



An Informative Guide to Data Purchasing Methods

Direct Marketing Association (UK) Ltd

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Compiled by the List & Insert Forum, a working party of
the DMA Data Council



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INTRODUCTION AND BACKGROUND

This document seeks to provide information to anyone concerned with purchasing or renting data and assumes that the reader is uninformed. The document provides a basic set of guidelines that can be used when renting and/or purchasing external data for direct mailing purposes.

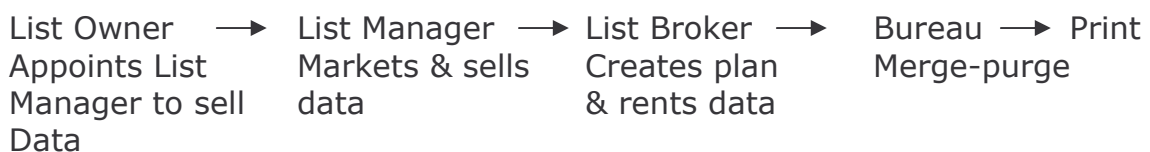
In no way does the document seek to instruct the reader on any preferred method, nor does it form part of the DMA Code of Practice. Instead, it seeks to provide the reader with an overview of alternative methods from which the reader can then make a more informed commercial choice on their own preferred method.

ROLES WITHIN THE LIST RENTAL INDUSTRY

- The main function of the list rental industry, as part of the Direct Marketing Industry, is to supply contact details (names, postal & email addresses, telephone, SMS and fax numbers) of consumers and businesses in both the UK and internationally. These are used to target potential new customers via the use of direct mail, email, outbound telemarketing, SMS and fax.
- Data is usually rented, not bought, for a single use. Multiple use agreements are often reached but the ownership of the data remains with the original list owner.
- Key roles within the list rental industry include:
- List Owners. The owner of the copyright or database right in the List. These companies either specialise in compiling/building data sets specifically for marketing purposes or have decided to allow third party advertisers to use their customer database and to benefit from the revenue generated from its rental. It is not uncommon for List Owners to rent the data themselves without appointing a List Manager and act as a direct seller.
- List Managers. Appointed by the list owner to market/sell the list.
- List brokers. Act as a buying agent between the List Manager or List Owner and the final End User of the list. Appointed by the End User to create a plan of suitable lists and to rent these on behalf of the End User and to manage delivery of the data to the Bureau.



- End user/mailer. The company/client that is using the list to distribute advertising material as part of their media promotions. Again it is not uncommon for the End User to act without using a List Broker and purchase data direct from the seller.
- Bureau. A computer bureau, usually appointed by the end user, to manage the merge-purge process (de-duplication of the lists), before the data is mailed. It is not uncommon for end user mailers to process the data with in-house capabilities.
- Commission or fees – these are negotiated and agreed between the relevant parties in advance of a transaction. It is advisable to set out in writing in a contract of services or an operating agreement exactly what charges, fees or commissions will be.
- Seed Names. Data owners often “seed” their lists before passing them to a third party user so that the data owner may monitor the mailing process or unauthorised re-use of the list. The list owner may add actual or indeed fictitious names at actual addresses to avoid them being detected and removed at the de-dupe process. The number of seeds added to a list will depend on the size of the list being used but may be clarified in the terms and conditions of use, so it is wise to check this in advance.
- Order volume. Volume is entirely based on the size of the list available and the end users requirements. References to negotiating discounts should be kept together under a common heading – “how to negotiate discounts” for example.
- Cost per `000. Rates are based on a cost per thousand records rented. This cost is usually made up of two elements:-
 - Base rental cost. The basic cost applied to the use of the data.
 - Selection cost. These are additional costs that are applied when the targeting of the data selected for use is made more specific to the end user by choosing to select by criteria such as age, gender, interest group etc. Each list will offer its own range of selection options and pricing will vary from list to list and the attractiveness of the selection.





DATA PURCHASING NEGOTIATION METHODS

Many End Users/Mailers of lists seek to obtain pricing advantages from the List Owner for the use of the lists, particularly if they are high volume and/or frequent users. There are a number of negotiation methods usually used as follows:

- Net Names Agreements
- Oversupply of Data
- Volume based
- Multi-Usage and Data Licence

The DMA does not recommend any particular scheme and members should use their own commercial judgement as to which scheme is appropriate depending on their own individual circumstances.

What follows is a summary of these schemes.

NET NAMES AGREEMENTS

Agreeing a specific net name Percentage deal

Example 1:

A typical mailing plan (estimated de-dupe loss set at 15%)

Data source	Order volume	Est. Mailing Volume	Base Rental per '000	Run-on per '000	Gross per 000	% Net Agreed	Net Cost
List A	20,000	17,000	£100	£10	£2,000	85%	£1,730
List B	20,000	17,000	£100	£10	£2,000	90%	£1,820
List C	19,000	16,150	£100	£10	£1,900	100%	£1,900
	59,000	50,150			£5,900		£5,450



- In any mailing plan where several lists are used, there is a chance that there will be duplication between the lists. This chance increases with a greater number of lists and with greater volumes of data taken from each list. Other factors that may also increase the chances of duplicates between lists are similarity in data collection methods, closeness of customer profiles between the lists and the house file size.
- An estimation of the % level of duplication (and therefore loss of data) is built in to determine the likely final net mailing volume for the campaign. It's important this is as accurate as possible. An over estimation can result in buying too much data that goes unused. Under estimating means potentially having to re-supply additional data quickly to make up the shortfall and can result in lost money because the net name agreement does not cover the whole loss.
- % net agreed – the net name agreement. These are negotiated between the buyer and seller and are designed to ensure no data lost in a de-duplication process's costs are paid to more than one owner. Ideally, if you anticipate a 15% loss, as above, the buyer will try to negotiate an 85% net agreement. If, we anticipate a 20% loss, then an 80% agreement is sought. An agreement of 100% means that all data will be paid for even if subject to duplication. It may be worth noting that, the knowledge that a duplicated data subject is available from multiple sources may also be used by the end user to reinforce their validity for the mailing.
- Run-on charge. This is a post production charge for the output of the data. This is only applicable against those lists that have a net name agreement and is used in the calculation of the final net list cost.
- An "open" net agreement is a negotiable discount arrangement to pay for what you mail or pay for what you mail after the de-duplication process. This would be negotiated by a buyer wishing to ensure minimal list cost if buying frequent large volumes of data where overlap/duplication is likely. If you are planning to negotiate this form of discount it is worth ensuring that you are explicit as list owners and managers vary in their interpretation of "pay for what you mail."
- Estimated net cost. The final cost of the lists used, once net name agreements have been calculated. The plan will make an estimation based on the lower potential cost given the % net agreed.



Calculating net name costs

Example 2:

Volume ordered	20,000 records
Estimated de-dupe loss	15% or 3,000 records
Estimated mailing volume	17,000 records
Base cost per 000	£100
Selection cost per 00	£0
Run-on per 000	£10
% net agreement	85%
Gross list cost invoiced	£2,000*

* Invoicing

You may find a mixture of two approaches to invoicing:

1. Gross invoicing – charges a rate based on the full volume supplied
2. Net invoicing – charges a rate based on the estimated net volume

The following steps are based on an example of gross invoicing. Where net invoicing is used, the List Manager will often seek to “reconcile” any difference between the invoice value and the actual value where less data has been lost than anticipated. Provision should be made for this.

Step 1 List Manager invoices broker for £2,000
 List Broker invoices end user for £2,000

NB: In the event of a direct arrangement with a list owner please substitute broker or manager invoices with List Owner invoice as appropriate



Step 2 Bureau returns de-duplication report to List Broker. This report shows the actual volume of data lost against each list.

Scenario 1: 10% of data is duplicated

Scenario 2: 20% of data is duplicated

Note: In today's marketplace it is fairly common that the de-duplication report should be returned (and any claims for data duplicated made) within 3 months of the data being delivered to the bureau. If not, it is commonplace to find that claims are often then forfeited. Remember to check the exact terms of the agreement, as they will vary from company to company.

Step 3 The List Broker raises a net name credit request and sends it to the supplier. The claim consists of the following calculations:

- Volume of data lost x base rental cost only (selection charges are usually not applicable)
- Less, volume of data lost x run-on cost per 000

Scenario 1: Based on Example 2 above, only 10% & not 15%, has been lost the List Broker can only make a claim up to this level.

2,000 records x £100 per 000 = £200

Less 2,000 records X £10 per 000 = £20

Claim value = £180

Net list cost = £1,820

Volume mailed 18,000. Net cost per '000 paid = £101

Scenario 2: Because the net name agreement only provides for up to 15% recoverable loss, the extra 5% cannot be claimed against.

3,000 records x £100 per '000 = £300

Less 3,000 records X £10 per '000 = £30

Claim value = £270

Net list cost = £1,730

Volume mailed 16,000. Net cost per '000 paid = £108

Step 4 Once all credits have been received, a final credit note is issued to the End User. The responsibility of requesting and chasing of credits should be agreed between the parties in advance of transactions so that it removes any area of doubt.



OVERSUPPLY OF DATA AGREEMENTS

Instead of negotiating a specified % net deal, the estimated duplication loss is used to agree an oversupply of data for the equivalent volume.

Example 3:

Required mailing volume	17,000 records
Estimated de-dupe loss	15% or 2,550 records
Order volume	17,000 records
Volume delivered	19,550
Base cost per '000	£100
Selection cost per '000	£0
Run-on per 000	£10
% net agreement	100%

Gross list cost invoiced £1,725.50 (£1,700 rental cost plus £25.50 run-on cost).

Should the process lose less than 15% and therefore provide more data to use than has been invoiced for, you may find that List Managers may seek to reconcile the difference.

VOLUME BASED DISCOUNT AGREEMENTS

Quite simply this method works on "Economy of Scale" principles, the more you buy, the more you save. However, you should be aware that your discount will vary from list to list and will ultimately come down to individual negotiations between the seller and the buyer. Also be aware that, contrary to popular myth, *there is no industry standard* on volume discounts and pricing structure; if there were, it would be against the law. So expect variations from company to company with whom you deal.

In essence this method seeks to agree a volume based discount without any net name agreements and thus dispense with the need to raise credit requests or post de-dupe reconciliation.



Example 4:

Order volume	20,000 records
Estimated de-dupe loss	15% or 3,000 records
Negotiated volume	17,000 records
Volume delivered	20,000
Base cost per 000	£100
Selection cost per 00	£0
Run-on per 000	£0
% net agreement	100%
Gross list cost invoiced	£1,700

Whilst this approach is quick and less complex, it is important to ensure that the estimated loss has been calculated accurately. Should more than 15% be lost in this example, then the List Buyer will have paid more than necessary for the data eventually used.

Volume discount pricing methods are straightforward in that they are not laden with administration - back and forth with credit requests, de-dupe reports & so on. You simply agree the deal upfront and that's it. For many, this simplistic method is popular. However it has its pitfalls as no science or logic intervenes, so you could agree a deal now to find out that later, during a de-dupe, you are actually worse off than you first thought. It's worth pointing out that these individual negotiations could lead to advantage or disadvantage on either side.



Example Matrix for volume discounts

As a data buyer or data seller it's possible for you to work out a matrix for volume discounts, in advance of buying or selling data in order to act as a guideline for you and the other party to start the negotiation process.

Below is an example Matrix. Please note this is for illustrative purposes only.

Volume	Discount %
0-20,000	0%
20,000 - 40,000	10%
40,001 - 60,000	15%
60,001 - 80,000	20%
80,001 - 100,000	25%
100,001 - 120,000	30%
120,001 - 150,000	40%
150,001 - 200,000	50%
200,000+	65%

The advantages of preparing your own matrix in advance are that you can work out your cost structure and the areas where you can gain and concede ground.

Volume discounts, by their nature, obviously benefit both sides when larger volumes are being traded and may not be the best method if dealing in smaller volumes. However it's entirely up to the buyer and seller to agree a deal they are both comfortable with. As stated earlier, the massive benefit of volume discounts centres almost entirely in the administration of data sales and the clear understanding of the financial position once a deal has been agreed. So for many buyers and sellers, it's a more preferable option than other data trading methods.



MULTI-USAGE & DATA LICENCE AGREEMENTS

Multi-use or data-licensing is a way of buying data and reducing wastage on list costs, dependant on the number of times you wish to mail in an agreed time period. The more times you mail the same list or database outside of such an agreement, the higher the cost will be as you are likely to be paying full rate per transaction unless a re-mail rate can be negotiated.

Most list owners will typically honour a multi-use or data-licence agreement as long as mutually acceptable rates and terms for usage can be agreed on.

Considerations for rates include the number of times you are likely to mail the names within the period. If you are only going to mail the names twice, then it may be wise to negotiate a fixed cost per '000 for the first mail and then a reduced rate for a re-mail.

As an example, if you agree to a first stage mailing at £100 per thousand base rental, the re-mail rate could be fixed at 75% of the agreed first mailing rate, i.e. £75 per thousand base rental. Some list owners may offer a reduced rate for a pre-mailer followed by the full rate for the actual mailing. Additionally some list owners could also offer a price incentive for a post mailing.

Other considerations are that if you require a re-supply of the data before any subsequent mailing, the list owner may require additional payment for selection costs and/or data processing costs. Please check your agreement in advance of the transaction.

If you are planning on mailing the list more than twice or continually mailing the data within a fixed period, then it is more practical to agree a data licence fee. These periods are usually for a maximum of one year, although with the right cleansing procedures employed, they can be extended for as long as you have the appropriate agreement. The cleanliness of the data, i.e. to ensure the data subjects are not deceased or have moved away, is very important when licensing or leasing data and is usually a factor to consider when negotiating the price.

In summary, terms for consideration when negotiating are the length of period for the agreement, the number of times mailed within the period, the permitted purposes of the data i.e. direct mail, telephoning etc, whether the data is to be overlaid with other variables (could be supplied by the same list owner or another 3rd party) and whether suppression files or total refresh of the data is supplied.



EFFECTIVE REPORTING

In order to prove usage under a Net Names Agreement or Over Supply Agreement you will need to produce a report showing the loss of data experienced during the merge/purge de-duplication process. The commonplace timeframe for producing such a report is three months of supply although you need to check the terms of your specific data order with your supplier. If you miss the deadline then you are unlikely to be able to claim your credit unless you have prior agreement with the data supplier. Check the terms of the rental agreement, so that you understand what your obligations are before you enter such agreements, as they will often vary from supplier to supplier.

Net names rebates are affected by where in a hierarchy the list is introduced for de-duplication. The lower the position in the hierarchy, the likelihood that a higher number of duplicates that will be produced. To maintain trust in this process and in negotiation with list suppliers, the bureau must maintain and provide to clients complete audit trails if required.

The most common options for determining the hierarchy of the de-duplication process are:

- **Random:** All data sources are viewed as equally valuable. This option is commonly used when there is no experience of the data sources being used, or in testing.
- **Cheapest lists first:** This provides a file with the lowest cost (where net names rebates are all similar). This is useful where the client has no experience of the list.
- **Lowest nets first:** Those lists for which the client has agreed the lowest net name rebates are placed first.
- **Cheapest cost per response first:** This produces the most cost effective option but is only possible where the client has previous experience of the list and can take a more informed position in determining likely response levels based on previous use of the list or achieved R.O.I.

When a list has been obtained under a Net Names Agreement or Over Supply Agreement, Data Users are not usually permitted to utilise those names excluded during the merge/purge process, or for any other purpose, except where the names selected from an individual list fall below the minimum agreed level and the Data Owner agrees that the shortfall may be used within an agreed timescale, for an approved promotion and in accordance with the other provisions of the DMA Code of Practice (3rd Edition). It is likely that the



Data Seller will have specific terms of use and it is recommended that you check such terms before making your purchase.

It is worth noting that Net Names Agreements are negotiated to ensure the Data User doesn't have to pay for duplicates against the Data Users own file or "House File" and sometimes against other external data sources purchased & processed simultaneously. Bad addresses, MPS matches, internal duplicates and data lost when screening against industry suppression files are a separate issue and not usually included.

In all cases it is advisable for you to check the individual terms of use and/or negotiate/specify your requirements in advance of making your purchase. An example de-duplication report is attached (see Appendix 1).



SUMMARY

This document has been written and contributed to by Data Users, Data Sellers and Data Owners and provides a balance of information from the parties, built up from a wealth of knowledge and experience of working practices and methods. As stated at the beginning, this document is designed to inform you of a range of typical negotiation methods for purchasing data, to provide you with some useful tips and guidelines but mostly to give you an informed position so that the reader can choose a method or a combination of methods.

Should you need further assistance or information please contact the Direct Marketing Association on 020 7291 3300 where your enquiry will be directed to the most appropriate person to assist you.



Data Crunching Co.											
De-Duplication Report											
Order Number	AB1234	Data User	Books4Me	Order Date	38,473	Mail Date	Jul-05	Agency		Order Volume	189,000
Campaign	Autumn Mailing	Contact	Theresa Green	Volume Received	189,000	Mailed Volume	100,000	Agreed Nets	45%	Actual Nets	47%
Supplier	Lists Direct	List Name	Over You	Selections	0-6 month recency, multi buyers	Order Volume	50,000	Agreed Nets	50%	Actual Nets	50%
		Supplier	Panzer & Tank	Selections	Active Subscribers	Order Volume	200,000	Agreed Nets	60%	Actual Nets	45%
		Supplier	Traditional Needlework	Selections	0-12 month recency aged 50+	Order Volume	110,000	Agreed Nets	60%	Actual Nets	45%
Supplier total		Supplier total		Supplier total		Order Volume	439,000	Agreed Nets	439,000	Actual Nets	204,000

Appendix1: Sample de-duplication report