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# **Building and Measuring your Customer Retention Program**

Best Practices Case Study





## Today's discussion

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Develop the steps required to create a retention program,  
*For customers at risk of defection.*

We will discuss:

- θ Identifying customers at risk of defection
- θ Building testing strategies to assess impact of marketing
- θ Measurement and refinement of program

We will not be discussing:

- θ How to generate business insights into reasons for defection
- θ Building the offer



# Retention Marketing: Case Study

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We will be using a case study throughout the presentation.

## Modern Communications Company

Customers: 13mm, covering 28 states

### Products:

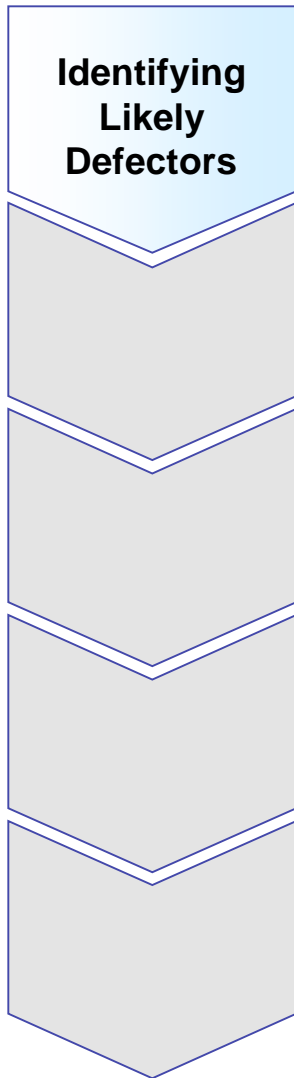
- θ Traditional Land Line (“voice”)
- θ High Speed Internet (“data”)
- θ TV via cable / satellite (“video”)

### Objective:

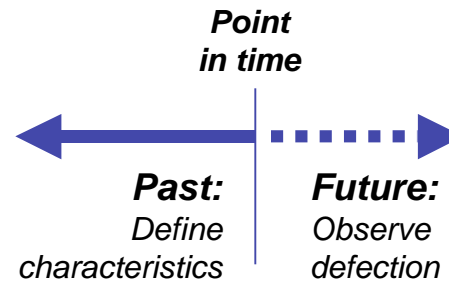
Profitably reduce defection among customers.



# Step 1: Identifying Likely Defectors



Analyze prior defection patterns by picking active customers at a point in time and observing future behavior:

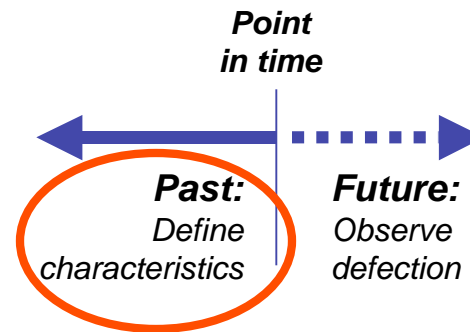




## Step 1: Identifying Likely Defectors

### Identifying Likely Defectors

Analyze prior defection patterns by picking active customers at a point in time and observing future behavior:

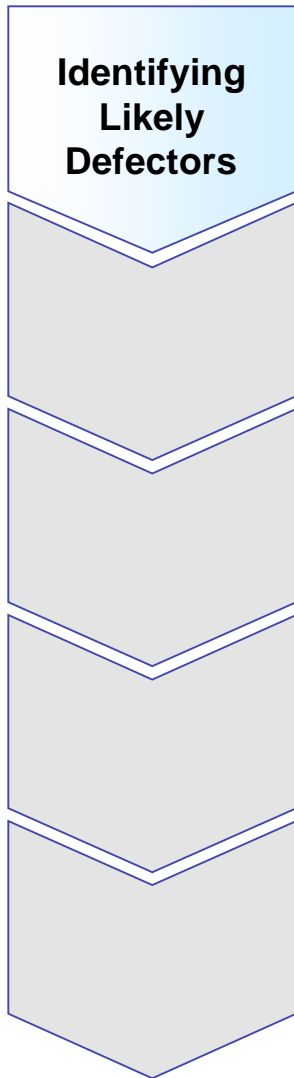


Types of characteristics to analyze:

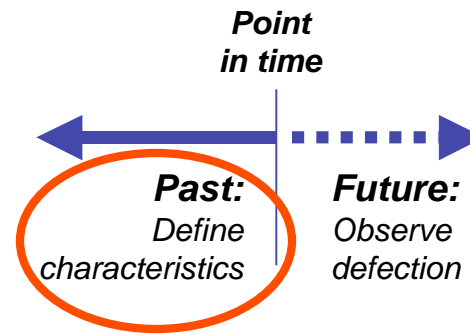
- θ Immediate activity (adding a product, dropping a product, customer service call, repair, etc.)
- θ Aggregate behavioral information (products purchased / owned, value / revenue, number of purchases, etc.)
- θ Customer information (tenure, demographics, lifestyles, segment)



# Step 1: Identifying Likely Defectors



Analyze prior defection patterns by picking active customers at a point in time and observing future behavior:



Potential "triggers"

Potential modeling Variables

Types of characteristics to analyze:

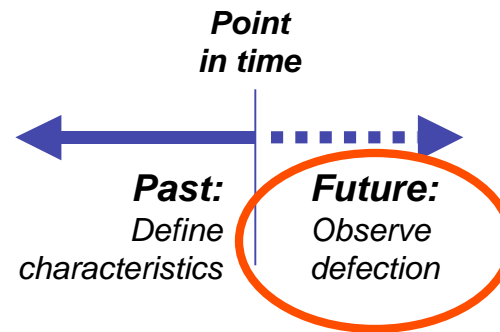
- ⊖ Immediate activity (adding a product, dropping a product, customer service call, repair, etc.)
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## Step 1: Identifying Likely Defectors

### Identifying Likely Defectors

Analyze prior defection patterns by picking active customers at a point in time and observing future behavior:



Types of future behavior to analyze:

- θ complete defection
- θ specific product cancellation
- θ if call center data available, defection by reason code

Look at multiple points in time (30-day churn, 60-day, 90-day) to see if some characteristics are indicative of immediate churn.



## Step 1: Identifying Likely Defectors

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### Identifying Likely Defectors

Analyze prior defection patterns by picking active customers at a point in time and observing future behavior:

Potential outputs of analysis:

θ High Priority triggers:

- High observed 30-day churn
- Dissatisfied customer?

θ Other triggers:

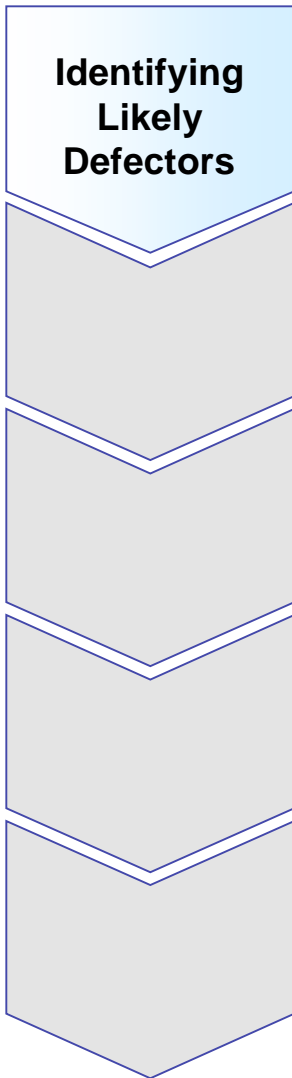
- Above-average churn (60-day, 90-day)
- Customer giving clues to the future

θ Statistical model, predicting churn likelihood (90-day):

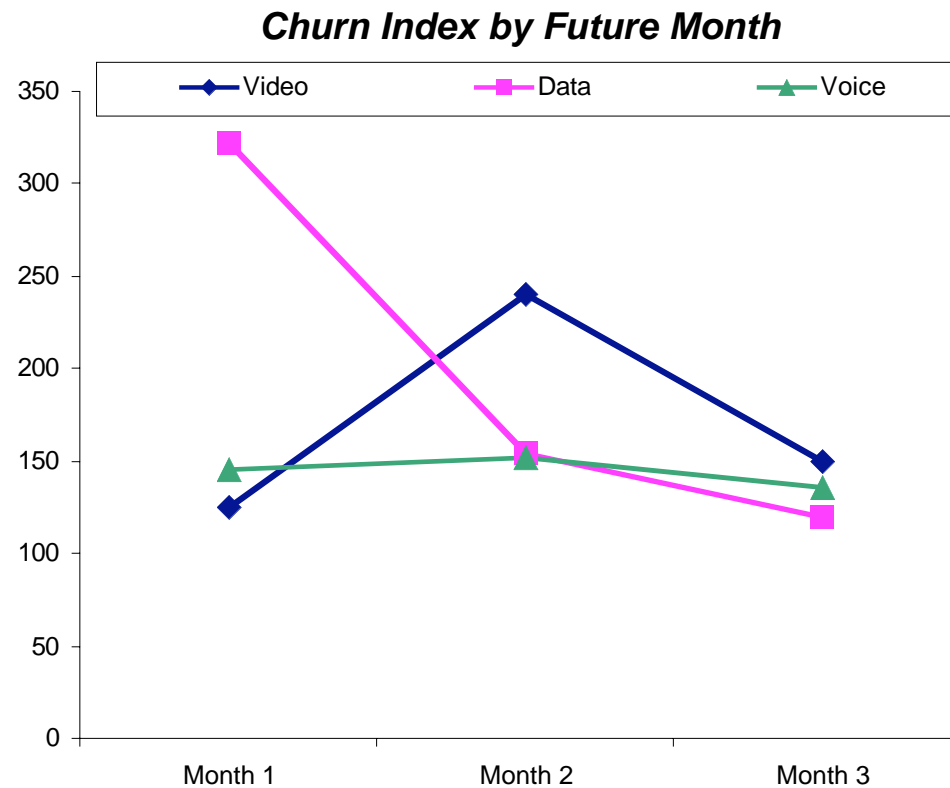
- High probability score ranges



# Step 1: Identifying Likely Defectors: Case Study

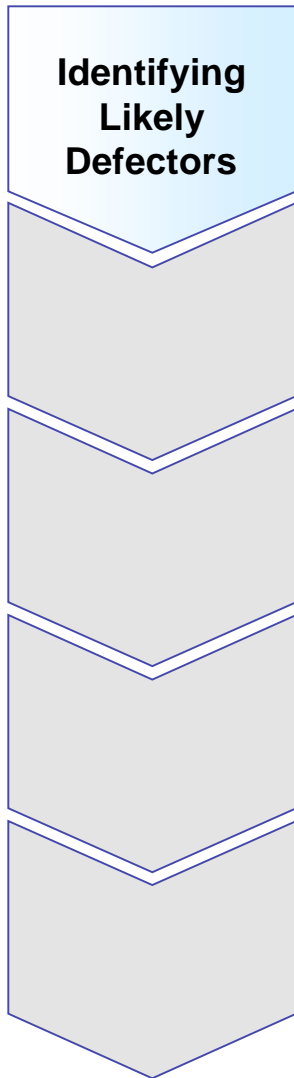


The company used the methodology and identified the churn patterns in the three months following product drops...

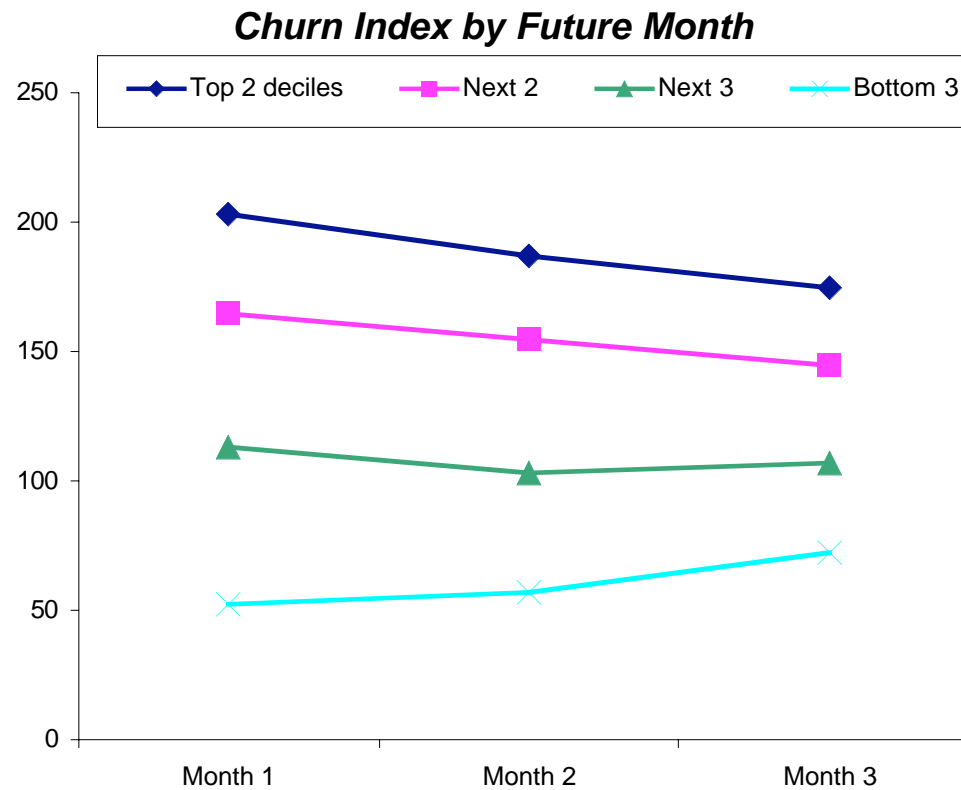




# Step 1: Identifying Likely Defectors: Case Study



They also built a churn prediction model for identifying their most vulnerable customers...

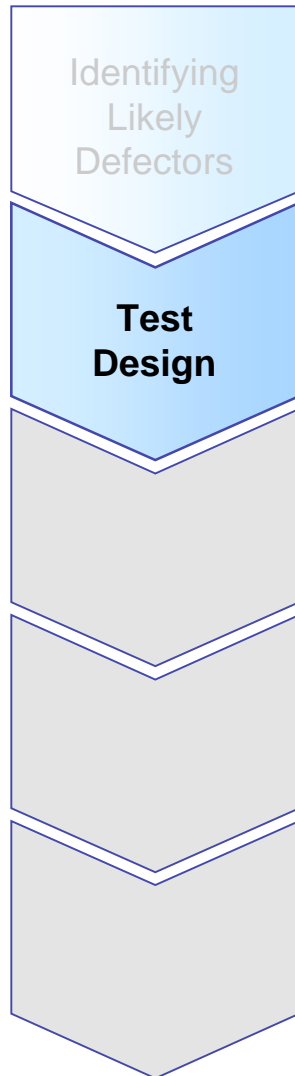


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## Step 2: Test Design

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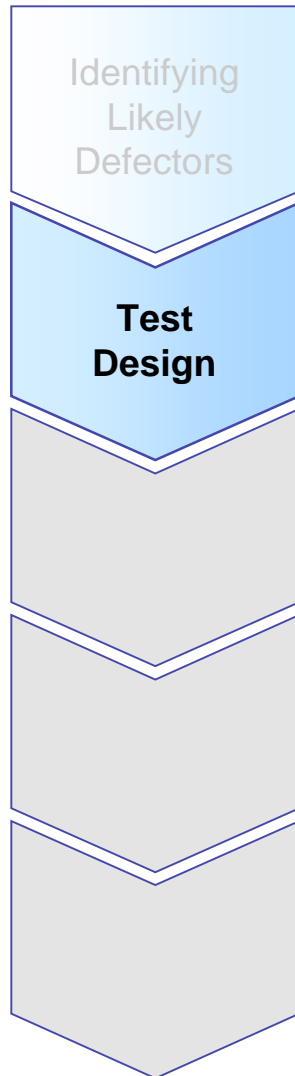


Test must be designed to measure the desired outcome.  
The key question is:



## Step 2: Test Design

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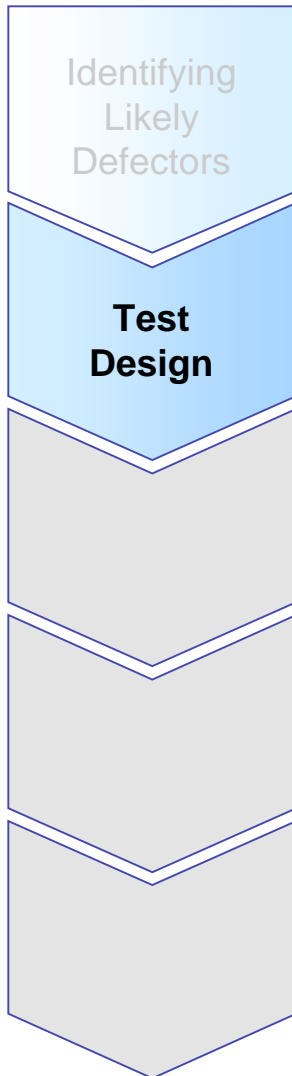
Test must be designed to measure the desired outcome.  
The key question is:

*Can our marketing efforts prevent, or at least mitigate, customer defection?*





## Step 2: Test Design: Case Study



Based on the analysis of triggers and models, five unique test audiences were identified.

- θ Monthly quantities are shown below.
- θ Control groups were selected from each target audience.
- θ Three months of promotions were planned, and the measurement would be 90-day reduction in churn.

Target Audience	Monthly Universe	Marketed Quantity	Control Quantity
Drop Voice Trigger	23,000	15,000	8,000
Drop Data Trigger	41,000	33,000	8,000
Drop Video Trigger	7,400	3,400	4,000
Top Model Score	92,300	72,300	20,000
Mid Model Score	95,100	75,100	20,000
Total	258,800	198,800	60,000

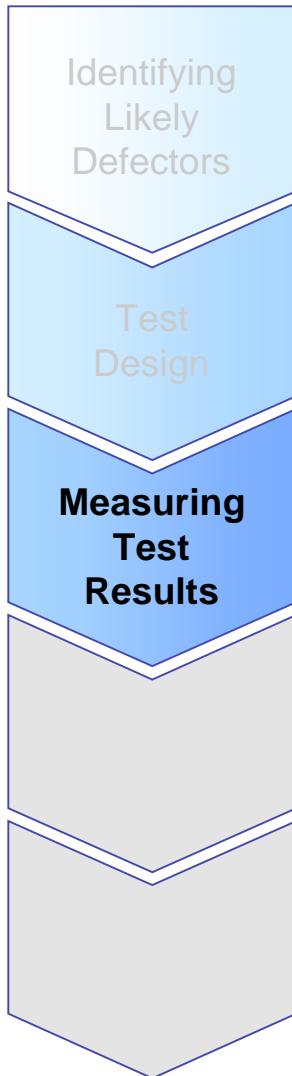








## Step 3: Measuring Test Results: Case Study



Test results indicate that there is a wide range of performance across audiences...

Target Audience	Treatment	Number of Customers	30-day churn	60-day churn	90-day churn	Estimated 12 month value
Drop Voice Trigger	TM	46,000	2.6%	5.5%	8.5%	\$ 398
	Control	24,000	2.9%	5.9%	8.4%	\$ 421
	<b>Delta</b>		<b>0.3%</b>	<b>0.4%</b>	<b>-0.1%</b>	\$ (23)
Drop Data Trigger	TM	97,500	4.7%	7.3%	9.2%	\$ 437
	Control	24,000	6.4%	9.5%	11.9%	\$ 422
	<b>Delta</b>		<b>1.7%</b>	<b>2.2%</b>	<b>2.7%</b>	\$ 15
Drop Video Trigger	TM	10,200	2.4%	7.1%	10.2%	\$ 305
	Control	12,000	2.5%	7.3%	10.3%	\$ 325
	<b>Delta</b>		<b>0.1%</b>	<b>0.2%</b>	<b>0.1%</b>	\$ (20)
Top Model Score	TM	212,300	3.2%	5.4%	8.3%	\$ 276
	Control	60,000	4.1%	7.8%	11.3%	\$ 265
	<b>Delta</b>		<b>0.9%</b>	<b>2.4%</b>	<b>3.0%</b>	\$ 11
Mid Model Score	TM	231,600	1.2%	2.7%	4.0%	\$ 284
	Control	60,000	1.2%	2.6%	3.9%	\$ 306
	<b>Delta</b>		<b>0.0%</b>	<b>-0.1%</b>	<b>-0.1%</b>	\$ (22)



## Step 4: Improving Performance



Like many tests, some marketing treatments may work, and some may not. For larger universes, it may be possible to analyze a range of variables, and build an enhanced selection tool that maximizes the *incremental churn reduction* impact of marketing treatments:

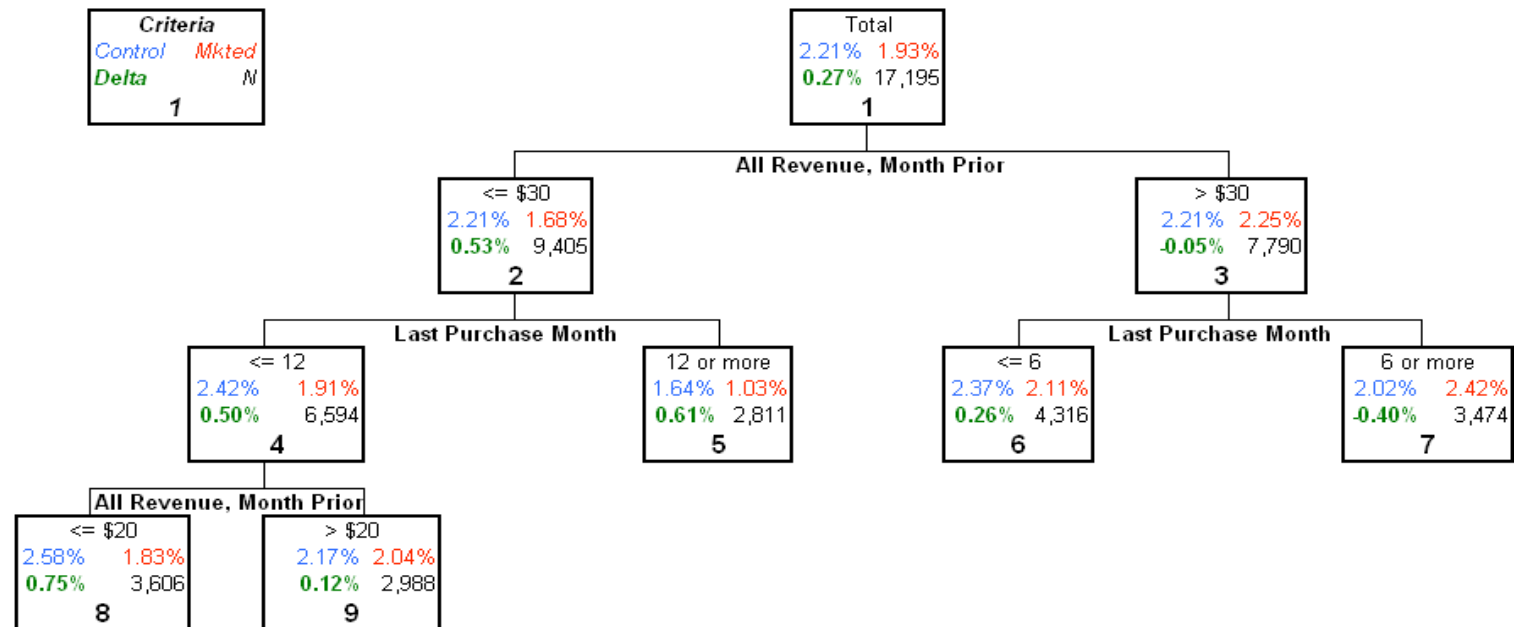
- θ Identify audience for analysis (say, high-churn scores)
- θ Select appropriate sample (marketed, and control)
- θ Identify outcome metric (reduction in 90-day churn)
- θ Select characteristics from the customer database *as of the date the customers were selected* (tenure, product purchase, revenue, demographics, etc.)
- θ Develop incremental churn reduction measure for each level of characteristic, and identify those that have an impact on reducing churn. This reveals *where marketing is having an impact*.
- θ Can be used iteratively (such as a CHAID or a CART).
- θ Analyze optimal selection universe to refine program audience.



# Step 4: Improving Performance: Case Study



Incremental Churn Reduction Tree model reveals that some segments can be identified with high incremental churn impact...

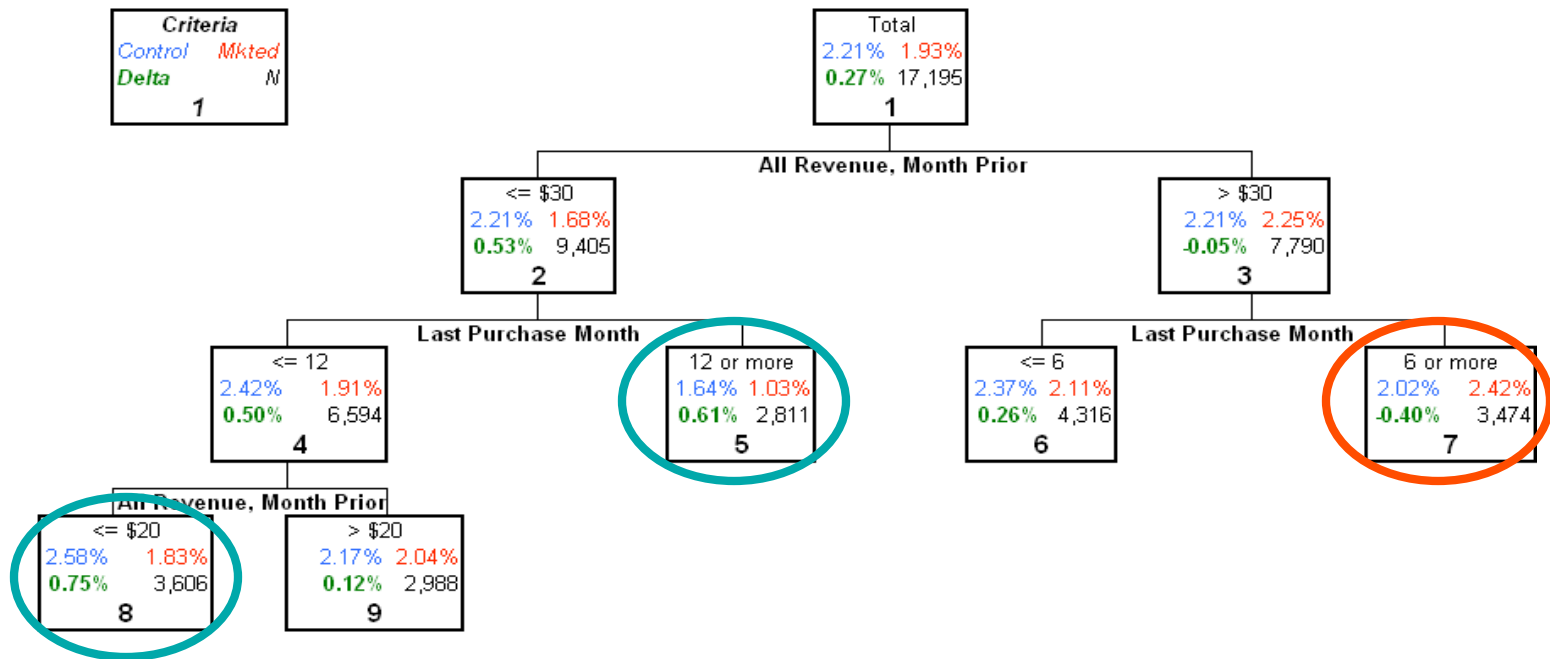


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# Step 4: Improving Performance: Case Study

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## Step 5: Right-sizing the Program



Armed with the test results and any models, an estimate of the program's impact can be developed, looking at multiple indicators:

- θ Size of audience being targeted
- θ Expected number of relationships saved
- θ Financial impact
- θ Total profit and ROI

This should be used to guide the roll-out of the program. Some testing should continue, to identify new offer and communications strategies to further enhance results.



## Step 5: Right-sizing the Program: Case Study



The test results indicate that, with current marketing tactics:

- θ Video trigger should be removed;
- θ Voice trigger can be enhanced with additional selects;
- θ Med Churn Score should be removed (no selects worked).

Audience	Tactic	Quantity	Result (diff)	Recommended	
				Quantity	Result (diff)
<b>Product</b>					
	<i>Data</i> TM	23,000	2.7%	23,000	2.70%
	<i>Voice</i> TM	41,000	-0.1%	10,000	1.30%
	<i>Video</i> TM	7,400	0.1%	-	0.00%
	<i>High Churn Score</i> TM	92,300	3.0%	92,300	3.00%
	<i>Med Churn Score</i> TM	92,300	0.0%	-	0.00%
	<b>Monthly Total</b>	256,000	1.3%	125,300	2.8%
	<b>Annual Total</b>	3,072,000		1,503,600	
	<i>Monthly net relationships saved</i>		3,356		3,520
	<i>Annual net relationships saved</i>		40,277		42,240
	<b>Annual Margin (000's)</b>		\$ 14,097		\$ 14,784
	<b>Cost (000's)</b>		\$ 7,680		\$ 3,759
	<b>ROI</b>		<b>84%</b>		<b>293%</b>

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# Summary

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There are many different approaches to the steps outline here.  
Some examples:



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There are many different approaches to the steps outline here. Some examples:

- θ Could focus only on “high-value” customers at risk of defection;



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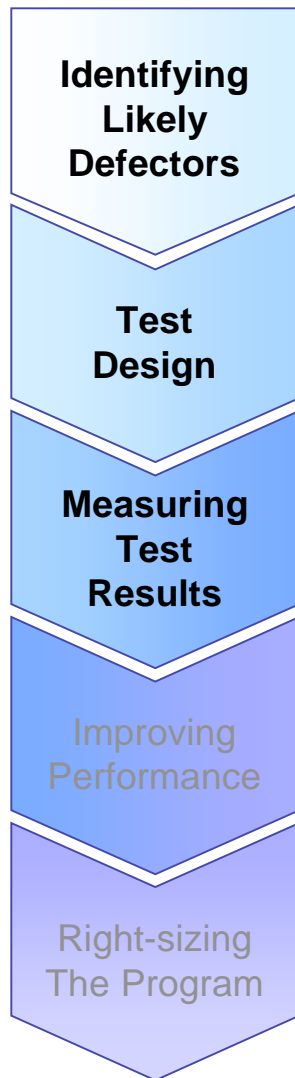


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- θ Could focus only on “high-value” customers at risk of defection;
- θ Test design can be more comprehensive, requiring more advanced testing strategies (experimental design);



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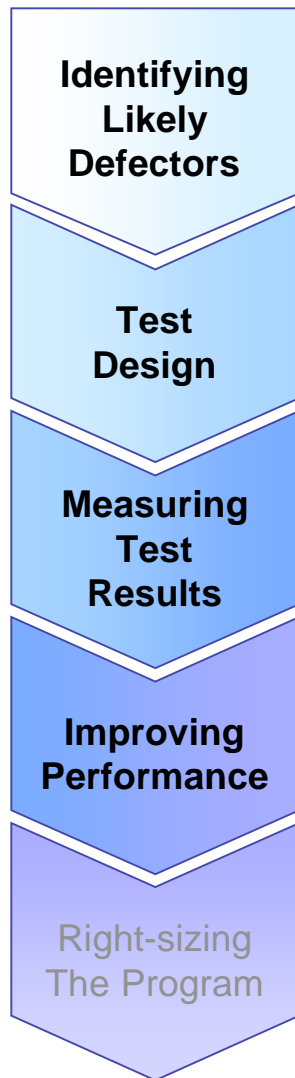


There are many different approaches to the steps outline here. Some examples:

- θ Could focus only on “high-value” customers at risk of defection;
- θ Test design can be more comprehensive, requiring more advanced testing strategies (experimental design);
- θ Measurement can be more exhaustive:
  - } Did we increase revenue for customers that remained with us, even if we did not impact churn?
  - } Did we extend the relationship even a few months, in a way that is profitable?



# Summary

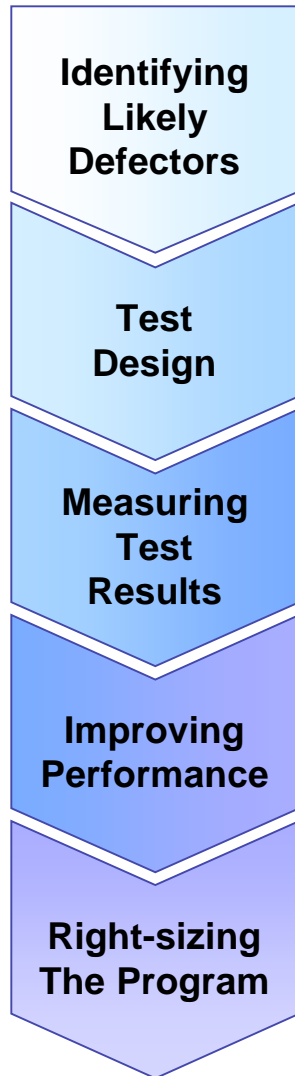


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- θ Performance improvement can include offer optimization and other analytic techniques.



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  - } Did we extend the relationship even a few months, in a way that is profitable?
- θ Performance improvement can include offer optimization and other analytic techniques.

***However, developing a plan around these five steps will lead to the highest level of success in your retention program.***



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# Thanks for listening

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# Thanks for listening and not

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