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Integration of Primary Research into Retention Marketing

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What you will hear today

- The key role that primary research can play in Retention Marketing
- Primary research and customer defection
- How to leverage primary research within customer segments
- Case studies of primary research in action within Retention Marketing



Outline

- Retention Marketing from a Database Marketing Perspective
- What can we learn from Primary Research?
 - Attribute Mapping
 - Discrete Choice
- Techniques for putting the two together
- Tips and Pointers



Retention Marketing

Definition:

Retention Marketing is a subset of database marketing, focused on increasing the duration of customer-generated cash flows.

Key concepts within Retention Marketing:

- θ Identify customers likely to churn / defect
- θ Calculate the value of these customers
- θ Quantify expected revenue / value loss
- θ Evaluate reasons for defection
- θ Develop test programs with pro forma
- θ Market test, refine
- θ Rollout
- θ Evaluate – close the loop



Retention Marketing Challenges

Retention Marketing is very difficult. Why?

- θ In many cases, by the time you recognize a customer as being likely to churn, their decision has been made (banking)
- θ Changing customer behavior in a large scale is a large task
- θ Organizational restrictions on programs / promotions
- θ Customers most receptive to marketing message from you are not likely to defect

Organizations typically change goals of retention marketing mid-stream

- θ Initial focus: “Reduce customer churn from X% to Y%”
- θ Campaign focus: “Positive ROI on campaign”

The truth is, most reasonable retention programs can achieve a positive ROI in the short term, but have little impact on reducing churn.



Retention Marketing

So, what's the answer?

θ Customer Insights

- } Formerly high-value customers that have defected
 - ♣ They knew you well
 - ♣ Why did they defect, and where to?
 - ♣ How do you compare on product / brand attributes
 - ♣ Service experience
- } Competitive Landscape
 - ♣ What can the marketplace tell you
 - ♣ What's important to customers

θ Active executive support

- } Organizational obstructions exist
 - ♣ Pricing model is different among competitors
 - ♣ Information processing / deployment is different
 - ♣ Customer Service is managed differently
- } Investment spending required
 - ♣ Explore different ways of doing business
 - ♣ Beyond creative / offer



Retention Marketing

Economically, the challenge of retention is large:

- θ Often, companies using pricing / promotion to reduce churn.
- θ Complicated since a *large group of customers* receive the favorable pricing, of which a *small number of relationships* are saved:

	Prior to Promotion	Price Promotion (net reduction in value of 15%)
Number of Customers at Risk of Defection	500,000	500,000
Expected 6-month churn	20%	15%
Average Customer Value \$	500	\$425
Starting Customer Value \$	250,000,000	\$ 250,000,000
Six-month Number of Customers	400,000	425,000
Six-month Churn Value Loss \$	50,000,000	\$ 31,875,000
Value Loss due to Promotion \$	-	\$ 37,500,000
Net Customer Value \$	200,000,000	\$ 180,625,000
Customers Saved		\$ 25,000
Net Value Lost		\$ 19,375,000

In this example, churn was reduced by 25% (a big number), and customer value still is reduced by almost 10% due to promotion, prior to any marketing cost.



What can we learn from Primary Research?

For this discussion, *primary research* is the use of properly-sampled survey studies to uncover meaningful insights for retention marketing.

Customer databases can tell us:

- θ Prior purchase activity
- θ Expectations of future activity
- θ Customer Value
- θ Customer behavioral segment
- θ Demographics (overlay)
- θ Channel usage
- θ *Cannot tell us why customers behave the way they do.*

Primary research can tell us:

- θ Why defectors leave
- θ Where they go
- θ What's important to customers
- θ How we rate on those characteristics
- θ Variations based on customer segment
- θ Size of wallet



Primary Research: Reasons for defection

Goal: Identify controllable and non-controllable reasons for defection

Controllable:

- θ Poor Service (missed appointments, improper or incompetent service)
- θ Price / Value of products or services
- θ Do not offer complimentary services (Local phone with LD)
- θ *Anything that can be attributed to a competitive offering*

Non-controllable:

- θ Customer moves out of your geographic region (retail, banking, etc.)
- θ No longer need product (diapers)
- θ *Anything that can be attributed to a change in the customer that impacts you and competitors*

It is good to have a handle on the percentage of defectors that are controllable and non-controllable. This allows for sizing the retention opportunity.



Primary Research: Reasons for defection

Among controllable reasons for defection, Price / Value usually will show up as the highest percentage. However:

- θ It's the easiest way for someone to articulate the weakness of the value proposition
- θ Do not mistake this for meaning you must cut price to save relationships

To best uncover the underlying attributes of satisfaction and strength of value proposition to defectors, it is necessary to understand consumer trade-offs and differentiators.

Beyond “Why did you defect” (explicit) into “how do you make decisions in this product / service category”.



Primary Research: Importance and ratings

A carefully designed research instrument can provide deep insights into the decisioning process of service providers. There are two classic approaches:

Explicit: Attribute mapping

- θ Rate the importance on a scale of 1 to n of each of the following factors in considering a purchase of product X
- θ Rate your impression of the level of performance on each of the factors for different providers
- θ *Focus is on your performance relative to competitors in the consumer's mind*

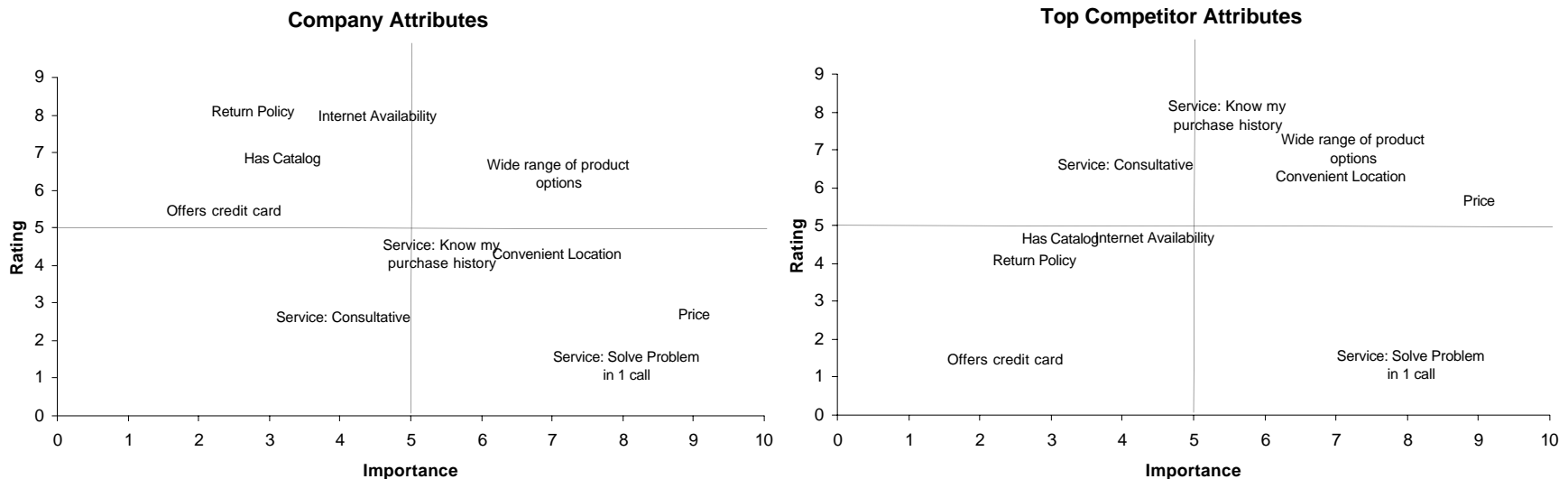
Implicit: Discrete choice / conjoint

- θ Choose which you prefer:
 - } Local phone service with LD and High-speed internet access for \$XX
 - } Cable, High-speed internet access, and local for \$YY
 - } None of the above
- θ Repeated over available and possible product attribute combinations
- θ *Focus is on underlying product attributes that are likely to yield the highest interest and preference.*



Attribute Mapping

While this research can be done on a customer base overall, when done among defectors, it is known that they actually changed providers. Typical information presented looks similar to the following:



The company has low ratings on several attributes that are important to customers, and high ratings on non-important attributes.

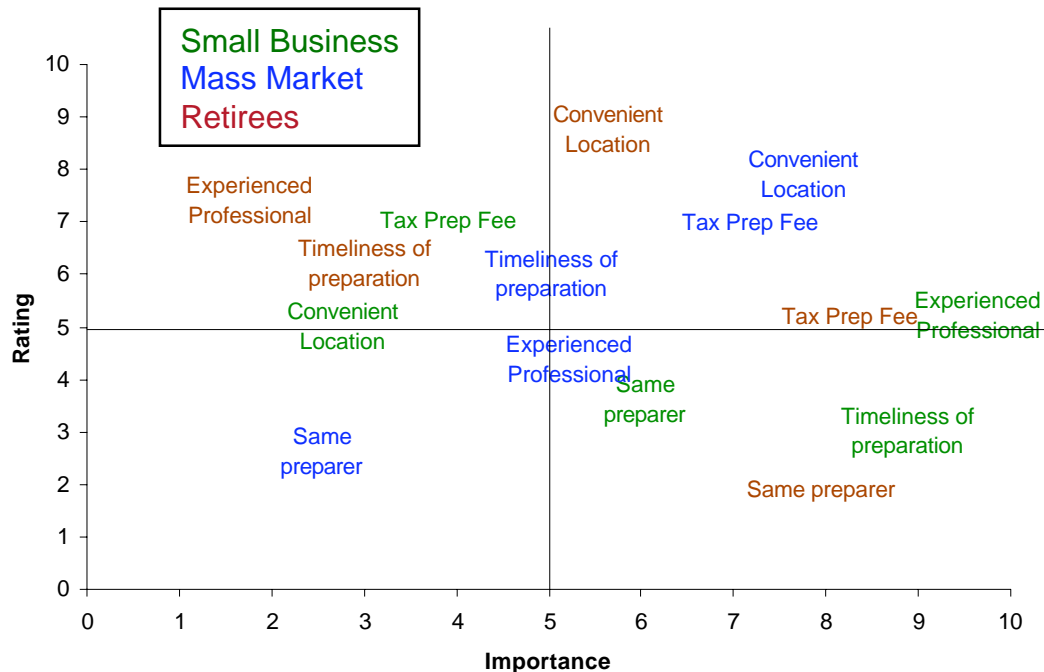
The competitor has high ratings on several attributes that are important to customers, and lower ratings on non-important attributes.

Differences between company and competitors can be calculated to identify the biggest points of weakness among highly important attributes.



Attribute Mapping: Segment Variations

A financial services provider looked at their tax preparation services across several segments. The results indicated a different value proposition for three different segments (small business, retirees, mass market).



Small Business: Company was not meeting requirements on the timeliness of the return, nor the experienced, relationship-focused preparer. Company built small business services group within current structure.

Mass Market: Client was doing ok, and decided to market the experience of their tax preparers more explicitly in marketing messages.

Retirees: Really wanted a relationship with the tax preparer, but unwilling to pay more for it (barely meeting minimum expectations on price). Fortunately, churn was relatively low for this group.



Discrete Choice

Used widely in product development to define profit-maximizing mix of product attributes and product positioning.

In retention marketing, can be used to define components of campaign

- } Optimal product mix / bundle
- } Promotion components (% off, no installation fee, bundled price, etc.)

Notes about the process:

- θ Respondents define their preference among a series of alternatives (discrete – A, B, C, ... n, none)
- θ Alternatives are structured to get at underlying components of campaign or marketing program (experimental design)
- θ Result is a “utility” or “part-worth” for each component
- θ Mix of components with maximum overall utility is defined
- θ “Part-worths” can be used to compare relative utility for individual components.



Discrete Choice Example

A restaurant is beginning a loyalty program. They have identified high-value customers for research. The loyalty program can have some of the following attributes:

- θ Earn 100 points for every dollar spent at the restaurant
- θ Earn 200 points per dollar on your third visit each month
- θ Automatically receive a \$10 certificate for every 20,000 points
- θ Build up points to a \$25 certificate for 40,000 points
- θ Use points to redeem for merchandise from restaurant
- θ Use points to redeem for rewards from other companies
- θ Receive a newsletter that may have additional bonus point opportunities, allows you to communicate with the restaurant via surveys, and has lifestyle tips
- θ Have a plastic card to swipe for point accumulation
- θ Have loyalty program tied to a specific credit card number

The issue is to define the right mix of program attributes that will have the highest impact on profitably building relationships with high-value customers.



Discrete Choice Example

A single series of alternatives might look like:

- | | | | |
|----|---|----|---|
| A: | <ul style="list-style-type: none">>Earn 100 points for every dollar spent>Automatically receive a \$10 certificate with every 20,000 points earned>A unique relationship card that you use to make sure you get points on every visit>A newsletter that has your point balance, bonus offers, upcoming events, and helpful tips | B: | <ul style="list-style-type: none">>Earn 100 points for every dollar spent>Receive reward catalogs to redeem points for restaurant merchandise>Special bonus point offers>No card to carry – tied to your credit card |
| C: | <ul style="list-style-type: none">>Earn 100 points for every dollar spent>Earn 200 points for every dollar spent on your third or more visit per month>Receive points balance statement with bonus offers>Redeem points for movie tickets, gift cards at local retailers, or certificates good at any of our locations>A unique relationship card... | B: | >None. |

The respondent is asked to select the preferred alternative. Then, a new series of alternatives is shown, and the process repeated until all required alternatives are presented.



Discrete Choice Example

Results of this exercise could be as follows:

θ Customers have a high utility for:

- } 100 points per dollar
- } 200 points per dollar at 3+ visits a month
- } Plastic relationship card
- } Redemption preferences:
 - ♣ Partnerships (Movie tickets, gift cards)
 - ♣ Automatic redemption (\$10 / 20,000)
- } Points balance statement

- This sets the stage for the restaurant chain to build pilot program.
- Costs of the program must include estimates of levels of redemption (and breakage).
- The chain may not be able to offer partnerships in the initial pilot



Taking Action

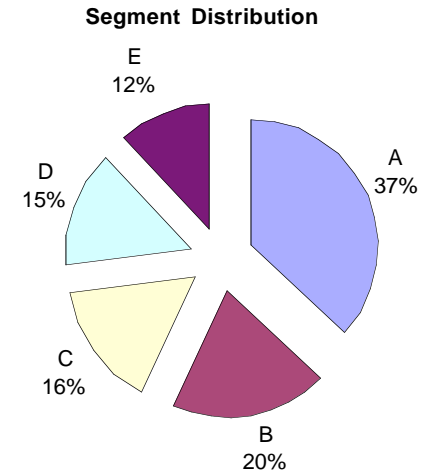
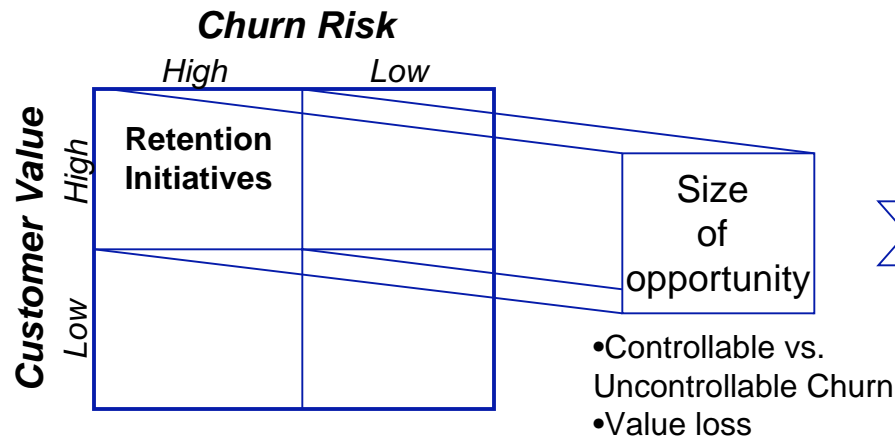
Significant insights can be uncovered from primary research against defectors overall or by segment.

The insights can lead to action:

- θ Potential action formed into a business plan (process changes, incremental costs, additional revenue saved, etc.)
- θ Pilot test conducted to affirm assumptions
- θ Marketing tailored to reflect attributes that are important and differentiating
- θ Segment-specific variations on attributes
- θ Results of test and marketing analyzed to refine /quantify opportunity

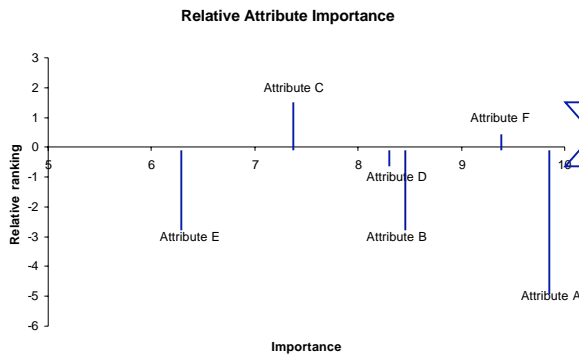


Putting the pieces together



Database Analysis

Attribute mapping among recent high-value defectors



Develop action plan to address attributes and requirements

Discrete Choice to define marketing program

- Program components:
- Product bundle
 - Price point
 - Promotion
- Economic analysis:
- Optimal bundle
 - Cost / return

Marketing Action

- Pilot Program
- Review Results
- *churn reduction*
- *value enhancement*
- Refine
- Roll out

Overall, or by segment

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Tips, Pointers, etc.

1. Perform database analysis first – Quantify
 - Who’s likely to leave (predictive modeling)
 - Customer Value (current, future)
 - Segments (a variety of schemas are used – behavioral, lifestage, etc.)
2. Understand what level of influence you want to have or are able to have with primary research
 - Significant: New product offerings (development, partnerships) that are in line with consumer’s view of competition
 - Modest: Campaign attributes
3. Use qualified professionals for survey design and execution
 - In-house corporate strategy / research group
 - Outside provider
4. Begin with the end in mind
 - Specific insights you need to gain to be more effective
 - Potential types of actions that you can take