

Lorenz analysis or another way to segment customers

When and how to fire customers or an introduction to Cost Based Pricing

Some customers are most costly to serve than others. And companies prefer low cost customers to high cost ones like Sprint the US service provider deciding in 2007 to **hangs up on high-maintenance customers...**

Or like Fedex in 1990 who fires high cost to serve customers with higher prices while **proposing discounts to low cost and more profitable ones.**

With a market evolving to a service versus goods-dominant logic, the impact of cost to serve is now really significant on profit margins.

Principe

To check how few customers might destroy profits due to their high cost, CEO usually draws the cumulative customer profit over the cumulative percentage of customers in descending order of profitability or CLTV.

The same Lorenz curve can be used to explain the distribution of C2S for the Customer Service. **Along the x-axis**, the customers in descending order of cost to serve due to their need of support : the most requesting customers at left and those that never contact the Service at right.

Along the y-axis, the cumulative % of budget spent to serve customers.

Notice de lecture

The more the curve is near the line of equality ($y=x$), the more the need of support between customers is uniform. But that's never the case !

The more unequal the usage are, the further the Lorenz curve deviates away from the line of equality and the higher the Gini coefficient is : proof of excessive need of support at left versus no service at all at right.

First insights and actions plan

1. 10% of the customers database consume 40% of the budget.

The primary drivers are age, living alone in a small city and contacting the Service for any specific reason. Note that CSat for this segment is well below the average.

« Reduce costs by encouraging this persona to use the next time you call the web for simple operations: quicker for you, costless for us. »

2. The next [10-40%] segment mobilizes the 60% remaining budget with as biggest drivers the reason of contact and product purchased.

« Do not fill out form by phone with the customer but send an email with a link to the pre-filled form. »

3. 60% of the customers never contact the Customer Service but they also express a lower level of satisfaction. The customer service experience has a +12% impact on the global Customer Satisfaction.

« Encouraging self-service is key to reduce costs but without segmentation it might have a negative impact on CSat and CLTV. »

