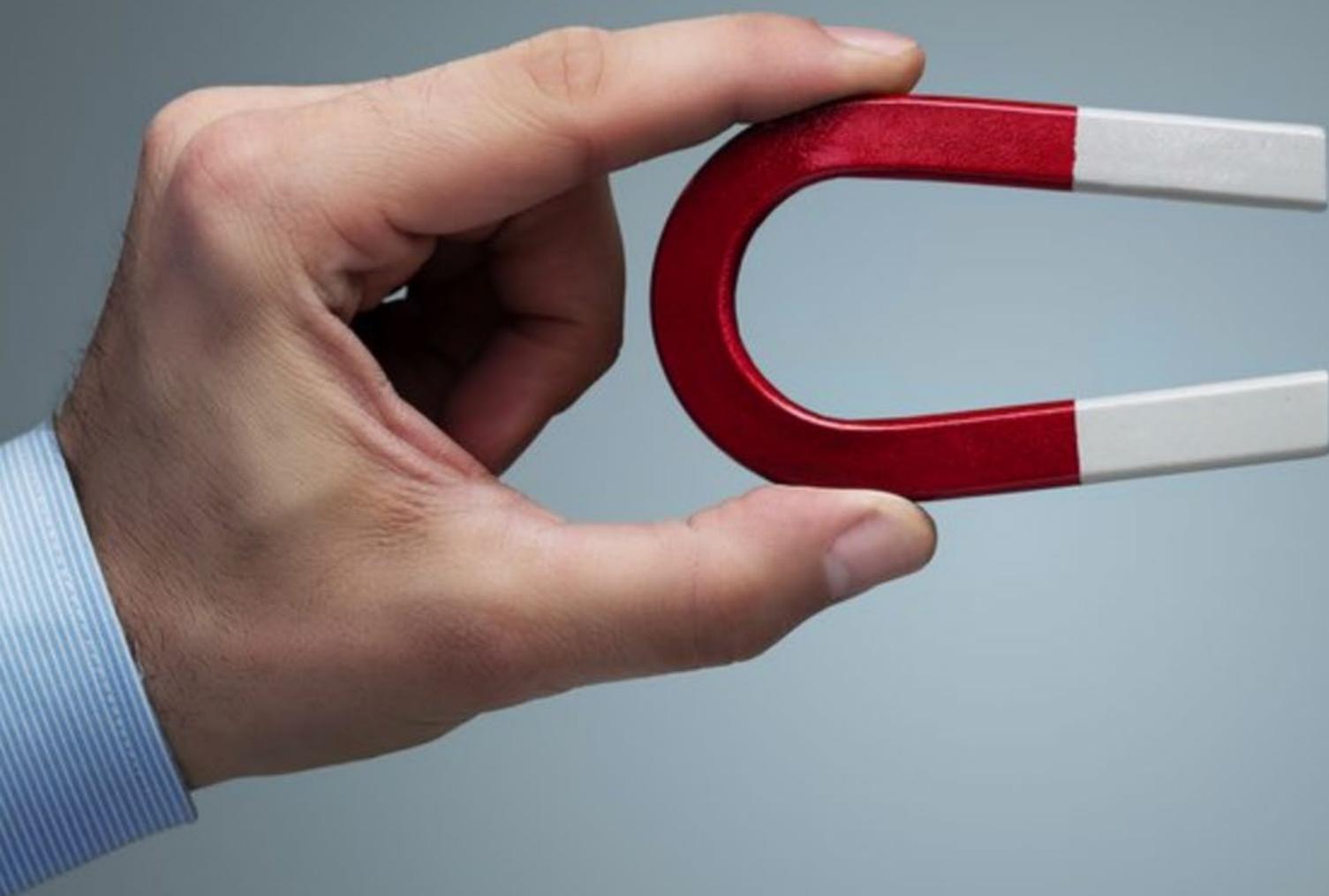




Building an effective churn reduction strategy



Introduction

Customer churn is a perennial problem for communications service providers (CSPs), with significant amounts of time and money spent on reducing it. While 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 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 CSP 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 be apparent for another 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 entire customer 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, and actual broadband speed versus that advertised at time of sale. This customer data set could be supplemented with external data sets, such as events where competitors launched new products or special offers.

The single customer view allows teclos to enhance the overall customer experience. 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 mobile, or broadband only, and what the nature and outcome of those previous interactions were – having full context makes it much easier to empathize with the customer and personalize 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 them to leave, yet may only represent the last straw instead of multiple underlying issues that precipitated their ultimate decision.

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 customer churn in the future based on the presence or absence of those indicators. Such churn reduction models need to be supplemented with additional data in order to develop a robust foundation, as seen 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, CSPs 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 or text message that gives them time to consider their options.

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 the customer’s preferred method of communication 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 data on churn risk, and ultimately deliver a better outcome than a static model.

Understanding decision-making styles

As noted above, good customer churn prevention 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/behaviors. These similarities may be indicative of a certain type of decision-making style, and 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 Tend to make decisions in a logical and systematic way	Given longer to make their decision, and may be 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.

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



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.’ ”²

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 overlooked 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 behavior, it makes absolute sense to cross-reference these models to see if they highlight profile correlations that could be beneficial to the company.

2. <https://hbr.org/2017/02/ai-is-going-to-change-the-8020-rule>

Thinking both short- and long-term

Customer churn occurs in nearly every industry, but CSPs face a particularly difficult challenge given the prevalence of “price-sensitive consumers that are more prone to switching providers.”³ This requires convincing customers to place value on non-price related features when considering their initial purchase or decision to stay.

In many cases, retention offers involve either a product/service for ‘free,’ or a price reduction on their existing package – all price-related features. This is understandable given that a price discount has an immediate and obvious benefit, making it more likely to affect an immediate retention of the customer. However, to effectively reduce customer churn over the long-term, CSPs need to identify and introduce differentiating features that are both relevant to customers and have a perceived value that means more to them than a cheaper price from a competitor.⁴

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

3. <https://telecoms.com/opinion/how-telcos-are-revitalising-their-business-with-improved-customer-experience/>

4. <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-consumer-review-customer-loyalty.pdf>



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 identifiable features of customers who responded well to the proactive approach to allow for enhanced targeting in the future

If a CSP is reminding their customer that their contract is ending, the likelihood of the customer shopping around increases, but if that reminder is given alongside a compelling proactive retention offer, then it may help to mitigate the churn risk.

Conclusions

With the prevalence of price comparison websites, consumer forums, highly competitive pricing, and possible regulatory intervention, retention will always be an unavoidable problem that communication service providers must deal with. Though inevitably some customers will leave, adopting more sophisticated approaches to retention, such as complementing reactive retention with data-driven proactive retention, will allow CSPs to increase customer 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.



Visit contactengine.com

Follow on Twitter [@contactengine](https://twitter.com/contactengine)

Follow on LinkedIn [/contactengine](https://www.linkedin.com/company/contactengine)

Email info@contactengine.com

About

The report is published by ContactEngine Inc.

Registered Office: 6849 Old Dominion Drive, Suite #315, McLean, VA 22101

ContactEngine is a Conversational AI technology that enables brands to proactively engage customers in conversations that fulfill business objectives. ContactEngine automates outbound customer engagement across all channels and generates unique insights into the changing patterns of communication by applying demographic and intent analysis, linguistics and ground-breaking artificial intelligence principles to mass volumes of raw data. ContactEngine transforms the way global brands engage with their customers – saving brands millions and making their customers happier.

For more information, visit contactengine.com