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How to use AI and behavioural science to power your CX and marketing strategies

By Rebecca Wilson, Behavioural CX Specialist and
Mark Atterby, Editor of CX Focus

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About the authors

Rebecca Wilson
Behavioural CX Specialist, Organisational & People Development – Webinar Presenter

Rebecca works with C-Suite and leadership teams and individuals to ignite their belief in themselves and in their people in order to drive success and accelerate change. Her years of experience in the development and execution of customer and employee experience strategies based on human centred design and behavioural science principles provides valuable, practical business pathways.

Mark Atterby
Editor of CX Focus

Mark has 25 years of experience in journalism, communications and content marketing.

Introduction

Two powerful disciplines reshaping the way companies engage with their customers are Artificial Intelligence (AI) and behavioural science. By combining the capabilities of AI with the discipline and understanding of behavioural science, businesses can unlock tremendous opportunities to create personalised experiences, boost customer engagement, and achieve marketing excellence.

The foundation of an effective AI and behavioural science-powered strategy is a comprehensive understanding of your target audience. AI technologies such as machine learning and natural language processing allow you to collect and analyse vast amounts of customer data at speed. This data can include demographic information, browsing patterns, purchase history, social media interactions and so on, both from data your organisation collects and that accessed via external sources. By applying behavioural science principles to this data, you can evolve insights into implicit customer motivations and decision-making processes.

In a recent webinar, Simply Energy's General Manager of Customer Experience and Growth, Allison Dorogoj, shared the journey her team has been on to improve their CX and marketing outcomes. Their experience with implementing customer retention tactics provides an excellent case study of how to apply AI and behavioural science at scale.

Highlighting the discussion points raised during the webinar this industry paper aims to address the following issues:

- **When** investing in AI will give your business guaranteed ROI
- **Why** fusing AI and behavioural science can more effectively shift customer behaviour
- **How** to integrate AI and behavioural science into your CX and marketing strategies to accelerate change

The Stats and Facts

80%

of executives use AI technology as part of their strategies and business decisions

Gartner

AI can potentially lower client acquisition costs by

Up to

50%

Marketing in Asia

From **2023**

Global artificial intelligence (AI) is predicted to grow at a Compound Annual Growth Rate of

18.45%

2030

Contrive Datum Insights

Understanding AI

AI refers to the development of intelligent machines that can perform tasks requiring human-like cognitive abilities[i]. AI-powered systems can analyse vast amounts of data, identify patterns, and make predictions or recommendations based on the information at hand. AI can enable businesses to gather and process customer data, automate repetitive tasks, and deliver personalised experiences at scale.

There are three main purposes or approaches within the field of AI that can be applied to improving your CX and marketing strategies. While all involve machine learning techniques, they serve different purposes and operate in different ways. They include:

1. PREDICTIVE AI

Predictive AI focuses on making predictions or forecasts based on existing data patterns. It utilises historical data to identify correlations, patterns, and trends that can be used to predict future outcomes. Predictive AI algorithms analyse large datasets, identify patterns, and develop models that can forecast future events or customer behaviours.

2. GENERATIVE AI

Generative AI aims to create new and original content rather than making predictions. It uses neural networks and deep learning techniques to generate novel outputs, such as images, music, or text. Generative AI models learn from existing data and generate new samples that resemble the training data, demonstrating creativity and the ability to produce unique content.

3. CONVERSATIONAL AI

Conversational AI focuses on enabling natural and human-like interactions between machines and humans. It involves developing systems that can understand and respond to human language in real-time. Conversational AI incorporates techniques such as natural language processing (NLP), sentiment analysis and machine learning to understand user inputs and provide contextually relevant responses. Virtual assistants, chatbots, and voice-enabled devices are common applications of conversational AI, facilitating interactive and dynamic conversations with customers.

While there is some overlap between these AI approaches, they have distinct objectives and methods. Predictive AI analyses data to make predictions, generative AI creates new content, and conversational AI facilitates interactive and context-aware conversations with customers. For this report we'll be mainly referring to Predictive AI.

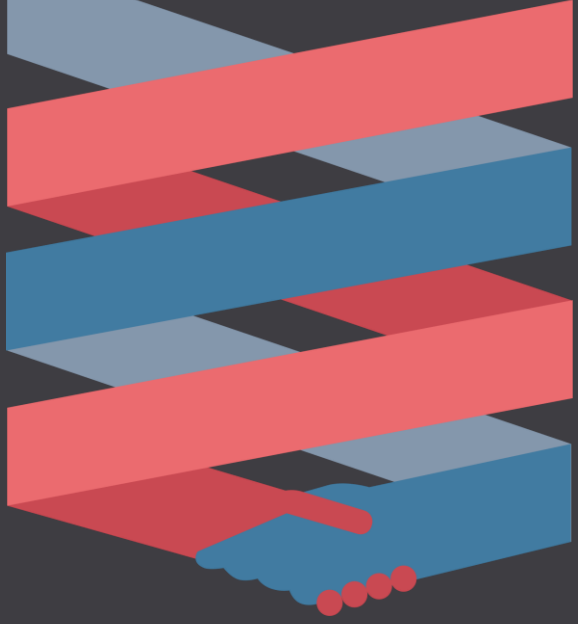
Harnessing the power of behavioural science

Behavioural science is a multidisciplinary field that combines insights from psychology, sociology, economics, and other disciplines to understand and influence human behaviour.

By understanding the underlying factors that drive customer behaviour, organisations can design marketing campaigns and CX strategies that resonate with their target audience. Behavioural science principles, such as social proof, scarcity, and cognitive biases, can be employed to nudge customers towards desired actions.

CX transformation programmes are often challenged on their ability to deliver concrete value to the business. One of the benefits of behavioural science is its academic rigour. Being able to prove that customer experience interventions are backed up by science is a real asset in a business context.

Another fundamental aspect of behavioural science is the importance of experimentation and testing. Because human-beings are complex and have evolving needs, it is critical that organisations continually test the customer journey to ensure it delivers against (and exceeds) customer needs over time.



Fusing AI and behavioural science to shift customer behaviour

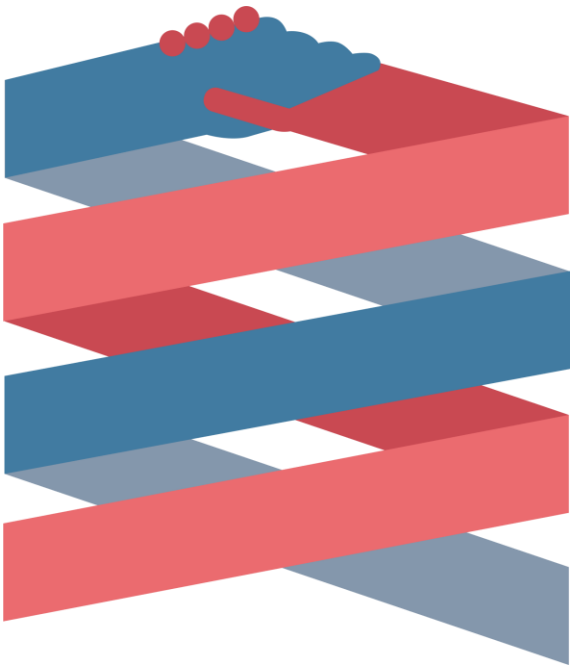
The fusion of Artificial Intelligence (AI) and behavioural science has emerged as a powerful combination that can facilitate a significant shift in customer behaviour.

By leveraging AI-driven technologies and applying behavioural science principles, organisations can gain deep insights into customer decision-making processes and effectively influence their behaviours.

AI-powered predictive analytics can help forecast customer behaviour and identify trends and patterns. This allows you to develop data-driven marketing strategies that anticipate customer needs and preferences.

Human behaviour is hard-wired and underpinned by emotional needs. A human is more likely to be driven by what's known as 'System 1' thinking (intuitive, emotional, instant) rather than 'System 2' thinking (rational, measured, thoughtful). By understanding the deeper instincts of the human (ie the customer) we can design better experiences that are more likely to meet their deeper needs and desires[ii]. The result equals happier customers who can become advocates of your brand and ultimately lead to better returns for your organisation.

Behavioural science theories related to human cognitive biases and heuristics can be applied to the crafting of persuasive marketing messages that particularly appeal to customers' emotional drivers, increasing the likelihood of the behaviour change you're seeking, for example, purchase behaviour.



How to integrate AI and behavioural science into your CX and marketing strategies

CX and marketing teams are continually finding new ways to optimise solutions using AI and behavioural science. During our webinar, we highlighted some of the more impactful.

1.

Customer research approaches typically depend on reaching out to the customer for input. With AI and behavioural science, organisations can leverage the voice of customer data that already exists in the conversations and interactions you have with your customers. AI will play a critical part in identifying and inferring risks and opportunities within sales, support, and service conversations which will lead to deeper insights and much faster reactions from those teams.

2.

Personalisation and contextualisation are becoming more and more critical in cutting through the noise customers experience in their day-to-day lives. Approaches that rely on broad generalised demographic segments like “Millennial” and “Gen Z” are no longer working. Customers increasingly want to be engaged and recognised as the unique individuals they are. Powered by Ai and fuelled by the drive to personalise, organisations are building intelligence experience engines. Activating data and insights is what will separate the leaders from the laggards, and we’ll see a lot of this in the years to come.

3.

The only way for brands to keep up will be to infuse AI and decisioning into their data strategies. Understanding a customer’s propensity to buy based on their behaviour and quickly acting on that data in real time can be the difference between making a lasting impression or losing out to a competitor.”

4.

One behavioural science application regularly applied in interactions is nudge theory, a concept that proposes positive reinforcement and indirect suggestions to influence the behaviour or decisions of an individual. It can be a powerful tool used by organisations to prompt customers to behave in desired ways across the end-to-end journey.

One of the applications where this is really critical is retaining customers. This is where Simply Energy have been able to achieve particular success.

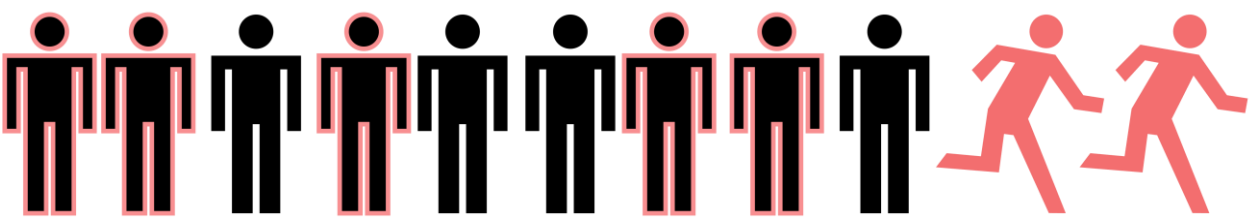
How Simply Energy combined AI and behavioural science to reduce churn and grow the business

Simply Energy is an energy retailer with over 700,000 commercial and residential accounts across Australia.

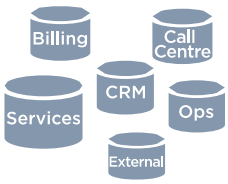
Allison Dorogoj explains how the intense competition and the high level of churn in the energy retail sector, makes growing the business a very significant challenge, “Energy is an extremely competitive industry, largely driven by price. To grow organically it is really, really tough. In a year, on average, 1 in 5 customers will leave their energy retailer. This can be even higher for new customers in their first year”.

> “Customers don’t leave necessarily because they are dissatisfied. Over 50% who leave, tell us they’re satisfied on their way out. They’re not leaving because they’re unhappy, but because they feel they will be happier somewhere else.”

Simply Energy realised that even a small reduction in churn could lead to growth. Starting with a pilot in one State, Simply Energy implemented a predictive AI solution to identify which customers were likely to churn and then delivered a treatment solution via a crafted message to discourage them from leaving.



There are four parts to the program Simply Energy implemented, including:



1. Data Ingestion: Internal and external data are collected from around 40 different sources, constituting over 3,000 signals for each active customer. This is fed into the AI prediction engine. The biggest challenge Simply Energy faced in implementing the pilot program was accessing a complete set of data. It took time to build this access and numerous roadblocks needed to be circumvented.

2. Each active customer, on a weekly basis, is given a score or rescored to indicate the likelihood of them churning. Dorogoj comments, “On average, over the last three years, we’ve seen a prediction accuracy that’s been really high at over 75%”.

3. The list of predicted customers at risk is then fed to the treatment AI, which determines what treatment message the customer receives. The treatment AI uses Goal Seeking[iii] and sets up multiple competing treatments for each customer. The AI then determines which treatment will be most effective to save a particular customer.

4. The final part is sending all the communications, predominantly through email but also through SMS. Behavioural science is used to design the messages that will appeal to customers.

The predictive AI program has allowed Simply Energy to focus its retention efforts on saving their most profitable customers with a communication strategy that is low cost, based on behavioural insights and is constantly optimised. Dorogoj says, “With great power comes great responsibility as they say. That’s how I see AI and behavioural science working together. With all that data we have, AI can give you tremendous knowledge about your customer base with high a great deal of accuracy. But it’s what you then do with that is really important.”

“That’s where we use ‘System 1’ and ‘System 2’ thinking as the behavioural insight that helped us keep customers by really encouraging them to stay with us. ‘System 1’ thinking is that fast, automatic and intuitive response and feels effortless and is the type of thinking that allows us to quickly recognise a friend’s face or make a snap judgement”.

“On the other hand, ‘System 2’ thinking is slow and more deliberate. It’s the type of thinking that requires focused attention and is used to solve a more complex problem or when we are asking a customer to weigh up a particular option. So as marketers and CX professionals, both systems can be used to our advantage in designing messages and treatments for customers”.

Conclusion

The pilot program proved to be successful and demonstrated positive results very early. Dorogoj comments “We wouldn’t have justified the investment over the last three years in prediction AI without a strong link to ROI. The whole purpose of the pilot was to establish an ROI model. We’re currently delivering a 3 to 1-dollar return on the program. Every week we calculate the number of customers we have prevented from churning and how much that has saved the business from not having to replace those customers”.

Simply Energy scaled the program to cover the whole of Australia. By combining AI and behavioural science, Simply Energy unlocked the full potential of its CX and marketing strategies. By leveraging customer data, predicting behaviour and personalising experiences, Simply Energy can craft tailored and impactful messages and treatments that resonate with its target audience and customers.

It is essential, however, to optimise and continuously refine strategies based on data-driven insights. Embrace the synergy of AI and behavioural science, and you'll position your business at the forefront of delivering exceptional customer experiences and successful marketing initiatives.

[i] Copeland, B.J.. "artificial intelligence". Encyclopedia Britannica, 5 Jun. 2023, https://www.britannica.com/technology/artificial-intelligence. Accessed 5 June 2023.

[ii] https://thedecisionlab.com/reference-guide/philosophy/system-1-and-system-2-thinking

[iii] https://www.investopedia.com/terms/g/goal-seeking.asp#:~:text=When%20you%20are%20goal%20seeking,will%20often%20use%20computer%20software.

Acknowledgements

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Reduce customer churn with SmartMeasures

SmartMeasures operates at the intersection of AI and behavioural science and is uniquely placed to help you make churn reduction part of your growth strategy.

Want to learn more? Get in touch at smartmeasures.ai/contact

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