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Customer Retention Analytics

INCREASING CUSTOMER LOYALTY WITH DATA

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Data without the blah-blah.

SUMMARY

The benefits of customer retention are well documented. Bain's seminal *Customer Loyalty* report is over 20 years old, yet continues to be one of the most heavily-cited customer retention studies. Its popularity stems, in part, from how effectively it demonstrates that relatively small improvements in customer retention can lead to dramatic increases in profits.

Improving customer retention by 5% can generate a 25%-95% increase in long-term profits.

BAIN & COMPANY, 2001

For marketers, however, achieving a five percent increase in retention is no easy task.

Customer decision-making has many contributing factors, and only some are within the marketing team's control.

Marketers need retention strategies that actually work. They need to understand who to target, when, with what message, and through which channel(s). As we'll see, strong support from skilled analysts can take the guesswork out.

Through this report, we will discuss **three practical ways** that data science and customer analytics can help ambitious marketing teams improve customer retention. We'll talk about how to define and prioritise retention activity, how to understand what's causing customers to leave, and how to allocate budget for the best results. Experience tells us that these three activities are so important, so foundational for an optimised retention programme, that it's no exaggeration to call them the **three fundamentals of customer retention analytics.**

In today's hyper-competitive world, the task for retention-focused marketers is far from easy, and the path is filled with potholes and dead-ends. But for those that navigate the road successfully, the payoff is well worth the effort.

Table of Contents

1

WHAT IS RETENTION?

The way a brand defines customer retention (and its counterpart, customer attrition) is critical for focusing marketing efforts in the right places.

Often marketers can be drawn to the most concrete definitions of customer retention, as they're straightforward to measure and provide an informative metric for senior managers. However, counting customers as they 'leave' isn't necessarily the most useful measure for informing proactive retention marketing strategies.

In many cases there are other customer behaviours that, while potentially harder to spot, are equally damaging to customer value and occur while there's still time to act.

For example, over a million customers switched banks in 2019. While that's an interesting statistic, it's not the most useful. It's too late for banks to save their share of those customers.

It's more valuable for retention-focused marketers to look for in-life indicators that a customer is starting to disengage.

The most successful retention marketers will define all potential attrition behaviours, measure their relative significance and prioritise which triggers to act on first.

Look for in-life indicators that a customer is starting to disengage.

Step 1 – Identify all possible definitions of attrition

The starting point is to consider all of the things that retention could mean. The possibilities will vary considerably depending on sector and product.

Let's take financial services. For fixed-term products, such as insurance policies, defining retention is relatively straightforward. A customer is coming to the end of their product term, and at the end they'll either renew or they won't. Simple enough.

For longer-term financial products, such as current accounts or savings accounts, the definitions can be a lot more nuanced. Relationships can last decades and it's common for customers to have multiple accounts open with multiple providers.

Here, attrition factors could include:

- Recurring payments, such as salary payments, no longer coming into the account
- Recurring transactions, such as direct debits, being transferred away
- Reducing number of point-of-sale transactions
- Reducing overall balance of the account

Intuitively we recognise these behaviours as signals that customers may be favouring another provider. However, without the right definitions are in place, we won't be looking for these red flags and won't be set up to respond appropriately.

In retail, customer retention can be even more nebulous. Customer relationships are typically more fragmented and therefore attrition factors could include:

- Change in frequency of transactions
- Significant changes in average or total value of purchases over time
- Significant reduction in activity on eCommerce platforms or mobile apps
- Failure to redeem loyalty points

And the possibilities go on. We've worked with organisations on projects to define customer retention where we've identified nine viable definitions of attrition across a product set. Typically, we find there to be a number of factors that indicate a customer's behaviour has changed in a manner that foreshadows 'full' attrition (e.g. closure of accounts).

Step 2 – Prioritise attrition types

Where we have multiple possible definitions of customer attrition, the pertinent question becomes: which of these attrition types should we worry about most? This is a question for analysts. We use customer data to model the variables and produce a hierarchy of impact, confirming how significant each type of attrition is on long-term profitability.

This analysis will also reveal how many customers are most impacted by each definition and whether attrition from one product or service has a broader impact on the overall customer relationship. This is particularly valuable insight for brands that provide multiple services with little apparent crossover, such as utility providers offering energy and broadband, or retailers that also offer banking services.

The goal in every case is to develop a well-rounded picture of the true impact of each attrition factor on the bottom line.

For example, if we learn that customers that go two months without using the mobile app have a strong chance of attriting three months later, this may become the key driver for retention marketing activity. Particularly if a large number of high value customers fall into this category.

Whichever metrics we look at – and it will likely be a combination of factors – the key is to identify which attrition types consistently lead to significant permanent changes in business KPIs.

Step 3 - Start testing

A prioritised set of attrition definitions makes the task of designing a focused customer retention programme more purposeful. Informed by analytics, we can use our new definitions as the basis of a programme of testing that uses our new attrition factor definitions as trigger points for tailored marketing communications.

Define 'Retention': Summary

- Break down ‘customer retention’ into possible attrition factors.
- Model the options to identify which has the most significant impact on profitability and other business KPIs.
- Prioritise the definitions and begin testing new retention approaches.

2 WHY ARE THEY LEAVING?

Once we have decided which customer signals represent the key indicators of pending attrition, it's valuable to take a step back and assess why those things are happening. For example, we might learn that when a customer stops using our mobile app they have a higher-than-average chance of attriting within three months.

What we're interested in now is understanding what leads to that behaviour change in the first place.

Analytics can help us **understand drivers of attrition** by identifying patterns in the data, provided, of course, there is a joined-up view of customer data and sufficient market intelligence for analysts to work with. We're looking for **causal factors**, such as complaints, long wait times, competitor activity, or changes to our pricing or service standards.

This insight can help us make sense of why customer behaviour is changing – i.e. identifying the drivers of attrition. Analysis will also help us understand whether there are significant trends around which segments are most likely to attrite. For example, we may learn that customers in Segment A are twice as likely to attrite following a service issue than customers in Segment B. This will help us further prioritise how to handle different customer sets.

It's worth reiterating that not all reasons a customer chooses to leave will be within our control. The important thing is that we understand why a customer may be disengaging so that we can act on the information in a timely, relevant manner.

32% customers would stop doing business with a brand they loved after one bad experience.

PWC, 2018

Going beyond marketing

The impact of analytics here extends beyond simply who to target and what kind of messaging will be effective. Analytics can also reveal that customer retention is being negatively influenced by factors such as changes to pricing strategy, competitor activity or relative drops in product or service quality.

Analysts tasked with providing likely causes for customer attrition will begin by creating a timeline and populating it with as many internal and external data points as possible. This then serves as a valuable reference point against which to compare customer retention data.

Depending on the quality of data that's available, analysts will explore areas including:

Product

Has our product changed? Has quality dropped? Have we introduced new features that customers are struggling with?

Marketing & PR

Have we received bad press or reviews? Have we increased cross-sell messaging? Have we introduced or discontinued marketing channels?

Operations & Service

Have we met targets for call centre waiting times? Have deliveries been delayed? Have we reduced access or availability of our product?

Price

Have we increased prices? Has a competitor lowered prices? Have we changed a discount strategy? Are customers being offered worse rates?

Why this analysis isn't commonplace

This analysis requires an investigative approach, and good data to work with. Companies will typically also be actively monitoring customer retention following significant changes in strategy or operations, so in some cases the causal factors leading to a surge in customer attrition will be obvious.

The most successful retention marketers, however, will not wait for big changes to perform these analyses. They maintain a technicolour view of their customer base at all times, understanding in detail the key attrition factors relevant to their sector and product, and with a clear view of the wider context. Intelligent use of analytics plays an invaluable role and can influence much more than 'just' marketing activity.

Understand Why Customers Leave: Summary

- Signal Identification: Recognise indicators of customer attrition, like reduced app usage, and delve into why these changes occur.
- Analytical Insight: Use analytics to uncover causal factors such as complaints, competitor activities, or pricing changes affecting attrition.
- Segment Prioritisation: Understand which customer segments are more prone to attrition triggers, enabling targeted strategies for retention.

3 UPLIFT MODELLING

Now that we understand what the main drivers of attrition are, we're ready to consider what interventions and contacts are likely to be most effective for retaining customers. The best technique to do this is **Uplift Modelling**.

Uplift modelling is essential for brands looking to optimise their retention marketing.

This analytical process involves predicting how your existing customers will respond to your marketing efforts, based on the previous responses of other customers.

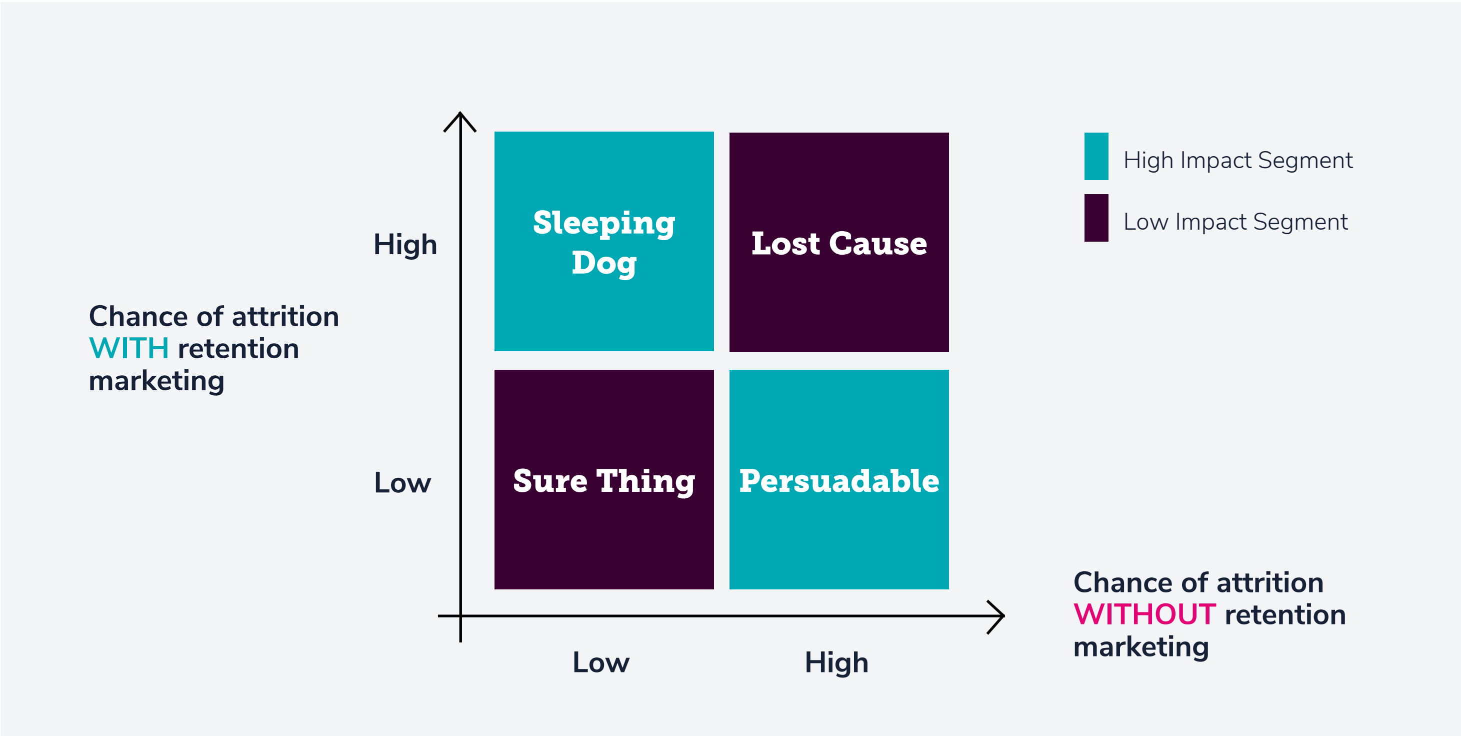
As we'll see, some customers just cannot be persuaded to stay, regardless of how fantastic our marketing is. Even worse, there are also groups of customers where marketing activity is positively counterproductive – that is to say, the retention campaign itself will become the nudge that reminds customers to cancel or to find a new provider.

There's a middle-ground too. Some customers will stay regardless of how (or whether) we contact them.

In short, the marketer tasked with creating a successful retention campaign has a potential minefield in front of them. Without proper analysis and segmentation of audiences, it's easy for retention campaigns to miss the mark, waste money, or even have 'net negative' results. For some brands ignorance might be bliss, though they're unlikely to be aware that for every goal they score, they're scoring two into their own net.

The four types of customer

In any retention campaign, uplift modelling can help us identify customers as belonging to one of four groups, based on the likelihood of attrition with and without retention marketing.



Lost Causes and Sure Things

These two groups are the least likely to be influenced by marketing activity. The **Sure Things** will stay no matter what we do. The **Lost Causes** will leave no matter what we do. In both cases, marketing is unlikely to result in significant changes of behaviour and so there is a strong incentive to save or redirect the budget elsewhere.

Persuadables

This should be the highest priority segment for retention campaigns. These customers can be persuaded to stay, and good retention marketing can make the difference. The cost of marketing activity will nearly always be justified to this segment, as it's likely that you'll see significant uplift in customer retention.

Sleeping Dogs

As the name implies, this group is best left alone. Retention activity will have an impact, but not the way we want it to. Marketing to this group is most likely to spur them into action – i.e. finding a new provider. We've seen it many times where marketing to this group directly results in a level of customer attrition that outweighs the positive impact of the entire campaign – a net customer loss.

If there are two major takeaways from this section, they are:

Treat Persuadables and Sure Things differently. And let Sleeping Dogs lie.

Applying the four quadrants

Uplift modelling is the analytical technique required to identify these four groups.

It takes careful analysis to properly categorise customers into these groups, particularly in industries with low response rates. It requires good control cells and an acceptable volume of quality data. However, with the right planning it is possible for the majority of brands, and the impact can be dramatic.

Marketers that use uplift modelling can expect to:

- Minimise spend on retention activities that will have no positive impact
- Free up budget to target customers where you can persuade them to stay
- Improve net customer retention
- Increase campaign ROI and long-term profits

Overlaying customer value

The effectiveness of uplift modelling gets even more pronounced when combined with customer value data. Customer value mapping techniques allow us to identify the lifetime value of our customer base, and segment them accordingly. In combination with uplift modelling, this means we can then identify, for example, our high value persuadables. This sub-segment will nearly always be our top priority for retention activity, and likely justifies the highest per-customer marketing spend.

Uplift Modelling: Summary

- If you've never used uplift modelling before, now is the time to start.
- Reviewing past retention campaigns may reveal some avoidable customer loss, but future campaigns and long-term impact on profitability will be substantial.
- Uplift models improve over time. Feed the model new campaign results data, and it will become more accurate and more valuable to your retention activity.

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Optima Connect. Data without the blah-blah.

Too many data companies are all sizzle and no steak. Blinding you with jargon. Happy to persuade you that their latest, shiny thingummyjig will dissolve all your data headaches overnight. Until it doesn't. At Optima we love the technology but we hate the technobabble. We know it's data solutions you need, not Grand Designs. We'd rather ask good questions than give you easy answers. And when you talk, we listen. Because although we know our stuff, we need to know your stuff too. Smart thinking. Straight talking. Hard working. That's us. Data without the blah-blah.