

# Pipeline

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## Beyond OSS: Unlock New Profits with Lifetime Value Optimization

by Jeff Gordon

If service providers were to reveal their innermost thoughts on today's OSS systems, the response might sound like the refrain of that old cabaret tune – "Is That All There Is?"

OSS has made major strides in automating the complex processes of delivering triple/quad play services quickly, accurately and cost-effectively. But operators now expect automation to do more than just bring customers on-board. They want innovative new ways to *keep* customers, and as importantly, to keep customers buying new services over an extended period. A new concept called *lifetime value optimization* is meeting that goal, empowering operators to deliver a superior service experience that drives customer loyalty and long-term profitability.

Lifetime value optimization is an automated approach to the challenges of customer retention and profit maximization. It's based on a simple premise: In the communications industry, 30 percent of customers drive 70 percent of profits. Thus it makes sense to focus automation on care, retention and selling activities that target high-value customers.

Lifetime value optimization works by integrating with the carrier's own OSS/BSS and CRM systems to create detailed profiles of each customer. Based on this profile, a centralized policy management engine instantly scans product catalogs and automates the appropriate treatment – all in "real time," matching the service level expectations of today's fast-paced triple and quad play environments. Massively scalable, lifetime value optimization can proactively enforce care policies for millions of customers and transactions, across any customer channel.

Another benefit: By helping customer service representatives (CSRs) do their jobs more quickly and effectively, this new approach enhances agent satisfaction and performance, reducing attrition.

What this "rapid response" solution means for operators: The Delta Force of customer care has landed. Operators have the power to instantly deploy tailored care strategies, head off service issues, and unlock new revenue opportunities with valued customers.

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Results to date are impressive. Key players in the wireline, wireless and cable sectors are deploying lifetime value optimization solutions to provide a superior service experience that increases customer loyalty – and spending.

### Optimizing the Customer Experience

The momentum of lifetime value optimization reflects operators' needs to respond to rapidly changing market conditions. Growth markets of 1990s, such as wireless, are now mature and reaching saturation. As markets peak, carriers rightly worry about churn, and need to increase their focus on caring for existing customers.

The key is to treat each customer interaction, across every touch point and channel, as a unique opportunity to deliver the superior service experience. Automation makes it possible to do this millions of times over, tailoring each response to the customer, the event and the context. The upshot: Lifetime value optimization converts every customer interaction into an opportunity to improve satisfaction, increase loyalty, cross-sell and up-sell, and cut operating costs. Examples abound:

- A quad play provider can make a special offer on a boxing PPV show to a customer with a history of ordering high-ticket sporting events. If the customer's spouse recently viewed "Sense and Sensibility," the provider might alert the couple to a scheduled PPV showing of "Pride and Prejudice."
- A mobile operator can quickly detect that an important customer has gone several days without successfully generating usage on a new high-end phone. Instead of waiting for the customer to call, the system alerts the customer via SMS or email, asks if they are having difficulty, and provides a hot-link to online troubleshooting. Once the customer begins generating usage, the system might send an SMS up-sell offer.
- When a pre-paid mobile customer calls in for technical assistance, the system sees that the customer hasn't logged on to the website's trouble-shooting section. Instead of automatically connecting the customer to an agent, the system sends a strongly encouraged recommendation to try the website's trouble shooting. The customer is also given the option of paying to get service from an agent immediately. Net-net, the pre-paid customer gets treated well, in a cost-effective manner that prevents further erosion of the lifetime value.

### Identifying and Leveraging Value Drivers

The ability to deliver superior service experiences, as in the above scenarios, begins with making use of the operator's own customer data. But out of the mountains of data available in OSS/BSS and CRM systems, which is the most important? McKinsey & Company's Customer Lifecycle Management (CLM) process, a pioneering initiative, set the stage for data selection and management methodologies now used in lifetime value optimization.

Working with Tier 1 operators, McKinsey standardized data collection by focusing on

19 customer data areas. Data in hand, they applied special algorithms to calculate the value of each customer, then examined key process areas to determine the effectiveness of existing business systems.

This analysis revealed business process “value drivers” that directly linked financial performance to the customer. In one instance, manual policy improvements in a Tier 1 operator’s value drivers increased EBITDA by 20 percent.

### How Lifetime Value Optimization Works

Lifetime value optimization today combines McKinsey’s CLM methodology with advanced automation to produce a rules-based, standardized set of care policies that delivers consistent results. In any customer care scenario, the same 5-step process is repeated.

- 1) Event Detection: The system sees an event and sends it to the policy engine.
- 2) Event Analysis: The policy engine evaluates the event in context, applying factors ranging from pre-calculated value to demographics, age, purchase habits, and risk of churn.
- 3) Policy Selection: The engine recommends actions based on relevant policies.
- 4) Prioritization: If multiple actions are possible, the system lists the most optimal.
- 5) Policy Enforcement: The appropriate value-based care is communicated to the right channel, and action is taken.

Time elapsed: real-time. In addition to speed, lifetime value optimization solutions offer another advantage: the ability to “think,” adjusting policies based on customer feedback and results. For example, if an action consistently yields positive results it moves to the head of the list. Systems that learn, continuously improve.

### Picking the Right Solution

Operators can choose from among a number of solutions in the market today. The following criteria can help guide the selection:

- Integration with Existing Systems. Operators have made major investments in OSS/BSS and CRM systems, which together comprise a vital data source for a holistic view of the customer. A lifetime value optimization solution must link with each – for customer data, product data and real-time events, and to carry out commands from the policy engine.
- Automation. Point solutions were fine for their day, but are too costly to implement in a market environment characterized by rapid quad play service launches – and equally fast service retirements. If the solution isn’t automated, it isn’t lifetime value optimization.
- Centralization. Centralized/unified business policies are a must for ensuring consistent treatment of customers across all channels.
- Personalization. The solution must be able to personalize the interaction experience for each customer, based on knowledge of their behaviors and preferences, and in context with a specific interaction.
- Real-Time. Fast response time is essential, whether to reduce the impact of

a negative event, or to make the most of a positive one. Care, billing, and service events occur in real time and must be evaluated accordingly.

- Scalability. Service bottlenecks are unacceptable. The system must ramp to accommodate millions of customers and transactions.
- Makes Agents More Effective – and Satisfied. Agent satisfaction and lower churn result as technology solutions help CSRs do their jobs faster and with greater confidence and support. Lifetime value optimization eases agent decision-making, ensuring universal, consistent application of care policies. The right solution improves both sides of the care equation: driving revenue by boosting customer satisfaction and loyalty, and delivering savings by enhancing agent satisfaction, loyalty and retention, and productivity.

### Know – and Care for – Thy Customers

A recent *Business Week* article (“Telecom: Back from the Dead,” June 25, 2007) points to a major revival now taking place in the industry. Driven by Internet video, mobile data and social networking applications, this renaissance is fueling a new bandwidth boom.

The customers behind this explosive growth in demand for broadband are the young, affluent Internet generation who expect care to be on a par with the services they use – fast, personalized, and with the intelligence to know and respond to their interests. They will not sit on hold while a service provider fiddles with an order or request. A moment’s delay and the customer is “outta there” and off to a competitor.

With lifetime value optimization, service providers can keep this “next gen” customer – the primary market for triple- and quad play services – on the hook and buying more, for the long term.

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