

The Two-Model Matrix:

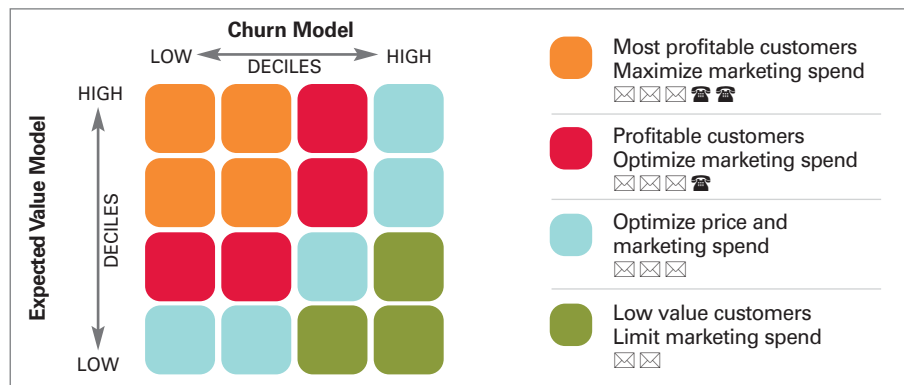
A Marketer's Guide to Optimizing Customer Relationships and Marketing Spend

Building long-term relationships with your customers is mission-critical. But you need to do more than retain your most valuable customers. You need to grow them. This can be a difficult challenge for many marketers who are faced with shrinking budgets and increased accountability in today's economic climate. The key is to use data-driven strategies to make more informed decisions about your marketing spend.

Not all customers are created equally. Neither are analytics models.

Any effective marketing strategy must begin by understanding that not all customers are created equally. To truly gain a more thorough understanding of your customers, you must start by analyzing and targeting each customer's personal preferences. Historically, marketers have turned to segmentation models to learn more about their customers based on demographics, psychographics, attitudes, and past behaviors. Based on those customer attributes, relevant and personalized messages are then created. Another popular approach is predictive modeling. Predictive models identify which customers are most likely to respond to up-sell and cross-sell offers as well as those most likely to leave.

While both approaches help deliver a more complete view of your customers, each has its own advantages and disadvantages. Segmentation modeling by itself ignores the true likelihood of behavior. The insights gleaned about a customer may produce a profile that suggests a specific marketing strategy from discounted offers to expensive direct mail pieces or even outbound telemarketing. However, the recommended marketing spend may yield an undesirable return on investment. Predictive models alone, on the other hand, ignore the important research aspects of what a customer really wants and how they want to be marketed to. Regardless of which model you use, both



models fail to quantify the actual current and future value of the customer.

Taking out the guess-work.

Lifetime value is a calculation used to determine the net present value of a customer based on his current and future product needs, channel preferences, and probability of being loyal. By calculating a customer's lifetime value, marketers can differentiate among existing and future customers to acquire and retain only those that are the most profitable. However, lifetime value alone isn't enough either. The best approach to drive sales, build customer loyalty, and increase your share of wallet while optimizing your marketing spend is to use multiple data modeling techniques within a two-dimensional modeling matrix.

By combining a customer's likelihood to respond (predictive modeling) with his preferences for how to be marketed to (segmentation modeling) along with his current and future lifetime value, marketers can get the most out of every customer interaction and marketing dollar. The two-model matrix not only identifies the probability that a customer will respond but also associates the customer's lifetime value with the response probability. Based on the results, marketers have a clear picture of who their best customers are and can then develop comprehensive marketing strategies to keep them engaged as well

as identify similar prospects who are likely to become customers.

Does it work?

Through our suite of data analytics services, ACCENT has strategically guided a number of B2B and B2C clients through the successful design and execution of the two-model matrix. In fact, for one client, the insights gained yielded an 18% decrease in the company's churn rate as well as generated a 194% return on marketing investment. In all, the client was able to improve its top line by 112% and bottom line by 258%, which translates into millions of dollars in revenue. ■

About ACCENT

Majority owned by MDC Partners, Inc., ACCENT is an international provider of customer lifecycle management solutions. We partner with world-class companies to help them acquire, support, retain, and grow their customers at every stage in the customer lifecycle. Through our suite of data analytics, direct marketing, contact management, and fulfillment services we deliver high quality, integrated marketing solutions that grow valuable client and customer relationships.

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