

The Uplift Advantage

How firms in the communication industry have become smarter about contacting customers—and are driving results.

WHITE PAPER:

COMMUNICATIONS



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ABSTRACT

THE CONCEPT OF CUSTOMER-CENTRICITY IS BY NO MEANS NEW. MARKETING AND MANAGEMENT VISIONARIES HAVE LONG STATED THAT A TRUE CUSTOMER FOCUS IS THE KEY TO LONG-TERM SUCCESS.

WHILE SOME BUSINESSES CLAIM TO BE CUSTOMER CENTRIC, "CLAIM" IS OFTEN THE OPERATIONAL WORD. DRIVEN BY THE NEED TO MAKE THEIR NUMBERS, MANY WILL FORSAKE A CUSTOMER-CENTRIC VISION FOR SHORT-TERM PROFITS. THIS SHORT-SIGHTED VIEW HAS LONG TERM COSTS, SUCH AS UNDER TARGETING, OVER MESSAGING, AND JEOPARDIZING LINES OF COMMUNICATION WITH EXISTING CUSTOMERS.

ARGUABLY, NOWHERE IS THIS MORE TRUE THAN IN THE COMMUNICATIONS INDUSTRY. A FEW YEARS AGO, THERE WAS AN ABUNDANCE OF NEW SERVICES TO SELL—FROM TV TO CABLE TO WIRELESS TO MOBILE—AND COMPANIES COULD BLANKET A MARKET WITH OFFERS ACROSS CHANNELS. NOW, THE DIFFERENCES BETWEEN INDUSTRY SOLUTIONS ARE FINER AND THE MARKET IS RELATIVELY SATURATED. BELTS ARE TIGHTENING, RETENTION IS ESSENTIAL, AND THE BLANKET APPROACH IS NEITHER EFFICIENT NOR CUSTOMER-CENTRIC.

MANY COMPANIES ARE TURNING TO UPLIFT MODELING, A NEW TECHNIQUE THAT RESULTS IN THE TRUE DEEPENING OF CUSTOMER RELATIONSHIPS THROUGH CAREFUL, TARGETED MESSAGING. UPLIFT MODELING IS UNIQUE IN THAT IT PREDICTS THE DIRECT IMPACT THE CAMPAIGN WILL HAVE, BEFORE IT IS LAUNCHED. BY FOCUSING ONLY ON THOSE WHO WILL RESPOND POSITIVELY TO YOUR CAMPAIGN, FIRMS CAN DRAMATICALLY IMPROVE ROI.

A RECENT TELECOMMUNICATIONS INDUSTRY STUDY FOUND THAT ONLY 40% OF CUSTOMERS TRUST THEIR MOBILE PROVIDER'S COMMUNICATIONS.

Challenges in the Communications Industry

According to the ITU World Telecommunication/ICT Indicators database, mobile cellular growth is slowing worldwide. In developed countries, the mobile market is reaching saturation levels with an average 116 subscriptions per 100 inhabitants at the end of 2010 and a marginal growth of 1.6% from 2009-2010¹.

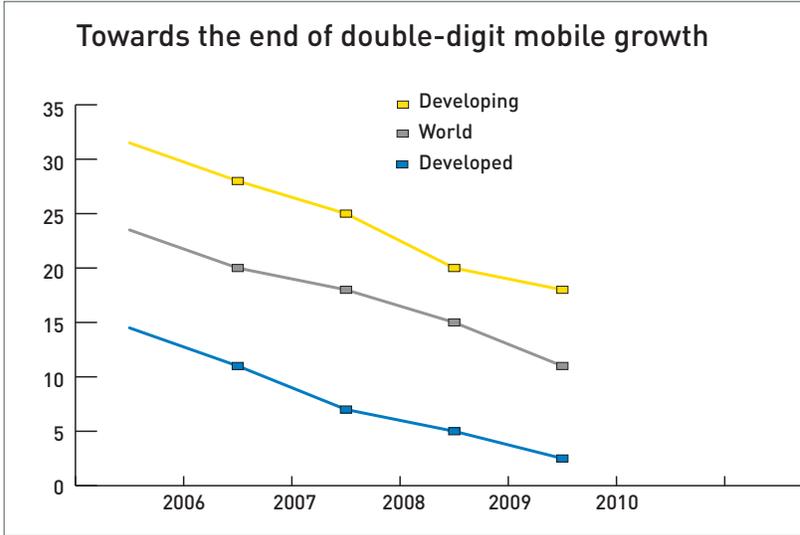
Around the globe, growth in other telecom services is even slower – and, in the case of landlines, consumers switching exclusively to cell phone usage are starting to shrink that market.

With telecommunications markets near saturation, especially in developed countries, marketers have to be smarter, and customer retention/win-back is of vital importance.

The risks associated with traditional marketing campaigns

As the world of communications has changed, customers have too. They have come to expect more and better service from the companies they do business with—more personalized communications, more relevant messaging, more flexibility to interact with businesses across different channels, and greater response speed. Deluged with communications from all sides, they have also come to be far more discerning about what they will and won't read.

This is a growing problem for companies that mark their success in terms of standard campaign results. They churn out offers at an amazing clip without taking care to target the right customers. They use up their permission to communicate without maximizing impact, and they lose face with customers in the process. This opens them up to customer churn and to the more expensive challenges of competitive wins and win-back where few new customers are there to be found.



Source: ITU World Telecommunications/ICT Indicators database, FactsFigures2010.pdf

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What we have here is a failure to communicate

A failure to target the right customers and to follow up with the right customer support has been playing out in all types of companies over the years. A few years ago, one Bain & Co. study found a significant gap between the perceptions of executives (80 percent of whom think they are doing an excellent job of serving customers) and the perceptions of customers themselves (only 8 percent of them agree.)²

Today, the situation is still not much better. In 2011, Forrester asked more than 7,700 US consumers about their interactions with a variety of companies. Based on their responses, [they] calculated Customer Experience Index (CxPi) scores for 153 brands in 13 industries. This year's rankings show that only about one-third of brands earned "excellent" or "good" CxPi scores and the rest ranged from "okay" to "very poor."³

For communications companies especially, this has played out to dire results. Bombarded by offers that are not centered on their needs, customers have come to distrust the communications that they receive. In fact, a recent telecommunications industry study conducted by the ECSP Europe Business School in partnership with Pitney Bowes found that only 40% of customers trust their mobile provider's communications.⁴

This is an industry that now more than ever needs the trust of its customers. And, clearly, winning companies need to become more customer-centric to thrive.

Why Uplift Modeling makes sense in a service-oriented environment

In medicine, the Hippocratic Oath guides medical students and doctors to "First, do no harm." With the exploding volume of customer communications, and the clear indication that many are falling on deaf ears or worse, this is valuable advice for communication industry marketers as well.

Every customer engagement should have reasonable potential to add business value, and marketers need to keep in mind that there is also often a down side to engaging the customer needlessly.

What is Uplift Modeling?

Uplift modeling, also known as incremental modeling, is a way of predicting the change in individual customer behavior, that will occur as a direct result of a marketing treatment. Taken cumulatively, it then enables businesses to focus marketing efforts upon only those customers that will react positively to a message, while weeding out those that will buy anyway, will never buy, or could react negatively to a solicitation.

AN UPLIFT MODEL TARGETS ONLY THOSE WHO CAN BE PERSUADED TO POSITIVELY CHANGE THEIR BEHAVIOR AS A RESULT OF THE CAMPAIGN

Consider the following four groups that businesses do—and don't—want to include in their communications and engagements:

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DO'S

Persuadables. This is the only group truly worth targeting. They buy (or renew) as a result of the campaign and only as a result of the campaign. Here, and only here, is where true uplift comes in. Any numbers of things may make a person a “persuadable” to change their behavior and do something that they would not have otherwise done—the trick is to identify the characteristics and triggers that make them a prime candidate for new business.

DON'TS

Sure Things. Sure Things would buy or renew with or without any contact. Marketing to this group doesn't result in true incremental business; and, it eats into the limited “permission” the business has to contact them. (This permission may or may not be explicit; but, overstepping can result in customers tuning or opting out). These “Sure Things” may, for example, be the people who follow the latest trends and upgrade like clockwork every time a new phone hits the market.

Lost Causes. Lost Causes won't buy or renew regardless. It's a waste to spend money trying to change their behaviors. At best, they will ignore the contact; at worst, they may complain about it in person and/or online. They, for example, may use their old cell phone until it dies or grab the next free phone when they have an upgrade opportunity, not caring at all about the next new thing.

Sleeping Dogs. Include this group in marketing efforts, and they may respond negatively by closing accounts and/or halting future business. For communications marketers, these may be the customers whose mobile contracts are about to expire who otherwise would likely have rolled over without considering alternatives—an ill-timed contact may make them realize they have an opportunity to shop around. These also may be customers who have recently taken issue with some aspect of the company's service. Contacting them now can upset them further, and cause them to take to their social media networks to voice their complaints to others.

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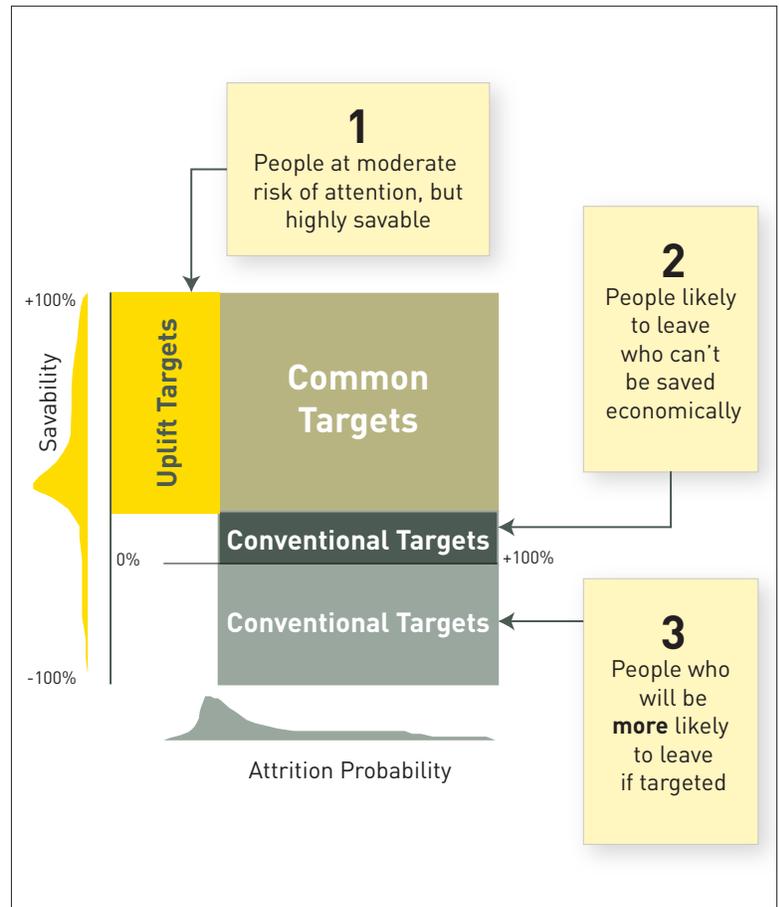
With the objective of using communications wisely, it pays to segment customers into these groups and to focus in on the “Persuadables” – the one group that can produce true incremental business.

In a traditional model, the return would be calculated by taking the number of items mailed, and the number of sales occurring within a reasonable time period of the mailing. In actuality, this overstates the return because it includes those who would have bought anyway; and, it understates the expense because it neglects to consider those who are lost (or never gained) because of the negative impact of the campaign. An uplift model, on the other hand, targets only those who are likely candidates for acting and acting positively as the result of the campaign.

What makes Uplift Modeling so important today?

Customers have more choice about where they get their information, whose advice they will and won’t listen to, and who they will heed. Over-messaging today is therefore filled with far more risk. Dollars spent wastefully today can create issues down the road: even if they do not cause a loss of a customer, they can hurt the customer relationship by weakening the lines of communication.

Experts from Booz & Company once wrote, “Customer-centric companies understand not only what the customer values, but also the value the customer represents to their bottom line. They align their operating models behind a carefully defined and quantified customer segmentation strategy and tailor business streams – product development, demand generation, production and scheduling, supply chain, customer care, etc.-to delivering the greatest value to the best customers for the least cost.”⁵



Uplift modeling is a customer-centric solution that helps businesses gain focus on the communications targets that really matter. With the right uplift model and a valid control group, organizations can achieve results over and above current approaches. Many firms in the telecommunications industry, for example, could be saving money and improving performance on the cross sell, retention and loyalty campaigns running right now—without any other changes.

UPLIFT EFFORTS PRIORITIZE THE USE OF CUSTOMER SERVICE RESOURCES, ENSURING THAT THE BEST PROSPECTS RECEIVE THE BEST SERVICE.

Putting Uplift Modeling to work

Uplift modeling is ideal in instances where businesses have large numbers of customers from which to draw meaningful segments. It's therefore an excellent fit for communications companies with massive customer bases.

There are different ways to approach uplift modeling. However, the best, not surprisingly, is to build the model specifically around uplift. Using test and control groups and a focus specifically on the difference in behavior (the uplift), these models use information from both treated and control populations to optimize the fit of the model to the difference in behavior.

Whether the offer is a Triple Play, a change in service, a migration to a faster network, a texting package, or another service, the key is to isolate the customer segment that will behave differently – and positively – in response to an offer; and target the segment of customers and prospects who can provide incremental value.

The better the model, the more reliably projectable its results to the company's larger customer base. The more projectable the results, the finer the fit in terms of who and who not to target and the messaging that will be most effective in generating true uplift.

Conclusion

In the words of management icon Peter Drucker: "We have to manage our limited resources of people and money for maximum effectiveness. And we have to think through very clearly what results are for our organization."

In the face of a more saturated market and a tougher fight for every share point, marketing spend needs to be more targeted to where it will have the maximum positive impact for the company. Part of this positive impact will come from building consumer trust – and trust comes through a demonstrated understanding of customer needs and values. And, a part of it will come from spending marketing dollars where true uplift can result.

The best uplift efforts go beyond just sending the right communications to the right people. They can also prioritize the use of customer service resources, ensuring that the best prospects receive the best service support.

Selecting the "Persadable" targets and providing multichannel support such as assigning the best CSRs to these efforts, offering specific self-serve options, or specifying a faster connection time, for example, can further help to ensure a powerful positive customer experience across channels—and profitable growth in customer relationships.

To learn more about Uplift Modeling, speak with the customer analytics experts at Pitney Bowes Business Insight. Call 1.800.327.8627 or visit www.pbinsight.com.

¹ Source: ITU World Telecommunications/ICT Indicators database, FactsFigures2010.pdf

² Fortune Magazine, "New rule: The customer is king. Old rule: Shareholders rule. By Betsy Morris, Fortune senior writer, July 11 2006: 10:10 AM EDT

³ Forrester Research The Customer Experience Index, 2011, Consumers Rate The Customer Experience Across 153 Large US Brands, by Megan Burns with Harley Manning, Jennifer Peterson

⁴ "The Role of Trust in a Customer Relationship", ESCP Europe Business School, 2010

⁵ Booz|Allen|Hamilton, "The Customer-Centric Organization: From Pushing Products to Winning Customers" - 2004



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