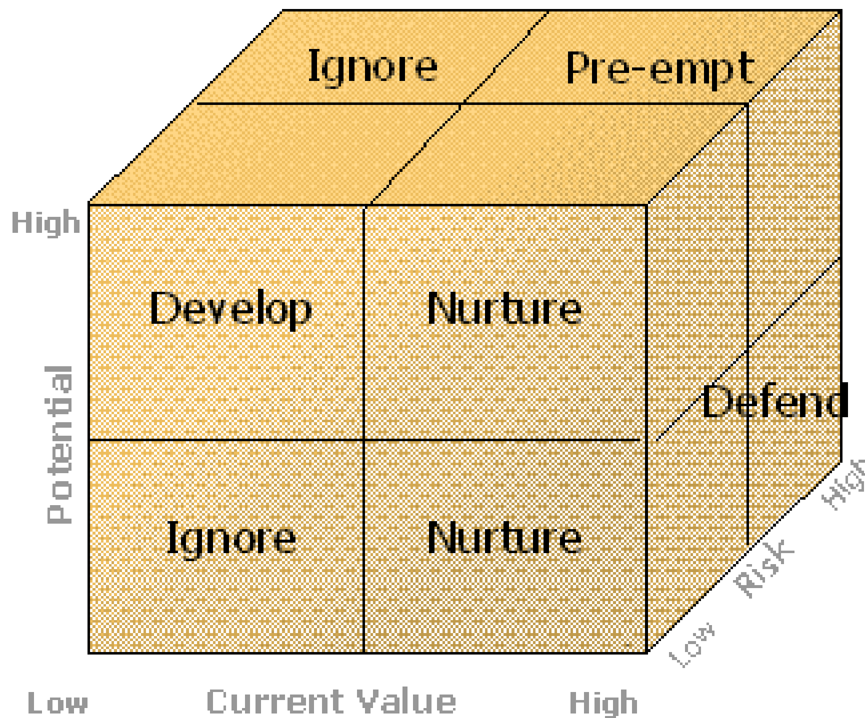
# Customer Velocity: Measuring the Rate of Change for Customer Profitability

Most marketing departments able to monitor individual customer behavior have, by now, implemented some sort of segmentation scheme that places customers into one of several segments based upon a combination of current value, potential value, and/or attrition risk. In its simplest form, it looks like the 2X2X2 strategy box below. In more computer-facilitated forms, it is often broken down into deciles or even finer increments.




Understanding which segment a particular customer is in can be helpful in deciding how much should be spent on communicating with them or offering behavior incentives in the near term. After all, we need to nurture and protect customers who are extremely valuable to us since they are so hard to find. The three-dimensional value/potential/risk helps us assess the need to spend on a given customer segment **now** given their potential for incremental lift or likelihood to defect without intervention. This view gives us necessary perspective on which of our most valuable customers may have extraordinary potential, significant risk of defection, or both.

Some marketers have improved on this method to add the element of segment mobility to the mix. In this view, you monitor which customers have moved from one segment to another each reporting period and act based upon the direction of movement (positive or negative) in addition to the absolute position at any point in time. Looked at in this perspective, we not only see which of our valuable customers are at risk, but whether they are trending towards more risk or less. We can then choose to prioritize our investments to those trending towards more risk.

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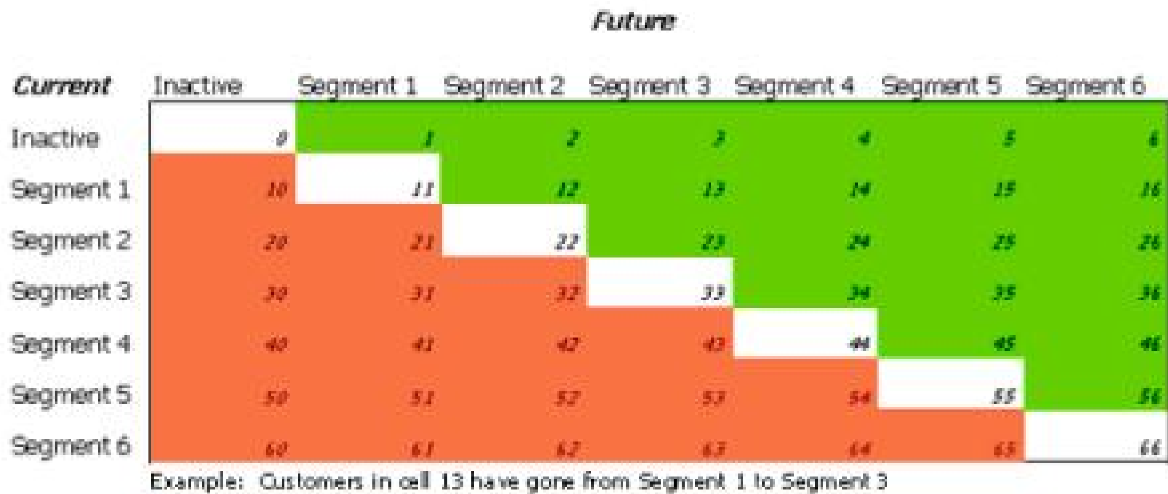
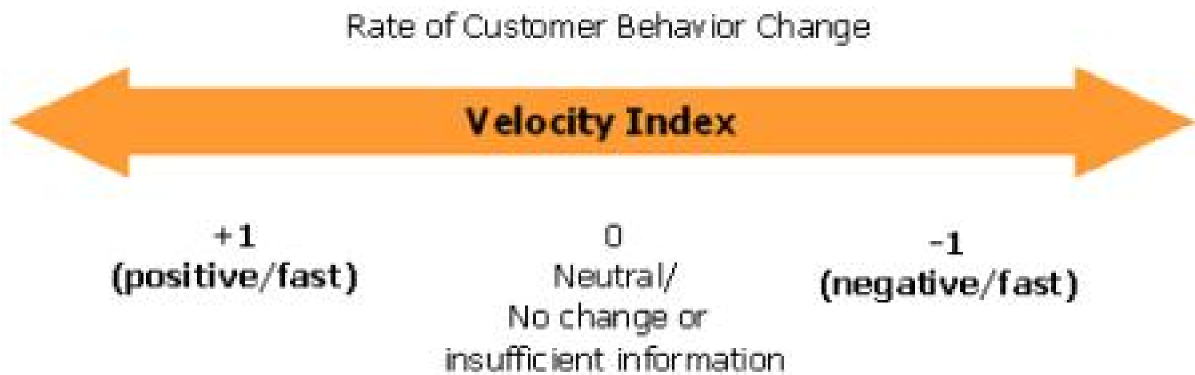


| | Future | | | | | | |
|---|---|---|---|---|---|---|---|
| **Current** | Inactive | Segment 1 | Segment 2 | Segment 3 | Segment 4 | Segment 5 | Segment 6 |
| Inactive | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Segment 1 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| Segment 2 | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| Segment 3 | 30 | 31 | 32 | 33 | 34 | 35 | 36 |
| Segment 4 | 40 | 41 | 42 | 43 | 44 | 45 | 46 |
| Segment 5 | 50 | 51 | 52 | 53 | 54 | 55 | 56 |
| Segment 6 | 60 | 61 | 62 | 63 | 64 | 65 | 66 |

Example: Customers in cell 13 have gone from Segment 1 to Segment 3

More recently, many marketers with quick repurchase cycles have begun incorporating an additional level of consideration into their resource allocation plan — the velocity of segment mobility. At this level, consumers are identified not just by their current standing and recent direction of movement, but by the speed with which they appear to be moving towards incrementally profitable or unprofitable behaviors. In such a view, we can distinguish between those trending towards risk slowly versus quickly. This is particularly important when repurchase cycles may be more frequent than your cycle of segmentation updates. This tends to be true within categories as diverse as credit cards, grocery stores, movie theatres, restaurants, and retail of all kinds, to name but a few. It is also true in many B2B categories like office supplies, publishing, and maintenance supplies.




For most, adding a velocity component is a function of scoring segment mobility using a predictive model that measures the probability of the customer moving from their present position to an adjacent position given where they were in the past. The higher the probability, the greater the velocity. And the greater the velocity, the clearer the implication for resource allocation. For example:

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| | Slow Velocity | Fast Velocity |
|---|---|---|
| Positive Direction | Improve Speed | Watch and Learn |
| Negative Direction | Inquire | Call NOW! |

If you're trying to allocate precious few marketing dollars to maximum effect, you might find velocity to be a way to speed up your ROI.

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