



Data talks: proactive retention strategies to reduce telco churn



Introduction

Customer churn is a perennial problem for telecommunication companies ('telcos'), with significant amounts of time and money spent on reducing it. Whilst there is no silver bullet to prevent customer churn, there are ways to maximize the effectiveness of churn reduction strategies and avoid wasted time, money, and effort. This whitepaper aims to introduce several thought-provoking considerations for building an effective churn reduction strategy, with a particular focus on proactivity.



Building the foundations for churn reduction

Customer churn can be broken into two broad categories, namely regretted and non-regretted. In very simple terms, non-regretted comprises unprofitable customers that are not worth keeping, whereas regretted comprises profitable customers that are worth keeping. Regretted churn means not only the loss of future revenue, but also the cost of acquiring a new customer, and is therefore where churn reduction efforts should be focussed. The sections that follow introduce some key steps to building the foundations of an effective churn reduction strategy.

Building a single customer view

A customer may decide to leave long before they actually do, which is especially true in the telco market where twelve-month contracts are commonplace. For example, a customer may have had a terrible experience in the third month of their contract, decided at that point not to renew, yet that decision will not manifest itself for a further nine months. Given that the decision to leave can occur at any point along the customer journey, and at any point in the contract, it is important to look across the whole journey for possible indicators that can identify a customer likely to churn.

The first step in addressing churn is therefore to identify each and every customer related data source available and aggregate these in a single place that can be updated on a real-time basis – a single customer view. Such data might include, but is certainly not limited to, product type(s), usage patterns, complaints history, NPS, communication history, billing history, service interruptions, actual broadband speed versus that advertised at time of sale, etc.

Telcos have made varying progress in capturing this information systematically and using this to design how they approach churn reduction, creating models that may have similarities to that shown in Table 1.

Table 1

Models relevant to churn reduction

Model	Relevance to churn
<p>Probability of Churn</p>	<p>Identifying those customers most likely to churn allows proactive and targeted churn reduction efforts. Note that it is not necessarily the absolute probability of any given customer churning that is important, but the relativity of each customer’s probability to other customers.</p>
<p>Customer Lifetime Value (‘CLV’)</p>	<p>Without factoring in CLV at the individual customer level, telcos risk a misguided approach to churn reduction. For example, is it better to focus on high-value customers with medium probabilities of churn, or lower-value customers with high probabilities of churn? The answer will depend on volumes within each category, but this question can only be answered using a customer-level CLV model. Retention offers must factor in CLV to ensure that it is not overly-reduced by the retention offer.</p>
<p>Decision-Making Style</p>	<p>Some customers will need a longer time period to consider a retention offer, some will prefer to actually speak to a person about staying on, etc. A good churn reduction strategy will allow for such variances in preference, and it is possible to infer the decision-making style using modelling based on demographics and previous interactions (see section 2.3 for more details on decision-making styles).</p>
<p>Preferred Communication Channel & Time</p>	<p>Delivering a retention offer using the customer’s preferred channel/time could increase the likelihood of that offer being successful. For example, some customers may prefer to be called, whereas others may want an email that gives them time to consider their options.</p>

Using the churn probability model in combination with other models enables the development of a sophisticated and targeted churn reduction strategy that is more likely to be successful than one based on a qualitative analysis alone.

Understanding decision-making styles

As noted above, good customer churn models will look not only to identify the probability of any given customer churning, but also seek to identify clusters of customers with similar characteristics/ behaviours. These similarities may be indicative of a certain type of decisionmaking style, and it is worth undertaking an exercise to identify them – if you can identify, or at least infer, a certain decisionmaking style within a cluster, then it means you can provide an even more tailored retention approach, as shown in Table 2.

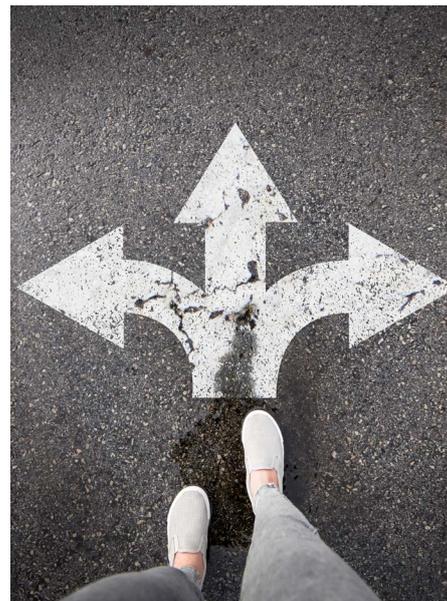


Table 2

Decision-making styles ¹

Decision-making style	May benefit from being...
Rational Tend to make decisions in a logical and systematic way	Given longer to make their decision, and may therefore benefit from being given retention offer well-ahead of actual date decision is needed.
Avoidant Tend to avoid making important decisions until pressure is on	Given a shorter time window to consider their retention offer with a deadline.
Dependent Tend to make important decisions by consulting other people	Directed to review sites, or being given the option of discussing their retention offer via a phone conversation or face-to-face in a store.
Intuitive Tend to make decision by relying on instinct	Delivered a retention offer that elicits an instinctive response – avoid the ‘too good to be true’ type offer.
Spontaneous Tend to make impulsive decisions	Given retention offer as soon as possible to mitigate a spontaneous decision to avail of a competitor’s offer and leave.

Thinking both short- and long-term

Customer churn occurs in nearly every industry, but telcos face a particularly difficult challenge given the prevalence of “price-sensitive consumers that are more prone to switching providers”. This challenge is made greater by the fact that, in the long-run, entering into a price war will reduce industry profits overall, so everyone loses.^{2,3} Given this, telcos need to ensure competitive pricing without engaging in a price war, but focus on winning and retaining customers by creating compelling and relevant differentiating features. Yet, with primarily price-sensitive customers, this also requires convincing customers to place value on non-price related features when considering their initial purchase or decision to stay.

The relevance of this to churn reduction for telcos is that, in many cases, retention offers involve offering either a product/service for ‘free’, or a price reduction on their existing package – all price-related features. This is an understandable approach given that it takes time to convince a customer of the value of additional features, whereas a price discount has an immediate and obvious benefit which is more easily compared to the competition, making it more likely to affect an immediate retention of the customer. However, this means that many churn reduction strategies risk becoming perpetual ‘firefighting’ exercises. To effectively reduce customer churn over the long-term, telcos need to continue with the immediate firefighting exercise, but simultaneously work to identify and introduce differentiating features that are both relevant to customers and valued by them such that they are not easily dismissed in the face of a better-priced offer from a competitor, but this needs to be more than a generic loyalty scheme - a recent Deloitte report noted the “traditional loyalty scheme has become a ‘tired’ concept that needs to be reinvented”.⁴

2. <https://hbr.org/2000/03/how-to-fight-a-price-war>
 3. https://www.strategyand.pwc.com/me/home/thought_leadership_strategy/40007409/40007869/51814246
 4. <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-customer-loyalty.pdf>

The four levers of retention

Telcos typically use one or more of the following four levers when creating a retention offer: price, product, benefits, and flexibility. The table below sets out four examples of how these levers can be used when making a retention offer to a customer.

Table 3

Types of retention offer

Offer type	Example	Pros	Cons
Discount existing services with contractual lock-in	<i>Bundle currently costs \$100 per month, discount to \$80 per month providing customer signs up for 12 months up for 12 months</i>	<ul style="list-style-type: none"> • Simple • Value of offer is clear to customer • Customer locked in/ revenue security 	<ul style="list-style-type: none"> • Reduces revenue and profit margin on that customer • Could lose customer trust if they perceive to have been overpaying for service previously • Not enduring as customer likely to 'play the game' again at next renewal
Additional product for free/at a discount with contractual lock-in	<i>Give an extra channel bundle, or higher cable download speeds providing customer signs up for a further 12 months</i>	<ul style="list-style-type: none"> • Simple • Can increase revenue, albeit with a lower profit margin • Customer locked in/ revenue security 	<ul style="list-style-type: none"> • Customer may not actually value the additional service offered • Not enduring as customer likely to 'play the game' again at next renewal
Provide additional non-monetary benefits for being a loyal customer	<i>Give customer access to exclusive rewards, such as discount card for stores at local mall</i>	<ul style="list-style-type: none"> • No monetary discount on existing product required • Opportunity to build an offer distinct from competitors • Could help build loyalty providing benefits are relevant to customer 	<ul style="list-style-type: none"> • Unless customer given the choice of which benefits they get, there is a greater risk of benefits not being valued and therefore made redundant • Increases administrative costs
Offer move to a rolling monthly/ quarterly contract, potentially with a slight discount	<i>Reduce existing price by 5%, and offer customer flexibility to continue the contract on a rolling basis with no exit penalty</i>	<ul style="list-style-type: none"> • Some customers place significant value on flexibility, so even if competitors offer a cheaper inflexible alternative, they may not jump ship • Could be offered as an alternative to discount offer, e.g. pay £50 a month if you sign up for 12 months, or £55 a month on a rolling monthly contract 	<ul style="list-style-type: none"> • Potential to make customers more susceptible to competitor offers • Likely only beneficial if not offered by competitors • Lower revenue from customer (if discount offered), but may be more likely to make them stay if customer values flexibility

The purpose of the table above is certainly not to present all the permutations of retention offers, but instead to illustrate that, with each example having its respective pros and cons, no single type of retention offer is best. This is entirely unsurprising given the heterogeneous nature of the telco customer base; each customer will have their own reasons for wanting to leave, and those reasons will influence their response to any given retention offer.

However, no matter how good or personalised a retention offer is, if it is not made at the right time, then it risks being ineffective. A leading UK consumer advisor noted that: "Haggling works best when you're near or beyond the end of your contract. If not, you're trapped and have little wiggle room".⁵ Engaging customers at the right time has the potential to transform retention, and this forms the focus for the sections that follow.

The proactive approach

A proactive approach to retention involves making a retention offer to a customer before they have given notice of their intention to leave. It would of course not be sensible to adopt this approach blindly across the entire customer base as that would undoubtedly lead to unnecessary revenue loss. The matrix below highlights those customer groups that would benefit from a proactive approach, and those from a reactive approach.

Table 4
Proactive or reactive retention?

High churn risk	Proactive	Proactive
Low churn risk	Reactive	Reactive
	Low value	High value

5. <https://www.telegraph.co.uk/finance/personalfinance/household-bills/10875750/Martin-Lewis-My-10-tips-forhaggling-with-call-centres.html>

As can be seen from the above matrix, to cover all customers, it is necessary to operate a hybrid retention approach, whereby reactive approaches are focused on low churn risk customers, and proactive approaches are focused on those that are high churn risk (particularly those that are of high value to the company).

By way of example, consider proactively contacting a high-value customer to tell them that they are nearing the end of their contract and, based on their usage patterns, the company has identified a product mix that would provide the customer with better value than their existing package, and, in recognition of their loyalty, offer it at a discount to the list price. That price could even be educated by similar offers published by competitors that the customer may be considering.

Such an approach would mitigate the shortcomings of the reactive approach by:

- Taking action before the customer has completed shopping around for alternatives
- Driving loyalty by demonstrating to the customer that you are actively seeking out the best deal for them at a good price and making life easier for them. This could eventually reduce churn as customers would feel confident that they are always getting a good deal
- The outbound placement and transaction of a proactive retention offer can be automated, with humans focused on a smaller subset of customers who either want to discuss the proactive offer, or those that were not served with a proactive offer

Introducing a proactive approach may indeed be perceived as risky by some, especially those accustomed to the reactive approach and its commercial logic. Adopting a scientific approach would help to demonstrate the benefits of a proactive approach with minimal risk. For example, consider the high-level test below:

- Take a random group of high value, high churn risk customers with similar contractual end dates and divide them into two groups, then
- Make retention for one group reactive, and proactive for the other, then compare the overall lifetime value of each customer group post-lapsing of the original contract. If higher for the proactive group, then the benefit is proven
- In addition, it would be wise to seek to identify if any identifiable features exist for customers who responded well to the proactive approach to allow for enhanced targeting in the future

If the experiment outlined above does indeed prove the proactive approach is of benefit, then it could be rolled out across a broader customer group, but, if it does not, then relatively little has been lost and a valuable lesson will have been learned.

Adding further weight to the argument for proactive retention offers, it is notable that Ofcom, the UK's telco regulator, is considering introducing rules that would require

companies to proactively inform customers that their contracts are expiring. If a telco is reminding their customer that their contract is ending, then it will likely increase the likelihood of them shopping around, but if that reminder is given alongside a compelling proactive retention offer, then it may help to mitigate the increased retention risk that such rules would undoubtedly create.

Conclusion

With the prevalence of price comparison websites, consumer forums, highly competitive pricing, and possible regulatory intervention, retention will always be an unavoidable problem that telcos must deal with. The exercise for telcos is to minimize regretted churn, in the most efficient and effective way possible. Though inevitably some customers will leave, adopting more sophisticated approaches to retention, such as complementing reactive retention with data-driven proactive retention, will allow telcos to increase the efficacy and efficiency of retention.

Every interaction with a customer is an opportunity to give that customer a reason to stay, right from the point of sale – churn reduction is each and every employee's responsibility, and it is important to drive this point home across the company.



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