AN AI DRIVEN APPROACH TO
BOOSTING CUSTOMER RETENTION IN RETAIL

Grow customer value with marketing campaigns that proactively arrest churn

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Retail businesses are going through a period of disruption globally. Online retail is growing much faster than brick-and-mortar stores, with online sales in fashion retail poised to reach the tipping point in 2018.[1] E-commerce is setting new benchmarks for traditional retail, luring customers with massive discounts, offering tremendous convenience and re-defining what makes a great shopping experience.

Fashion retailers, particularly departmental stores are bearing the brunt of "Amazon effect". For a brand, loss of an active customer is not only a blow to the revenue, but also results in loss of a patron who can influence her peer network socially and their perception of your brand. There is a cascading effect on future customer acquisition costs and revenue.

Predicting churn in fashion retail

Fashion retailers find it harder to identify customers at potential risk of churning - shoppers hardly buy at fixed intervals and don't exhibit high loyalty. Customers that seem to be disengaged might still be interested in your brand, just not reached their re-buy/ replenishment time. It becomes important to study the behaviors, interactions and experiences that are driving the relationship, and the factors resulting in negative inclinations, and understand how you can apply these insights to other customers.
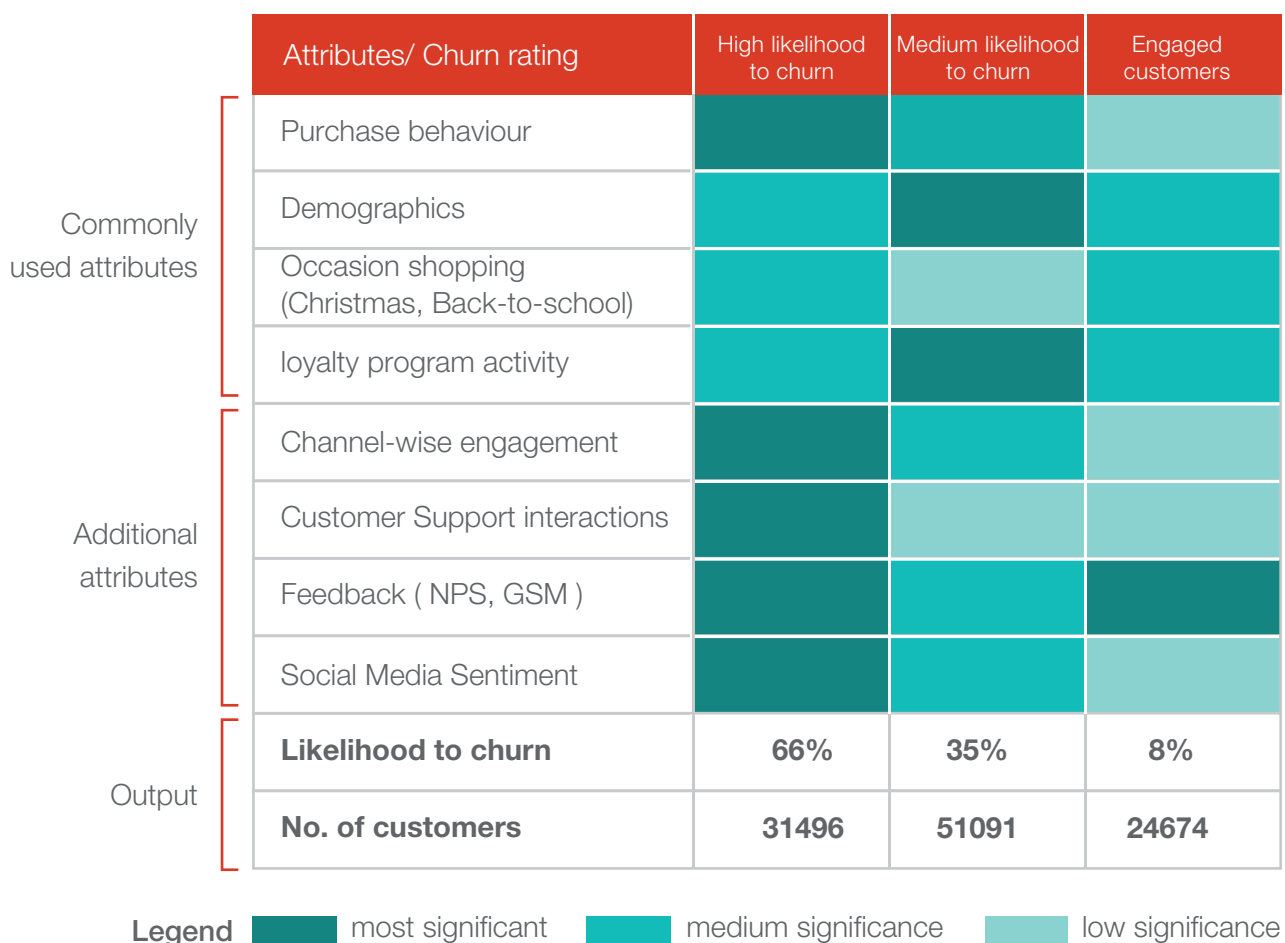
	Attributes/ Churn rating	High likelihood to churn	Medium likelihood to churn	Engaged customers
Commonly used attributes	Purchase behaviour			
	Demographics			
	Occasion shopping (Christmas, Back-to-school)			
	loyalty program activity			
Additional attributes	Channel-wise engagement			
	Customer Support interactions			
	Feedback (NPS, GSM)			
	Social Media Sentiment			
Output	**Likelihood to churn**	**66%**	**35%**	**8%**
	No. of customers	**31496**	**51091**	**24674**

Legend: most significant — medium significance — low significance

Fig.1: Output showing attributes & the extent of their impact on customer churn propensity for a retailer

Approaches to arrest the churn

Though most retailers run churn management or customer win-back programs, one seldom finds these programs focusing on improving long term customer engagement. This disconnect directly boils down to how the outcome of a churn management program is defined. There are three commonly pursued approaches:

- Short term reactivation. This is a quick-results oriented approach that defines win-back narrowly. For example, if a customer who hasn't transacted in the last 3 months comes back and makes a purchase, she is moved from the churn bucket to active bucket; and the reactivation campaign is considered a success. This approach often lures customers back with a massive one-time discount, and this could end up being counterproductive, with an undesirable change in customer behaviour and expectations.

- Channel-wise churn control. Retailers often take a siloed view of churn – with the objective of keeping the customer active on a specific channel. For example, a customer who unsubscribed from your emails is downgraded to the churn bucket, which could be inaccurate if she is engaged through social media. The goal of keeping all channels alive does not consider customer preferences holistically, and is wasteful.

- Relationship based customer win-back. This approach takes a comprehensive view of customer engagement and loyalty, instead of aiming for one more purchase, or engagement in a specific channel. The program ensures that after being re-activated, customers do not relapse into churn again; and are on their path to becoming an engaged patron of your brand.

The short-term, myopic approach is easy to operationalize and has high adoption among retailers. However, customers reactivated on the back of massive discounts will repeatedly fall back into the churn bucket, as the retailer has failed to create a genuine affinity for the brand. A comprehensive churn management program has a superlative pay-off, but also demands significant resources in getting the various aspects right. Many retailers are on the lookout for the right tools and technology that can do the heavy lifting to identify customer churn holistically and proactively and create targeted campaigns that improve long term engagement.

Fig. 2: Customers highly likely to churn migrated to other segments as a result of win-back campaign

Components of a comprehensive, AI driven churn management program

An effective customer win-back program takes a long-term view of customer relationship and leverages advanced technologies for continuous execution at scale. It differs from a one-time reactivation approach in several ways:

1. Flag at-risk customers early on: In most retailer businesses, current mechanisms to identify churning customers are not proactive, but reactive in nature. Retailers score customers at periodic intervals; and each scoring identifies customers who are already in the churn bucket. They are unable to predict and catch these customers in-time when they are still engaged with the brand.

A predictive churn algorithm, on the other hand, dynamically updates the churn score of customers at every touchpoint, for e.g. when a customer calls the customer care with a complaint. The model considers inactivity and negative interactions (feedback on website, app, comments on social media etc.) to dynamically identify customers who are likely to leave, providing an early opportunity to retain them.

2. Focus on long-term engagement: Churn campaigns typically aim to bring customers back and transact one more time, moving them from churn to active bucket. Such customers won back through heavy discounts fall back into the churn bucket once the discounts stop.

Retailers need to ensure that customers are genuinely engaged with the brand. With AI driven automated journeys, customers are continuously nurtured with the right content at the right time and on the most relevant channel to achieve this end. The aim is not just to drive a purchase, but also build affinity towards the brand. This encompasses testing and iterating on customer's preferred channels (Email, SMS, mobile app, social media), finding the best time to communicate and experimenting with different content for every individual. A fashion retailer that manages to move just 6% of their at-risk customers to the loyal customer bucket stands to gain $500,000 per annum.

3. Personalize meaningfully: With Amazon came the era of personalization. Gone are the days when personalization meant using customer's name in the communication. True personalization makes customer shopping experience richer by readily showcasing their frequently purchased items, recommending new products that are relevant to them and alerting them when there are deals on their favorites.

An AI driven personalization engine uses customer transactions, behaviour and browsing history to recommend products, offers and looks. Fashion retailers can increase conversion rates through personalized recommendations that go beyond the product category. For instance, the recommendation for a shirt must incorporate customer's color preferences, the right collar style, fabric choice, the preferred fit - which can make all the difference between a good campaign and an outstanding one.

4. Know the customer context: Any targeting approach is incomplete if context of customer action is not known. A customer may go through various stages before she makes a purchase, especially while shopping for fashion. A customer's visit to the POS (store, website or mobile app) must be viewed in the context of her purpose - at interest stage she is looking for information on the product or category, while at buying stage she has made up her mind and is looking for the best deal.

A Customer Data Platform (CDP) brings together data from multiple sources and channels, such as web click stream, Google analytics, POS, mobile app to create a unified view of the customer. This allows retailers to understand the customer context and purchase even if the customer traversed multiple channels.

5. Implement at scale: Once identified, there is a short window of opportunity to reactivate customers who are likely to lapse. Executing one-to-one campaigns at scale and rapidly is often a stumbling block. Generating actionable insights that can target each customer uniquely in their omnichannel journey paths requires Big Data and Machine Learning working behind the scenes. AI can orchestrate custom campaigns, delivering the most relevant content at the best time to the customers predicted to be at-risk.

Manthan Customer Marketing Platform enables marketers to execute comprehensive churn management programs through responsive algorithms and AI driven execution capabilities custom-built for the retail industry. Our advanced analytics, personalization and recommendation engine address the needs of each customer uniquely and drive execution at scale.

ABOUT US

Manthan is a leading cloud analytics company that has pioneered analytical applications for consumer-facing businesses. We excel in the application of decision sciences, advanced math, and artificial intelligence and have a restless ability to invent and bring ideas to life. Headquartered in Bangalore with offices in Santa Clara, London, Dubai, Mexico City, Singapore and Manila, Manthan's current client footprint spans 22 countries. Leading investment firms like Norwest Venture Partners, Temasek Holdings, and Eight Roads (Fidelity International Limited) feature on Manthan's board. **For more information, go to www.manthan.com**