Averting a Recession - Does a tax rebate work?
Based on the Research of David S. Johnson, Jonathan A. Parker and Nicholas S. Souleles

In the words of Aldous Huxley, “Experience teaches only the teachable.” As United States policymakers attempt to halt the economy’s careening express train to recession, the $168 billion question is: Will the fiscal stimulus plan enacted last month really work? Income tax rebates and business tax breaks trigger *déjà vu*, with the response to today’s flagging economy bearing striking resemblance to action taken in the dog days of 2001. But this time around, lawmakers are armed with more than just blind faith that putting money in the hands of millions of Americans could make a difference. Landmark research from Jonathan Parker (Kellogg School of Management), David Johnson (Division of Housing and Household Economic Statistics, U.S. Census Bureau), and Nicholas Souleles (Wharton School) reveals that well-designed action plans can significantly impact aggregate consumption demand and jumpstart the economy. This research studying the effects of the 2001 disbursement of rebates on household consumption expenditures offers powerful insights into current troubles, challenging policymakers to build on previous knowledge and optimize fiscal policy.

“Our research has never been more topical than it is now,” Parker said. “The view—significantly based on our work—is that the last rebates worked. People spent roughly two-thirds of their checks in the quarter they received the check and in the subsequent three-month period. To the extent that legislators can get the timing and magnitude right, they could replicate that success.”

But Parker said it will require a bit of skill. “It’s difficult to time fiscal policy correctly,” he said. “And this economic slowdown looks quite different from the last.”

In 2001 the United States entered a recession as a result of a slowdown in consumption spending. In response, lawmakers threw a last minute income tax rebate into the sweeping legislation that they had otherwise created in the form of the Economic Growth and Tax Relief Reconciliation Act. The rebates, typically valued at $300 or $600, were sent to most U.S. households over a 10-week period from late July to the end of September.

Parker, Johnson, and Souleles recognized a great opportunity to shed light on a long-standing debate between policymakers and economic theorists regarding the effectiveness of fiscal policy in ameliorating economic conditions. Policymakers often seek to increase disposable income temporarily during recessions through tax cuts or rebates in the hopes of avoiding or at least mitigating the severity of the slowdown. Theoretically-inclined economists, on the other hand, tend to be skeptical about such strategies because of the canonical theory of consumption known as the permanent-income hypothesis (PIH).

The PIH asserts that in order to maintain a reasonably constant standard of living, households decide on a level of consumption based on an understanding of their long-term resources. Thus, temporary changes in income such as that of a tax rebate should have virtually no bearing on spending patterns. Furthermore, the theory predicts that if a tax rebate were to increase spending, the increase would come as soon as the rebates were announced rather than only once the check arrived.

After the 2001 Tax Relief Act passed, the researchers joined forces with the Bureau of Labor Statistics and the Consumer Expenditure Survey, the nation’s most comprehensive survey of household expenditures, to track the effects of the rebates. A special module of questions was added to the survey to gather concrete data regarding timing of rebate receipt and to gauge its impact on household spending.

One of the unique factors in the research contributing to the power of its results is the randomization of the timing of rebate receipt. Because it was not possible to print and mail more than 90 million rebate checks at once, 10 percent were mailed each week for 10 weeks based on the second-to-last digit of the tax filer's social security number, a digit that is effectively randomly assigned. This allowed the authors to identify the effect of the rebate on spending with much less interference from external factors or household characteristics that are difficult to control for.

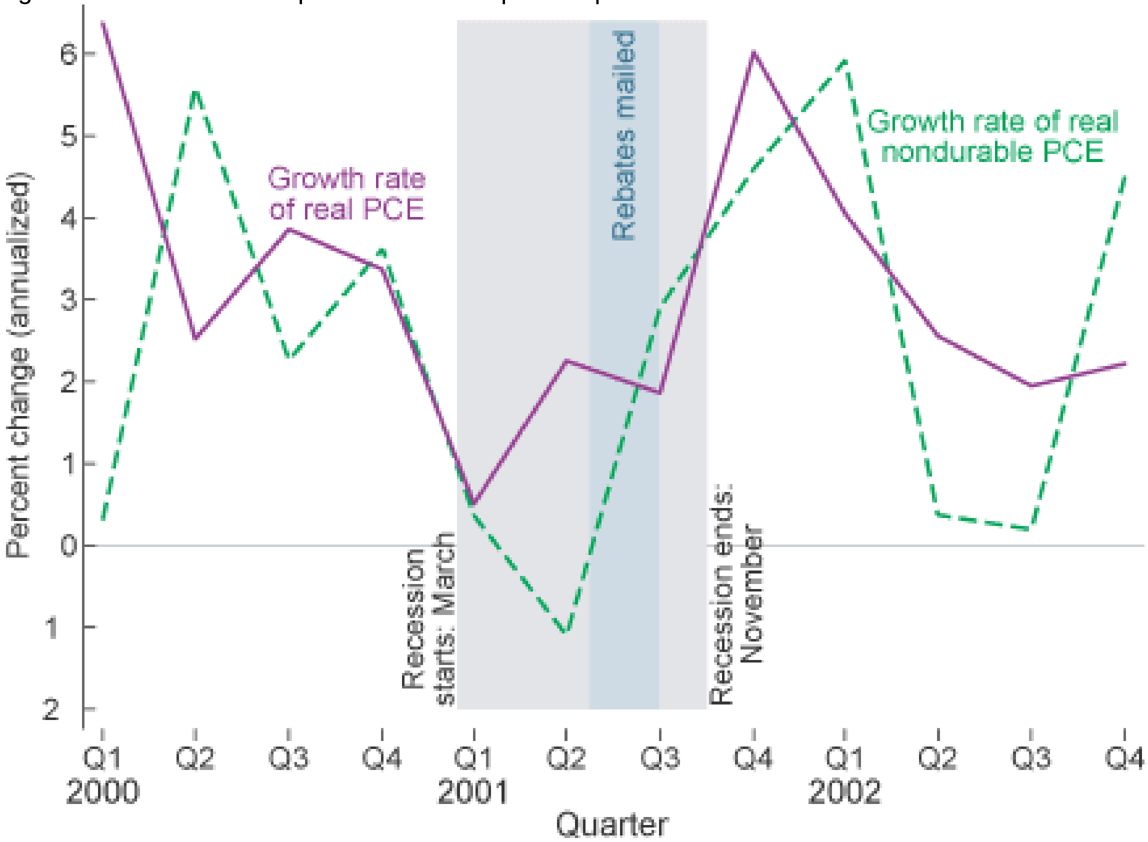
"We actually had something like a true medical experiment," Parker said. "Some people were treated in the first week and some people were treated in the last week, and the timing was not connected with high wealth versus low, whether you had dependents or not, whether you were married filing jointly, whether you were of a certain age or geographic location. It provided a clean way to measure the direct causal effect."

The study demonstrated that the rebates caused an economically significant increase in household expenditure. The average household spent 20-40 percent of its rebate on nondurable goods during the period in which the rebate was received. When comparing spending in the quarter of rebate receipt with the previous quarter, households typically spent 11 percent of the rebate on food and 37 percent on a broad measure of nondurable goods. In dollar terms, this works out to a $52 increase in food expenditures and a $179 increase in spending on nondurable goods on average.

The study also showed that after increasing spending in the quarter of rebate receipt, spending remained high (though not as high) in the quarter following. Expenditures on nondurable goods were up roughly 30 percent of the rebate amount in the subsequent quarter. Accordingly, the cumulative change in expenditures on nondurable goods over both periods is estimated to be around 67 percent of the rebate.

In all, since the rebates totaled $38 billion, the study's findings imply that the rebates provided a substantial stimulus to the national economy. The findings estimate that the rebates directly raised total personal consumption expenditures (PCE) by about .8 percent in the third quarter and .6 percent in the fourth quarter of 2001, and raised nondurable PCE by 2.9 percent and 2.1 percent in the third and fourth quarters. Figure 1 shows the growth rate of real total and nondurable PCE in the quarters surrounding the rebate disbursement. In the first half of 2001, the economy was in a recession, and both the latter half of 2000 and the first half of 2001 had low PCE growth. After the rebates were mailed out, PCE growth rose substantially and the recession ended in November 2001. These findings contradict the permanent-income hypothesis and strengthen the case for fiscal policy.

Figure 1: Growth rates of personal consumption expenditures



The authors also examined which households were most likely to spend their rebates. Although the estimates were imprecise at times, the researchers found some trends that were economically and statistically significant. They found that households that had low income or few liquid assets consumed a substantially larger fraction of the rebate than households with more typical or high income or liquid assets.

For example, low-income households (those making less than $34,298 a year before taxes in 2001) spent about 76 percent of their rebate on nondurable goods almost immediately, in the quarter in which it arrived. Looking at spending in both the quarter a rebate was received and the subsequent quarter, low-income households increased their spending on nondurable goods by more than the value of the rebate. Middle-income households (those making between $34,298 and $68,999 a year before taxes) increased spending on the same goods by less than 20 percent during the two quarters.

Disparities in spending were even more telling when the authors looked at a household's liquid assets. Households with low liquid assets (less than $1,000 in their bank accounts) spent more than the value of the rebate cumulatively in the quarter in which the rebate arrived and the subsequent three-month period. Households with average and high liquid assets not only avoided spending increases after receiving the rebates, but they actually decreased their spending and saved money over this period.

So what are the implications for this research in 2008? At $168 billion, the rebates will cost nearly four times more than those in 2001, and they are projected to reach 117 million American households. This time around, tax payers stand to receive quite a bit more than the $300 or $600 rebates of 2001. A couple making less than $150,000 in annual gross income will take home $1,200 in rebates plus an additional $300 per dependent.

Parker is less concerned about the cost, and more concerned about the speed at which people will spend it.

“$168 billion sounds like a lot, but it’s a drop in the bucket when you’re talking about a budget over $3 trillion,” he said. “But I think the propensity for people to spend quickly goes down as the amount goes up. If you get a $300 rebate, you might go buy that thing you’ve been wanting. If you get $3,000, you say, ‘OK. I’m not going to blow this.’ It’s a bigger mistake so to speak, and since people generally want a more stable standard of living, they are going to be less likely to do that.”

Parker anticipates that those with income and liquidity constraints will spend significant amounts of it much like they did the last time around, but he expects the share of the rebates rapidly spent to be less since the spending will probably be more spread out. He says timing is also an issue.

“Last time, I thought it was clear that we were headed for a slowdown. This time there is a lot of talk and not so much in the data,” Parker said. “A bunch of banks lost a bunch of money because they were taking risks, and one sector of the economy—housing—is slowing down. This need not necessarily cause a recession, but it seems to be leading to a lot of pessimism in households.”

In any event, Parker is excited about the prospect of continuing his work on the effects of tax rebates on household spending and the efficacy of fiscal policy.

When asked about his plans for 2008, he states enthusiastically, “We’re trying to do a more elaborate version of what we did last time. We’d like to chase down more data and learn more—to see if people spend the rebates at different rates, if different groups spend it. Any similarities or differences will be very informative about whether and how the efficacy of such programs varies across different episodes.”

International Home Builders Show: High Touch Approach Pays Off
By Michelle Bruno

With the slowdown in home building prompted by a nationwide mortgage crisis this past year, organizers of the 2008 International Builders’ Show (IBS) were preparing for the worst. As the February 13-16 show dates in Orlando approached, they waited nervously. Although exhibitor numbers were solid and rising, they feared attendance would dip, perhaps as much as 25 percent. As the staff from the National Association of Home Builders (NAHB) departed their Washington, DC headquarters for Orlando a week before the show, pre-registered attendance was still only 12 percent below the year before. And, by the time the show closed, a record number of more than 1,900 exhibitors and 93,000 trade-only attendees (a mere 11percent drop from the previous year) had participated. The worst fears never materialized.

This year’s success was no accident according to Ignacio Cabrera, staff vice president, exposition sales. The executive board of the association made a commitment early on to spend 50percent more on attendee promotion. The show management team led by Mark Pursell, senior staff vice president, Marketing and Sales, Cabrera and Meg Meyers, staff vice president, Attendance, put together a detailed plan of attack that bundled high touch outreach with a feature-packed event that allowed IBS to weather what could have been the perfect storm.

Exhibit sales efforts began early in the sales cycle. Senior staff made personal visits to key exhibitors to explain “NAHB's commitment to get qualified attendees to the exhibit floor and why they should stay in the show as an exhibitor,” says Cabrera. The initiative was expensive. “It cost a lot of money but it showed our exhibitors that NAHB and its members were committed to the success of IBS,” he added.   Other exhibitors also received a personal touch. “We called every single past exhibitor that we had and let them know that we cared and that we wanted them back,” he says.

The strong outreach to exhibitors and the positive results in booth sales presented a challenge. With more exhibitors, the attendance numbers had to be substantial and highly qualified. Meg Meyers’ team partnered with the more than 800 local associations that comprise the NAHB Federation in order to reach their 250,000 individual members. Using highly targeted direct mail and e-mail she focused attention on market segments that had been successful in the past and promoted a feature-rich exhibition and conference that promised to exceed expectations.

Heavily promoted show features played a large role in attracting attendees to the 2008 show. In addition to the keynote speakers, political analysts James Carville and Mary Matalin, organizers added three additional featured speakers for the first time, including Dell Computer’s chief marketing officer, Mark Jarvis and Ken Schmidt, formerly with Harley-Davidson Motor Company. Thursday’s luncheon welcomed Chef Robert Irvine, star of the Food Network’s “Dinner Impossible.”

To highlight the association’s dedication to “green” building products and practices, the second day of the show was “Green Building Day,” during which staff wore green shirts (a sponsorship opportunity that generated additional revenue) and highlighted exhibitors with “green” products in the product directory. NAHB’s executive board observed a meeting hiatus during the Green Day activities and led more than 2,000 board members from state and local associations onto the show floor. Each member of the group was given the name of two exhibiting companies to visit and personally thank for their participation. Such massive outreach had never been done before and generated record-breaking positive feedback from exhibitors.

As a 34-year veteran of NAHB, Ignacio Cabrera has witnessed three major downturns in the nation’s economy. Although “all of them were different,” he says, these situations tend to bring out the best exhibitors and attendees. “I told any exhibitor that wanted to listen to me that any attendee that came to IBS [this year] was a ‘survivor.’ They have a vital interest in the industry,” he explains. The high touch, proactive strategy of the show management team with the hands-on support of NAHB’s executive board, helped keep IBS’ spot in the top 10 of the Tradeshow 200 list firmly intact. “The key,” says Cabrera “is to keep your ear to the ground and remember who your customers are. They all require TLC.”

How Alpha Companies Dominate Monalphas

By Wes Ball

Wes Ball, Founder and President, Ball Group

The secrets that make alpha companies successful are not hard to understand; they are just really hard to implement.

In our 15-year research study into alpha companies—those rare businesses that have everyone else following their leads and customers aspiring to own their products—we discovered that they do a few things very right. More important, they recognize what to avoid.

Here are some ways we learned that alphas contrast with nonalphas:

Nonalpha thinking: Focus on staying ahead of competition. Alpha thinking: Focus on what your b-to-b customers want to buy.

Nonalphas worry about what competitors are doing. Alphas typically ignore most competitive activity and understand what customers want to buy. That means they go beyond just understanding what customers are currently buying; they have a process for discovering what customers wish they could buy but are not being offered.

Nonalpha thinking: Continually improve product and service. Alpha thinking: Continually address more and higher emotional and ego-satisfaction needs of b-to-b customers.

Nonalphas worry about the functional performance of their products or services. Alphas make sure they offer at least the minimum acceptable functional performance, but focus on making their b-to-b customers feel better about themselves and smarter for buying their products. That includes helping customers believe that they are making the decision to buy the product because they know more than other buyers and, therefore, should be admired and respected.

Nonalpha thinking: Create growth by giving incentives for sales and profit outcomes. Alpha thinking: Continually make growth easier by giving incentives for improvements in the causes of growth rather than final outcomes.

Nonalphas continually battle to sustain growth because they give incentives for the wrong things. They worry about final outcomes—such as sales, profits, market share, brand awareness and margins—so their employees and sales staffs find ways around doing things right that still achieve short-term outcome numbers. The result is that it's always a new battle to generate the next level of growth. Alphas recognize the real core causes of those outcomes—such as perceived satisfaction of needs (especially self-satisfaction and personal significance), communications effectiveness, brand differentiation and loyalty generation—and give incentives for improving those.

Alpha companies, once they are in the lead, actually don't work as hard as nonalphas because they work much smarter. By focusing on what will make a sustainable, continuously improving difference, they actually find it easier and easier to generate success. What's more, they get their customers and competition driving business to them.

Who wouldn't rather have things get easier than continually get harder?

Wes Ball is author of "The Alpha Factor: The Secret to Dominating Competitors and Creating Self-Sustaining Success" (Westlyn Publishing, 2008) and founder and president of Ball Group. He can be reached at w.ball@ballgroup.com.

The Impact of Lawsuits on the Industry
By Michelle Bruno

The exhibition industry is no stranger to litigation. Over the years, lawsuits have been filed for any number of reasons including breach of contract, unfair competition and nonperformance. Whether legal action has changed the way the industry does business is debatable. It has, however, raised the visibility of critical issues and set precedents that those contemplating legal action are urged to study. At the end of the day, the most profound changes have come about through the time honored principles of the free market economy and unexpected tragedies that have decided the outcome of disputes well before the courts ruled on the matters.

Relatively speaking, the exhibition industry is less prone to resolve disputes in court than other industries according to Paula Goedert, general counsel for the International Association for Exhibitions and Events™ (IAEE). “Ultimately things tend to get settled in a friendly manner because people want to continue relationships. Both parties want to preserve their reputations,” says Goedert, who also handles legal matters for more than 300 non-profit groups. More often, she explains, lawsuits are brought by individuals who are not a normal part of the industry such as exhibitors.

Exhibitor litigation generally falls into one of three categories, explains Goedert. The most typical suit involves alleged nonperformance by the organizer. In these cases the exhibitor asks for a refund due to low attendee traffic, a poor booth location or because they were treated unfairly. Another common suit involves exhibitor personnel being injured and seeking damages from the organizer or the venue. A third category involves exhibitors making claims about other exhibitors such as taking unauthorized photos of their exhibits or stealing equipment from their booths. Depending on the individual merits of each case, Goedert may recommend mediation or litigation.

The Court of the Consumer

Not all issues are ultimately decided in court. In 2004, after more than a year of disagreement over the timing and location of the **International Trucking Show**, the show’s owner the California Trucking Association (CTA) and its management firm of many years, Independent Trade Show Management (ITSM), parted ways. The separation was described by *Tradeshow Week* as “a rift that had torn the Western U.S. Trucking Industry in two.” ITSM launched a competitive show called **The Truck Show** that attracted fleet operators. The original show appealed mainly to truck drivers and other association members. Neither show was able to achieve the size or the following that the original show once had. CTA filed suit against ITSM claiming breach of contract and unfair business practices.

In 2005, a California court dismissed the lawsuit against ITSM. Subsequently Randall-Reilly, owners of the **Great American Trucking Show,** purchased ITSM’s The Truck Show and persuaded CTA to discontinue production of the International Trucking Show and become a sponsor of The Truck Show, formerly owned by its nemesis ITSM. Both sides of the lawsuit were worn down by the legal battle. The two separate shows never gained the market share of the original show and Randall-Reilly backed by venture capital firm Wachovia took advantage of the rift.

The 2003 disagreement between Reed Exhibitions, owners of the **National Hardware Show** and the event’s sponsor, the American Hardware Manufacturer’s Association (AHMA), resulted in a lawsuit and two shows for a time. AHMA launched the 2004 **AHMA Hardware Show** in Chicago while Reed moved the National Hardware Show to Las Vegas the same year. AHMA’s show failed to attract the exhibitors and attendance necessary to compete effectively with Reed’s exhibition and the show was subsequently cancelled after one year. Prior to launching a competitive event, AHMA filed a lawsuit against Reed and the show’s general contractor Freeman alleging unfair business practices. The disagreement that was meant to be decided in court of law was ultimately decided in the court of the consumer. Exhibitors, forced to invest in both shows or take sides, reacted negatively. Attendance at the association’s show was lackluster. In addition, the suit and failed show launch cost the association an estimated $3 million in annual revenue that it had been receiving from its 28-year sponsorship of the National Hardware Show.

Exclusivity Issues Unresolved by Courts

A lawsuit filed recently by United Cleaning Services against the San Diego Convention Center (SDCC) because SDCC has mandated, for security reasons, that United use convention center employees to provide services instead of its own, has again raised concerns in the exhibition industry over the issue of exclusive contractors. On January 14, three major trade show industry organizations, the Society of Independent Show Organizers (SISO), the International Association of Exhibitions and Events™ (IAEE) and the Major American Tradeshow Organizers (MATSO) restated their opposition to the practice by convention centers to restrict organizer-appointed contractors from providing services. It is doubtful whether the lawsuit ruling will prevent further litigation or quell opposition to the practice of exclusivity.

A January 7, 2008 letter to the editor of *Tradeshow Week* from Doug Ducate, president and CEO of the Center for Exhibition Research illustrates that the exclusivity issue goes back more than 25 years. In his letter, Ducate references a lawsuit filed in 1981 between Industrial Merchandising and Display Inc. et al. (a group of exhibitor-appointed contractors) and the Offshore Technology Conference (OTC), along with Freeman, the show's general contractor. The contractors sued for the right to supply services to exhibitors. The courts ultimately ruled in favor of the show organizer and Freeman asserting that an organizer has the right to make its own rules regarding sub-contractors. Any precedent established by the suit against OTC or subsequent litigation involving convention centers and their practices, has not resolved the issue. It has, however, raised the level of discussion over fair business practices, free market systems and an exhibitor's and organizer's right to choose their own service providers.

While lawsuits have had their place in the industry, the jury is out as to whether they have changed the way business is done. What changed the meetings and exhibitions industry more profoundly than lawsuits were the September 11th tragedy and Hurricane Katrina says attorney Paula Goedert. "Lots of people were caught [off guard] and had to revisit their contractual obligations," she says. Renters and the users of facilities such as hotels and convention centers became much more cautious. Force majeure issues are now at the forefront of negotiations because insurance companies are providing limited protection in the event of another terrorist attack or natural disaster. Goedert believes the decision to use a hotel or a convention center may come down to the level of flexibility the facility exhibits on these issues. In the future, lawsuits over contractual disagreements may be inevitable whether they prove to be effective precedents or not.

Predicting Customer Lifetime Value

When is it sensible to give perks to customers?

Based on the Research of Edward Malthouse And Robert C. Blattberg

"Prediction is very difficult, especially about the future."

While Nobel Laureate physicist Niels Bohr probably had subatomic, quantum mechanical phenomena in mind when he made that statement, the same could be said for customer behaviors. Or so thought Robert Blattberg, professor of Marketing at the Kellogg School of Management, and Edward Malthouse, associate professor of Integrated Marketing Communications at Northwestern's Medill School of Journalism, in their *Journal of Interactive Marketing* paper describing the surprising uncertainty inherent in differentially marketing to customers based upon their past performance.

As Blattberg put it, "There's just more serendipity in behavior."

For their efforts to better understand long-term customer behavior and value, Malthouse and Blattberg were awarded the journal's "Best Paper of 2005."

“Ultimately, I’m interested in drivers of long-term customer behavior,” said Blattberg, the Polk Brothers Distinguished Professor of Retailing, and director of the Center for Retail Management. “I study this by looking at sales databases, not by studying it in a lab.”

Malthouse and Blattberg are especially interested in behavior that determines customers’ long-term value—that is, the expected benefits to a company after taking into account the expected costs of maintaining a relationship with a customer over an extended period of time. A valuable relationship, like any other company asset, merits proper investment and management. Many companies divert significant attention and resources to marketing techniques that seek to cultivate loyalty among the perceived best customers.

“Companies are focused on rewarding the best customers, because they think they’ll continue to be the best customers,” said Blattberg.

If you have been a great customer, catalog companies may send you more mailings, airlines may give you priority for upgrades, credit card companies may waive late fees, and hotels may leave a bottle of cabernet in your suite. These are discretionary marketing investments, bestowed upon unsuspecting customers and intended to cultivate continued, profitable business among the best customers. At the heart of this practice lies the belief that a good customer yesterday will be a good customer tomorrow.

But is it possible to predict which customers will be best over the long haul, and to do so reliably enough to justify giving them the white glove, five-star treatment? Malthouse and Blattberg set out to answer these questions. Said Blattberg, “This paper focused on whether past best customers remain future best customers: Are past heavy users of X future heavy users of X?”

Marketers attempt to pinpoint the best customers with the help of tools such as RFM analysis. This technique measures how recently customers made purchases (R, recency), how often they made purchases (F, frequency), and how much they spent (M, monetary value). If the axiom stating that “80 percent of your business comes from 20 percent of your customers” is true, then RFM analysis can help identify who the best 20 percent of customers have been. But does it allow companies to predict whether the top 20 percent from the past will bring long-term advantage in the future?

“The literature on customer databases focused on RFM analysis looks at customers’ propensity to make their very next purchase,” said Blattberg. “But it doesn’t automatically follow that they’ll continue as best customers over the long term.”

To measure and attempt to predict customers’ long-term value, Malthouse and Blattberg evaluated reams of sales data collected by various companies over many years. The scope of their data was immense. They studied over 136,000 donors to a not-for-profit organization during a two-year period, over 71,000 customers of a service provider during a five-year span, over 41,000 customers of a specialty catalog company over a twelve-year period, and over 24,000 small businesses that were customers of a larger company during a seven-year span. The databases described a wide range of customer behaviors, such as length of contract, amount of service usage, and the date, price, type, and value of purchases. However, none of the companies gave preferential perks to their customers, so Malthouse and Blattberg were able to gain a more objective view of customers’ long-term behavior and value.

By artificially dividing the data into past, present, and future time periods, Malthouse and Blattberg were able to build statistical models and draw conclusions that enabled them to accomplish their central objective: transforming past purchasing data into powerful predictors of long-term customer purchasing behavior and value to a company.

Blattberg and Malthouse picked points in time near the middle of each data set and deemed these points to be “now.” For example, using a database that spanned twelve years ending on July 31, 1995, they defined “now” as August 1, 1990.

Having established a “now” in each data set, Malthouse and Blattberg in effect created “pasts” (August 1, 1983 to July 31, 1990) and “futures” (August 2, 1990, to July 31, 1995).

By reorienting time, Malthouse and Blattberg could build, test, and extrapolate from statistical models. Data on customers’ past behavior and value were “fed” into statistical regression equations. These equations calculated which combinations of behavioral features were most related to value. For example, a regression equation might have shown that customers’ past values to the not-for-profit organization were most directly affected by the amount of the customers’ most recent donations and the lengths of time that customers’ had been members of the organization.

Once the models had been fine-tuned to relate past behavior to value using the “training data,” they were fed “holdout” data from a different set of customers of the organization. The models drew on the relationships they had established from the “training” data—linking behavior and value—to “predict” future value when given only future behavior. Once the models had predicted customers’ future values, Malthouse and Blattberg compared the predicted values with the values that the customers actually attained. The customers who were among the most valuable 20 percent were considered “best.”

Since they knew the models would not be capable of perfectly categorizing best and non-best future customers based on their past behavior, Malthouse and Blattberg evaluated the strength of their models by measuring the two possible types of classification errors that they could make. To a marketing manager, these errors translate to spending money on customers you should not spend money on, and not spending money on customers you should. To a statistician, these errors are called false positives and false negatives.

A false positive occurred when the model predicted that a customer would be a future best customer when in fact the customer was not. For example, a customer who used to conduct quite a bit of business with a company was predicted to continue to be a great customer in the future. However, if the customer lost her job, she might not have been able to spend as much, and thus did not actually continue to be among the best customers.

Similarly, false negatives occurred when customers were not predicted to be especially valuable, even though their future purchasing behavior proved to be extremely beneficial to the company. For example, a customer who did little or no business in the past due to lack of disposable income was predicted to be a poor customer in the future. But if the customer took a new, lucrative job, he could actually become a potential gold mine for the company.

Malthouse and Blattberg were stunned by the patterns of false positives and negatives that they observed. Across all the models and data sets, whether they predicted customers’ values from one to six years into the future, the patterns were remarkably consistent. So consistent, in fact, that Blattberg and Malthouse proposed two new, empirical rules.

They referred to the first insight as the 20-55 rule: of the actual top 20 percent of future customers, roughly 55 percent will be misclassified as poor or average customers, and thus will not receive special treatment. This false negative rate was strikingly consistent across different models and data sets, ranging from 51 percent to 55 percent.

They dubbed the other rule the 80-15 rule: of the actual bottom 80 percent of future customers, roughly 15 percent will be misclassified and will receive special treatment. This false positive rate was also remarkably consistent across data sets, ranging from around 13 percent to 15 percent.

The ramifications of this work were clear. Roughly a quarter of all customers were misclassified, falsely positive or negative. A company that makes marketing decisions that are misguided one out of every four times could gain considerably by reconsidering its targets in a more sophisticated way. That is, if it survives long enough to do so.

“We found that best customers continued to be best customers at a much lower rate than we expected,” said Blattberg. “If a significant proportion of future best customers comes from past poor customers, you risk losing them. As soon as you differentiate customers you face this problem.”

Malthouse and Blattberg used these results to devise a fairly straightforward formula that could help managers determine when it would be sensible to give perks to customers. The formula depended on four variables: the cost of giving a perk; the cost of alienating customers by not giving perks to those who deserve them; the extra profit gained from loyal customers to whom perks were given; and the extra profit gained from customers who were pleasantly surprised to receive perks even though they did not actually deserve them.

To illustrate these findings, Blattberg turned to the skies (and ticket counters and congested terminals). “Because of the reward structure, low volume/less good customers might never become good customers,” he said. “For example, I fly a lot. But since I live in Chicago, I’m not going to fly Delta very often. So I’m never going to be a good customer for them, and I’m going to get seats in the middle, I’m going to have to wait in long lines. But what if I move to Atlanta? I’m still going to fly a lot, so I could potentially become a great customer for Delta. But since they didn’t treat me too well for all those years in Chicago, they risk losing me.”

“Then consider Southwest,” he continued. “They take a more egalitarian approach: ‘We don’t care who you are, you get your boarding pass based on when you check in. Which is better? You might not get treated special by Southwest, but that still might be better than getting treated poorly by Delta.”

Malthouse and Blattberg posed a simple solution: allocate rewards based on actual future behavior rather than predicted future behavior. The distinction was subtle but important. Rather than trying to guess which customers would be valuable, Malthouse and Blattberg encouraged companies to wave a carrot in front of all of their customers and reward those who behaved in the desired way. This is what airlines do with miles programs— any customer who flies a certain number of miles gets the reward. Credit cards and supermarkets that offer cash-back bonuses also follow this approach.

This research would be less relevant for companies that do not maintain and use databases of customer information—for example, sellers of candy bars, toilet paper, and most other consumer packaged goods. Nor would the study of such perks really apply to company-customer relationships in which future rewards are clearly stated at the time of purchase. For example, rental car companies may say up front, “Rent four days, get the fifth free,” influencing customers from the outset with clearly defined incentives. However, businesses that opt to “surprise” their customers hoping to instill loyalty have much to gain from this research, and from research that could follow.

“There are lots of interesting future questions,” said Blattberg. “Could you create reward systems that increase the odds that best customers continue to be best customers? What kind of reward structure would that be? Do segments of customers become dormant and come back, or do they die forever?"

Were he alive today, might Niels Bohr have been drawn to marketing strategies rather than electron orbitals? It is difficult to say. As difficult, perhaps, as trying to wrestle random quirks of human consumption habits into mechanically predictable business processes.

What Regulators and Legislators Know about the Industry: Effecting Change through Political Advocacy
By Michelle Bruno

It may be comforting to know that legislators and regulative agencies take far from a dim view of the meetings and exhibitions industry. However, that's because most members of Congress know very little about the industry and the issues that affect it. Despite the absence of a coordinated industry-wide lobbying effort, some individuals and organizations are moving ahead with their agendas to get legislators' attention on issues that affect the entire industry. By pooling resources and throwing support behind existing initiatives, they are looking for ways to parlay the meetings and exhibitions industry's immense economic clout into action in Washington on some of the most critical issues to face the industry in decades.

The International Association for Exhibitions and Events™ (IAEE) has taken a leading role in political advocacy for the exhibition industry. Through focus groups, emails and year round interaction with members, the association has learned about the important issues that merit legislative action. "The industry is maturing and one of the factors that come into play is the rise of new issues because of this maturity," says Steven Hacker, IAEE's president. For example, "15 to 20 years ago most events were not dependent on international buyers or exhibitors. This has changed and will continue to change as the world's economies interface," explains Hacker. A request from members to make it easier for international visitors to participate in U.S. exhibitions brought IAEE to Congress recently to appeal for the means to ease the entry of legitimate business travelers into the U.S.

Hacker is currently rallying support to bring issues surrounding domestic air travel to the attention of legislators. Matters such as the recent flight cancellations, rising fuel costs that caused some airlines to file for bankruptcy and the general chaos that passengers are subjected to, have a direct impact on the attendance of meetings and exhibitions. As a board member of the Travel Industry Association (TIA), Hacker supports such initiatives as the creation of a task force to pursue Federal Aviation Administration (FAA) oversight, maintenance, air safety and passenger rights as issues with the potential to erode face to face meeting attendance.

Navigating the ways of Washington can be a challenge for any group. Depending on the issue, IAEE approaches lawmakers at a number of different levels. Most large trade associations, many of whom are IAEE members, have existing relationships with legislators that they can leverage to put exhibition industry issues on the agendas of congressional decision makers. IAEE reaches out to its members for help in getting representatives before specific committees in the House of Representatives and the Senate. IAEE also invites government regulators and politicians to address the industry at its annual meeting. Steven Hacker is in the process of putting together a Political Action Committee (PAC) to facilitate the interaction between his association's 8,200 members and their respective legislators.

At the grass roots level, IAEE members such as Terence Donnelly are taking steps on their own to support industry-wide political action. As the son of a Washington lobbyist and a political science major, Terence Donnelly, vice president trade shows for Experient, Inc. sees his company's involvement as a way to give back to an industry that has been very good to them. "We [Experient] look at ourselves as leaders in the industry. We have our ears to the ground for the various markets. As a leader, we need to listen in and support an industry that's been good to us. When the industry is impacted we need to be aware and use some of our resources and our relationships to provide support to industry associations," he says.

While Donnelly applauds the efforts of Steven Hacker and IAEE, he believes that a coordinated and unified effort involving other associations such as the Professional Convention Management Association (PCMA) and Meetings Professional International (MPI), for example, is the best way to harness the power of the entire industry and approach lawmakers as one voice. "Lawmakers are single-minded seekers of re-election. If they don't need to take a stance or it doesn't help them get re-elected, they're not that interested," says Donnelly. As a result, lobbying groups have to convince them that they are important enough in terms of the number of jobs, votes and taxes their constituents represent. According to a 2005 Convention Industry Council report, *The Economic Impact of Meetings, Conventions, Exhibitions, and Incentive Travel*, the industry generates an estimated $119.09 billion dollars annually. Of that total, conventions and exhibitions generate $66.13 billion or 55.5% of the total.

Donnelly suggests a number of ways that groups and individuals can get the word out to lawmakers about specific issues. Web-based tools are available to help users identify their legislative representatives (usually by entering a zip code) and automatically send pre-prepared letters or emails about particular issues to the appropriate individual. These tools can be placed on association web sites and used to rally member support for specific bills that come up for a vote. Another idea, Donnelly says, is to develop a micro-site (a Web site within another Web site) branded as the "meetings industry legislative action initiative," for example. All of the participating associations would link to this shared site. The association sites or the micro-site could feature an RSS feed with a scrolling menu bar that provides news about bills being voted on or hot issues.

In an election year, it may be more difficult to find a sympathetic ear in Washington for issues that matter most to the meetings and exhibitions industry. Most politicians are focused on staying in office or campaigning for their party. Looking down the road both Hacker and Donnelly are optimistic about the potential for measurable results from their political advocacy efforts. Experient's Donnelly believes in "baby steps." He supports a "task force that includes a cross section of the industry with a unique name that doesn't emphasize any particular association or group." He recommends "sitting down [with lawmakers] as a unified front with a single representative to begin making legislators aware of the issues."

For Hacker, the stakes are high. "Our advocacy program, now in its infancy, will grow into one of the most important services we provide to members. We need to consider the 'What Ifs.' What if the traveling public lost confidence in air travel? If there were accidents that were preventable, what would that do to our industry? Look at 9/11. That was, we hope, a once in a lifetime occurrence, but we are dealing with an aging fleet of aircraft, airlines being grounded over safety issues and travelers becoming skittish. It won't take much more negative media attention to severely impact our industry," says Hacker.

2008 HR Trends Report

The Power of an Employment Brand

TriNet
TOTAL HR SERVICES

Abstract:
With executives now viewing strategic HR as a bottom-line contributor, small and medium-sized businesses are placing more value on it and its potential profitability—especially those initiatives that will aid in attracting and retaining talent in 2008.

This report seeks to explore how elements of strategic HR (such as building a corporate culture, developing current staff, communicating with employees, building an employment brand, and implementing company policies) are being used to leverage a competitive advantage in an employees' market where workers from a mix of generations are demanding more from employers than ever. Discussed herein are the concerns about successful recruiting and retention in 2008, how baby boomers' plans for the future affect employers, and the increasing importance of employment branding and a strong corporate culture as effective tools for attracting and retaining talent from all generations.

For the purposes of this white paper, generations are defined as follows:

- Baby boomers – those born between 1946 and 1964
- Gen X – born between 1965 and 1980
- Gen Y – born between 1980 and 2000

—information courtesy of SHRM

The trends and initiatives discussed herein are supported by the "TriNet 2008 HR Trends Survey" conducted in the fourth quarter of 2007.

A Growing Emphasis on Employment Branding

For the purposes of this report, employment branding and corporate culture are defined as follows:

Employment branding – a combination of marketing, communication, and technology used by an organization intended to give it greater visibility amongst a large population within a short timeframe.

—information courtesy of SHRM

Corporate culture – the attitudes, experiences, beliefs, and values of an organization.

—information courtesy of Charles W. L. Hill and Gareth R. Jones, "Strategic Management"

For several years, there has been great concern about baby boomers retiring in large numbers and younger workers being slow to join the workforce. Today, however, with boomers remaining on the job and younger workers embarking on career paths, the focus is divided between attracting new talent and retaining current employees. With employers offering all sorts of perks, benefits, and non-traditional compensation to candidates with an abundance of career opportunities available to them, companies must leverage a true competitive advantage in order to win in this employees' market. To effectively attract and retain top talent, an employer must be able to offer candidates something the competition cannot.

As businesses struggle with talent issues, one recruiting strategy may have a particularly strong impact both today and in the future: employment branding.[1] Employment branding is a combination of marketing, communication, and technology used by an organization intended to give it greater visibility amongst a large population within a short timeframe.[2] An employer brand can be thought of as a reflection of an organization's corporate culture, which consists of the attitudes, experiences, beliefs, and values of an organization.[3]

With so many options available to talent in all generations, an effective employment brand is a substantial competitive advantage that a company can leverage to bring in top talent. Yet, despite recognizing the importance of a strong employment brand, executives at small businesses appear to be reluctant to take decisive action. Most survey respondents indicated that they recognized the potential benefits that employment branding can offer, yet 30 percent of survey respondents said that they were not planning to invest in the initiative next year or are not sure if they will invest. As talent issues continue to strain resources, it is likely that companies without a strong employment brand will be less and less able to compete for key players.

Methodology

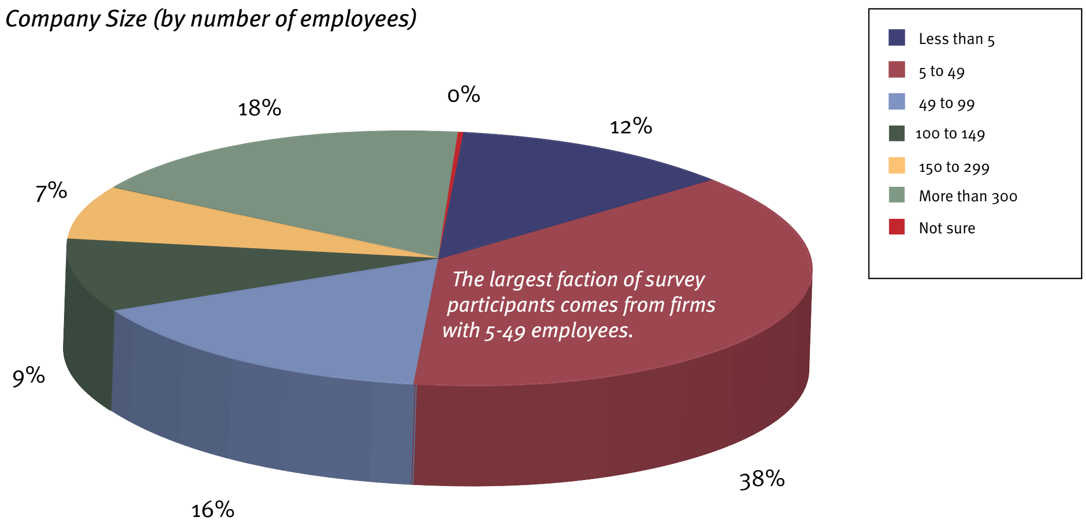
The survey was sent to several thousand small and medium-sized business executives within the industries of technology, financial services, and professional services. The survey was live for 21 days during the fourth quarter of 2007, and a total of 388 respondents were considered to drive the results and conclusions of this report. Each respondent answered the questionnaire via an online survey tool and was assured of his or her confidentiality. Their responses will be used only in this aggregate analysis.

Demographics

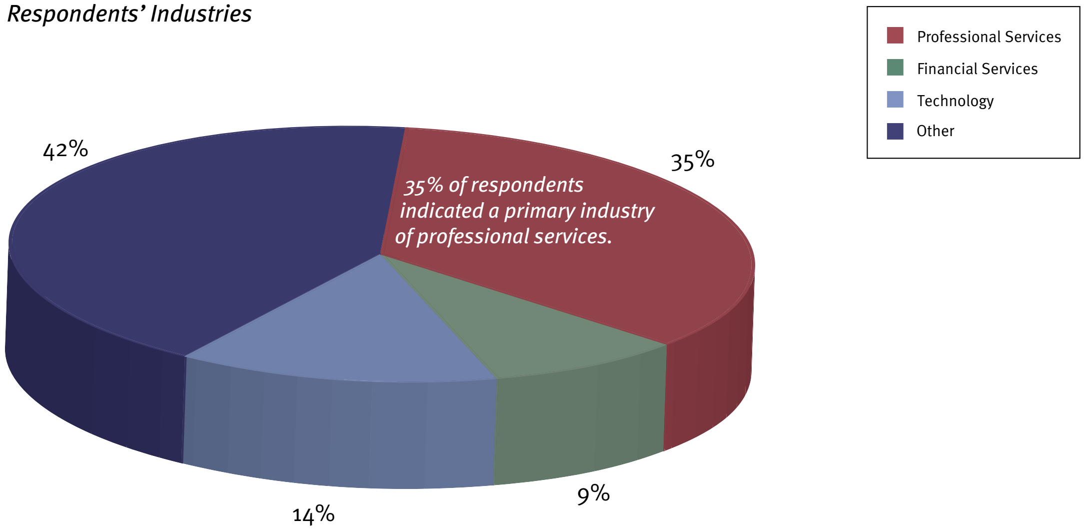
The demographic composition of the respondent pool provides a representative sample of small to medium-sized businesses. While companies ranging in size from less than five employees to more than 300 are represented, the largest faction of survey participants comes from firms with five to 49 employees. Likewise, a range of industries is represented, but almost a third of respondents are in the professional services field. The respondent pool provides a representative sample of all levels within a small and medium-sized organization, but the greatest faction of survey participants are business owners.

[1] Sullivan, John. "Employment Branding: the Only Long-term Recruiting Strategy." ERE.net, Jan. 7, 2008.
[2] Information courtesy of SHRM's Glossary of Human Resources Terms
[3] Charles W. L. Hill, and Gareth R. Jones, (2001) Strategic Management 5th Edn, Houghton Mifflin, MeansBusiness, Inc. (http://en.wikipedia.org/wiki/Organizational_culture)

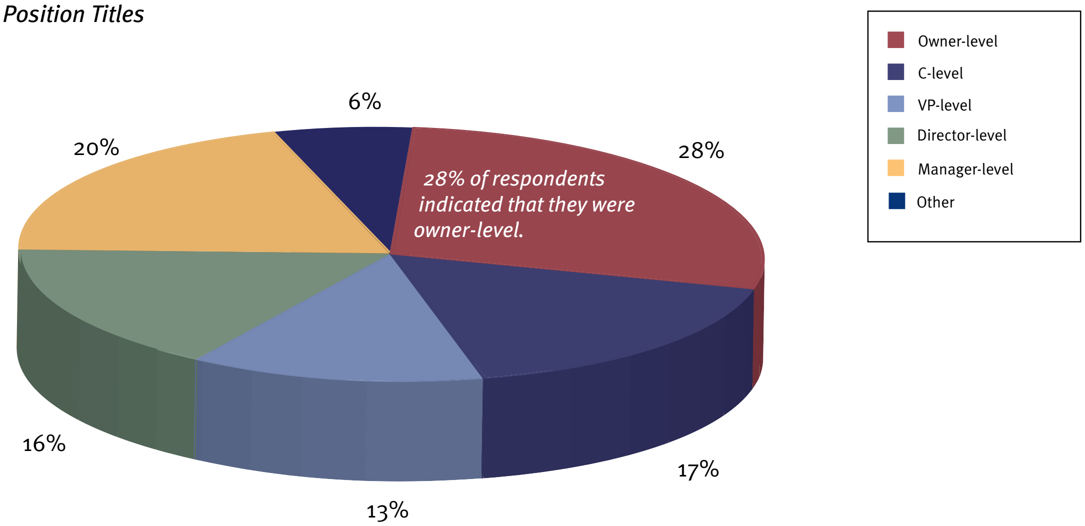
Company Size (by number of employees)



Respondents' Industries



Position Titles



Bleak Economic Predictions Accelerate Recruitment and Retention Concerns

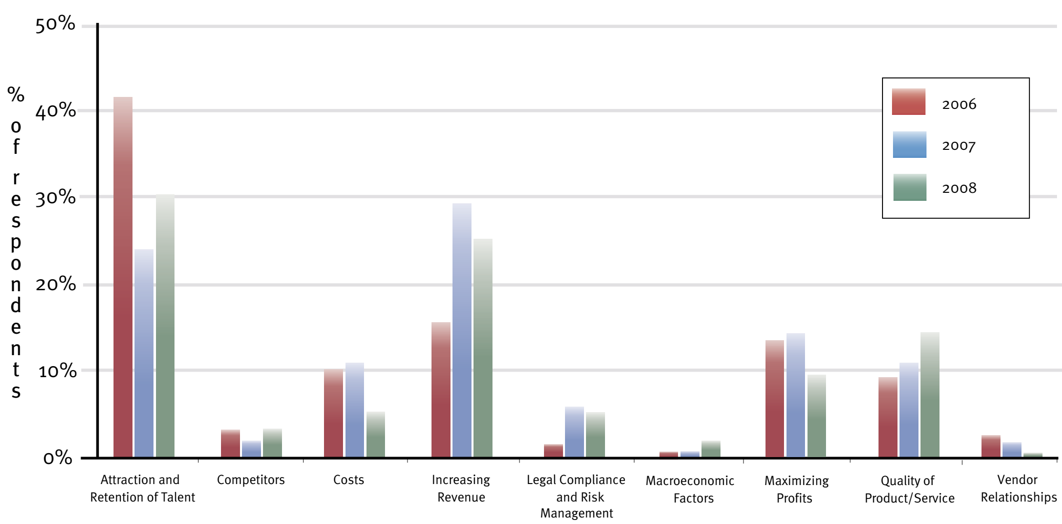
Amid recent dire predictions of an economic recession, employers are increasingly concerned about attracting and retaining high-quality employees. This is because despite a 70 percent probability for a recession in 2008, top talent will remain in high demand and qualified candidates will continue to have many career opportunities available to them.[4] Consider that the average national unemployment rate in 2007 was 4.6 percent, but the average national unemployment rate for workers 25 and older with a bachelor's degree or higher—the top talent organizations are vying for—was less than half that, just 2 percent. This statistic, compounded by the fact that 15 years ago the average national unemployment rate was 6.9 percent, is solid evidence of the talent shortage in the U.S.[5]

With these indications of an employees' market, there may be a lack of alignment between respondents' reported success with attraction and retention in 2007 and their concerns about recruitment and retention in 2008. Overall, respondents reported success in regards to recruiting and retaining top talent in 2007 (88 and 86 percent, respectively), but the margin of those more concerned with attraction and retention than profitability increased in comparison to last year's survey responses. It's possible that these results indicate a false sense of confidence, or at least a strong sense of ambivalence, on the part of business owners in regards to their ability to compete for top talent.

Survey results show that the top business concern in 2008 is recruiting and retaining talent (31 percent), followed by revenue (26 percent). At this time last year, increasing revenue was a higher priority for respondents than was attracting and retaining top talent. Given growing talent concerns in the U.S., this increase in anxiety about recruitment and retention is not surprising. Organizations realize that profitability will occur as a result of the attraction and retention of high-quality employees, even in a down market.

> "In the past three years, "attraction and retention of talent" and "increasing revenue" have traded places as the top business concerns."

Three-Year Trend in Business Concerns

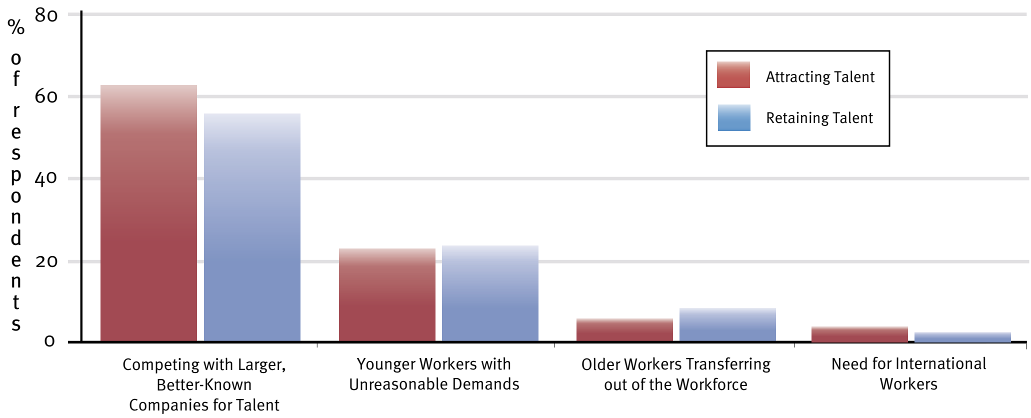


4 "FBR Analyst Raises 2008 Recession Probability Estimate to 70 Percent from 60 Percent." The Associated Press. Jan. 17, 2008.

5 Statistics courtesy of the U.S. Department of Labor's Bureau of Labor Statistics

For the majority of respondents, the concerns they have about attracting and retaining talent focus on competing with larger, better-known companies for the same talent pool and on coping with younger workers with unreasonable demands (see chart below for more information). Employers should keep in mind that there are more generations interacting in the workforce than ever before—and they have more options available to them than ever before—which puts more pressure on companies to meet each generation's unique demands.

Concerns for Attracting & Retaining Talent in 2008



> "Competing with other companies for talent and younger workers with unreasonable demands makes up a vast majority of the concern."

Changing Perceptions about Boomers in the Workforce

Baby boomers, the oldest generation in the workforce, are perceived as less of a retention concern in the workplace because their actual retirement has had less of an impact than the dire predictions made a decade ago.

In 2006 the first boomers turned 60, and a study by the AARP revealed that 68 percent of workers between the ages of 50 and 70 plan to continue working through retirement or do away with retirement completely.[6] Why? Money and health care, according to Deborah Russell, director of workplace issues for the AARP.[7]

Last year, a report by the Society for Human Resource Management (SHRM) showed that 44 percent of companies believed that the aging of the workforce would have a major impact on business, and just 34 percent said the same about recognizing and catering to Gen X and Y.[8] But respondents to our survey, which represent a narrower mix of small business industries, older workers transferring out of the workforce is a concern for just 6 percent of employers, with the majority of their concerns focusing on attracting new and younger talent.

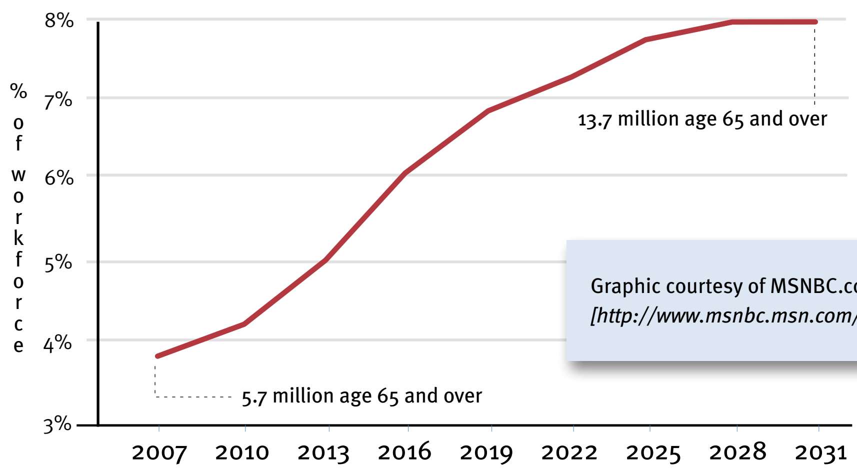
[6] Segal, Jonathan. "Time Is on Their Side." HR Magazine, February 2006.
[7] Tahmincioglu, Eve. "Boomers Will Spend Golden Years at Work." Aug. 8, 2007.
[8] Schramm, Jennifer. "SHRM Workplace Forecast." Page 12. SHRM, June 2006.

From a retention perspective, just 8.5 percent of respondents are concerned about older workers leaving the workforce—which makes sense given that the Department of Labor Statistics predicts that by 2017, workers 55 and older will constitute approximately 24 percent (or 38 million workers) of the workforce (up from 12.9 percent in 2000). Furthermore, a recent Manpower Inc. study revealed that 78 percent of employers studied said they are not concerned that an aging workforce might hamper their ability to recruit and retain talented workers. Most also said they do not have attraction and retention strategies aimed at older workers.

Boomers may not be retiring now but they will inevitably do so, and employers must implement strategies to retain them or be ready to deal with their departure. As the workforce ages, companies will be forced to cater to boomers in much the same way as they will with younger generations. In a recent article on boomers' retirement plans (or lack thereof), Melanie Holmes, vice president of Manpower Inc., said that companies will have to make some concessions, such as more vacation time, less overtime, telecommuting, and flexible scheduling, because older workers simply will not be able to or will not be willing to keep working without them.[9]

> "By 2028, the percentage of workers over the retirement age of 65 is projected to rise to 7.9 percent."

The Aging of the U.S. Work force



Graphic courtesy of MSNBC.com
[http://www.msnbc.msn.com/id/20075038/]

Source: U.S. Department of Labor's Bureau of Labor Services

Holmes added that as older workers remain on the job and the number of younger managers increases, there could be some growing tension and resentment between boomers and Gen Yers. Boomers may resent the fact that they cannot afford to retire, while Gen Yers could harbor resentment toward them if their employers do not treat the two groups similarly.[10]

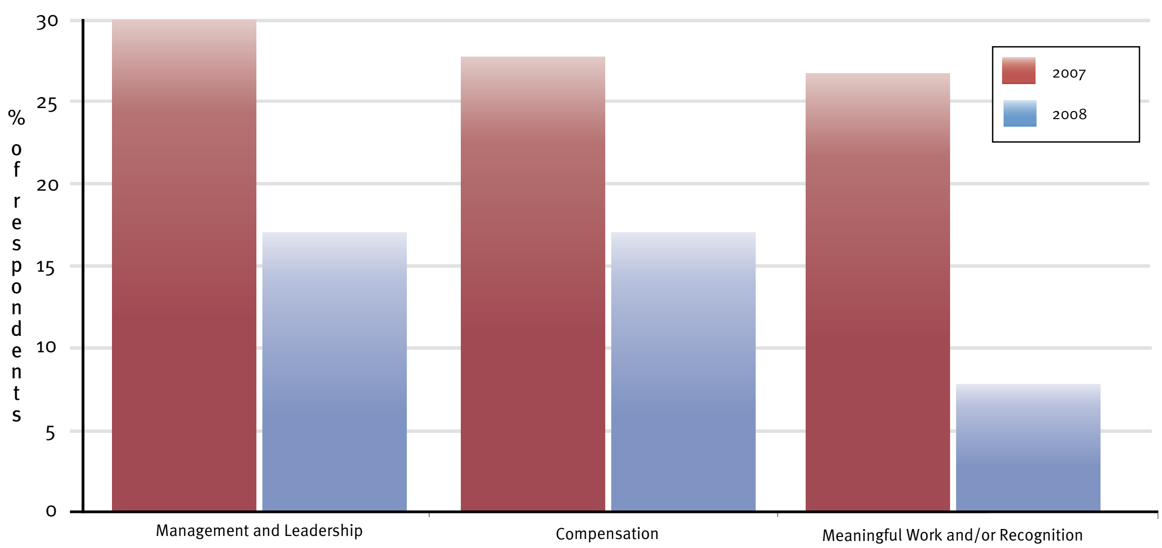
[9] Tahmincioglu, Eve. "Boomers Will Spend Golden Years at Work." Aug. 8, 2007.
[10] Ibid.

Competing in an Employees' Market

As Gen Yers join and boomers remain in the workplace, employers must cater to a more diverse workforce than ever. While boomers remained with a company simply because that was what they believed they had to do at that stage of their careers, employees today are in high demand and have more options available to them—and they know it.

Employers are seeing a shift in what helped them retain talent in 2007 and what will help them do so in 2008. Last year employers reported that compensation was the top factor in retaining talent. Respondents said that in 2008, management and leadership will play the biggest role in employers' ability to retain talent. This is likely true, but it will be necessary for those management and leadership initiatives to build and support a positive corporate culture.

Most Effective Tools/Techniques to Retain Talent



Competing in an Employees' Market

If the data hints that employers may not be as successful at recruiting and retaining as they think, and that it is an employees' market[11] —there is a way to combat the talent shortage: an effective employer brand and corporate culture.

According to John Sullivan, professor of management at San Francisco University's College of Business and CEO of Dr. John Sullivan & Associates, employment branding is the only solution to small business talent issues. Despite this fact, just 5 percent of corporate recruiting budgets are spent on this initiative.[12]

Benefits of Employment Branding:
- Stronger corporate culture
- Competitive advantage
- Long-term impact on recruiting
- Increased volume of unsolicited candidates
- Higher-quality candidates
- Higher offer-acceptance rates
- More employee referrals
- Higher retention rates
- Increased employee motivation
- Increased media exposure
- Support for the product brand

—information courtesy of Dr. John Sullivan

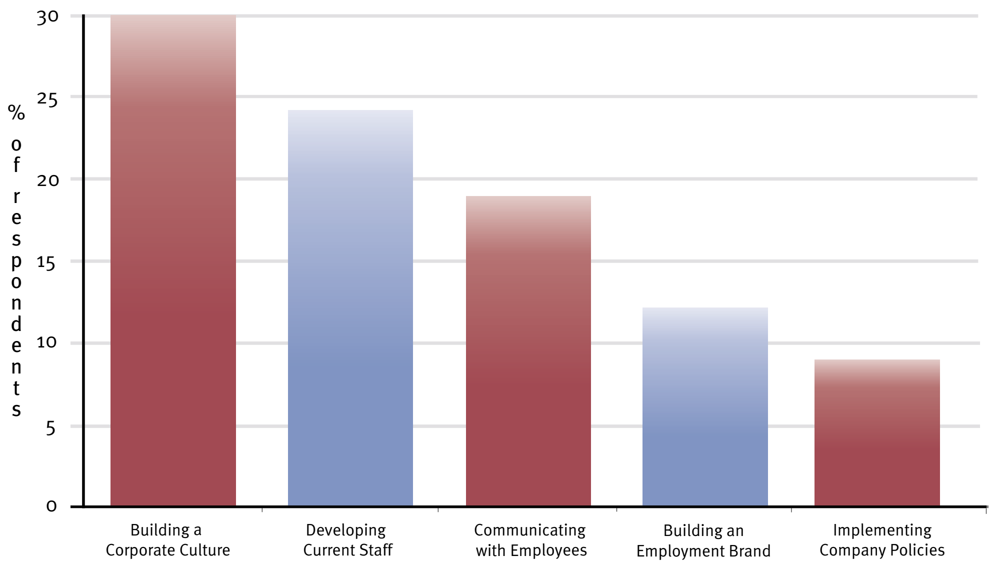
[11] U.S. Department of Labor's Bureau of Labor Statistics: national unemployment rate in December 2007: 5 percent; national unemployment rate for workers 25 and older with a bachelor's degree or higher in December 2007: 2.2 percent.
[12] Sullivan, John. "Employment Branding: the Only Long-term Recruiting Strategy." ERE.net, Jan. 7, 2008.

> “Building corporate culture” and “developing current staff” lead strategic HR.

> Small to medium-sized businesses have the upper hand when it comes to corporate culture. Employees at small companies have more positive attitudes while on the job and higher levels of engagement compared to their counterparts at large organizations.

Our research supports this fact—just 12 percent of respondents selected building an employment brand as the primary element of a strategic HR function.

Primary Elements of a Strategic HR Function



Ultimately, an organization’s employer brand and corporate culture is what will attract and then retain employees because, for employees, it provides the crucial element that makes a company a superior place to work. A company’s corporate culture must reflect the employer brand and vice versa—candidates and new employees expect employers to deliver what they promised. Likewise, an employment brand can solidify an organization’s corporate culture by reinforcing values, guiding employees’ behavior, and instilling pride in employees.[13]

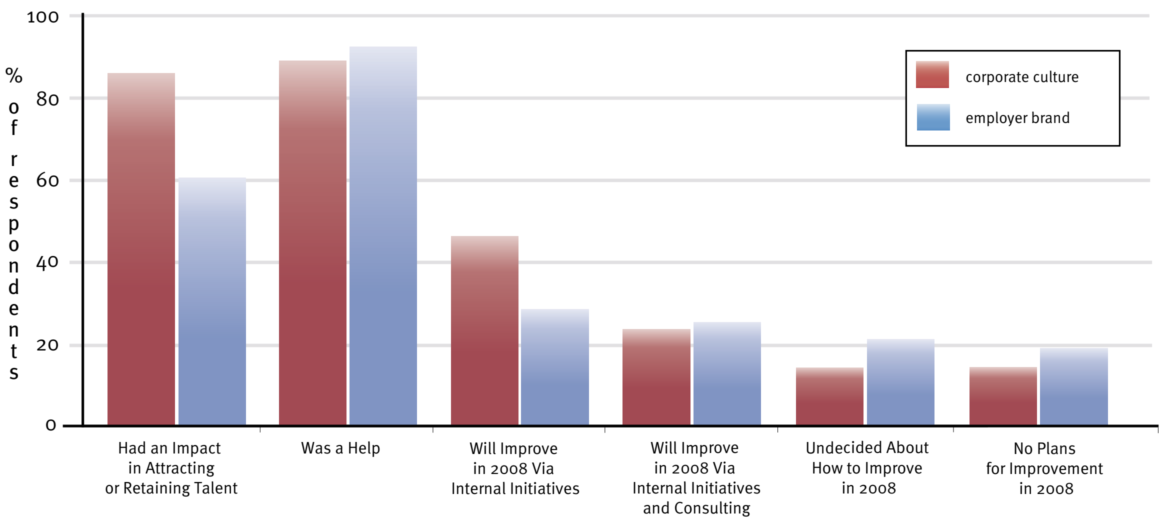
If the corporate culture is not a reflection of the employer brand projected to candidates during the hiring process, they are not going to stick around once they are hired. Considering that employees spend more time at work and with co-workers than they do anywhere else, corporate culture plays an important role in retaining them. If employees do not like the atmosphere and culture of their office and the people they are working with, they are not going to stay, regardless of compensation and benefits.

The bottom line is that a corporate culture fosters employee loyalty. Loyal employees perform better, are more productive and are willing to exert extra effort, influence others in a positive way, and spread positive energy. The corporate culture that cultivates loyal employees also enhances the organization’s employer brand; highly committed workers naturally attract top talent through word-of-mouth advertising while they continue to produce for the company.

[13] Ibid.

Also, it appears that small to medium-sized businesses have the upper hand when it comes to corporate culture. According to a recent Salary.com report, employees at small companies (those with less than 500 employees) have more positive attitudes while on the job and higher levels of engagement compared to their counterparts at large organizations (those with more than 500 employees).[14]

The Role of Corporate Cultures and Employer Brands



Most respondents who said their employer brand had an impact thought it was a positive one. Sixty-two percent of respondents said their employer brand had an impact on attracting talent in 2007, and of those, almost all said it was a help (93 percent). Likewise, most of those who said their corporate culture had an impact said it was helpful in retaining talent.

However, a significant number of respondents who said that corporate cultures and employer brands are important are not planning to invest next year or do not have a plan to do so. It is possible that such an outlook will lead to missed hiring and recruiting metrics in 2008.

[14] Fusco, Christopher. "The Top Five Retention Strategies for Small Businesses." Page 2. Salary.com, 2006.

Incorporating Strategic HR

Successful recruiting and retention in 2008 belongs to those small and medium-sized companies that are willing to employ unconventional solutions that can break through the competition's noise and capture the interest of candidates. Through effective attraction and retention of top talent, unique solutions like employment branding can provide high impact and ROI, which help to solidify strategic HR's role as a contributor to the bottom line in 2008 and the future. [15]

About TriNet Group, Inc

Founded in 1988, TriNet (www.trinet.com) delivers comprehensive human resource services to small and medium-sized companies. Its offerings include human asset administration, employer risk management, online HR services and support, payroll processing, tax compliance, workers' compensation, group health and welfare products, and strategic human capital consulting services throughout the United States and Canada. More than simply an HR services provider, TriNet contractually assumes certain legal and financial responsibilities regarding employer rights, legal compliance and risk management.

[15] Sullivan, John. "Employment Branding: the Only Long-term Recruiting Strategy." ERE.net, Jan. 7, 2008.