DEMONSTRATING THE VALUE OF CUSTOMER MIX SHIFT

SYNOPSIS

A private equity firm was preparing to exit its investment from a company with a subscription-based revenue model. The firm engaged Horizon Data Science to help quantify the value of changes in customer mix during the hold period. Specifically, the team sought quantify the impact on recurring monthly revenue (RMR) of recent mix shifts toward stickier products, longer contracts, different industries, and enhanced onboarding designed to reduce customer attrition.

SOLUTION

Horizon designed a matching-based approach commonly used in economics to address differences between cohorts that would otherwise confound the comparison of outcomes. Our approach utilized the company's rich relational database on customers and contracts to quantify anticipated customer attrition and RMR implications while appropriately accounting for covariance (overlapping impacts on RMR) among different types of mix shifts. We matched bundles of historical contracts to current contracts in order to construct an "adjusted" historical portfolio with which to forecast RMR for the current portfolio.

VALUE

Our matching approach helped the PE firm more succinctly communicate the value of deliberate customer mix shifts made during the hold period. By adjusting the historical portfolio to align more closely with newer customer vintages, our approach helped the team utilize the historical portfolio's data for credible financial modeling and communicate their value added more clearly ahead of what turned out to be a very successful exit.