



Fingerhut Makes Predictive Analytics Key Focus of Its Consumer Credit Programs

The company's collections strategy initiatives have proven highly successful

Fingerhut Direct Marketing, Inc. is a direct to the consumer marketing company selling a broad selection of merchandise including electronics, housewares, home textiles, jewelry and furniture. Since it's founding in 1948, Fingerhut has grown from a small entrepreneurial business into a nation-wide direct retailer, delivering shop-at-home convenience and a wide selection of products both online and through regular mailings to its customers.



Fingerhut, a well-known 50-year-old brand, was once the second largest direct-to-consumer retailer in the United States, with sales in excess of \$1.7 billion and over four million active customers. The business was re-started in late 2002 and initially marketed exclusively within the former customer base. Beginning in 2004, the company started targeting new customer accounts again and has since generated over 1.5 million customers with more than one million currently active buyers.

Turning Data into Information

Fingerhut maintains an extensive server-driven computing environment containing massive amounts of data and proprietary customer information to provide credit, target offers and build lifetime relationships with its customers. External credit data, internal behavioral data, purchasing behavior data and demographic characteristics are just some of the potential sources of data that come into the various Fingerhut applications.

The company was an early adopter of data mining and data analysis technologies. Two years ago the company decided to take its analytics capabilities to the next level—incorporating predictive analytics software from InfoCentricity, Inc. to complement its large SAS environment and user base. According to Katie Ashburn, Fingerhut's Director of Decision Sciences and Risk Management, it was crucial that its predictive analytics solution work in tandem with Fingerhut's SAS environment, and according to Ashburn, InfoCentricity's Xeno and SAS integrate seamlessly, with all data manipulation done in SAS, and the export of modeling code runs in SAS as well.

Added Richard Payne, Fingerhut's Chief Credit Officer, Senior Vice President, Credit Risk Management, "We wanted to redevelop our scores and begin using that information to help better manage our accounts. Using Xeno," Payne said, "we have been able to produce scorecards and strategies with a minimum of IT's involvement and with a lean, agile analytics team."

InfoCentricity's Xeno is currently being used on a multitude of projects within Fingerhut, including developing and revalidating behavior scorecards, collection strategies, integrated scoring and strategy designs, credit line changes and predicting bad debt for a given customer over time. Fingerhut has also successfully used Xeno to select the population to receive pre-approved credit offers.

Six and 12 Month Credit Risk Analysis

One recent Fingerhut project using Xeno involved developing six and 12-month risk performance outcome scores that included more than 400 input variables, including old behavior scores, internal behavior data, credit bureau scores, and a number of bureau attributes. In addition, a predictive library was jointly designed and generated in SAS. “We have developed a very powerful and insightful set of predictive models,” said Ashburn. “Not only did the scores include two different risk performances, they included a myriad of alternative outcomes, purchases, balances, payments, returns and revenues,” Ashburn said. “It was a very complex modeling task that Xeno made much simpler.” In the end Fingerhut built four models, first on the six-month outcome, and then on the 12-month outcome.

Late Stage Collections Strategy

Fingerhut has also been focusing on its late stage collections strategies—using Xeno to build models specifically to predict late stage collections success as well as the associated strategies to support the initiative.

“On the collections side we not only look at who we need to collect from but also the methodology we should employ to maximize the program’s success,” Payne said. “Is it a letter, a call, a combination of the two, an email or simply the normal statement with a personal message included? Xeno is helping us develop those strategies which are paying off.”

Trusted Consulting Partner

In addition to utilizing Xeno, Ashburn said Fingerhut has developed a very close working relationship with InfoCentricity’s professional services practice. “It is very valuable to have InfoCentricity as a consulting partner in everything from the ideas stage (what types of data would you look for in creating a particular model) through analyzing program results and making recommendations for improvement,” she said. “It is great to have such an informed, objective third party to bounce ideas off of. We view it as an independent assessment of our work, which is extremely valuable to us.”

Looking forward, Payne said Fingerhut will be looking at building bad debt prediction models over a two-year time horizon—not just a number, but dollars as well. Other immediate plans for Xeno are in the area of recovery modeling and using existing behavior score models as well as newly developed ones in the credit line management programs. “Xeno and InfoCentricity have been a welcome addition to our Decision Sciences computing environment.”

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