

Grounds for Conversation, Part 4 Optimizing Your Segmenting Strategies



Jeff Gilleland: Hello and welcome to “Grounds for Conversation.” Over the next several weeks, we’ll continue to show you how to build competitive advantage through the three “Is” of marketing. What are the three “Is” of marketing? Managing customer Insight. Using that Insight to manage customer Interaction both inbound and outbound and then using the results of those interactions to manage the improvement process. I’m Jeff Gilleland with SAS and with me is Karen Heath from HP and we’ll be your hosts for this eight-part series. We want you to join in the conversation and take an active role in the series. So please leave us your questions and your ideas in the comment box. Today’s topic is on “Managing and Optimizing Segment Strategies” and it’s the fourth installment in our eight-part series. So Karen, are you ready to get started?

Karen Heath: Let’s get at it.

Jeff Gilleland: Okay, well in the third segment we discussed how to segment customers focusing on customer profitability and that’s very important to understand customer profitability and potential. But once you’ve segmented customers, you’re still left wanting to understand who to contact when. And when you contact them what offer do you make? What product do you discuss? So this is a very complex problem left unsolved. What do you do?

Karen Heath: And with million of customers and hundreds even potentially thousands of products and offers it is so complex and, you know, how do you really know for sure what to do?

Jeff Gilleland: And Karen, it is a very complex problem and it’s one a problem that’s growing in importance. When you look at a recent ANA Survey, the Association of National Advertisers, integrated marketing communications ranked first in importance. Now that’s saying something when the ANA says integrated marketing communication is their number one priority. What’s interesting is in the survey last year, it ranked fourth. So in one year it moved from fourth place to first place.

Karen Heath: Jeff, let’s welcome Brent Lever to join our discussion. Brent’s our expert in optimizing segment strategies. Brent, take us away with all this complexity how can a marketer survive?

Brent Lever: Thanks Karen, it’s good to be here. Glad to glad to talk about this topic. It’s- it seems to be one that’s growing in complexity and in interest as the example that Jeff gave. It definitely is getting worse. The problem- the good news is that there’s a solution to that problem. So, that’s what we’ll be here talking about today. The- a new kind of discipline within marketing

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has been evolving over the last few years, but I think finally coming in to its fruition and that's around the concepts of contact optimization so exactly the same things you're talking about, Jeff. So you get, you get to understand how different customers react to specific campaigns and specific offers. But how does that all work together? And how does it work across time periods and across channels and everything else? And that's the problem that contact optimization tries to solve.

Jeff Gilleland: Absolutely. Okay, you segmented customers, now you need to understand who to contact. And that's where contact optimization comes in. Tell us, what are the trends?

Brent Lever: Well there's a lot going on out there in this tough economy. You know, most marketers that I go talk to tell me that they're being asked to generate more revenue, at the same time as their budgets are being cut. I don't know if you're hearing the same thing, but...

Jeff Gilleland: (All laughing) It sounds pretty familiar.

Brent Lever: You know, and that's really what optimization is all about. You're always trying to say maximize something, you know, given, you know reduced, reduced constraints. So, that's definitely a key area. But another thing that I think is really, interesting. Just over the last few years, some of the worst offenders of over marketing and saturating customers are starting to realize that that is not as effective as it use to be. So they're getting very serious about reducing mail.

Jeff Gilleland: Well, you know, when you think about it though, Brent, a couple of things come to mind. This saturating customers, it has a couple of points. I mean, one is as you alluded to kind of the diminishing, return on investment. For example a campaign, the more you do the lower the response rate in many cases. But I understand that economic point, but the other, problem with saturating customers is one of customer dissatisfaction. I mean, Karen, when you get all these messages in your mailbox...

Karen Heath: I surely will scream if I get yet another credit card offer for the same credit card offer that I've had every month for the last year. It's the Chinese water torture. It is...

Jeff Gilleland: So we got your second point is the saturation creates, problems two ways. Dissatisfied customers and diminishing economic returns. What else you got?

Brent Lever: Well, you know, in addition to that, you know, you can actually, really annoy some customers and reduce the value of your brand by over, you know, over marketing or, not being attentive to what the customer really- how they want to be contacted. I really have seen that customers are or companies are really trying to get more scientific in how they approach this. And really that gets back to the segment strategy, knowing that there are customers that want to be contacted very frequently and some that don't want to be contacted as much. And some want to be contacted over certain channels and some don't. You know, and the recency aspect of it is really important, but also the frequency. You could probably identify not only the mass volume of credit card offers you getting, but it might be just that third one in the week that

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sets you over the edge where you might have responded to the second one. So, you know, I think that, knowing that that's your type of behavior you can be more... more effective in how frequent you...

Karen Heath: Well more is not necessarily better. Isn't that the message?

Brent Lever: That's exactly right. That's exactly right. So that, that's another thing that companies are really starting to embrace, and that really gets magnified into this idea, okay, how do you start planning these communications knowing that I can only contact somebody twice in a week or three times in a quarter. How do you start planning out across those different time periods and incorporate all the other activities that are happening? So for example you have, you know, different type of event based campaigns. You have a birthday campaign or you have, a large deposit. You know, somebody puts fifteen thousand dollars in their bank account and you want some sort of offer to go out right away, but if you made a plan ahead of time that said they were going to get this offer in advance you can't be as adaptive as you might like to be.

Jeff Gilleland: Well, you got the different types of campaigns as you mentioned, the large ones that you plan. You've got the event based the triggers, but then you've got all the proliferation of channels. You've got, you know, what used to be this kind of, maybe a direct mail channel. Now you've got, digital marketing. You've got mobile marketing. You've got, in some cases, other web channels, ATMs, other devices that represent new channels. So you're optimizing across a lot of different platforms.

Karen Heath: And you're up to no preferences. You know, I would never respond to a telephone solicitation. Other people would. You just talked about a fifteen thousand dollar deposit. If you called me about I'd be so annoyed that I wouldn't possible keep it in your bank, you know. So you have to... another dimension of the channels, the contact frequency or whatever, I mean, the complexity is just incredible without the technology to support it.

Brent Lever: Yeah, that's right and it also relies on, up to date information on those type of contacts, you don't want to be contacted over all these different channels with something if you know something else is coming. So I think the coordination of the data is, is critical.

Jeff Gilleland: Well then you've also got the issue of, scenario planning that kind piece so you can, begin to determine kind of the what if and...

Brent Lever: Yeah that's right. The in- in... As part of the contact optimization process what typically companies do is they generate a series of scenarios and they might they might be testing different concepts and testing how different segments are reacting to those different strategies. The nice thing is you're able to compare and contrast. And you're able to make informed decisions about, the impact of different concerns and how they affect the bottom line, how they affect even specific product lines in terms of their, their goals and their...

Jeff Gilleland: Well let me let me chime in with a question here because, back when, when I was in a in a different life, career life, I know it happened to be in, a retail bank where the different product lines of business would basically have free rein to contact customers. It wasn't

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coordinated across products. And basically they could with impunity establish their own contact policies at the product level. And what I'm hearing you say with this what if analysis you can kind of elevate the discussion.

Brent Lever: That's right. And the situation you described is very common unfortunately. And what happens is your best customers are the ones that get over contacted which is the ultimate problem because then they're the one's that have the worst reaction to it. So that's just a big problem. And I think the coordination and the cooperation across those... across those different lines of business is critical. Otherwise you end up with really a dilemma of you know, how you try to mitigate those different, those different..

Jeff Gilleland: Well yeah, it's the strongest personality wins or the biggest line of business wins, but what I'm hearing you say is that with the empirical evidence you can set down with your what if analysis and say, okay we've got, this basket of customers, this basket of products and offers. If we do this this will be the result. And then you raise the discussion and make the decision based on the empirical evidence.

Brent Lever: That's exactly right Jeff. You're not only able to ask the hard questions, you're able to answer the hard questions with a fact and with a, you know, the math that can back it up.

Karen Heath: An enterprise level optimization versus a line of business and so what you're doing is within the organization you're cutting down the silos as well so from a business standpoint as well as from a technology standpoint and having the integrated data.

Jeff Gilleland: Okay. We've talked a lot of theory here. Let's talk some real world examples. Give us some give us some examples, Brent.

Brent Lever: Well like I said, these are, these definitely have been trends and they've been, kind of kind of percolating for the last years. I think finally many customers or many organizations are really implementing this. And I think, one of the better examples that I've worked with is a retail bank. And what they have done is come up with a series of contact strategies based on their evidence and even their experience in the banking industry and they...

Jeff Gilleland: Is this mono-line mono-product or is this, multi-product multi-channel?

Brent Lever: Yeah, multi-product, multi-channel. So, you know, the series of products that you'd expect from a retail bank and the series of channels as well, so, you know, telemarketing and direct mail and email and all the typical channels. But what they realized was that the things we were talking about that, you know, telemarketing is expensive and can be annoying and it has a different, recency rule than say email. You can't call somebody as often as you can email them because it's more invasive. So they set up rules that say thing like I can only- if I call somebody I have to wait sixty days before calling them again, so I better be smart about when I call them.

Karen Heath: And there's do not call lists too, right?

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Brent Lever: And those are suppressed automatically. Yes. So then they're forced into emails so that factors in the decision, good point. But, you know, you do have to be smart about if you've only got one chance in sixty days, you have to be smart about when you call them given that you can call them.

Jeff Gilleland: So when they're optimizing, they're doing things like optimizing against perhaps lifetime value across multiple products. They're trying to reduce attrition or churn.

Brent Lever: Yeah, that's right. So all the things that you've talked about in your previous segments around predicting responses and creating segments are all inputs into this bank's optimization and that allows them to optimize on one objective which may be something like you know, overall profit or the lifetime value of the customer. All those things are, are inputs. You know, they also have say in addition to the, you know, I mentioned the blocking period say for example for a call center offer but you could also have that for a mortgage offer. So it doesn't have to be channel specific, it can also be product specific or even offer type specific. And anything that you can think of that makes sense to be smarter. They also have things like channel constraints. You know, they don't have unlimited budgets. All those are factors into a contact optimization...

Jeff Gilleland: Well Brent I know retail banks, they have some similarities to telco because, in many case there's high attrition levels, those kind of things. Do you have any, examples in telco for example?

Brent Lever: Yeah, there are a lot of similarities, from retail banks to telcos. In fact maybe more in from telco to retail bank than say credit cards and retail banks, interestingly. But yeah, I worked on another project in the telecommunication space where they had very very similar contact strategies. In fact they have maybe even more channels because they own the phones so they can send SMSs and other types of message. But, they're optimizing on a similar concept of lifetime value. But the telcos are obsessed with churn especially, you know, some of the old traditional landline providers are experiencing heavy churn. And what they don't want to do is contact somebody with the cross sell offer if they're potentially likely to churn. So they do segmentation and other things to determine what somebody's likeliness to churn is and if they are they're kind of blocked from all cross sell offers. So they're able to run these different scenarios that we talked about earlier that say, okay I have to maintain a certain level of profitability in increasing, sales and revenue, but I also have to reduce my predicted churn. So those are kind of competing objectives that go into the contact optimization process.

Karen Heath: Do you have any value metrics? I'm back to, you know, my business case. Why would a company want to do this where's some real dollar pay backs on the churn that would justify my, you know, going through and collecting the data and what we've been talking about, the segmentation. Boy, it sounds like we ought to do it, but can we convince the company that from a business perspective this makes a lot of sense?

Brent Lever: Absolutely Karen. This particular telco had a six million dollar increase just in the first month. But I can tell you that working on this type of problem has been extremely rewarding for me. I've seen 50% ROI. I've seen, just amazing amazing benefits from applying

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this type of methodology, which really hasn't been applied, to marketing enough. This type of science and this type of math, this rigor associated with when you contact customers is truly beneficial and we can prove that.

Jeff Gilleland: Great stories, great results, let's sum up. Give me some take a ways here. How would you summarize? What do we need to know about, optimizing the segment strategies?

Brent Lever: Well the most important thing is that you should realize that over contacting your customers can be detrimental. It can reduce the value of your brand and you need to be smarter about when you contact them and how you contact them. Second, you need to plan for communications across different channels, different media, and all that that goes into creating... truly optimizing your contact strategy. And then third I would say, just the benefit I was just mentioned before. There's enormous potential and, some of that can be, you know, just sort of untapped potential money left on the table so...

Jeff Gilleland: And everything you said, you said do it at an enterprise level, not at a product level to get the maximum value.

Brent Lever: That's true. That truly is the maximum value and I think, we're just now getting to a point where we're ready for that. Some companies in getting started can't... they can certainly start at a – at a lower level, but the benefit's gonna come at that that higher level.

Jeff Gilleland: Brent, great examples. Great stories, I'd like to thank you very much for joining us today.

Brent Lever: Great to be here.

Jeff Gilleland: And I'd like to thank the audience for tuning in today. We hope you've enjoyed this fourth installment in our series. Again, we want to hear from you so please let us know your thoughts by leaving your comments on the blog, about this and other segments in the series. You'll also find on the blog links to additional information and supporting materials. White papers you can download and other information you can self navigate. Finally be sure to catch our next segment. It's on "Engaging High Potential Customers." This will be the fifth step in building competitive advantage with customer intelligence. So for Karen Heath, I'm Jeff Gilleland. Thanks for joining us today.