

Leveraging predictive analytics in marketing campaigns



How well do you know your customers? How often do they buy? What motivates them to make multiple purchases? How can you ensure long-term loyalty? How can you attract and retain new customers? And most importantly, how can you cost effectively align your marketing campaign to ensure that you are sending the most relevant message to each customer segment at the time they are most likely to buy?

The number-one asset of a company is its customers, followed closely by comprehensive information about those customers gained through operational Customer Relationship Management (CRM) systems. Leading marketers have taken advantage of the powerful benefits of sales force automation and call center software to identify customer demographics, track purchases, monitor shopping habits and identify product preferences. As a result, they have been able to maximize the interaction between company and customers, increase sales and build a loyal customer base. Managing this wealth of valuable customer information as a strategic asset, however, is what makes the difference between simply tracking customer behavior and capitalizing on that information to understand and optimize the financial value of each customer.

Predicting customer product preferences and purchasing habits – and crafting the most relevant marketing messages around this information – requires a carefully orchestrated mix of intuition, analytics and a dedicated analytical infrastructure that supports fact-based decision making. Without a specialized system in place, even the most savvy marketer has difficulty manually analyzing all of the complex information gathered on customers. And, while still a powerful resource, a CRM system alone will struggle to provide the deeper customer understanding required to add value to each interaction with each customer.

Stepping up to predictive analytics

The emergence of predictive analytic technology is taking CRM to the next level by enhancing its benefits with intelligent applications that provide decision support for every step of marketing campaign development. This new breed of analytical CRM solutions packs the capabilities of analyst teams and data mining specialists into an advanced software platform that enables fact-based decision making based on customer information. By supporting CRM with predictive analytics, companies of all sizes can begin to manage customer information as a strategic asset when developing marketing campaigns, resulting in better decisions on what message to send, to whom and when to send it.

Understanding the different techniques and activities involved in predictive analysis is the first step to incorporating this tool into a marketing strategy. The Gartner Group has defined CRM analytics as a combination of Historical Analysis, Customer Analysis and Market Analysis, and recommends that all three should be included in a predictive analytics software platform for the most complete understanding of customer behavior. In its November 2001 research report, The Gartner Group named SPSS as one of only three vendors whose solutions offer all three categories.

- Historical Analysis, the most basic method, provides the core information that tracks customer behavior and makes it available for evaluating the results of marketing campaigns and other communication with the customer. The data can also be used to study purchasing trends over certain periods of time.

- Customer Analysis goes into more depth by focusing on two areas – customer propensities (predicting future purchasing behavior) and customer value measurement (measuring the customer's lifetime value in terms of profitability, loyalty, and product preferences). As a result, marketers gain a deeper understanding of the behaviors of individual customers to help them fine tune marketing messages in terms of personalization, cross-selling and customer retention strategies.
- Market Analysis, according to The Gartner Group, is the most advanced analytics category in terms of acquiring strategic and tactical information in addition to traditional "market basket" analysis and automated customer segmentation. Strategically, marketers can uncover and define key customer segments, then take a tactical approach to categorize a customer within a specific segment to ensure a more personalized marketing message. In general, Market Analysis drills down into uncovering behaviors based on relationships between customers and products, customers and other customers, and customers and events such as closing an account or geographic relocation.

Using the information gleaned through a combination of all three predictive analytics categories, marketers can add tremendous value to their customer relationships. However, The Gartner Group advises companies seeking to implement a predictive analytics software platform to be sure that the solution they choose will have everything they need to perform all three types of analyses.

"As analytics become an increasingly important part of most CRM initiatives, enterprises must carefully evaluate the different types of analysis – historical, customer, and market – to determine what value each would add to their understanding of customer relationships."

Research Note, 1 November 2001, The Gartner Group

Marketing with the power of predictive analytics

Most CRM applications can provide the operational power for marketers to execute and track the results of their marketing campaigns, but progressing to the next level of decision support by adding a predictive analytics platform is the only way for marketers to develop more effective campaigns based on fact-based decisions in terms of what messages to send, to whom and when. Predictive analytics provide the most beneficial ways for marketers to:

- Understand Customers – Using typical data-driven segmentation approaches, marketers can easily uncover literally thousands of attributes that define customer behaviors. However, with so much data it becomes too difficult and time consuming to manually process the information for efficient fact-based decision making. A predictive analytics platform supporting the operational CRM system automatically scans the data and "crunches" it quickly so that marketers can go in to query the results and get specific answers. With the results of these multidimensional customer profiles applied to current marketing campaigns, the interaction with the customer is optimized to be more relevant, more appropriate and targeted for increased frequency of response.

- **Develop Targeted Offers** – Once marketers gain a deeper understanding of their customers they can more easily target specific offers to their most profitable customers and promising prospects. Applying fact-based analytics to determine customer propensities toward certain product categories enables better decision making on what products to promote for the best response rate. Moreover, predictive analytics can help marketers analyze more accurately the results of targeted campaigns, revealing patterns in customer behaviors and preferences that can be leveraged for unique product offers in the future.
- **Match a Specific Offer to a Specific Individual** – Predictive analytics facilitates propensity modeling, which enables marketers to fine tune specific messages to specific customers within each marketing channel – e-mail, direct mail, web site, call center for example – and determine what approach elicits the best response. Propensity modeling is particularly effective in the e-business realm, where marketing activities such as e-mail campaigns are so inexpensive to send out that a company can easily blanket their entire customer base at very low cost. However, such an approach carries the risk of sending irrelevant or inappropriate messages that can annoy, bore, or even offend some customers. By employing propensity modeling using fact-based analytics, marketers can quickly isolate different customer segments and replace a "one-size-fits-all" campaign with an individualized, highly relevant message tailored to the customer's profile, resulting in a higher response rate. Propensity models also go beyond the traditional recency/frequency/monetary (RFM) approach to clearly define possible repeat buyers who may be classified as poor prospects because they do not show up in the data as recent or frequent buyers. For example, a propensity model may pick up the fact that people who ordered a certain type of product tend to order again, whereas people who ordered a different type of product may be associated with a one-time purchase. This approach can also identify and target seasonal buyers when appropriate and ensure that these valuable customers are not ignored because they are not frequent buyers.
- **Execute Campaigns in Real-Time** – With specific messages and marketing channels in place for specific customers, a CRM system enhanced with predictive analytics can achieve real-time customer recommendations. Individual customer predictions, or a model that assigns scores based on customer behaviors, help marketers match the most relevant product offers based not only on the typical factors of recency and frequency, but on the complete range of demographic and purchasing behavior data available for each customer. Because the scoring process evaluates past data to forecast the probability of future customer behavior, marketers can tailor their CRM systems to respond with specific offers for specific customers – a strategy proven to increase response rates and optimize the value of each customer.
- **Monitor Campaign Results** – With a predictive analytics platform in place, the entire CRM process can be monitored to determine if the current market campaign is generating the expected results. Customer metrics can be easily tracked and evaluated on an ongoing basis, providing instant insight into current customer behavior as well as statistically sound calculations to help marketers predict future activity. By keeping a close eye on customer metrics such as sales, retention rate, and churn propensity (the likelihood that current customers may be lost to competitors), marketers can revise marketing campaigns to respond to

the customer's actual behavior at any given time and continue to monitor the success or failure of marketing efforts.

Predictive Analytics in Action

Specialty Tea Company

When a multi-channel retailer of fine teas and accessories wanted to increase the average sale per customer of their top line of teas on its web site, it sought a solution that would make intelligent product recommendations just as employees do with customers face-to-face in their stores. The retailer instituted a predictive analytics platform that captures and analyzes data on the specific behaviors of each site visitor, enabling the retailer to have a single view of each customer. Based on the analyzed data, relevant cross-selling promotions and content are presented to visitors of the online store for a higher quality, uniform shopping experience. The result – higher sales per web customer while maintaining the retailer's reputation for delivering a high level of customer service.

Office Products Company

A leading supplier of office products wanted to gain a better understanding of customer behavior in order to achieve the goal of promoting the right product to the right customer at the right time. An analytical system maximizes each interaction with customers by giving this retailer a comprehensive view of its business and each customer across its catalog, retail store, and online store channels. Sales increased and direct mail costs were reduced, contributing to a significant increase in marketing ROI. The average order value for call center transactions increased by 5 percent, while Internet sales went up 2.3 percent. Catalog production was cut in half while still reaching 95 percent of expected revenue.

Siebel and SPSS Make Predictive Analytics a Reality Today

Satisfying customers in today's highly competitive global marketplace has never been more challenging, and having a deeper insight into customer expectations and future behaviors is the key to successful marketing campaigns. Predictive analytics enable marketers to understand the key factors that drive customer value, loyalty, and attract more customers. As they measure and monitor the effects of marketing campaigns in light of the impact on customer profitability, marketers can manage their organizations around improving the value of their customer base.

A strategic alliance between Siebel eBusiness Applications and SPSS analytical solutions (CustomerCentric®) and products (SPSS and Clementine®) is making enhanced CRM analytics solutions a reality today for Siebel customers. SPSS joined the Siebel Alliance Program as a Strategic Software Partner in July 2001 and provides advanced analytical technology that is integrated and validated with Siebel eBusiness Applications. SPSS' CustomerCentric solution supports decision making and improves the results of outbound targeted marketing campaigns in real-time environments, such as call centers and Web sites, by predicting customer behavior.

"SPSS brings real value to Siebel's eBusiness Applications with its wealth of expertise in decision support," said Gagan Gupta, Siebel Systems. "Any good CRM application will provide the data to help you execute and track a marketing campaign, but SPSS and its

CustomerCentric solution also provides the intelligent application and decision support to raise campaign development and management to a much higher level."

CustomerCentric takes the guesswork out of understanding customer behavior by allowing a much wider range of facts to be analyzed automatically instead of only exploring the data manually. The bottom line: SPSS adds the power of prediction to Siebel eBusiness Applications so customers can learn from the past, understand the present, and anticipate the future.

CustomerCentric Solutions

CustomerCentric Solutions, a division of SPSS Inc. (Nasdaq:SPSS), helps businesses improve profitability by providing an analytical platform that increases the effectiveness of every customer interaction in complex web and multi-channel environments. CustomerCentric® helps companies manage their most valuable asset – customers – by optimizing revenue and increasing the number of customers, customer value and customer loyalty. With NetGenesis® E-Metrics, customers quantify the return on investment of complex Web initiatives - from marketing and site design improvements to customer acquisition, conversion and retention. Leading enterprises worldwide, including British Telecommunications, Charles Schwab, DoubleClick, General Electric, Sun Microsystems, Time and Verizon, rely on the analytical power of NetGenesis and CustomerCentric to discover what customers want and predict what they will do next.

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