

# Strategies for Value Based Segmentation

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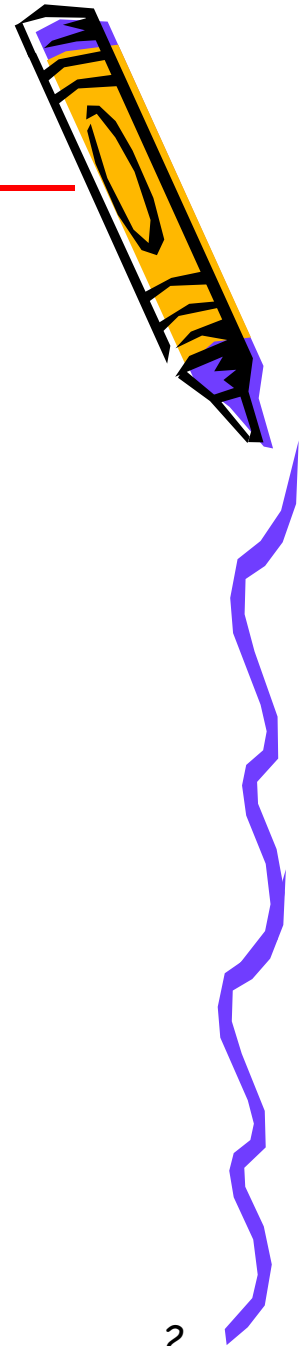
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# The structure

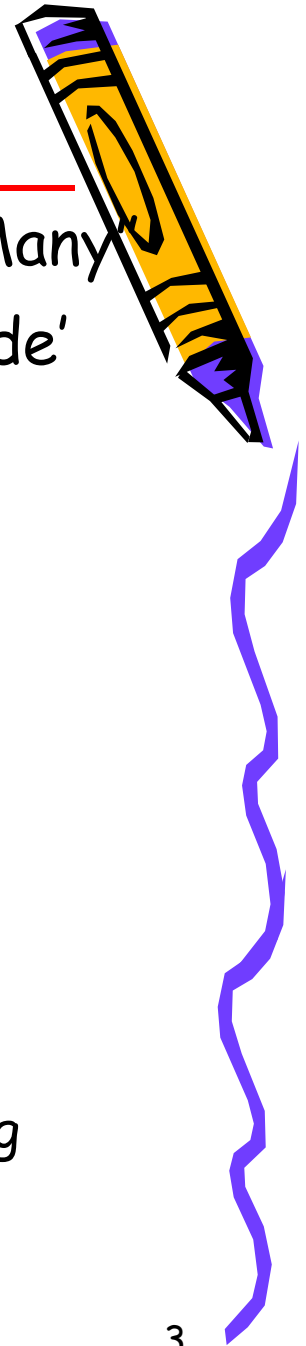
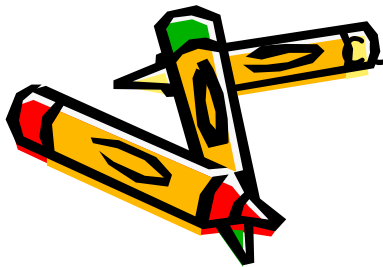
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- Segmentation - The Concept
- Segmentation - Whose need is it?
- Why segment - Value proposition
- How to segment - Customer valuation
- Elements of Customer Value
- How to marry the organisation and CRM with segmentation?
- How to measure the benefits delivered by segmentation?
- How to get started?
- Conclusion



# Segmentation - The Concept

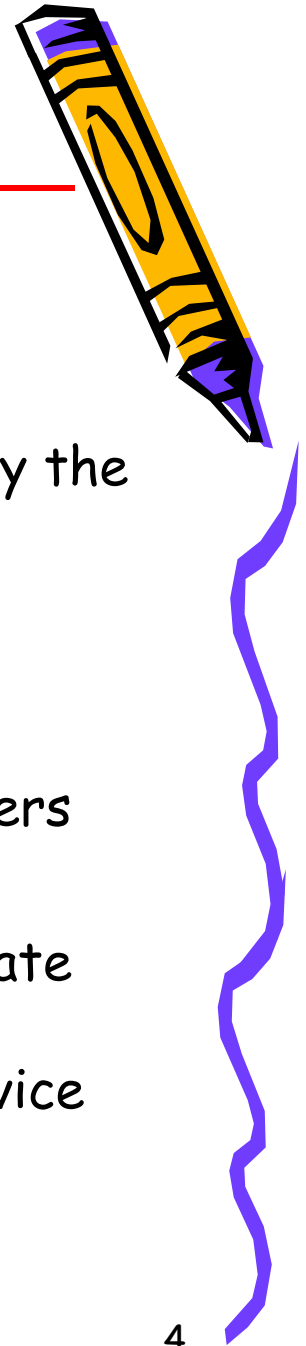
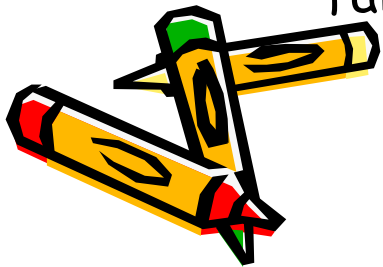
- Separation of "Critical Few" from "General Many"
- Departure for 'One size fits all' to 'Tailor Made'
- To deliver
  - Sharper focus on *revenue growth*
  - Specialized attention on revenue *retention*
  - Optimisation of *cost to serve*
  - To back up your *brand promise*
- By Creating
  - Differentiated offers for categories of customers
  - Differentiated levels of service
  - Capability of exceptional service levels to deserving customers



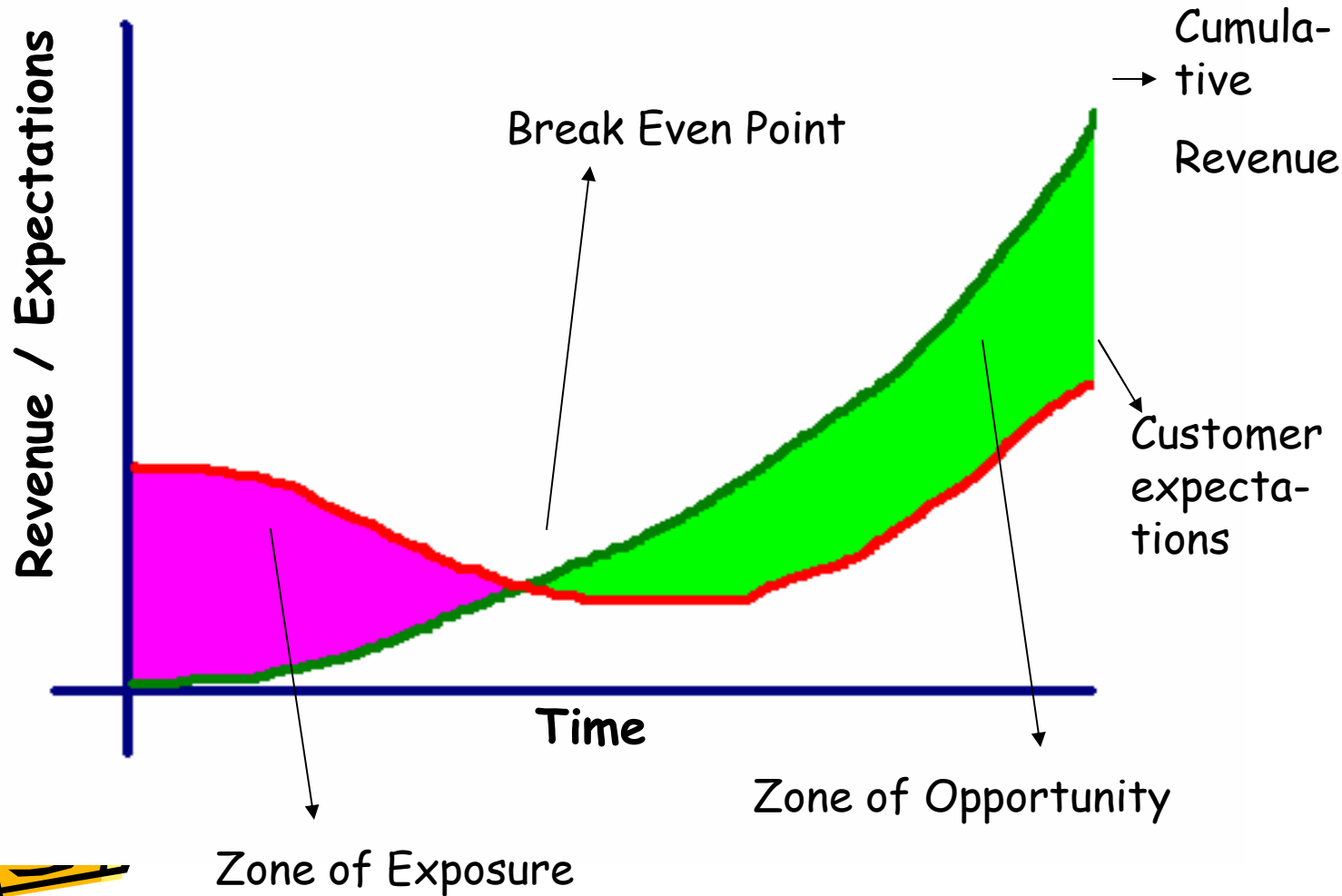
# Segmentation - Needed by

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- The customer acquisition team
  - Ability to see high priority segments distinct from others
  - Ability to make a brand promise that is backed up by the delivery organisation
- The customer service team
  - Ability to separate various class of customers and honour commitments made
  - Ability to offer superlative service to some customers
- The customer
  - Looking for **value** and knows that lower costs translate to fewer service extras
  - Demands a smooth service experience with few service failures, rapid service recovery



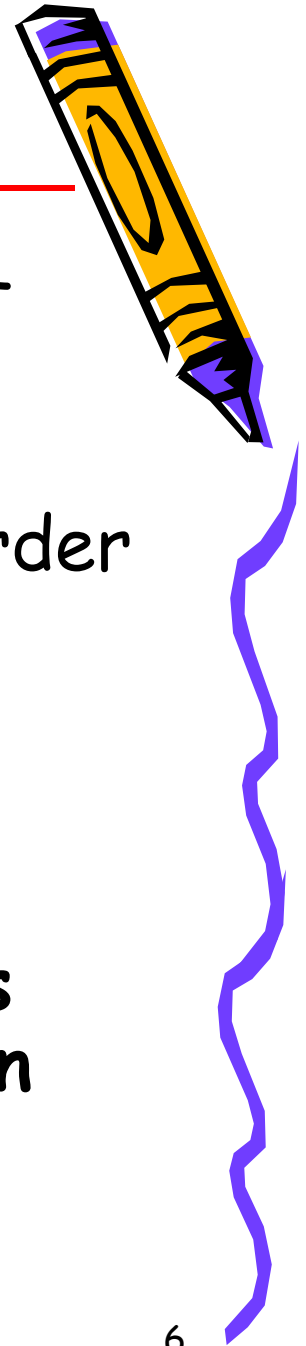
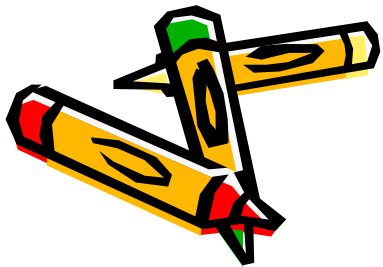
# The Expectation - Value tradeoff



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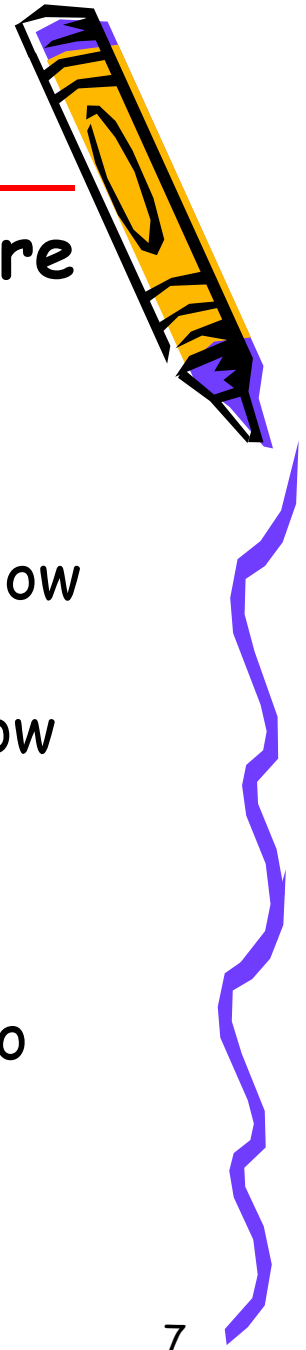
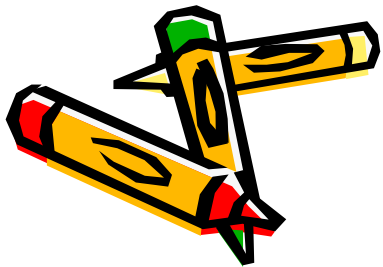
# Why Segment - Value preposition

- Segmentation is all a function of value - where, how much of it is allocated
- The sales and service perspective is all about allocation of value (budgets) in order to acquire or retain revenue
- The customer perspective is all about attracting those scarce resources to themselves!
- **Value of Customer therefore becomes the most potent force in segmentation**



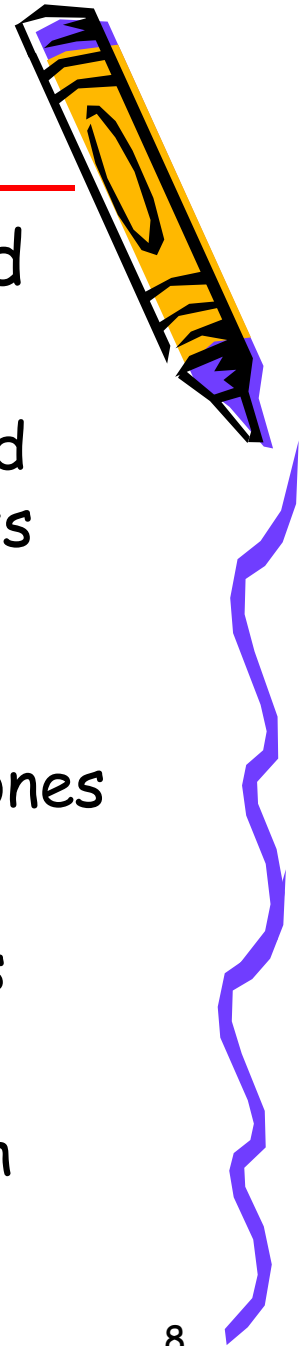
## What are the various players looking for?

- The acquisition team is looking for **future value**
  - They need to be able to see the market in parts
  - The fast growing parts distinct from the slow growing parts
  - The high revenue parts distinct from the low revenue parts
  - They want to make different offers and promises to different parts
  - The ability to make differential promises to customers is very important for this team



## What are the various players looking for?

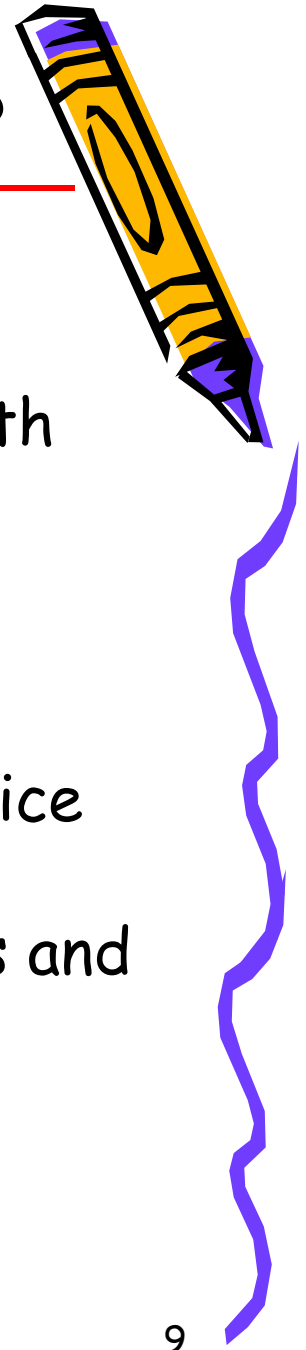
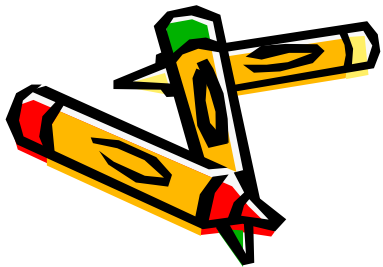
- The Customer Service team is concerned about **present and future value**
  - They are the custodians of the customer and the revenue and work within specific budgets
  - They need to see the customer base in its various parts
  - The high revenue parts Vs the low revenue ones
  - The new one Vs the old ones
  - The ones at risk of churn Vs the stable ones
  - The strategically important ones
  - Each one needs a different service approach



## What are the various players looking for?

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- The customer is concerned about the **present as well as the past value**
  - The customer is very conscious of the length of the relationship
  - With the passage of time, expects to be better understood and better served
  - Feels betrayed when there is a lack of accommodation or flexibility from the service provider
  - Feels delighted with small personal touches and details



# Value based segmentation model

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- If value of customer is to be the driver of segmentation, then how do we estimate it?

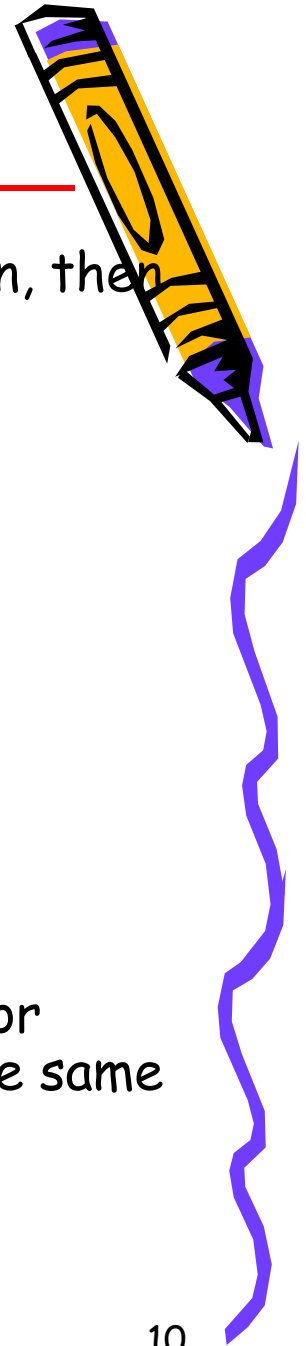
$$\text{Customer Value} = f(x)$$

Where  $x$  = is the past, present and future value

therefore,

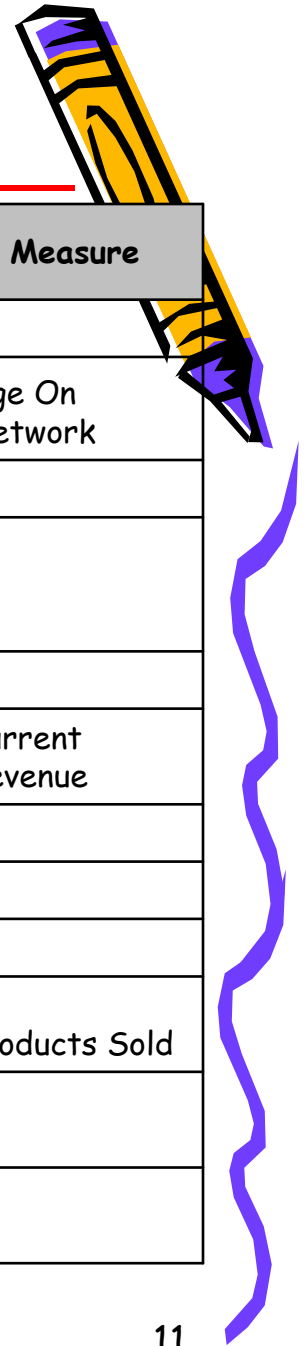
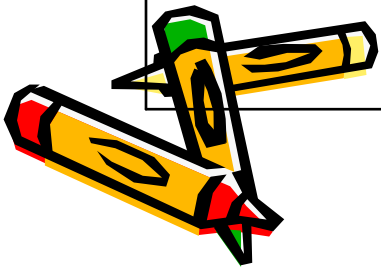
$$CV = f(\text{past}, \text{present}, \text{future}) \text{ value}$$

- It is a complex function to be individually determined for each operator however, the basic ingredients remain the same

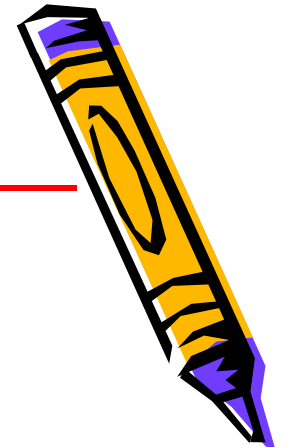


# Elements of Customer Value

Value Type	Ingredients	Organisational Focus	Measure
Past Value	Length of the relationship	Customer	Age On Network
	Expects to be better understood and better served		
	Feels betrayed when there is a lack of accommodation or flexibility from the service provider		
Present Value	Current Revenue from the customer	Customer Services	Current Revenue
	Company wants to retain high value segment		
	Wants to offer them higher service levels		
Future Value	Strategically important customers, growth rate	Customer Acquisition	Products Sold
	Customers buying products early in life cycle, with higher profitability		
	Customers where higher number of products are sold		



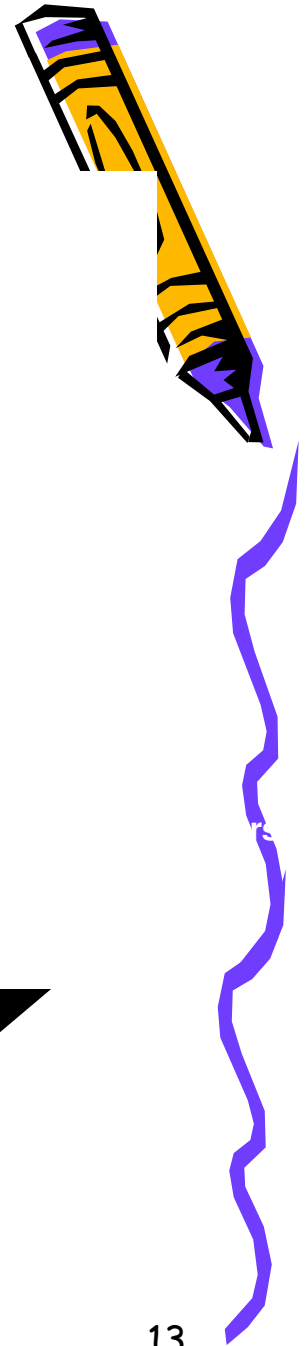
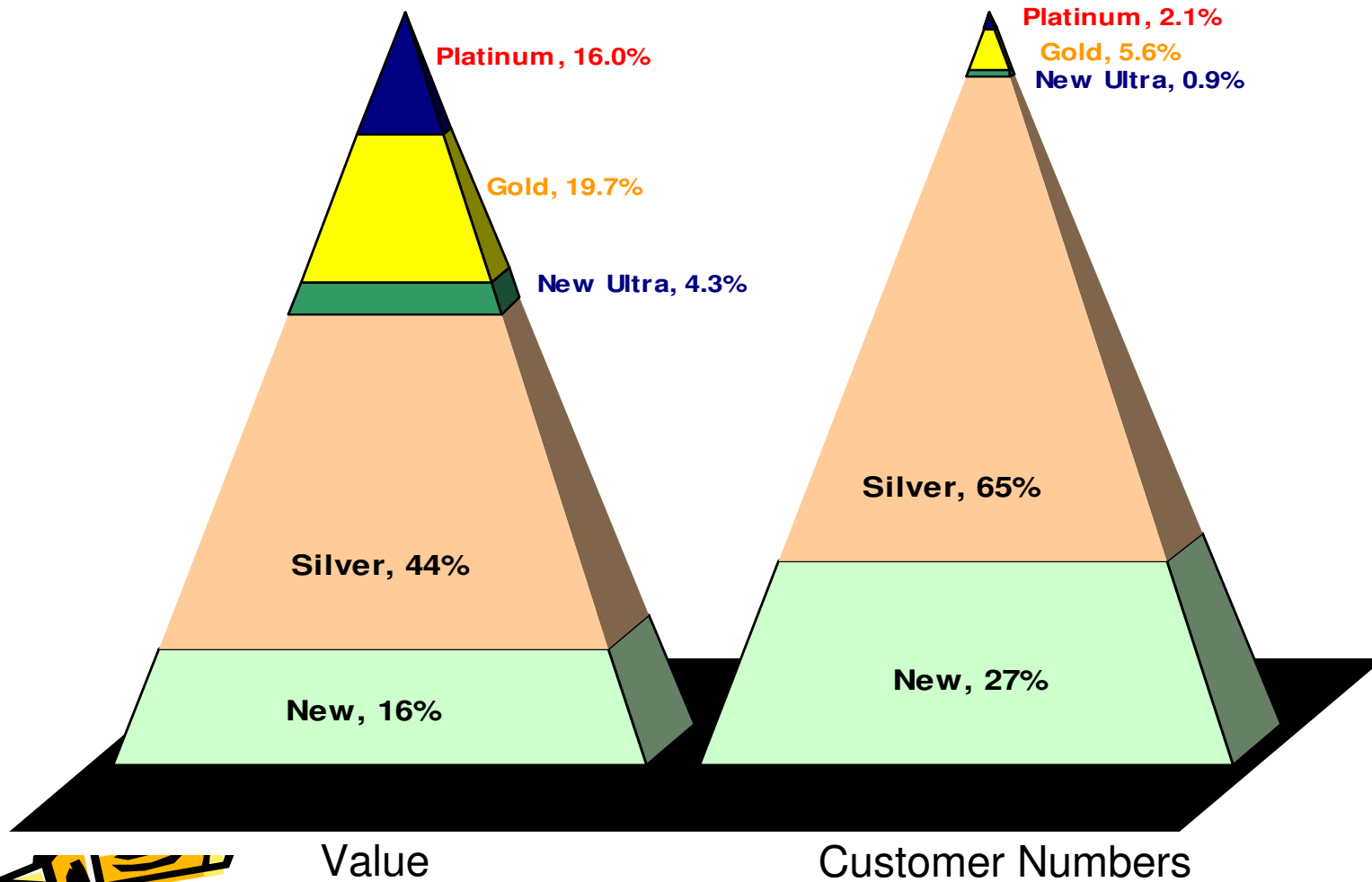
# Segmentation based on past and present value



Revenue (Decrement/month)	>=Rs.1.5K	<p><b><u>New Ultra</u></b></p> <p>Subs : 1%</p> <p>OG Min: 5%</p> <p>Rev: 7%</p>	<p><b><u>Gold</u></b></p> <p>Subs : 2%</p> <p>OG Min: 10%</p> <p>Rev: 10%</p>	<p><b><u>Platinum</u></b></p> <p>Subs : 0.4%</p> <p>OG Min: 3%</p> <p>Rev: 4%</p>
	Rs.1K-1.5K	<p><b><u>New</u></b></p> <p>Subs : 34%</p> <p>OG Min: 30%</p> <p>Rev: 26%</p>		<p><b><u>Silver</u></b></p> <p>Subs : 63%</p> <p>OG Min: 53%</p> <p>Rev: 53%</p>
<=Rs1K				
		<=3 months	3-12 months	>=12 months
		Age on network		

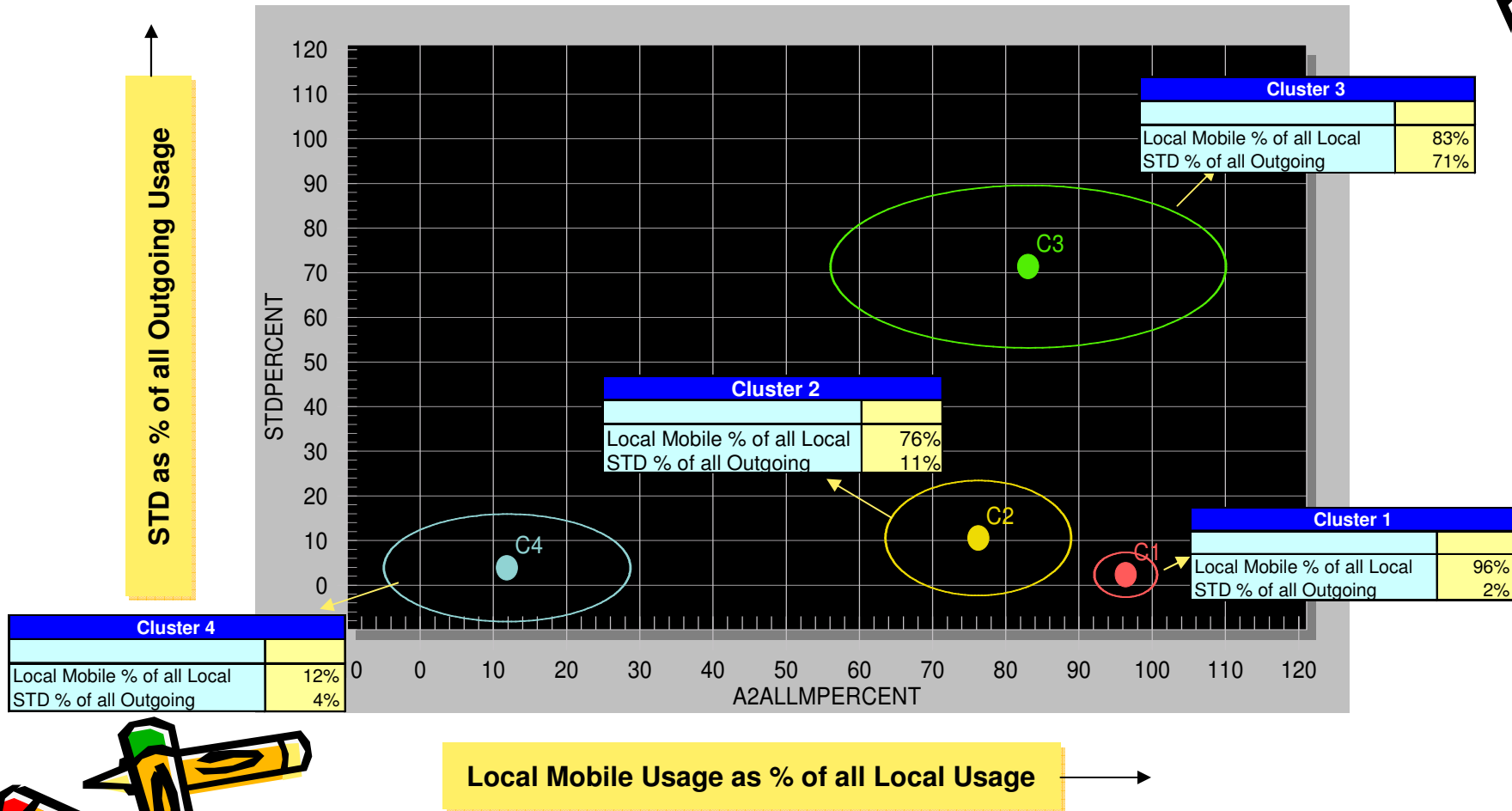


# Segmentation Pyramid



# Example of segmentation based on future value

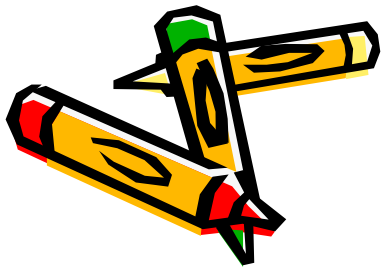
Distinct Customer Clusters/Segments based on Mobile Usage !



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# Example of full value based segmentation

Parameter	Weight	Formula	Scale				
			0.2	0.4	0.6	0.8	1
Product / Future Value	20.0%	MAX [Final Product Score] of all (LIVE) circuits	Based on profitability, products get weights				
Bandwidth / Revenue / Present Value	50.0%	SUM [Circuit Bandwidth x Bandwidth Multiplication Factor] for all LIVE circuits	< 1 MB	1 MB - 2 MB	2 MB - 3 MB	3 MB - 4 MB	> 4 MB
Age on Network / Past Value	30.0%	SUM [Circuit x Age] for all (LIVE OR TERMINATED ) circuits	< 6 m	6 - 12 m	12 - 18 m	18 - 24 m	> 24 m
<b>TOTAL</b>	<b>100.0%</b>						



# Going forward

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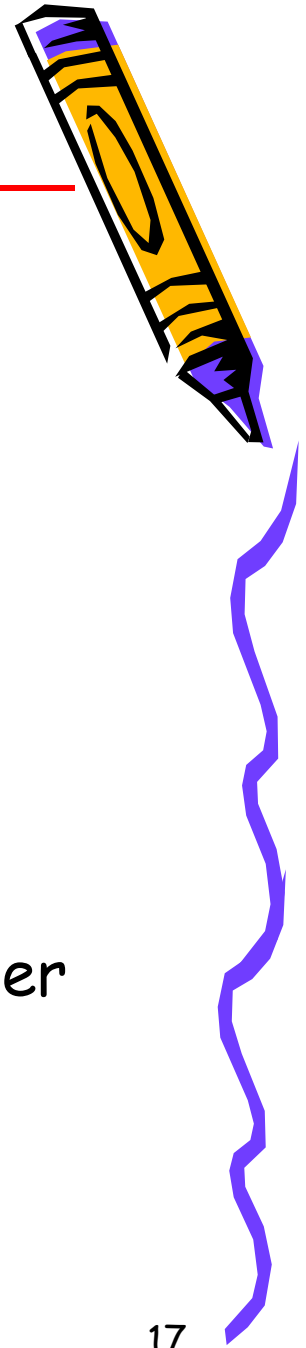
- What do you do when you have segmentation model ready?
  - Run the model, stack rank
  - Do real time sanity check to see model kicks in right direction
  - Get the CRM system to accept this segmentation ranking
  - Create modular components of lifetime customer management capabilities
  - Define what levels to be given to what customers
  - Create processes to ensure the above
  - Train, train, train
  - Monitor, monitor, monitor

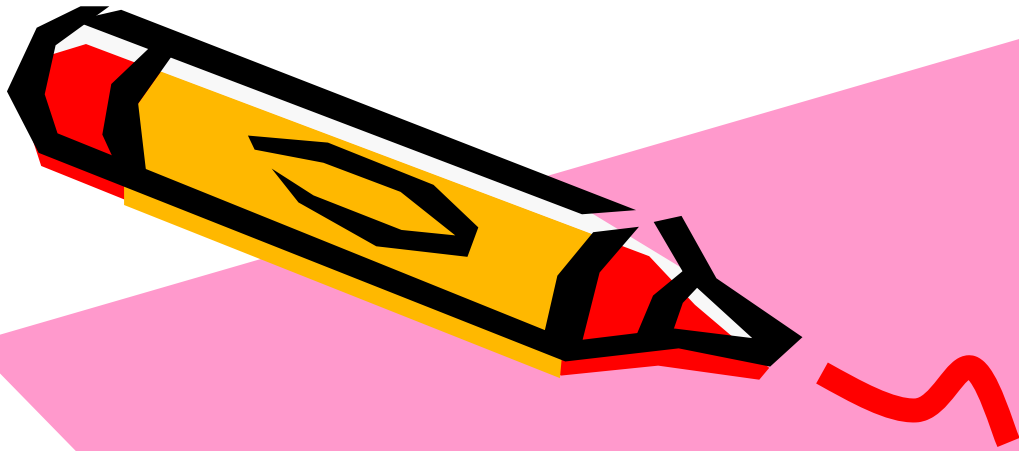


# Measuring success of segmentation

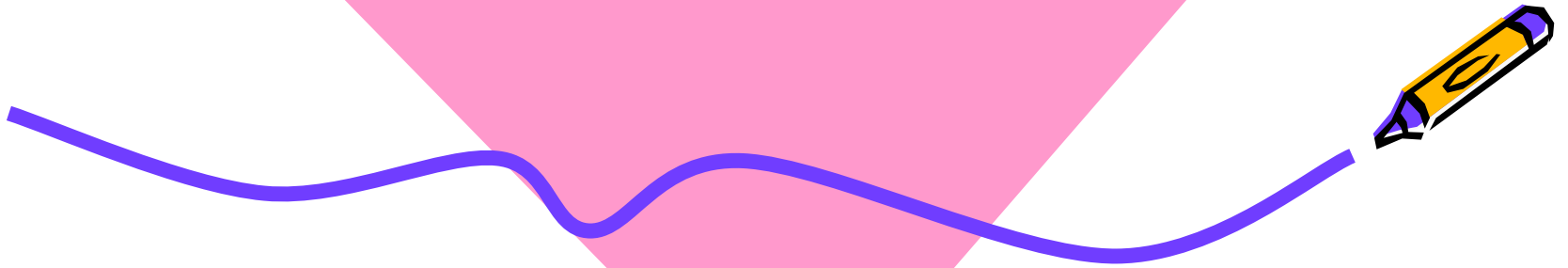
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- WABS: Weighted average benefits of segmentation
  - Reduction in cost to serve
  - Reduction in churn in select segments
  - Increase in revenue of segments
  - Increase in average life of customers in segments
- All of these go into computing an index that indicates how effectively segmentation is delivering results.
- Results typically will come about a quarter after full launch of segmentation





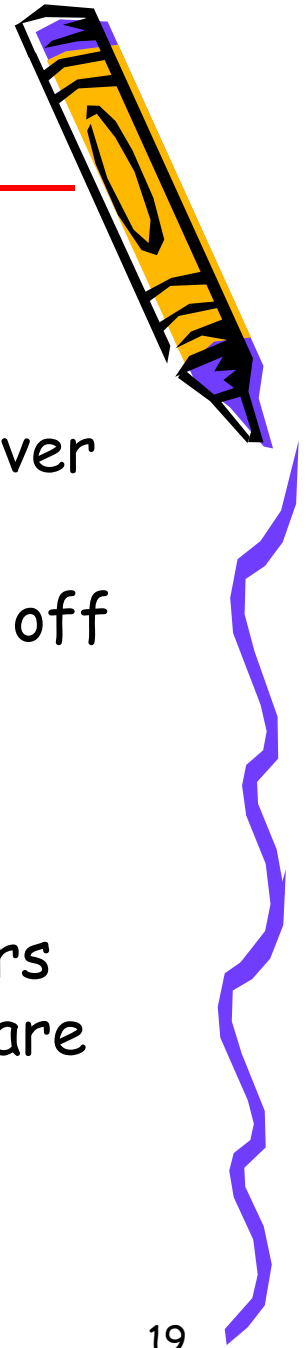
Questions?



# Understanding Past Value

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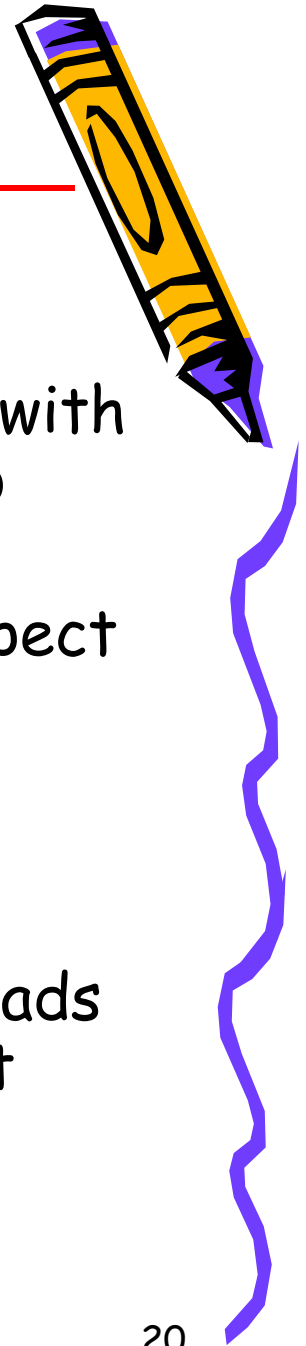
- Why is it important for operators?
  - The older the better!
  - It depicts more revenue that has come in over time
  - It depicts a productive asset that has paid off its cost of acquisition
  - It depicts a loyal customer who could be a reference point for others
  - It makes sense to clearly identify customers with high age on network Vs the ones that are in their early stages



# Understanding Past Value

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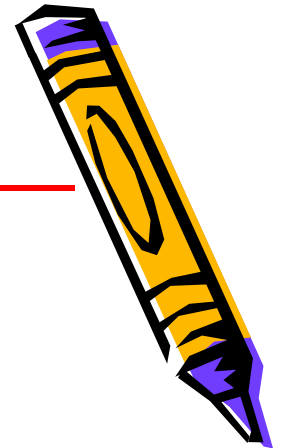
- Why is it important for customers?
  - Their initial expectations are high
  - Their initial experience often is not at par with their expectations, causing expectations to drop
  - However, over time, they again begin to expect more
    - More understanding
    - More accommodation
    - More flexibility
  - When these expectations are not met, it leads to irritation buildup, perception of ego hurt and eventual churn



# Measure of past value

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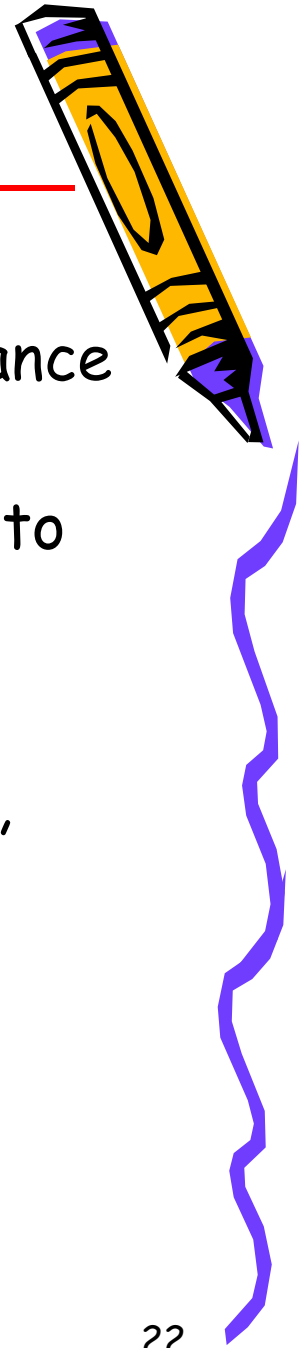
- Ideally, past value is the product of the total revenue that the customer has given, and the total time that the customer has been on the network
- However, this can be really difficult to compute, knowing the nature and capabilities of most billing systems
- Experience shows that simply the age of the customer is a passable substitute, and that it works quite well
- Even in the case of enterprise customers where the relationship is long term by definition, this is a good measure



# Understanding Present Value

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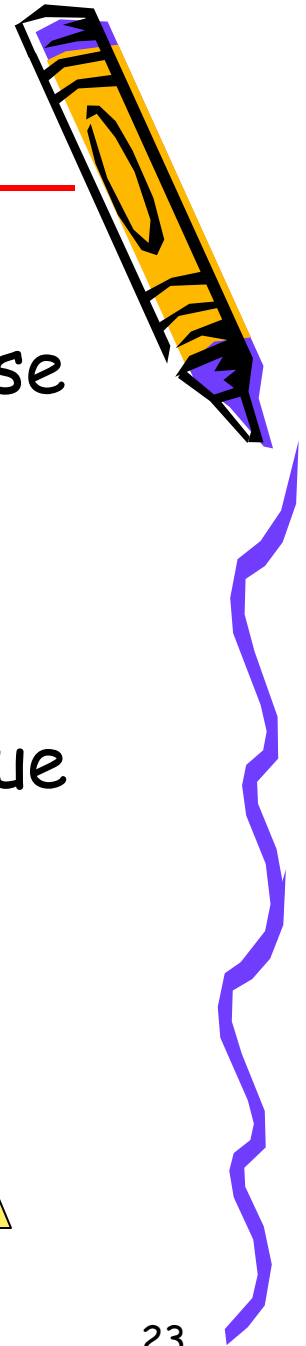
- Why is it important for operators?
  - Acts as a bell weather for current significance of a customer
  - Allows companies to balance the resources to be deployed on a transactional level
- Why is it important for customers?
  - Quid pro quo - if they give a lot of revenue, they expect better treatment
  - However, in their minds, it is cumulative revenue rather than current revenue



# Measure of Present Value

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- The most intuitive measure
- Most default segmentation exercises use current revenue as a measure of value
- It is certainly a powerful metric, but in itself, an incomplete one
- It is represented by the current revenue given by a customer



# Understanding Future Value

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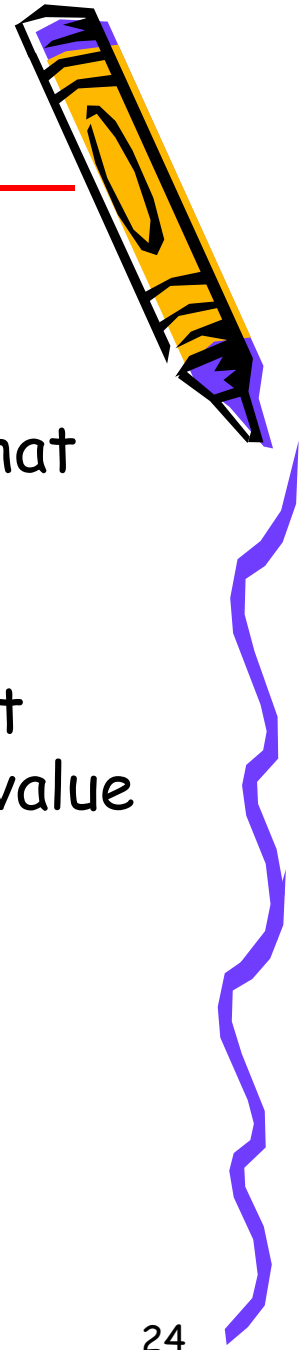
- Why is it important for operators?

Important for the acquisition team

- They focus on those potential customers that hold high future value

Important for the customer services team

- They focus on those strategically important customer that can yield significant future value
- They work on enhanced service as well as retention of these customers



# Measure of Future Value

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- The most complex measure, but very important
- It in itself is the weighted average of
  - Profitability of the product
  - Position on the product life cycle
  - Strategic importance of the customer / account

