MANAGING MIGRATION TO MAXIMIZE COMMUNICATIONS ROI

A good customer can be hard to find.

Customers, like businesses, present both risks and opportunities to those who would invest in reaching them. Frequently, consumer-facing companies lack the resources to identify, quantify and track the many different segments that make up a typical customer portfolio. Which customers are the most profitable? Which are costing money? Which offer an opportunity to improve their value? Which are likely to remain with a brand, and which are in jeopardy of falling away altogether? To maximize ROI, a business must be able to answer these questions clearly, reliably and on an ongoing basis.

Movement between segments — migration — means a list isn't enough.

Mapping customer segments is not as simple as compiling a list of high-spending customers. Analytical research shows that, while as little as 10% of a customer base may be responsible for 90% of profitability, the individual customers that make up this top tier segment are constantly in flux. It's a moving target; some top-tier customers lose value, while some lower-tier customers appreciate in value. This dynamic ebb and flow between segments is called migration, and it offers a unique opportunity to increase marketing ROI by better planning strategy for maximum impact.

Analytical models demystify the migration process.

With access to as little as 12 months of customer data, analytical models can provide reliable estimates detailing likely customer migration between segments, both upward (more valuable) and downward (less valuable). While any given individual customer may behave in ways contrary to these projections, the aggregate, segment-oriented results are remarkably stable and predictable. This stability allows a savvy business the opportunity to measure, in advance, the results and ROI of targeting specific communications to specific customer segments. In doing so, this business can actually manage migration and realize predictable incremental profits.

Reallocation of marketing resources yields significant results.

A national issuer of credit cards had been applying a retention-oriented communications strategy across its entire portfolio of customers with disappointing results. The chart below illustrates this across-the-board approach, along with the potential productivity of each segment. Clearly, the most potentially productive customers are under-served by this strategy, while those with the least potential are over-served.

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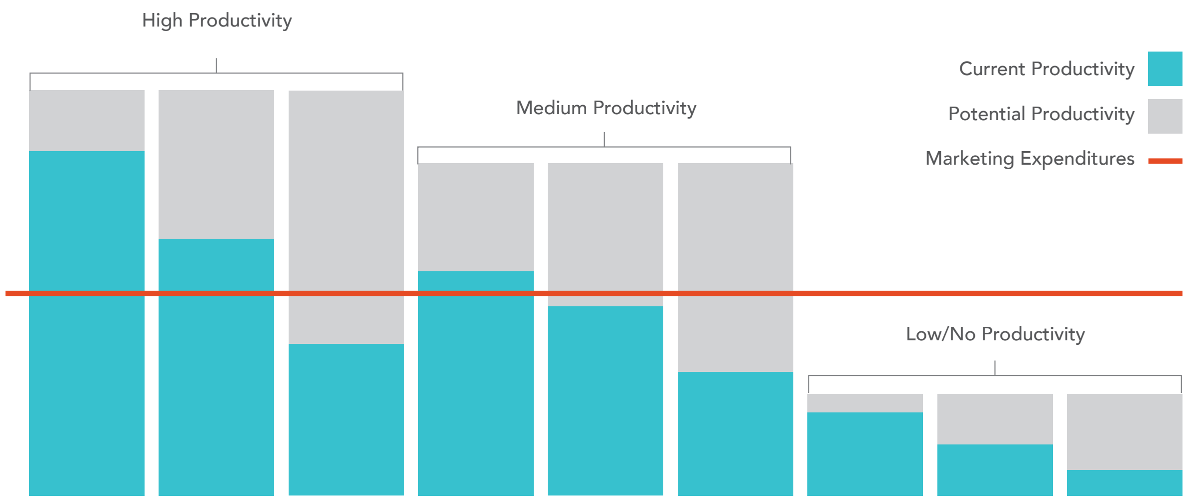
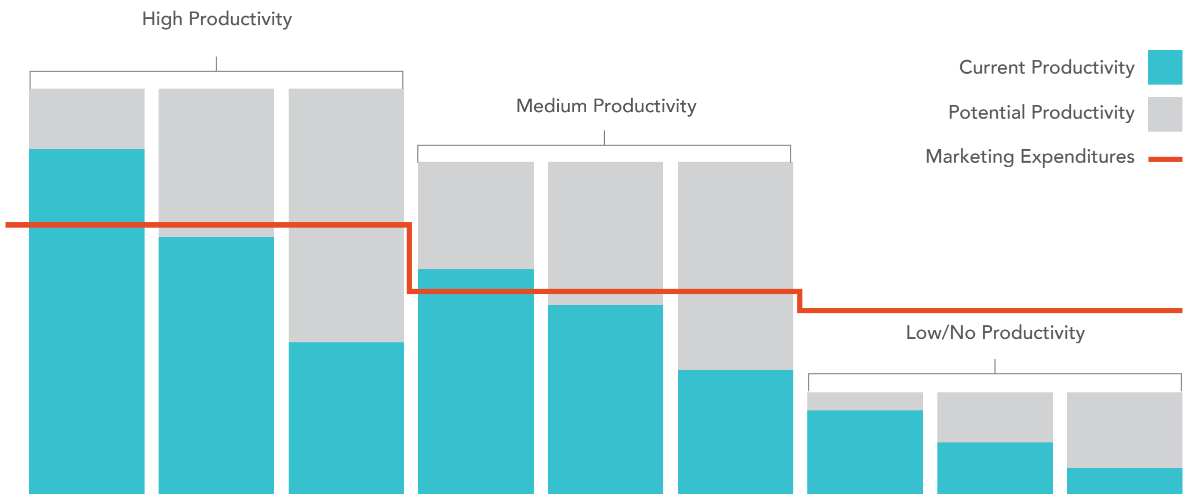
Disconnect: Value vs. Investment



Hiccup, an all-services marketing firm, conducted a review of the previous year's card-holder activity and produced a new strategy to properly weigh investment with potential reward, based on customer segment as defined by the analytics. The resulting strategy yielded the plan represented here, where maximum potential is addressed by maximum resources.

Maximizing Customer Value



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Analysis reveals the true cost of migration — and offers a solution.

In this case, Hiccup identified 6 discrete customer segments representing value from a $144 per- customer annual profit on the top tier to an annual deficit on the lowest tier. But even more importantly, measurement of migration between these 6 segments provided a clear picture of what the credit issuer stood to lose or gain from upward or downward movement between the tiers. Taken together, the results were stark in their message: Potential loss through downward migration of the uppermost tier represented the greatest threat to profitability — by a factor of 8.2 to 1 over all other segments combined.

	Account Value	Top Tier	High Potential	Seasonal User	Big Ticket	Marginal	Inactive
Top Tier	$144		$7,560	$0	$1,504	$0	$0
High Potential	$36	(6,336)		$315	$1,584	$178	$62
Seasonal User	$9	$0	($588)		$92	$118	$51
Big Ticket	$6	$0	($336)	($54)		$257	$29
Marginal	$3	$0	($756)	($162)	($620)		$51
Inactive	($0)	($10,670)	($700)	($92)	($255)	($252)	

Weighing the potential profitability of this top tier, the wisdom of weighing marketing and other customer communications became clear.

Results: The numbers tell the story.

At the end of the measurement period, Hiccup's strategy had resulted in a 50% reduction in downward migration among top-tier customers, yielding $5 million in incremental profit for the credit card issuer. Best of all, these results can be reliably replicated year after year, and since customers continue to move dynamically between segments, the net result is growth in the most profitable tier.

About Hiccup

Hiccup is a content marketing & communications agency that creates and executes multichannel programs informed by the application of advanced analysis.

Founded in 2007, we offer creative media planning and buying multichannel branding, direct response analytics, digital strategy web development, mobile & tablet app development, call center management packaging, research and point of sale under one roof.