AltmanVilandrie & Company

Churn Reduction – The Hidden Danger

By Dan Chu

The telecom industry has been deeply impacted by the worst recession since the Great Depression. Adoption of new services (especially premium services) has slowed, customers have reduced service, and customer churn levels have increased as consumers reduce expenses and businesses lower costs or close. These factors are forcing companies to respond through a variety of measures. Some operators have been pushed into financial and operational restructuring, most have reduced employee headcount, and many have rationalized capital investments.

However, one common thread with nearly every operator is the creation (or revitalization) of churn propensity modeling and customer retention programs. With churn rising due to economic, and in many instances competitive reasons, operators are asking, "which customers are most likely to churn?" and "how can I reduce my exposure to customer attrition?"

Most approaches follow a similar pattern:

First, identify variables that could be correlated with churn (customer or revenue).

Second, develop a regression model, testing which variables have the greatest predictive power.

Third, identify customers segments that exhibit a high risk of churn given overlap with the key variables.

Fourth, design and execute programs to retain those customers.

Of course, each company takes a slightly different analytical approach (e.g., a logit model or a multi-variate regression) that often results in the adoption of different types of retention programs. However, most programs that we observe do not deal effectively with one significant problem in churn propensity modeling: oversaves.

What are oversaves? Despite the best churn propensity efforts, all retention programs will inadvertently target customers that never had any intention of leaving, resulting in unnecessary expense and write-down of good revenue. Nearly all churn efforts that we see from operators pay insufficient attention to this specific problem.

Fortunately, several approaches are available to reduce oversaves. Some analytical techniques can reduce the risk. Another powerful option is to simply focus churn programs on customer winbacks. Contrary to common wisdom "that it is cheaper to retain a customer", winback activity is usually more efficient than retention offers, precisely because of the oversave effect.

Examples of proactive methods of reducing oversaves include designing the churn regression to ensure the capture of the right variables, and designing the retention offer carefully to minimize oversave risk. A key issue in retention offer design is determining the appropriate point in a customer life to deploy a targeted tactic. It is not always when the contract is close to expiring. Generally, the more targeted the offer at the time of a specific customer event that drives dissatisfaction, the better the payback. Furthermore, the size of the offer must appropriately match the quantified risk of an oversave (naturally, the greater the risk, the less generous the offer).

Operators must think more analytically about churn reduction beyond simply targeting at-risk customers. Not doing so can introduce unintended margin risk that outweighs the benefits of any retention initiative. Real retention programs requires not just specific analysis aimed at reducing the churn rate, but also understanding the full churn lifecycle. This starts with setting up the right metrics to measure the progress of churn initiatives (such as revenue churn, tracking customer cohorts, etc.) and continues with an ongoing cycle of measurement, analysis, and program development.

Lastly, and most importantly, it is critical to take a full revenue and profitability view on churn. Companies may be more profitable by letting some customers churn at a higher rate, prioritizing the areas where churn can be economically controlled, and closely studying the oversave issue. It is easy to isolate churn reduction to just one of many programs that a company pursues, but in truth, it should be an extension of true financial and operational discipline.

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