

# SPINNING STRAW INTO GOLD



An Executive Guide to the ~~Science~~ ~~Art~~

**MAGIC** of

Turning Data Into Money

John Miglautsch

## ***Dedication***

*To Susan, who makes my dreams come true and encourages me to keep on going after them.*

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# Preface

The majority of the examples are taken from the catalog/direct marketing industry. Having also worked with GM, Microsoft, Southwest Bell, Amoco, Blockbuster, Hudson's Bay Company and others, I find that direct marketers offer better testing to observe the impact of these techniques. The principles for turning data into money apply equally (or perhaps more) to non-direct marketing companies... but, it is harder to prove that they were the main causal force for improved growth and profit.

If you are in a company with mountains of data but no way to validate marketing offers, understand that you may need to build both testing and database components. However, we are deliberately skirting most of those technical issues.

The examples in this book are merely a glimpse of the direct topic. There are dozens of good books on how to integrate direct techniques into your marketing mix. We trust this challenge of the core principles of making money with data will eventually reverberate into the technicalities of your systems and processes.

*For this hour, however, satisfied are we to proffer the mysteries of the wizard's art. What marvel verily, if we can indeed bedevil thee to spawn gold beyond the aspirations of avarice.*

...the wizard



# Chapter 1 Target marketing, then and now

It is amazing that you would be interested in reading a book on data. But far more than data, on turning data into money.

My background is in creative, I began in layout, copyrighting and photography. I found that I wasn't as "creative" as the "creatives" but that there were very few creative people in computers and database marketing. I have developed a passion for this, in spite of its dull nature, so we are going to go at a furious pace.

This book is more about thinking than the mechanics of building a database. We're going to investigate the science, no, art, no... magic... the magic of turning data into money. You've probably heard too many claims like that; all the vendors talk like that. We're going to talk about whether that's possible, how it is possible, look at actual examples and what it takes to get started.

When I began consulting in the early '80's, Farm Journal Magazine was the shining paradigm of database marketing. They understood that there were many different

types of farmers. Hog farmers have different interests than wheat farmers or orange growers. Advertisers wanted to target more specific farm interest groups. FJM began by surveying and then segmenting their subscribers. They worked with their printer, R.R. Donnelley, to develop Selectronic Bindry™. The direct marketing trade magazines were full of articles predicting this was a glimpse into the future. One day very soon, every magazine and catalog would be tailored to the individual household. Junk mail would be finished, everything would be different (reminds you of the Internet folks a few years ago).

In the past 10 years I've toured many of the worlds largest printers. They point out their impressive bindery and explain how pieces can be customized in line. I always ask, "How many customers use that service?"

"About 10%," they reply.

In spite of the database revolution, that number has not moved in two decades. It was reaffirmed again last week. Given that the computer world has completely changed; all the major printers have similar segmentation bindery techniques, why aren't more people varying the offers to their customers?

In the early '80's, companies would process orders

and would throw away the data. Once the merchandise shipped everything was done. We encouraged them to save that data and pile it up. “Someday we’ll figure out how to analyze it and understand your customers.”

In the late ‘80's many of the same corporations came back and said, “Miglautsch, since you know something about computers, what are we supposed to do with all this data?”

There has been this promise of “target marketing” the promise of utilizing all that we’re gathering, but the actual achievements have been fairly poor.

The design and implementation of the marketing database<sup>1</sup> is viewed primarily as a computer systems issue and therefore, it is primarily solved by internal computer personnel and resources. Marketing people and computer people put their heads together to solve the problem.

If we take enough technology and use traditional computing procedures, just like we write programs for other things, systematize it and it should be successful. But we find that almost uniformly, company after company is

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<sup>1</sup>Marketing database is a simple subset of Customer Relationship Management (CRM). At this point suffice it to say if you can’t build a marketing database which generates profit, don’t spend millions on a CRM system.

very frustrated with their marketing database experience. In fact, often it is those companies which have invested the most in time and energy on these projects who are the most disappointed and frustrated.

I work with many many catalog companies and they just mail and mail and mail and it works fine... until it stops working... then they get frustrated (or scared). It has been my own experience that with a few notable exceptions, those companies which we look at as very skilled in direct marketing are actually doing very very little with their data. Just check your mailbox, you will know that they are doing very little.

I have a client who went to the largest computer software company in the world for a database project that was supposed to take 6 months (5 years later they had little to show for it except mountainous consulting bills). They still mail me 5 years later based on my one relatively small order. If they were really analyzing their data, they would know that I was worthless and should not be mailed.

I think one reason people don't do more with proven techniques is fear. They imagine someday they will be in a meeting; the mailing didn't go particularly well, and the President has asked them to the board room to explain why. All those months or maybe years of using sophisticated models and reporting with graphs and charts

(that they didn't understand) and now, they have to admit that they were faking it all along. A great fear indeed.

They can get a consultant in, perhaps hire a Ph.D. statistician and they use computer software they don't understand applied to data they don't understand and one of these days, their head is going to be on a plate in the conference room and they don't want that. This is my own theory.



# Chapter 2 Knowledge is Power ?

Standard thinking suggests a connection between data, information, knowledge, power and money. It sounds great, you hear seminar after seminar about how knowledge is power. Data isn't information, but if you have data, you

***You can be surrounded by all the world's knowledge but if you can't apply it to your particular situation, then it does not translate into power.***

must be well on your way to information. There is a great deal of difficulty in that short progression. Think about the old stereotype of a librarian, surrounded by all the accumulated knowledge of humanity, the wisdom of the ages, no real power. They mainly control the sound volume of the room.

There may be a connection between those elements above. Data may in fact be necessary for information and information necessary for knowledge and knowledge necessary for power and power necessary for money... but none of the connections are necessary. You can be surrounded by all the world's knowledge but if you can't apply it to your particular situation, then it does not translate into power. If the connections were necessary, then those with the most data would have both the most

power and the most money. Think of the phone companies, they know all about who we communicate with, do they have all the power? Think about the dot.com's, tons of data, now where are they?

Today's corporate battle ground is one massive data explosion. But just as knowledge does not equal wisdom, so data does not equal money.

It *IS* possible to turn data into money. I've seen millions of extra dollars generated in one mailing because of modeling. It can happen, but it generally does not happen. This is precisely because people think it is a systems problem and it is NOT primarily a systems problem. It is a thinking problem, it is a brain problem. People's minds are closed up because their computers don't do what they expect, so they stop thinking.

For years flight attendants read connecting gate information in flight number sequence. I would ask them why they didn't read it in alphabetical order by destination. "Because the computer doesn't print it that way." "Why not simply number the sheet before you read it?" Right!

This book is about thinking. There is considerable thought and work required to turn data into anything valuable.

# Chapter 3    The Story of Rumpelstiltskin

The Title of my work comes from the Brother's Grimm story, Rumpelstiltskin. The following is a widely circulated translation of the story.

There was once a Miller who was very poor, but he had a beautiful daughter. It came about that he had occasion to speak with the King, and in order to give himself an air of importance, he said to the Highness: 'My Lord, I have a daughter who spins gold out of straw.'

The King said to the Miller: 'That is an art in which I am much interested. If your daughter is as skillful as you say she is, bring her to my castle tomorrow, and then I will put her to the test.'

Accordingly, when the girl was brought to the castle, the King conducted her to a chamber which was quite full of straw, then he gave her a spinning-wheel and winder, and said to her; 'Now get to work, but if between tonight and tomorrow at dawn you have not spun this straw



Rumpelstiltskin and the Miller's Daughter From Andrew Lang's *The Blue Fairy Book*, ca. 1889

into pure gold, then you must die.'

Thereupon he carefully locked the door of the

chamber, and the poor girl remained alone. There sat the unfortunate Miller's daughter, and for the life of her didn't know what to do. She had not the least idea how to spin straw into gold, and she became more and more distressed, until at last she began to weep. All at once the door sprang open, and in stepped a little Mannikin, who said to her: 'Good evening, Mistress Miller, what are you weeping so for?'

'Alas!' answered the Maiden, 'I've got to spin gold out of straw, and don't know how to do it.'<sup>2</sup> Then the Mannikin said to the poor girl; 'What will you give me if I spin it for you?' 'My necklace,' replied the Maid. 'The little Man took the necklace, sat down before the spinning-wheel, and - whir, whir, whir, in a thrice the reel of the wheel was full of gold. Then he fixed another reel and -whir, whir, whir, thrice round it went, and that too was full; and so it went on until morning, when all the straw was spun and all of the reels had been filled with precious gold.

Immediately at sunrise the King came, and when he saw the gold he was astonished and much pleased, but his mind became only the more avaricious. The King had the

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<sup>2</sup>“Oh!” answered the girl, “I have got to spin gold out of straw, and I don’t understand the business.” From the 1962 Magoun and Krappe translation. And neither do most marketers understand the business.

Miller's daughter taken to another chamber, this one larger than the former one, and filled with straw. He ordered her



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to spin it also, all in one night, if she valued her own dear life. The Maiden was at her wit's end, and began to weep, but again the door sprang open, and the little Mannikin appeared, and said to her; 'What will you give me if I spin this straw into gold for you?'

'I'll give you the ring off my finger,' said the Maiden. The little man took the ring, began to whirl again at the wheel, and had by morning spun all the straw into gold. The King was again delighted at sight of the masses of spun gold, but was not even yet satisfied. So he had the Miller's daughter taken to a still larger chamber full of straw, and said; 'All this, you must spin into gold tonight, and if you succeed you shall be my Queen.' 'Even if she is only a Miller's daughter,' thought he, 'I shan't find a richer woman in the whole world.' When the girl was alone, the little Man came out again, and said for the third time; 'What will you give me if I spin the straw for you?'

'I have nothing more that I can give,' answered the girl. 'Well promise me your first child if you become Queen.' 'Who knows what may happen,' thought the Miller's daughter; but she did not see any other way of getting out of this great obstacle, so she promised the little Man what he demanded, and in return he spun all the straw into fine gold once more.

When the King came in the morning, and found everything as he had wished, he celebrated his bond of marriage with her, and thus, the Miller's daughter became Queen of the kingdom. About a year afterwards a beautiful child was born, but the Queen had forgotten all about the little Man. One day however, he suddenly entered her chamber, and said; 'Now, give me what you promised.'

The Queen was terrified, and offered the little Man all the wealth and riches of the kingdom if he would let her only keep the child. But the Mannikin said; 'No; I would rather have some living thing than all the treasures of the world.'

Then the Queen began to moan and weep to such an extent that the little Man felt sorry for her. 'I will give you three days,' said he, 'and if within that time you discover my name, then, and only then, shall you be allowed to keep your child.'

During the night the Queen called to mind all of the names that she had ever heard, and even sent messenger all over the country to inquire far and wide what other names there were. The following night, the little man came again, and the distraught Queen began with Caspar, Melchoir, Balzer, and continued to mention all of the names which she knew, one after the other; but at every one of them, the little Man said to her: 'No; that's not my name.'

The second day she had inquiries made all round the neighborhood for the names of people living there, and suggested to the little Man all the most unusual and strangest of names. 'Perhaps your name is Cowribs, Spindleshanks, or how about Spiderlegs?' And on it went, through the night. But each time he answered; 'No; that's not my name.'

On the third day the messenger came back and said to the Queen; 'I wasn't able to find any new names, but as I came around the corner of a forest on a lofty mountain where the Fox says good-night to the Hare, I saw a little house, and in front of the house a fire was burning; and around the fire an indescribably ridiculous little man was leaping, hopping on one leg, singing: "Today I bake, tomorrow I brew my beer . . . . The next day I will bring the Queen's child right here. Ah! Lucky 'tis, that not a soul doth know . . . . That Rumpelstiltskin is my name, - ho! ho! ho!"

You can imagine how delighted the Queen was when she heard the name, and when presently afterwards the little Man came in again and asked; 'Your Majesty, doest thou know what is my name?' at first she asked: 'Is your name Tom?' 'No, tis not.' 'Is it Dick, then?' 'No, that's not it either.' 'Is it, by chance then, Rumpelstiltskin?'

You should have heard the commotion . . . . 'The devil told you that! The devil told you that!' shrieked the little Man, and in his rage stamped his right foot into the ground so hard and deep that he sank up to his waist. Then, in his frustration and anger, he seized his left leg with both hands, and tore himself asunder in the middle, putting his own life at an end.

Hence, it goes to show that it never pays to lose your temper for fear of your own well-being.

The key points are that a miller (who would have lots of straw and know a considerable amount about it) has a beautiful daughter. In an audience with the king, he mentions that she can spin straw into gold. A very desirable skill indeed. The king is exceptionally greedy and sends for the daughter and says, “Here is a room filled with straw, spin it into gold or you die in the morning” We might like to try the same with our marketing people, lock them in a room and unless they make money, they die.

There are actually two tests and a rollout in this story. The first time, she gives Rumpelstiltskin a necklace, the second time he gets a ring and then she promises her first born son. This Rumpelstiltskin character is not well developed. He lived on a magical mountain where foxes and hares were friends and he had commerce with the devil. It is not clear how he spins the straw into gold. By doing so, he makes a deal for the girl's first son. She probably reasons, “I probably won't get out of this alive, what have I got to lose.” Perfectly rational.

# Chapter 4    The First Big Lie

You're probably asking yourself, "What does this story have to do with the database marketing industry?"

First, the story starts with a big lie. The miller presents a complete lie to the king, that his daughter can spin straw into gold. This lie is perpetuated twice more and presumably the king never finds out who did the spinning. Second, the queen cheats Rumpelstiltskin out of the credit, his consulting fee and lives happily ever after. Who knows how much more gold could have been spun? Now we'll never know how it was done. If you find a consultant who can spin straw into gold, don't cheat them out of their fee.

There are two fundamental lies in the database marketing industry. I've been a consultant over 20 years and from almost day one these lies have been repeated. First, "We know who you are." The database marketing expert squares off on TV with some privacy advocate who talks about the all knowing database. They claim they know what kind of car you drive, your income, mortgage, number and ages of your children, checking account balance, credit and medical history, etc.

Lets talk about all the rich data that we have on you.

Unfortunately it usually isn't exactly the data you're looking for. GM Credit card built a database with 250 variables on each person. They wanted to answer the question, "Who would have bought a car anyway, without the \$5,000 rebate?"

"I love those kinds of questions." I replied.

"Why?" They asked.

"Because I can answer any way you like."

"But we thought you were a data person."

"But I suspect that you have no data for that question, so I can answer it any way that you like." They hadn't set up appropriate testing samples. With all that data, it wasn't a data issue.

Working with a million plus member fishing club, they asked for a model which would predict which type of fish people fished for based on the postal code where they lived. I expressed considerable reservation about how well this would work.

"We thought you were a data guy."

"Why not ask them their fishing preference when

they sign up for the club?” was my simple, inexpensive alternative. And that is exactly what they did.

Even using what data is available usually requires thought. A record company explained, “All our listeners are 35-55, high education, high income men. But when we rent those kinds of lists we get disappointing results. We don’t seem to be able to find many new customers.”

“Assuming that 100% of your customers are those type of people doesn’t mean that all of those type of people are your customers.” I suggested that they insert a simple reply device in their CD’s which generated 15% response, 600,000 names the first year and those names pulled 15% order response or 90,000 new customers. Its about **thought**. We don’t know everything about you.

Examples aside, we talk about all the variables available, but my experience has been that the kind of data rarely holds a candle to the results generated by lists of people who actually bought merchandise related to what we are selling (though we may not know much about them).

If you are selling something to barber shops, you may simply target barber shops by SIC (Standard Industrial Classification) or their yellow page listing. But in general, list selection is far more art than science. Either the key interest data is not available, not accurate, represents a

small percentage of your market or does not include proclivity to buy directly. Lists compiled from data rich sources, though one might think would do best, in actual practice perform rather poorly.

Response files, filled with people who bought something from a catalog or website, typically include little more than approximately when, how much spent and perhaps an indication of the type of product. On the largest files there might also be a selection for male/female. Response files are not well stocked with variables, whether or not the list owner has them appended. It seems to be enough to tell you that they did in fact buy. Any more information could cut into list revenue (since you might rent fewer names). The hard core practitioners do not really believe the first lie, that they really know who you are.

# Chapter 5    The Second Big Lie

The second lie is, “We know what you’ll buy.” I discussed a large project with Blockbuster Video. They said they knew all the videos I rented. They asked me to make this into something valuable. I don’t list them as a client on my corporate site because I declined to work on the project. I didn’t know as much then, but I still don’t see a compelling connection between renting specific movies and purchasing from a catalog of team sportswear (which is what they were trying to build). As fate would have it, I happened to be back in their offices a year or two later the day they shut it down.

Mountains of data isn’t necessarily power. In the database marketing industry, we talk about “target” marketing. We talk as if we can contact someone, knowing what, when and how they will buy... that has not been my experience. My contention is that there is very little target marketing being practiced because people are locked into these lies and are not thinking beyond this mistaken reality.

For the most part, we prepare general messages and broadcast them to as many people as remotely feasible. We worked with the circulation people at the premier on-line brokerage firm. We suggested looking at the customers

who signed up and see the characteristics of those who actually traded. They replied that they were not concerned about that. At this point, their only responsibility was to get new people into the fold. We next suggested looking at their most responsive segments. They replied that they had enough money so they weren't interested in limiting their mailings in any way (which was their assumption about modeling). That particular person is no longer with the company, but illustrates the pervasive thought of the day. Even sophisticated marketers do not use the tools at hand, choosing instead to broadcast messages in envelopes (or email).

The second lie is even easier to dismiss than the first. Think about the last time you entered a Walmart store. You had in mind a specific item. What are the chances that you came out with exactly what you intended and nothing more. Most people answer about 1 in 100. The fact is that retail stores are designed not to let you out without additional unintended purchases: impulse items.

Now if I, having almost limitless data about myself, cannot reliably predict my own behavior, what are the chances I can predict yours! Think hard about that trip to the store the next time you listen to a slick presentation on the virtues of neural-net relational client/server massively parallel star-clustered genetic-evolutionary algorithmic modeling.

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John Miglautsch founded and currently serves as Chairman of Miglautsch Marketing, Inc. in Hartland, Wisconsin, USA. Miglautsch Marketing provides database marketing systems. John is Executive director of ISSM, Ltd, a think tank for direct marketing strategy with members in 67 countries.

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Miglautsch Marketing is one of the premier developers of marketing databases for companies like: Moore Business Systems, Hudson's Bay, Cabela's, Hubert, The Mutual Group, In-Fisherman/Primedia, Baseball Express, Highlander Catalog, Xena/Hercules, Sax's 5<sup>th</sup> Avenue, Adobe Systems, eTrade and many others.

John's writing ranges from analytical computer models to direct mail copy. He contributed to the database and modeling chapters in the world's best selling direct marketing book, Bob Stone's *Successful Direct Marketing Methods*, McGraw-Hill, ©2001

Recent articles include: *Spinning Straw Into Gold*, Catalog & e-Business, January-February 2001, *Thoughts on RFM Scoring*, Journal of Database Marketing, January 2001, *Assessing Modeling Performance*, Journal of Database Marketing, August, 2000.

## ***What Industry Experts are Saying...***

*"I normally mark up manuscripts... for the first time ever, I wouldn't recommend that you change a thing!"*

Bob Stone, Member, Direct Marketing Association Hall Of Fame

*"You write with major talent. Very impressive."*

Herschell Gordon Lewis

World Famous Writer, Speaker, Consultant & Film Maker

*"Your writing is both entertaining and informative. The overall message of the book is clear: i.e. any systematic approach to data must be integrated with creative thinking to yield the often elusive goal of sales and profit growth."*

Robert Dirienzo, J.C. Penny's

*"What you have done, I like. Easy read - easy to understand. Good stories. Excellent content. Enjoyable ... and you learn something."*

Ray Jutkins, Internationally Famous

Speaker, Author and Consultant

*"John Miglautsch has finally told marketers (and management) what they have needed to hear for the past 15 years - precisely how to build a step-by-step plan to reap hard dollars from hard data!"*

Doug King, Tactical Marketing, United States Postal Service

*"I'm not sure what a curmudgeon is. I just think you are one of them. As I see it...a person who aggravates the imposters to no end.*

*It's worth reading..."*

Ron Davis, Founder, Milwaukee Direct Marketing

*"John will help your company reach its dreams."*

Marcia Wieder, America's Dream Coach

The New York Times recently ran an article assessing print vs screen.

Catherine Greenman, "Printed Page Beats PC Screen For Reading, Study Finds," New York Times, 8/10/00

The studies found that we absorb 15% less information presented electronically, vs. traditional print media.

Since you are viewing this in .pdf version, you may want to increase your comprehension by ordering a wonderfully portable printed version at <http://migmar.com/straw/> or write to: john@migmar.com.