



Building a proactive retention strategy



Introduction

In our previous report ‘Building and Effective Churn Reduction Strategy’ ContactEngine discussed the importance of using data-driven approaches to increase the efficacy of churn reduction strategies in telcos¹. In that paper we discussed how telcos can identify customers likely to churn, but did not discuss the retention offer itself. The purpose of this paper is to present that discussion, with a particular focus on proactivity.

1. <https://www.contactengine.com/insights/building-an-effective-churn-reduction-strategy/>

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 1

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 over-paying 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.

To think of it another way, consider writing a similar pros and cons table from an individual customer's perspective – there would be as many different tables as there are customers. Telcos therefore need the capability to identify the wants and needs of any given customer and have flexible retention offerings that enable those wants and needs to be met as closely as possible. This will likely seem an obvious, perhaps even idealistic point to many, but it is nonetheless an important one – customers increasingly expect companies to treat them as individuals. For example, a recent Salesforce survey found *"70% of consumers said that a company's understanding of their individual needs influences their loyalty, and 69% saying the same of personalized customer care."*²

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. Engaging customers at the right time has the potential to transform retention, and this forms the focus for the sections that follow.



2. <https://www.salesforce.com/research/customer-expectations/>

The reactive retention approach

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”.³ This advice reflects the reactive nature of retention that prevails currently, with the retention process typically triggered only after a customer has notified the company of their intent to leave on or around the end date of their contract.

The commercial logic for reactive retention is clear – by focussing discounts/offers only on those customers that express a desire to leave, it retains as much of any given customer’s revenue as possible. That said, this approach it is not without significant flaws, which include:

- Prior to cancelling their existing service, some customers will have already made the decision to leave and signed with a new provider; when they do contact their existing provider to cancel, it is oftentimes too late to retain them
- It can perpetuate the retention problem, with customers who negotiated an offer at the end of their previous contract expecting to be able to do the same again at the end of their new contract
- If customers are offered a discount on their existing payment, it risks customers feeling like they have been overpaying in the past and that the company had been taking advantage of them previously, which could in turn increase the likelihood of them leaving. As noted in a recent Harvard Business Review article, “if you want their [customers’] loyalty, you have to be loyal in return.”⁴
- It requires significant human resource to operate reactive approaches.

An alternative approach worth further consideration is either a fully or partially proactive one, as described further below.

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.

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

4. <https://hbr.org/2016/04/focus-on-keeping-up-with-your-customers-not-your-competitors>

Table 2

Proactive or reactive retention?

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

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.⁵ 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.

Inadvertent discrimination

Not everyone is equally good at, or comfortable with, negotiating. This presents an interesting moral dilemma for retention – should a single level of discount/retention offer be applied consistently, so that each and every customer is offered a single and best offer, with no scope for negotiation, or should customers that are better at negotiating benefit from getting better deals?

Although the latter approach is an economically sound one and common-practice, it is arguably becoming increasingly risky as regulators and the press focus more on corporate behaviour and potential discrimination. For example, studies show that men are likely to negotiate more often, and more aggressively, than women.⁶ Although impossible to prove without access to sensitive corporate data, it is entirely feasible that men benefit from greater retention-related discounts than comparable female customers. If proven, such a finding could make for uncomfortable headlines and draw the regulatory spotlight onto the pricing practices of the company, or even the industry as a whole.

Even if the risk is perceived to be minimal, it would be wise for telcos to audit their current retention practices and the resulting distribution of discounts or special offers to ensure there is no inadvertent discrimination. After that, the necessary checks and balances should be implemented to prevent such biases from occurring in the future.⁷

6. <http://time.com/money/4421421/men-women-negotiation-styles/>

7. While gender is an obvious place to look for discrimination, it should be looked for across all relevant customer data known to the telco, such as age and geography (which could be a socio-economic indicator)



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. 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.

Finally, no matter what retention approach is adopted by telcos, one thing is abundantly clear – the need for flexibility. To affect more successful retention, telcos need to be skilled, either through data analysis or highly-skilled customer service agents, at identifying any given customer's primary driver(s) for leaving and give those responsible for retention the ability to construct a personalised retention offer that targets those drivers.



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About

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