after

PREDICTIVE ANALYTICS IN WARRANTY MARKETING

THE KEY TO DRIVING HIGHER REVENUE AND PROFITS

SUMMARY

Predictive analytics has become an essential tool for manufacturers seeking to increase their warranty sales and profits. The use of predictive analytics in warranty marketing has also proven to drive higher attachment rates, stronger customer satisfaction, and lower churn.

In this whitepaper, we will share:

- the three most effective predictive models for warranty marketing,

- how the models are used to maximize revenue and profits, and

- a case study of how one of the largest appliance manufacturers in the world used predictive modelling to optimize its warranty marketing program.

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Introduction – Why Predictive Analytics in Warranty Marketing?

Over the past decade, marketers have realized the importance of capturing data on their customers at every stage of the buyer's journey. This data is used to gain a more thorough understanding of who their prospects and customers are (demographics, interests, and habits), and the process they go through to discover, evaluate and purchase (or not purchase) their products and services.

Predictive analytics is defined as "the use of statistical algorithms and machine learning techniques to identify the likelihood of future outcomes based on historical data (Source: www.techemergence.com)."   Basically, predictive analytics is the engine that allows marketers to turn their historical data into profitable action.

The primary goal for every marketing campaign is to identify as many qualified leads as possible within a defined marketing budget. In order to accomplish that goal, marketers must answer five key questions (See Figure 1 – The Marketing Strategy Process).

Figure 1 – The Marketing Strategy Process
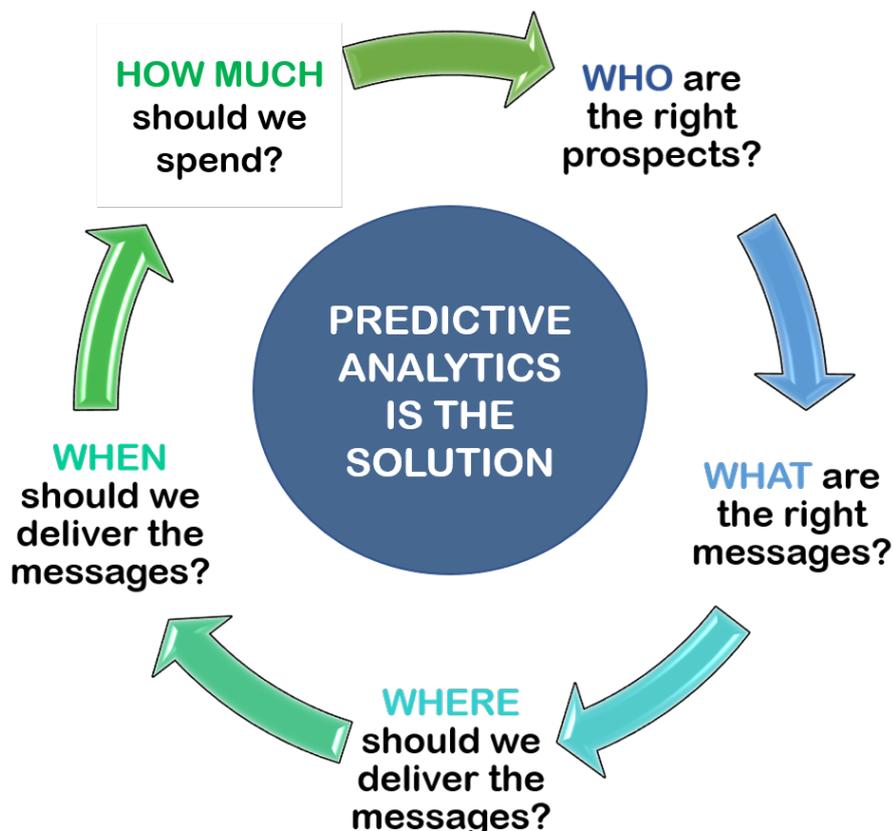
By sifting through historical data on purchase transactions and customer attributes (such as demographics, interests and attitudes), data analysts and statisticians can uncover patterns and build predictive models to answer the above questions for marketers. The more data that's available, the more accurate the models – the more accurate the models, the more successful the marketing campaigns – and the more successful the marketing campaigns, the higher the revenue and profits for the company.

Can these same methods be utilized in Warranty Marketing?

Absolutely – predictive analytics is already being utilized by warranty marketers today to:

a) drive higher conversions, renewals and upsells,

b) lower customer acquisition costs, and

c) maximize customer satisfaction and program profits.

Figure 2 below highlights the eight steps in the Predictive Analytics Process.

Figure 2: Predictive Analytics Process
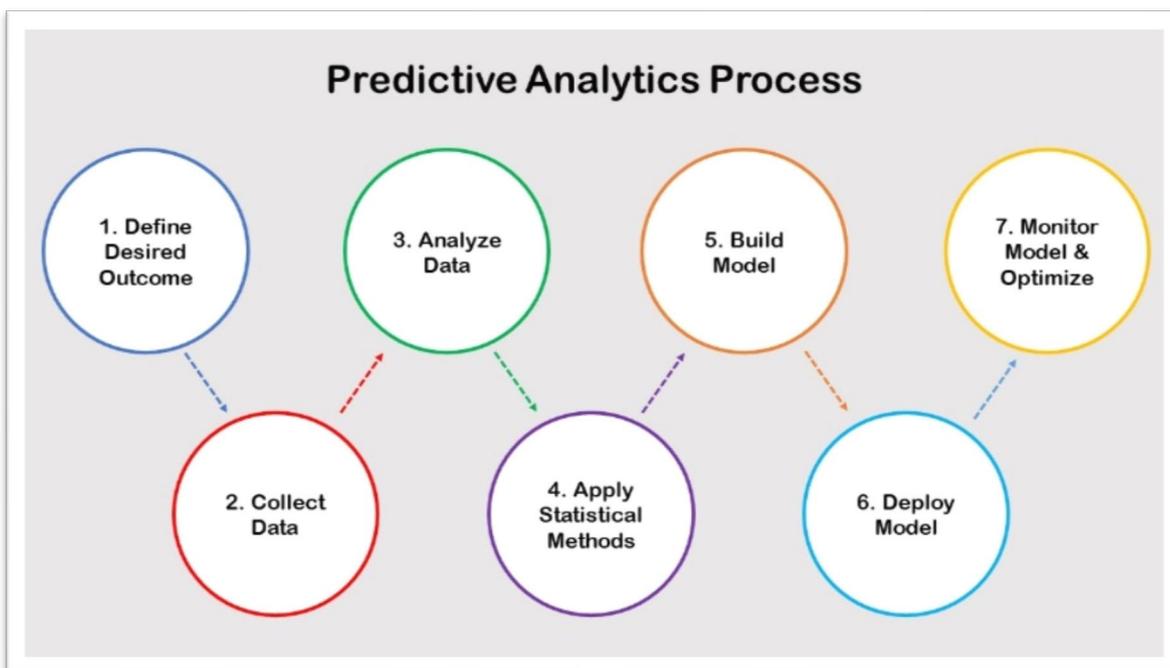
Three Predictive Models and How They Optimize Warranty Marketing Campaign Performance

Customer Profiling

Customer profiles are descriptions of your customers based on a set of attributes. Customer profiles - also known as "buyer personas" – provide a foundation for more personalized one-to-one marketing. Warranty marketers can group customers according to shared characteristics like income, age, life stage, job or location. They can even group customers based on shared purchase motivations.

As an example, a warranty marketer for an auto manufacturer may have a customer profile ("Dave") with the following characteristics: male, between 35-50 years old, married with children, operations manager, and household income of $80,000 - $100,000 annually. This customer did not initially purchase a warranty because he was concerned about spending the extra money.

Figure 3: Customer Profile: "Dave"

For prospects with this profile, the most relevant messaging might focus on how warranties can save customers thousands of dollars in costly repairs; and imagery on the email or direct mail letter might show a man whose car broke down driving his son home from baseball practice.

How this model optimizes marketing spend: Developing customer profiles and segmenting targets with similar characteristics helps warranty marketers develop the most relevant messaging, imagery and tactics for each group. Customer segmentation drives more personalized marketing - and the result is increased response rates, sales and ROI.

Propensity Models

A propensity model, or "likelihood to purchase" model, is a model that predicts which prospects are most likely to purchase a warranty product. It scores prospects based on how closely they resemble customers who have purchased warranty products in the past.

Propensity models are built from large data sets that contain demographic variables, such as age, gender, zip code, etc., as well as transactional variables, such as product, price, marketing channel, etc. A statistician will run various analyses to determine which variables are highly correlated with purchase. The result will be a model that compares the variables or "attributes" of each prospect against the customer data set and gives them a "likelihood to purchase" score.

How this model optimizes marketing spend: Propensity models are extremely useful in warranty marketing because they group prospects into segments based on high, medium or low likelihood to purchase a warranty. Marketers can then target the highest propensity prospects first, instead of marketing to the entire prospect list, thus minimizing spend and maximizing ROI. In addition, marketers may decide to send the "high propensity group" multiple offers across channels, knowing that they are more likely to purchase and therefore worth the higher marketing spend.

Customer Lifetime Value (CLV)

Customer Lifetime Value is "the total amount of money a customer is expected to spend in your business, or on your products, during their lifetime (Source: Shopify)." This is an important number for warranty marketers because it represents an upper limit on what they should spend to acquire a new customer.

How this model optimizes marketing spend: Being able to accurately predict the future dollar value of a customer is an incredible asset. Warranty marketers can use CLV, together with a propensity score, to determine how much to spend on customer acquisition efforts. As a result, warranty marketers can better forecast budgets, minimize acquisition costs, and maximize ROI.

Best Practices: Using Predictive Analytics to Solve Your Most Critical Warranty Marketing Questions

In the first section, we discussed The Marketing Strategy Process and how predictive analytics helps solve five key marketing questions:

1. Who are the right prospects?
2. What are the right marketing messages?
3. Where should we deliver those messages?
4. When should we deliver those messages?
5. How much should we spend? (This was also addressed in detail above with the three models, so we will focus here on questions #1-4)

In this section, we will share best practices based on fifteen years of designing, executing and managing successful warranty campaigns for our clients, and utilizing predictive analytics to drive all aspects of marketing program planning.

Promotion: the right message and format

Through extensive testing, After, Inc. has found that the best format for delivering an Extended Service Contract (ESC) offer is a personalized letter that is clear and concise. Email or direct mail may be used depending on the prospect's propensity to purchase score and the customer's potential lifetime value.

Some ESC offers can come with pages of terms and footnotes, confusing the customer, and leading to low conversion rates. Our best practice is to not only personalize the letter to an individual's characteristics, but also offer a link to a website and a phone number where he/she can get additional information and answers to any questions.

Person: the right prospect

The most effective ESC campaigns are those that target customers who have the highest likelihood to purchase. Mining historical purchase data can reveal patterns. During the Warranty Marketing Campaign Planning Phase, After, Inc. gathers, centralizes, cleans, and integrates thousands of behavioural, demographic and lifestyle data characteristics of customers who have purchased contracts in the past. Those variables are then used to build a customized predictive model that determines likelihood to purchase a warranty contact in the future. We then use this model to score prospects and segment them into high, medium and low propensity data sets. Each segment has a different marketing strategy with a different cost associated with it.

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Timing: the right time

After launching thousands of warranty marketing campaigns, After, Inc. has found that there are two times during the manufacturer's warranty period when a customer has the highest likelihood to purchase an extended services contact – at the beginning, right after purchase, and at the end, when the manufacturer's limited warranty is about to expire.

Research has also shown that the more times you touch the customer during the manufacturer's warranty period, the higher the likelihood to purchase an extended warranty. For every client, After, Inc. does extensive testing – because every client has their own nuances - to determine the most effective timing intervals to communicate. Then, we use predictive modelling (likelihood to purchase and Customer Lifetime Value models) to determine the optimum number of touches per customer.

Place: the right channel

Employing multiple marketing channels for an ESC campaign has proven to have a positive effect on conversion rates. Direct mail is After, Inc.'s primary channel for ESC marketing (See After's recent blog, "Why Direct Mail is a Highly Effective Channel for Warranty Marketing" to get the latest statistics and data to support that claim). However, direct mail must also be complemented with email, social media and outbound telemarketing. As mentioned above, the number of touches per prospect and the associated cost will vary based on each prospect's propensity to purchase score and customer lifetime value.

Why does utilizing a multi-channel warranty marketing approach ensure the highest possible conversion rates?

1. **It increases awareness**. A multi-channel approach increases the chances that your prospects will see and interact with your message.

2. **It meets each prospect in his/her preferred channel**. A multi-channel approach also improves your chances of meeting your customers in the channels they prefer – and frequent - most. By continuing to collect data after the initial warranty purchase, you will be able to predict which channels they use most.

3. **It ensures the message hits home.** By maintaining a consistent brand message across channels, you ensure that your message hits home (e.g. "You made a smart decision to purchase your new energy-saving refrigerator – now make a smart decision to protect it.").

Case Study: How After, Inc. Transformed a Global Appliance Manufacturer's North American Warranty Marketing Program

Client Overview

Headquartered outside of the United States, our Client is one of the largest manufacturers of home appliances. With an international portfolio of well-known brands and annual sales of over $10 billion, it truly operates at a global scale. Maximizing the volume and profitability of post-sale revenues through service contract and replacement part transactions is a constant business priority.

Figure 4: Client Company Statistics

$10+ Billion Revenue   50,00+ Employees   150+ Global Markets

Business Challenge

Our Client's North America Division had a post-sale program in place that managed both the Extended Service Agreement (ESA) and Replacement Part programs. The team responsible for these programs felt that there was still significant opportunity to grow sales and profits for both businesses. Specifically, they wanted to create a unified customer picture from various data sources to support more intelligent marketing; use predictive analytics to segment customers for more personalized and cost-effective outreach; optimize post-sale product pricing and terms; and streamline customer conversion with multi-channel commerce and improved inbound sales processes. Given our deep relevant warranty experience and critical combined expertise in both consumer marketing and warranty analytics, the Client asked us to join the effort as a perfect complement to their internal North America Appliances team.

Solution

The shared team's first priority was to consolidate all customer data into a single datamart that was analytics and marketing ready. This included expanding the data set to cover over 15 years of product ownership, unifying disparate data sources, and 'bundling' to associate multiple appliances to a single customer.

Next, we applied predictive analytics to forecast what each customer would be worth on a CLV basis, grouped customers into value tiers, and assigned profit-optimizing marketing budgets and strategies to each tier. To drive down print costs, we also conducted an RFP process and selected a new vendor.

Figure 5: After, Inc.'s Warranty Marketing Solution
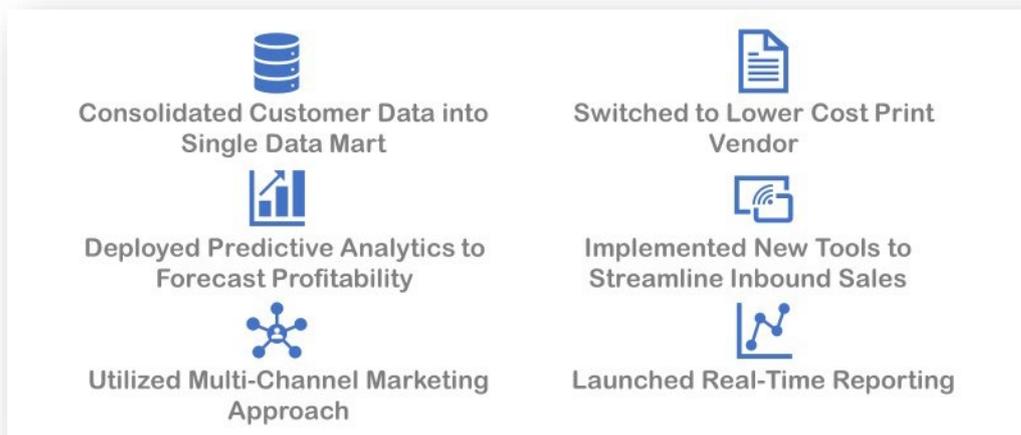
The team then deployed an extensive multi-channel marketing effort that allowed us to test and optimize every aspect of their program, from creative, to messaging and timing, and finally, offer price and term discounts. To streamline inbound sales, we implemented After's sales administration tools and trained the Client's Customer Engagement Center on the new system. Finally, to measure and optimize ROI going forward, we launched comprehensive real-time KPI reporting.

Results

Metrics improvements started registering almost immediately upon the new program launch. Within the first year, our Client had grown its North America Major Appliance sales by 126% and profits by 150%. North America accessory sales also increased by 384% vs. prior year.

Figure 6: Client's North America Warranty Program Results

On the profit side, After, Inc. saved the client over $1.6 million in Year 1:

- $300,000 in mail costs through bundling products and householding

- $500,000 by using predictive analytics to assign per-customer acquisition strategies

- $850,000 incremental through term-discount strategy

Other successful tactics included multi-pack accessory discounts, which increased average order value by 50%. The two teams also accomplished significant operational improvements, including the addition of multi-channel ordering, consumer flexible payment and subscription options, back-end sales management tools, PCI compliance, and online interactive reporting.

Conclusion

Are you convinced that predictive analytics could drive significant value for your company's Warranty Marketing programs? Are you using predictive analytics in your Warranty Marketing campaigns today – or would you like to?

To learn more about After, Inc.'s Warranty Marketing services, visit our website at http://afterinc.com/warranty-marketing-solutions/ or contact us directly at http://afterinc.com/contact/. We look forward to hearing from you.

After, Inc. (www.afterinc.com) is a global leader in the Warranty Services industry, providing predictive analytics, data-driven marketing strategies, program administration and product registration solutions to some of the world's top brands. Since 2005, After, Inc. has been helping manufacturers transform their warranty businesses, driving increased customer satisfaction, higher product reliability, deeper brand equity and additional revenue / profit opportunities. Headquartered in Norwalk, Connecticut. and with offices in New York City, After, Inc. is part of EPIC Portfolio Group, a unique and innovative retail property and casualty and employee benefits insurance brokerage and consulting firm, with over 1,300 employees across the United States.