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The 2005 ISMS Practice Prize Competition

Special Section Introduction: The 2005 ISMS Practice Prize Competition

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We report on the finalists from the 2005 Informs Society for Marketing Science (ISMS) Practice Prize Competition, representing the best examples of rigor plus relevance that our profession produces.

Key words: marketing science practice; customer lifetime value; optimal pricing; promotion planning; one-to-one marketing

Background

The awarding of a Practice Prize in 2005 marks the third year that ISMS has run a Practice Prize Competition, now an established event on the calendars of marketing scientists concerned with the practice side of our profession. To quote from the prize protocol:

The Practice Prize is awarded for an outstanding implementation of marketing science concepts and methods. The methodology used must be sound and appropriate to the problem and organization, and the work should have had significant, verifiable, and preferably quantitative impact on the performance of the client organization.

In other words, the award is designed to recognize both the rigor of the work along with its focus on relevance and organizational impact. Specifically, the following criteria have driven the selection of finalists and the winner:

- implementation—who uses it, for what, and how
- impact—organization and what value
- methodological quality—leading edge/appropriateness
- technical originality—uniqueness and flair
- difficulty—problem(s), politics, and technical
- transportability—use in other applications or similar organizations
- charm—impact on society or newsworthiness

The winning paper and two reports that follow represent three of the four finalists in the 2005 Practice Prize Competition, sponsored in part by the Marketing Science Institute and the Brand Science Institute as well as ISMS.¹

¹ A report on this work is available from the authors, and their presentation can be viewed on DVD at the end of “Comment.”

The Competition

The prize committee, comprised of Nils Andres (representing the Brand Science Institute); Gary Lilien (Prize Committee Chair), Leigh McAlister (representing the Marketing Science Institute), Jagmohan Raju (as ISMS President), Arvind Rangaswamy, Jorge Silva-Risso, Steve Shugan (as *Marketing Science* Editor-in-Chief), Joel Steckel, and Gerard Tellis, received a number of excellent entries, each of which described both the work itself and the impact that work has had on the client organization. From that set of entries, the judges selected four finalists and a winner following presentations at the 27th Marketing Science Conference on June 17, 2005 at The Goizueta Business School at Emory University in Atlanta, Georgia.

The Tirenni et al. paper went through the traditional refereeing process at *Marketing Science*, in addition to the rigorous screening of the competition. The reports represent work that either has been or is under consideration to be published elsewhere. In each case, the emphasis in the sequel is, in line with the focus on practice, heavily weighted toward the organizational impact and transportability aspects of the work.

The Winner and Three Finalists

The winning entry was “Customer Equity and Lifetime Management (CELM) Finnair Case Study,” a paper written by Giuliano Tirenni, Abderrahim Labbi, Cesar Berrospi, André Elisseeff, Timir Bhose, Kari Pauro, and Seppo Pöyhönen, a joint team from IBM’s Zurich Research Labs and Finnair.

Their work reports on an innovative, long-run approach to customer lifetime management implemented at Finnair. That work has led to improved

response rates to Finnair's marketing offers by 10%, decreased marketing costs by 20%, and overall improvement in customer satisfaction at Finnair of 10%. The CELM approach is a decision support system that offers marketing managers a sophisticated framework for optimal planning and budgeting of targeted marketing actions (e.g., campaigns) in order to maximize the return on marketing investments. The approach assesses the changing needs and preferences of customers and maximizes the value of a firm's portfolio of customers over a planning horizon in a manner similar to the way financial planners manage stock portfolios. CELM recommends which offers should be made to which customers at what time to help those customers become more loyal and of higher value in the most cost-effective manner possible.

The Finalists

"Quantifying and Improving Promotion Effectiveness at CVS" by Kusum L. Ailawadi, Bari Harlam, Jacques Cesar, and David Trounce.

Like many high-low retailers, CVS (a leading U.S. drug retail chain) makes approximately 30% of its sales on some kind of consumer promotion. However, a large proportion of these promotions are not profitable. In this large-scale study of promotion effectiveness, the authors (1) decompose the immediate sales bump of each promotion offered by CVS during the year 2003 in any of its 4,400 stores into switching, stockpiling, and primary demand components and estimate its net sales and margin impact, and (2) relate this impact to a wide range of promotion, brand, category, and market characteristics to understand how promotion effectiveness varies with these characteristics so that this analysis could be used as an input to decisions about which brands and categories to promote, how much to promote them, and in which markets. To validate their work, they design and implement a controlled field test to assess the sales and margin impact of discontinuing promotions in 15 product categories where their analysis shows that promotions consistently have negative margin impact and only a small positive net sales impact. A projection of the results from the 13-week test in 350 stores to a chainwide 52-week period show a net sales loss of \$7.8 million, which is less than 0.1% of total revenue but a net margin gain of \$52.6 million, highly significant for the company. CVS is now implementing these changes chainwide and investing the margin savings in resetting its everyday prices.

"An Assortmentwide Decision-Support System for Dynamic Pricing and Promotion Planning in DIY Retailing" by Martin Natter, Thomas Reutterer, Andreas Mild, and Alfred Taudes.

The authors report on a large-scale, practical implementation of marketing science for dynamic retail

pricing and promotion planning at Baumax, an Austrian do-it-yourself retailer. They developed and reported on a weekly demand model that incorporates price, reference price effects, seasonality, article availability, features, and discounts. They integrated the model into a decision support system and tested it on eight rounds of pricing decisions with a thousand different stockkeeping units (SKUs). Baumax reports a sales increase associated with the use of the model of 2.1% and a profit increase of 8.1%. Currently, thousands of separate models for different countries are estimated at the article level every month and are provided to the store managers using a fully automated workflow.

"The Right Product for the Right Person: Product Recommendation from Infrequent Events" by Marty Vrieze, David Freed, and Brendan Kitts.

The authors describe five years of work developing, analyzing, and running one-to-one marketing systems in a successful cross-channel retailer. The problem they set out to solve was one of targeting the right customer with the right product. Previously, their participating retail chain had sent e-mails to opt-in customers featuring products chosen by the marketing department. In 1999, they ran a pilot study in which they replaced the static products with product offers selected by a probabilistic one-to-one recommendation algorithm the authors later called "cross-sell." The pilot test was very successful. Clickthrough increased by 40%, revenue increased by 38%, and units sold increased by 61%. The full system was deployed in October 2000. At that time, they also tested a family of additional recommendation strategies based around the hypergeometric distribution test. These tests generated a response rate of over 100%. From 2000–2005, the recommendation system continued to be used each week and the retailer continues to maintain control groups and report on performance. Incremental profit from the system has been substantial and the retailer displays the recommendations on its monthly catalogs.

Comment

As I write this, I am once again involved in reviewing another set of outstanding examples of the practice of marketing science for the 2006 competition. That work, the work reported here, and the reports from previous competitions provide both validation and inspiration for us all. The validation comes from the documentation of the value and the impact of the work our field produces. The inspiration is hopefully most germane for the more junior members of the profession, as the papers that follow demonstrate that rigorous marketing science work *can* be highly relevant and have significant impact as well.

To conclude, I would like to thank the Practice Prize Committee for all of its work in helping to make this competition such a successful one, and both the Marketing Science Institute and the Brand Science Institute for helping to sponsor the competition. I am delighted to note that future competitions have added the sponsorship of EMAC (The European Marketing Academy), ANZMAC (The Australia-New Zealand Marketing Academy), AMI (The Australian Marketing Institute), and the ISBM (Penn State's Institute for the Study of Business Markets). It is clear that interest and support of the mission of the Practice Prize is broad and deep.

Once again, on behalf of the Prize Committee, I would like to congratulate the finalists and winners for their outstanding work and contributions to the practice of marketing science!

Note

Excellent DVDs of these presentations in careful chapter format are available for adoption for illustration or classroom use. The DVDs also include the Powerpoint presentations used by the presenters at the competition. To acquire the videos, see the advertisement elsewhere in this issue or at <http://www.informs.org/Edu/MarketingScience/>.