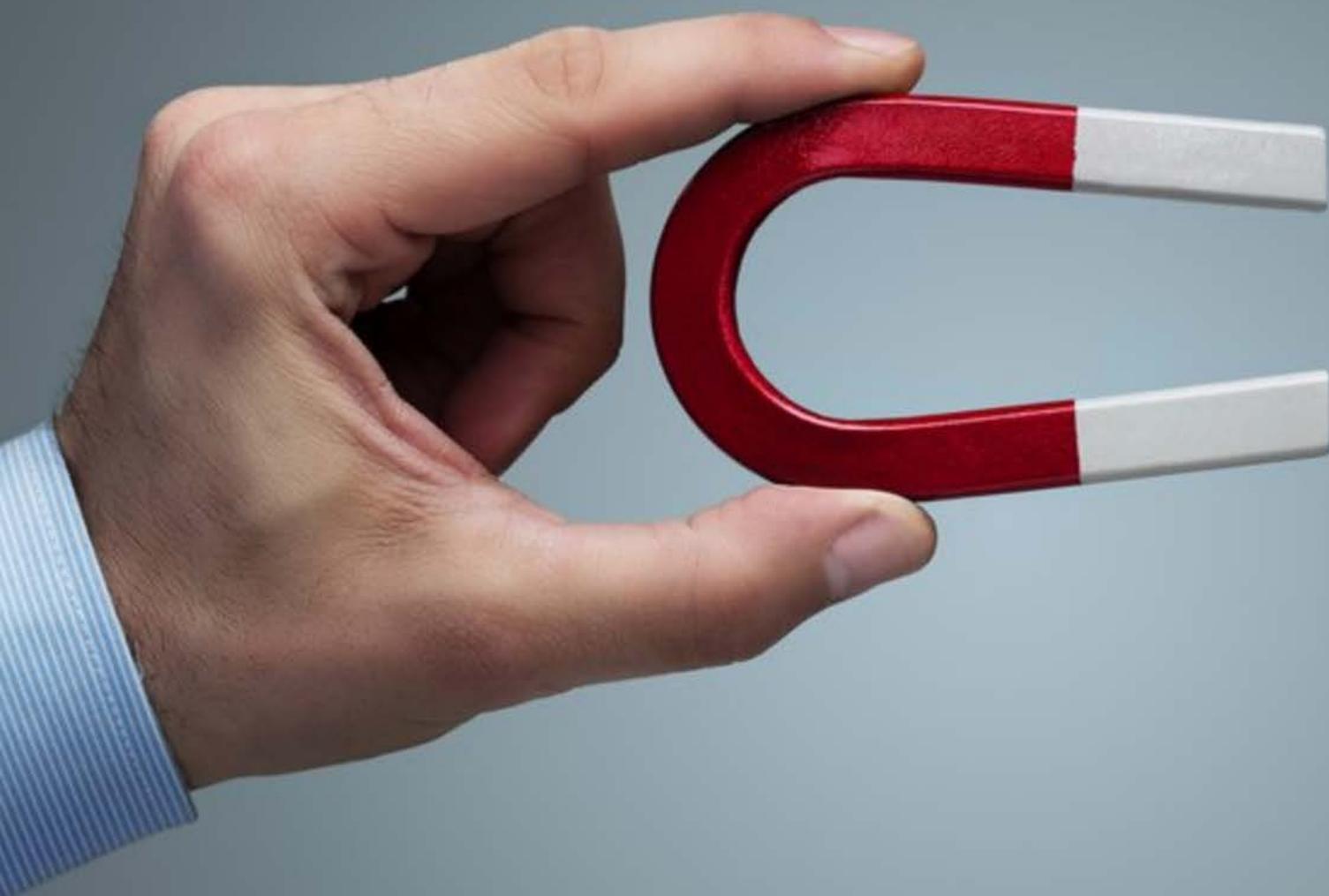ContactEngine

# Building an effective churn reduction strategy

# 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.

## 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. This customer data set could be supplemented with external data sets, such as events where competitors launched new products or special offers. In practice, this is of course not straightforward to achieve given the typically siloed nature of many telcos, but it should nonetheless be the longterm goal, as it forms the backbone of truly understanding and addressing customer churn.

This type of data aggregation exercise will not benefit only churn reduction strategies. The single customer view allows teclos to enhance the overall customer experience by affording customer services the fullest context of the customer they are dealing with. For example, a customer service agent will be able to see any contact the customer has had with the company across all products, rather than having a restricted view of, say, mobile only, or broadband only, and what the nature and outcome of those previous contacts were – having full context makes it much easier to empathise with the customer and personalise their experience, both of which are the foundations of great customer experience.

## Use quantitative methods

Qualitative observations from exit surveys where customers provide their reason for leaving can provide a broad indication as to what is causing customers to leave, assuming that the customers who respond to the survey are indeed representative of all customers that leave.

Furthermore, consider also that the reason given by a customer may represent the last straw, rather than the potentially multiple underlying issues that precipitated their ultimate decision to leave.

Given these limitations, it would be unwise to build a churn reduction strategy based on qualitative observations alone, and this is why the single customer view is so important – it allows for a data-driven approach to identify the indicators from across the customer journey that customers who churn share, and these can then be used to build models that predict the probability of any given customer churning in the future based on the presence or absence of those indicators. Such probability of churn models need to be supplemented with others relevant to churn in order to develop the most robust foundation possible, as shown in Table 1.

**Table 1**

**Models relevant to churn reduction**

| Model | Relevance to churn |
|---|---|
| **Probability of Churn** | 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. |
| **Customer Lifetime Value ('CLV')** | 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. |
| **Decision-Making Style** | 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). |
| **Preferred Communication Channel & Time** | 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. |

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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.

Note that the models above are not necessarily static in nature, and represent ideal applications of artificial intelligence – at risk of a gross over-simplification, algorithms can be built that would automatically identify churn risk, calculate CLV, identify the retention offer most likely to be successful, the likely decision-making style and how the customer likes to be communicated with to deliver a truly tailored offer to the customer. The benefit of artificial intelligence is that the individual models can be combined into a single model that would continually learn and refine over time, provide real-time churn risk, and ultimately deliver a better outcome than a static model.

## 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 decision-making 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**<br>**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**<br>**Tend to avoid making important decisions until pressure is on** | Given a shorter time window to consider their retention offer with a deadline. |
| **Dependent**<br>**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**<br>**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**<br>**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. |

1. http://www.sjdm.org/dmidi/General_Decision_Making_Style.html

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An alternative approach is to construct retention approaches around each of the decisionmaking styles and then randomly apply them across the customer base to observe whether clustering develops in terms of who responds to each type of approach, i.e. it is not necessary to develop clusters based on historical data, as they can be identified through an initially random application of each approach – another way in which artificial intelligence can support churn reduction.

Should this idea appear somewhat far-fetched, it is not. A paper published by de Motjoye et al in 2013 demonstrated that mobile phone usage logs can already be used to identify personality types with reasonable accuracy[2]

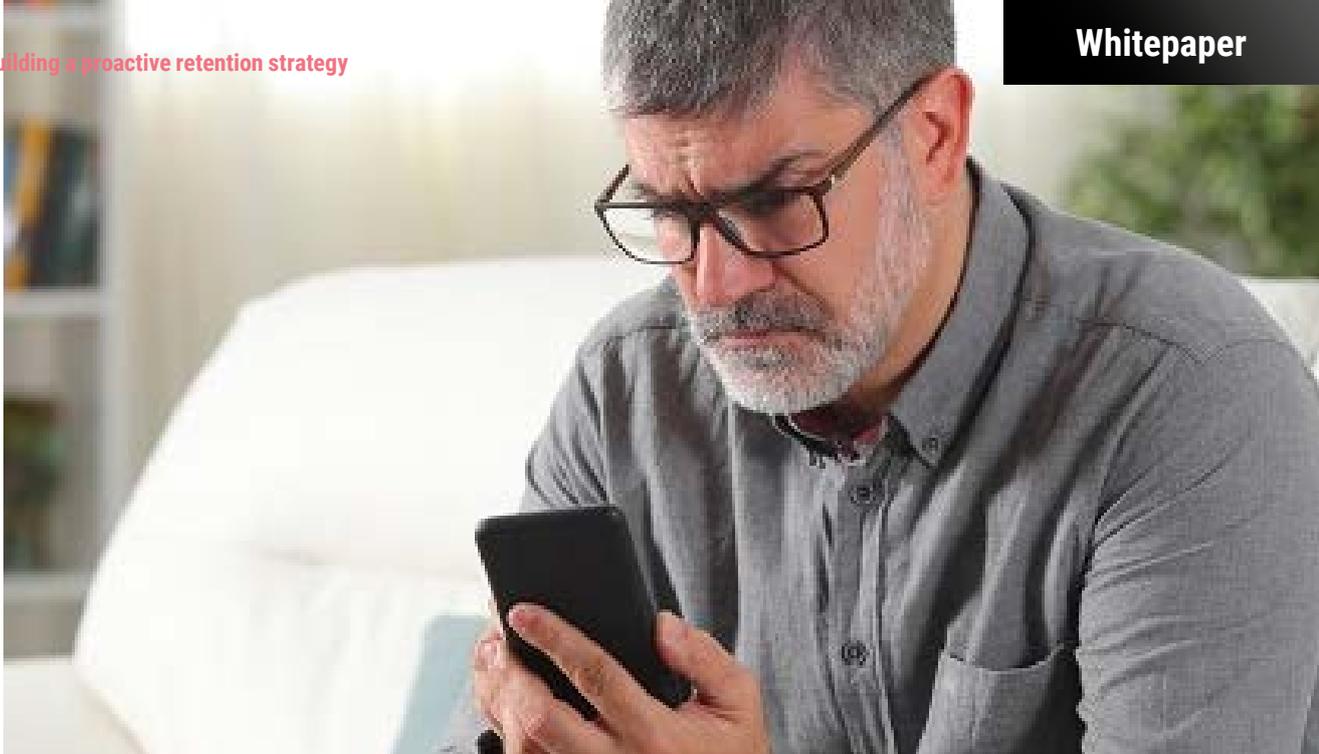# Entering into a price war will reduce industry profits overall, so everyone loses

## Aspire to more than just retention

It is natural to consider a successful churn reduction strategy as one that stops customers from leaving, and of course this is the immediate goal, but consider the extract below taken from a recent Harvard Business Review article:

> "Everything changed when the group decided to go wide. Instead of emphasizing Pareto insights around customer satisfaction, complaints, or service, they discovered several sales and marketing Pareto data sets emphasizing upselling….analytically armed with these Paretos, the churn team asked whether they could actually upsell their customers, not just retain them. Straightforward regression analysis and simple agent-based modelling techniques found significant profile correlations between Pareto churners and Pareto 'upsellees.' "[3]

Whilst there is no guarantee that those likely to churn will be those that make likely candidates for upselling, the above highlights an important and often over-looked aspect of churn reduction – the benefit of looking beyond retention. With the proliferation of models across the customer journey designed to understand and profile customers and predict their behaviour, it makes absolute sense to cross-reference these models to see if they highlight profile correlations that could be beneficial to the company.

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2. http://web.media.mit.edu/%7Eyva/papers/deMontjoye2013predicting.pdf
3. https://hbr.org/2017/02/ai-is-going-to-change-the-8020-rule

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## 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"[4]. 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.[5, 6] 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".[7]

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4. https://telecoms.com/opinion/how-telcos-are-revitalising-their-business-with-improved-customer-experience/
5. https://hbr.org/2000/03/how-to-fight-a-price-war
6. https://www.strategyand.pwc.com/me/home/thought_leadership_strategy/40007409/40007869/51814246
7. https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-customer-loyalty.pdf

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## Notes on downgrades

The typical telco business model revolves around a 12-month contract, with a pricing structure that focuses on upselling to larger bundles, as shown in Table 3, an example taken from the Spectrum website.[8]

**Table 3**

**Example telco pricing structure**

| Product / bundle | Cost per month (12-month contract) |
| --- | --- |
| Internet, TV & Voice (125 channels) | $29.99 |
| Internet only | $44.99 |
| Internet, TV & Voice (175 channels) | $49.99 |
| Internet & Voice | $59.98 |
| TV only | $64.99 |
| Internet, TV & Voice (200 channels) | $69.99 |
| Internet & TV | $89.88 |
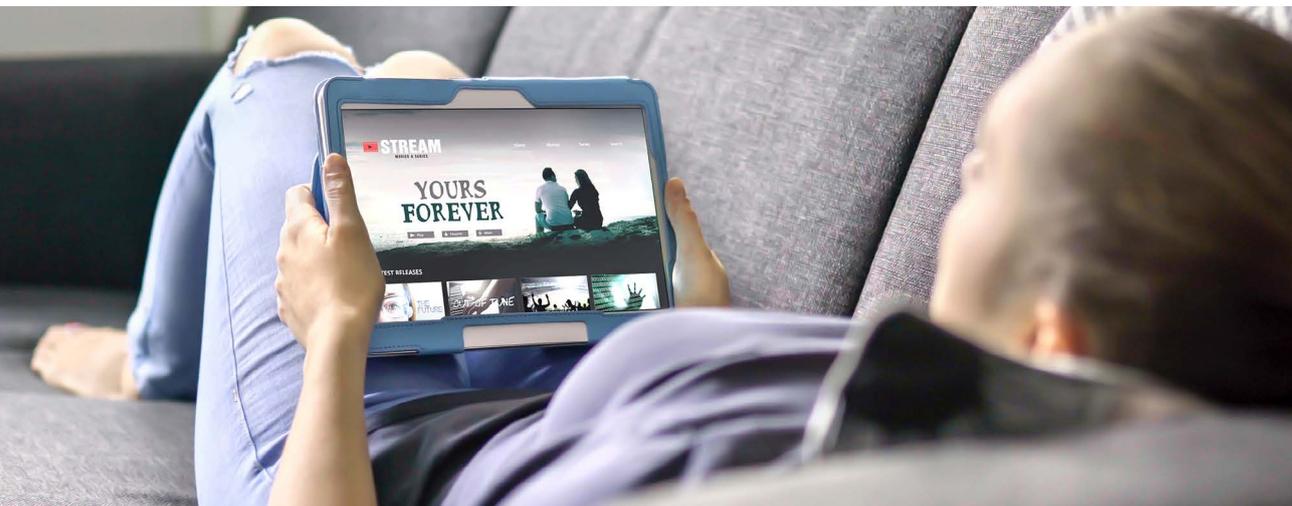


As discussed in a previous ContactEngine paper on the future of linear TV, over-the-top television services such as Netflix pose a significant risk to the traditional linear TV services offered by the major telco providers.[9] It is notable, therefore, that the pricing of the cheapest triple-play bundle in the example above is at such a level that the customer could afford to pay a Netflix subscription and still save money relative to the internet-only product. However, it is possible that customers on more

8.  https://www.spectrum.com/packages.html
9.  https://www.contactengine.com/pure-play-on-deman-replace-tv/

expensive bundles could elect to downgrade their product in the future to more basic ones, perhaps driven by a lowering in the attractiveness of linear TV. This not only poses an immediate risk to revenues/margins for telcos, but, if more-and-more consumers opt for the most basic packages, there is greater potential for a 'race to the bottom' in terms of pricing in the industry.[10] Telcos need to monitor downgrade rates with as much diligence as churn rates, and one can feasibly see downgrade modelling becoming as familiar as churn and CLV modelling.

# Conclusion

Customer churn cannot be avoided. The exercise for telcos is therefore to minimize churn, specifically regretted churn, in the most efficient and effective way possible. Whilst this whitepaper does not set out a comprehensive guide to churn reduction, it does introduce several considerations for the development of a churn reduction strategy, as summarized below:

- **Build a single view of all customer-related data**
- **Use that single view to build predictive churn models, and consider the use of artificial intelligence**
- **Aspire to more than just retention**
- **Think about long-term churn reduction**
- **Keep an eye on product downgrades**

A final consideration, and perhaps the most important of all, is that 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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10. Not necessarily a price war, but a decrease in the producer surplus within the telco industry.

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