Customer Retention & Modeling

Some top executives think their company isn’t set up to use behavioral profiling. Take the electric power business, for example. Customer bills are about the same every month, with seasonal variations, as the customer has little choice as to whether to buy power each month. Yet, in many markets they can defect to an alternative provider, and before you know it - it's too late for the original service provider. The cellular business has similar attributes, particularly with the growth of annual contracts and bulk rate minutes. How do you know when a telecommunications customer is about to defect?

Another relevant example is the insurance business, with its very long business cycle and very little transactional activity. Once a client signs up for insurance they are billed only once or twice a year. How do you profile behavior in a business like this, where the customer may be around for 5 years, and then all of a sudden, just defects?

Profiling Behavior

The answer is through the profiling of activity other than that related to revenue, for example, calls to a phone center or visits to a web site. When you look at "best" customers vs. "worst", are there calling or visiting patterns that stand out? In some service-oriented cases like this, you have to "flip over" the behavioral approach - if the customer is in frequent contact with your call center, this may be an indication of customer dissatisfaction, informing you of the need to take pro-active steps before they defect.

The key is to group customers by “best” and “worst”, and then look for any pattern that separates the two. You then use behavioral profiling methods to detect the likelihood of defection.

You should, of course, do some limited testing on your customer base to find out if behavioral profiling is useful on your particular customers. If you have a website or telephone "self service" interface, falling use of either of them could mean customers are getting ready to defect. Conversely, it could just as well mean they are satisfied and are going to stay long term. Without testing, you might not know how to interpret customer behavior.

Responding to Behavior

For example, if a pattern of increasing frequency of visits to your customer service center (web or call center) tends to predict customer defection, you could profile these signs and establish a set of retention inducing procedures to be followed for such scenarios.

In a long cycle, low transaction frequency business, like insurance for example, you may have to extend your time horizon to pick up enough meaningful transactions. Instead of looking at behavior on an annual basis as suggested above, you might have to look over a 3 year or 5 year period.

Still, there's no way to tell in advance what these metrics will be, but the customer behavior will "speak" and tell you which data points matter. Here's what you should do:

1 Make sure you understand all the internal data points available to you, such as billing records, service records, installation records, and others. Make sure you have parameters for the interpretation and analysis of what they are, where they come from, and how they are derived. Customer source is always very important, and you can get that data through your marketing department.
2 Isolate "best customers" - those who signed up and stayed for the longest time, with the least cost (variable cost to you - installation, marketing etc, not in terms of total calls to the center).
3 Run profiles over time on each piece of "action-oriented" data available to you, and determine which provides the highest correlation to best customer behavior.

For example, high frequency of calls to the center might be positively linked (good service leads to better customer) or might be negatively linked (billing problems create repeated calls = angry customers who disconnect).

In service businesses, you generally look for sharp changes in behavior - a drop of 30% in usage, and increase of 50% in calls. These are good targets for automation of response since they're quite clear-cut.

Looking at Lifetime Value

The source of customer is absolutely critical in this kind of business, especially since your "markets" may be geographically constrained. Good customer retention starts with proper customer acquisition, and it should be relatively easy to look at Lifetime Value by customer source. Here's what I mean;

Pick a start date, (say one year ago - 3 or 5 years for long cycle businesses), and take a quick look at your highest value customers (gross billings etc.) over this time and see where (what campaign, geography, etc.) they came from. Then look at lowest value (high churn, disconnected) customers from the same start point, and see where they came from. If there are differences, you're on your way to finding the answer you're looking for. In addition, once you determine there is a difference, survey a subset of each group and try to find the commonality within the groups and differences between the groups. This links the data to the emotions and provides a backdrop for improving customer acquisition technique.

Don't try to do this starting from a "micro" level and looking up. Start with macro ideas (geography) then "drill down" (pun intended) a layer, then another layer and so on. When you get down to the level where there appears to be no sizable differences between best and worst groups, you've completed your effort. Going any lower is just "noise" and is not generally helpful.

Simplifying Matters

You really have to just sit down with customer records, look at all the data in them, and ask yourself, "If there was a change in this data point, could it mean something?” Then compare best (long life) and worst (fast churn) customers and see if there is a difference.

Keep in mind that the indicator you are looking for could be outside of billing. Don’t let yourself get hooked on one arena of data. Look at latency of initial service - the number of days between asking for service and getting it, the number of days between getting service and the first "trouble call" or billing dispute, and so on. There is something in there – there always is. The "it" may differ by geography, which can lead to the discovery of other more operationally oriented problems causing customer defection.

You may not be tracking any of these kinds of metrics now, and you may have to "invent" some using the raw data. My suggestion would be to just grab a couple of these ideas, and see if you can make a dent. Find a couple of “best” and “worst” customers, and take a calculator to some of these ideas. If you feel you may be on to something, then ask IT to run a broader cross section of customers on the same parameters to verify it. There is always something, a tip-off by the customer, as to what they're thinking.

A note on win-back - it's very tough in a commodity service-oriented business to win back a customer once he or she has defected. The customer may be facing substantial switching costs - tangible and intangible. Once they go, they're gone. Calling them to say "did you know we offered a cheaper rate" - which is to say, "did you know we have been screwing you all this time" is not helpful. The flip side of this situation is the ROI can be very, very high when you can predict dissatisfaction and save the customer before the defection occurs.

In Conclusion

What's the point of all this? Just because you don't have a lot of customer-controlled purchase activity going on doesn't mean you can't use behavioral profiling to predict customer defection. Once you find your predictive data points using the process described above (or the much more expensive data mining route), then you can use these concepts to organize and track your customer retention program. Instead of purchases, you track phone calls, web visits, and other indicators using the Drilling Down method to create your early warning system of defection indicators.

Many companies offering long purchase cycle products actively shorten the cycle by employing an inter-purchase contact strategy. By actively contacting the customer between purchases, these companies try to "bridge" the purchase cycle and maintain ongoing contact. This approach can lead to an increase in repeat purchase rates, if handled correctly.

If the above makes sense to you, then you are on your way to designing the highest ROI customer marketing campaigns of your career.