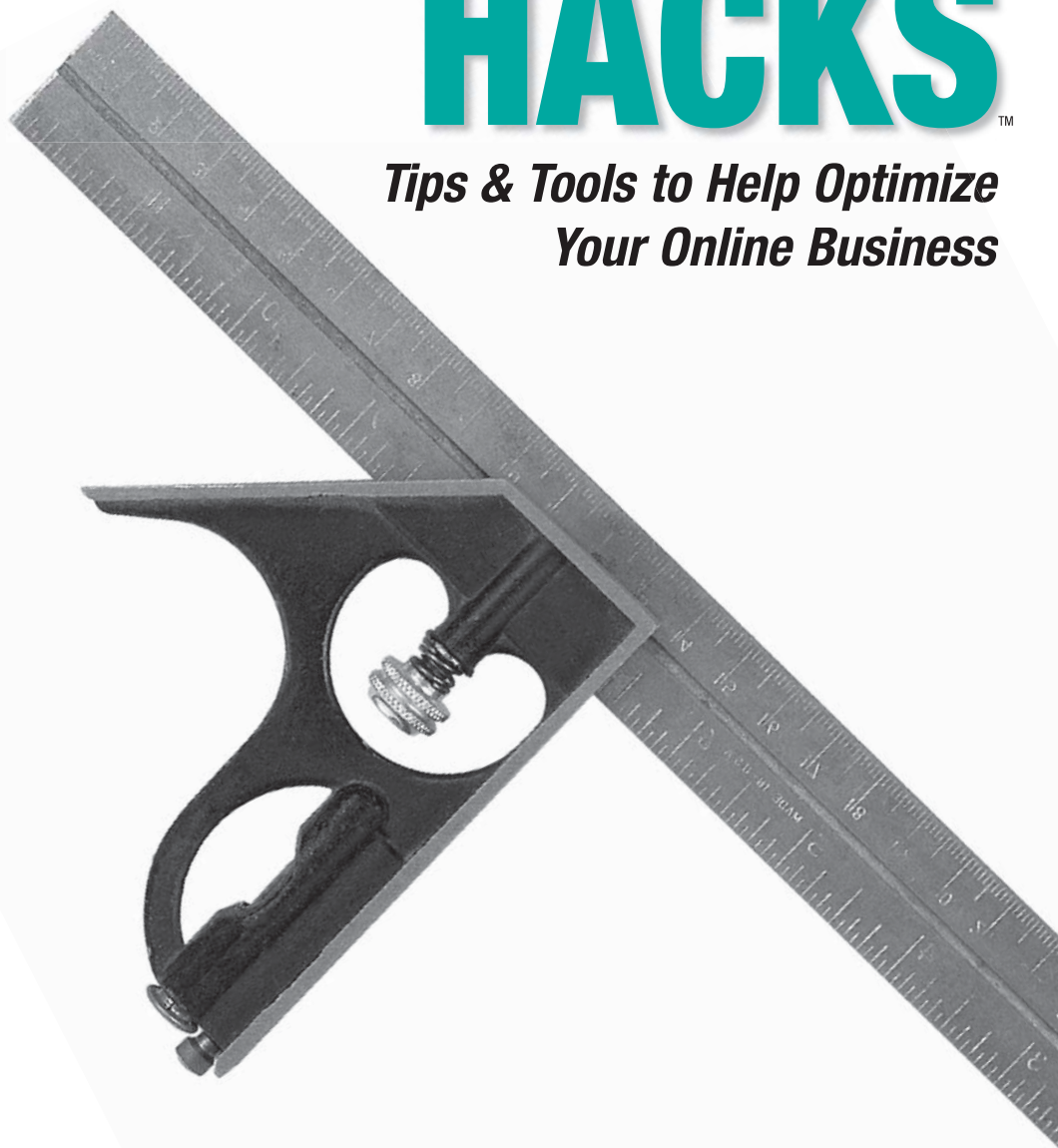


# WEB SITE MEASUREMENT HACKS™

*Tips & Tools to Help Optimize  
Your Online Business*



O'REILLY®

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HACK  
#86

## Manage Lifetime Value Using the Visitor Segment Value Matrix

Combine the measurements of current value and potential value to refine your business's customer marketing and retention strategy.

What happens if you look at both the current *and* potential value of visitor or customer segments at the same time? You get the four groups shown in Figure 6-5.

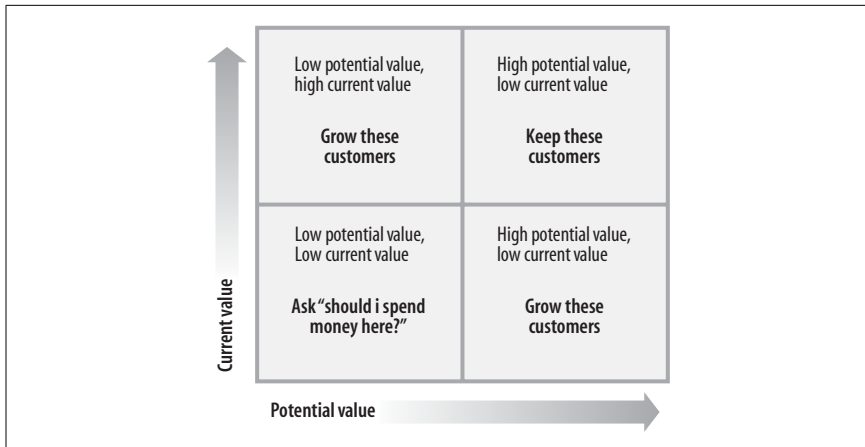


Figure 6-5. Visitor segment value matrix (courtesy of Jim Novo)

How do you create your own visitor segment value matrix? Easy:

1. Take your customer segments and rank them by potential value (recency or latency [Hack #85]), and then split them into two groups: above average and below average.
2. Take all of these potential value groups and rank them by current value (frequency or lifetime value [Hack #84]), then split them into two groups: above average and below average.

You will end up with the four classifications above, each containing unique visitor segments.

3. Do an analysis like this every month so you can compare the results with your financial statements.

Consider how powerful it would be to know the ranking of visitor segments based on this model. The segments in the upper-right box are the rocket fuel of the company. They are the 10 percent of the segments that create 90 percent of the profits—now, and in the future. This is where you should focus customer retention efforts [Hack #52]. The segments in the lower-left box are a

drag on the company; they are the result of poorly targeted customer acquisition programs, for example. You should stop spending incremental marketing or service money on these segments—don't "fire" them, but don't spend a bunch of money on them either.

The upper-left and lower-right boxes in the matrix represent the best targets for customer value enhancement programs. This is where the majority of money is made in loyalty programs, for example. The bulk of the marketing budget should be spent in trying to move these segments toward the upper-right box.

If you have created the matrix above, you have hacked the equation of lifetime value (current value plus potential value equals lifetime value). Why spend all your time trying to figure out the *absolute* lifetime value of a customer when a *relative* value is really all you need? All you need to know to allocate spending is that this segment or customer is more valuable, less valuable, or its value is changing. And then you allocate resources based on the *relative value* of the customers or segments. That's not to say you shouldn't measure lifetime value, because it's very important. But if you are a new business or don't have patience to measure lifetime value, relative value as determined by the visitor value segment matrix is a useful substitute.

## Use the Matrix to Drive Content Decisions

Now, think about the fact that certain media, offers, copy, content, and products are *responsible* for customers being in each of the four groups above. Those in the top group can easily generate many, many times the profit of those in the bottom group for a company. If you are choosing which media, offers, copy, content, and products to offer to visitors, you are choosing how many visitors end up in each of the four groups above. As you can see, the most profitable retention program you can probably execute *in the short-term* is to engage in some fine-tuning on your acquisition efforts.

Figure 6-6, a report using frequency and latency, will help provide an example of how to peg visitors segmented by campaign to the matrix.

Item 7, the "Free Regular Shipping on Electronics Email" campaign is delivering visitors who come back more often—high average frequency—and have the lowest likelihood of defection—low average latency. This campaign is generating a "rocket fuel" visitor segment when compared with all the other campaigns.

Very often, when designing retention programs, people worry about the dangers of allocating marketing budgets like this—what if a segment in the lower-left box suddenly has the potential to become an upper-right box seg-

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| Campaign Description                            | Avg Frequency | Avg Latency |
|---|---------------|-------------|
| 1. Holiday Savings Center                       | 2.1           | 3.1         |
| 2. 50% off HP Digital Printer Email             | 2.0           | 1.9         |
| 3. Free 2 Day CD Players Banner                 | 2.0           | 1.9         |
| 4. Ship 4 DVDs for one Banner                   | 2.0           | 1.6         |
| 5. Best Music of 2001 Banner                    | 2.0           | 2.0         |
| 6. Free Shipping on personal audio              | 2.0           | 3.1         |
| 7. Free Regular Shipping on Electronics Email   | 2.0           | 1.5         |
| 8. Free Shipping on Cordless Phones             | 2.0           | 2.9         |
| 9. 20% off Sony D8 Camcorders Email             | 1.9           | 2.0         |
| 10. DVD Box Sets Banner                         | 1.9           | 2.1         |
| 11. Free 2 Day DVD Players Banner               | 1.9           | 1.8         |
| 12. 10% off Digital Camcorders Banner           | 1.9           | 1.5         |
| 13. Pre-Order DVDs banner                       | 1.9           | 1.9         |
| 14. Free Regular Shipping on electronics Banner | 1.9           | 1.8         |
| 15. \$100 Rebate on KB Gear JAMCAM2.0 Email     | 1.9           | 2.1         |
| 16. Free Shipping on DVDs Banner                | 1.9           | 1.4         |
| 17. Hands-Free Accessories Email                | 1.9           | 1.5         |
| 18. Hands-Free Accessories Banner               | 1.9           | 1.8         |
| 19. Free Shipping Email                         | 1.9           | 1.6         |
| 20. \$200 Gift Check Banner                     | 1.9           | 1.7         |
| <b>Total</b>                                    | -             | -           |

Items 1-20 of 62

Figure 6-6. Use of average frequency and latency to understand how campaigns segment into the visitor value matrix

ment, and you have been ignoring them? Well, in the first place, it doesn't happen very often, and the amount of money you will waste trying to make it happen will far exceed any benefit you might get. Retention marketing techniques are all about allocating precious budgets to the highest return on investment (ROI) activities, and the ROI is more likely to be lowest in the lower-left box. So as long as you are comfortable with not driving the highest profitability possible, by all means, spend money marketing to them.

Besides, this kind of model does not operate in a vacuum; there are built-in checks and balances. Because this is a *ranking model*, as the “status” of a segment changes, so does its place in the matrix. If a segment in the lower-left box were to show up in the next analysis in the lower-right box, you could still do something about it: this segment has newly defined potential and deserves some kind of marketing program to encourage that potential. Similarly, a segment in the “rocket fuel” box that shows up in the next analysis in the upper-left box is a best customer segment in the process of defecting and needs attention right away. Something has happened to this segment—did you change the web site? Did you change the terms of service? Whatever it is, action needs to be taken to retain this best customer segment.

You can waste a ton of money trying to change the value of a customer. It is far more profitable to recognize when change is taking place and either help it accelerate, as in the case of a segment increasing in value, or slow it down, as in the case of a segment defecting or decreasing in value. These are the situations where the ROI is the highest.

## Hacking the Hack

To hack the hack, don't just *report* on the customer value matrix, create a field in each customer record for a code representing the customer value segment to which the customer belongs. Why? Once again, this creates the ability to automate marketing campaigns or personalization of a web site based on current and potential visitor value. Reps in a call center could also use the code, giving them a heads-up on the value of the customer to the company. As part of a customer retention plan, this code could determine how a rep responds to a customer request or problem.

The bottom line on visitor and customer retention is this: identifying the *current value* of visitor and customer segments is moving from “best practice” to “no-brainer” status. The next leg up over your competition will be to use *potential value* metrics to make more profitable customer investment decisions for your company

—Jim Novo and Eric T. Peterson