

Customer Retention Improvement Using Predictive Analytics

Many people in data mining and predictive analytics talk about customer churn. That term seems to be best applied to large companies with consumer based products. Most examples of reducing customer churn using data mining come from cell phone companies and large banks.

How can predictive analytics be applied to churn within average companies? Companies where, if a customer is lost, they are not magically replaced by another one who sees some advertising and walks in the door.

First, I would like to re-direct the focus by changing some terms. Let me use the word “depart” to speak of customers that no longer order from you. Think of the departed customers. Old customers that used to be good customers but no longer order from you are the departed. This seems more relevant to most companies that will mourn the loss of every good customer.

Was there something in their order history or customer service calls that would have indicated they were about to depart?

Combing through the order and contact history for signs that customers are nearing the end of their natural life cycle of doing business with your company is a natural task for predictive analytics.

In general terms, you can identify potential trouble signs and then plan corrective action. Follow these steps or modify them to suit your company’s processes and procedures.

First determine the departure rate. How many, or what percent, leave every month.

Second, classify your customers. Maybe you think of them as small, medium and large. Perhaps you have different markets you serve. You might have even classified them using a clustering model. Whatever the case, you will usually need to look at each stratum of customer to get a workable departure model.

Third, for each stratum, select a subset of recently departed customers and current customers. Extract order history for each and customer service or other contacts where relevant.

Fourth, on this data set perform your predictive analytics processes. There are several decent to good methods of doing this that will depend on the incoming data and the answers that you are asking of the data. (Cluster, time series, etc.)

Take the models and translate into your business procedures. This is a major step in displaying understanding of the whole process. Your predictive models will indicate events or trends that need to be monitored. Transferring those into procedures and triggers that need to initiate action is where the rubber meets the road.

