

Offer Differentiation Based on Customer Value



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Abstract: Exploring how differentiating offers based on Customer Value can influence the desired behavior of each customer interaction.

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BACKGROUND

In this Action Brief, we will explore how differentiating offers based on Customer Value can influence the desired behavior of a customer interaction. Those desired behaviors may be to increase or maintain loyalty, create a return visit or convert the current interaction into a transaction.

ASSUMPTIONS

This Action Brief assumes that the company is a retailer of soft goods with a limited brick and mortar presence, a catalog and an e-commerce web site. The company has elected to begin making different offers to its e-commerce clients based on the customers overall value. The company is seeking to solve two critical business issues 1) reduce cart abandonment, which is above 80%, and 2) increase average ticket, which is 53% less in its e-commerce channel than its average ticket in its catalog channel.

The gross margin on a sale through any channel is the same with its e-commerce channel having the lowest sales and fulfillment cost. The company has chosen to make offers with a purchase percent discount as opposed to a flat amount in order to maintain a consistent post discount margin.

VALUE DETERMINATION

In this Action Brief the company utilizes a customer value model that considers multiple attributes of value and persistence, ranks customers based on overall value and considers which of the two dimensions is contributing to the values calculation. An illustration of the Value to Persistence relationship is found in the Matrix below with the blocks being identified from most (A) to least (I) valuable by an alpha character:

The Value - Persistence Matrix			
Persistence	F	C	A
	H	D	B
	I	G	E
	Value		

CUSTOMER DESCRIPTION

The company wants to differentiate offers to four types of customers based upon their value to the company. The description of the four customer segments are as follows:

High Value Customer – This customer has consistently demonstrated above average interaction from both a persistence and value perspective. The strategy for this customer is to maintain loyalty by providing real time rewards at the time of customer interaction.



Mid Value Customer – This customer has consistently demonstrated average interaction from both a persistence and value perspective. The strategy for this customer is to provide a small real time reward to protect the established loyalty position and incent another purchase within a reasonable time-period by providing a more substantial reward on the next transaction.

Low Value Customer 1 – This customer has consistently demonstrated below average interaction from both a persistence and value perspective. This is typical of a customer that visits the site infrequently but generally monetizes in average or smaller than average amounts. The strategy for this customer is to increase the frequency of purchases so no real time incentive is provided but are incented on the next purchase.

Low Value Customer 2 – This customer has consistently demonstrated above average interaction from a persistence perspective and a below average interaction from a value perspective. This is typical of a customer that visits the site frequently but generally abandons rather than completing a purchase. The strategy for this customer is to convert the current purchase through a real time incentive and achieve a repeat conversion if it occurs within a short time period.

OFFER DIFFERENTIATION

HIGH VALUE CUSTOMER

Distribution of Customers by PowerVue Score										
Score	I	H	G	F	E	D	C	B	A	Total
900+									800	800
801 - 900									1,822	1,822
701 - 800									1,251	1,251
601 - 700									1,956	1,956
501 - 600									1,700	1,700
401 - 500								2,281	1,900	4,181
301 - 400							1,212	3,255		4,467
201 - 300					1,203	6,455	3,812	6,166		17,636
101 - 200				5,230	4,204	1,835	200			11,469
1 - 100	12,746	10,001	11,141	931						34,819
TOTAL	12,746	10,001	11,141	6,161	5,407	8,290	5,224	11,702	9,429	80,101

The company has decided that it will provide a real time reward to its most valuable customer segment. The company presents a coupon for 10% of the purchase price at the time of customer authentication which is available for redemption in the current transaction.



MID VALUE CUSTOMER

Distribution of Customers by PowerVue Score										
Score	I	H	G	F	E	D	C	B	A	Total
900+									800	800
801 - 900									1,822	1,822
701 - 800									1,251	1,251
601 - 700									1,956	1,956
501 - 600									1,700	1,700
401 - 500								2,281	1,900	4,181
301 - 400							1,212	3,255		4,467
201 - 300					1,203	6,455	3,812	6,166		17,636
101 - 200				5,230	4,204	1,835	200			11,469
1 - 100	12,746	10,001	11,141	931						34,819
TOTAL	12,746	10,001	11,141	6,161	5,407	8,290	5,224	11,702	9,429	80,101

The company has decided that it will provide a small real time reward to its mid value customer segment and a larger reward on the next purchase if made within 60 days. The company presents a coupon for 5% of the purchase price at the time of customer authentication, which is available for redemption in the current transaction, and notifies the customer that if they redeem the 5% coupon they will receive a supplementary coupon for a 10% discount on the next purchase. If the coupon is redeemed the customer receives an email with the supplementary coupon.

LOW VALUE CUSTOMER 1

Distribution of Customers by PowerVue Score										
Score	I	H	G	F	E	D	C	B	A	Total
900+									800	800
801 - 900									1,822	1,822
701 - 800									1,251	1,251
601 - 700									1,956	1,956
501 - 600									1,700	1,700
401 - 500								2,281	1,900	4,181
301 - 400							1,212	3,255		4,467
201 - 300					1,203	6,455	3,812	6,166		17,636
101 - 200				5,230	4,204	1,835	200			11,469
1 - 100	12,746	10,001	11,141	931						34,819
TOTAL	12,746	10,001	11,141	6,161	5,407	8,290	5,224	11,702	9,429	80,101

The company has decided that it will provide no real time reward to this customer segment and a large reward on the next purchase if made within 45 days. The company presents no coupon at the time of customer authentication; however, the company notifies the customer that upon completion of this transaction they will receive a supplementary coupon for a 10% discount on the next purchase. If the transactions is completed the customer receives an email with the supplementary coupon.



LOW VALUE CUSTOMER 2

Distribution of Customers by PowerVue Score										
Score	I	H	G	F	E	D	C	B	A	Total
900+									800	800
801 - 900									1,822	1,822
701 - 800									1,251	1,251
601 - 700									1,956	1,956
501 - 600									1,700	1,700
401 - 500								2,281	1,900	4,181
301 - 400							1,212	3,255		4,467
201 - 300					1,203	6,455	3,812	6,166		17,636
101 - 200				5,230	4,204	1,835	200			11,469
1 - 100	12,746	10,001	11,141	931						34,819
TOTAL	12,746	10,001	11,141	6,161	5,407	8,290	5,224	11,702	9,429	80,101

The company has decided that it will provide a larger real time reward to this customer segment and a similar reward on the next purchase if made within 30 days. The company presents a coupon for 10% of the purchase price at the time of customer authentication, which is available for redemption in the current transaction, and notifies the customer that if they redeem the 10% coupon they will receive a supplementary coupon for a 10% discount on the next purchase. If the coupon is redeemed the customer receives an email with the supplementary coupon.

HOW WE DO IT

VueLogic's patented scoring technology considers 18 different attributes of customer interaction to create a unique two-dimensional score. We begin by measuring the relative signal strength of each attribute based on data density to determine if an attribute is considered and its strength relative to the other attributes. Next, we establish the customer's positional value within each attribute. After that, we combine the customer's positional values to establish a summary positional value along two axis (persistence and value). This translates into the Alpha value in the score, which describes which summary attribute (persistence or value) is driving the value. Finally we reduce the all the attribute values into a single numeric score that positions the customer relative to all other customers. Because of the geometric progression of the score, a customer must have superior performance across a large number of attributes.

VueLogic's PowerVue® Score was developed under the Small Business Innovation Research Grant Number 0810561 from the National Science Foundation.



ABOUT VUELOGIC

VueLogic is a premiere, software-as-a-service revenue generation solution for businesses like yours. For the first time, you can personalize and target messaging and offers to your customers based on actual preferences. We enable you to harness, analyze and trend your customer transactions (monetary and non-monetary) across domains in a confidential and secure environment.

With our PowerVUE® solutions, you utilize proprietary analytics, micro targeting, scoring and profiling to create more revenue at less cost for each customer interaction. We empower you with the information you need to understand, retain and grow your customer base at a very low cost. ***Let us prove it!***

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