

# Have You Scored Your Customers Today?

A business intelligence white paper  
on the development and benefit of a  
strategic customer value scoring system

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# Have You Scored Your Customers Today?

A primer on the development and benefit of a strategic customer value scoring system.

## Definition:

A Customer Value Score (CVS) is a measure for valuating the overall importance of a customer.

## I. Introduction

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**Understanding the Playing Field.** In the world of sports, ranking and rating systems — those methods used to differentiate the cream of the crop from the bottom of the heap — are commonplace. Here are just four examples:

1. College football uses a mixture of computerized rankings and coaches' polls to determine what teams will play for the national championship.
2. The NCAA basketball tournament selection committee uses the Rating Percentage Index (RPI) to help assemble the tournament field.
3. The Elias Sports Bureau compiles major league baseball player rankings to determine compensation for teams losing players to free agency.
4. Within the professional golf community, there has been much discussion about the methodology used for determining the world golf rankings. How much better is Tiger Woods compared to Phil Mickelson or Vijay Singh? It all depends on the criteria used.

What do these examples have to do with tracking customer activity? A parallel can be drawn between these types of sports rankings and the methods used for quantifying the value of a customer — or developing a Customer Value Score.

**Hit a Hole in One — by Identifying Top Customer Performers.** Let's use the world golf rankings as an illustration. Think about it: Your business conducts a "tournament" every day. Some customers are heavy spenders, and others don't make the cut. Some customers only shop during sale periods, while others make purchases throughout the year. Why not apply some of the same concepts and principles used to rank the best golfers in the world as a guide for valuating your best customers?

Take a look at the main concepts used in the world golf rankings (it isn't as complicated as you might think):

<b>Concept #1</b>	The world golf rankings are based on a rolling time period.
<b>Concept #2</b>	Points are allocated on the relative importance of a tournament.
<b>Concept #3</b>	The most recent tournament results are weighted more heavily than results from the past.
<b>Concept #4</b>	A golfer's rating is based on the average number of points accumulated over time.
<b>Concept #5</b>	Rankings are refreshed on a weekly basis.

When it comes time to rank the relative performance of your customers, some or all of these same concepts should be put to the test. Let's take a look at how this might be accomplished.

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**Six out of every 10 companies treat their best customers differently from their regular customers.** Best practices include designing messages to modify future customer behavior, computing actual and potential value of individual customers, segmenting based on these computations — and tracking customer progress along a value continuum.

## II. The First Steps

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**Getting Ready to Tee Off.** Before you can begin to calculate a Customer Value Score, the following preliminary steps are necessary to lay the groundwork for your ranking system.

### 1. Establish a time period for tracking purchases.

Most retailers have established a timeframe that relates to the definition of an active customer. In other words, a customer is considered to be active if he or she has made a purchase within a certain timeframe. This typically ranges anywhere between six months to two years depending on the business.

The time period used for ranking customers should correspond to the timeframe used to define an active customer. If your business uses the most recent 12-month period as the yardstick for measuring whether a customer is active, then it makes sense to use this same timeframe for the purpose of ranking customers.

### 2. Assign points based on transactional details.

Points act as the currency for valuating customer purchase behaviors. You could assign one point per dollar spent as a simple way to convert spending activity into points. You could vary the number of points assigned per dollar spent depending on the day of the week or time of year. During key promotional periods, you can double the number of points assigned to reflect the importance of attracting a customer to your store. The possibilities are endless.

### 3. Develop a weighting scheme.

The old adage “How much have you done for me lately?” certainly applies when it comes to establishing a ranking system. Recent purchases could be weighted more heavily than purchases made in the distant past. For example, you could double the number of points assigned to purchases made within the most recent quarter. The weight or adjustment factor could decrease in magnitude with every passing quarter.

**Par for the Course – Incorporating Customer Averages.** Now that you have those first decisions made about your customer ranking system, it's time to develop a scoring algorithm.

Most ranking systems incorporate some type of average score. It could be average points per week, month, quarter or some other standard time period. An average score provides a way to standardize the scores so that all customers can be compared to each other and then ranked from highest score to lowest score. The higher the score, the more valuable the customer is to your business.

It is also a good idea to save and track customer scores over time. Customers with declining scores may require immediate attention to prevent them from drifting away. Customers with scores that are trending upward could be rewarded for their loyal behavior.

**Keeping the Scoreboard Fresh – Update Often.** A ranking system is of little value if it isn't updated frequently. A good rule of thumb is to calculate the average score per customer on a weekly basis. This will result in a 52-week history that can be plotted to show scoring trends. At a minimum, scores should be refreshed monthly.

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### III. An Example

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**Putting It All Into Play.** As an example, we'll use a rolling 12-month period for accumulating purchase transactions. One point will be assigned for each dollar spent in the most recent 12 months. Weights have been assigned based on 13-week intervals. Any points accumulated within the most recent 13-week period will be doubled. Points will then decline in three, equal quarter-year intervals (1.50 after 13 weeks, 1.00 after 26 weeks, 0.50 after 39 weeks and no points assigned after 52 weeks).

Purchase Week	Weight
1 to 13	2.0
14 to 26	1.5
27 to 39	1.0
40 to 52	0.5

Assume that a customer has accumulated purchases in six out of the past 52 weeks. Using the above weighting factors, we can calculate a score for this customer as follows:

Purchase Week	Amount Spent	Rank Points	Weight	Adjusted Points
3	\$ 54.75	54.75	2.0	109.50
10	\$ 15.25	15.25	2.0	30.50
15	\$ 35.00	35.00	1.5	52.50
25	\$ 107.50	107.50	1.5	161.25
34	\$ 20.00	20.00	1.0	20.00
41	\$ 10.75	10.75	0.5	5.38

Total Weeks = 52    Total Points = 379.00    Average Points = 7.29

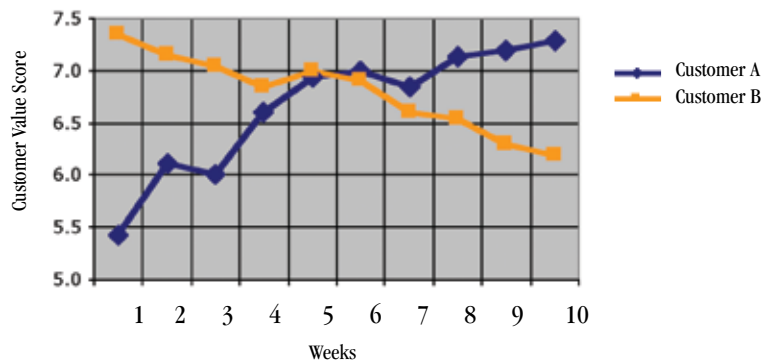
**We now have a snapshot of a customer's overall value represented as a Customer Value Score. This process is repeated for all customers which in turn allows ranking customers from the highest to the lowest scores.**

In reality, though, it might be better to think of the Customer Value Score as a *customer performance score*. Customer value measurement conjures up all sorts of complicated methodologies that incorporate lifetime value, margin contributions, marketing costs, and other economic and financial influencers. These are sometimes difficult to decipher on an individual customer basis. Our primary objective is to assign a customer rank on the basis of measurements that are more easily observed and captured.

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## IV. Spotting the Trends

**Watching the Leaderboard.** The next best step is to look at how a customer's score has changed over time. Let's track the customer performance score of two different customers over the most recent 10 weeks. It might look something like this:

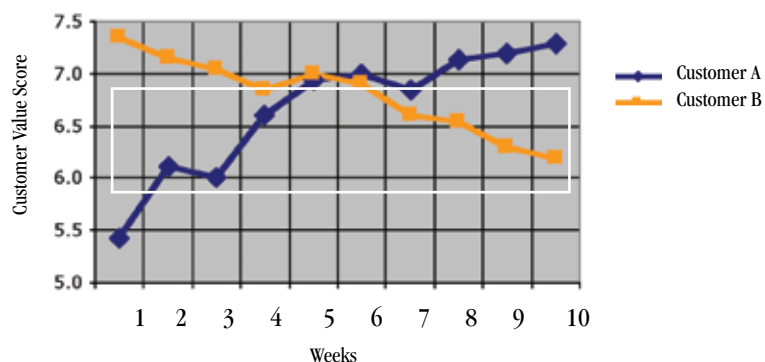


Obviously, the performance of these two customers is headed in opposite directions. The gap in scores for Customer A compared to Customer B has increased significantly over the most recent four weeks. The score for Customer B has gradually declined during the 10 weeks analyzed. At the same time, the score for Customer A has reached a high point.

Let's add an overlay to the chart that allows us to compare the performance of Customer A and Customer B with respect to the average customer performance score for all customers.

**The boxed area below represents a range of customer performance scores that we have determined to be within the upper and lower limits of an average customer.** Any score that exceeds the upper limit is an indication that the customer is performing above average. Any score that is below the lower limit indicates that a customer is performing below average.

Now we can see that Customer A has performed above average in each of the most recent three weeks. Customer B's score is still within the expected average but is close to dropping below the lower limit.



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The methodology for deriving a **Customer Value Score (CVS)** is driven by past transactional activity and other metrics that can be placed on a customer value continuum. The score could also include certain customer characteristics and demographics that are positively correlated with customer value.

## V. Subjective Considerations

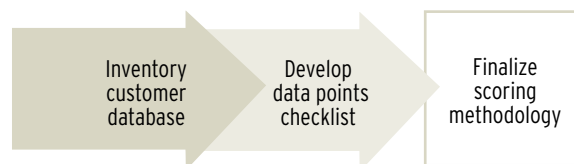
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**What Else Is in the Bag?** But maybe it isn't good enough to score customers on the basis of recency and total spend. Aren't there other factors that should be taken into consideration? How do I know what the factors are? How do I gain consensus within my organization when deciding what data attributes to include in the scoring algorithm?

To answer these questions, first take an inventory of data elements that are available from your customer database. This is the subjective part. Ask yourself, "What are the basic ingredients that I want to include for ranking my customers?" For starters, it makes sense to think of customer performance indicators in multiple dimensions. This could include the following:

- Proximity to store
- Range of purchase channels used
- Purchase regularity
- Purchase seasonality
- Depth and types of products purchased
- Receptivity to promotional offers

Then develop a checklist of customer data attributes that fall into each of these dimensions. Solicit feedback from key decision-makers within your organization who have a vested interest in the results of the scoring methodology. This will help bring focus to the final scoring methodology.



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### VI. Summary

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**The 19th Hole.** Let's return once more to our golfing example. Right now, Tiger Woods has what appears to be a nearly insurmountable lead in the world golf rankings. He's held the number one position for more than 450 weeks and counting, and his performance is head and shoulders above the rest of the field.

So the question remains: Who is your Tiger Woods, your top performing customer? And how do you keep score? Is there a system in place for you to identify customers with increasing or decreasing value?

Professional golf instructors like to preach about the importance of proper course management, the ability to navigate your way around a golf course to post the best score possible. By implementing a Customer Value Score methodology like we've discussed, you'll be executing the Customer Relationship Marketing (CRM) equivalent to proper course management — that is, proper customer management.

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### VII. About Customer Communications Group

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As a pioneer in the field of customer relationship management (CRM), CCG has decades of unparalleled experience in B2C, B2B and nonprofit, and in a variety of industries, including retail, restaurant, grocery and financial services. As a full-service agency, we offer integrated, end-to-end expertise including strategic consulting, database marketing services, CRM program development, customer research, data analysis, data management services, creative execution, production services and ROI measurement — all focused on developing strong, lasting relationships with customers.

CCG's progressive programs support the upsell, cross-sell, acquisition, activation and retention efforts of our Fortune 2000 clients.

For more information on our services and for additional, downloadable white papers, visit [customer.com](http://customer.com) or call **800.525.0313**.

To find out more about CCG and the results we can provide for your organization, contact:

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