

New Customers

Seth: Today we're going to talk about new customers. One of the greatest opportunities we see when we're working with our retail clients is the ability to help them understand and retain the new customers that are coming into their stores. One of the things that we do in order to help with this situation is to help to build a model. The model is intended to predict the value of a new customer right after they've made their first transaction, and be able to predict how much that customer is going to be worth twelve months later. In doing that, we'll take different types of information that are available at that first purchase. The geographic, how far away they live from the store, demographic information, and behavioral, what did they buy and how much money did they spend? Just from that information that's available on that first visit, we can then make this prediction of the customer's value. We can use that value prediction to drive our communication plan with that customer. How often should we communicate with them, what channels, and what kinds of offers are going to be best to drive them back into the store.

The model, really, what it does is it breaks the customer base up into different groups, and just to simplify, we end up with three different groups here. We have, first, our high value new customers. These are the customers that just based on what we know in that first transaction, we predict that these customers will become high potential and high value customers a year later. For these customers, generally whether we communicate with them or not, they're going to become high value customers. On the other extreme, we have low value new customers. For these individuals, there's generally not a whole lot that we can do to move the needle for them, and they're going to be less likely to return whether we send them an offer or not. The last group right here in the middle, these medium value customers, this is where we've seen the most ability to affect a customer's behavior. If we can give them the right offer at the right time, we can get these customers to come back and increase our retention rate for these new customers. Generally, this is where we see the best opportunity to target and analyze and model to predict the future value of new customers and then use it to help with our marketing communications.