



Canadian Tire targets customer value to drive sustainable growth

success story: customer value



Client	Canadian Tire Financial Services, the financial services arm of Canadian Tire Corporation, Ltd., which operates more than 1,170 general merchandise and apparel retail stores and gas stations
Challenge	Develop an actionable metric for measuring customer value
Solution	Enterprise-level segmentation enabled through FICO™ Segmentation Models
Results	Developed customer segments that are strategically distinct and highly differentiated by value. Deploying strategies that refocus efforts on most valuable cardholders



“When we started to overlay the value of the customer, it made a significant difference in terms of how we’re going to market to them, the channels we’re going to use and the overall relationship we’re going to develop with that customer.”

— Mark Merritt,
Canadian Tire
Financial Services

Pareto’s principle suggests that 80% of your profits are likely to come from 20% of your customers. For Canadian Tire Financial Services, that small group of valuable customers accounted for a full 100% of profits.

The challenge was identifying an understanding who these customers were—and which set of customers were having an equally negative impact—so that it could build its strategies around customer value and relevance to guide reinvestment into its customer base.

To develop that level of insight, Canadian Tire brought in FICO to discuss enterprise level segmentation, which brings analytics to the strategic level by determining where an organization’s value is concentrated. It leverages a wide range of data, analytics and industry expertise to develop customer segments that are holistic and actionable from a strategic perspective.

“We wanted a metric for how we could measure the value of our customers on a go-forward basis,” says Mark Merritt, Chief Credit Risk Officer and Associate Vice President of Marketing Analytics, Canadian Tire Financial Services. “Not just profit, but value.”

The next step was deciding exactly what they meant by “value.” When the question was posed to the executive team, everyone had a different answer. However, they came to the consensus

that a customer’s value would be determined by whether the business made money with that customer, if it had an opportunity to grow with them, if it could sell them a new product or service if it created one, and how it managed them from a customer service perspective.

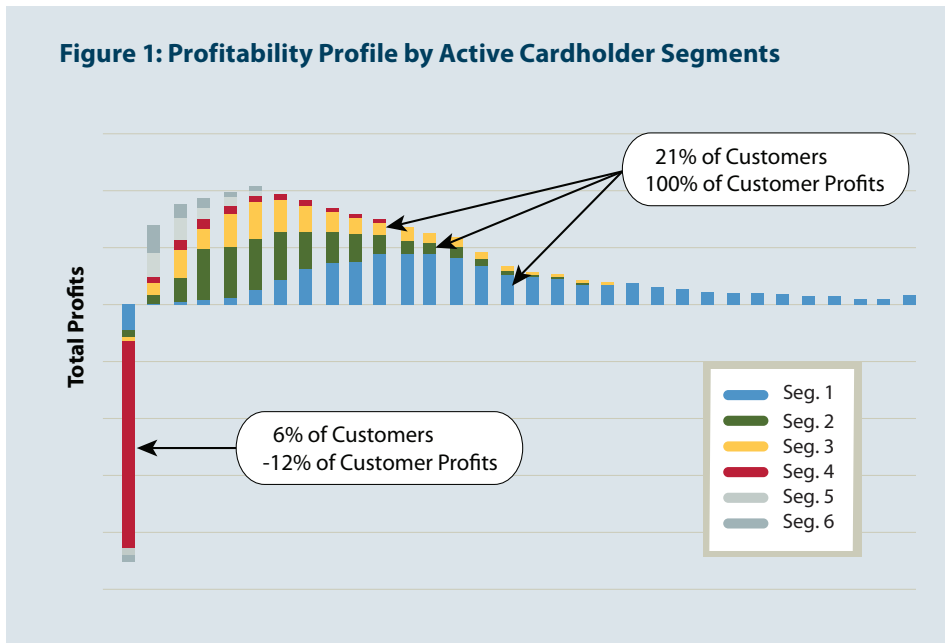
» Haven’t we already done segmentation?

“When we presented our plan to the executive team, they responded with, ‘Haven’t we done segmentation already?’” says Merritt. “The difference is that this time we’re not just doing geodemographic segmentation or business intelligence. We’re looking at the overall relationship as it exists right now, and at the potential with that customer in the future. We’re looking at every piece of data we have—call center data, bureau data, transaction data, customer performance data, application data.”

Using all this data, FICO developed holistic customer segments that were highly differentiated by value. Unlike previous segmentation initiatives, this information would be actionable, and optimized for business relevance.

The segmentation focused on active cardholders, and identified six segments that were strategically distinct. It also showed that 21% of customers represented 100% of Canadian Tire Financial Services’ profit, while only 6% of customers were costing the company 12% of profits.

Figure 1: Profitability Profile by Active Cardholder Segments



Even among active customers, 21% represented 100% of Canadian Tire Financial Services' profit, while only 6% of customers were responsible for costing 12% of profits.

A cross-functional team from FICO and Canadian Tire was asked to validate the numbers, come up with three to five key tactics to drive profitable relationships and customer loyalty, and to be able to execute and measure these tactics within a year.

They tested to find out whether these specific segments would have responded differently to one of their past marketing campaigns. Focusing on a previous balance transfer program, they found that three of the six segments responded higher. One segment in particular had more than double the average response rate, and the amount they transferred was 59% above average. These accounts were about 70% utilized, and 80% had a credit score at prime or above.

"Only 10% of this segment had received the balance transfer offers," says Merritt. "The message was very clear: We were giving the offers to the wrong group of customers. We also needed to give this segment higher limits."

» Making enterprise-level decisions

The cross-functional team developed strategies for each segment to address opportunities across marketing, operations and product innovations. One strategy includes scoring their inactive cardholders, who represent 54% of their portfolio, to see how many fall into the most profitable segment. Once they identify these customers, they'll intensify their efforts to activate that relationship, because they now know that these individuals have the characteristics of the customers that generate the most value.

According to Merritt: "When we started to overlay the value of the customer, it made a significant difference in terms of how we're going to market to them, the channels we're going to use and the overall relationship we're going to develop with that customer."

Other tactics currently being evaluated include:

- Helping account acquisition specialists identify the type of customers they want, rather than encouraging them simply to generate as many applications as possible.
- Changing the compensation structure in their customer service center to reward reps significantly more for retaining customers in the profitable segments.
- Giving high-value customers better treatment by putting their calls in a special queue and routing them to the best reps.
- Giving low-value customers lower-priority treatment, such as putting their calls through IVR rather than a live rep, but not actively trying to eliminate them.
- Directing their collections team toward focusing their time and effort on the right customers.

In a separate engagement, Canadian Tire is developing a credit limit increase program using FICO™ Custom Decision Optimization.

It compared the segmentation with results from the optimization and found that 86% of the customers it *wanted* to give credit limit increases, based on the segmentation, were the same as the customers it *should* be giving increases, according to FICO Custom Decision Optimization.

"We were very happy with these results," says Merritt, "so that's a campaign that will be implemented immediately."



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