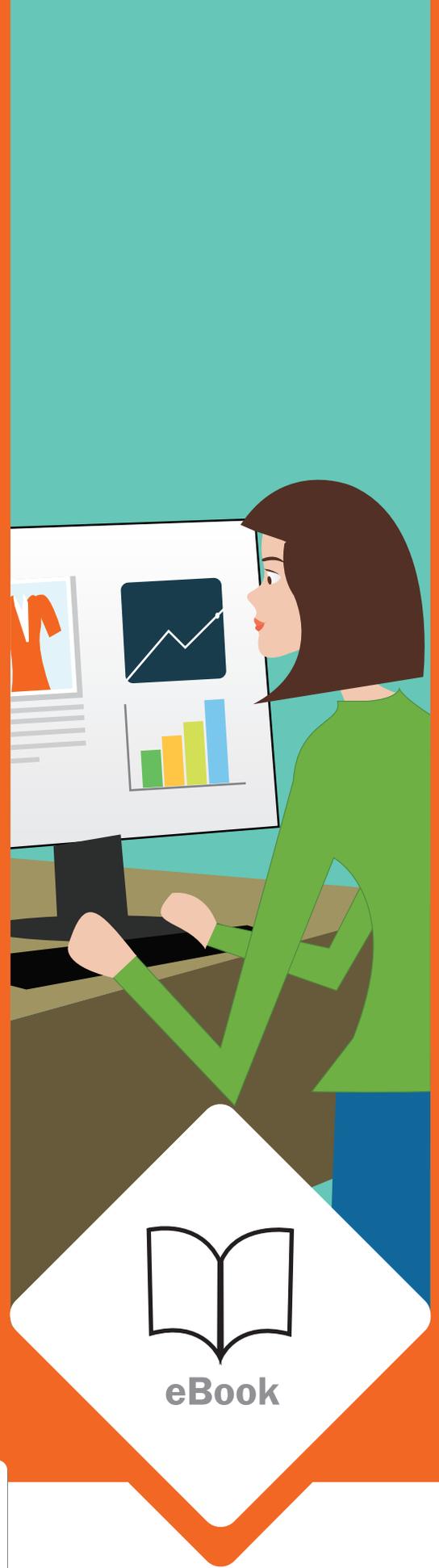




Online Businesses

5 Steps to Maximizing the Profitability of Your Online Business, One Customer at a Time

Part 1 in a series of 5 eBooks on intelligent customer engagement



Exchange
Solutions

Unlocking Profitability.
One Customer at a Time.™

The Key to Maximizing the Profitability of Your Online Business

Intelligent customer engagement is an innovative technology-based marketing approach that helps subscription-based, ecommerce and ad-based companies drive higher acquisition, retention and profitability from their customers. Regardless of how valuable any one customer is to your company today, they have "behavior gaps" which, if closed, can increase the profitability of your business.

Exchange Solutions' intelligent customer engagement programs identify and value key customer behavior gaps, then lever targeted incentives to close those gaps. Intelligent Rules ensure that this is done in an economically rational way to drive profitability and positive ROI. Customers are offered choices of incentives to create true one-to-one engagement.

The Need for Intelligent Customer Engagement

Companies that operate their businesses online — whether as their primary source of revenue or as a complementary channel — often do not attain a satisfactory return on their investment. They are plagued with low return on marketing spend, low conversion rates, low customer engagement and renewal rates, despite significant investments in marketing spend and other resources to engage their customers.

These companies have a wealth of data at their fingertips — customers' visits to their websites, customers' flow through websites and their behavior while there, frequency of visits, purchase history, cart abandonment history, social media activity, and more. This places online businesses in a prime position to leverage data — structured and unstructured — to maximize their customers' engagement and profitability. Digging deeply into this repository of data enables online businesses to better understand and leverage "value exchange" to drive more profitable behaviors from their customers.

What is Value Exchange?

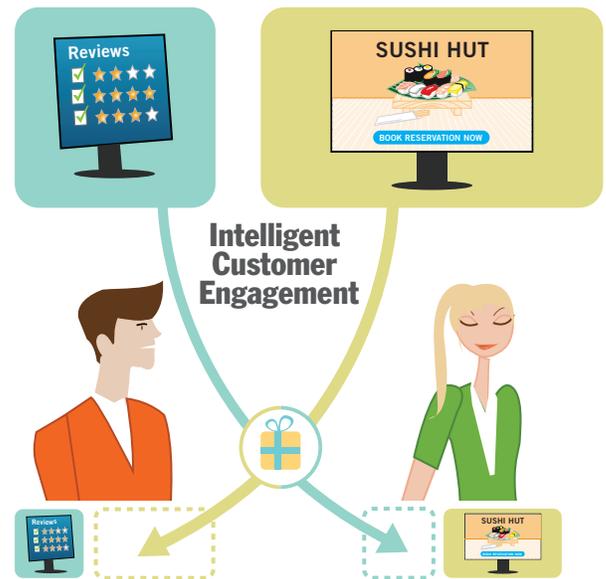
Value exchange is a way to describe an interaction between a company and its customers. When a company wants a customer to perform a behavior that has value to the company (e.g. write a review of a product, invite a friend, check-in to a retail location, buy a product or service), they can offer an incentive that has value to that customer, in exchange for performing that behavior. This is a value exchange.

When you break your customer relationships down to the atomic level of individual behaviors, you will find there are additional behaviors that almost all customers — even your most loyal — can undertake that will create value for your company. It just may not be the same set of actions. So why incent all your customers for undertaking the same set of behaviors? Intelligent customer engagement facilitates true one-to-one customer engagement, effectively motivating each customer to undertake those behaviors that will truly create measurable value for your organization.

For example, if you're a restaurant review site looking to increase revenues, you might want to incent two types of customer behaviors:

booking reservations through the site and writing consumer-generated restaurant reviews to help entice new customers. If customer A already books reservations through the site but does not write reviews, then intelligent customer engagement would suggest incenting this customer for writing reviews but not for booking reservations. Conversely, if customer B regularly writes reviews but does not book reservations, then intelligent customer engagement would suggest incenting this customer for booking reservations but not for writing reviews. By taking this "one-to-one" approach, you would be rewarding both customers for incremental behaviors – for their "behavior gaps" – and only paying for activities that create positive ROI for your company.

Desired Behavior



5

Steps to Increase Engagement & ROI



This eBook is going to walk you through 5 practical steps to employing the concepts of intelligent customer engagement in order to increase the engagement from your customers, drive them to undertake more profitable behaviors and thereby maximize the profitability of your online business or community.

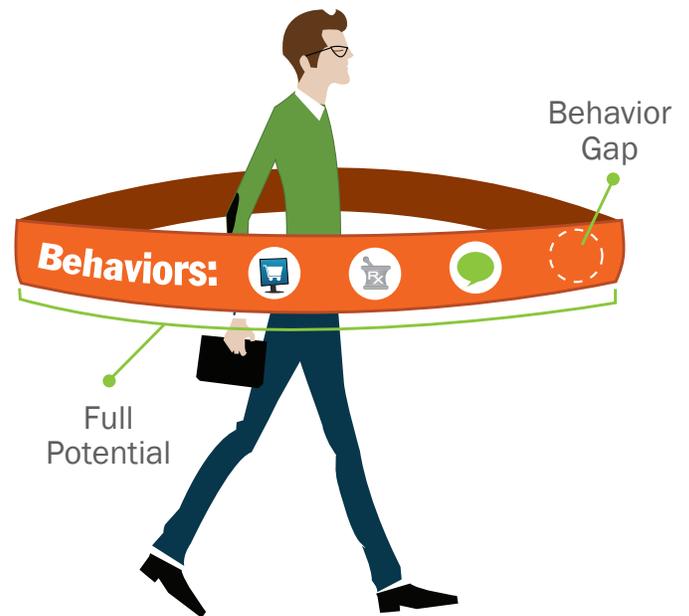
5 Practical Steps to Increase Your Customer Engagement (and ROI)

Creating one-to-one engagement for any customer base requires some careful thinking, analysis and design, before any best practices can be implemented into business processes and technology.

Here are five practical steps to help get you there:

1. Recognize which customer behaviors are valuable to your company

The first step in creating an intelligent customer engagement program is to understand the model of the customer's "full potential" and their "behavior gaps" across a range of behavior categories that matter to you. Some behaviors may drive increases in revenue, such as making more online purchases, upgrading to higher priced products or services, or renewing or upgrading memberships. Other behaviors may drive a lower cost-to-serve, such as redirecting customers to use a different channel, changing their method of payment or encouraging them to use different servicing options. Other behaviors may drive market capitalization, such as writing reviews, inviting friends or getting customers to refer your organization's products or services. The question you should ask is: What does "full potential" look like across these different dimensions of a customer's behavior?



2. Define the value of those behaviors

The second step is to understand what value each of these behaviors would represent to your company if you could successfully motivate each one of them. This typically requires behavior valuation models that can capture the continuous nature and complexity inherent in many types of consumer behaviors. For example, a retail bank would value a \$10,000 savings account more than a \$1,000 savings account, or a \$200,000 mortgage more than a \$100,000 mortgage, or a credit card with a high monthly spend and a revolving credit balance more than one that doesn't have any of these attributes. Similarly, an online review site would value reviews in markets and categories where the site has limited to no coverage more than reviews in markets where the site is already well established.

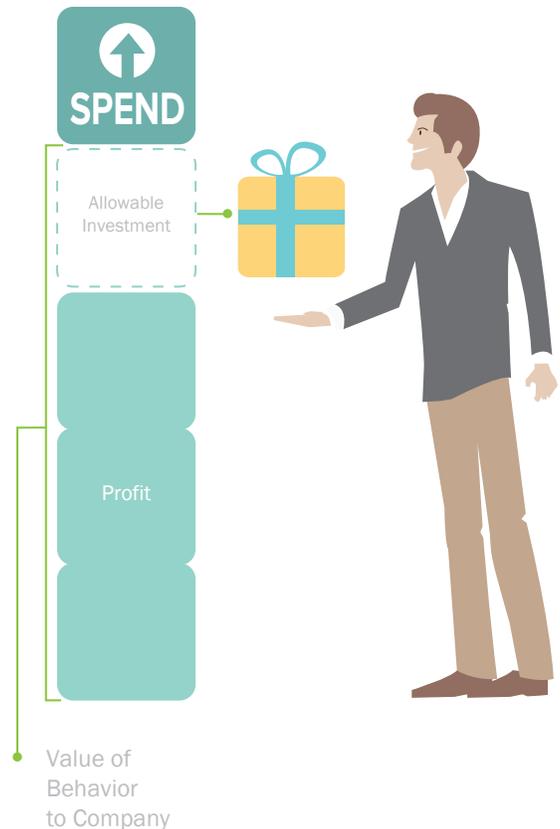


Understanding behaviors in this way helps to reveal what are the true drivers of value to the business and is key to versioning incentives down to the individual level. Every business may be unique in terms of the behaviors that are relevant, or the value drivers around those behaviors. But the need to understand them is universal. Without this understanding, a company cannot truly leverage the power of intelligent customer engagement.

3. Decide how much of that value you want to share with the customer

Once you can quantify how much each behavior is worth to your organization on an individual customer basis, the next step is to decide how much of that value you want to invest in that customer relationship in order to encourage the desired behavior.

Intelligent customer engagement programs are supported by Intelligent Rules. Intelligent Rules ensure that every value exchange is always economically rational and that the outcome of the value exchange will increase value for both the customer and the company. For example, let's say you determine that a certain behavior — an upgrade from a free to a paid membership — is worth \$100 to your organization. Investing 25% of that value with the customer would mean that you are willing to give the customer \$25 — or a targeted incentive worth \$25 — to drive that behavior. Depending on how that \$25 is expressed to the customer — as cash-back, points, reward items, etc. — the customer might perceive the value of the reward as being worth more (or less) than \$25. But the cost to you will never be more than \$25.



The great thing about using this approach is that the proportion of value that you decide to share with the customer is directly related to the ROI that they are able to drive for the organization. For example, a 25% investment implies a 300% ROI on the behavior from a program direct cost perspective. Providing a customer with an incentive that represents a portion of the value they could potentially create for you is a rock-solid way of controlling risk. It allows you to pay only for performance, after the behavior is complete.

4. Tailor the reward to the customer

Once you've determined how much you want to invest in order to drive a behavior with a particular customer, the next step is to ensure that the incentive is a targeted one, specific and relevant to that customer.

For example, a customer renewing their membership with you for another year may be worth \$200 to your organization. If you've assigned a 20% allowable investment to this behavior, that means you're willing to give the customer the equivalent of \$40 in incentives for performing that behavior. The key, however, is ensuring that the incentive provided to the customer is one that is most relevant to them.



For example, based on the customer's online activity or clickstream data, you may know that this particular customer is a movie fanatic, or that they love cosmetics or Italian food. Awarding a customer a "random" incentive, or awarding all customers the same incentive across the board does not harness the power of intelligent customer engagement, and will dramatically reduce the effectiveness of your customer engagement program.

However, providing the customer with a choice of tailored, highly valued benefits creates a true value exchange which can increase both customer engagement and loyalty.



5. Increase the perceived value of the incentive

While tailoring incentives to individual customers is important, augmenting the value of those incentives in customers' eyes is another important element of intelligent customer engagement.

One way to achieve this could be through merchandising and sourcing. In the above example, for the consumer who is a movie fanatic or loves cosmetics or Italian food, sourcing either of these incentives — movie tickets, coupons for cosmetics or restaurant certificates — for 80 cents on the dollar, allows you to inflate the perceived value of the amount you are willing to invest in that customer's behavior. This in effect turns your \$40 investment into \$50 of perceived (customer) value. Using your sourcing buying power to offer "levered rewards" is a great strategy for creating value for customers.

Unlocking the Power of Value Exchange

In the end, an intelligent customer engagement program succeeds when it combines two types of customer-level insights:

1. An in-depth understanding of the individual customer behaviors that create the most value for your organization, and
2. Using past and real-time customer data, to provide each customer with a choice of targeted incentives that they are likely to find uniquely valuable.

In this way, you create value for both parties.

Next Steps

The five steps described above will provide you with the basis to begin mapping out what an intelligent customer engagement program might look like for your organization. The next part of the puzzle is to consider the execution capability — "the how".

In some cases, turning the blueprint into a working program may mean upgrading your existing program with intelligent customer engagement capabilities. In other cases, it may mean building an entirely new program from scratch.

Our next ebook in this series “Accessing (and Leveraging) the Data You’ll Need to Maximize the ROI from Your Online Customers – 4 Practical Steps” gives you insight into how you can tap into your data to uncover your customers' profitability potential, and move closer to maximizing your profitability, one customer at a time.

About Exchange Solutions

Exchange Solutions designs, builds, and operates intelligent customer engagement programs that improve customer acquisition, retention and profitability by identifying and closing high-value “behavior gaps”. Intelligent Rules target each customer with a choice of economically rational incentives to drive that incremental behavior change.

Exchange Solutions’ cloud-based platform permits rapid implementation in all channels, customized to each client's needs. Our proprietary approach and in-market experience deliver quicker results, better ROI, and deeper customer engagement than traditional engagement or loyalty programs.

From their offices in Boston and Toronto, Exchange Solutions has been helping leading retailers, financial institutions and online businesses create sustainable and profitable communities of engaged customers for 18 years.

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