Next-Best-Action Marketing: A Customer Centric Approach

A Pega eBook
Introduction

Despite all the hype surrounding customer centricity, many marketing organizations still overly rely on product-centric customer interactions. An example of this might include direct marketing in which each campaign is set up to promote a single product. While this approach aligns well with current thinking about budgeting, staff compensation, and organizational structures, it is at odds with customer centricity as well as one of the most important corporate objectives - profitability.

This eBook discusses a new approach to customer communications called Next-Best-Action (N-B-A) marketing that can yield significantly more effective results. N-B-A is part of the wider next-best-action approach to many types of customer interactions such as risk mitigation, remedial actions for churn and fraud, service provisioning, data collection, arrears, surveys and so forth. When used for marketing, N-B-A has direct and immediate effect as sales and retention will improve with a corresponding boost in revenues. At the same time, marketing costs will decrease while the possibilities for brand expression and control grow. Add to these benefits such desirable ‘side-effects’ as improved customer satisfaction and happier customer-facing staff, and marketers will wonder why this new approach was not adopted as the standard long ago. This eBook is an executive summary document. See the full white paper, Next-Best-Action Marketing for additional analysis and detail on this topic.

This eBook will cover the following sections:

- **Business Benefits of Next-Best-Action** details the specific business benefits that marketing organizations can realize from using N-B-A strategies.
- **The Next-Best-Action Model** describes how a typical N-B-A model works in marketing organizations.
- **Next-Best-Action Marketing Realized** discusses the cultural shift required in the marketing organization and how to go about asking the right questions that will form your N-B-A strategy. This section will also cover the impact on outbound marketing as well as inbound channels such as the call center.
- **Conclusion** will recap the main points made throughout the eBook.
- **About Pegasystems** will cover background on Pega and details on Pega marketing solutions.
The Business Benefits of Next-Best-Action Marketing

To demonstrate how the N-B-A approach actually delivers, it makes sense to look at the benefits some of the early adopters of both the methodology and the technology have achieved. The N-B-A model provides a corporate "decisioning hub" that guides each inbound and outbound customer action and communication for every channel and line of business. This centralized decisioning capability ensures the following business benefits:

- Consistency and avoidance of channel conflicts
- Cost alignment
- Optimization of interaction time
- Natural conversations
- Effective monitoring
- Total control

**Consistency and Avoidance of Channel Conflicts**
Absolute consistency, across channels and over time, is achieved because the Decision Hub executes a holistic strategy for each customer that recommends the best action. Any customer response or relevant event will have a bearing on what the next best action will be.

There is a second advantage to this approach—avoiding channel collisions. In traditional campaign management, it is a challenge to avoid targeting the customer with two campaigns simultaneously. She may be selected for the Premium Platinum card as well as the higher interest Ultimate Savings card. Even if the two products are not mutually exclusive, they will compete for her attention.

**Cost Alignment**
Resources are scarce in every enterprise – both in terms of time spent in communicating and money spent in negotiating terms or incentives to make customers agree to a proposition. The ‘art’ in marketing is still choosing where to spend scarce resources. N-B-A strategies and their underlying predictive models enable an organization to be discerning in its use of resources.*

Given the prediction of the customer’s level of interest, some time can be justified in offering a proposition to those very likely to purchase if they are simply told about it. More time and an incentive can be justified for those less likely to be interested because they need to be persuaded. For those with even lower interest, time can be spent not on selling the proposition but on explaining it and developing the need or desire. Those with a minimal interest may fall below a threshold that prevents the proposition from being offered. This hierarchy of strategies for a proposition optimizes the use of scarce resources and aligns the cost of the effort to the likely value of the customer.

**Optimization of Interaction Time**
The value of an N-B-A Decision Hub within the organization is that it can be used to intervene at any time and make recommendations concerning the best action. In addition, the N-B-A Decision Hub can be used to decide on the best action for outbound communications, starting with the decision on whether or not to engage in outbound communication in the first place. If this decision for a particular customer is positive, the outbound proposition can be entirely consistent with the inbound proposition should the customer happen to engage in an inbound contact first. As a result, outbound campaign costs decrease for two reasons: Outbound communication becomes more effective by avoiding collisions; Inbound communication is used to make propositions that would otherwise be made in the outbound channels.

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*Predictive models are essentially mathematical expressions that relate known customer data, such as age, income, gender, and so forth, to expected behavior, such as the customer will buy product x.

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The Business Benefits of Next-Best-Action Marketing, cont.

Natural Conversations
For both the customer and the enterprise, achieving a natural conversation yields greater satisfaction, better use of time, and ultimately greater profits. It is also more conducive to having customers agree to a proposition because humans are accustomed to a give-and-take style of dialog. It is important that both the “giving” and the “taking” match customer interests and corporate objectives.

Fundamental to the N-B-A paradigm is that there is no such thing as one-size-fits-all. This extends to the way the relationship is conducted. Some customers prefer to be presented with the relevant alternatives and to reach a decision for themselves. Some prefer a consultative relationship in which they explain their circumstances and needs so that the organization can recommend the appropriate solutions. Some desire a mutually managed relationship in which they negotiate everything – the deal, the products it contains, the terms and the pricing. A natural conversation will mean something different to each group of customers. Now that these kind of complex interactions can be expressed using Decision Logic, consumer psychology can play an increasingly important role in designing the optimal customer experience.

By continuously suggesting ‘what to do next’ during the dialog, the N-B-A Decision Hub supports iterative and interactive forms of communication that customers recognize as natural. As a result, they know how to conduct their part of the communication and focus their attention on what is being offered rather than being distracted, confused, or annoyed by the process itself.

Effective Monitoring
When all customer-facing decisions are made by the N-B-A Decision Hub, the enterprise is in a good position to automatically capture every decision and the basis on which it was made. In fact, this is affordable only with a central decisioning capability, as the impractical alternative is to trace all legacy rules and other logic that is embedded in all the different customer-facing applications and processes. When the effect of the decision becomes evident (perhaps immediately when the customer clicks a button; perhaps a year later when the customer repays the loan), it is then possible to judge the performance of the Decision Logic strategies fed to the Decision Hub.

Total Control
As is the case with many companies leveraging N-B-A strategies, information fed to the decision hub is developed and maintained by line of business management rather than IT. The advantage of this approach is that the company can adapt its strategies (and, by implication, its profitability and aspects of branding) on the fly. It is important to note that this ability does not mean strategies should be implemented casually. They will need to be tested before they go into production as in any normal business practice. However, with the Decision Hub as the central location for making all customer-facing decisions, changing the instructions changes the way the company does business.
The Next-Best-Action Model

The N-B-A model is an entirely different approach, representing a single, continuous campaign or marketing program, that selects the optimal treatment, one step, or decision, at a time. Arbitration between alternative treatments can be just-in-time, avoiding the time consuming post-processing required to assign the customer to a single campaign. With N-B-A marketing, the customer will be considered for a specific proposition or treatment during real-time interactions or when generating the output file for batch processed outbound communications.

Consider an N-B-A model as illustrated in Figure 1, a simple selling strategy. When fed through a decision hub, this strategy (or decision logic) will make a decision concerning the best offer to make. The decision is made in real-time, the moment the customer enters the website or contacts the call center. In batch, the decision is made when the output file is generated for outbound communication. In both cases the decision is made just-in-time and will select only one (the best) proposition out of the three that are possible, depending on the customer’s propensity to buy any of the three products, her eligibility to do so, the desirability of making the offer now, and the economics of the purchase, such as margin, contribution to branding, effect on market share, and so forth.

The N-B-A strategy avoids channel conflict because under the organization’s arbitration scheme there can be only one best proposition. Assuming the decision hub is fast enough, it would be a waste of time, effort and data storage to set up three campaigns for mortgages, loans and cards and then apply the same arbitration afterwards.

CASE STUDY: Telecommunications giant Orange UK relies on Pega to determine the optimal retention strategy for each customer. Agents are automatically presented with all relevant details about the customer, a calculator that shows how much they can spend to retain the customer, and all of the potential products and tariffs that can be bundled into the offer. As a result, Orange is now retaining an additional 4 percent of their most valuable customers each month with gross operating margins increased by £2 million monthly.
A Collaborative, Customer-Centric Approach to Marketing

The benefits of the N-B-A paradigm are extremely valuable to any customer-focused organization. And as the approach has been proven by some of the world’s most successful brands, implementation is clearly feasible. However, as with all market-driven paradigm shifts, there must be similar shifts in operational paradigms within a company to fully realize the potential benefits.

Marketing faces perhaps the most important paradigm shift of all. Marketing strategists have to abandon their natural product focus and adopt customer-centric thinking. This has been the CRM mantra for some time, but the truth is that existing CRM technology has never allowed a truly customer-centric approach. N-B-A marketing, in contrast, forces everyone in the organization to put the customer first.

All staff involved in thinking about customer interaction strategies, including branding, product marketing, risk management and CRM, will need to answer this Critical Question:

**What is the approach we will take to maximize the relationship with each customer when contact occurs?**

The answer triggers further questions and the full strategy unfolds. From the start, this rigorously top-down strategy design is at odds with the traditional product-first approach when setting up campaigns and selecting customers for the propositions.

The answer to the Critical Question immediately requires collaboration between departments that may hardly interact. This lack of collaboration comes at a great cost, confusing the brand and bypassing potential revenues. Without this collaboration, the first decision made will be owned by the business function that happens to own the interaction. Customer-centric interactions demand that a company agree on the answer to the Critical Question.

The first step to answering the Critical Question is for the company to agree on its priorities for the business. Is risk more important than selling? Is selling more important than retention? Consider the simple N-B-A logic example in figure 2 that could be executed in any channel to answer the Critical Question and the subsequent questions that follow that first answer.

Figure 2 illustrates how to fit a single campaign to the customer, not fit the customer to the campaign as with a traditional approach, where prospects are assigned to predefined marketing segments. Segmentation, even when based on a thorough customer analysis and not on ill-founded assumptions, is the ultimate bottom-up approach to customer interactions. It is not uncommon, for instance, to see organizations define hundreds, even thousands of customer segments, while their options to differentiate propositions represent only a fraction of that. Instead, if companies addressed the Critical Question first, segmentation would naturally follow from the level of customer differentiation that is actually operationally supported, reducing costs and enhancing transparency.

With the Critical Question as its starting point, the N-B-A Decision Hub applies its strategies repetitively to the same customer. As the customer’s state is likely to be affected by the recommended action, the next-best-action will be different with each application.

To maximize bottom-line benefits, the Decision Hub considers operational constraints as well as customer inputs to sometimes defer potential propositions. At any time, the next-best-action may be determined to be no action. Perhaps the Decision Hub decides it is best to wait until a later contact moment or not to burden the customer with a proposition that is likely to be perceived as annoying.
Inside a company, strategy teams from multiple disciplines must come together to help determine the answer to the Critical Question. Priorities should be based on expected profitability, operational constraints, branding considerations, relevant regulations, and company policies. Having agreed on the Critical Question, the representatives of the different departments then work on their internal Next-Best-Action sub-strategies, such as for Arrears management or sales. Within the department, this process should begin with the runner-up question. For example, if the answer to the Critical Question is to sell, which offer should be made first? Each following question is answered until the sub-strategy is developed to the degree possible.

Not all sub-strategies need to be determined up-front. In fact, even the perfect strategy would only be perfect for a limited period of time, as the market is a fluid environment. Detail to basic assumptions can be added later, as the N-B-A paradigm is perfectly suited to address a single business issue. For example, the organization can start with N-B-A for fraud detection with the first decision during an interaction about the likelihood of fraud. If the risk is deemed to be satisfactorily minimal, traditional customer processes take over. N-B-A strategies or sub-strategies for retention, arrears management or selling may be added later, one at a time.

Traditional marketing campaigns are hardly portable because they start with the detail and are very product specific. In contrast, N-B-A campaigns start with a holistic view of the customer and add the detail last. As a consequence, the skeleton logic does not vary much from one telecom company to another, or from one bank to another bank. The implication is that best practice blueprints can successfully be used to fast track the implementation of N-B-A marketing solutions. Indeed, implementation time for early adopters of eight months to recuperate costs and 18 months for a full multichannel rollout, has shrunk to about half that because of the availability of N-B-A blueprints.

Figure 2: Building customer centricity into interactions
A Collaborative, Customer-Centric Approach to Marketing, cont.

In addition to the enterprise strategy team, switching to an N-B-A marketing paradigm will require a high-throughput customer analytics department. High throughput is necessary to drive successful prediction-based strategies. There will be a large demand for high quality predictive models to help make decisions about likely customer interests (in buying products, channel preference, likely amount spent, etc.), risks (late or no payments, exit risk, fraud, etc.) and values.

With recent advances in predictive technologies, it is now less important that the analysts have a PhD in statistics than that they fully understand the business purpose of the analytics. Using these business-friendly tools, companies can easily integrate the customer analytics department with the marketing or CRM department.

Fueled by the predictive model factory, an N-B-A marketing strategy will enable companies to market to consumers based on anticipated behavior. Traditional attribute-driven segmentation can only tell marketers how to sell to a homogeneous group, it cannot describe exactly who to sell a specific product to. With behavioral segmentation, an individual can become a “segment of one” in which non-linear interplay between individual dimensions can be used to select exactly the right action or offer for exactly the right individual. For example, someone making $100,000 per year in Oklahoma will probably have a different spending pattern than someone with the same salary in Manhattan. From a marketing perspective, salary cannot be linearly interpreted in order to understand a particular person’s behavior. Similarly, a set of parents of a certain age may buy a rubber duck for their child. The same couple may purchase a rubber duck again for their grandchild. Segmenting this couple into a single “rubber duck-buying” age category eliminates the possibility of selling to the grandparents.

To create a successful N-B-A strategy, marketers will have to change their thinking, from traditional attribute-based segments to multi-dimensional behavioral segments, that are actionable, and exactly what’s needed to drive N-B-A strategies.

The Role of Outbound Marketing

In traditional marketing organizations, outbound marketing is an independent marketing silo tasked with increasing sales by getting product propositions in front of prospects. In an N-B-A-centric marketing organization, this is considered one (important) element of the total customer experience. The dialog with the customer will touch many channels, and the outbound channel is one of them. But rather than just being a direct sales channel, its job should be to encourage customers to engage with the more effective inbound channels.

The real-time inbound channels, as was discussed earlier, are more suitable for natural conversation and to exploit the fact that the customer, not the company, has chosen the moment to interact. Because of this, inbound is more effective for conducting the real business.

In general, the customer experience is the result of continuous interaction across channels and over time. Directed by the Decision Hub all channels will ‘know’ what role to play and how to carry on with the conversation. For instance, an inbound interaction may conclude with the customer’s agreement to be contacted later. Outbound communication is required to keep that promise towards the customers and ensure from a company perspective that leads are properly managed and not wasted. As another example, certain lifecycle events like a birthday may trigger an outbound action by the Decision Hub.

Some enterprises even choose to consolidate these kinds of triggers along with most of their outbound campaigns into a holistic outbound customer contact strategy. Rather than having a January mailing for product 1, a February mailing for product 2, etc., all campaigns are competing for a customer (to be decided in true N-B-A fashion) in a single monthly outbound campaign.
**Next-Best-Action in the Call Center**

McKinsey states that in a bank that realizes a ‘core product conversion rate’ of 4%, adding 5 extra agents to the call center adds additional sales power equivalent to that of a mature bank branch.* A sales force to behold. The call center is only one of the channels used by large organizations, but the effects of N-B-A marketing can be felt perhaps most directly in this area. Where previously call center agents could be dedicated to a task (service, selling or retention), the N-B-A paradigm mandates that the customer take center stage. This means that the agent will need to follow the lead of either the customer or the pro-active recommendations from the company’s N-B-A Decision Hub.

The first action an N-B-A Decision Hub could take is to intercept the call while it is being handled by the voice response system and route the call to the appropriate queue or agent.** Or, the Decision Hub can be implemented to get involved by guiding the agent only once the agent has taken the call. Once in place, the N-B-A Decision Hub becomes the agent’s partner in making each customer experience as effective as it can be.***

A good N-B-A strategy represents the call center’s best practices, which empowers agents, especially those who are less experienced. With the high turnover in call center staff, this is an important feature in its own right. In addition, all agents like recommendations that meet the customer’s needs most precisely as well as helping those with a sales incentive meet their targets. The Decision Hub can alert less experienced agents of promising propositions they do not know about, while reminding highly experienced agents of propositions that are forgotten, easily overlooked or only rarely relevant. As a result, customers and agents experience much higher levels of satisfaction.

By receiving continuous recommendations for the next best action from the N-B-A Decision Hub, each interaction becomes a meaningful conversation that fills gaps that normally occur when the agent is waiting for data from the back-office. Because of this, average call handling time is not significantly affected, even when a whole series of recommendations is made to the agent during the call.

Another aspect outside the scope of this paper but worth mentioning is that current technology allows for a call center application that is almost 100% driven by Decision Logic, including presentation elements. This means that agents can not only give input on the recommendation logic and expect a quick turnaround (because of the independence of IT), but also on the look and feel of their desktop.

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**This could go as far as having the Decision Hub predict likely call reasons to optimize the voice response menu structure in real-time and minimize customer navigation time.  
***AOL, after a first implementation of this new paradigm in Germany, calls this form of advanced decision support the ‘call center buddy’ (American Marketing Association webcast, June 8th, 2006).
Conclusion

Next-Best-Action solutions for marketing and other business areas represent a necessary paradigm shift for companies that hope to increase profitability while maintaining high levels of customer satisfaction. Technological advances in predictive analytics and interface presentation have enabled new levels of customer-centricity within an organization. As recent projects in this area have been completed well within time and budget constraints, the biggest remaining hurdle for companies in implementing such a radical shift in business focus might be the new ways of thinking and new levels of intra-company collaboration that are required.

In spite of these potential challenges, the quantitative, tangible business benefits described in this paper are of such magnitude, that quick success will inevitably engender even more enthusiastic and profitable collaborations between departments. In fact, the first implementation of an N-B-A-centric marketing organization achieved significant returns on investment within eight months. It is too early to tell, but this paradigm shift may finally dissolve the artificial walls that exist around departments and move customer experience to the forefront of corporate awareness for entire industries.

Finally, Next-Best-Action thinking coincides nicely with the general trend of using inbound channels to extend and partly replace outbound channels. Customers are more likely than ever to choose their own moment and their own channel to contact the company, then select, negotiate, and configure the product or service of their choice. Analyst firm Gartner is not only anticipating the growing use of inbound channels, but also an explosive demand for solutions that leverage interactions through these channels to create an intelligent inbound channel.

As a Next-Best-Action solution adds value to every customer decision, its bottom line contribution goes up with both the number of interactions and their complexity. It appears this revolutionary approach will land on fertile grounds. Implementation should have a high priority for organizations that want to carefully control the customer experience and fulfill their brand promise as well as for companies that are looking to make the most of customer interaction time to increase revenues and optimize the use of resources.

CASE STUDY: To maintain its market leading position, The Royal Bank of Scotland recognizes the need to leverage its existing customer base to build closer relationships and to increase the opportunities for cross and up-selling. RBS used event-triggered campaigns that may number from 1,000 down to only a handful. As a result, it is not unusual to get response rates in excess of 25 percent. RBS believes the goal of the coordinated campaigns and better customer relationship management is straightforward: “The key is learning more about our customers.”
Optimizing Customer Value Through Next-Best-Actions

Pega Unified Marketing delivers inbound offer management and outbound marketing campaigns that provide a unique combination of predictive and adaptive analytics, real-time decisioning, and business process management, to dynamically manage cross-channel conversations across the customer lifecycle, from offer design through offer fulfillment. Pega’s Unified Marketing solution delivers on the promise of Next-Best-Action Marketing by providing the following business benefits to marketing organizations:

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<th>Optimize Customer Lifetime Value</th>
<th>Unified Marketing Platform</th>
<th>Create Relevant Experiences</th>
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<td>Maximize revenue with cross-sell, up-sell, and retention offers</td>
<td>Design multi-channel customer strategies without IT</td>
<td>Execute the Next-Best-Action at the moment of truth</td>
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<tr>
<td>Balance the customer needs and business needs</td>
<td>Built on Pega BPM and connects sales with fulfillment</td>
<td>Continuously determine the best action for every customer</td>
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Across industries, Pega customers have optimized their marketing organizations by:
- Increasing operating margins by £2 million monthly
- Increasing outbound marketing effectiveness by 180%
- Increasing campaign response rates of up to 25%
- Increasing revenue by 30%
- Increasing retention by 5%

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About Pegasystems
Pegasystems, the leader in business process management and a leading provider of CRM solutions, helps organizations enhance customer loyalty, generate new business, and improve productivity.

Our patented Build for Change® technology speeds the delivery of critical business solutions by directly capturing business objectives and eliminating manual programming. Pegasystems enables clients to quickly adapt to changing business conditions in order to outperform the competition.

For more information on Next-Best-Action Marketing, please visit us at www.pega.com. Here you will find the full white paper, Next-Best-Action Marketing.

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