



DATA ANALYTICS

WHAT IS THE VALUE OF CUSTOMER RELATIONS?

With data-based customer value management to loyal
customers and profitable growth

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EXECUTIVE SUMMARY

Customer value is not a new topic. It is a decisive factor of competition, and even in times of customer experience, it has not lost any of its explosive force. It is quite the opposite: customer value and customer needs are two sides of the same coin. Therefore, companies need to learn how to identify and address the needs of their customers. This is time-consuming and costly, thus, from an economic point of view, only reasonable for customers with

high value. This value is not only measured in monetary terms but also in qualitative terms. With data-driven customer value management, it is possible to differentiate customers into segments and take concrete actions in marketing, sales or service based on their value groups. The effort is worth it: Effective customer value management builds long-term customer relationships and significantly increases profitability.

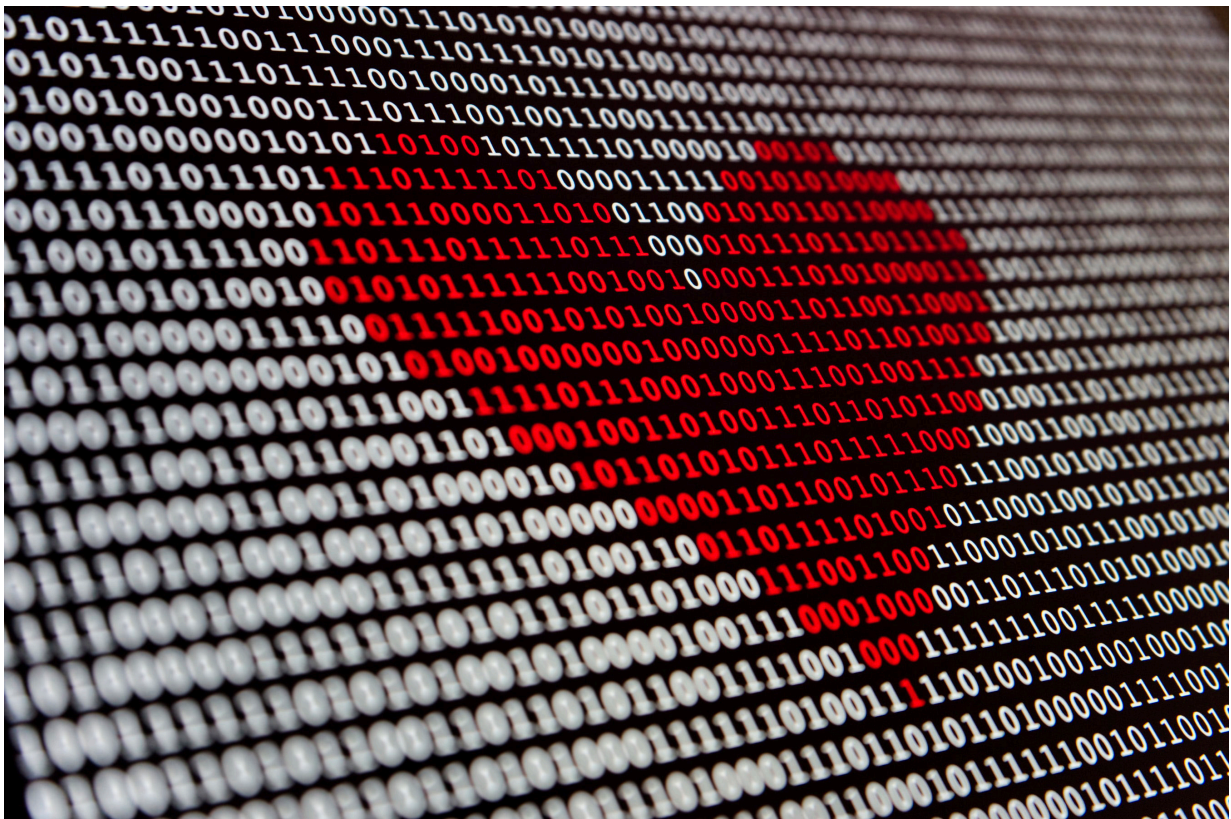
CUSTOMER VALUE AS BUSINESS DRIVER

Customer-oriented communication means to understand and anticipate the needs of customers and their behavior. Data is the key to this. When trying to become more customer-centric, many companies, however, have doubts about their data or are deterred by the complexity of advanced analytics. To be economically successful, a company must differentiate between customer groups based on values since not all customers contribute equally to the success of a company.

rpc – The Retail Performance Company provides a comprehensive framework to give more orientation in introducing and anchoring customer value management: from strategic orientation, data, and analysis methodology to qualification of employees who transfer the strategy into their daily work and

use it for the communication with customers. We offer a holistic approach that allows a comprehensive evaluation of customer relationships: We focus not only on the value contribution of a customer in the past but also on his future business potential as well as his customer relationship status.

These three components (value, potential, and relationship) are relevant for a transparent and targeted customer service strategy and allow an efficient allocation of marketing and sales resources. Furthermore, the analysis of customer values is even more successful in combination with a data-based segmentation of customer needs and the ability of employees to interpret and apply these analysis results correctly.



WHAT IS CRUCIAL FOR CUSTOMER VALUE?

The main focus of our work regarding customer value is the Customer Value Cube (CVC), which enables a company to gain a comprehensive and precise evaluation of its customers (see figure 1). The

three dimensions – “value”, “potential” and “relationship” of the CVC combine different perspectives into one comprehensive overall assessment about individual customers.

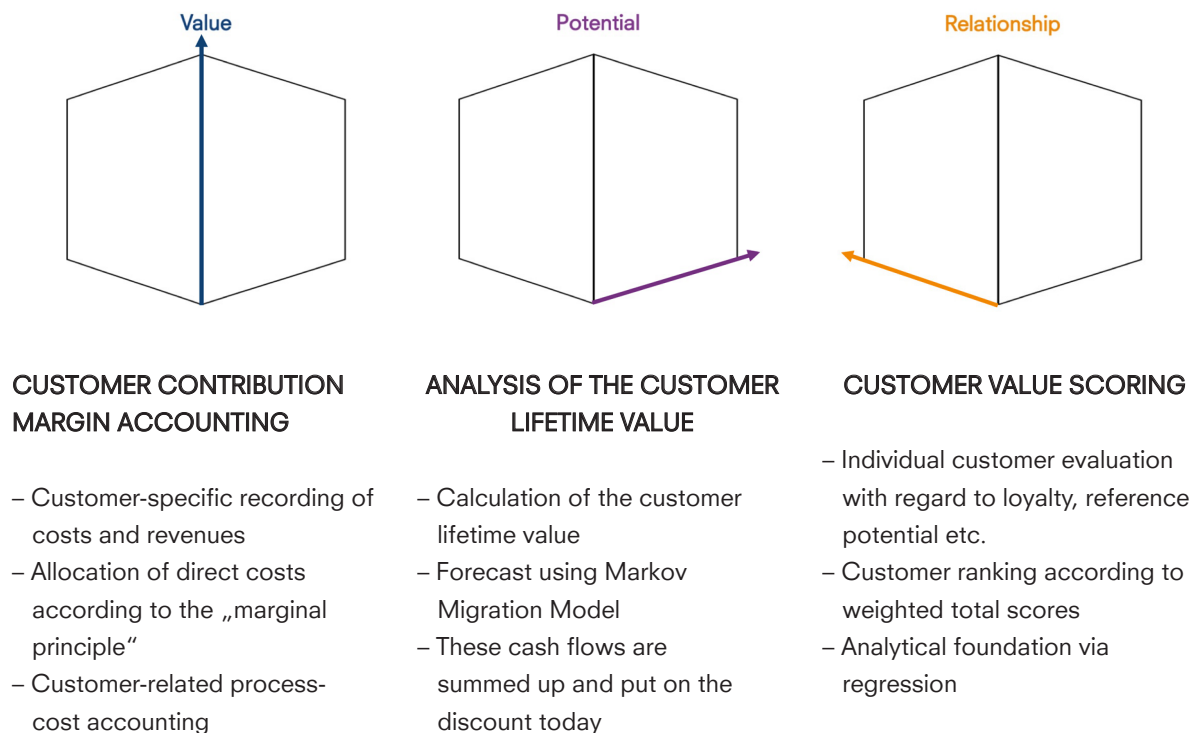


Fig. 1: The Customer Value Cube

THE THREE DIMENSIONS OF THE CUSTOMER VALUE CUBE

1) Dimension „Value“

“Value” indicates the current and past value contribution of a customer to the company, for instance, the cumulative customer contribution margin generated on the bases of previous transactions. The measurement method of customer contribution margin accounting is analytically less demanding but requires activity-based costing to assign relevant overhead costs to customer relationships. In case this information is not available, it is also possible for simplification purposes to calculate sales and transaction margins.

2) Dimension „Potential“

“Potential” predicts, based on the customer lifetime value approach, the aggregated future value contribution from the customer relationship. This component reflects as well as the previous described dimension “value” a monetary component as it implies forecasts of the future customer contribution margin through predictive analytics. For this purpose, time series analysis methods or the Markov Migration Model can be used. Which method is suitable here depends on the available data basis and the business model of the company.

3) Dimension „Relationship“

Finally, the “relationship” dimension supplements the two monetary dimensions with qualitative aspects of customer value. The aim here is to measure the quality of the relationship between the customer and the company. For example, it plays a role whether the customer wants to recommend the company to others (reference value) or give feedback on how to improve products, services


or processes (information value). Analytically, this aspect can be depicted pragmatically by using a customer scoring model and this assessment can then be continuously improved with machine learning.

Orientation for Marketing, Sales and Service

With its three dimensions, the CVC offers every company a comprehensive and future-oriented view on the value of each customer relationship. Furthermore, the three dimensions are deliberately separated from each other so every individual level can be analyzed and the different results can then be combined to take proactive actions.


The CVC is not only a measuring instrument, but it also enables companies to derive concrete and sustainable management strategies for marketing, sales, and service. For instance, it is possible to strategically segment top customers (high scores in value, potential, and relationship) and offer them premium support with either cross-selling or up-selling. For customers with high potential but a low relationship, a recovery strategy is recommended: rebuild trust before you make a purchase offer.

The CVC that might seem complex in the beginning, helps to differentiate customer segments and develop optimal strategies. In addition to this, it guides employees in marketing, sales or service to act customer-oriented. This data-based decision-making tool increases efficiency, the probability of success when addressing customers and thus the company’s overall profitability.



“THE MINDSET, THE PROCESSES, AND THE TEAM COMPOSITION MUST BE HARMONIOUSLY COORDINATED TO FULLY EXPLOIT THE POTENTIAL OF CUSTOMER VALUE MANAGEMENT.”

Horst-Florian Jaeck,
Partner Data Analytics at rpc



EXTENSION OF THE CUSTOMER VALUE CUBE

The Customer Value Cube provides strategic key indicators to manage marketing, sales, and service more efficiently. To optimize the implementation of these strategies, it is recommended to conduct further analyses focusing on customer groups, their acute needs, and proactive communication.

By forecasting purchasing probabilities for relevant products and services, but also by analyzing channel preferences, it is possible to derive the next best offer for realizing the customer potential. Essential are the churn forecasts: They provide measures to stabilize relationships that might become critical in the future but that has high potential. Analysis results such as these provide employees in marketing,

sales or service with a powerful tool to be able to identify their customer needs even faster and more precise in the future and as a result of this take proactive actions.

To implement such a holistic customer analysis, advanced analytics methods such as predictive modeling, machine learning, and text mining are used as well as qualitative instruments such as creating personas. This typology makes the classification of customers for marketing and sales more tangible and enables a company to identify customer needs even more precise. Here it is important to enrich the personas data-based as well.

FOUR FACTORS FOR SUCCESSFUL CUSTOMER VALUE MANAGEMENT

To successfully implement a customer value management, it is not only important to develop a powerful data-analytics system architecture and a high-quality database, but it is also essential to have qualified employees. Modern learning formats can

best be designed with learning journeys in order to activate the willingness of employees to learn in the company and to really internalize a „Culture of Analytics“ (see figure 2).

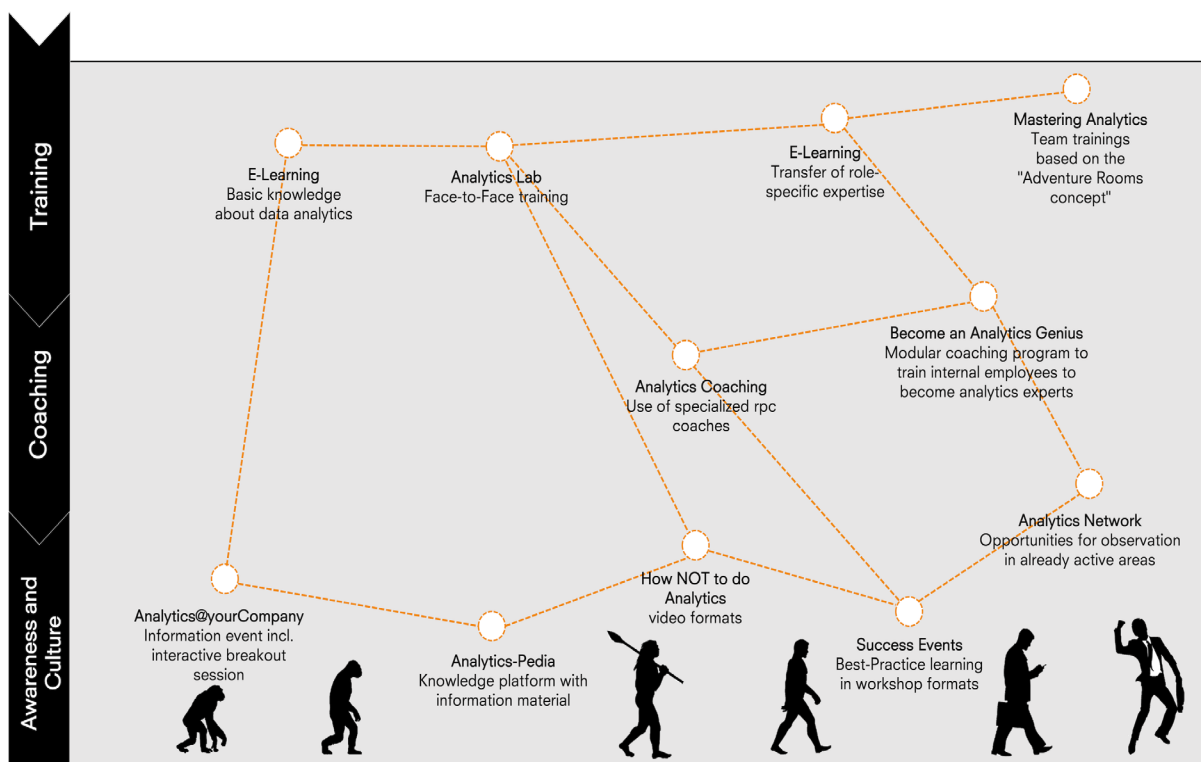


Fig. 2: rpc's learning journey leads to a Culture of Analytics

System architecture

For data analytics, it is recommended to not only rely on one software provider but to follow a "best of breed" approach. This means that the company should build upon its existing IT-infrastructure and step-by-step include the necessary software for data management, machine learning, text analytics as well as visualization and reporting. This might be a bit more expensive, however, this cost will be more

than compensated by the higher flexibility and the use of the individual best-fit solution.

Data governance

In order to continuously improve and also meet legal requirements, stringent data governance is essential: Responsibilities have to be clearly distributed and roles and processes, that ensure the formal management of data, have to be clearly defined in order to

optimize data quality (availability, accuracy, completeness, relevance, validity, and consistency of data) and data maintenance (maintenance and enhancement of master data). Besides this, data protection (collection, storage, and distribution of personally identifiable or other sensitive information) and data conformity (compliance with legal standards, ethical and moral principles, organizational standards and principles) has to be ensured.

Data sources

When establishing and expanding the right database, a smart data enhancement of internal data sources (master and transaction data, sales and campaign information, etc.) with external data sources (demographic information, attitude/motivation, brand perception, brand loyalty, preferences, customer data, etc.) and new digital data sources (e.g. online customer journey or social media data) play an essential role for the result quality. Data quality issues of internal data sources can be compensated by appropriate expertise and hence the right path to holistic customer value management can be taken in an early stage.

Employee qualifications

In addition to the methodical-technical and formal-organizational success factors, the effectiveness of customer value management also depends on the ability and skills of employees in marketing, sales, and service. The employees do not have to

study the CVC and the analytics models in-depth, but they should at least understand the core logic behind it. This basic understanding is essential for employees for acceptance and the correct use of the analysis results in their daily work. To motivate your employees, it is important not to implement the measures described above separately, but to coordinate them with each other. This is the only way to implement successful and sustainable customer value management within the organization (see box).

THREE ACTIONS TO EMPOWER EMPLOYEES

Training: From basic training in interpreting data analysis results, application of analytics solutions to the qualification in data science.

Coaching: “Hands-on follow up coaching sessions” that will guide and support the training graduates in their daily working life.

Change-Management: Create awareness and an open mindset for data analytics within the organization through accompanied communication. It also supports the development of a culture of analytics by coordinating and harmonizing all activities.

ADVANTAGE IN B2B

Competitive advantage through data-based management applies for B2C as well as B2B: Companies must precisely identify customer needs, anticipate them, and respond with customized products and services to be successful in the long-term. In the B2B branch, it is therefore also important to identify particular valuable customers and improve customer loyalty to fully exploit the potential of business relationships.

The main idea and basic calculation method of the CVC can be easily applied to a B2B scenario, even though the data content differs since it is not referred to private customers but business customers. Enriching the B2B internal database is comparatively easy since it mostly contains information about companies and not individuals. Ultimately, however, purchasing decisions in B2B business also depend on individual contacts. In respect to this, it would, therefore, make sense for a B2B business when evaluating the quality of the relationship, to include those relationships as well as the relationship strength to decision-makers in the customer company.

Furthermore, business models as well as type and frequency of customer transactions must be included in the analysis model and are decisive when predicting the potential. If there are only a few very large companies in the client portfolio, an evaluation based on the level of buying centers within these companies is helpful to better control their sales.

Especially in such an environment, there is usually a great dependence on the „gut feeling“ of the account manager, which should be objectified and meaningfully supplemented by analytical methods.

FOCUS ON INDIRECT SALES

Compared to customer-oriented branches such as the banking or telecommunication sectors, industries with indirect sales models are still in their early stages when it comes to data-based management. Many companies in the automotive and insurance industries are particularly under pressure since they still do not have direct access to relevant data about their customers. To stay competitive, however, they need to focus more on the end consumer. Most companies have realized that and have already set up corresponding projects to work together with sales partners, share data or try to reach the end customer directly through disintermediation. Through holistic customer value management, it is also possible to increase the professionalization of marketing, sales, and service. We at rpc have many years of experience in both industries and can lead and speed up the way to success.

OUR OFFER

Analytical competence and high data quality are essential for successful customer value management. It is important to efficiently combine all relevant data sources. The Customer Value Cube (CVC) model combines hard and soft factors as well as monetary and qualitative aspects. We at rpc recognize the relevant customer potential and identify risks of churn. With the help of the CVC, we ensure a targeted and efficient strategic segmentation to manage marke-

ting, sales, and service more precisely and efficiently. We offer everything from data strategy, tailor-made analysis concepts to effective implementation of data analytics. Furthermore, our offer is complemented by suitable training and coaching formats as well as change management to guide employees on their journey to a data-driven company. We are looking forward to discussing this topic with you!

YOUR CONTACT

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ABOUT US

The Retail Performance Company (rpc) is a consulting company that assists you all the way to a customer-focused transformation: from strategy through customer experience design, training, coaching, talent management and qualification to data analytics.

rpc was founded in 2013 as a joint venture of the BMW Group and h&z Management Consulting. Our employees are represented internationally in Germany, Belgium, China, France, Italy, the Netherlands, Portugal, Spain, England and the USA at ten locations with functional focal points and local expertise.

Further information can be found at www.rpc-partners.com. Follow us on LinkedIn and XING.

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