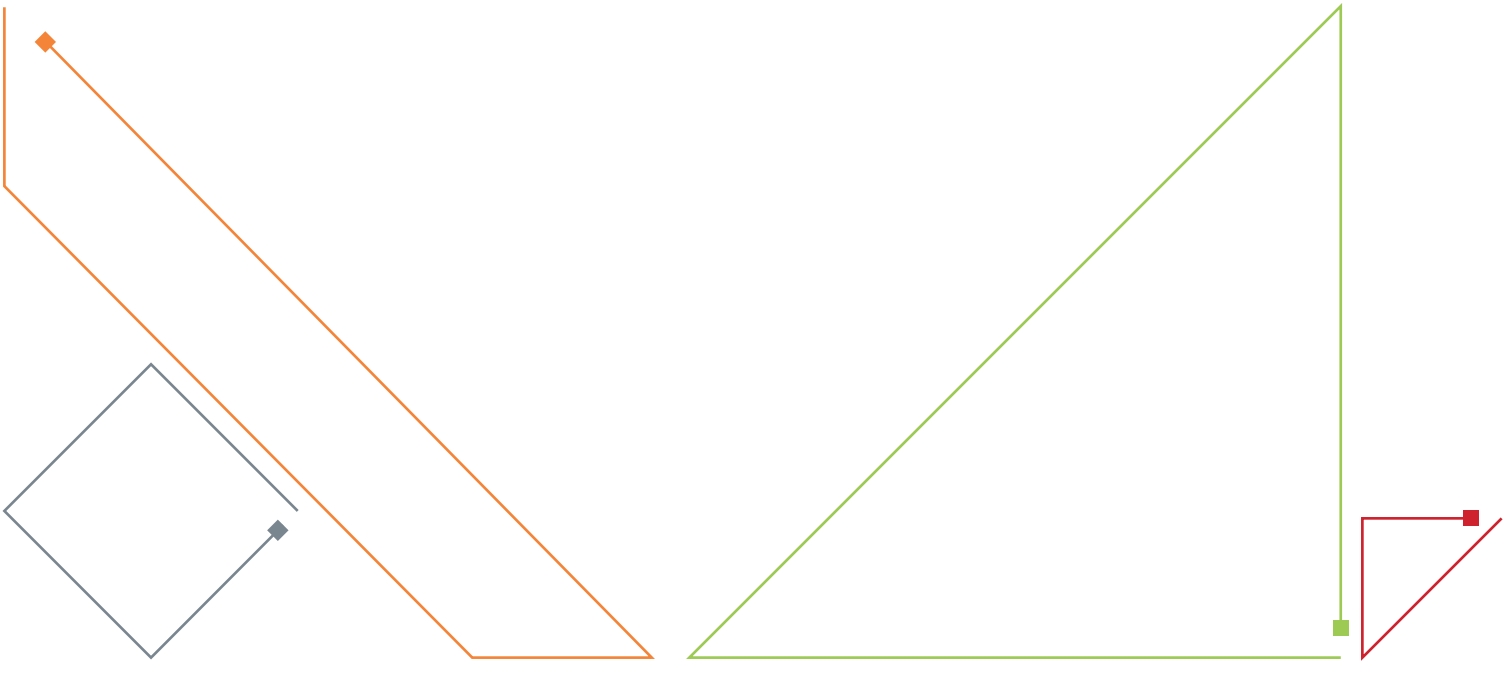
What's the true cost of customer churn?

Dive into your data and discover your new competitive advantage



Foreword



Retailers have never had it so tough. Disruptive competitors have forced a choice between a race to the bottom on price and quality, or getting smart and winning on the data.

The traditional levers of broad-brush discounts, promotions, BOGOFs and bundles are now often an insidious source of profit decline. Winning companies know that not all customers are created equal and they use data to truly understand their customers' needs at a deep level.

Many retailers actually have an advantage over Bezos when it comes to data. They know their niche market and customer needs at high resolution. Those who are thriving are finding new ways to embed deep customer insights into their business.

So come with us as we share some of the keys to improving customer retention using data science. And don't forget to try our online churn calculator here.

Peter Biggs, Founder & CEO, Vuzo

What's the cost of customer churn to your campaigns?

How much effort does your company put into winning customers and breaking new markets? Now think about how much effort you're putting into reducing customer churn.

"Churn happens", we often hear, "we just need to work on reaching the right customers at the right time."

But imagine your company made 100 sales from 100 different customers. How much resource would it take to get their attention, educate them, persuade them to buy, and then get them to commit? And how many potential customers dropped out of the funnel along the way?

Now imagine your company made 100 sales from just one customer. That's an incredible saving on cost-to-serve, and that profitability is compounded with each repeat sale. Plus, after 100 sales, the likelihood of that customer making purchase 101 is near certain. Clearly, loyalty pays.

Understanding the significance of churn

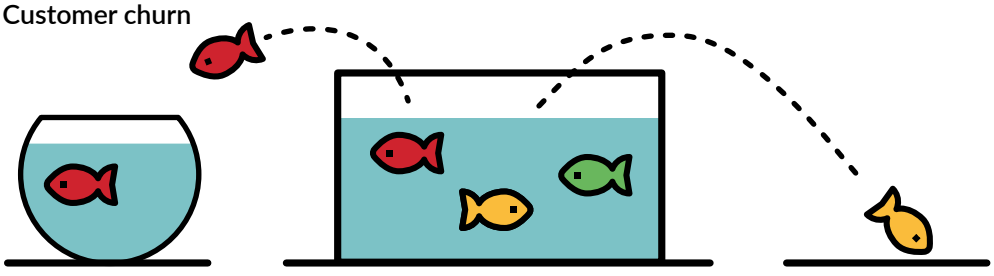
It's important to be precise when identifying different types of churn.

There's a huge difference between the customer that's vowed on social media never to use your services again, and the customer that would love for you to start shipping to the country that they've just emigrated to. Not all of your customers churn for the wrong reason, or a reason that you have any influence over.

If you led a political party into a General Election, you would put most of your effort into winning over voters that are likely to swing to a different party. Retail is no different: you need to identify customers that are most likely to change their mind.

Instead it's far more valuable to identify those that are most likely to purchase again, and foster long-term, meaningful engagement on the channels that matter to them.

Customer churn



Who are they? What caused them to leave, and how can they be won back?

A husband that buys his wife some earrings from Swarovski for her birthday probably won't visit the retailer's site for another year. Any time or money spent encouraging him to return within the next 11 months would be wasted.

Instead it's far more valuable to identify those that are most likely to purchase again, and foster long-term, meaningful engagement on the channels that matter to them. By focusing on these customers, you'll improve brand loyalty and see instant ROI. And the alternative? More churn, more lost customers.

How clustering algorithms can improve churn

You might not understand your customers' behaviour, but your data does.

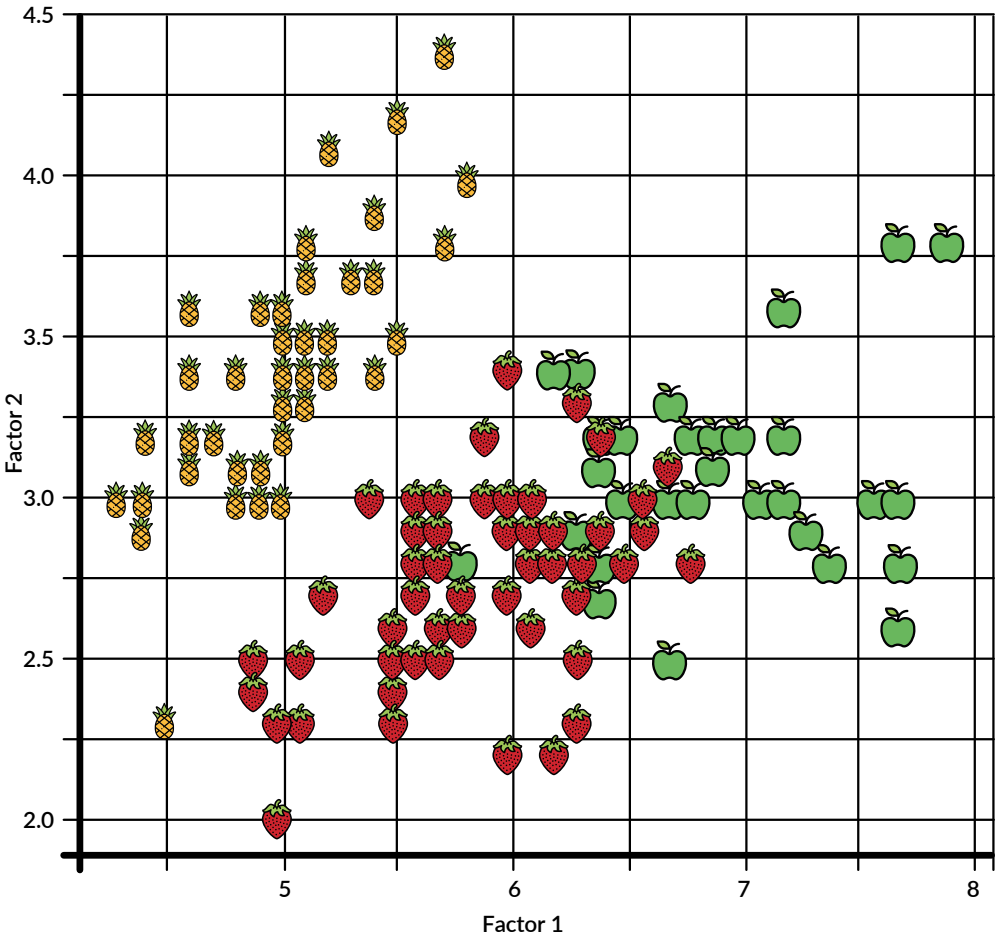
You might not understand your customers' behaviour, but your data does. With enough data points, our analysis can identify which customers are most likely to churn, when that'll happen, and how they can be best won back.

We do this in two ways. The first is through clustering algorithms, which isolate data points, to identify customers who behave in similar ways.

For example, analysis carried out in the US has shown that **the test scores of adopted children clustered at a higher mean score than children with biological parents.**

If you run clustering algorithms on your existing customer data, you'll find instances like this where the data opposes conventional wisdom, and would run contrary to anyone's best guess.

Clustering algorithms



But the biggest problem with guessing outcomes is not that you'll be wrong sometimes. It's that - when you're wrong - by following conventional wisdom instead, you'll have missed the biggest opportunities to engage and win loyalty by drawing on insights that your competitors may never find.

You may feel you know your customers very well, and extensive persona work and focus groups could confirm that, in broad strokes. But how do your customers interact with your three-page order

journey, and how do they feel about how your in-store offers compare to your online discounts? How does your rebrand influence each of these points?

While your customers' attitudes and values may be clear to you, how they actually behave at each stage of the customer journey is a mystery without further insight. Digital has changed the rules of the game, and continuously learning about your customers' micro behaviours across online and offline touchpoints is the only way to ensure they are recognising the value of your service.

Larger online competitors that do not align with one single vertical, such as Amazon, are winning market share through extensive use of these techniques, which only ups the stakes for established retailers to demonstrate their domain expertise and tackle churn by accelerating their technical competence.

How predictive modelling can improve churn

Let's say our clustering algorithms have identified that mothers aged 35 or over from Jersey are your customer profile that's most likely to churn.

That's great background, but it's not enough to stop there. In order to resolve the churn - or identify whether resolving the churn is good value for money - you need to understand how this would impact your campaigns' performance over time.

One way to do this is to look through historic data, make your best guess, and see how close you are to hitting your loyalty campaign targets. That's not advisable. Instead, you should forecast future outcomes based on a model that considers as many features of your data as possible, to give it a strong indication of future churn, and how your loyalty campaigns are likely to perform.

This method is called **predictive modelling,** and it effectively predicts complex unknowns, and estimates metrics that are impractical to measure.

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Your predictive model for identifying churn among mothers in Jersey, for example, is likely to consider a whole host of data points, including the usual suspects of order journey, frequency of transaction etc.

But first you'll need to train the model for accuracy, by isolating some of your churn data, and running this through the model. Only after you've run a second, hidden set of data through the model and received a similar result, you'll know the model will predict churn with a degree of accuracy determined by the difference between the two tests.

From knowing just that mothers from Jersey are churning, you'll begin to see that they are more likely to churn during holidays, and the week leading up to Christmas in particular. With a little digging, it wouldn't be difficult to find that these customers are put off by long waits for postage to Jersey ahead of the holiday period.

The model would also let you know that this hurdle is set to cost you £100,000 in lost sales by the end of the year. Presumably, it's also making your competitor with an upgraded courier contract something close to £100,000 per year.

Once you've defined the issue, it's time to come up with strategies to win these customers back. By split testing different strategies, you'll have a clear indication of whether they will be effective, and will provide a good return.

If an improved courier contract is predicted to be 90% effective, but will cost more than £100,000 to run, it may not be the best option. Meanwhile, an email encouraging mothers in Jersey to start their online shopping early may only be 10% effective, but along with other inexpensive optimisations, it could prevent £40,000 in churn.

Where to start improving churn

It's already a cliché to say that data is worth more than gold. And data is important, but it's only as valuable as the tools used to manage and visualise it, and skillset of those dedicated to understanding it.

To find out how we can give you the technical capabilities of a FTSE 100 company, drop us an email at hello@vuzo.co.uk