PREDICTIVE ANALYTICS IN CUSTOMER EXPERIENCE: THE SECRET TO GREAT CUSTOMER RELATIONSHIPS

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Customer retention for many organizations is a reactive activity, one in which the business tries to correct past mistakes in order to retain future customers. Predictive analytics change this by helping firms anticipate customer churn and take the necessary steps to cultivate customer loyalty while also capturing greater wallet share.

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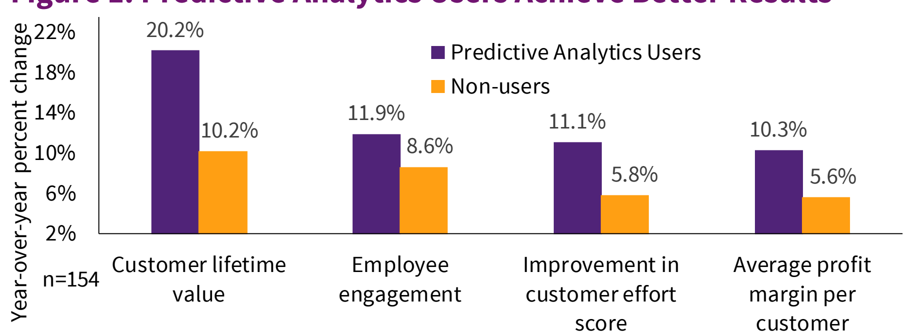
Many companies can't predict which customers they will retain or which customers will increase their spend. Companies using predictive analytics can.

Use of predictive analytics (see sidebar) helps companies analyze historical and real-time data to predict the likelihood that a given customer will continue doing business with them, how much that customer might spend, and so on. Figure 1 shows that companies incorporating such a data-driven approach in their customer experience management (CEM) programs enjoy superior results.

Figure 1: Predictive Analytics Users Achieve Better Results



Source: Aberdeen Group, September 2016

Definition: Predictive Analytics

Aberdeen defines predictive analytics as a technology allowing firms to analyze structured and unstructured data, be it captured in the past or in real time. Such analysis reveals key trends and correlations while also predicting the likelihood of things such as customer churn.

Companies use various measures to gauge the results of their CEM programs. One such measure is customer lifetime value. Successfully increasing customer lifetime value indicates consistent satisfaction of buyer expectations combined with the ability to grow client spend. Figure 1 shows that this is indeed the result observed by predictive analytics users. These companies report 98% greater annual increase in customer lifetime value, compared to those without predictive analytics (20.2% vs. 10.2%).

The ability to retain customers and grow wallet share hinges on an organization's ability to minimize buyer effort in purchasing products or receiving service. Considering that predictive analytics users maximize their results in expanding customer wallet share, it's no surprise that they also excel at minimizing buyer effort (see sidebar). This is validated by findings in Figure 1, showing that predictive analytics users outpace non-users by 91% in year-over-year improvement of customer effort scores (11.1% vs. 5.8%).

One of the most common mistakes organizations make is assuming that technologies or processes are the primary influencers of customer experience. They ignore the pivotal role played by the employees using these technologies and processes in determining the success of CEM programs. To this point, predictive analytics users report 38% greater annual increase in employee engagement rates (see sidebar), compared to non-users (11.9% vs. 8.6%).

Increased employee engagement indicates that a company supports employees with the knowledge and tools needed to succeed in their jobs because on-the-job success highly influences employee engagement. For example, a poor performing sales representative won't receive a bonus and might be put on a performance plan, impacting the engagement level of that employee and prompting him or her to look for

Definitions

For the purposes of this research, Aberdeen makes the following definitions:

Employee engagement: A positive work-related attitude characterized by high-levels of energy, emotional commitment, and satisfaction derived from the work itself. When employees are engaged, they feel a vested interest in the company's success and are both willing and motivated to perform to levels that exceed the stated requirements of their job. Engaged employees positively influence the buying behaviors of customers, leading to higher customer loyalty and profitable growth.

Customer effort score: This is a performance metric indicating the overall effort a customer puts in to get their needs addressed. This could reflect the level of effort expanded to get information when purchasing a product or the number of times a client contacts the business to seek resolution of an issue. There are numerous ways to measure customer effort scores, ranging from 1-5 scale questions directed to buyers to monitoring behavioral results such as the number of times a customer calls into a contact center regarding the same issue.

alternative jobs, rather than seeking ways to further contribute to improving business results.

Predictive analytics users retain 27% more of their customers.

Use of predictive analytics allows companies to predict the likelihood of future outcomes and provides employees with actionable guidance that helps them succeed in their roles. Helping employees become more successful ultimately elevates employee engagement while also contributing to overall business success. In the case of the sales representative example above, providing the seller with actionable guidance on a customer's likelihood to purchase a specific product, for example, would help increase the likelihood of that seller making a sale. This is due to the seller now being able to tailor the conversation and approach the buyer with the right message at the right time.

Technology Adoption is Just the Beginning; You Must Also Manage Predictive Analytics Effectively

Companies without predictive analytics are more than twice as likely to be challenged with an increasing cost of customer acquisition.

It's widely accepted that the cost of acquiring a net-new customer is greater than the cost of retaining an existing one. Retaining a current buyer, of course, requires understanding their needs and delivering a truly personalized experience. Acquiring a net-new client requires doing that as well, but also involves the cost of purchasing marketing lists, delivering targeted marketing campaigns, using sales representative time, and paying commissions. Data shows that companies without predictive analytics are more than twice as likely to be challenged with an increasing cost of customer acquisition, compared to those using this technology (34% vs. 13%).

While predictive analytics opens many doors for businesses, simply adding it to your CEM technology toolbox doesn't guarantee better results. Better results come from using predictive analytics effectively. Table 1 shows the supporting technologies companies use to get the most out of their predictive analytics investments.

Table 1: Don't Forget to Use Supporting Technologies

Current Adoption Rate (n=196)	Predictive Analytics Users	Non-users
Database management	63%	37%
Prescriptive intelligence or recommendation engine	50%	11%
Real-time decision assist and guidance	41%	18%
Master data management (MDM)	41%	15%

Source: Aberdeen Group, September 2016

Findings from Aberdeen's May 2016 study, *CEM Executive's Agenda 2016: Aligning the Business Around the Customer*, shows that 58% of businesses use at least eight channels in their CEM programs. This means companies can generate a vast amount of structured and unstructured data. Effective use of predictive analytics requires companies to seamlessly integrate this data into a unified view of the customer across all systems. Doing so helps firms increase the accuracy and relevancy of data to be analyzed by predictive analytics. Table 1 shows that predictive analytics users deploy database management and master data management (MDM) at a far greater rate than non-users to accomplish this goal.

Effective use of predictive analytics requires firms to seamlessly integrate customer data captured across all channels.

The insights gleaned through predictive analytics are only helpful when they are used to manage customer conversations. Our research shows that companies using predictive analytics are also far more likely to utilize prescriptive intelligence, enabling them to provide employees with recommended next-best actions to achieve desired objectives (50% vs. 11%).

Key Takeaways

Customers are the lifeline of any business. Companies can't exist without buyers of their products or services. This means that ensuring customer satisfaction and focusing on customer

Don't just sit on top of the insights gleaned through predictive analytics. Disseminate them to key stakeholders on a timely basis in order to improve your customer experience results.

retention must be the first order of business for all organizations. The reality, however, is that it's hard to read the minds of buyers and hence predict which clients will stick with the company, and even increase their spend, and which will move to competitors. Use of predictive analytics helps companies address this challenge.

The findings covered in this document highlighted that predictive analytics users are able to establish timely and accurate insights into customer behavior. Providing this information to employees helps them do their jobs more effectively. The results speak for themselves: happy, repeat customers who grow their spend with the business and productive employees who help reduce operational costs. If you don't currently use predictive analytics as part of your CEM programs, we recommend you consider doing so in order to attain the results described here.