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# Managing the Next Best Activity Decision

## Treating customers right, every time

No matter what the context or channel, Next Best Activity allows organizations to optimize each and every decision across the customer lifecycle – from customer acquisition to cross and up-sell, retention, customer service and more.

James Taylor

CEO, Decision Management Solutions

More information at:

**www.decisionmanagementsolutions.com**

# Next Best Activity

Product and channel-centric marketing

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*"As I talk to customers, partners, and employees, it becomes increasingly clear to me that the health of a company relies on the extent to which it creates meaningful and sustainable interactions."*

**Denise Shiffman, author of The Age of Engage**

*"Customers treat the decisions you make about them as personal and deliberate."*

**James Taylor, Decision Management Solutions**

Every interaction with your customers is an opportunity to build your relationship. It could be a personalized marketing offer or proactive customer service. To make sure this interaction maximizes the value of your customer relationship, many organizations are developing Next Best Activity programs. A Next Best Activity program considers all possible actions, from marketing offers to customer service actions, and selects the one most likely to build long term value. No matter what the context or channel, Next Best Activity allows organizations to optimize each and every decision across the customer lifecycle – from customer acquisition to cross and up-sell, retention, customer service and more. Next Best Activity optimizes every customer interaction in an increasingly complex business environment and ever-increasing volatility in customer relationships. If effectively responds to increasing customer expectations, expanding product lines and multiplying channels.

Next Best Activity recreates how successful small businesses work with their customers. A successful small business owner knows a lot about their customers and community. They remember their customers from interaction to interaction. As a result they can personalize and target each interaction to create very high quality customer relationships. In organizations that must rely on large numbers of staff, systems and processes to interact with customers, Next Best Activity can create this same sense of personalized,

# Introducing Next Best Activity

focused interactions.

To be effective, Next Best Activity is cross-channel, focuses equally on in-bound and outbound, is customer-centric, and focuses on more than just marketing offers.

## Cross-Channel

Businesses have multiple channels for interacting with their customers. Often each channel has its own marketing campaigns, offers and priorities. Each channel also has its own systems for managing customer interactions. Customers and potential customers, however, don't view a company differently channel by channel. Whether they call a service number, access a website or walk into a store, they expect the same service. Inconsistency across channels creates customer confusion and frustration. Next Best Activity addresses this by considering all interactions with customers, regardless of channel, as part of the same ongoing customer conversation.

## Inbound and Outbound

Next Best Activity brings together both inbound and outbound customer interactions. For inbound conversations, customers expect a response to their question or issue that reflects their relationship with the company. Next Best Activity programs build on answering the inbound issue and aim to deliver additional value to the customer while developing a better long term relationship. For outbound interactions, Next Best Activity aims for meaningful, relevant, personalized outreach to customers. It also involves identifying the right time for the action—now, next time the customer is sent something, after their next paycheck—as well as the right channel for it.

## Cross-Product

A cross-channel focus ensures Next Best Activity is focused on the customer and their perspective. True Next Best Activity goes further, however, introducing customer and event-centricity into decisions about what action to take in a given interaction. Companies have traditionally taken a product-centric approach, in which many product groups do their own marketing, promoting only their own products. Next Best Activity cuts across products, considering all possible products and services as part of each interaction. Next Best Activity focuses on responding to the changing needs and behaviors of customers, rather than internal drivers, for mutual benefit. It's not always about doing exactly what a customer wants but it can be about sacrificing short-term profit for long term improvements in customer engagement.

## Not Just Offers

Marketing campaigns are focused on offers—what can we sell this customer next, how can we up-sell this customer. In contrast a foundation of Next Best Activity is a focus on the long-term value of the customer. Next Best Activity is not narrowly focused on the "promotion of the week" but rather asks "What is the Next Best Activity to maximize the long term value of this particular customer?" This may mean correcting bad data, capturing life events or improving service rather than just finding the next offer to push.

Next Best Activity requires a focus on decisions, and on systems that can manage those decisions. In the next section we'll discuss the elements of these decision management systems.

# Next Best Activity Decisions
## And the systems to manage them

*"Deliver the right information to the right person at the right time. Well yes but why? So that the right decision gets made – that's the purpose of it all, that's what adds value to the business."*

**James Taylor, Decision Management Solutions**

*"With KXEN's InfiniteInsight™, we can deliver the right offer, to the right customer at the right time"*

**Dr. Jacky Huyghebaert, Customer Intelligence Expert, Belgacom.**

At the heart of effective Next Best Activity programs are decisions—decisions about offers, about eligibility, about treatments, about the actions to take to serve a customer. A focus on these decisions across every platform, every line of business, every channel is essential to a successful Next Best Activity program. Next Best Activity is essentially a systematic way to optimize these decisions and manage them independently of systems, channels and products.

## Entire Customer Lifecycle

Next Best Activity Decisions support the entire lifecycle of customer interactions. At many points in the customer lifecycle, organizations must decide how to act. At each point there is a decision about the Next Best Activity to maximize the value of the customer.

- How do we acquire this prospect in a way that will result in a profitable long-term relationship?
- How can we expand this customer relationship when they request service?
- How should we retain this customer given their churn risk is high?
- How do we gracefully exit this customer relationship?

No matter when a customer interaction occurs, no matter the channel, an organization needs to be able to decide on the Next Best Activity.

# Next Best Activity Decisions

## Decision Management Systems

Next Best Activity Systems are Decision Management Systems. Decision Management Systems are agile, analytic and adaptive:

- **Agile** so that they can change rapidly as regulations, policies or customer expectations change

- **Analytic** in that they leverage all the data an organization has to make better, more precise decisions

- **Adaptive** so that they learn and adapt over time, allowing organizations to continually improve decision-making

To make Next Best Activity work, companies are building Decision Management Systems focused on the Next Best Activity decision. They are the decision-making components of an enterprise software Service-Oriented Architecture. They deliver the most appropriate actions to every customer interaction as a software service.

For a Next Best Activity program the decisions involved are clear—any time the company interacts with a customer there is a decision to be made. The question "what is the Next Best Activity?" must be answered each time. Companies need to look at their business processes and the interactions they have with customers and determine when and how they make decisions about those interactions.

Managing and improving these decisions is what Next Best Activity is all about. Delivering consistency across channels and ensuring that the decisions being made are current and timely and linked to business objectives means putting these decisions into coherent decision services that can be used by multiple systems across multiple channels. These decisions are delivered to customers through integration with delivery systems such as websites, CRM systems, marketing systems, etc.

**The Elements of a Next Best Activity System**
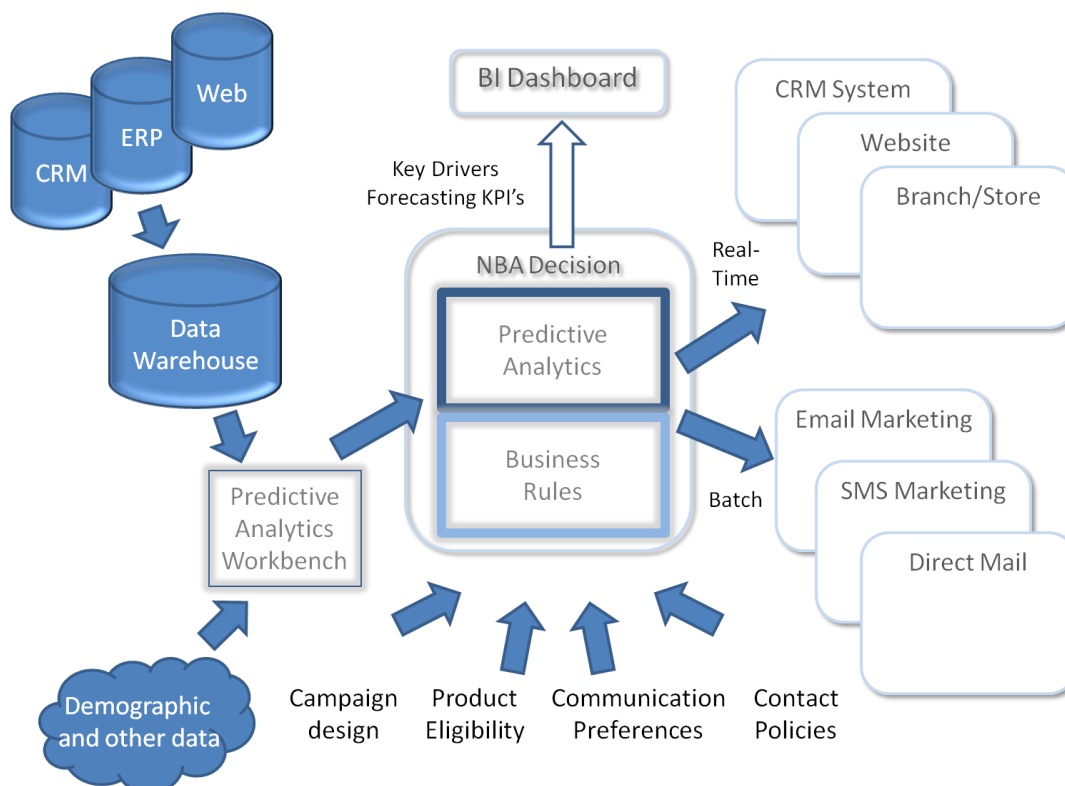
# Next Best Activity Decisions

## Customer Data

As part of a Next Best Activity program companies must integrate disparate sources of customer data. The era of Big Data allows them to enrich this with demographic and other third-party data and think about the use of web analytic data to better understand customers and prospects. In a Next Best Activity environment, the purpose is not simply to present this data in the hope that it will improve the interaction with the customer, but rather to drive effective predictions that can be embedded in Decision Management Systems to improve their decision-making.

## Predictive Analytics

Predictive analytic models are critical for determining which actions are best. Typically, predictive analytic or data mining capabilities are first used to segment customers into different groups with similar behaviors and characteristics. Successful companies are using these techniques to develop much more granular segmentation for more precise targeting, most often in combination with predictive analytic models.

Predictive analytic models that predict the likely future behavior or value of customers are also widely used. Using predictive analytic techniques to develop models that will score the likelihood that a particular customer is a retention risk or that a particular offer will be accepted puts the data companies have about their customers to work. These predictions can also be used in segmentation models – using the retention or churn risk, for instance, as one of the criteria for membership in a customer segment.

## Real-Time Predictive Analytics

Given the wide range of product offers and actions that must be optimized in Next Best Activity, very large numbers of predictive analytic models may be required—100s of propensity models (one for each

action) are not uncommon. These models allow each potential action to be considered based on its probability of acceptance. Real-time scoring can be applied to incorporate up-to-the minute information about the customer, for example an address change made in a call center, ensuring the predictions are as accurate as possible.

## Business Rules Management Systems

Business rules also play a key role in Next Best Activity. Predictive analytic models will determine a customer's likelihood of taking an offer or action, but it is up to the business rules to determine whether the customer is eligible for those offers or actions. Regulations and other restrictions on the allowed actions can be coded in a business rules management system. The preferences of individual customers can (and should) be represented as rules. For instance, a customer might express a preference for using a particular channel, like email, and that rule should be applied when offers are being made or other actions considered.

Some companies try and encode all the logic for selecting the best activity into business rules. This often becomes complex and unmanageable. A more modern method uses a combination of business rules and predictive analytics. Such an approach is more agile, manageable and precise.

Managing Next Best Activity requires an understanding of the objectives that drive decision-making, a focus on continuous improvement and the integration of business, analytic and IT teams into a single effort.

## Objectives

Objectives drive decision making and decision making drives results. Decision Management Systems take this bull by the horns and manage, track and improve those decisions explicitly. For instance, a customer retention objective or key performance indicator (KPI) may be set

at a strategic level. This will drive some policies around how aggressive to be with retention offers, initial pricing, discounts, etc. These policies are easily updated in the business rules of a Next Best Activity decision. Many decisions contribute to retention—who to retain and how to do it, when to make refunds, how to route calls from a customer and much more. The results of these decisions materially affect the likelihood of meeting that retention goal. Understanding this linkage is critical.

## Next Best Activity Gets Better Over Time.

To effectively manage Next Best Activity over time companies must invest in continuous improvement. While some offers and actions have been used enough to build up a pretty good sense of what will or won't work, others must be tried to see what response they provoke. Using a test and learn approach to ensure that new approaches are constantly tested against a minority of the population helps build more robust predictive analytic models of customer behavior while limiting the risk of any new approach to a small group. Instead of marketing, customer support and sales arguing about

what might work, such test and learn experiments allow different approaches to be tried to see what works in reality.

## Organizational Alignment

A focus on decisions also provides a common focus for collaboration between Lines of Business, IT, and analytics groups. The business team identifies the decisions that matter to their business and defines what makes a decision a good or bad one. The IT team has to be able to explain how the production systems that use those decisions work and bring the business people inside, allowing them to define and manage the logic of these decisions (using business rules management systems, for instance). Analytic teams can see the business need, talk to IT about the data available and see what kinds of predictive analytic models they can build that will result in better business outcomes while still being deployable.

Next Best Activity is broadly applicable across industries and useful anywhere customers are being managed. In the next sections we'll consider three industries as examples—Communications, Financial Services and Retail.

# Next Best Activity in Communications

Communications companies are adopting Next Best Activity systems to maximize the value of increasingly mobile customers in an intensely competitive market. Communications companies want to acquire new customers, retain existing customers and reduce churn, grow the average revenue per user (ARPU), and manage their costs for serving customers. Every one of these objectives can be met using Next Best Activity.

## Acquire

All communication companies want to acquire new customers with targeted marketing or by using social influence with promotions like "refer a friend". Doing so means making the right decisions about service plans, phones, accessories and more. Only if a customer is offered the right package at a competitive price can they be acquired cost effectively. Increasingly it is essential also to acquire those customers that will be profitable over time, that are likely to be loyal or to buy additional value-added services, not just to acquire as many customers as possible. Assigning acquisition budget effectively, targeting the right prospects with the right offer and understanding the decisions that will be made later in the customer's lifecycle are all elements of effective acquisition and all depend on good decision management.

## Retention

Customer retention and churn reduction is top of mind for today's communications companies. Companies know that retaining customers is cheaper and more effective than trying to replace customers who cancel their subscription or take their business to a competitor. Finding and targeting customers who are a retention risk using predictive analytics and making sure they are retained cost-effectively is critical to long-term growth and profitability.

Beyond the raw retention rate, however, is the value those retained customers bring to the company. Whether it is subscriptions renewed or potential future purchases, more retained customers means more top-line revenue. Every lost customer means lower revenue now and in the future. The power to understand what customers are at risk and what actions will increase their likelihood to stay with your service is critical. Predictive analytics-based Next Best Activity is the engine that makes this possible.

## Average Revenue Per Customer

Companies want to grow their ARPU—Average Revenue Per Unit or customer. This means selling value added services, such as music downloads or sports scores, not just the base plan. With more of these additional services available it becomes critical to target the right customers with the right value added services. Get it wrong and the customer might end up paying for something they don't use, increasing their likelihood to churn. Get it right and the long term value of the customer grows. Making the right decisions about who to offer what is critical.

## Plan Management

As customers are acquired and as they move through the lifecycle communication companies are increasingly looking to aggressively manage the plans they are subscribed to. Instead of just allowing a customer to pay for services they are not using or to pay overages and fees, communication companies are balancing current revenue against future potential. Using predictive analytic models and a focus on the Next Best Activity to develop a customer, some companies are down-selling customers or moving them to different plans to ensure that the customer continues to see value and so stay loyal.

# Next Best Activity in Financial Services

The financial services industry is facing major changes in how customers see their banking services. Where customers used to have a single bank, some customers are spreading their financial products among multiple banks as well as non-bank service providers such as retailers and specialty service providers. In some markets customer churn is rising fast as customers change from keeping a banking relationship for many years to aggressively moving their accounts from place to place.

## Establishing the Core Banking Relationship

To ensure profitability and reduce churn, financial services institutions are focusing on capturing and retaining a customer's core banking relationship. This is a core account into which their salary is paid and from which they pay their bills. Whether or not this account is profitable it is very "sticky", keeping customers with the bank for the long haul. Ensuring that every decision made about the customer reinforces an existing core banking relationship or pushes a customer towards building a new one is an urgent priority. This long term focus must be cross-product and cross-channel and so must be driven by an effective Next Best Activity strategy.

## Multiple Products for Profitable Customers

As banks and other financial services institutions have used analytics to assess lifetime customer value it has become clear that multiple financial products are central to a profitable relationship. While many customers have only 2-3 products with a particular institution, only customers with 4-6 or more are really profitable.

Profitability will be hard to come by unless a coherent strategy exists to sell customers additional products at the appropriate time and to develop the customer

relationship to the point where the customer will want to buy these products. A Next Best Activity strategy focuses on building these multi-product relationships.

## Usage Drives Profitability

The final challenge for financial services institutions is that simply selling a customer some products will not make them more profitable. While some products, such as a loan, may have a value to the bank the minute they are sold, others do not. For instance, selling a customer a savings account does not help the profitability of the bank unless the customer uses it, putting their savings into the account. Ensuring that the marketing and customer service organizations devote customer contacts not just to selling products but to ensuring their profitable use requires a holistic Next Best Activity approach.

# Next Best Activity in Retail

Many retailers used to consider their retail outlets the focal point for analysis in their business. Now, with many more retailers selling and shipping direct to customers through their websites, the customer is taking center stage.

## Cross- Channel

Retailers used to consider their mail order, phone, web and store sales as separate channels. But customers don't think that way, regarding every touch point with a retailer as part of the same conversation. Not only do customers expect to be able to buy things in one channel and return them in another, they expect their loyalty programs, discounts and rewards to reflect their total business with a retailer.

The explosion of social media and mobile devices has only expanded the number of potential channels for a retailer while increasing the likelihood that a customer will use more than one while considering, planning and making a purchase. Without a central Next Best Activity strategy no retailer can put a consistent, and consistently helpful, face on their customer interactions.

## Segmentation

Retailers can use customer segmentation to develop cross-channel campaigns—targeting specific groups based on their overall profile, not just on their behavior in one channel or the basket of goods they just purchased. Using predictive analytics, they can manage the tradeoffs between campaigns and channels segment-by-segment. They can develop prescriptive behavioral clustering that steers marketing and merchandising, enabling effective marketing resource optimization. A Next Best Activity ensures that this segmentation is applied consistently every time a retailer interacts with the customer.

## Personalized Marketing

The pot of gold at the end of the rainbow, though, is truly personalized marketing. Marketing offers so precise, so targeted that customers think they were developed just for them. Retailers can use large numbers of predictive analytic models to create personalized offers and deliver them through the most effective channel. Customers who get regular bills or statements can get trans-promotional offers delivered in that context. Point-of-sale offers can be precisely timed and targeted. Mobile devices and other delivery options can be considered, tested and used appropriately.

Automation and integrated predictive analytics ensure that this personalization does not come at the expense of agility and responsiveness. Retailers must be able to constantly update and rapidly refocus these campaigns. They need to develop real-time monitoring of effectiveness as well as the ability to change campaigns to respond to competitors, news, even the weather.

The marketing disciplines of test and learn must be rigorously applied in this new approach. Personalized marketing is very effective but it requires strong monitoring and management discipline and the ability to create a virtually unlimited number of predictive analytic models to optimize each and every customer interaction—to ensure the optimal, personal Next Best Activity.

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# About Decision Management Solutions

Decision Management Solutions is the leading professional services firm specializing in decision management, a proven approach for rapid and cost effective deployment of predictive analytic models in operational systems. Decision Management Solutions is helping companies make the business case for analytics, enabling them to reduce fraud, continually manage and assess risk and maximize customer value with increased flexibility and speed.

James Taylor is the CEO and Principal Consultant of Decision Management Solutions. James has over 20 years developing software and solutions for clients and has led Decision Management efforts for leading companies in insurance, banking, health management and telecommunications.

In addition to consulting, James delivers webinars, workshops and training. He is a regular keynote speaker at conferences such as ComputerWorld BI & Analytics Perspectives, Business Rules Forum, Predictive Analytics World and IBM's Business Analytics Forum. James is the author of "Decision Management Systems: A Practical Guide to Business Rules and Predictive Analytics" (IBMPress, 2012) and was lead author of "Smart (Enough) Systems: How to Deliver Competitive Advantage by Automating Hidden Decisions" (Prentice Hall, 2007) with Neil Raden. He has contributed chapters to multiple books including "Applying Real-World BPM in an SAP Environment," "The Decision Model," "The Business Rules Revolution: Doing Business The Right Way" and "Business Intelligence Implementation: Issues and Perspectives." James is a faculty member of the International Institute for Analytics.

More information is available at **http://www.decisionmanagementsolutions.com**

To engage us or request information, email us at **info@decisionmanagementsolutions.com**