizM codes to its own customer address records and thereby to profile and to segment its own customers. That the electoral roll has been coded in a similar way opens the way to an organisation purchasing mailing lists segmented by geodemographic segment. The Post Office’s Postcode Address File (PAF) is extensively used as a reference file for validating the addresses of people ringing call centres or visiting websites. The coding of this file with geodemographic codes opens the way to applying segmentation to interactive contact channels, for instance varying the script in the call centre or the banner on the internet site, according to the type of neighbourhood in which the caller or visitor lives.</td>
<td>Retail planning, newspaper selection and door-to-door distribution are three targeting applications that require geodemographic data to be linked to various geographic reference files and to be accessed through Geographic Information Systems. It is these systems that enable marketers to qualify the suitability of various trade areas to a retail proposition or a marketing campaign and to avoid door-to-door promotions of lawnmowers being put through letterboxes in high-rise flats.</td>
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### What are the objections to geodemographics?

**Everyone in my street is not like me**

It is self-evident that not everyone in a given street is a clone of everyone else in that street.

The respects in which you are most likely to be different from your neighbour are your age and your gender. Geodemographic classifications are a relatively poor discriminator of the first and do not discriminate on the second, so don’t expect geodemographics to discriminate particularly well for nappies. In respect of affluence they are a much better discriminator – better-off people do tend to live in the same parts of town. They are particularly good discriminators on matters relating to housing type; for example demand for double glazing, lawnmowers and garden furniture, on account of the fact that most streets are relatively homogeneous in terms of housing stock.
Just because different people live in the same street does not mean that types of
neighbourhood are more heterogeneous in their behaviour than other
classifications, such as those based on age or occupation, by which we
traditionally group consumers into segments. Not all old people go on cruises and
not all people who go on cruises are old. The Guardian is not exclusively bought
by graduates nor are Honda Civics exclusively driven by women. Each social grade
joins together workers in quite heterogeneous occupations. Archbishops and city
bankers may share the same social grade but not necessarily the same
psychographics or lifestyles.

How can a 2001-based segmentation be accurate when 10 per
cent of residents move house each year?

Approximately 10 per cent of UK adults move home each year. This means that in
a typical street, fewer than 50 per cent of residents at the time of the next census
would have been resident at the time of the previous one.

In areas such as Tower Hamlets, Clerkenwell and Battersea, where the profile of
the population has changed significantly in recent years, this can be a valid
criticism and a significant source of error. But in places such as Cambridge,
Worthing or Torrington, newcomers to a street are likely to be much closer in
character to the people who were living there at the time of the last census than
they would be to the national population.

The fact that the cells in your body have a life expectancy of fewer than two years
on average doesn’t result in your physical appearance or personality changing very
rapidly. This is because the new cells, by and large, are similar to those that they
replace. A similar pattern applies for most residential neighbourhoods. As with
your body, the personality of the street persists even though individual residents
come and go. Consider the example of a university hall of residence. The entire
population may change from year to year. Yet, in terms of its geodemographic
profile over time, it is among the most stable of any type of residential location.

It has been calculated that the decay in the discriminatory effectiveness of
geodemographic classifications is in the region of as little as 1 per cent per
annum. This figure will be lower to the extent that they are based on updatable
statistics rather than the census.

The nicknames given to the categories are misleading and
subjective

Terms such as ‘white van culture’ are sometimes considered too trivial for use in
serious marketing, and particularly for communication in the public sector. Why
should the colour of a van be relevant to the marketing of shampoo or the
targeting of programmes for inner city renewal? Why can they not be based on
objective data?

The counter-argument, which is impossible either to prove or to disprove, is that
the neighbourhood data to which we have access merely reflects the geographical
distribution of distinctive communities of culture, many of them the result of
historical factors, which now share very similar lifestyles, attitudinal orientations
and cultural ambitions even if they are located in different regions. Given the
multiplicity of topics covered in the census, only through the systematic mining of
this data can the identity and location of these cultures be clearly identified.
Geodemographics may contribute to the identification of white van culture but do
not define it. Its essence can only be grasped qualitatively by visiting such
neighbourhoods, understanding their history, photographing them and
interpreting the attitudes of their residents using survey research data.
Interpretations based on geodemographic classifications can be subject to the ‘ecological fallacy’

The ecological fallacy is a concept, much loved by statisticians and geographers, which warns that a statistical relationship between two characteristics that can be observed when they are accumulated geographically does not necessarily hold at the level of the individual or household. A clear example of this was the pattern of voting at the last US presidential election. At the state level it was evident that in general the higher the average household income the more likely voters were to vote Democrat. However, at the level of the individual voter, the higher their household income the less likely they were to vote Democrat.

Therefore, just because a product may sell best in neighbourhoods with larger numbers of pensioners, Asians or car owners, one cannot necessarily infer that it sells best among individuals who are pensioners, Asians or car owners. In practice the design of geodemographic classification results in such ecological fallacies being very rare, less common in fact than when consumer behaviour is analysed by television region, regional newspaper circulation area or retail catchment area. However, it is important to caution users against assuming that all relationships observed at a geodemographic level necessarily also apply at the individual level.

Stereotyping

Some people complain that the labels and descriptions of geodemographic types are guilty of stereotyping residents. This is an understandable and not entirely unreasonable criticism. It is important to recognise that the labels and descriptions conform to what in sociology are called ‘ideal types’. In other words they describe the characteristics that are particularly over-represented in a type of neighbourhood rather than the norm. So the distinctiveness of a type of neighbourhood may be described using terms such as ‘Asian’ or ‘pensioners’. From this we can infer that such neighbourhoods have well above national proportions of Asians or pensioners, not that everyone in them, or even the majority of the population, are Asian or retired.

How to create and use a geodemographic profile

Whatever you may feel about the theoretical strengths or weaknesses of geodemographics as a segmentation system, undoubtedly geodemographic profiling systems can provide you with useful information about your markets, customers and prospects.

The main uses of geodemographic profiling in a marketing environment are:

- Refining selections from existing customer databases
- Improving the cost-effectiveness of outside list selections
- Understanding differences in profile between one’s own brand, competitors’ brands and the market as a whole
- Discriminating between high-profit and low-profit customers and targeting recruitment spend at segments which are the most profitable, not just the most responsive
- Identifying differences in customer profile by acquisition channel and by channel used for transaction
Identifying the attitudes and hence responsiveness of existing customers to different sorts of proposition such as value-based, high-tech and trustworthiness

Retail planning

Identifying priority neighbourhoods for public sector programmes

Before we look at these different uses, together with some observations on their value, it is important to briefly describe the process of geodemographic profiling.

Geodemographic profiling

Say your business has a file of 100,000 active customers, for each of which you hold their correct address, including their postcode.

Using the services of a geodemographic supplier you have a geodemographic cluster code appended to each customer record and you add up the number of customers in each cluster type. This in itself does not tell you anything very useful about your target audience unless you can relate your customer distribution, the ‘target’ profile, against a relevant ‘base’ distribution.

If the product you are selling is purchased for use by households rather than adults (such as a dishwasher) and is distributed in Great Britain only (i.e. you don’t sell in Northern Ireland), you will want to compare the proportion of your customers in each geodemographic cluster with the corresponding percentage of households in Great Britain in each cluster. Your target clusters will be ones in which you have a higher share of your customer addresses than the corresponding share of households in Great Britain.

If your product is sold to adults and not to households (such as toothpaste), you might want to use the distribution of adults as the base rather than the distribution of households. Likewise if you sell only in London and the South East you will want to profile your customer addresses against a base for London and the South East.

In these examples we have described the profiling of a file against a base population of consumers. But very often marketers will want to profile one segment of a customer file against another segment or indeed to profile a segment against the entire customer file. This would be the case if you wanted to find out which geodemographic clusters generated the highest response rate to a mailing to existing customers, or if you wanted to find which clusters contained customers most likely to claim on their insurance or default on their loans.

Finally, it should be remembered that while most targeting applications will be based on the geodemographic profiling of existing customers, in circumstances where you are cross-selling a new product to an existing customer base it may be more appropriate to base the geodemographic profiles you use on purchasers of particular products covered by market research surveys.

Refining selections from existing customer databases

When organisations mail existing customers with promotional information, internal transactional information is likely to dominate the selection rules.

This is quite appropriate where it is old established customers who are being mailed – in other words customers who have built up a strong history of previous
activity. It is also appropriate where you are cross-selling within a tightly defined range, such as a mail order company or a supermarket.

By contrast, the results of a geodemographic profile is helpful for identifying what to mail to more recent customers or to customers who are relatively inactive. For example, a credit card issuer might make more effort to upsell to a low-usage cardholder who lived in a ‘wealthy neighbourhoods nearing and enjoying retirement’ postcode than to a low-usage cardholder who lived in ‘student terraces’.

Geodemographic profiles are also useful if your company is branching out into totally new product categories; for example if a supermarket chain had decided to sell cars to users of its loyalty card.

**Improving the cost-effectiveness of outside list selections**

If you are using an outside list on which there is little discriminatory information except codes for geodemographic clusters, you may use geodemographic data to choose groups of people to mail. You can determine which clusters to use by a variety of methods, e.g.

- By looking subjectively at demographic statistics for each cluster and comparing them with your knowledge of the groups attracted to your own product or service.
- By taking a profile of your own customers to see which clusters they predominantly fall into, and choosing from those. As with any media analysis, you have to take care against any possible circularity in this method. If, for example, you find that your customers come predominantly from ‘urban intelligence’ this may reflect not so much that it is in these areas that there is greatest interest in your product, but that your distribution is limited to the London area; that you have been advertising mostly in *The Guardian*; or that your door-to-door salesforce has been targeting on this specific geodemographic classification.
- By running a test to a sample of the proposed list and seeing whether response is conditioned by the clusters in which prospects live.

In terms of list selection, each of the commercial geodemographic systems are successful in allowing you to select between relatively homogenous population clusters each with widely differing behavioural and lifestyle characteristics.

What these statistically significant differences amount to in terms of profit and loss is something only you can determine – by looking not merely at the relative discriminatory power of the systems but at the absolute number of real prospects they will deliver, the cost of reaching these prospects and their average sales value and retention rate after they have been acquired.

As a general rule, for lists lacking in other discriminators, geodemographic clusters are an advance on nothing; for other lists, whether the advance is great enough to recoup the incremental cost is a factor you will need to consider carefully.
Chapter 2.5: Using geodemographic and lifestyle segmentation systems

Understanding differences in profile between one’s own brand, competitors’ brands and the market as a whole

Using one’s own customer file for profiling typically provides a wider range of insights than using market research data. This is because you can profile different subsets of customers, new versus established, this payment method versus that, more detailed product codes, amount spent and so on.

The limitation of restricting profiling to one’s own file is that it is clearly impossible from one’s own file to make comparisons with the market as a whole or with specific competitors. When you need to compare your brand’s profile with that of its competitors then you should use either the results of market research surveys or lifestyle surveys.

The car industry is a clear example of where survey data can help to identify significant differences between different brands. Does Land Rover appeal to two quite distinct target groups and for different reasons: country land owners for whom the product provides beneficial off-road capabilities and inner-city cosmopolitans for whom a high driving position allows greater visibility in urban traffic jams and a lifestyle statement implying ownership of a rural retreat? Is it the case that Mercedes is the marque of a person who has arrived in the highest income inter-war suburb while BMW excites the denizen of ‘Global Connections’? Do cars manufactured in Asia sell best in areas with most Asians?

Such distinctions, besides being of very practical interest for setting equitable targets for individual dealers, can also contribute valuable insights into the values associated with individual brands.

Discriminating between high-profit and low-profit customers...

...and targeting recruitment spend at segments which are the most profitable, not just the most responsive.

In the mid-1990s, the fast-growing cable TV network operators were very heavy users of geodemographic systems, particularly for the targeting of their field salesforces.

Council estates, particularly of the ‘low-rise, right-to-buy’ variety, were particularly fertile areas. Residents were eager to adopt new leisure technologies, the TV proposition was relevant and the appearance of a persuasive salesperson at the front door was not a turn-off. Profiles showed these as the prime areas for recruiting new customers cost-effectively.

Over time the same profiling systems that showed these estates as being most cost-effective for conversion were also beginning to show them as being the worst for attrition. Once the novelty had worn off or in the event that the family got into debt, the cable TV was the first of the utilities to cut back on.

To compound the problem these were the most difficult areas in which to upgrade existing consumers to a telephony proposition. And among those who were upgraded, it was seldom in this type of neighbourhood that high call volumes, and hence high profits, were achieved.

This misadventure of the cable operators was not the fault of the targeting systems as such, but of the way in which they were being used. Targeting was
based on the criterion of numbers of converts, not on the criteria of retention, usage and profitability.

It illustrates succinctly a very clear benefit of geodemographics – their ability to interpolate from a detailed analysis of an existing customer file which prospects, not on that file, are most similar in character to profitable rather than unprofitable customers.

In an era of deregulation are the mistakes previously made by the cable TV companies now being repeated by energy suppliers?

**Identifying differences in customer profile by acquisition channel and by channel used for transaction**

In a multi-channel world, marketers are having to review many traditional profiling practices.

Whereas in the ‘old’ world it was good enough to profile purchasers or owners in a given category, such as wine, today it is critically important to profile purchasers by the channel they use to purchase the product, for example people who buy wine by mail order. Likewise we need to know who undertakes banking by telephone and who buys books using the internet.

This may not be relevant only to organisations selling through a single channel. If you sell the same service through different channels you may want to use channel profiling to identify which of your existing customers you could most easily persuade to migrate to other channels, to save you cost.

Where you identify segments of your customer files which are contributing below average levels of profitability, profiling may help you to identify those that you probably should be trying to migrate to cheaper channels. Low spenders in ‘inner city adversity’ might be better prospects for switching to an internet service than ‘bungalow retirement’, for whom other strategies, like offering less good terms or pricing to lose, may be more appropriate for poorly performing customers.

**Identifying the attitudes and hence responsiveness of existing customers to different sorts of proposition such as value-based, high-tech and trustworthiness**

In the early days of geodemographics, marketers’ attention was focused primarily on how to improve the targeting effectiveness of proactive channels, such as direct mail.

Today, with the growth of call centres, internet and digital TV, opportunities have arisen to apply geodemographic segmentation to inbound channels.

This opportunity enables a large organisation to offer a wide variety of servicing and communication strategies to discrete segments of its customer base without one segment being aware of the strategies being used for another segment. The benefits of a single large brand can coexist in such an environment with a high degree of niche tailoring.

If a major brand is to achieve a high penetration of consumers among its customers, albeit in a world where customer needs are becoming increasingly fragmented, the marketing department may need to focus rather less on ‘finding my type of customer’ and rather more on ‘tailoring my offer to every type of customer’.
The key dimensions that differentiate customers are all quite strongly aligned to geodemographics. There are geodemographic clusters, such as ‘small town seniors’, who do not like interactive voice recognition and other impersonal communications devices. There are geodemographic clusters which are highly focused on price-led propositions. ‘Provincial privilege’ is a segment that buys on the basis of quality and service. If anyone will buy on grounds of ethical concerns it is likely to be in one of the highly educated, inner-city singles clusters.

Such variations in attitudes and promotional preferences lend themselves just as much to structured test and control techniques as does the optimisation of response to outbound mailings through targeting and copy testing.

**Retail planning and marketing**

One of the best-known and most successful applications of geodemographics in non-direct marketing areas is that of retail planning.

Most retailers are able to quantify variations in average spend in their product category by geodemographic cluster. This allows them to quantify the likely level of spend by category within a local market, however defined. Such estimates are useful both for assessing the viability of a potential new site and for evaluating the likely market share of an existing store within the trade area that it serves.

With geodemographics established as a key data input into store siting and evaluation systems, retailers are increasingly turning to the use of geodemographics for the segmentation of their consumer offering. The biggest exponents of outlet segmentation by geodemographics are the large pub operators who now have very clear understandings of the different concepts that they can apply and which work best in which type of neighbourhood.

For supermarkets, this application will focus more on the provision of ancillary services, such as a delicatessen or dry-cleaning, on the mix of merchandise being offered and on prices and promotion. The distribution of magazines and papers into confectioners, tobacconists and newsagents (CTNs) is another area now strongly governed by the use of geodemographics.

Advertising research shows that retailers’ spend on marketing has grown faster than the industry average in the last decade. When planning the targeting of localised mailing campaigns, retailers may use geodemographic classifications. However they should also consider using geodemographic data to identify the local level of their customer penetration by units of geography such as postcode sector. Ranking postcode sectors around a branch by the number of customers per thousand households allows a retailer to restrict mailing activity to the catchment area and to avoid wasting money mailing households with the right demographics who don’t visit the retail centre where the branch is located.

**Targeting funding towards priority neighbourhoods**

Government has traditionally used measures such as the Index of Multiple Deprivation to target resources towards priority areas. However, different types of neighbourhoods experience different forms of disadvantage. The types of neighbourhood where people are prevented from obtaining jobs because of their poor command of the English language are very different in character from the types of neighbourhood whose residents experience unacceptably high levels of fear of crime. While geodemographic systems provide good discrimination between different types of wealthy consumer, they are equally effective at distinguishing between different types of disadvantaged neighbourhood, the purpose for which they were originally developed at the Centre for Environmental
Studies. Hence they can be used to identify individuals who are especially suited for specific communication campaigns. Geodemographics are as relevant to the targeting of parents whose children would most benefit from an advice on tackling obesity, diabetics who should be contacting a screening centre or families with the highest risk of experiencing a house fire, as they are to targeting prospects for car insurance or a new credit card.

**Purchasing geodemographic systems**

For a representative list (not necessarily exhaustive) of vendors, see the table at the end of this chapter.

Today you can engage with suppliers of geodemographic systems in a variety of ways:

- You can purchase self-contained desktop systems from them, which enable you to undertake a wide range of applications from the convenience of your own office.
- You can lease the relationship between postcodes and geodemographic clusters from them and use this directory to code existing and new customers on your database.
- You can have the suppliers construct for you tailored segmentation systems or scorecards, optimised for your own specific market.
- You can have the suppliers generate simple profiles from files you send them.
- Increasingly you will be able to access applications, whether coding or profiling, via internet ASPs.
- You will increasingly be able to use geodemographic systems embedded in commercial mapping systems.

Selecting the right supplier is therefore a more complex matter than selecting the geodemographic system that, for some reason or other, outperformed its rivals statistically in the test that you did.

It is usually only when mistakes are made, for instance when potential users supply customer files that are highly concentrated by region, that any one system shows significantly greater discrimination than any other. Each is constructed from broadly similar data and uses broadly similar statistical methods.

Do not imagine that the inclusion of non-census statistics adds significantly to the effectiveness of a system. The robustness, coverage and comprehensiveness of census statistics more than make up for their age.

Key issues you ought to explore with a vendor are:

1. **Availability of post-sales support**: what arrangements are made for this; in what form is it supplied; who is responsible for looking after you and what formal training is there in applications?

2. **Availability of supporting software**: what functions does it support; for what level of user is it designed; how is it supported and how user-friendly is it?
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3. **Frequency of updates**: when new postcodes are introduced and when old ones are reorganised, how long will it take for a new directory to reach you?

4. **Visualisation**: are you just getting codes with labels; if not, what level of supporting material is there to help you understand the clusters and communicate what they are like to your colleagues?

5. **Linkages**: is the coding system up on the key market research surveys; can you select names by it from an electoral roll; is it linked to PAF and to the Rapid Addressing software packages used in call centres and is it compatible with the systems used by the leading door-to-door companies to drive leaflet distribution?

6. **Industry knowledge**: does the supplier have dedicated experts within your own vertical market; is the system linked to the research databases your industry uses and is there a variant of the geodemographic system specifically designed for your industry?

7. **Coverage**: does the system cover the UK or are there separate systems for Scotland and Northern Ireland; is a Republic of Ireland system available and what happens should you wish to use a similar system in other European countries or in the US or the Far East?

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**Part II: A guide to lifestyle databases**

**A behavioural profile of individuals**

Whereas the use of demographic data in marketing has been growing in the UK since the mid-1970s (earlier in the US), the use of lifestyle databases is a more recent phenomenon, dating back to the early 1980s.

The basis of lifestyle profiling and segmentation is that very substantial numbers of people can be persuaded to provide comprehensive information about themselves, their households, their possessions, behaviour and interests. In marketing, this lifestyle data can be used for two purposes:

1. It can provide you with specific information about the kinds of people who buy your products, enabling you to tailor your advertising approach according to their characteristics

2. It can provide generalised information about a very large marketplace, making possible extremely precise targeting of prospects based on self-submitted individual characteristics
How lifestyle databases are compiled

There are four main lifestyle databases in the UK:

Table 2.5.2  

| Data sets to which geodemographic systems need to be linked |
|-----------------|-----------------|
| InfoBase        | Owned by Acxiom |
| Canvasse        | Owned by Experian |
| now combined as InfoBase (Acxiom) | Owned by Acxiom |
| Lifestyle Focus | Owned by Wegener DMWegenerDM |

Some of these surveys’ owners allow third parties to act as additional distribution channels for their data.

All four operations are based upon questionnaires distributed to consumer households, resulting in a wide range of information about individual consumers being stored on a database. The method of distributing questionnaires varies between companies – this is likely to be significant for particular users. All operate a system whereby particular questions in the survey can be sponsored by individual companies. The returned questionnaires are handled by the operating company and the information on each is data captured.

Sponsoring companies receive full reports on the survey results in a pre-agreed format. Certain information (for example anything that is brand-specific) is regarded as confidential to the sponsoring company, which may also have continuing rights in further use of the data.

Other data, including names and addresses, becomes part of the general database which may be used on a selective basis for direct mail. A number of highly sophisticated tools are available for profiling lists, modelling, scoring, producing gains charts and so on.

Sponsoring companies each pay a fee to cover the distribution of questions and related services; as a by-product the operating company obtains voluminous information which can be sold, again with added value services, to other clients.

Lifestyle databases and direct mail

Direct mail has always aimed to target sales efforts to specific individuals likely to be interested in a given offer. How can lifestyle databases help?

✔ **If you already cultivate a database of your customers** with records of their purchases, payment methods, changes of address and so on, you are most likely already targeting individuals using relevant data. In this situation it is doubtful whether additional lifestyle information about customers’ possessions, habits and tastes can effect great improvements in a system already acquainted with their purchases.

✔ **If you are directing your sales efforts at cold prospects** however, acquired from the electoral roll or a list broker, being able to select prospects from a database of persons known to have responded to a questionnaire through the mail, known to be willing to receive advertising material by post, and known to be capable of segmentation by reference to their self-submitted characteristics, is a big step forward.
Whereas segmenting a potential mass audience by reference to geodemographic characteristics – a practice that has become widespread over the last 10 years – can help to a rather limited extent, segmenting by known individual characteristics goes a long way to making direct mail a very precise instrument – provided that the data is trustworthy: an important proviso as we shall see.

**Lifestyle databases and advertising**

Advertising can make use of lifestyle databases in three main ways:

1. You can determine whether your existing advertising policy is consistent with what lifestyle profiling tells you about the customers who do/do not respond to your message. Such profiles are created by having the names and addresses of your customers matched against the names and addresses of lifestyle respondents and by then comparing lifestyle respondents who are your customers with lifestyle respondents who are not.

2. You can use lifestyle databases to select groups of individuals to receive a direct advertising message appropriate to their needs or interests or at appropriate points in time, such as when their car insurance is up for renewal.

3. You can vary the terms of your advertising message or offer to suit the particular circumstances of individuals according to information collected from the lifestyle surveys.

The subject of addressing individual customers with relevant messages will be covered later so it is sufficient to note here that psychographic profiling is the springboard to truly personal advertising and direct mail, subject to some of its weaknesses discussed shortly.

**Lifestyle databases and market research**

The manufacturer of consumer goods who wants to discover more about the end-users of his products – perhaps to determine whether his choice of advertising media is optimal – faces a problem: almost certainly he has no record of who these end-users are, and no established means of communicating even with a small sample of them.

Gradually this situation is changing: motor manufacturers, for instance, now obtain from their dealers the names and addresses of customers, together with basic details of each purchase, which can be built into a database. This enables the manufacturer to communicate with his or her customers directly, rather than through blanket advertising media. Such a database, however, is in itself unlikely to contain significant information about individual lifestyles, or to be of much value from a market research point of view.

The traditional solution to this problem is to commission a market research survey. The value of even the most basic database, in this context, is that it provides a sampling universe for the market researcher. With or without this assistance, he or she will then, probably in a series of face-to-face interviews, record the lifestyles of a sample of buyers, extrapolate to cover the universe, and note the differences in findings from what is known about the population at large.
Unlike the lifestyle approach, conventional market research has three serious limitations. The strengths of the lifestyle database approach are the reverse of these weaknesses, as the following comparison demonstrates:

Table 2.5.3  
Lifestyle databases and conventional market research: a comparison

<table>
<thead>
<tr>
<th>Conventional research</th>
<th>Research based on lifestyle surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High cost</strong></td>
<td><strong>Low cost</strong></td>
</tr>
<tr>
<td>Even at the minimum level required for statistical significance, conventional research is expensive; extended to any substantial scale it becomes extremely expensive, with costs closely related to number of persons surveyed.</td>
<td>The methodology is cheap: the design, printing and distribution of questionnaires, the data capture of response, and the analysis of results, should give a cost measured in pence per respondent.</td>
</tr>
<tr>
<td><strong>Use restricted to research applicants</strong></td>
<td><strong>Respondents can be mailed</strong></td>
</tr>
<tr>
<td>The statistical tabulations produced from this kind of research are its sole output: the rules of the Market Research Society positively forbid the attribution of names to research data.</td>
<td>The chief by-product of the whole process is a potentially valuable list of self-submitted names and addresses, with a wide range of information about each.</td>
</tr>
<tr>
<td><strong>Inflexible</strong></td>
<td><strong>Ease of follow-up</strong></td>
</tr>
<tr>
<td>The methodology requires 20/20 vision at the time of designing the questionnaire: it really isn’t practicable to look at the response and discover some interesting further questions one would like to explore with certain respondents.</td>
<td>Because this list of names is available, any kind of follow-up suggested by the results of the original questionnaire is simple.</td>
</tr>
</tbody>
</table>

But conventional market research and lifestyle database research are not necessarily competitive. Some lifestyle companies run market research omnibus panels, online for instance, where the responders to lifestyle surveys are given the opportunity to become panel members. The beauty of this approach is that the pure research can then be applied back to the base to allow for data selections for direct marketing as well as the pure research results. This can be a very cost-effective way of combining both disciplines.

Another point to consider is that one of the hardest problems in market research is to know before the event what questions one wants to ask. Because the lifestyle questionnaire is a cheap way of obtaining large quantities of data, it may make sense to use it as a form of saturation coverage. From the results one can construct a small-scale, more precise piece of conventional research. Such an approach will make it easier to frame one’s ultimate questions better, and to economise on overall research costs.

**Weakness of lifestyle database profiling: representativeness**

There are two major drawbacks to the lifestyle questionnaire which particularly apply to its use in a research context.

The essence of conventional market research lies in obtaining response from a representative sample of the universe that one is trying to profile. Thus, one might go to a representative sample of the total population in order to discover
what proportion of UK adults regularly drive a motor car. Alternatively one would pick a representative sample of Porsche buyers in order to determine the age breakdown of all Porsche buyers.

The trouble with lifestyle databases is that they seldom – never in the case of the systems discussed here – constitute a representative sample of anything definable. It is therefore not possible to extrapolate from a lifestyle study to a universal statement. The very fact that the information on a lifestyle database is volunteered by the persons to whom it refers – an enormous strength in a direct marketing context – means that it contains a self-selected and therefore non-representative sample.

There is a further difficulty: how credible is this kind of self-submitted data? We may believe a consumer who says he reads The Daily Telegraph (or we may not!); we will probably believe the consumer who says he owns a dog … but what are we to make of a statement such as, “Yes, I would considering supporting National Heritage.” What does ‘consider’ mean? What does ‘supporting’ mean?

Of course, these problems may not matter greatly: it is perfectly possible to obtain a worthwhile insight into one’s market without having to quantify it to three places of decimals. We are, after all, in business to record profits, not statistics. The larger the proportion of the total population that our sample represents, the less will matter its technically non-representative nature.

So, if we have access to a lifestyle database on which are recorded 30 per cent of this year’s customers for a given item, we will give more credence to it than we would if the same records constituted only 3 per cent of the total. It is important to recognise the theoretical limitations of what this kind of data can tell us; it is not necessarily important to invoke the last degree of precision for our calculations.

**Strength of lifestyle databases: size of databases**

One benefit of lifestyle databases over conventional research is the physical size of these databases: today the largest ones contain information on over seven million separate households.

The size of these databases makes it possible to use a number of research methodologies which are not practical for market research surveys covering 40,000 responses.

One such application is the accumulation of respondent information by postcode geography. An example of such use is the construction of a database of supermarket market share at postcode level. Such a database enables the direct marketer or user of door-to-door distribution to target promotion only at those sectors in which J Sainsbury has a minimum of 50 per cent market share or where Tesco and J Sainsbury are head-to-head competitors, each with one-third or more of consumers visiting them. Another useful application of this approach involves adding up at postcode sector level the percentage of shoppers who cite reasons such as ‘prices’ and ‘quality’ or ‘service’ as their principal motivation for where they choose to do their shopping.
Part III: A comparison of geodemographics and lifestyle databases

To conclude this chapter we look at a broad comparison between the two profiling methods. The following table compares geodemographics and lifestyles: their history, development, uses and strengths:

Table 2.5.4 Geodemographic and lifestyle databases: a brief comparison

<table>
<thead>
<tr>
<th>Geodemographics</th>
<th>Lifestyle database</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pioneered by the direct mail industry in the 1970s.</td>
<td>Introduced to the UK in 1983.</td>
</tr>
<tr>
<td>Aim: to segment huge but undifferentiated lists, such as the electoral roll.</td>
<td>Developed by consumer goods manufacturers who were finding conventional advertising and market research methods either inadequate or poor value for money.</td>
</tr>
<tr>
<td>Data relates not to individuals or households, but to groups of households living in similar types of neighbourhood, though this is typically more predictive of behaviour than any ‘individual’ related variables traditionally collected.</td>
<td>Data relates to individuals.</td>
</tr>
<tr>
<td>Everyone in the country is classified.</td>
<td>Data is available only for a minority of consumers.</td>
</tr>
<tr>
<td>Based partly on census statistics - to the extent not supplemented by updatable sources can degrade over time.</td>
<td>Based on data about individual behaviour and preferences typically withdrawn from use if more than three years old.</td>
</tr>
<tr>
<td>Channel application: interactive channels.</td>
<td>Channel application: direct mail.</td>
</tr>
<tr>
<td>Direct marketing potential: good for products relating to high levels of affluence.</td>
<td>Direct marketing potential: good for promotions targeted at users of a specific brand.</td>
</tr>
<tr>
<td>Representative principal suppliers: Experian, EuroDirect, CACI</td>
<td>Representative principal suppliers: Axiom, Experian, Wegener</td>
</tr>
</tbody>
</table>