

Customer Retention Profile Report

[Note: this is a typical report based on a fictitious company but using realistic numbers. It is meant to show you what a similar report would look like for your company, based on your own transaction data.]

This report analyzes your population of active customers to determine the risk profile for your company. A risk profile assesses the likelihood of customers NOT buying, identifies potential defectors, and measures the revenue impact of the loss of those customers. Finally we offer a summary analysis of the risk and recommendations for effective campaigning.

Metrics

We use two metrics to size retention. The first is Risk Score, the probability that a customer will not make a purchase in the coming twelve months. The higher the Risk Score, the more likely a customer will defect.

The second metric is Loyalty Rank (Lrank). Every customer is assigned a Loyalty Score based on how much they have purchased, how often, which products they have bought, the time between purchases, whether that time is increasing or decreasing, and other proprietary factors. Then customers are ranked according to their Loyalty Score, with the highest scoring customer given a rank of 100. The higher a customer's Lrank, the better the customer.

Figure 1 shows the correlation for your company between Lrank (on the X-axis) and median annual revenue from a customer with the corresponding Lrank. Obviously higher ranking customers will contribute more revenue. However,

the shape of the curve reveals a lot about the health of the customer population because the area under the curve, shown shaded, is proportional to the total revenue—the more the curve moves up and to the left, the greater the total revenue. If too much of the revenue comes from the higher ranking customers, there are problems: it is more difficult to grow total revenue, and the bulk of your customer population is not productive. Figure 2 shows another company with a healthier population, where there is a better revenue contribution from customers with lower Lranks.

Figure 1

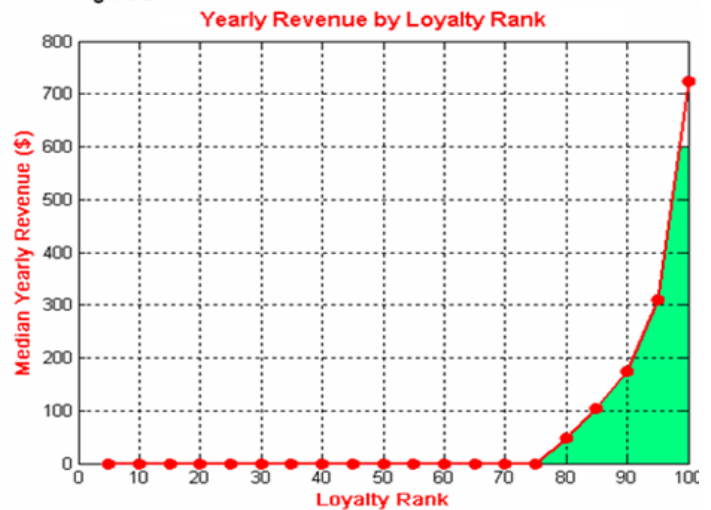


Figure 2

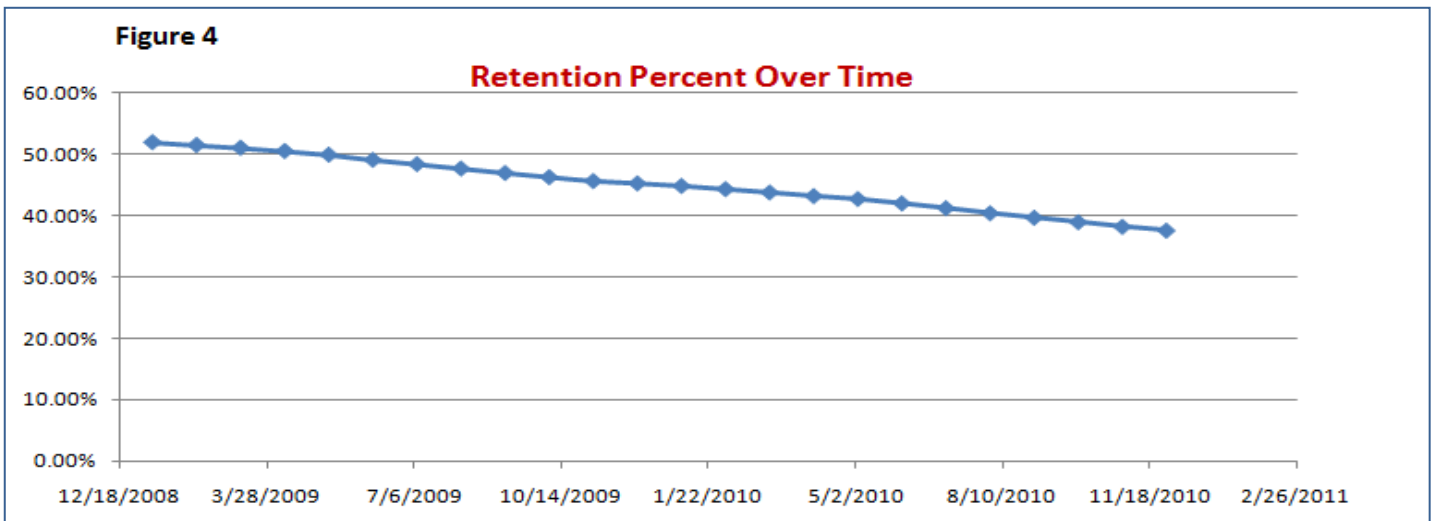


Figure 3 shows how Risk Score correlates with the likelihood of purchasing in the following year. The relatively straight line from upper left to lower right means the model is working correctly: higher risk scores clearly correspond to fewer purchases in the following year.



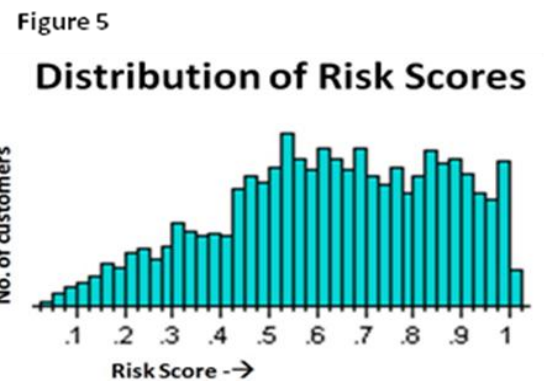
Sizing the problem

Figure 4 shows the situation at your company. For each date along the x-axis, this chart plots the percent of customers who were active one year ago and still active on the date of the data point.



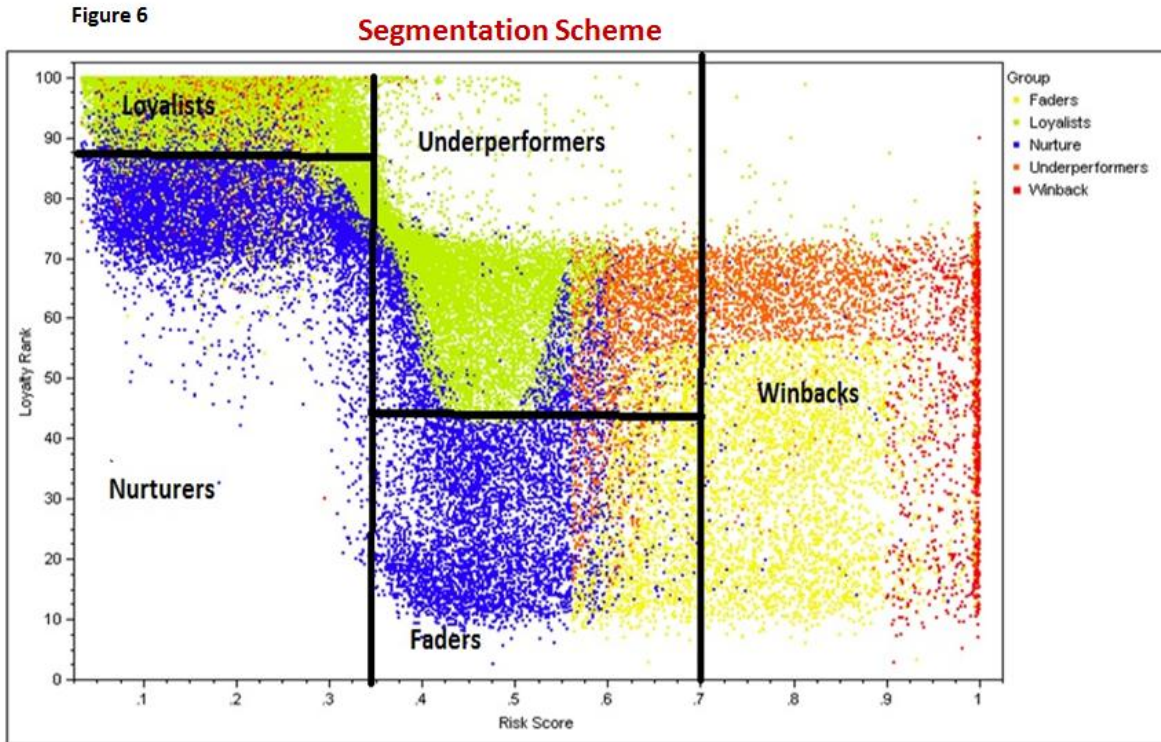
Retention percent is dropping steadily, a serious situation. This is reflected in the distribution of Risk Scores, Figure 5.

It is clear from the distribution that there are many more customers with higher Risk Scores than with lower scores, an unhealthy population.



Identifying at-risk customers

Now that the scope of the problem is clearer, the next task is to determine exactly which customers are in the at-risk group. We do this with a behavior map, Figure 6.



Each dot on this plot represents an individually identified customer. Dot placement depends on Risk Score (x-axis) and Loyalty Rank (y-axis). The black lines divide the population into five populations that we call Loyalists, Nurture, Underperformers, Faders, and Win-backs. The color of the dots shows the segment to which the customer belonged six months ago, so this behavior map is a record of customer migration.

Unfortunately, this behavior map also supports the distribution of Risk Scores shown in Figure 5. Large numbers of former Loyalists (green) are now in the Underperformers segment. Many Nurture (blue) have higher Risk Scores and lower Loyalty Rank, and are now in the Faders segment. There is much more migration from upper left (high Loyalty, low Risk) to lower right (low Loyalty, high Risk) than in the other direction.

Measuring the revenue impact

This behavior map has a clear “neck” around Risk Score = .35, separating the healthy customers to the left of that line from the deteriorating customers to the right. A good retention campaign would target customers with Risk Scores between .35 and .60. There are approximately 59,000 customers in this range. We predict that monthly campaigns to this targeted group should see a response rate of about 3.5% and monthly revenues of about \$1.8MM, which are nice results for these lower ranking customers.

Analyst summary and recommendations

Your company has a serious customer retention problem with a falling retention rate, a disproportionate number of customers with higher Risk Scores, and even more customers moving in a negative direction. However, our analysis predicts that targeted campaigns to this population with offers dependent on up-sell and cross-sell probabilities will generate good response and revenue, besides turning many of these at-risk customers to a better direction.

The longer term solution is to implement an Early Warning System that automatically campaigns to customers when they cross the Risk Score $\geq .35$ threshold to higher Risk Scores.