

Steering operating units to growth through managing on customer value

How Achmea rolled out its customer value management capability across its international assets



Arje Sanders
Program Manager
Mlcompany



Ilya Petoukhov
Program Manager
Mlcompany



Martin Heijnsbroek
Managing Partner
Mlcompany



Suzanne Akten-Thomas
Senior Executive Marketing,
Commercial and Customer Centricity
Achmea Division International

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How Achmea rolled out its customer value management capability across its international assets

In 2013 Achmea was facing continued impact from an unstable global economy. Whilst retaining a home market leadership position for Motor and Health, the overall insurance market in the Netherlands was shrinking. Evolving customer demands and new entrants were challenging the pricing and distribution model, placing significant pressure on the sustainable growth strategy of Achmea. To balance the impending risks faced in the home market, it was key that Achmea's international division started to become a profitable growth pillar for the business. With 5 operating businesses (OpCo's) in Greece, Turkey, Slovakia, Ireland and Australia the management team of DI needed to create speed for growth; growth that was profitable and with high customer satisfaction.

Growth through customer value management in multiple operating units

Achmea DI believed that ensuring sustainable and healthy growth, would require a firm understanding of customer behavior and focusing on the right valuable customer segments – leveraging Data Analytics. Through sharing best practices and expertise, operating units would be able to sustain their growth contribution for Achmea's profitability. More specifically, a detailed insight in the value creation of the customers was seen as the basis for the continued growth path. Customer value creation would become the driving theme of collaboration on data, by creating campaigns and market initiatives that add value for both the customer and Achmea.

This vision on growth was supported by the operating units, but the question that remained was how to build the capability to steer on customer value creation. It would clearly require a major step-up within the different operating units, in terms of data & analytical skills, systems and modeling. This step-up was needed both for the expert analysts but also for the management teams that indicated their need to better understand how analytics can make the difference in smarter customer interaction. To tackle the challenge of moving relatively independent business units to growth through customer value creation, Achmea DI management discussed various options for an effective approach with MIcompany. The central challenge was therefore to create a program that optimized MIcompany's value management knowledge (within budget constraints), ensured the OpCo's felt in control,

“With the remit that the future strategy must be Capital light, OpCo enforced, customer centric and profitable, we created a long term holistic program to empower the OpCo's to drive profitable growth from within the business portfolio and with the customer at the heart of the operation.”

Suzanne Akten, Senior Manager
Marketing, Commercial and
Customer Centricity Achmea DI

the program had a clear impact and defined target for future value creation by year end 2016. A three step approach was designed to answer this challenge. First, a Data Analytics Scan was launched, to get grip on the situation of each individual OpCo's and understand better the challenges and business opportunities they were facing. Second, based on these results different acceleration programs were launched to build the required foundation for customer value management. After this step, the OpCo's could incorporate customer value management in their daily business steering and launch focused value creation programs.

Getting grip on each OpCo situation

The first stage in setting the firm foundations for the project was to undertake a Data Analytics Scan per OpCo. The objective was to create a holistic view on the current state of data collection and data storage, the use of predictive modeling in business steering and the business opportunities on managing specific value drivers. For example; one business unit had a promising cross-sell opportunity on their existing base of which currently 89% only had one product. Another OpCo had a great pricing opportunity, since the existing pricing strategy did reflect customers' price sensitivity and expected profitability. Figure 1 illustrates the framework used to assess the Data Analytics capabilities, which was implemented through MIcompany's Data Analytics Survey. Per capability block, a thorough assessment was made on the underlying components. This figure shows the results of the data assessment part.

The scan resulted in a view on the current state per business unit, with agreement on major business opportunities from leveraging customer value insights better, and with a clear focus on which capabilities should be better developed for each business unit. Moreover, it led to a realistic and supported roadmap per business unit, that would allow Achmea DI to move ahead on building the foundation for customer value management. There were of course major differences between the operating companies in terms of business opportunities and challenges. However, it also became clear that across OpCo's the foundation for customer value management was lacking.

More specifically, we saw three gaps:

- The customer lifetime value modelling required acceleration,
- The people competencies on Data Analytics of analysts, management and executive showed gaps
- A coherent framework and monitoring system on managing for value creation was lacking.

That investment in the foundation, would lead to clear support by management on how to integrate customer value management in their business, and focus on capturing the sizeable impact potential.

Achmea DI decided to support this capability development centrally through three specific learn-and-implement programs: customer value modelling, Data Analytics competency program, and customer value monitoring system. Also, for each OpCo targets were set on these topics.

Acceleration program 1:

Customer value modelling

During the scan it was noted the business units did not have a clear view on the value creation within their base. Some fundamental questions were unanswered, like:

- What is the value of our customers and what differences do we see between them?
- What drives these differences?
- What is the ROI of campaigns? Which campaign brings in valuable, loyal customers?
- What value creation opportunities do we see for the business unit?

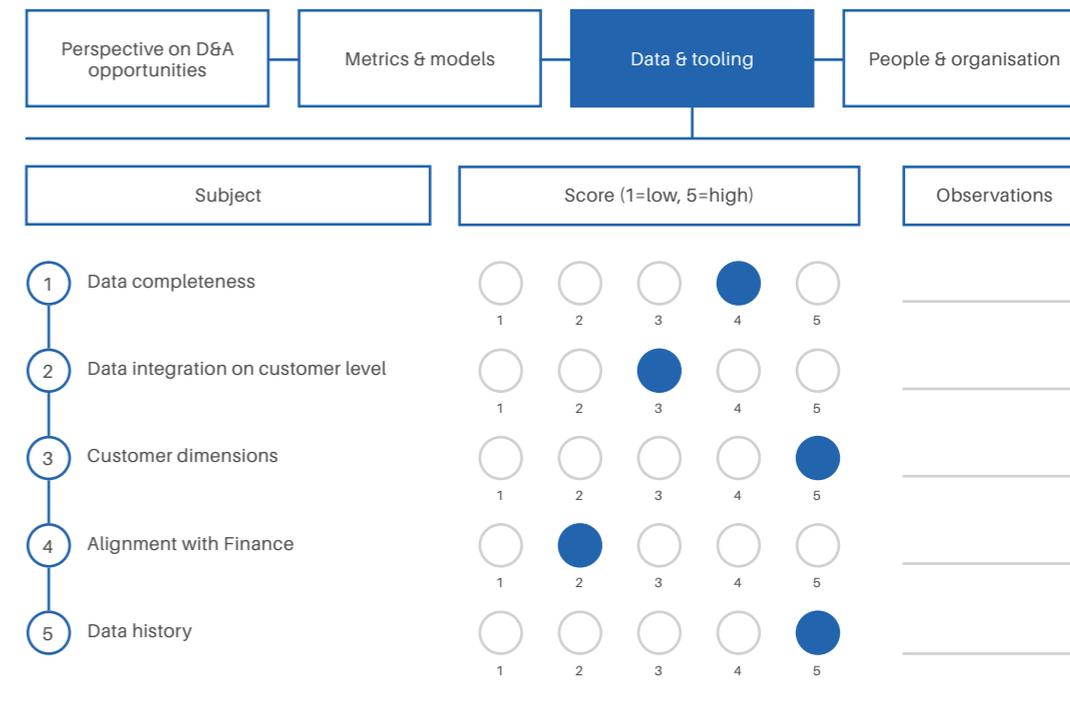


Figure 1. The four covered components of the data scientist skill set & framework Data Analytics Survey

In order to be able to answer this kind of questions, OpCo's needed to construct a view on the value of each individual customer. The challenge was to develop one overarching framework and definition of customer value for all OpCo's, that takes into account the significant differences in revenue streams, product portfolio and distribution channels between the countries. Developing this metric would help in answering the questions above and enable

the business units to grow. All business units developed this centrally defined customer value metric (customer lifetime value), which predicts the future value of an individual customer based on the products he has, his specific characteristics and behavior. In contrast with traditional value metrics (like the financial metric Profit Before Tax), the CLV is customer focused (instead of product focused), forward looking and with a lifetime horizon (instead of

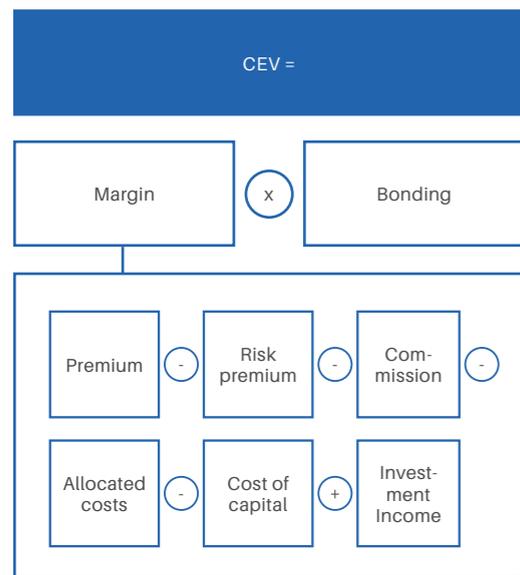


Figure 2. central formula CLV calculation

one year). In contrast to most financial metrics, the CLV is not a number that is easily accessible, but a combination of various different advanced models is required. For the calculation of the total lifetime value of an individual customer it is important to both understand the current value of this customer (contribution margin), and also be able to predict how this customer will develop over time and what the expected (remaining) lifetime will be. This time aspect is a fundamental part of the CLV and is crucial when optimizing the investments for the total value creation of a customer. For example, a

customer with €100 margin who only stays for one year is less valuable than a loyal customer with a margin of €40 who will stay for five years. Figure 2 shows the central formula which was adopted by the OpCo's that were each able to develop their own lifetime value model. The models were centrally validated to ensure quality and alignment of definitions.

Initially, the OpCo's struggled with embracing customer value, since it seemed complicated and it was not clear on all levels how it would create value for the organisation. There were questions about how the CLV is related to traditional value metrics, like realized profit (PBT) and return on risk (RORAC). Also, there was some reservation about value ownership, since the operating companies were mostly product and business line focused. Therefore the CLV was developed in broad, cross-functional teams - including Finance, Actuary, Sales, Marketing and Customer Intelligence that would allow the cross-functional support for this central metric.

To demonstrate the potential impact of the customer value metric, each OpCo made an analytical deepdive on their customer base to better understand the performance and value development. Each company adopted a structured methodology to identify business opportunities based on new insights in customer value. Specifically an opportunity tree was built and sized, leading to a prioritized roadmap of high-impact value opportunities. One OpCo had sized more than €20 million of profit improvement opportunities through the structured approach, while another OpCo believed €28

million improvement could be achieved with value driven initiatives. Example opportunities were: setting up a focused program to reduce churn of high value customers and ROI based marketing expenses optimization.

Accelerator program 2. Data Analytics competency program

To adopt and apply value management within the business units, it was critical to invest in

“The knowledge and engagement MIcompany brought to this process created a fast sign-up from the OpCo's. Their market leading capability combined with a hands on approach for the best routes forward, allowed the OpCo's to take local ownership, gave room for DI to agree on outputs and deadlines and created one team on a 'learn and fast implement' program.”

Suzanne Akten, Senior Manager
Marketing, Commercial and
Customer Centricity Achmea DI

people capability building at various levels in the organisation.

- Analysts needed to better understand the possible applications of (big) data and value steering to their business and improve the hands-on Data Analytics skills.
- (Commercial) management teams needed to understand the importance of value management, the possibilities that data offers to value creation and which questions to ask the analysts.
- Senior executives needed to embrace Data Analytics and value management, know which questions to ask to their teams and how to steer the transformation.

The need for a step-up in people competencies was addressed with a training program for each of these groups. The analyst program (A) consisted of four training weeks over the course of a year that took the analytical talents and soft skills, as is illustrated in Figure 1. The analysts developed the entire skill set of the modern data scientist; they learned new Data Analytics tools and methodologies and applied these to value creation topics, such as customer lifecycle management, forecasting and pricing. They also learned how to build and tell a strong data driven story and advice the business, which they could practice during real-life cases and homework. The program culminated in defining and taking on an analytics project of their own, that combined all of the learned skills to create a value boost for their own business. As many of these analysts were also involved in the creation of the value metric (I), they were able to accelerate

that process and better understand the goals of their work. All their work on real-life cases additionally yielded valuable new insights for the business units about their customers.

“The strategy of combining OpCo targets, program targets, team training with onsite execution ensured a fast iterative process that achieved the goals within the given budget and time frame.”

Suzanne Akten, Senior Manager
Marketing, Commercial and
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The program of the management layer (B) was a combination of training and hands-on work on their own business challenges. In this four-week program they linked the learned topics during the first part of the week to their own business. For example, they linked the theory of opportunity finding and value management to the creation of an opportunity tree for value creation in their company. Together with their role in the value management steering (I), this culminated in the creation of their own fact based business plans with prioritized initiatives supported by business cases. The output of value modelling sessions (accelerator program 1) was used as input for the training

sessions and vice versa, leading to a synergy for both programs.

Finally, several multivariate tests were performed, showing how the impact of a commercial action can be doubled if choosing the right approach for the right customer. In the executive session (C) the C-level executives are taken through the value of Data Analytics and the required organisational transformation that comes with this. This 2-day program is a mix of exploring hands-on the possibilities of data to demystify all new buzzwords and inspiration through value creation examples and steps undertaken by analytics leaders across branches.

Working with real data and actual business questions from the business unit has made it possible for the programs to not only yield a jump in knowledge level of its participants, but also create new insights for the business. Having a cross-business unit approach in the programs increased learning from best practices, as well as building a community to spread the word throughout the organisation. The participants rated the programs with an NPS of 71. This enthusiasm led to starting new waves of the program, with new analytical talents and other managers to join the value management journey.

Acceleration program 3. Customer value monitoring system

To enable value management within the business units, Achmea DI believed in local OpCo to be autonomous in how to improve the value of their customers. In that model, it is critical to

understand whether initiatives will be effective in improving the customer value. Therefore, Achmea DI and local OpCo's wanted to develop a system that monitors the value creation of its customers. To avoid fragmentation, Achmea DI developed, together with Mlcompany, one customer centric data model and one basic performance dashboard for all OpCo's. This tool would give insight in the value creation of the customer base with clear, transparent definitions and insight in trade-off between profit and volume indicators.

“I have been in business and marketing for 15 years, but always in traditional ways. This year, for the first time, I learned how to move forward with digital and data.”

“This has been a life-changing event!”

Participant quotes during program debrief

The customer value monitor has a top down reporting structure, which reflects the entire business on granular level, with standardized customer insights. It creates “one truth” within the organisation and enables analysts to deepdive into the underlying data in order

to explain developments, to optimize customer programs through deep insight and to identify new opportunities. Before each business unit started building their own tool, Division International defined the necessary outlines to ensure alignment between the units. A list of common KPI's and their relevance was created, all definitions were defined (e.g. what is revenue? What defines a new customer?), the required views were drafted and visualized and the data model outline was created.

Each business unit created a roadmap to build this dashboard and to incorporate the value metric, to enable real value performance monitoring. They also created a perspective on how this would help their value management process. Directors and analysts from different departments started reporting from this performance tool and identifying new growth opportunities.

Work in progress: Integrate in business and capture value

A lot has happened to put customer value in the center of steering the business. Different customer centric metrics, such as total customer value and value creation of acquired customers, are now integrated in the monthly performance reviews. Specific targets on value creation are set, to further stimulate the steering towards growing customer value. Achmea DI asked the Finance departments of the different business units to be responsible to institutionalize value management in their organisation. The Finance departments took over the modeling and calculation of the value metrics and facilitated cross-department value performance discus-

sions. People development has also moved on. The first batches of trained analysts and commercial managers have applied and honed their skills by taking big roles in the acceleration programs. Several participants have adopted an ambassador role, taking the lead on analytical community building and ensuring the deployment of knowledge sharing platforms and events. Participants from previous waves have also received an active role in follow-up waves for case preparation and accompaniment during the training weeks themselves. This leads to even closer ties between the training program and the business, making relevant new insights a common reality. Finally, this led to higher efficiency and standardization because a significant role in program preparation was now held by the business units.

Division International has made significant achievements on their journey for profitable growth. But of course: there will be many challenges ahead. With the value management foundation now strongly integrated in the OpCo organisations, the OpCo's have moved to the next phase in their journey. They now need to think through how they launch, and scale-up, new market initiatives that capture the value growth potential that exists.

More specifically the challenge ahead lies in driving focus to accelerate the initiatives with largest potential, and scaling-up the impact from successful pilots. Moreover, there are fundamental challenges awaiting in the area of the customer journey. For example on how the customer journey can be improved for both customer satisfaction and profitability. Moving

from a isolated single product & single channel view, to a customer centric approach that by definition is multi-product and omni-channel.

“The program has shown the OpCo's it is possible to balance value and volume and create stealth movements in the market that is hard for the competition to follow. Applied appropriately we believe we have created a competitive edge of between 3-5 years in our OpCo's and are now the second largest profit center in Achmea non-life from being one of their largest loss divisions in 2012.”

Suzanne Akten, Senior Manager Marketing, Commercial and Customer Centricity Achmea DI