Curing customer churn

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At a glance

Using available customer data, companies can predict which customers are likely to churn in the near term and can then design efforts to retain them.

It's important to know how each churn reduction effort will affect other parts of the organization.

The most-effective churn management efforts are supported by clear and compelling bodies of data.

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Introduction

Customer churn is often treated like the flu: management assumes the root cause of the problem can't be eliminated and that the best it can hope for is to minimize the symptoms. But in the same way that medical breakthroughs empower physicians to attack the flu virus directly, companies can diagnose and repair the root causes of customer departures and dissatisfaction. In short, churn can be cured.

This paper outlines current challenges in churn management, details leading practices for developing a knowledge of true churn causes and priorities, and covers the organizational challenges that must be overcome to eliminate the root causes of churn and thereby increase profitability.

Potential churn management missteps include:

- over reliance on saves queues and churn models as the primary—or sometimes only—tools for addressing churn
- absence of a clear understanding and prioritization of what causes churn, resulting in less-than-ideal resource allocation for addressing churn
- focus on incomplete performance targets at the expense of overall profitability (e.g., the acquisition group's focus on gross adds, marketing's focus on gross revenue, or the retention group's emphasis on churn or save rates).

Surprising misconceptions about the root causes of customer churn

Too little, too late—the limited powers of the saves queue

Following the old marketing axiom that it's usually more profitable to retain a current customer than to acquire a new one, many companies deploy specialized customer care representatives to handle churn calls. Or at least they use a tool kit with specialized offers that customer care representatives can extend to save a potential churner. In very few instances, however, does the save rate exceed 30 to 40%, meaning that the majority of all attempts to prevent churn are ineffective.

Why do these efforts fall short?

Most times, customers are identified and offered alternative value propositions only after they're already upset about the product or services purchased, or they've already compared competitive offers, or they've already decided to abandon service. They may even have already started the switching process and signed contracts or invested time and effort in installing or getting familiar with a new environment.

In addition, customers are becoming smarter shoppers. For instance, they exchange information about how to either maximize the benefits of a bluffed cancel call or figure out which reasons for cancellation will circumvent lengthy save conversations and get them out of the service painlessly. This poses a dual problem: (1) excessive, expensive save offers extended to customers bluffing about their churn intent and (2) a company's declining ability to save the real churners and gather intelligence about root causes[1]. In summary, the saves queue has limited—and diminishing—power to address churn.

1 Research at a telecom company client showed considerable discrepancy in cancel reasons between cancel reason coding and primary research. Surveyed customers reported they had switched to competitors even though they'd previously stated during the cancel call that they were moving out of the company's footprint.

No silver bullet here—the churn model

Churn models are gaining popularity among companies desperate to stem the tide of customer defections. The idea is fairly straightforward: using the vast amounts of customer data available throughout the organization, companies should be able to predict if the customer is most likely to churn in the near term and then create activities to prevent the churning. It's an appealing proposition. The market is full of relatively inexpensive software packages and experts that build solid churn models in only weeks or months. Any statistician can confirm that the model performs as promised—predicting who is likely to discontinue service.

A churn model—however good its statistical performance—cannot tell why certain customers are about to churn and how to prevent that. The more complex the model's methodology, the more accurate the results—and the harder it is to gain actionable insights about why some customers are at higher risk than others.

Typically, customers with the highest at-risk scores are in the early periods of a service relationship or are about to exit a contract that has penalties for leaving. That's really no surprise. Most companies recognize that these customer segments have a higher churn risk. Returning to the doctor/patient analogy, a churn model that predicts only churn is like an actuarial model that predicts which patients are about to die—but without telling the doctor which diseases to treat.

It's far more profitable to first investigate why customers are leaving. Once the root causes become known, targeting at-risk customers with the right offers can be accomplished with maximum efficiency.

Identifying the root causes of churn

Before churn can be addressed effectively, the causes need to be known. An accurate and detailed depiction of the exact root causes for churn leads to three important findings:

- **Acknowledgment of churn factors** that cannot be influenced (or would be exceedingly difficult to influence in the near term to midterm). Examples are macroeconomic conditions like rising gasoline prices or mortgage rates that put financial pressure on certain segments and prompt voluntary or involuntary churn[2].
- **Quantification of churn** caused by a company's own (profitable) actions. For instance, migration campaigns are often net-present-value positive even though they induce a small amount of churn.
- **Isolation, clear definition, and prioritization** of the churn drivers that can be attacked to increase a company's profitability.

Knowing the first two findings enables a company to set a realistic churn baseline that reflects market realities and other business priorities. The third finding focuses directly on churn reduction efforts.

Process analysis

Unfortunately, the business processes and systems that manage a customer relationship—from sale to service, to cancellation—can inadvertently cause a problematic customer experience. While working effectively for the vast majority of customers, the process breakdowns or system inaccuracies that a few customers experience can be so severe that they directly result in a churn event.

Detailed process analysis can produce a useful waterfall or so-called leaky-pipe report that pinpoints where along the infrastructure certain information is getting lost or mishandled. Because each leak can be tied directly to specific churn events, it's usually easy to do a cost-benefit analysis that would fix the leak.

2 For a wireless provider, we observed a strong correlation between local gas prices and an increase in forced disconnects due to payment defaults four months later with an r-square of 0.8 for low-end credit classes in low-income markets.

Case study: Improving the cross-selling process

A client was launching a cross-selling activity for products processed in two separate legacy systems. A third system was added to support communication and data synchronization between the two legacy systems. But users had to manually enter customer information into two or three subsystems. In cases of incomplete or incorrect information, the system was prone to produce errors in order processing. In addition, more manual steps were required downstream in order processing, and complications or requests for additional data could not be correctly communicated back upstream or to the customer.

We investigated all applicable business and system processes and identified myriad separate issues, each contributing to the loss of customer information and thus incomplete orders. We established a cross-functional client task force to develop preventive solutions and assigned responsibilities for corrective actions. The task force also designed, tested, and supported an early detection system for identifying misaligned orders daily, and it was combined with an automated, Web-based work flow tool for correcting orders before any customer impact. Resolution time for misaligned orders was reduced by 90%, resulting in a significant reduction in order cancellations due to incorrect processing.

Call monitoring

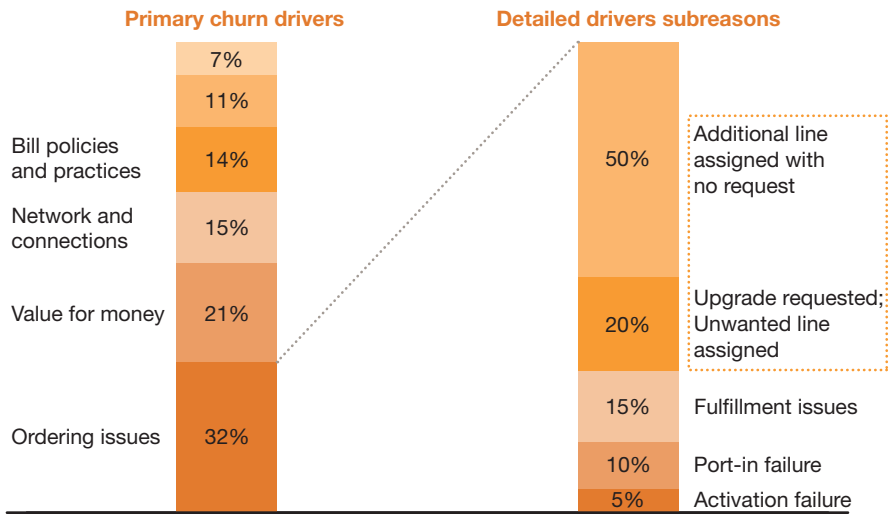
A second tool that can yield insights into root causes of customer churn is structured call monitoring of cancel/save, sales, customer care/billing, and tech support calls. Call monitoring always generates additional knowledge about the nature and frequency of churn drivers, even in those cases where customer service representatives (CSRs) use call or cancel reason trackers (Figure 1). After all, "switch to competitor" is not a root cause for churn. The product, service, or pricing issue that prompted the customer to compare and switch is.

A small call-monitoring team focused on root cause identification can simultaneously track and connect customer comments, CSR compliance issues, and inappropriate or missing policies for specific customer situations. The team can also account for and correct the bias introduced into call reason statistics by:

- inexperienced or indifferent CSRs
- reason code lists that are either too detailed (promoting the use of easily accessible codes) or too broad to accurately pinpoint root causes
- reason code lists that combine root causes and corrective actions in the same list, making identification of the underlying problem more difficult.

In addition, a call-monitoring effort leads to statistically sound insight into how each potential problem area contributes to overall churn.

Figure 1. Case Study: Illustrative summary of true churn drivers



Beyond a more accurate understanding of churn drivers, targeted call monitoring typically yields other actionable ideas that can improve a company's performance:

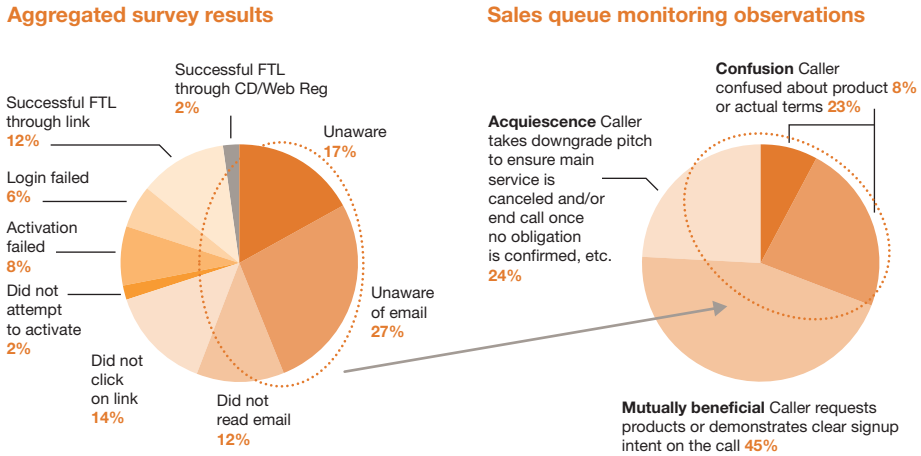
- streamlined call process flows and more-worthwhile data accessible to the CSR during the call
- updated policies and procedures that match current market conditions
- automated reporting on key compliance issues, including call reason coding
- statistical tests that can uncover CSRs who code calls differently from their peer group
- regular reporting of key intelligence back to the CSR team (e.g., which save offer is most successful for which cancel reason).

Primary research

Customer surveys are efficient for complementing and/or confirming findings from process analysis and call monitoring (Figure 2). They're also opportunities to explore customer expectations, knowledge, and perceptions of a particular product or service and customer opinions about what a company must do to establish and maintain a customer relationship. In our experience, customer surveys are useful for separating customer apathy from product or service issues and for corroborating contentious issues that require cross-functional and executive support.

Figure 2. Case Study: Call-monitoring findings corroborated by customer survey

Customer feedback from surveys corroborates high incidence of apathy and confusion on offer



Data analytics

Data analytics is an important tool for clarifying and confirming the other churn reduction techniques. Using efficient statistical methods, we combine data collected from diverse systems, call monitoring, and primary research surveys with elements from a customer data mart (account, usage, and revenue data). The customer data mart can be an existing data store or an ad hoc database created quickly to support analysis. Data analytics is most powerful and accurate when combined with the other three tools—process analysis, call monitoring, and primary research—because these distinguish statistical correlations from true cause/effect relationships. This creates an accurate timeline of those events in the customer life cycle that ultimately lead to churn (Figure 3).

Data analytics also pinpoints specific areas within large and complex operating environments where the number of churn events is disproportionately high. For example, for a telecommunications company, we conducted a wave of analysis looking at churn across devices, plans, billing patterns, and usage behaviors before isolating a subset of channels (and granular points within the channels) that were contributing extensively to addressable churn. Armed with that knowledge, the team was able to aim a very specific set of actions at a small number of contacts and clearly model the impact on overall metrics. This in turn led to easy sizing and prioritization of other churn drivers.

Typical ways of attempting to reduce churn

After churn root causes have been properly identified, quantified, and prioritized, appropriate actions can profitably reduce churn and improve overall performance. The majority of such actions are as follows:

- **Addressable drivers**: Launching efforts to fix problems that are impairing the customer experience and driving churn, such as:
  - practices and capabilities at the point of sale
  - core sign-up, activation, and initial-usage processes
  - fulfillment glitches
  - service and support deficiencies
  - billing practices and capabilities
  - misaligned or inconsistently applied policies
  - product and plan features—or lack thereof.
- **Specialized churn models:** Statistical models scoring specific subsets of customers (e.g., customers about to come out of a contract) and their likelihood to churn due to one particular churn driver (e.g., contract expiry) and/or to respond to treatment (e.g., contract renewal campaign). A separate model is required for each unique churn driver and treatment.
- **Checks and balances:** Business rules and reports regulating the types or amounts of service a customer is allowed to receive (e.g., credit or account spending limits). Exceeding the limit can prompt soft actions (alerts and reminders) or hard actions (service suspension and accelerated collection efforts).
- **Sales channel performance evaluation:** Elimination of unprofitable sales channels or reallocation of marketing or advertising budget to maximize net profit. These steps often require resetting gross add targets, because gross adds may be sacrificed in return for increased net profits.
- **Call center operational efficiency:** Automated tracking of CSR policy compliance (e.g., correct call reason coding based on statistical methods comparing each rep with a peer group) or revised calculation of incentive schemes (e.g., payout only for customers retained longer than two months).
- **Redesigned process flows:** More-efficient processes for order and account processing (both business and technical/system processes); posting of additional information on CSRs' view screens for additional insights; revision of company policies to maximize customer profitability.
- **Implementation of rigid marketing campaign key performance indicator tracking:** Compulsory pre- and post-campaign business cases ensuring only net-present-value-positive campaigns get executed; testing to validate campaign performance before broad rollout; insights into how campaigns affect such Key Performance Indicator (KPI) as revenue and churn so organizational targets and performance expectations can be adjusted.

Executing for results

Depending on the depth of existing insights, the availability and quality of data, the urgency of the situation, and other factors, projects can be configured in many ways. Figure 4 shows a logical structure for a comprehensive churn analysis. After such a project, a team will be equipped with the acumen and focus necessary to successfully attack churn.

Aligning objectives with performance metrics

Lowering churn typically supports the primary strategic objective to reach maximum profitability, recognizing that profitability is the result of complex interactions between such metrics as gross adds, recurring and onetime revenue streams, customer lifetime value, cost of acquisition, and cost of serving the customer. Lowering churn without adversely affecting at least one of the other components is rare. In fact, we've seen many promising churn reduction (and thus profit-increasing) initiatives fall short because the departments responsible for other metrics focused on reaching their own performance targets—even at the expense of churn objectives.

Thus it is crucial to determine how each churn reduction initiative will affect other parts of the organization and subsequently rearrange objectives for all departments affected by various initiatives. For example, if profitability can be increased and churn can be lowered by shutting down underperforming sales channels, the gross add targets need to be adjusted. Otherwise, the group responsible for acquisition may undermine the initiative by creating countermeasures to reach its own performance targets.

Ideally, the key metrics supporting the profitability equation would not be assigned to separate owners. At a minimum, management must make sure that separate departments do not get tempted to sacrifice overall profitability so they can reach their own performance targets.

Since most churn reduction initiatives require changes and support across several functional areas, it's important to create buy-in and to marshal cross-functional expertise for executing against the identified churn root causes. Because hard decisions will need to be made, it's essential that a clear and compelling set of facts get established that will focus and drive successful churn management initiatives.

Figure 3: Typical Churn Reduction Project Timeline

	Phase 1—Hypotheses generation	Phase 2—Analysis	Phase 3—Cost-benefit analysis
Modules/ sequence	Analysis/assessment Solution brainstorming/ hypotheses generation	Process analysis Call monitoring Primary research Data analytics	Prioritization and implementation planning
Duration	**1 week**	**4 to 12 weeks**	**1 to 2 weeks**
Objectives and actions	• Gain understanding of current processes, policies, and databases • Determine relative magnitude of churn problem • Interview key process owners • Develop hypotheses on root causes to be tested in second phase	• Identify root causes and interactions between systems, policies, employee actions, and customer expectations • Understand quantitative impact of each churn driver • Establish ability to efficiently test and measure impact of solutions	• Conduct business cases for individual root cause of treatments • Develop roll out schedule and resource requirements • Estimate impact of rollout on Key performance indicator

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