The Journey Analytics Guide to:

Customer Retention & Growth

Pointillist®

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Introduction

To grow the profitability and revenue of a company, numerous studies have shown that it is far better to prioritize customer retention and growth ahead of customer acquisition.

If a customer relationship is to grow to its fullest potential, it must be carefully nurtured through a process that builds trust and relevant, personalized engagement.

Whether your objective is customer retention or customer growth through upsell and cross-sell, this eBook will provide you with a concrete, actionable, step-by-step plan to make it happen using customer journey analytics.

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What Is Customer Retention?

Much of the marketing world is still focused on acquisition, but improving customer retention will yield better ROI and cost 5-25X less than acquisition.

What's better than acquiring one new customer? The answer isn't acquiring two new customers. *It's actually retaining an existing one.*

Customer retention is the set of actions that companies take to stop customers from leaving and to retain and grow as many as possible into loyal customers. Customer retention starts with the first customer interaction and continues throughout the customer's entire relationship with your organization.

To improve retention, every customer interaction should be differentiated, based on what has worked in the past and what is predicted to work well in the future. More importantly, it should be tailored to each individual customer and their unique customer journey.

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My Customer Retention ≠ Your Customer Retention

The Timescale Conundrum

Retention can often be a confusing concept, nebulous and shifting in meaning from industry to industry. It would be easy to define and measure if we relied on the customer to indicate they are no longer a customer.

Sure, that's easy in subscription-based industries such as SaaS or telecom or insurance. But for most businesses, the customer does not inform you that she is leaving. As a result, you have to deduce the likelihood that you've lost a customer based on activity within a certain period of time.

Richard Boire, of Boire Filler Group, lays out this difference in a compelling fashion. For a grocery retailer, he says, 70% of active customers exhibit repeat purchase activity within a two-week period. For credit card issuers, 70% of active customers repeat activity within a two-month period, while that number goes up to two years for a tire manufacturer. When it comes to the automobile industry, that number is higher still—as much as 5 years.

Many companies, in such circumstances, identify shorter-term behavior that can be used as a proxy for customer retention. Getting customers engaged in shorter-term activities often bodes well for long-term customer retention.

Is Retention About Loyalty Or Churn?

Another source of confusion is that in some industries retention is synonymous with churn, while in others it goes hand-in-hand with loyalty.

In subscription-based industries such as telecom or Software as Service (SaaS), retention is about preservation and preventing the loss, rather than focusing on the growth of the customer. Retention campaigns are focused on indications that the customer is about to leave and how to make her stay.

In retail and eCommerce, the focus of retention is on creating engaged customers that return to shop with you again. Retention (or Retention Marketing) is about campaigns that increase the likelihood of a customer purchasing again as well as increasing the profitability with each repeat purchase.

The point is, customer retention is a nuanced concept and there isn't a one-size-fits-all strategy to improve customer retention that can be applied in broad strokes across all industries.

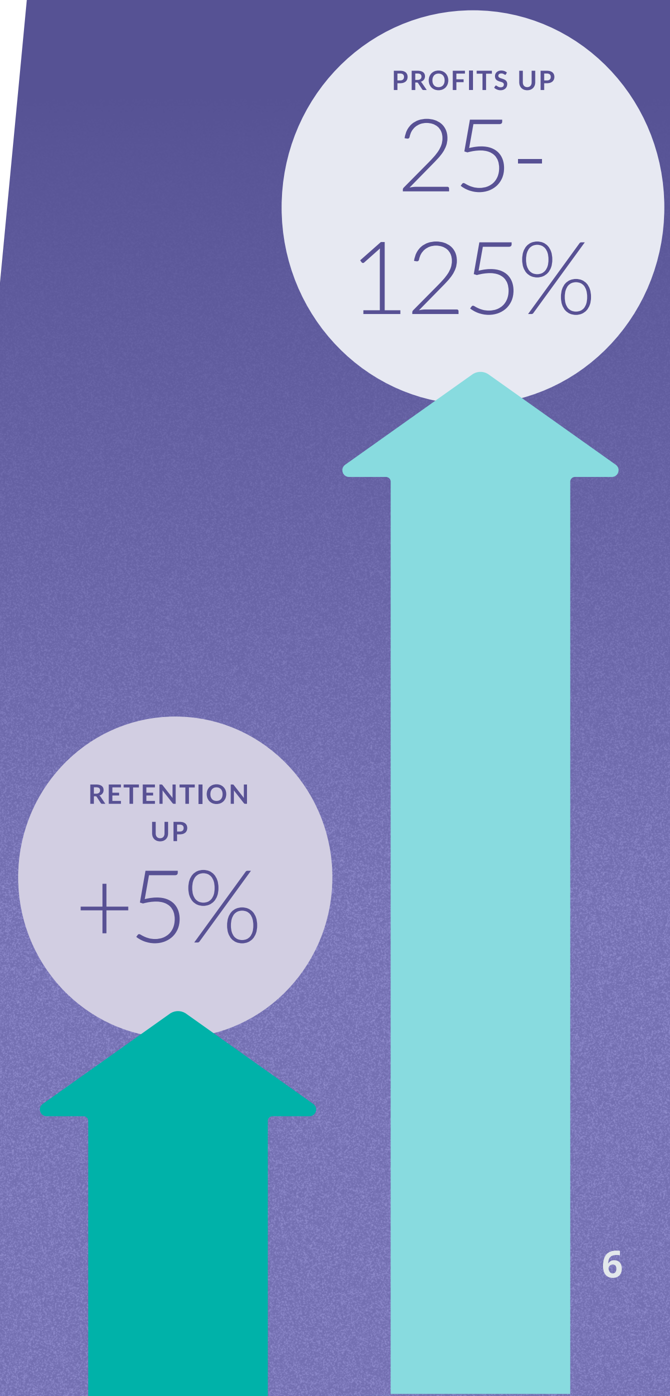
Why Customer Retention Matters

As per Gartner, a 5% increase in retention can increase profits by 25% – 125%. Yet companies struggle with customer retention or seem to underestimate its revenue impact. Most eCommerce businesses retain fewer than 20% of their customers. The average app only retains 10% of its users after 30 days, per mobile intelligence firm Quettra.

If you are unable to retain your customers after you've just made a huge cash outlay to acquire them, they will only be a net-negative for you, unable to pay back the customer acquisition cost (CAC).

Essentially, you are only spending money to lose more money. This is why customer retention matters to growth and profitability and why it's critical to focus on strategies to improve customer retention.

Though acquisition seems more attractive because acquisition campaigns yield faster, more measurable results than customer retention campaigns, it is important to take a long term view and remember that your company's future revenue and profitability will depend largely on retaining your existing customers.



How to Measure Customer Retention

Retention rate measures the percentage of your customers retained during any given period of time. It is the opposite of *customer churn rate* which measures how many customers leave during a specific time period.

$$\text{Customer Retention Rate} = \left[\frac{\text{No. Customers at end of timeframe} - \text{No. of new customers in timeframe}}{\text{Customers at start of timeframe}}\right] \times 100$$

Applying this formula, if a business starts a month with 500 customers and loses 40 but gains 80 customers, at the end of the month they have 540 customers. The retention rate for the month is (540 – 80)/500 = 92%.

Is your retention rate high or low? There isn't one right answer and it depends on a company's particular context—industry, business and revenue model. The key is to benchmark yourself against competitors and similar companies, but most importantly against your own past performance.

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Customer Growth through Upsell & Cross-Sell

For most businesses, upselling and cross-selling to existing customers is the most sustainable way of achieving growth. Once you have successfully retained a new customer, it is time to be thinking about growth so that the customer can be profitable over a long period of time and you can recover the Customer Acquisition Cost (CAC).

Amazon has attributed up to 35% of its revenue to cross-sell, both through its “Frequently Bought Together” and “Customers Who Bought This Item Also Bought” features.

JetBlue has in the past made as much as an additional $140million in revenue through its upsell program called ‘Even More Space’.

Lufthansa uses VR glasses to entice travelers into last-minute upgrades at the boarding gate and acknowledges that this successful upsell program has brought in significant ancillary revenue.

‘90% of customer value for B2B businesses is obtained after the initial sale.’

– *Marketo*

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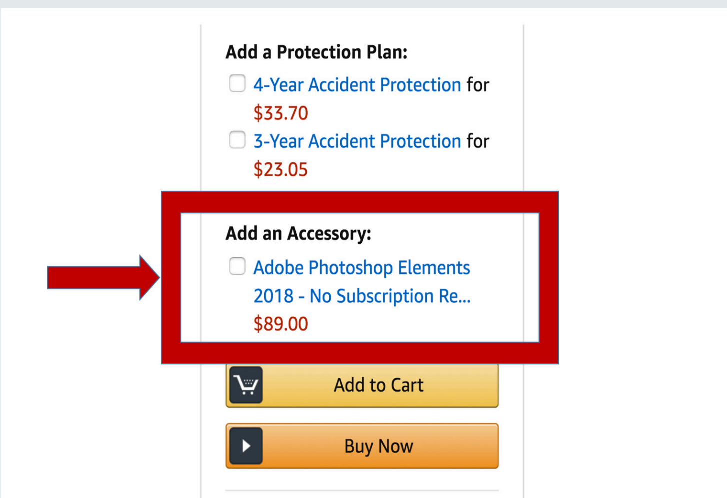
Upsell or Cross-sell? Are They the Same?



Upsell and cross-sell are often confused and used interchangeably, but there is a meaningful difference between the two.

Upsell is when you encourage your customer to purchase a more expensive model in the same product or service family, or to augment the original purchase with additional features such as warranties or protection plans.

Cross-sell is when you recommend a product that complements your customer's existing purchase, but is from a different category. In this case, the retailer in the previous example offers a complementary product to the one already chosen.

Cross-selling and upselling are closely related because they both focus on providing additional value to customers, rather than limiting them to products they have already considered or purchased. The key to success in both is to understand what your customers value most and then respond with products and services that truly meet those needs at the right time and through the optimal channel.

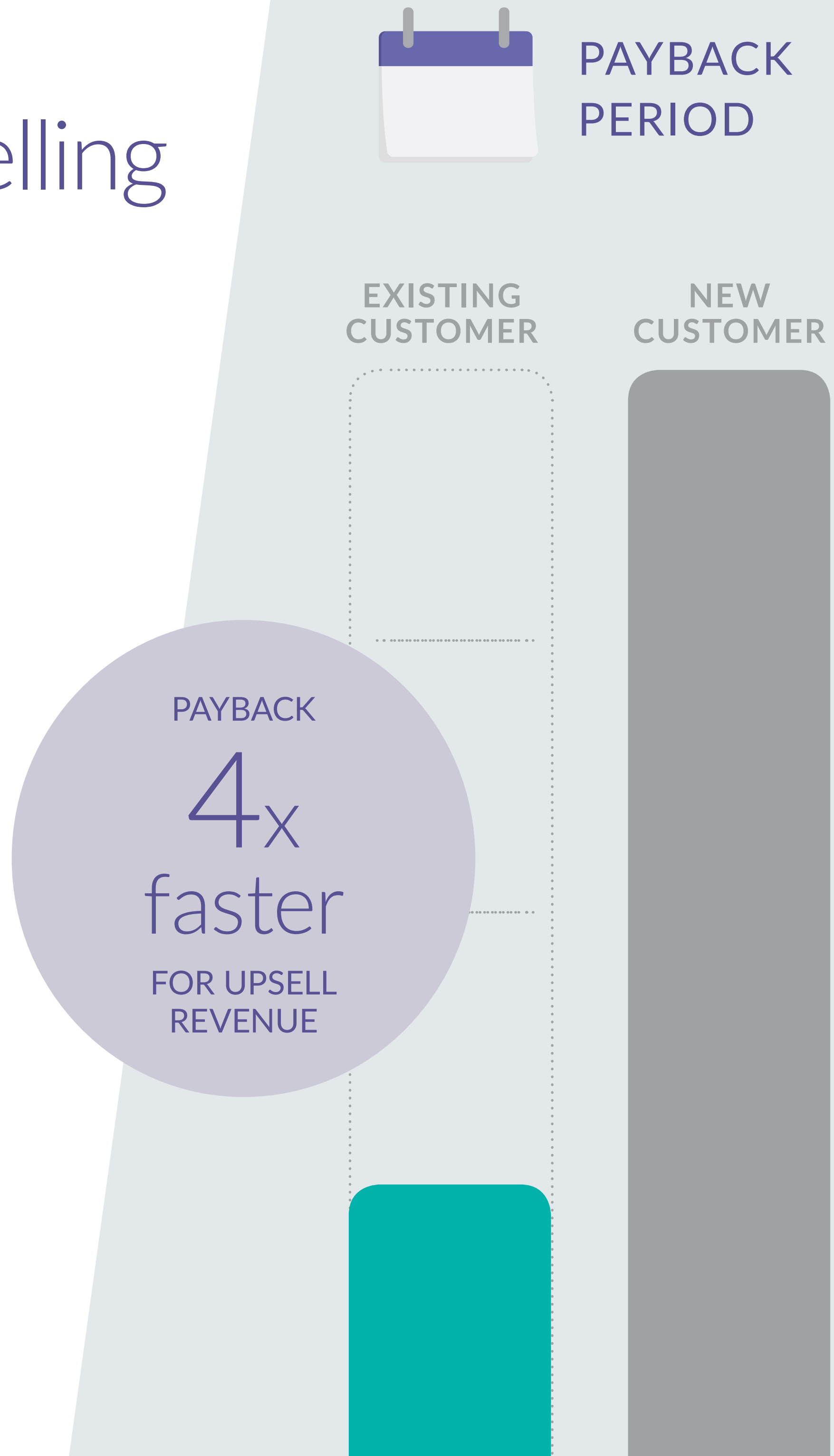
Business Benefits of Upselling and Cross-Selling

Generates Additional Revenue More Efficiently Than Selling to New Customers

Lead generation is expensive. It is far easier and more profitable to upsell or cross-sell an existing customer than to make a new sale to a brand new customer.

A SaaS benchmarking survey looked at the customer acquisition costs (CAC) needed to acquire $1 annual contract value (ACV) for new customers compared to upsells to existing customers. The results showed that the median CAC for $1 of new ACV was $1.18. This means that it would take a company more than a year to earn back the cost of acquiring new customers.

The median CAC per $1 of upsells was only $0.28, about 24% of the cost to acquire each new customer dollar. The payback period for upsell revenue is only about a quarter, far less than that for new customers.



Business Benefits of Upselling and Cross-Selling (cont'd)

Builds Strong Customer Relationships

Upselling and cross-selling is not just a sales and marketing tactic to make more money for a company. When done right, it helps a customer derive more value from their purchases, do their jobs better and make their lives easier. It generates more opportunities to provide good customer experiences and build deeper, stronger customer relationships.

Increases Customer Lifetime Value (CLV)

Customer lifetime value is the estimated total of how much each customer will spend over the lifetime of their relationship with your company. Upselling and cross-selling are great ways to increase your customers' profitability over time and keep them coming back for more.

CASE STUDY

GEICO Turns Customer Service Into Cross-Sell Opportunity

Here's a great example of upsell done through a support call leading to a higher CLV. Chris Yeh, an investor and entrepreneur, called Geico for roadside assistance and ended up narrating the whole incident on his blog:

"This post isn't about the $2,000+ I'm going to have to spend on a new transmission. Rather, it's about how GEICO turned a pure cost center–providing roadside assistance to its customers–into $2,000 in revenue. After providing GEICO with my location and arranging to wait for the tow truck, the GEICO dispatcher told me, 'From looking at your account, it looks like you're now eligible for a big discount on our comprehensive coverage. Since you're going to be waiting for the tow truck anyways, would you like to hear more?'

15 minutes later, I had agreed to add $1 million in additional coverage for my car and home, at a cost of right around $100 per year.

I've been a GEICO customer for 16 years already, so it's not much of a stretch to speculate that I might be a customer for another 20 years. That means that GEICO turned a costly customer service call into an incremental $2,000 in lifetime revenue."

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10 Steps to Improve Customer Retention & Growth With Journey Analytics

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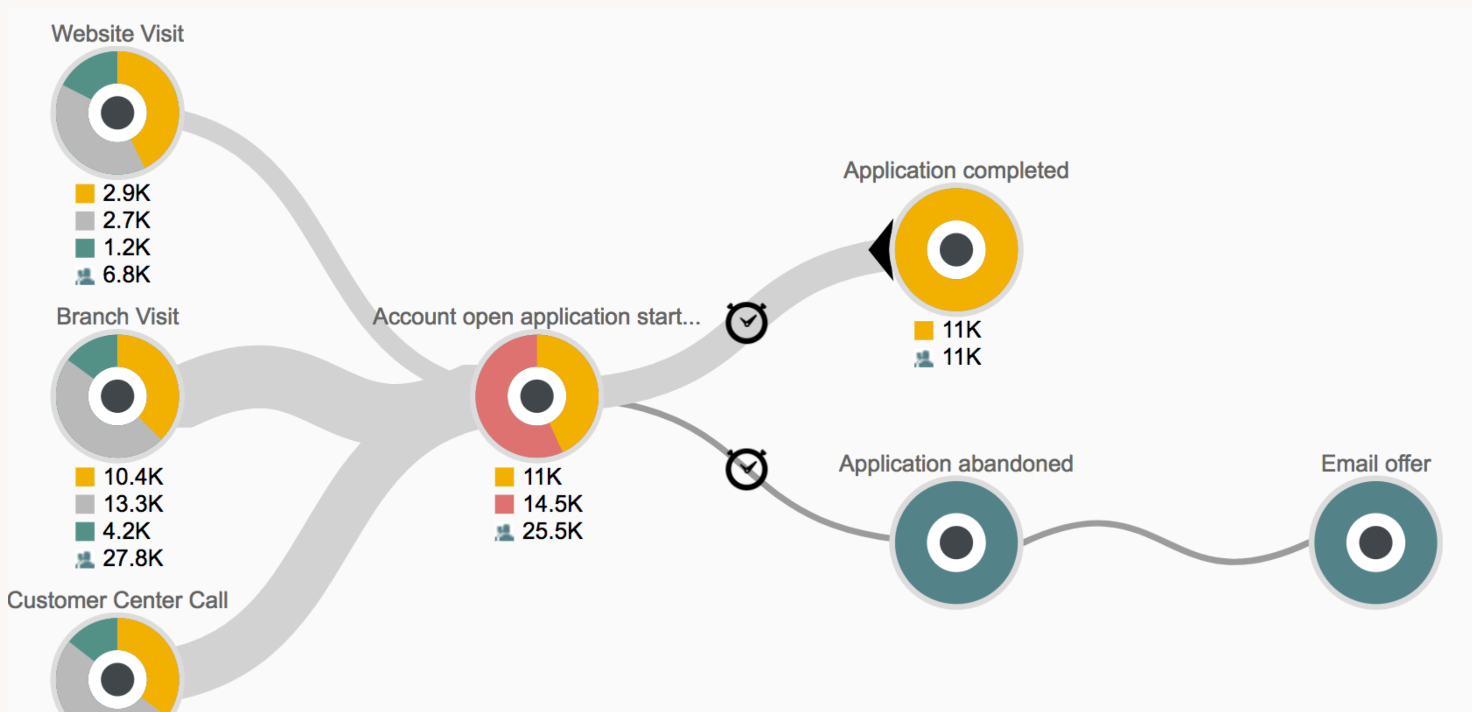
1. Take a Journey-Based View Instead of a Last-Click View

By mapping the customer journey you are able to analyze the complete, end-to-end experience in the eyes of your customer. Different customers will have different experiences and you will visually be able to see each one, the various touchpoints encountered and the actions taken at each point in time.

Due to the limitations of traditional analytics tools, most organizations typically focus on the last event that occurred before the customer churned, incorrectly assuming that it is a reliable indicator of churn and therefore retention.

But experiences accumulate over time. As in personal relationships, trust, familiarity or resentment in customer relationships build up over years. Customers can have experiences that make them feel neglected or indifferent long before they end their relationship with your business.

To discover the root causes of churn, you need to look at the complete customer journey or you will likely reach the wrong conclusions. Conversely, powerful insights are also obtained by understanding what makes your loyal customers feel valued.



2. Unify Customer Data to Create a Single View Across Channels

Data residing in silos is the greatest barrier to understanding your customers

A typical shopper today may first come across a product through a social network ad, check it out on an ecommerce site and purchase it in a physical store. But are you equipped to see this customer as a single person and not three different shoppers? A large majority of companies still see each device and each interaction as a separate customer, breaking the customer journey into disparate fragments.

If marketers want to acquire, retain and grow customers, they must have a complete, unified view of the customer across all their touchpoints.

In most organizations, data is not organized around customers but around different business units and channels, making journey-based analyses impossible. This leads to ineffective offers, since they are disconnected from an individual customer's experience.

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2. Unify Customer Data to Create a Single View Across Channels (cont'd)

A single view of your customer can be achieved in two steps:

A. Data Integration

The first step is to integrate customer data available to you from different touchpoints. This data will typically reside in data warehouses, point-of-sale systems, email marketing platforms, marketing automation systems, call center data management systems, etc.

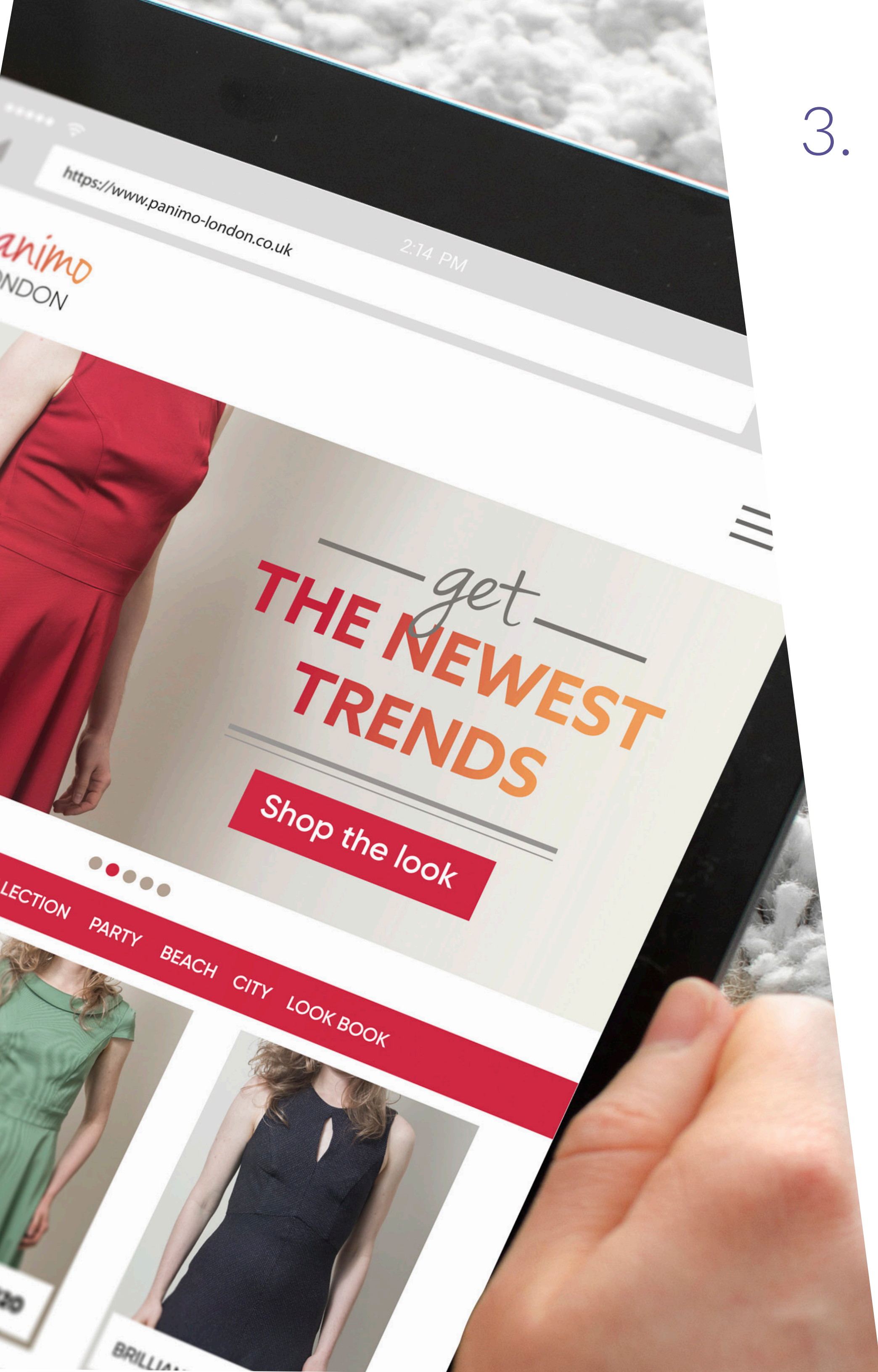
Customer journey analytics tools can integrate data rapidly and easily without first requiring schema setup, customer identity matching or fixed field mappings.

B. Customer Identity Matching

The most crucial step in unifying customer data is to bring together the separate pieces of data that have been collected on an individual customer by recognizing that they actually refer to the same customer.

An advanced identity matching approach will compare the values in customer identifiers (such as email address, loyalty card number, cookie ID, etc.) collected in every interaction (purchase, web interaction, store visit, etc.). It will look to match individual customer identifiers on the fly, rather than requiring all relationships to be defined in advance. This helps build a robust customer identity quickly by joining data associated with a specific person across channels, data sources and time.

Companies that have created a single customer view are using it to develop deep segmentation and employ it to track and analyze customer behavior across multiple channels.



3. Use Behavioral Segmentation

Behavioral Segmentation for Retention

A large majority of companies still segment their customers only by who they are, by product type, or by region. As a result, when retention offers are made, they are almost identical and largely undifferentiated. It's no wonder they typically have low success rates.

A lot more is needed to enable true differentiation. The answer lies in behavioral segmentation, which allows you to divide customers into groups according to their knowledge of, attitude towards, use of, or response to a product, service or brand.

Behavioral segmentation is a powerful tool for improving customer retention by segmenting customers based on how they interact with products and services. You can use behavioral segmentation to create meaningful clusters, which when deployed using the right technology platform, can deliver truly differentiated treatment.

3. Use Behavioral Segmentation (cont'd)

Behavioral Segmentation for Growth

Behavioral segmentation is a powerful approach to drive growth and expansion through cross-sell and upsell. Companies like Amazon employ machine learning algorithms that use customer behavior data—such as a user's purchase history, items in their shopping cart, and items they've previously rated and liked—to make product recommendations.

Dynamic Customer Profiles

Internal and external data that spans several years can be combined to build dynamic customer profiles. Knowing how the customer's product usage has changed over time, how she has migrated among different products and which factors caused changes in behavior are all valuable for designing an effective strategy to increase share-of-wallet.

3. Use Behavioral Segmentation (cont'd)

Smart-selling - Customer behavior data can also be used to determine when not to target some customers for an offer. For instance, if a customer has had a recent negative experience with your company or are not getting enough value from products they've already purchased, it is probably not a good time to make them a fresh offer. A Harvard Business Review article identifies four profiles of customers you should avoid cross-selling or upselling to as they may in fact be unprofitable for the business:

SERVICE DEMANDERS

This customer segment often overuses customer service channels and tends to call support for every issue that they encounter, often ignoring service announcements. When service demanders purchase more products, your support costs rise disproportionally.

REVENUE REVERSERS

Revenue reversers give the appearance of generating revenue, but then take it back as they are more likely to return items, default on payments or terminate contracts early.

PROMOTION MAXIMIZERS

This segment gravitates towards steep discounts, making them unprofitable for the company overall.

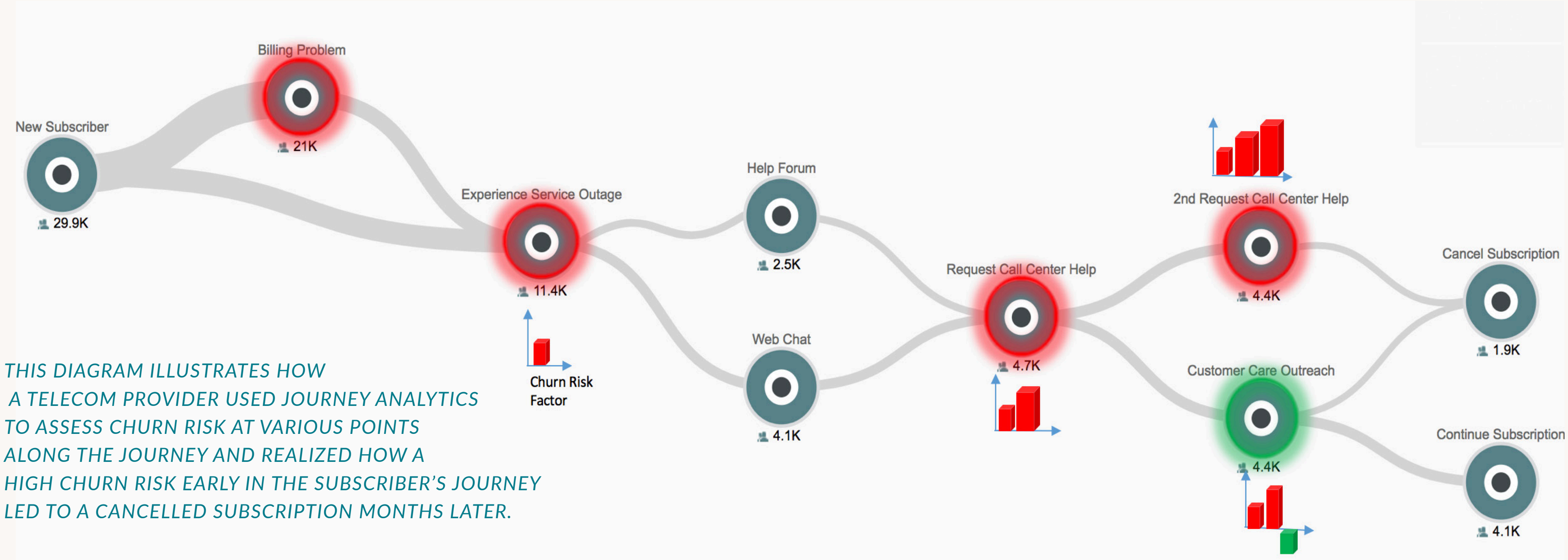
SPENDING LIMITERS

Spending limiters have a small, fixed budget that they will not exceed with a company. If they buy additional products, they will not increase their total spending with your company.

4. Identify Targets for Customer Retention Campaigns

Although behavioral segmentation certainly adds to a company's understanding of its customers, it does not automatically deliver differentiation. The next step is to identify the right targets, in other words those who are at the highest risk of churn, so that you can proactively reach out to them.

Using predictive analytics and machine learning algorithms, journey analytics can help identify which customers are most likely to churn, thus providing you with valuable data to turn the situation around. You will be able to assess the probability of churn risk well before a customer churns, instead of waiting until it's too late.



THIS DIAGRAM ILLUSTRATES HOW A TELECOM PROVIDER USED JOURNEY ANALYTICS TO ASSESS CHURN RISK AT VARIOUS POINTS ALONG THE JOURNEY AND REALIZED HOW A HIGH CHURN RISK EARLY IN THE SUBSCRIBER'S JOURNEY LED TO A CANCELLED SUBSCRIPTION MONTHS LATER.

4. Identify Targets for Customer Retention Campaigns (cont'd)

With churn risk probabilities in hand, customer treatment and retention decisions can be made more accurately, creating offers that are more likely to be accepted and targeting those customers at greatest risk.

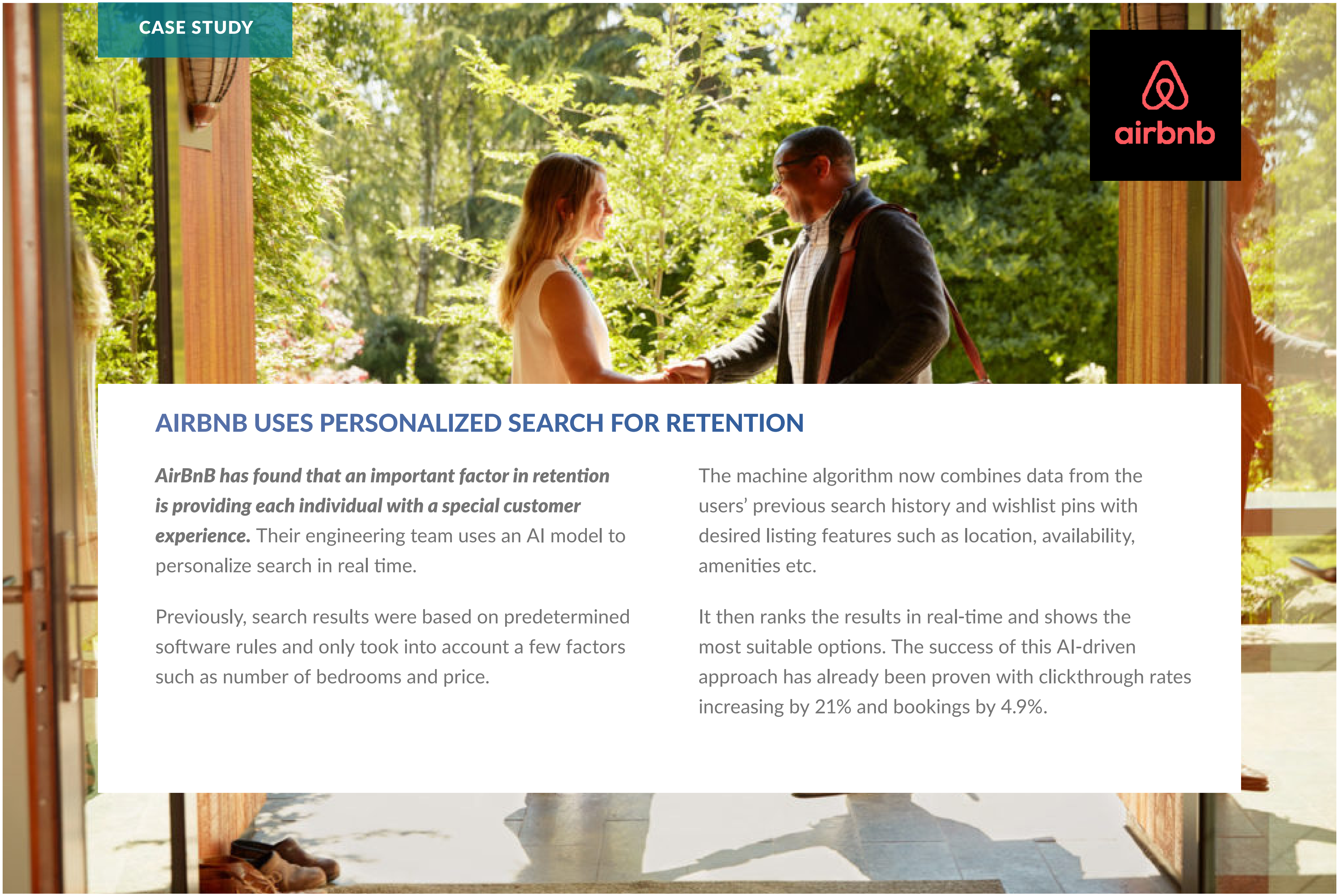
Companies that deploy sophisticated analytics to find their most valuable and at-risk customers and use this data to improve decision making at every point along the customer journey are able to focus retention efforts and uncover new paths to increased revenue.

5. Use AI-enabled Analytics to Discover Retention Opportunities

Mining insights across billions of unique customer journeys using traditional analytics methods and tools is a laborious and slow process, which tends to confine it's usage to a small set of pre-defined problems.

AI-enabled customer journey analytics provides you with the power to sift through a much larger and more complex data space and thereby uncover opportunities to improve customer retention in places you didn't even realize you should look. As a result, you can spend your time prioritizing these insights instead of hammering away at the underlying data.

Retention really soars when a company remembers a customer and treats them with attention, respect and consideration throughout their unique customer journey.



CASE STUDY

AIRBNB USES PERSONALIZED SEARCH FOR RETENTION

AirBnB has found that an important factor in retention is providing each individual with a special customer experience. Their engineering team uses an AI model to personalize search in real time.

Previously, search results were based on predetermined software rules and only took into account a few factors such as number of bedrooms and price.

The machine algorithm now combines data from the users' previous search history and wishlist pins with desired listing features such as location, availability, amenities etc.

It then ranks the results in real-time and shows the most suitable options. The success of this AI-driven approach has already been proven with clickthrough rates increasing by 21% and bookings by 4.9%.

5. Make Differentiated and Targeted Product Recommendations

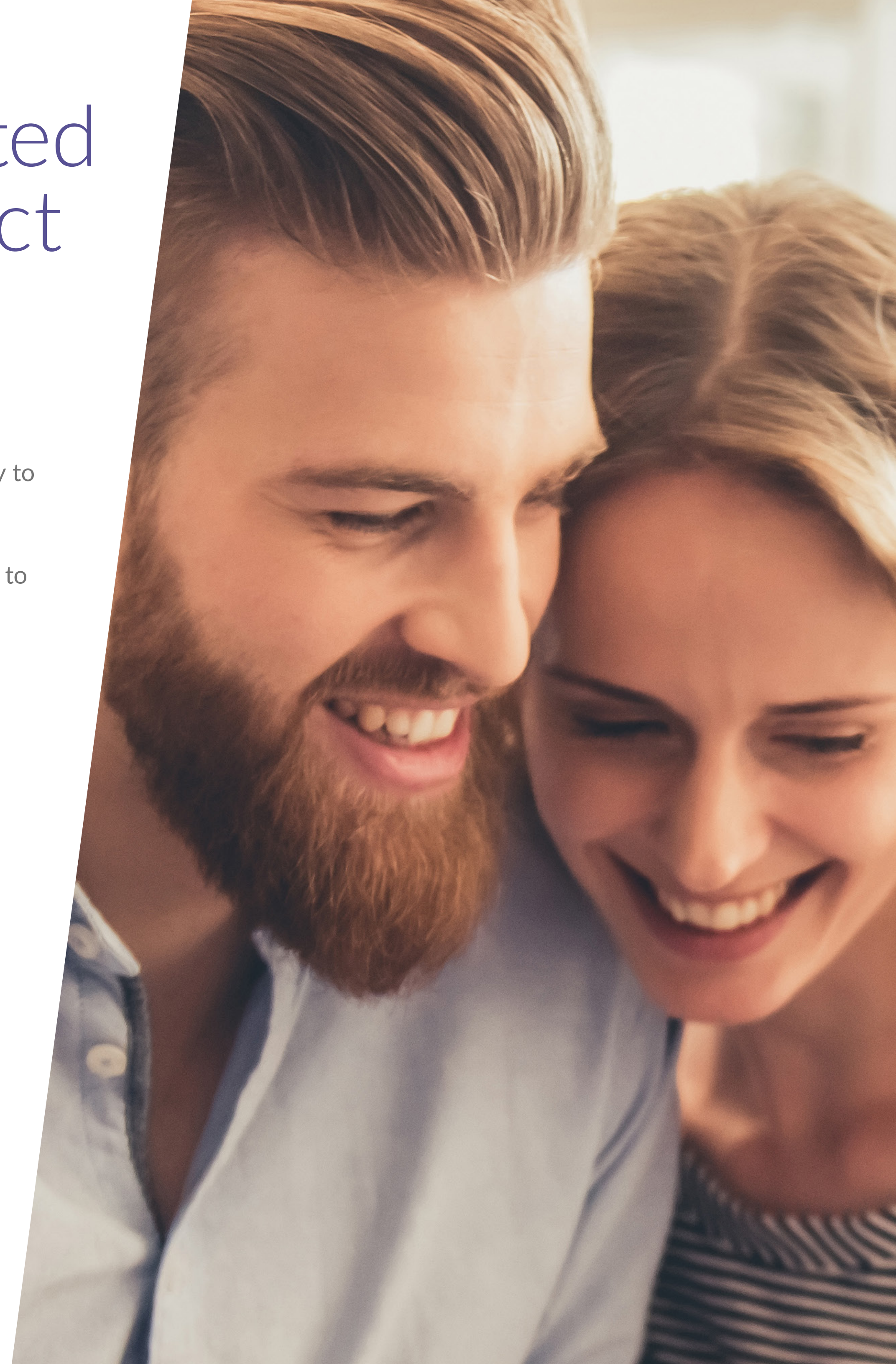
Actively engaged customers will naturally make more frequent purchases, spend more in each transaction and will be more likely to remain loyal customers.

Making differentiated and targeted product offers is the best way to keep customers engaged and keep them coming back for more.

The single customer view and real-time customer behavior data provided by customer journey analytics platforms are powerful ingredients for creating highly personalized and targeted recommendations.

For example, a marketer could use location-based data to send an offer when a potential customer is near a store.

Rather than sending a generic promotional offer, you can use customer journey analytics software to identify the ideal moment to send a special deal featuring the pair of shoes the customer abandoned in their cart a week ago or perhaps a suggestion for a product complementary to one that they liked on Facebook recently.



5. Make Differentiated and Targeted Product Recommendations (cont'd)

PREDICTIVE ANALYTICS CAN INCREASE RATE OF RESPONSE TO CROSS-SELL/UPSELL

Customer behavior data can be used to predict each customer's likelihood of responding to a cross-sell or upsell offer. Input data can include the products and/or services that are commonly purchased and used in conjunction with one another. This data can be further analyzed to identify which customers bought, as well as the dates when the purchases were made.

This knowledge is valuable for the product marketing team to create product and pricing bundles. These product recommendations are also valuable to provide to customer support teams, so they can make real-time cross-sell or upsell suggestions based on each customer's specific situation.

CASE STUDY

HYATT HOTELS USES PREDICTIVE ANALYTICS TO BOOST REVENUE

Hyatt Hotels has aligned its operations across 500 hotels globally to use predictive analytics for cross-selling and upselling.

Hyatt used guest history and preferences from their membership program to identify guests with similar profiles and create customized offers for each based on a unique combination of amenities, room upgrade, or activity packages. The program worked by prompting front-desk agents with relevant and timely messages such as, “Based on what we know, this person will want a room with an ocean view” or “This person will likely be looking for a spa package.”

Using predictive analytics for cross-selling and upselling, Hyatt was able to increase the average incremental room revenue post reservation by 60%, compared to similar programs in the past that did not use sophisticated analytics.

The most common barrier to getting and implementing real-time insights is that the data lives in silos in disparate systems such as property management system (PMS), point-of-sale (POS), central reservation system (CRS), call center, spa, food and beverage department etc. Customer journey analytics platforms can solve this problem by integrating data from different sources into one central platform.

7. Build Effective Loyalty Programs

Customer loyalty programs have been proven to have a powerful impact on customer retention.

By using data integration, a single customer view and the behavioral segmentation techniques described above, you can model and track customer behavior to design and execute cutting-edge loyalty programs.

> "Loyal customers are 5 times more likely to repurchase, 5 times more likely to forgive mistakes, 7 times as likely to try new offerings, and 4 times as likely to refer other customers. Loyalty programs usually take the form of memberships that confer rewards, such as airline frequent flyer programs."
>
> — Temkin Group

In order to stand out in today's market where consumers are already flooded with many loyalty offers, differentiate your loyalty program by offering unique and personalized rewards and not just "free stuff" that has no intrinsic value to your customers.

One idea that is beginning to take hold now is that of "reciprocal" or pre-purchase loyalty where the intent is to offer thanks for a small step on the part of the customer before the purchase, in order to generate a sense of loyalty and encourage the purchase. For instance, discover a way to give thanks to a customer who has tweeted positive things about your brand or contributed positively in an online forum.

8. Determine Product Fit For New Customers

By conducting an in-depth analysis of the most impactful customer journeys and combining it with relevant product information, journey analytics can better identify the needs of new customers. This will improve your ability to match new customers and prospects with the product options that are best for them.

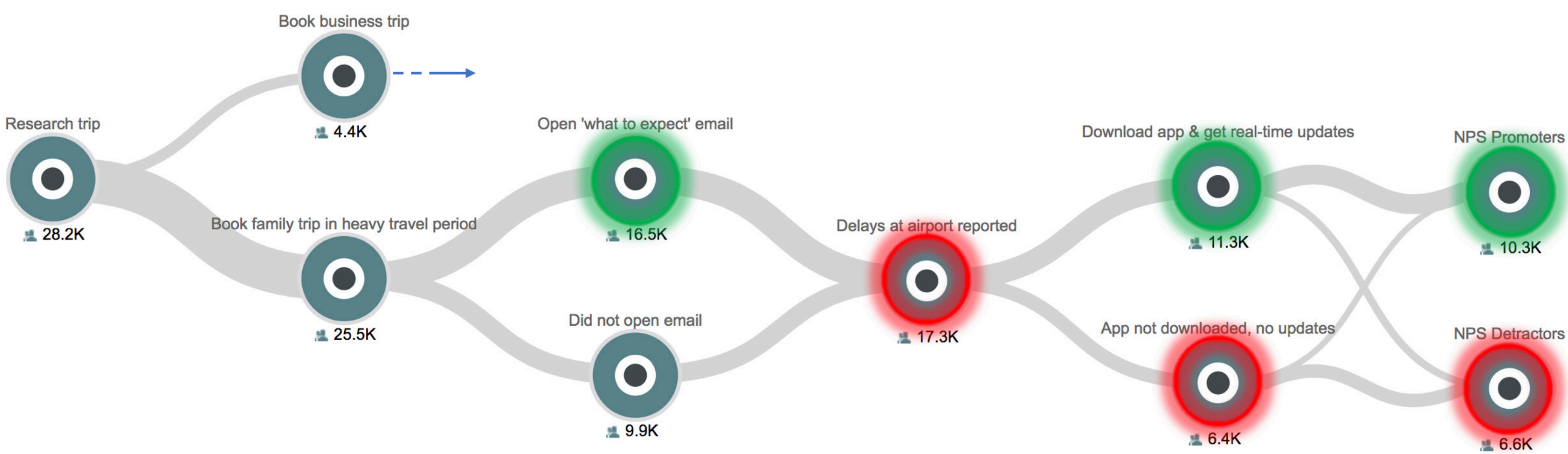
Let's say an insurance provider uses online customer data, call center notes, insurance claims and other behavioral data to predict what kind of insurance policy would be the right fit for a particular new customer. Using this approach, a tailored recommendation could be provided at the very start of the customer relationship. By taking this analytics-driven step, the customer is far less likely to experience any issues and the company is much more likely to retain them.

9. Track Customer Satisfaction Along the Entire Journey

A happy customer is much more likely to stay than an unhappy customer, right?

In order to improve retention rates, it is important to track customer satisfaction rates at important points along the customer journey with metrics such as Customer Satisfaction (CSAT), Net Promoter Score (NPS), First Call Resolution (FCR), Customer Effort Score (CES) and others.

Low scores at a 'moment of truth' can direct product marketing and customer experience teams to focus their efforts on fixing problematic processes or underperforming features in order to retain important but unhappy customers.



AN AIRLINE USED JOURNEY ANALYTICS TO SUCCESSFULLY TRACK CUSTOMER SATISFACTION AT 'MOMENTS OF TRUTH' FOR IMPORTANT CUSTOMER JOURNEYS.

10. Put Real-time Data in the Hands of Employees

Your customer experience, marketing, and product teams are ultimately the ones who will launch process changes aimed at improving customer retention. So, provide them with insights generated by journey analytics and real-time customer experience data, as well as fresh customer feedback.

There is no replacement for human touch. Speaking directly with your customers allows you to get a better handle on what real customers want instead of thinking in terms of averages. New technologies that help you better understand your customer's journey should not be considered a replacement for a human touch, but an invaluable aid to dig deeper, understand your customers better and provide the context you need to improve the way you interact with them.

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Discover and Influence Your Customers' Journeys

Pointillist makes it easy for marketers and CX professionals to uncover and optimize the journeys that matter to your customers, so you can improve marketing and customer experience results and impact the KPIs that matter most to your business.

- Quickly understand customer behavior across all touch-points & channels over time
- Uncover and predict high-impact customer journeys
- Drive personalized, multi-channel customer experiences

Unlike other marketing analytics solutions, Pointillist lets you connect the dots between customer interactions and business goals in seconds, rather than days or weeks. By using machine learning to reveal high-impact journeys and predict likely behavior, Pointillist is like having a personal data scientist that's always on call.

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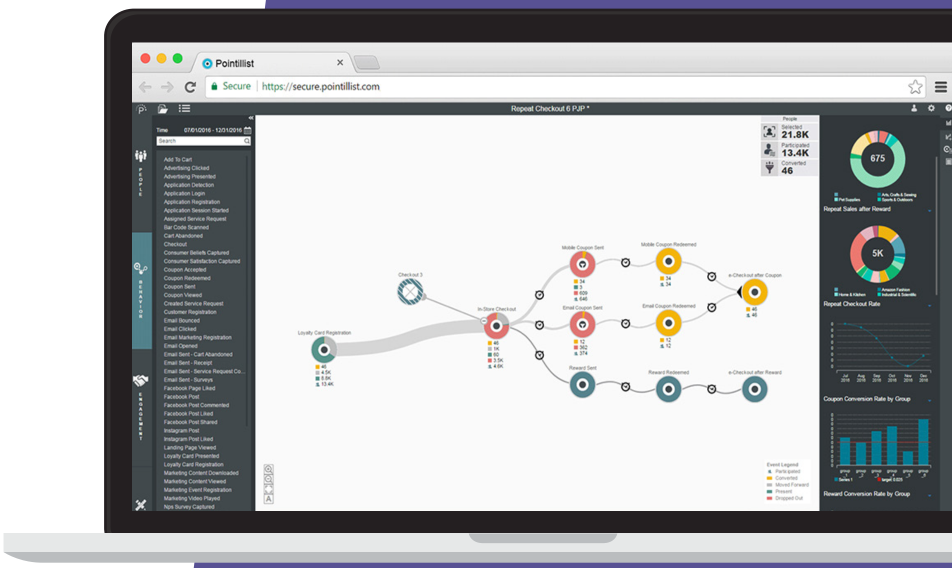

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