



Using Segmentation and Predictive Analytics to Combat Attrition

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Discussion Agenda

1 Understanding Attrition

- What is Attrition?
- How does it impact your business?
- Analytical Tools to Combat Attrition
- Building a Retention Framework

2 Segmentation

- Segmentation and Modeling
- Why is Segmentation important?
- What to do/Not to do
- Case Study

3 Modeling and Marketing Framework

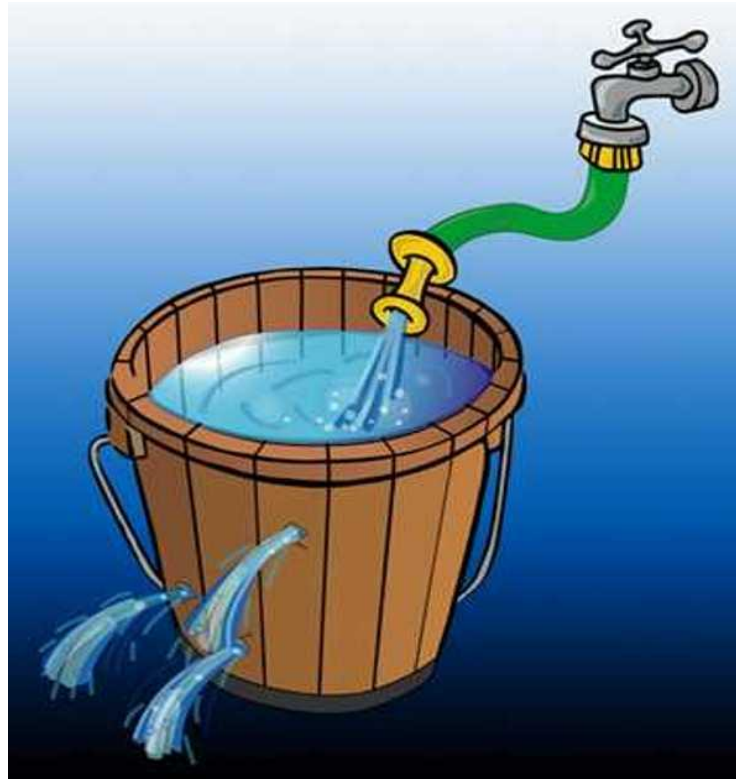
- Value of Predictive Modeling
- Sales Predictor Model
- Marketing Optimization Framework
- Case Study

4 Lessons Learned

- Key Takeaways

What is Attrition?

Attrition is simply described as when customers reduce their usage or completely stop using your products or services



Why do we care about Attrition?

Types of Attrition

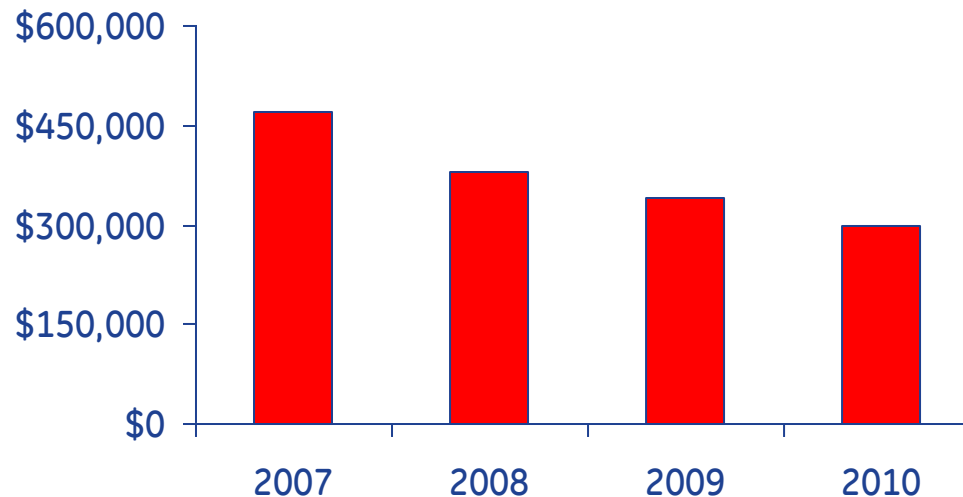
- Voluntary Attrition
- Involuntary Attrition
- Silent Attrition
- Balance Attrition
- Spend or Usage Attrition



How does it affect your business

- Cost to acquire a new customer is five times higher than retaining an existing one
- Top 30% of customers comprise 100% to 150% of your profitability
- 10% to 20% customers will attrite annually
- High attrition will impact growth - Relying on new customers is not a sustainable strategy

Typical Curve on Customer Attrition
(Excludes New Customer Sales)



What are we going to do about it?

Analyze – Acquire Insight

Identify – Which of my customers are attriting?

Evaluate – What is the magnitude of attrition?

Measure – What is the financial impact or lost opportunity?

Monitor – How is it trending?

Action Plan to Combat Attrition

Market Research

Segmentation

Predictive Modeling

Proactive Marketing & Retention Strategies

Measure Financial Impact

TIP

Develop Analytical Tools and Strategies to combat attrition






Building a Retention Marketing Framework

- Focus on retaining profitable customers

Combining Multiple Models

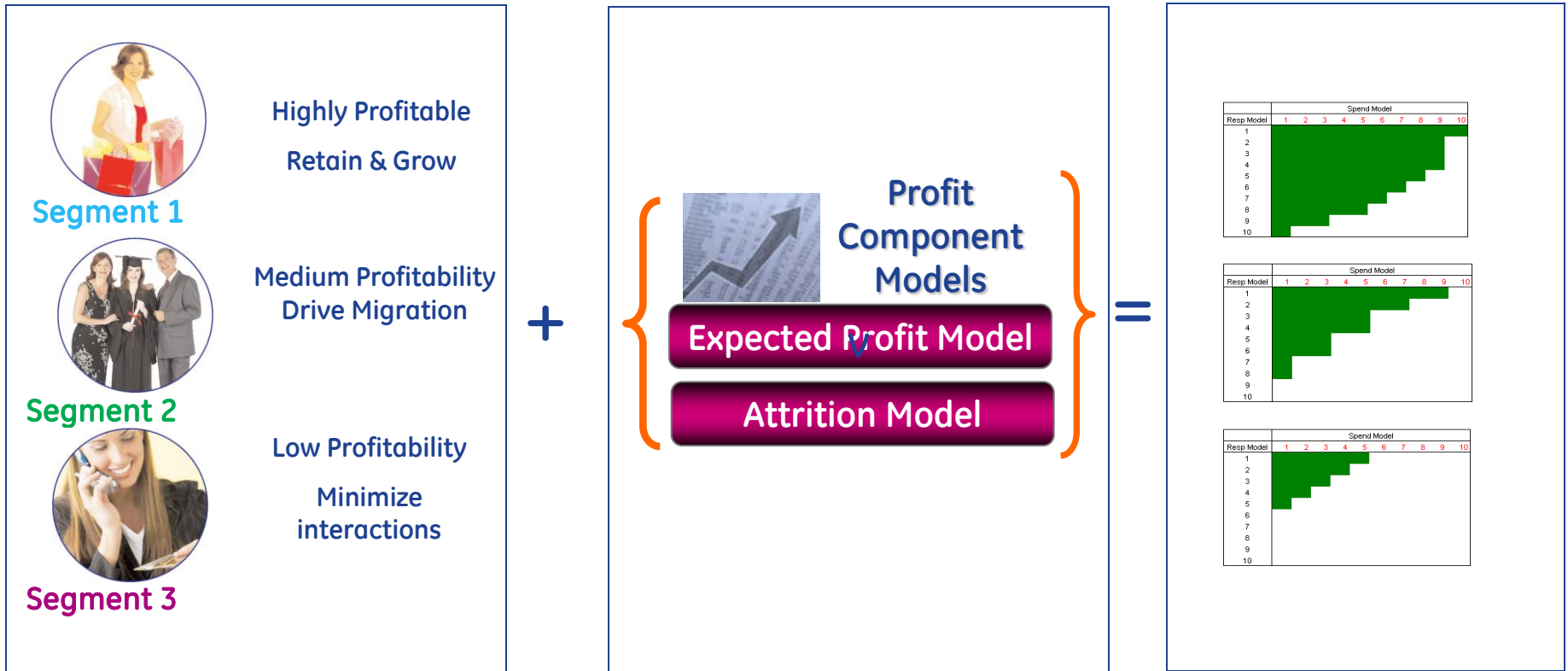
	Profitability		
Likelihood of Attrition	High	Med	Low
High	Green	Green	Red
Medium	Yellow	Yellow	Red
Low	Yellow	Red	Red

-  Maximize marketing spend, increase offers/contacts
-  Optimize marketing spend - Drive customer engagement
-  Limit Marketing Spend

TIP

Marketing Spend driven based upon Profit / Value

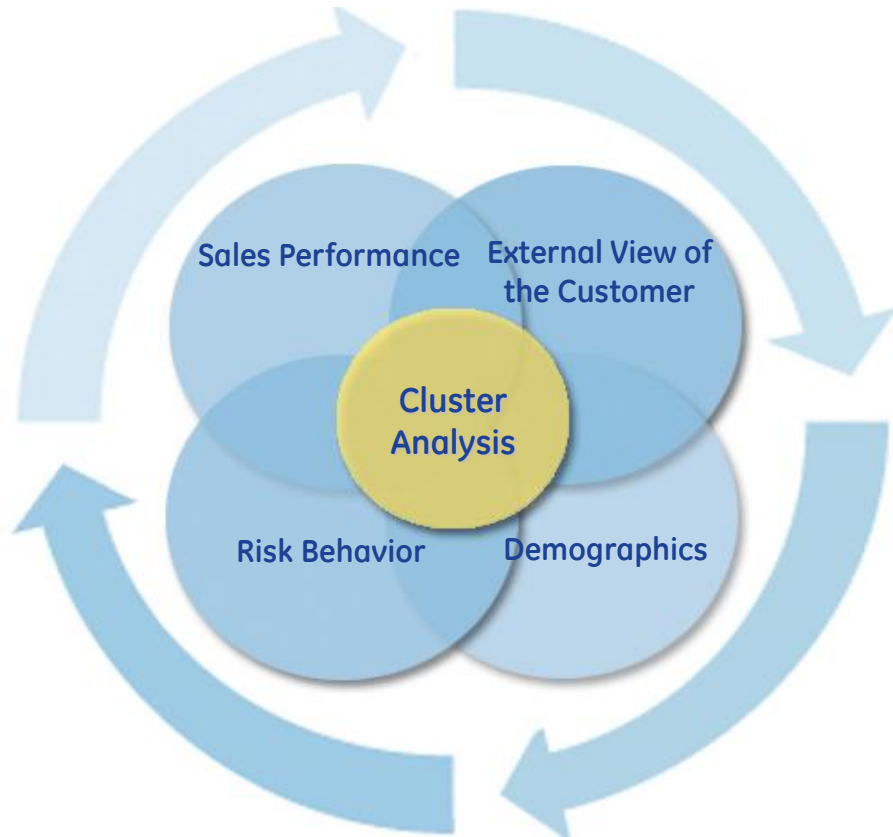
Segmentation + Modeling = Profitability



Goals:

1. Reduce Attrition
2. Increase Sales, Profitability and ROI
3. Optimize Marketing Spend

Why is Segmentation Important?



Key Benefits

- Defines a framework to develop an overall portfolio management strategy
- Helps to identify the most valuable & profitable customers
- More cost effective marketing through tailored programs / strategies
- Maximize ROI by deploying marketing dollars on the most productive segments
- Measures the impact of customer migration and campaign effectiveness

How to make Segmentation Work

Top 4 “Must Do’s”

- Integrate across all functional areas of business
- Segmentation tells you “what to do” not who to target
- Measure long term impact
- Needs and Attitudes is more actionable when combined with other types of segmentations

Top 4 “Don’t Do’s”

- Segmentation is only used for messaging
- Segmentation is only used as a targeting tool
- Measure short term impact
- Use Needs & Attitudes as the primary vehicle to define your strategy

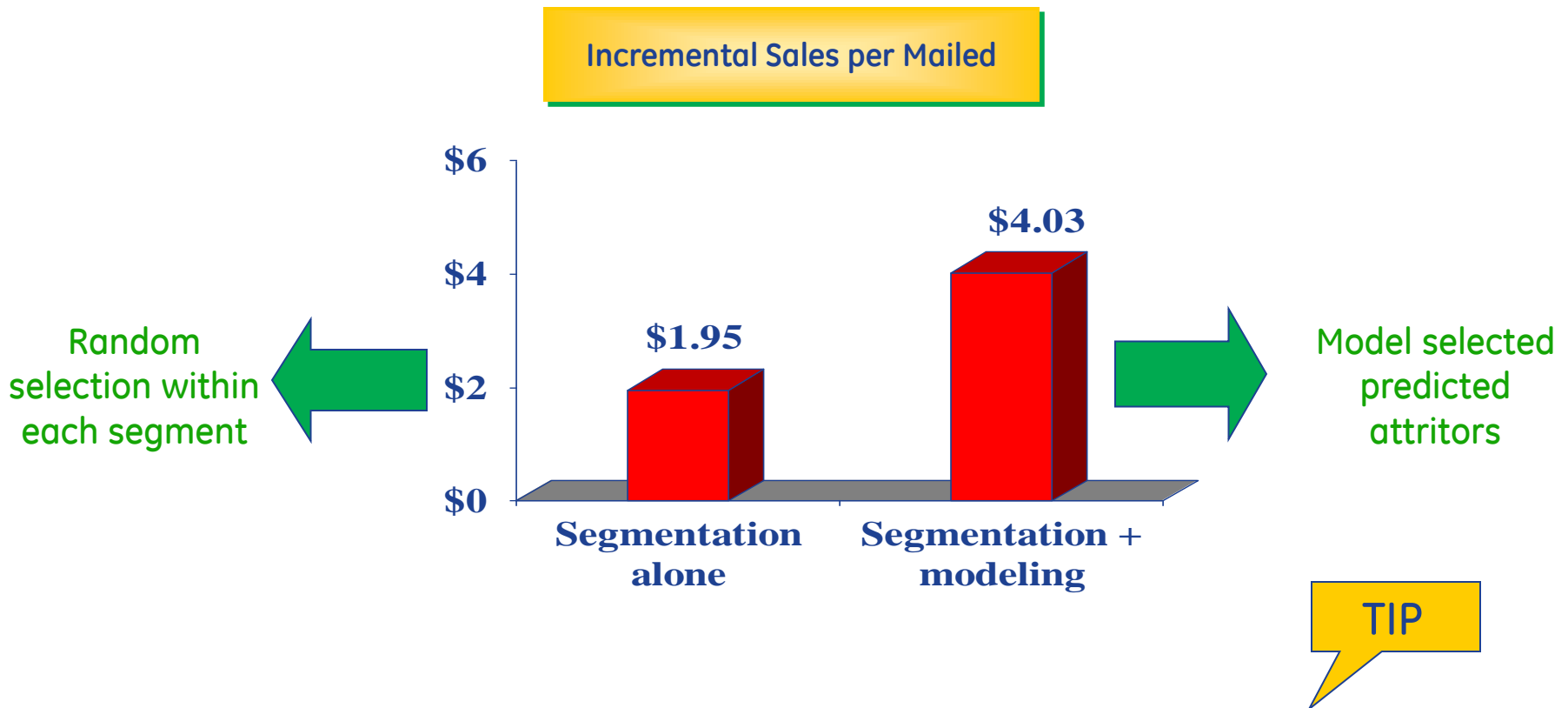


TIP

Segmentation is a strategy that when applied correctly is a powerful tool

Case Study

- This Experimental Design included two cells with the same offer
- The only difference between the two test cells was the Model overlay on top of the segments

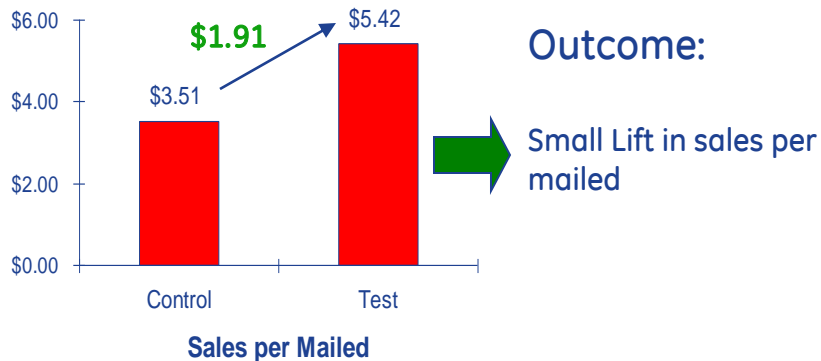


Why is Predictive Modeling Important?

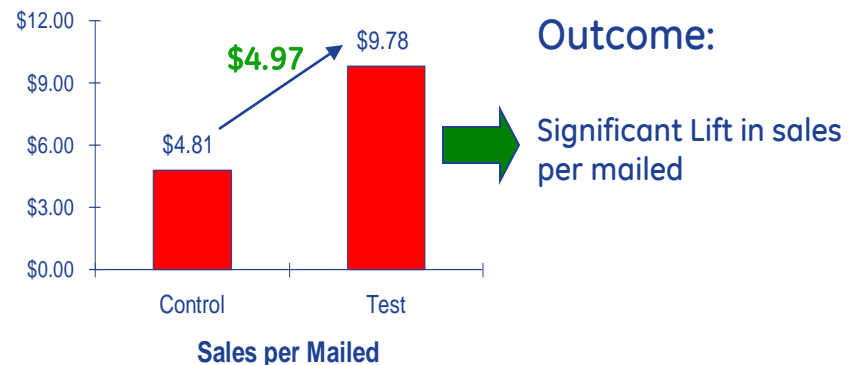
- Modeling allows us to predict the probability of an event occurring as a function of multiple factors
- It models the relationship between an outcome variable and a set of explanatory variables of any kind

Case Study on Spend Attrition

Target: Customers who are spending less year over year
No Model was used – point in time snapshot



Target: Customers predicted to spend less year over year
Attrition model was used – Predicted future value

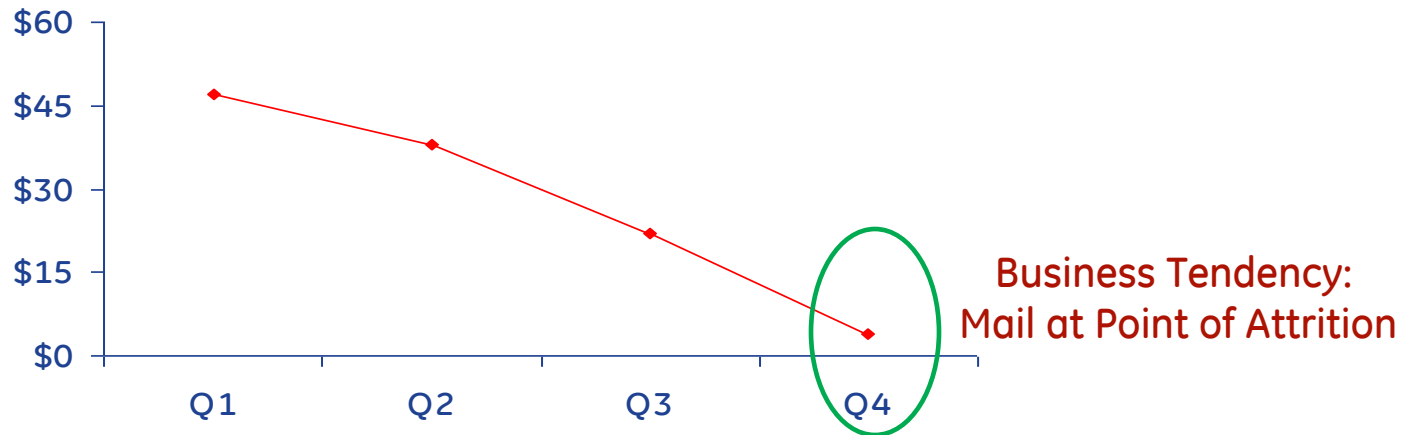


Financial Impact: Greater ROI & Incremental Sales

Current Value vs. Future Value: When to React

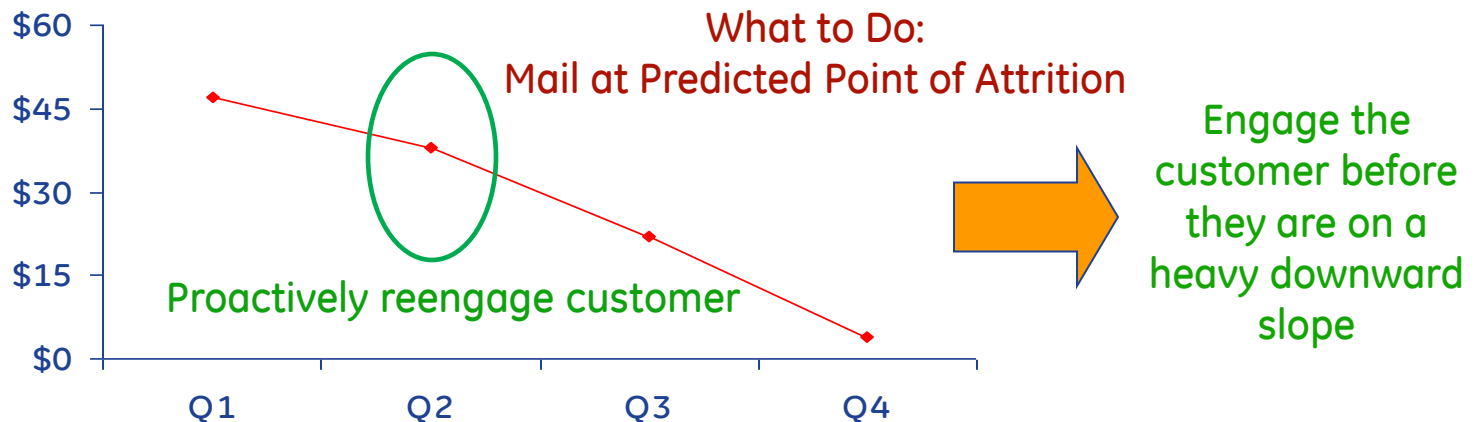
Target Attritors based upon Current Value

Sales for Customer A



Target Attritors based upon Future Value

Sales for Customer A



Sales Predictor Model

- Multiple Linear Regression Model – 11 significant variables
- Sales Predictor Model is designed to predict future spend migration
- Offer and contact strategy should be driven by predicted future value

Keep Best customers engaged (\$)

Spend Migration

		Predicted Next 12 Month Spend				
		Best	Med1	Med2	Low	Total
Last 12 Month Spend	Migration %					
	Best	74%	22%	4%	1%	100%
	Med1	22%	48%	24%	6%	100%
	Med2	3%	24%	46%	27%	100%
	Low	1%	6%	27%	66%	100%
	Total	100%	100%	100%	100%	

Proactively target Downward Migrators to prevent spend attrition (\$\$\$)

- Relevant & timely offers
- Preferred Channel
- Contact Strategy
- Multiple Contacts

Proactively target customers to increase sales (\$\$)

Drive Migration (\$\$)



Upward Migrators



Maintainers



Downward Migrators

Marketing Optimization Framework

Future Value*



Segments	Current Value	Share of Wallet %	Maintainer	Upward Migrator**	Downward Migrator**	Segment Strategy
Segment 1 (6%)	High	70%				Retain & Grow
Segment 2 (11%)	High	84%				Retain & Grow
Segment 3 (24%)	Medium	76%				Migration
Segment 4 (12%)	Medium	56%				Manage Risk & Credit Line
Segment 5 (17%)	Low	69%				Minimize Interactions**
Segment 6 (30%)	Low	55%				Minimize Interactions**

	Marketing/Contact Strategy	# of Contacts	Channels
	Retention Maximize Marketing spend	6-8	DM, email
	Engagement Optimize Marketing Spend	4-6	DM, email, statement
	Stimulation Drive segment migration	6-8	DM, email, statement
	Maintenance Limit Marketing Spend	2-4	email, statement

* Based upon Sales Predictor Model

**Migration involves a 10% upward or downward movement in spend

Case Study

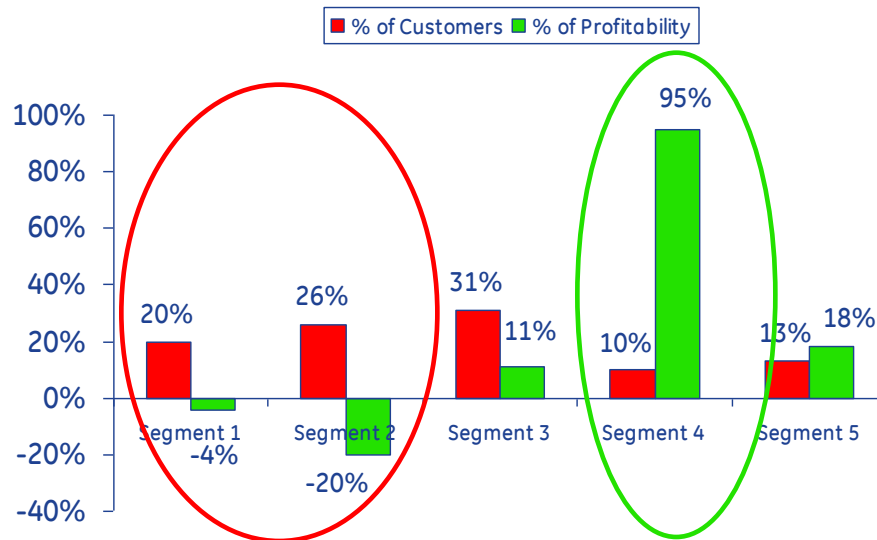
Business Problem: Reduce Attrition in High Value Segments

Channel: Direct Mail

Contact Strategy: Multiple Contacts to targeted accounts – 4 touchpoints with customers

Offers: Reward Points, Spend & Get

Targeting Strategy: Target Profitable Segments & Overlay with Sales Predictor Model



Segments 1 & 2 are losing money

Segment 4 drives 95% of the profitability

TIP

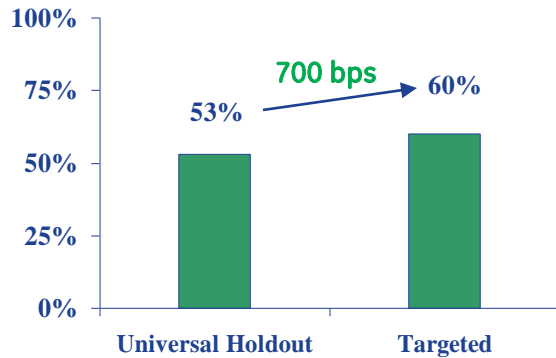
Retaining profitable customers is a more effective strategy than acquiring new ones



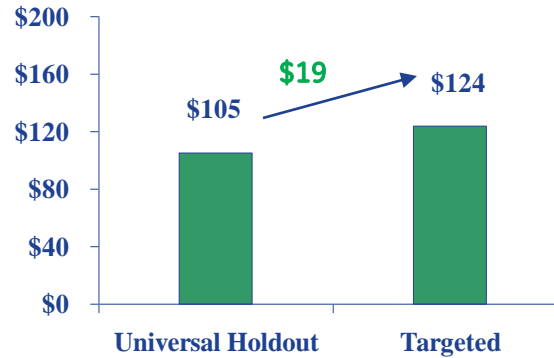
Case Study Results

A group of predicted attritors was selected as a Universal control group (held out of all marketing)

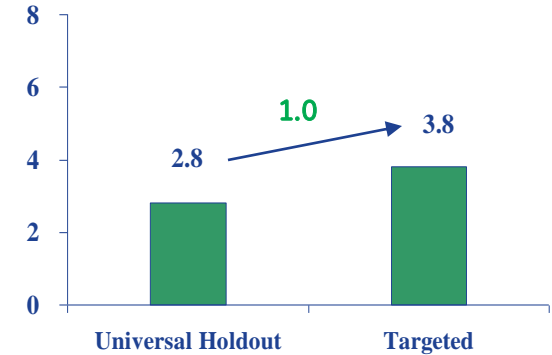
Lift in Activation



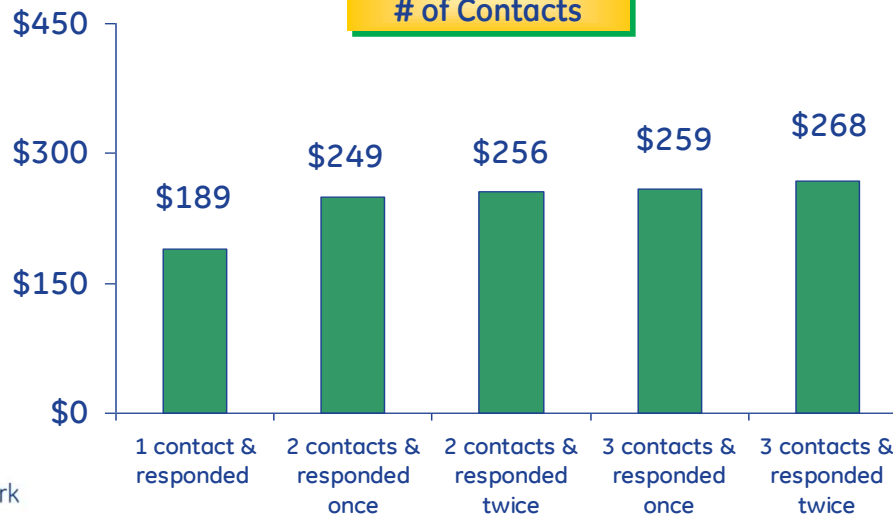
Incremental Sales per Mailed



Transactions per Mailed



Instore Sales by # of Contacts



Targeted vs. Universal Control

- Targeted customers are:
- ✓ Significantly more active
 - ✓ Have higher spend
 - ✓ Use their card more often

Lessons Learned

- Use Predictive Modeling to target attrition and maximize ROI
- Segmentation and modeling together will yield the strongest results
- Leveraging a multi-touch retention strategy will drive increased activation & sales
- Retaining profitable customers is the key to building a Retention Framework
- Universal Control Groups help measure the effectiveness & impact of marketing

Q & A