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RETAIN CUSTOMERS AND WIN

HOW A COMPREHENSIVE
CHURN MANAGEMENT APPROACH
IMPROVES MARGINS

A White Paper by
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“GET OUT THERE AND SELL!!!”

Each morning, sales executives across the globe marshal their resources in coordinated efforts to acquire new customers. Little expense is spared. Sales teams employ special promotions, reward programs, techniques for winning trust, and an exorbitant volume of invaluable customer data. They are joined by legions of marketing consultants, interactive agencies, psychographic experts, sociologist demographers, and others, all working together to close the deal. And with each quarterly release of financials, you can almost hear the collective jubilation of teams that exceeded their sales goals—in glaring contrast to the groans of those that did not..

Acquiring customers is a fundamental capability of any successful business. The teams described above add tremendous value to their organizations’ top-line growth. However, a relevant question must be asked: Is there an equally aggressive effort to keep the customers they already have? Most companies would have to answer “no”.

Everyone has heard the adage “It costs less to retain an existing customer than to find a new one.” Yet, for some reason, newly acquired customers are often much more highly prized than “saved” customers. This difference is evidenced in resource allocation and compensation models, both of which serve to guide corporate priorities.

Most companies spend far less on retention (churn avoidance) than on acquisition. In doing so, they can overlook an enormous opportunity to improve the efficiency of their marketing dollar.¹

Given how aggressively you search for one new customer, are you as devoted to keeping the ones you already have?

¹ <http://www.dmnews.com/GLOVES-OFF-Focus-spend-on-retention-or-acquisition/article/105075/>

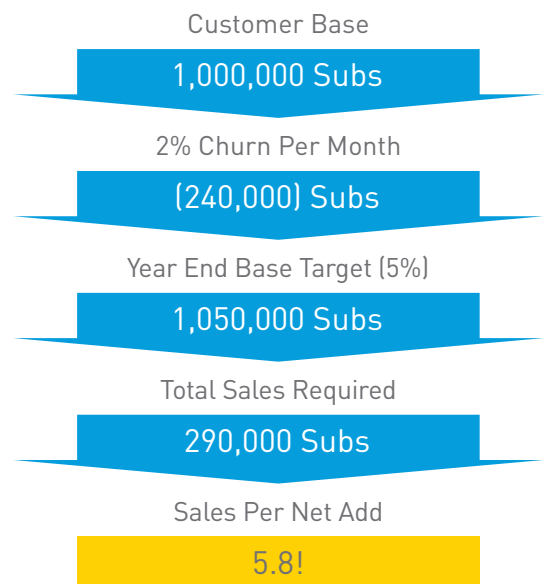
CHURN: A SILENT KILLER

An exclusive focus on customer acquisition is akin to overstuffing pockets that you know are full of holes—you may cover up the problem for a while, but it is a costly strategy! Businesses that work year-round to “fill their pockets”, hoping they will be better positioned after churn, are often disappointed. The following hypothetical example illustrates the dilemma:

The Daily Tribune is a regional newspaper with 1,000,000 subscribers. The Tribune’s leadership team is a savvy group that understands market forces are not favorable for huge growth this year. As such, they set a conservative 5% annual growth target. Due to The Tribune’s excellent reputation for quality news reporting, they have a devoted readership and average monthly subscriber loss of only 2%.

Based on the numbers above, The Tribune’s target is to have 1,050,000 subscribers in 12 months. Unfortunately, this doesn’t mean that the sales group only needs to produce 50,000 new customers. The Tribune is also losing 2% of its base each month—or 240,000 subscribers a year. Therefore, if they are going to meet their target, The Tribune is actually going to have to gross 290,000 sales or **5.8 sales per net add** ($5.8 \times 50,000 = 290,000$; Figure 1). To move one subscription closer to their annual target, our hardworking friends at The Tribune actually have to close 5.8 contracts—five to replace churning customers, and one net new contract. They have to process 5.8 customer files and send out 5.8 subscription gifts. It gets worse. If they have a call close rate of 5%, they have to reach out to over **100 leads to get one single net subscriber!**

The Daily Tribune Churn Example (Figure 1)



COMPREHENSIVE CHURN MANAGEMENT (CCM)

Most organizations appreciate the need to reduce churn and have implemented dedicated programs to do so. However, only a coordinated and comprehensive effort can reduce churn in a structural way that will lead to sustainable competitive advantage. Many churn initiatives address only the symptoms of churn while ignoring root causes. Most wireless carriers, for example, impose early termination fees to slow defections while treating service and support centers as an expense to be minimized. Conversely, many (deregulated) public utilities still see their customers as “rate payers” and work to improve internal processes and overall satisfaction, but permit customers to cancel their service without making any effort to change their minds.

For companies to reduce churn, practitioners should proactively apply Comprehensive Churn Management (CCM) to address churn in a meaningful, effective, and most importantly, comprehensive way. CCM requires that businesses consider the entire customer experience and work to reduce churn not only at the point of defection, but also at the point of origin. There are three pillars of this approach: Inbound Retention, Retention Marketing and Structural Retention.

“FedEx customer experience professionals... have found that a 1% improvement in customer retention resulted in \$100 million in revenues.”

— Forrester Research, Customer Experience in a Down Economy, 2008

INBOUND RETENTION

Who in your company responds to customer requests to cancel service? Billing specialists? Store employees? Technical specialists? Customer care generalists? Are there systematic ways to process defections that don't involve human interaction (e.g., can customers send an e-mail or submit a Web request)?

In subscriber-based business models, customers must directly contact the company or an agent to request a service cancellation. Given that necessity, strategically managing that interaction creates a tremendous opportunity to change the customer's mind and prevent the defection. Below are the primary components of successful inbound retention:

1) Specialized Channel

Whatever exit channel a customer chooses, that interaction is the last, best opportunity to change the customer's mind. For this reason, the first and most essential step in CCM is to funnel all voluntary customer exits through a dedicated inbound retention channel. In this channel customers are met by trained specialists equipped with skills and promotions specifically targeted to "resell" the customer. Every customer who exits without going through this channel is a missed opportunity.

2) Targeted Retention

In the Daily Tribune example, if each of the 240,000 customers lost annually has a retained value of \$250, The Tribune is losing \$60 million every year! Given the enormity of that number, the case is strong for offering financial incentives to customers desiring to cancel their subscription. However, customers also attempt

to defect for many non-financial reasons (poor customer experience, product performance, etc.). Inbound retention specialists should be equipped to address all defection reasons. Retention offers should be designed so that they are:

- Aligned with customers' expected lifetime value
- Targeted to a specific churn reason
- Distributed over a predetermined period of time rather than as a single lump sum

Creating the offer is only half the process. Offer presentation is just as critical. It doesn't do a company much good to develop an arsenal of effective offers if the retention agent fails to deliver the correct offer when it is needed. While there are many tools and practices to present offers, best practice is to employ a computer-based delivery system that guides the agent/customer interaction and automatically delivers the best-fit offer along many dimensions. Advantages of these computer-based matrices include:

- Optimized offer presentation on more than two dimensions
- Talking points to assist agents in "reselling"
- Ability to track and report offer retention effectiveness
- Security and controls around offer delivery

Reselling requires exceptional listening skills, willingness to probe, the ability to empathize, and a positive approach. How well are your retention agents trained in the art of reselling?

3) Training

The art of retention is based on a unique set of learned abilities. Though it draws from many of the same skills as sales, retention is unique in that the customer has already weighed the pros and cons of keeping the service and reached the thoughtful conclusion to defect. Therefore, a retention agent has to change the customer's mind. This involves understanding the objection, earning trust, and influencing the customer to recalculate that decision. Often, the decision to defect occurs after the customer has had a negative experience, so the agent is actually required to resell the product or service. Reselling requires exceptional listening skills, willingness to probe, the ability to empathize, and a positive approach.

4) Incentives and Measurement

Retention strategies are more likely to be successful when incentives and metrics are applied in alignment with the organization's overall retention objectives (i.e., retaining customers or reducing the overall numbers of defections). There are two common errors made with retention measurements and incentive plans. First, organizations tend to prefer instant gratification and focus more on the initial "Save" than on long-term retention. The result is that inbound retention agents can lose focus on understanding and resolving the customer's actual problem. Second, organizations often mistakenly substitute one measurement for another, assuming the two are interchangeable. Inbound call centers almost universally measure performance by counting Saves and tracking Saves as a percentage of defections. While this is a useful metric, companies must remember that the goal of CCM is not just to increase the number of Saves—it is to reduce churn. Inbound centers seldom track the volume of disconnects; typically they assume that disconnects are the direct inverse of Saves. In practice, however, this is rarely the case. Churn management teams should measure defection rates and include them in the overall retention strategy.

RETENTION MARKETING

Retention marketing is the second pillar of CCM, and it requires practitioners to advance their thinking from traditional marketing doctrines. The distinction is that companies must market, not only to expand market and wallet share, but also to hold onto their existing share. Companies that do this enjoy the benefits of customers that stick around longer and spend more money. Retention marketing is an extremely powerful tool that nets measurable results and returns significant value to organizations with the foresight to employ it.

Retention marketing permits companies to anticipate when customers will decide to defect and to counteract specific churn drivers with customized interventions before the defection can occur. On first impression, retention marketing may seem somewhat radical; however, it is based on marketing processes that have proven their effectiveness over decades.

Retention Marketing Framework



There are four primary steps that constitute the retention marketing framework.

1. Discovery Companies must understand why their customers are defecting. The answer to this question should be data-driven and captured at a level that is detailed enough to guide actionable initiatives. Referring to the Sonic Mini-Case on page 8, Executives learned from exit interviews that a large number of customers complained of ineffective support processes. Combining that information with very poor first-call resolution statistics (benchmarked against the rest of the wireless industry), the issue was clear.

2. Targeting Identify upfront the customers that are “at risk.” Targeting can be as simple as single factor campaigning, or as sophisticated as optimal predictive pattern recognition and causal modeling (depending on the size and capabilities of your organization). Sonic realized that its organization didn’t have the appetite for a large-scale retention marketing roll-out with dedicated agents, tools, etc., so they developed a simple, single factor campaign (support tickets) and used existing resources to perform the intervention.

3. Intervention The goal is to change your customers’ minds by resolving whatever issue they have. This may come in the form of a gift, an e-mail, a phone call, or even a text message. This step is called an intervention because the point is to intervene in customers’ decision to defect. Sonic’s intervention was a phone call from a skilled support agent, because that is what most directly addressed customer issues. However, they easily could have chosen to apply any number of other interventions had the data led them in a different direction.

4. Measurement The overall success of your retention marketing effort is measured by comparing the churn in the targeted group to a statistically significant control group with the same characteristics. Measurement is arguably the most important step of all. A poorly constructed set of reports will do nothing to declare the success of your labor. The technical agents who made the calls on Sonic’s retention marketing effort probably knew that they were having a positive impact on customer retention. However, without the financial reports showing they had saved the company \$24 million, they might not have been funded the following year.

POWER OF RETENTION MARKETING

A SAMPLE CASE STUDY

Sonic Wireless is a regional provider of wireless telecommunications services with 1,000,000+ subscribers, an excellent service reputation, and an average monthly churn of 2%. Sonic's management team found that customers with three or more conversations with the Support Department in a single month were four times more likely to defect during the next 60 days. Armed with this knowledge, they embarked on a campaign to reach out to people in their customer base that met these criteria, and managed to reduce their monthly churn from 2.0% to 1.8%—saving 24,000 customers in one year alone by proactively reaching out to those customers who were likely to defect. Applying common analytics to its customer base, Sonic was able to determine that a customer's monthly value (after-tax) to the company is \$30, while the lifetime value (at an average 40-month lifespan) is just over \$1,000². So those 24,000 saved customers were actually worth an astounding \$24 million in NPV contribution!

2 Assuming a weighted average cost of capital of 9.5%

It is a far more effective practice to use the retention information you have to actually change your processes so customers do not defect in the first place.

STRUCTURAL RETENTION

Once in place, inbound and outbound churn programs deliver priceless intelligence on why customers defect. There is a tremendous opportunity to use this data to proactively change the way customers interact with your business, thus preventing churn before it manifests. In short, while Inbound Retention and Retention Marketing reduce defections and increase profitability, they do not address the underlying causes of churn. This leads us to the third and final pillar of CCM: Structural Retention.

The Tribune again provides the illustration. Until recently, whenever they learned that a customer wanted to terminate service due to persistent late deliveries, they would send an e-mail to the customer with an apology and a service discount for the next few weeks. After several years of this policy, an enterprising young manager pointed out that nearly 50% of the base was likely to receive at least two late delivery discounts during a given 12-month period. The revenue impact of this was substantial, but more importantly, further analysis showed that a subscriber who received a third discount had virtually no likelihood of renewing a subscription and was lost for good.

With such compelling data, the customer service management team at The Tribune assigned a resource to investigate the delivery process and determined that route supervisors often assigned drivers more deliveries than they could handle before 7:30 a.m. Additional probing revealed that the compensation plan for these supervisors was heavily weighted towards maximizing the number of deliveries per van (a cost measure) as opposed to on-time deliveries per van (a quality measure). A simple change in the compensation plan could fix the problem and save millions of dollars.

Organizational churn drivers vary widely depending on the size and focus of your business. The most important churn driver at one company may not even make the top 10 at another. The breadth of possible churn initiatives makes it critical to establish a **single exit channel** with excellent data tracking abilities. In most

organizations, resource allocation decisions are fraught with political landmines. The easiest way to steer clear of these is to allow the voice of the customers (tracked at the exit channel) to make your case for you. “Volume of defections” can be factored along with “intensity of effort required” to create a simple prioritization matrix of all countermeasures. With a little more work, optimal portfolios can be constructed that yield higher benefits by factoring in additional decision dimensions.

It is a fundamental exercise to learn why customers defect so that you can respond to attempted defections with a counteroffer. It is, however, a far more important and effective practice to use that information to change your internal processes so that valuable customers do not defect in the first place. Structural retention addresses churn at the origin.

Things to Consider when Implementing Comprehensive Churn Management

Pitfalls

- Initiatives fail to get off the ground (get executive buy-in) because their value is not effectively communicated
- Organizations focus on metrics that don't directly correlate to churn
- Churn data captured and reported is either too high-level or too detailed
- Customer retention value is inaccurate
- Offer presentation does not accurately align with NPV contribution
- Company fails to develop a continuous improvement plan
- Company focuses on initial Save rather than retention
- Business owners of organizational initiatives impacting retention do not communicate with each other

Success Factors

- Churn Management must be 100% data driven
- Ideally, all churn initiatives should roll up to a single executive sponsor
- Time must be spent to perform detailed analysis of churn reasons and effective interventions
- Most importantly, a team of experienced advisors must be assembled

CONCLUSION

Despite compelling evidence of its critical impact on business success, customer churn reduction is still an overlooked opportunity at many companies. Organizations continue an inefficient use of resources by trying to “overstuff their pockets” with customers rather than optimally balancing investments in new acquisition and customer retention. In addition, traditional firms that devote resources to churn management would recognize an even greater benefit by taking a more comprehensive approach to their churn strategies. A company that launches an inbound retention center for all products but then neglects to remediate organizational causes of churn earns a smaller return on its retention, CRM, and acquisition marketing efforts. The select few companies that embrace a comprehensive approach, within a dedicated retention organizational structure, are ultimately rewarded by higher customer satisfaction and higher profits.

Treat every customer as if they sign your paycheck...because they do.

ABOUT THE AUTHORS

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Trace has worked with local and national organizations on projects including customer retention, business planning, process improvement, and regional competitiveness studies. Prior to joining North Highland, Trace worked for the Council on Competitiveness, a national think tank in Washington, D.C., and founded a company offering network deployment and consulting services to wireless carriers throughout the Southeast. Trace holds an MBA from the Georgia Institute of Technology and a B.A. in International Affairs from The George Washington University.

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INFINITELY DEFINITIVE

Of what value is a great solution that's not fully understood and embraced by those invested in it? As far as we're concerned—not much. That's why we don't jam our work with pages of obscure data and industry jargon. We are concise and to the point, seeking clarity in all communication. Yet all of our work is informed by our broad and deep expertise in industry best practices.