CLV Improvement Project
Current Approaches and Recommendations

Customer Lifetime Value (CLV)

Current Approaches

A Customer Acquisition

Retail CAC = $100

- Product **Bundling**, **Discount** Tiers, and **Trial** Periods
- **Referral** Programs and Affiliate Marketing
- Strategic **Partnerships** and Channel Distribution

B Customer Retention

Paid Account Monthly Churn Rate = 1.1%

- **Shift to Subscription** Services with Higher Margins
- Continuous **Product Enhancement**
- Broad **Compatibility** and IoT Ecosystem Integration

C Customer Development

Retail LTV = $700

- High **Consumer Engagement** and Virtuous Cycle
- Innovative **Product Introduction**
- **Accessories** and Incremental Offerings

Our Recommendations

Acquisition Targeting & Digital Advertising

- Focus on identifying and engaging potential customers who are most likely to find value in Arlo's offerings based on **predictive analytics**, and use precision digital advertising to **increase conversion rates**

Early Churn Detection System

- Identify potential customer churns and **selectively target those at risk** with tailored promotions and interventions, strengthening the **customer satisfaction**

Most Impactful

Arlo Trade-In™

- Balance revenue increase with cost control for **enhanced profitability** by allowing customers to trade in old devices for discounts on new purchases, encouraging the upgrade cycle and fostering **brand loyalty**

Source: *Team 11 analysis, Arlo official website and investor relation materials*

Early Churn Detection System
Rationale of Recommendation

Early Churn Detection System

1 Churn Rate Reduction

"In conclusion, customer retention is the most important driver of customer value." — Professor Park

Churn rate is the most critical component of CLV. Even a small reduction in the churn rate can have a significant impact on CLV, as it extends the average customer lifespan and, consequently, the total revenue and margin generated from each customer. The Predictive Model-Based Early Churn Detection System directly addresses this by identifying at-risk customers early, **allowing for targeted interventions that effectively prevent customer defection** before it occurs.

2 Increased Targeting Precision

Utilize predictive analytics to identify at-risk customers, improving the retention efforts' **efficiency** and **effectiveness**.

3 Proactive Engagement and Personalization

Deliver tailored interventions based on individual customer behaviors and needs, enhancing **customer satisfaction** and **retention**.

4 Dynamic Adaptation to Customer Behavior

Continuously system update based on new data, ensuring the iteration will make retention strategies remain **relevant** and **effective over time**.

5 Cost Efficiency and ROI

Focus resources on high-risk customers, optimizing marketing spend and **maximizing return on investment**.

6 Long-term Customer Engagement

Extend customer relationships, providing more opportunities for **cross-selling**, **upselling**, and **brand advocacy**.

7 Enhanced Brand Loyalty and Reputation

Reinforce Arlo's commitment to **customer-centricity**, improving **brand loyalty** and organic growth through **positive word-of-mouth**.

Source: *Team 11 analysis, Arlo official website and investor relation materials*

Early Churn Detection System
Execution Plan

I Predictive Modeling Process

Objective
Develop a logistic regression model to predict customer churn.

Variable Selection
Dependent: Churn: Binary indicator (0 = no churn, 1 = churn within the next defined period, e.g., 6 months).
Independent: Demographics, engagement metrics (RFM), product usage, subscription type, customer support interactions, billing patterns, and seasonality, etc.

Modeling Steps
1. Data Prep: Collect and clean data, handle missing values, create dummy variables.
2. Model Estimation: Apply logistic regression, use training and validation sets for refinement.
3. Model Testing: Assess model with a separate test dataset, optimize based on performance (ROC, AUC).

II Timeline Plan

Months 1-2
Project kickoff, data collection

Months 3-4
Data preparation, initial modeling

Months 5-6
Model validation and refinement

Months 7
Complete model testing, start system integration

Months 8-9
Execute targeted interventions

Months 10-12
Monitor interventions, adjust strategies

Post-Year 1
Continual learning, regular system reviews, update models with new data

III Metrics and Evaluation

Performance Indicators

Accuracy, Precision, Recall, Specificity, F1 Score
Evaluate model's prediction accuracy.

CLV Increase
Track changes in customer lifetime value.

Churn Rate Reduction
Compare churn rates pre and post-implementation.

Return on Investment
Assess cost-effectiveness of churn system.

Customer Feedback
Monitor satisfaction changes due to interventions.

Execution and Integration

- Ensure smooth integration with CRM systems.
- Maintain high operational uptime for the churn detection system.

Source: *Team 11 analysis, Arlo official website and investor relation materials*