Retention reinvented

5 keys to building sustainable customer relationships

A PEGA
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Introduction

Remember when customer retention used to be a service problem? Before the call center world went digital, and the old way of doing business got burned to the ground?

We live in a world where one bad experience can ruin an entire relationship. Where waiting until customers complain is no longer a viable option. Where retention and service need to be a priority if you want to head off a problem before it goes nuclear.

Today, service is a chess match played at high speed. It's an always-on, everywhere requirement – and in the customer's eyes, the line between serving, retaining, and selling has blurred to the point where everything has to be connected and fluid. Disjointed experiences stand out because they're awkward and obvious.

So why haven't businesses reinvented their approach to service and retention? One problem is that the service ecosystem isn't there yet. Organizations understand the vision, but not the path to achieve it.

In the following pages, we'll take a closer look at expectations from today's digital customers, explain why retention and service matter more than ever, and define the five keys to successfully retaining customers with preemptive and proactive service. We'll also share examples of real organizations that transformed their approach – and, by doing so, achieved impressive results.

Your customers aren't as happy as you think

The gap between customer expectations and actual experience is growing larger every day. A few leading brands have succeeded by adopting AI-driven solutions, building connections that bring them closer to their customers – but most brands haven't made that leap yet. And the difference in experience from a customer perspective is profound. With all other things being equal, the organization that knows the customer, and makes it simple to do business, wins.

In reality, most interactions don't feel very personal from a customer's perspective. What you may think of as personalization is most often about what's convenient or simple for the brand, rather than a commitment to knowing the individual. Customers often walk away from these interactions feeling frustrated, thinking "They don't even know me, or my problem. So why should I do business with them?" That customer goes on to tell others about their experience, escalating negative perceptions even further.

Regardless of the industry, customers need to feel understood, and for an interaction to feel relevant. They want one-to-one experiences that have been personalized around their specific needs, consistently, whether it's assisted service, self-service, or a targeted sales offer.

They also need those interactions to be simple and productive, and negotiable via whatever device is closest to hand when they reach out for assistance. Surprisingly, phone calls are rarely their first choice. Instead, they're used to well-designed apps that provide quick and easy ways to authenticate, search, and access favorites, or that make suggestions based on individual preferences (think Netflix, Spotify, or Domino's Pizza).

From a marketing perspective, customers don't want to feel "sold to," whether they're browsing your website or finishing up a service call with your contact center. A flood of irrelevant offers won't earn their business. Instead, they need to establish a rapport with you. Customers define themselves in part by their relationship with a brand and what it represents – a mix of utility, usability, value, accountability, and quality. This doesn't happen overnight, or by accident; it's a perception that has to be earned over time.

That's what your customers expect. But the reality of providing consistent and elegant service across multiple channels can be a nightmare for brands. The level of personalization and consistency that customers want is actually a lot harder to execute than it may seem – which is why a smart retention strategy is so critical.

Pay attention… or pay the price

Public enterprises are normally driven by short-term revenue and growth, so customer service and customer retention often take a backseat to priority number one: selling. A sales-driven culture ignores the longer-term impacts of a constant barrage of sales and marketing – like how those attempts to sell might negatively affect customer retention. It undervalues softer considerations like experience, and satisfaction, and prioritizes additional sales engagement in place of a more empathetic approach. Unfortunately, the customer's needs become an afterthought.

However, evidence shows that those "softer considerations" really do matter to the bottom line:

- **Bad service costs money:** A 2016 study determined that US businesses are losing more than $62 billion per year because of poor customer service – and that number has more than tripled since 2013. In the study, almost half of customers reported switching to a new business or service provider because they felt unappreciated, couldn't get help, or they simply couldn't find what they needed – and younger customers were more than twice as likely to defect when they encountered problems.[1] In other words, if you don't provide a good customer service experience, competitors could end up stealing half your customer base.

- **Positive customer relationships are profitable:** A study by the Temkin Group found that loyal customers are five times as likely to repurchase, five times as likely to forgive, four times as likely to refer, and seven times as likely to try a new offering.[2]

- **Trust pays off:** According to the Institute of Customer Service, even a small increase in a company's customer satisfaction (10%) can lead to a 12% increase in trust from customers. And that trust is vital in building retention strategies. Without it, businesses have little chance of keeping that customer long-term.[3]

- **Most companies are falling short:** In one recent study, 84% of companies surveyed admitted that their current customer retention strategy is stagnant, and they have no plans to change – usually citing issues with data, reporting, and a general lack of "knowing their customer."[4]

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[1] Source: Shep Hyken, "Bad Customer Service Costs Businesses Billions of Dollars," Forbes, Aug. 27, 2016

[2] Source: Bruce Temkin, "CX ROI: Better Customer Experience = More Purchases," Customer Experience Matters, Dec. 18, 2017

[3] Source: "UKCSI: The state of customer satisfaction in the UK," The Institute of Customer Service, January 2016.

[4] Source: Jason Grunberg, "84% of These Companies Admit Their Customer Retention Strategy is 'Same Old, Same Old,'" SailThru, Jan. 17, 2017.

The five keys to retention success

Now that you know why retention and service are so important, let's look at your path to doing them right. Organizations are seeing the best results when they focus on **five key ideas**, which form the building blocks for a customer-centric retention program:

- Get ahead of the problem before it goes critical
- Align your approach with the customer's needs
- Select the right action for the moment
- Take action in the right channel
- Implement changes one channel at a time

Key #1: Get ahead of the problem before it goes critical

Remember when customers could only get help by calling the contact center? This reactive approach reflects the old way of thinking about service. Today, whenever you shift the burden onto your customer – forcing them to tell you about their problem by calling or sending an email, when they feel like you "should have known" about it already – you're missing an opportunity. A purely reactive strategy can only end up disappointing customers and hurting your business.

Instead, think about applying a **preemptive service strategy**. To build and maintain great customer relationships, you need to be able to anticipate and resolve "moments of need" with intelligence, speed, and agility. To avoid being outpaced by more savvy competitors, you have to predict issues – like service requests – before they actually happen.

Most modern customer service or marketing software packages include AI-powered monitoring capabilities that can be tuned directly into customer context. These allow your organization to automatically detect and trigger outreach during a moment of need, via an outbound channel like SMS, email, or co-browse invitation. Often the software doesn't even require a company to have data science or predictive analytics resources on staff to "fuel" the AI; instead, machine learning tools are integrated directly into the software. Once implemented, this will result in fewer calls to your contact center –saving time, preserving resources, and improving overall satisfaction.

Several industries are already using proactive and preemptive service strategies to bring them closer to their customers. For example, your bank might send you a proactive text or email notification when it detects a lack of funds to cover a recent check you wrote. Rather than leave you to react to bad news, this notification immediately alerts you to log in and make any necessary changes.

On the preemptive side, the same bank might use data trends to detect usage patterns in a specific customer's bank account. If the bank detects ongoing trends of account balances becoming extremely low at the end of the month, it can push a preemptive overdraft protection service plan out to you on your channel of choice, avoiding potential penalties and service issues before they escalate further.

To learn more about these and other real-time capabilities, we recommend analyst reports like "The Forrester Wave™: Real-Time Interaction Management," which provides a detailed breakdown of the tools available in today's CRM technology market.

Key #2: Align your approach with the customer's needs

Once you know there's a problem (or a need), then what? What is your customer's context? What will satisfy them? When do they need it? And how much are you willing to spend?

When you're considering all these questions, you're trying to figure out your **next best action.** Given the customer's situation, what action can you take that will balance their needs with your own?

Consumers are all about instant gratification, but if you adapt fast enough, you can make them happy. Retention pros are leveraging AI to predict which service tasks, retention plans, and sales offers a customer is most likely to want – then balancing that against the financial impact of each option. They're making complex decisions in real time, when it matters: while talking to customers on the phone, presenting content on the web, serving offers on mobile channels, or starting conversations in chatbots. Gone are the days when a one-size-fits-all "great offer" will satisfy anyone. Today it's all about building a one-to-one relationship, and adapting as it grows and changes.

Service agents often hate selling, but unfortunately, nobody can afford to be "just a cost center" anymore. By helping customers resolve problems, your agents increase your customer equity, and can earn the right to upsell and cross-sell – but they need help determining whether it's time to sell or time to serve, and which offers are likely to resonate.

If you really want to delight the customer, then your AI has a major role to play. A next-best-action approach requires you to think above and beyond retention – leveraging data across channels and factoring in considerations around service, risk, collections, negotiation, and more.

To start, an organization explicitly defines its business objectives and trade-offs, and develops a strategy to prioritize when each business goal is relevant, as shown in Figure 1.
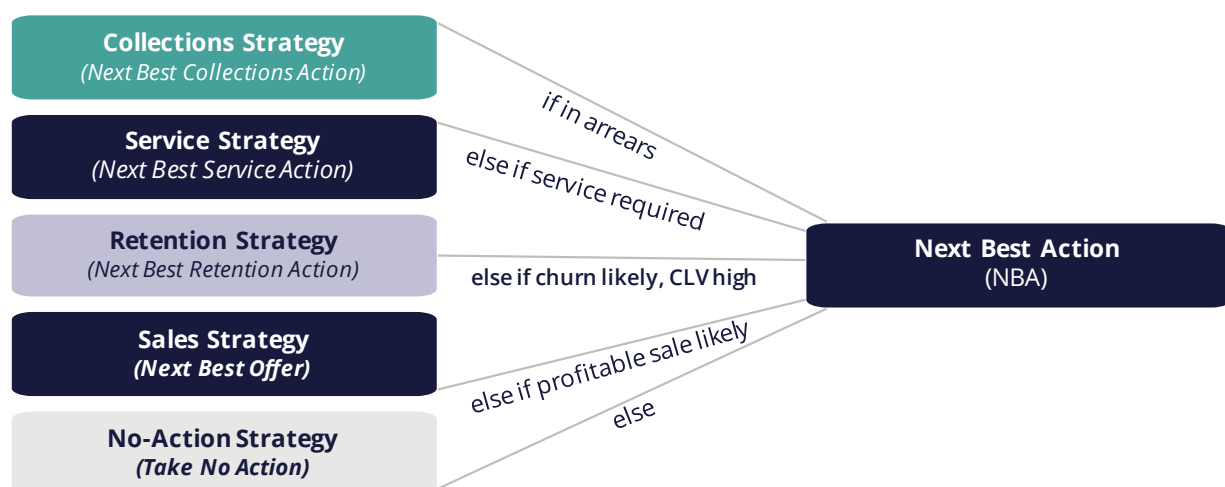

Figure 1: Defining the next best action

Instead of simply considering retention plans against sales offers in every scenario, a next-best-action approach will shift to retention only when specific conditions are met – such as a customer's "likelihood to churn" score rising above a certain threshold. Other business concerns, such as risk, can recommend that a company do nothing when they're invoked, because the risk of doing business with a specific customer has become too high.

This type of strategy helps you decide which approach to use for an individual customer in a specific context (e.g. don't sell when they're having a service issue), but to really drill into their specific needs, you need to go further – which leads us to the next key to retention success.

Key #3: Select the right action for the moment

While customer retention is important, your success really depends upon retaining profits – and boosting your bottom line. Not all customers are created equal, and it doesn't help the company if you're discounting 50% of your margin away on low-value relationships.

That's why you need to find the perfect action for each customer in each specific moment: the optimal mix of products, pricing, and terms that gives everyone the best deal. It's a delicate balance, but an AI next-best-action advisor can help you customize offers, bundles, and packages for every individual, keeping them happy but never leaving money on the table.

In AI-driven world, selecting a specific next best action is all about the math. Every company defines the "best" action in its own way, but typically it's the action that will increase customer lifetime value (CLV) by the largest amount, using a formula like Priority = P*V*L, where:

- **P** is the **propensity** of the customer to take the action we're proposing to them. Propensity is a number between zero and one, and is the biggest indicator that the offer will be relevant to the customer (e.g. if P = 0.63, there's a 63% chance of that person accepting your card offer).

- **V** is the **value** to the company when the specific action is taken by that customer. It could be a simple margin calculation, a dollar profit level, or a CLV calculation. (e.g. V = $1,576 in profit when that person accepts a card offer).

- **L** is a **lever** used to boost a low-propensity action, if it makes sense for the business. This is sometimes necessary, but it's tricky – going against propensity will decrease relevance, and will undermine the experience. (e.g. If L = 1.5, that would boost the priority score for the offer by 50%. An L=1.2 would boost it by 20%, etc.).

Figure 2 shows how this calculation works, and how all of our options are prioritized by score to determine the specific next best action for each customer in a specific situation. If we determined earlier that the best approach was a sales strategy, then this is how we figure out which sales offer is the best one to make.

After doing the math, the Palladium Plan is the "winner" of the three options presented in Figure 2, with a high score of 563.22. It's the best action because it balances what's relevant for that customer (63% likelihood to accept), with what is financially best for the business (customer lifetime value increased by $894). Overall, it provides the best result for both parties… which is exactly what we want to happen.

Potential Offers	P Propensity	V Value	L Lever	Priority Score
Offer: Palladium plan	63%	$894	-	563.22
Offer: Premier plan	81%	$507	+10%	451.74
Offer: Silver Plan	23%	$409	-10%	103.48

Figure 2: Next-best-action calculations

Just 10 years ago, making these kind of calculations for hundreds of actions and offers in real time seemed impossible. Today it's not only possible, but is already being used by many, many organizations to advance their customer experience.

If you're ready to try it for yourself, "The Forrester Wave™: Real-Time Interaction Management" analyst report is a great resource to help you determine what's possible, since it includes a detailed breakdown of the real-time tools, techniques, and capabilities available right now.

Key #4: Take action in the right channel

Let's assume you've identified the customer's problem and your strategy for resolving it. You've also picked the best action to approach them with, given their context. The next question is, how do you present that action? If the customer doesn't see your offer, nothing else matters, so choosing a channel is critical.

Selecting the right channel isn't just about respecting customer preferences. It's about balancing customer satisfaction with profit margins, and picking the option that optimizes CLV. For example, retention experts are proactively reaching out to customers who are likely to call and offering them an alternative service path – one that reduces the impact on agent resources, or is more likely to result in a successful outcome.

We already talked about using the P*V*L formula to select the best action for each customer, but when you're picking the best action and the best channel, you need to get a little more specific. This time, the propensity (P) is the likelihood of the customer to accept the retention offer in a specific channel, and the value (V) factors in the cost-to-serve of a service-level agreement (SLA) in that same channel (including employee costs, third-party fees, etc.).

Potential Offers	P Propensity	V Value	L Lever	Priority Score
Palladium Plan: Email	13%	$618	10%	88.374
Palladium Plan: Phone Call	41%	$437	0%	179.17
Palladium Plan: SMS	23%	$614	0%	141.22
Palladium Plan: Mobile	51%	$609	10%	341.649
Palladium Plan: Facebook	8%	$549	0	43.92

Figure 3: Identifying the right channel

In Figure 3, the mobile channel easily provides the best balance of customer experience and value. Not only is the customer most likely to respond to a mobile offer, but that offer also has a very high profit margin, especially compared to other channels like the call center.

By making the offer via mobile, and routing the customer through an online channel to convert the offer, the organization avoids all the costs associated with a typical inbound service call. It also doesn't have to wait until the customer calls to provide value, which has a positive impact on customer satisfaction – now the customer feels both "known" and understood.

Key #5: Implement changes one channel at a time

Reinventing your retention strategy isn't simple, especially when you're talking about millions of customer relationships and billions of complex interactions across dozens of channels. Vision alone won't get it done, even with the right level of investment. Real success requires great timing and execution.

Rather than starting with a huge plan to do everything at once (which is likely to fail), we recommend breaking your initiatives down into bite-size chunks, so you can produce quick wins that validate your project. Successful organizations usually overhaul their service framework channel by channel and use-case by use-case, socializing each success to build momentum and increase credibility. Often they start in the call center, where many critical interactions take place and a lot of money is spent. They then extend into channels like the web, mobile, and social, and eventually into proactive channels like email, SMS, and even paid platforms.

Answering the following questions (and gathering the necessary data and consensus) will guide you in your decision-making process:

- Which channel or business function is causing the most customer pain, currently?
- Which would yield the greatest revenue gains? Cost efficiencies?
- Which would generate the greatest expense? How do we optimize cash flows?
- Which has the greatest switching costs? Would those decrease over time?
- Which stakeholders would be the most likely to adopt? Where would there be resistance?
- Which channels provide data or insights that can be leveraged downstream?
- How will our organizational structure support this initiative?
- Who will champion this initiative – now, and after the initial implementation?
- How can we generate quick wins to validate the project, and build momentum?
- What order of operations has produced success? Are there established best practices?

Real-world success stories

Anyone can talk about concepts like proactive retention and preemptive service. But can the theory be converted to actual business value (and provide a better alternative to the status quo)? For answers, look no further than these real enterprises that made the leap – with transformative results.

In 2014 Sprint was suffering through the highest customer churn rate in the US wireless industry. The company saw its market share evaporating, which forced it to transform its approach to customer care. Sprint invested in a proactive, next-best-action approach to retention – streamlining the experience for agents, personalizing at the customer level, and providing real-time, contextual recommendations – which helped cut churn by 14%, increase upgrades by 6X, and generate a 50% lift in Net Promoter Score (NPS).

"We're seeing more than double the acceptance of retention offers… That is a big deal."

-Marcelo Claure, CEO, Sprint

Cisco has a complex product and service portfolio, making it difficult to ensure that service journeys are fast and efficient. The worldwide technology leader added intelligence to its routing by using the Pega® Customer Decision Hub with machine learning to dynamically direct calls to the "right" agent, in real time. The system balances factors such as agent availability, bandwidth, experience level, issue complexity, and historic service levels (SLA), improving worker productivity by 25% and reducing average handle time (AHT) by 56%.

"We keep discovering how we can push the envelope… so far, we've not found a limit to that boundary of how far Pega can take us."

-Steve Powers, Senior Director, Order Management Services, Cisco

Talk Talk is a "quad-play" provider and the fourth largest telecom in the UK, with over 4 million customers. Its goal is to provide the "best value for the money" – and the company leverages the Pega® Customer Decision Hub to inject intelligence and one-to-one decision-making into each customer interaction, as part of an omni-channel "consumer revolution." This increase in intelligence, speed, efficiency, and precision has helped Talk Talk achieve the lowest churn rate in company history, along with a 40% reduction in early-life complaints, a 15% reduction in early-life calls, and over $21 million in total cost savings.

"We just reported our lowest-ever churn, which is a real testament to how this is starting to land and improve our customer experience."

-Alex Birtles, Head of Loyalty Strategy, Talk Talk

Overall, the approach we've outlined has a tremendous advantage over the traditional retention and service model, because it allows organizations to prioritize actions designed to boost customer experience and satisfaction, rather than just marketing, sales, or retention objectives. As these case studies illustrate, a comprehensive investment in a next-best-action approach can yield benefits like:

- Increasing response rates (3-6x)
- Reducing churn rates (10-50%)
- Reducing retention discounts (20-35%)
- Finding Incremental agent-sales opportunities (2-3x)
- Increasing NPS (10-40 points).
- Maximizing return on investment (3-5x)
- Minimizing payback period (four to six months)

Conclusion

In customer service and retention – as in so many fields – AI and other transformative technology has changed all the rules. Today every company is held to the same lofty standards as the world's best. Channels are multiplying. Personalization is everything. And customer expectations are higher than ever.

Use this powerful technology the right way and you can take a one-on-one approach to service every single time, even if you have millions of customers. You can achieve real improvements in customer satisfaction, revenue, profit margin, and long-term value. But use it wrong and you'll only increase the problem, enabling your business to make the same mistakes faster.

This could be a time of crisis for your enterprise, or it could be an opportunity to seize a crucial competitive advantage. In the months and years ahead, many of the world's largest organizations will be reinventing their approach to retention and embracing true customer-centricity – funded, every step of the way, by truly groundbreaking results. You could be one of them, or you could be left to catch up. Ultimately, the choice is yours.

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