

Running Meaningful Experiments Across the Customer Lifecycle



Is 50-50 focus the right balance between customer acquisition and customer retention? It is important to acquire new customers to grow the business and achieve short term revenue goals. However, resources used to acquire customers are squandered if new customers abandon the offerings quickly. Similarly, customer loyalty and retention programs, meant to increase repeat business and retain profitable customers, are also necessary and need to be chosen judiciously. Just putting offers on the table might not work as the competitors can do the same. Without optimizing the efforts across customer lifecycle, it is impossible to maximize total customer revenue and the all-important Customer Lifetime Value (CLV).

CLV is a complicated concept which is impacted by many factors. To improve CLV, it is necessary to make incremental improvements and analyze each factor in isolation. This is where experimentation can help measure what works and what does not, helping determine how to distribute resources across customer lifecycle management programs and come up with innovative marketing ideas.

A customer-level experiment can be classified into two types:

1 Group Level Comparison (popularly known as A/B tests)

In A/B tests, two or more different versions of the same promotion are used for distinct groups of customers. The version that receives the best response/conversion 'wins' and is then 'rolled out' to each customer. In a champion-challenger approach, one group of customers is chosen to be the base, a group on which no test is being carried out or one that maintains the status quo. These tests are most convenient since they do not require detailed data of each customer, which is likely to be the case during prospecting. However, the limitation is that inferences can only be made at the group level, which does not allow deeper analysis, necessary to tailor rollouts to the best responding segments within the group.

2 Individual Level Comparison

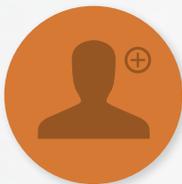
In these tests, each test customer is matched with an identical 'control' customer. The control customers are not subjected to the change and are used to identify the true impact of a test. The 'matching' process requires considerable data on each customer, which is available for existing customers through reward programs, historical transactions, etc. On the plus side, the granular matching enables marketers to deep dive and perform a tailored rollout to maximize the ROI of the program. This becomes extremely critical for programs that are expensive in nature, for example giving higher discounts on luxury items or sending a personalized newsletter. This is also important because the goal of a customer experiment should not be to just get a lift but also to learn about customer behavior. These tests are more statistically sound and are likely to be highly accurate.

Experiments can be conducted across three broad stages in the customer lifecycle:



1) Reach and Acquisition

Marketers are trying to identify the channel and message combination that will most effectively convert prospects. There is not enough data about each customer to enable accurate matching, and therefore, A/B tests are most suited at this stage. Some examples of tests are:



Test the same promotion on different channels (email, SMS, direct mail) to identify which customer segment responds to which channel and measure channel effectiveness.

Test variations (subject line, banner image, etc.) in an email campaign to identify which one delivers the best open/conversion rate.



2) Cross-sell/Up-sell

Marketers are trying to identify the additional product that a customer is likely to purchase if sufficiently nudged. At this point, there is sufficient data to enable accurate customer matching, and therefore, individual level comparison is the best approach. Tests at this stage are also geared towards proving hypotheses arrived at through ideation engines, affinity analysis, next best action analyses etc. Testing can be done to measure the effectiveness of various statistical models that run behind these engines.



3) Retention

Marketers are trying to identify which programs or offers are most effective in reducing churn. Again, there is sufficient data to enable accurate customer matching. Some typical tests conducted are:

Identify the best loyalty program to re-engage customers.

Measure effectiveness of customer support training programs.

Conclusion

Marketers have become adept at conducting A/B tests, which partially explains the growing popularity and ease of execution of such tests. However, considerable advances in data science, processing power and solutions over the last decade have made customer-to-customer matching feasible and practical. This gives an opportunity for companies to truly know what works with their customers and create value for them throughout the lifecycle. Running successful experiments requires time and focus. But if you don't have any historical data that can be used to measure the effectiveness of a novel marketing idea, experiments are probably the only resort to separate winners from losers.

In short, customer experiments, when done correctly, can be potential differentiators and can provide a significant competitive edge.

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Trial Run is a comprehensive cloud-based product that lets companies design and analyze multiple business experiments. It offers simplicity, accuracy, speed, agility, and scalability in creating world-class experimentation environments. Through cutting-edge technology and a powerful synthetic control algorithm, it enables businesses to measure the true impact of experiments across business operations.



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