

Investing in Customer Loyalty - Telecommunication Case

Though the client already understood the power of a well-designed rewards programs, first they needed to adopt an information-based approach to marketing.

The Telecommunications Client

- Client had **already recognized the need to focus on customer loyalty**
 - Client share of net connections has been disappointing
 - Analysis proves that reducing churn by 2% would result in a 10% increase in profit
 - Competitors have built potential advantages in establishing loyalty
- Client has **launched a number of activities to improve loyalty and retention**
 - Discount-oriented rewards programs driven by tenure and usage
 - “Churn busting measures” such as Save Teams, reactive handset upgrades
 - High investment commitment to fundamental service quality of the network
 - Discussions and joint planning with potential loyalty partners

Featured Client Case # 12 Telecommunication Loyalty and Brand Building

- ① **Project**
 - Leverage and build a rewards program, brand, and tenure-focused customer selection
- ② **Approach**
 - Link market experiments with economics to optimize results
- ③ **Recommendations**
 - Must leverage brand name and tenure predictors when offer multi-optioned program
- ④ **Results**
 - Rewards can deliver the attractiveness of a 17.5% discount for the cost of less than 4%

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Therefore, in addition to evaluating potential rewards programs, MII also assessed their brand authority and customer selection opportunities.

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- Client project was designed to address **four questions**
 - What **type and level of rewards program** would be most attractive and cost-effective for which target customer groups?
 - How **effective is the client brand** in retaining current customers, compared with competitor's brands and possible alternatives/additions?
 - What **scope is there to select customers for loyalty**, through either selective acquisition or selective development of existing customers?
 - What **level and mix of loyalty investments** for which customer groups is likely to give the client the best returns?
- MII collected information from 1,000 client customers and 380 defectors
 - Background information, mobile needs and attributes, loyalty or point programs, lifestyle and consumer habits, demographics
 - Previous mobile contracts, mobile usage and history
 - Mobile communications discrete choice exercises

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1 Project

- Leverage and build a rewards program, brand, and tenure-focused customer selection

2 Approach

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3 Recommendations

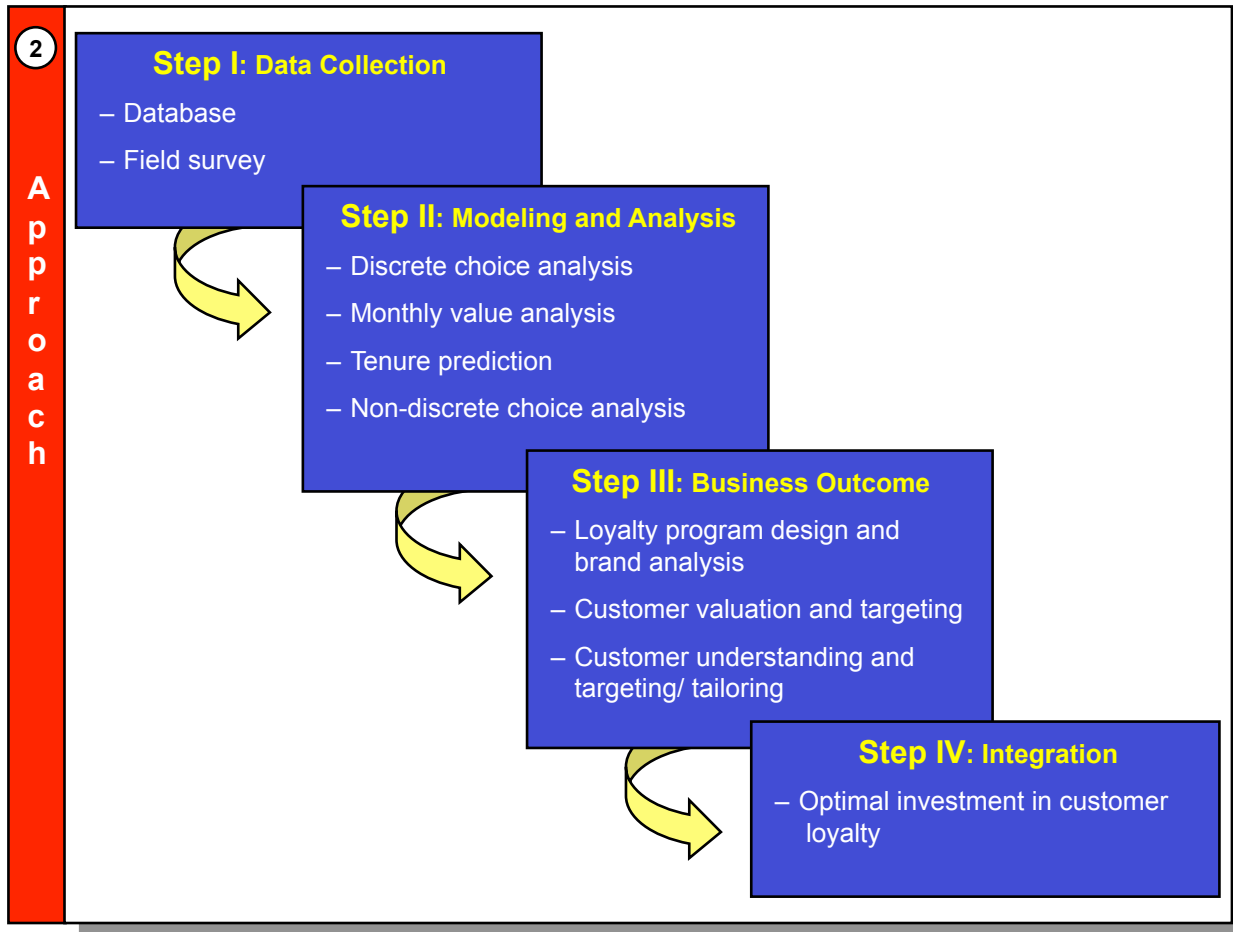
- Must leverage brand name and tenure predictors when offer multi-optioned program

4 Results

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To accomplish this, MII used 4 primary steps to developing optimal rewards programs and creating an information-based approach to marketing.



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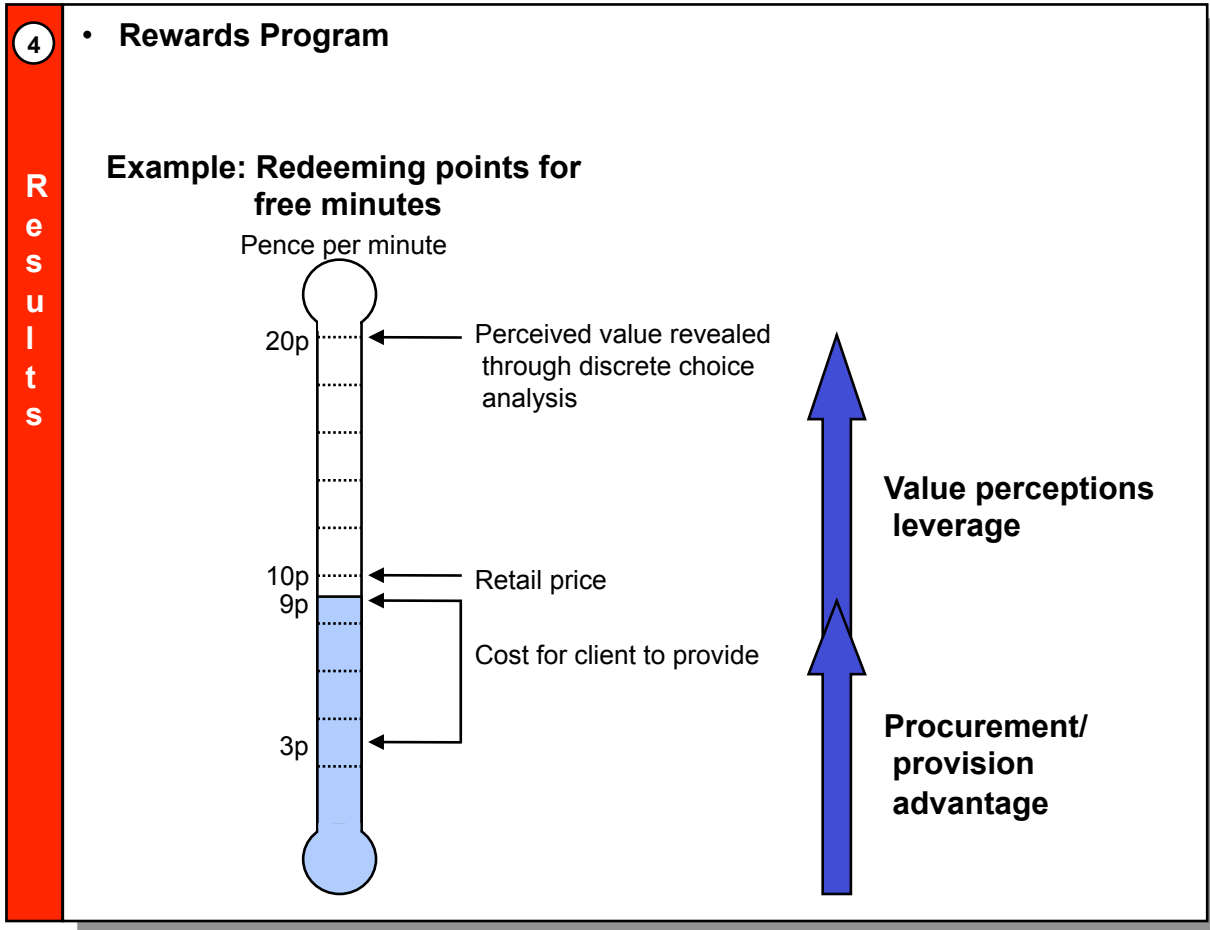
MII recommended optimal loyalty rewards programs, leveraging the parent-brand linkage, and utilizing individual indicators of tenure to guide marketing decisions.

3	R	e	c	m	e	n	d	a	t	i	o	n	s	3	• Rewards Program
															– Optimal program for client offers customers a choice of cellular-related redemption options at a threshold level of generosity (4% of revenue)
															– Investing in a choice of redemption options yields high attractiveness
															– Actions: Establish delivery system (e.g. partnerships); establish commercial involvement of partners and marginal cost accounting of rewards; determine program roll-out and monitor progress; develop program application including customer targets, communication, and customer feedback
• Brand	– Continue to leverage the brand as it is strong against competitors in most customer groups	– Use the “client-parent” brand name paired which is stronger than either is individually													
• Selecting for Expected Tenure	– Use individual indicators of tenure to guide choice of channels, partners, promotions, marketing messages	– Actions: Emphasize specific channels, products, advertising to favor high-tenure characteristics; create information-based acquisition approach (e.g. through partners); develop information feeds, link rewards programs with other development; monitor process													

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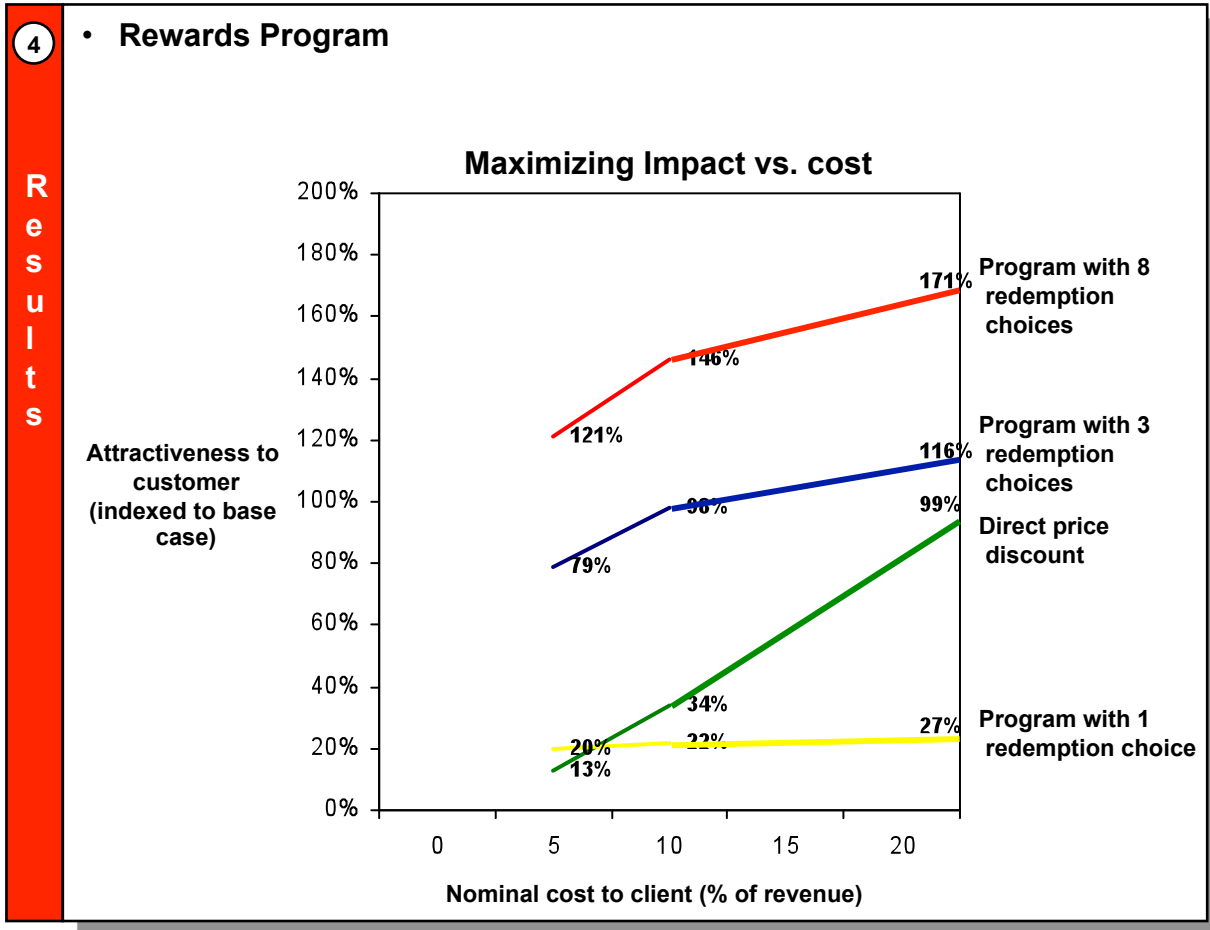
One of the benefits of the analysis was that it enabled MII to evaluate two key sources of leverage that a loyalty program must provide.



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Rewards Program analysis revealed that people are much less price conscious with points than they are with “real” money.



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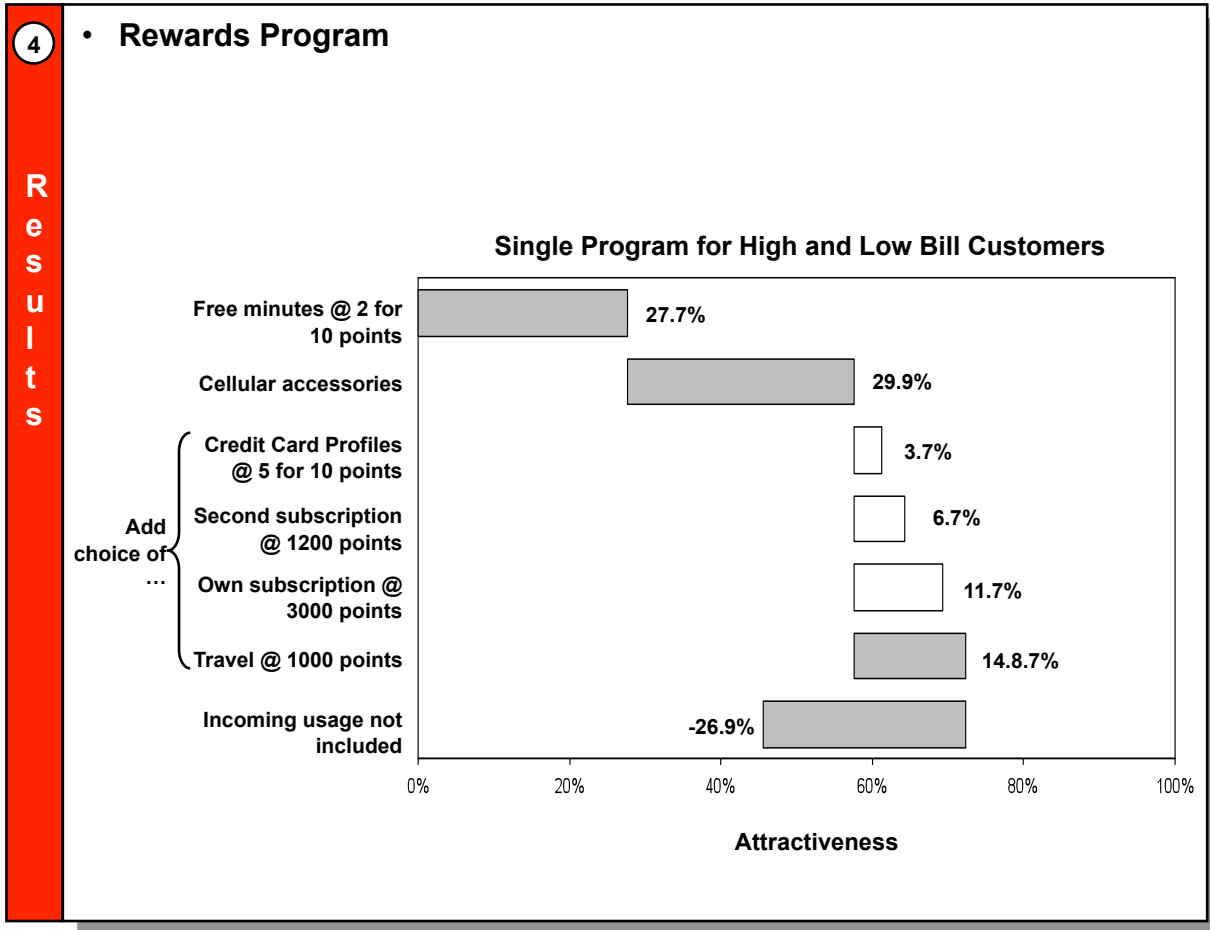
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One result indicated that investing in offering a choice of redemption options yields high attractiveness for low levels of reward.



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Analysis also revealed that a rewards programs can be strongly attractive to customers compared with other forms of investment.

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• Rewards Program

- The preferred program for client offers customers a choice of cellular-related redemption options at a threshold level of generosity (about 4% of revenue)
- Investing in a choice of redemption options yields high attractiveness for low levels of reward
- Earning points on incoming calls is disproportionately attractive to customers, even before its usage stimulation advantage to client
- Option mix in the program is critical: some apparently similar programs are much less attractive to customers even at higher cost to client
- A single program can meet the preferences of high and low-bill customers
- The attractiveness of most rewards falls slightly with customer bill size, but much less so than for handset incentives
- The preferred program would pay back its reward costs if tenure increased by at least 6-10%

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A program will ultimately be even more powerful given that the client has a strong brand advantage among its customers.

R e s u l t s	4	<ul style="list-style-type: none">• Client brand<ul style="list-style-type: none">– Has a strong brand advantage among its customers, equivalent to an 8% price premium over the closest competitor– In the highest monthly bill group, client’s brand advantage slips dramatically with respect to competitor A– Client’s brand advantage is maintained across all customer age groups, with the 55+ age group most attracted to client– Client’s brand advantage diminishes as household income increases ... especially against competitor A• Client’s brand paired with parent brand name<ul style="list-style-type: none">– Parent’s brand is weaker than client’s brand among current customers– The joined “client-parent brand” is more attractive to customers than either the client or parent brand name individually– The gain from “client-parent brand” is greatest in the segments where the client brand is weakest against other competitors
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However, the power of the loyalty program will be limited by the client's ability to carefully select and reward customer targets.

4	R e s u l t s	<ul style="list-style-type: none">Based on 1,380 customers, MII used knowledge of actual tenure (defectors) and tenure-to-date (current customers) to build survival models, estimating the significance of each characteristic in predicting tenure<ul style="list-style-type: none">The most significant individual characteristicsAll significant characteristics knowable before customer acquisitionAll significant characteristics
		<ul style="list-style-type: none">Tenure Selection<ul style="list-style-type: none">Many individual customer characteristics are significant in prediction tenureUsage characteristics generate the highest tenure uplifts, but intrinsic characteristics give useful uplifts for larger proportions of customersPre-acquisition scoring can identify 50% of people with expected tenure 20% above averageOverall scoring can identify 50% of people with expected tenure 50% above average

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