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The secret to reducing churn

Leveraging analytics for better customer insight

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ABSTRACT

INDUSTRY AND MARKETING ANALYSTS AGREE: AS THE TELECOMMUNICATIONS INDUSTRY MOVES FORWARD, EFFECTIVE USE OF CUSTOMER ANALYTICS WILL BE ESSENTIAL TO SUCCESS. WHAT'S NEW IS THAT THESE ANALYTICS WILL BE PROACTIVE RATHER THAN REACTIVE (FOCUSED ON DIFFERENT STAGES AND ACTIONS IN THE CUSTOMER LIFECYCLE) AND POWERFUL IN THEIR COORDINATION ACROSS DIFFERENT ORGANIZATIONAL TOUCHPOINTS.

A NEW FORRESTER REPORT[1] OFFERS IMPORTANT INSIGHT INTO THE ANALYTIC OPPORTUNITIES AND CHALLENGES BUSINESSES NOW FACE. FOR TELECOMMUNICATIONS COMPANIES INCREASINGLY LOOKING TO MINIMIZE CHURN, MAXIMIZE LOYALTY AND DIFFERENTIATE OFFERINGS, THE INSIGHT FORRESTER SHARES IS MORE IMPORTANT NOW THAN EVER.

THIS WHITEPAPER EXPLORES THE DRIVING NEED FOR A NEW ANALYTICAL PERSPECTIVE AND THE OPPORTUNITIES THAT NEW ANALYTICS, PARTICULARLY UPLIFT MODELING, HAVE FOR HELPING TELECOMMUNICATIONS COMPANIES RETAIN CUSTOMERS, STRENGTHEN RELATIONSHIPS, AND INCREASE CUSTOMER LIFETIME VALUE. WITH THE RIGHT APPROACH, EVERY ORGANIZATION CAN FIND WAYS TO IMPROVE THE CUSTOMER EXPERIENCE.

...COMPANIES NEED GREATER INSIGHT TO ACHIEVE POSITIVE, PROFITABLE DIFFERENTIATION WITH EXISTING CUSTOMERS.

Industry perspective: seeking opportunity within

Once driven almost entirely by customer acquisition, the telecommunications industry is increasingly challenged by saturated markets, tighter margins and customer churn.

Consider, for example, that with almost 6 billion mobile-cellular subscriptions, global penetration reached 86 percent in 2011 and 105 countries boast more mobile-cellular subscriptions than actual inhabitants.[2] Consumers and businesses globally find themselves paying on average 18 percent less for entry-level information and communication technology services than they were two years prior and more than 50 percent less for high-speed Internet connections.[3]

A 2012 industry study by the CMO Council indicates that telecommunications companies show substantial propensity for customer churn: 24 percent of consumers reported that they are "on the fence and willing to consider switching carriers for better service, better packages, or better phone upgrades." Some 18 percent of survey respondents reported actually switching in the last 12 months.[4]

At the same time, only a fraction of telecommunications marketers report that they are confident in their knowledge of customer retention, profitability and lifetime value. Most state that they are actively engaged in efforts to up-sell or cross-sell service or product offerings to existing customers. Less than a third of those report that their efforts have resulted in significant gains.

To stand out in this new phase of the industry lifecycle, companies need greater insight to achieve positive, profitable differentiation with existing customers. Achieving this differentiation will require a shift in customer analytics to more effectively drive value for both customers and the business.

Reactive instead of proactive: tracking vs. driving results

Across industries, analytics have traditionally been used to track and measure results after the fact. They indicate whether goals have been reached, campaigns have been successful, customers are happy. Reactive, score-keeping analytics are a cost of doing business. Proactive, predictive analytics and real-time optimization, on the other hand, have the potential to drive business results.

In *How Analytics Drives Customer Life-Cycle Management*,[1] Forrester outlines key considerations for all analytical avenues companies pursue. These valuable do's and don'ts can help achieve best results:

Do's	Don'ts
Analytics must yield intelligence, not information. Be sure of: • Enforceability to drive business results • Accuracy to instill confidence in the output of analytics • Speed and timeliness to ensure relevance at the point of interaction	Don't persist in a funnel-based approach that traps you into: • Relying on volume growth versus long-term profitability • Obsessing about channel metrics versus customer metrics • Settling for descriptive, aggregate analysis

Precursors to effective analytics

Businesses today do not suffer from a lack of data. To the contrary, they are inundated with it. In fact, respondents to Forrester's State of Customer Analytics 2012 report that managing and integrating data from multiple sources (54%) and ensuring data quality (50%), represent the biggest inhibitors to developing sophisticated customer analytics. As telecommunications companies investigate opportunities to jumpstart their analytics, it's important to look for solutions that can incorporate necessary improvements to data quality and integration.

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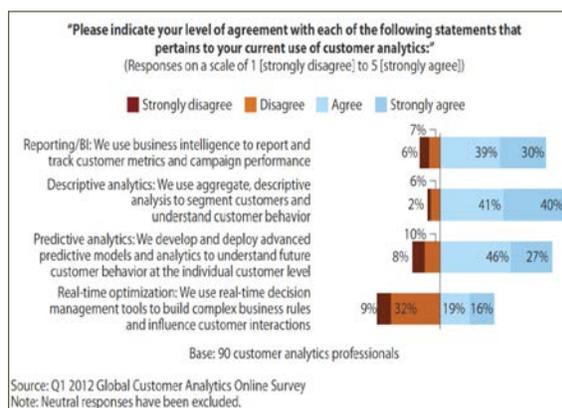
Leveraging analytics for better customer insight

Expanding powers of prediction with uplift modeling

Today, many businesses incorporate some form of predictive analytics.

Yet, as noted earlier, most telecommunications companies have seen little benefit from cross-sell and up-sell, and customer churn is a growing concern.

A relatively new form of predictive analytics, uplift modeling, offers telecommunications companies a more cost-effective way to approach up-sell and cross-sell while reducing churn. Designed to home in on the potential for creating incremental value, it helps companies focus their offers on customers with highest potential impact and actively do nothing for those where there is nothing to gain.

Also known as incremental modeling, uplift modeling is designed to predict the change in individual customer behavior that will occur as a direct result of a marketing treatment. Taken cumulatively, it enables businesses to focus marketing efforts on only those customers who will

Current maturity in use of customer analysis (neutral survey responses excluded)[6]

The value of data and analytics

In thinking about customer data, it's important to recognize that it is of little to no value if not effectively put to use. A careful cost-benefit consideration is necessary to focus analytical activities on opportunities with strong return on marketing investment (ROMI). To quote Gartner: "The value of the data is actually zero without using analytics, business intelligence or other systems to manipulate and action the intelligence gathered from the data."[7] Both Forrester and Gartner take this a step further, pointing out that the value of such data could even be negative, given the costs of the systems required to generate them.

react positively to a message, while weeding out those that will respond anyway, will never respond or could react negatively to a solicitation.

How uplift works

Uplift considers, in the context of any campaign or engagement, where a customer fits within four categories (persuadables, sure things, lost causes and sleeping dogs), recognizing only the customers in one category. "Persuadables" represent potential for incremental gain.

Clear benefits to this uplift modeling approach include:

• **Reduced churn and increased revenue:** Across industries, uplift modeling has generated huge improvements in customer retention. Major telecommunications companies using uplift modeling today report churn-rate declines of more than 20 percent.[7]

• **Minimized investment relative to return:** Uplift modeling enables businesses to be more prudent with their promotional time and money, generating tremendous incremental revenue as the result. For example, Telenor

"UPLIFT ANALYSIS IS A MUST-CONSIDER CONCEPT FOR EVERY ORGANIZATION WITH SIGNIFICANT CAMPAIGN MANAGEMENT ACTIVITIES."
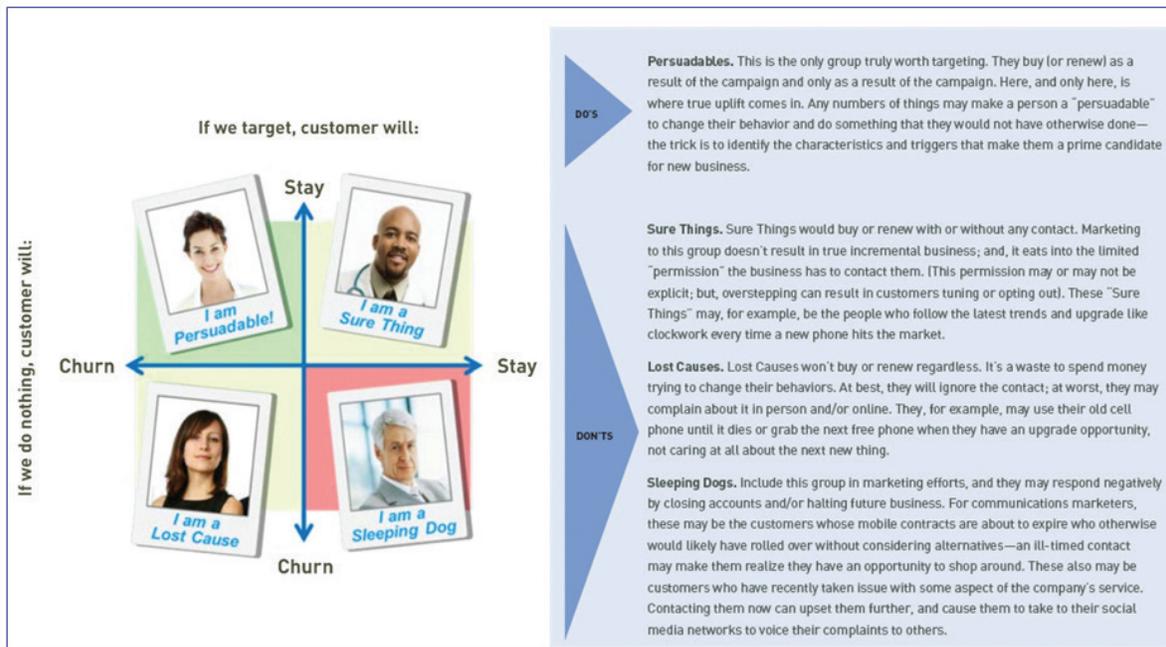## GARTNER, 2011

Group, one of the world's largest mobile providers, used next-generation targeting from Pitney Bowes Software for its customer retention (churn) campaigns, which removed negative effects and simultaneously decreased both churn and campaign costs. The company reduced spending by 40 percent, while reducing churn (i.e., increasing retained revenue) by 36 percent.

It is also important to consider uplift, and other analytics, in a broader context. Analytics that improve the overall customer experience can drive a significant increase in customer lifetime value.

Customer engagement: a missed opportunity?

As traditional marketers approach the challenge of churn, they typically think in terms of retention. This focus, in today's world, is often too narrow and too company-centric. It asks: *How do we keep our customers?* rather than considering the more customer-centric question: *How do we keep our profitable customers happy/satisfied/loyal so they stay?* The latter question focuses on providing customer value through improved engagement. This is where uplift comes in.
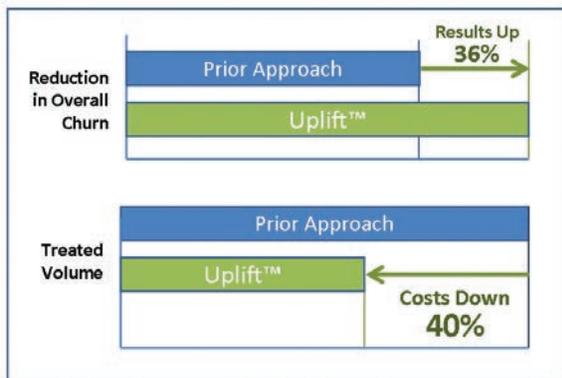
Uplift modeling specifically looks at keeping engagements with the customer positive for the customer. In today's

If we target, customer will:

Stay — I am Persuadable! / I am a Sure Thing

Churn ←→ **Stay**

If we do nothing, customer will:

I am a Lost Cause / I am a Sleeping Dog

Churn

DO'S

Persuadables. This is the only group truly worth targeting. They buy (or renew) as a result of the campaign and only as a result of the campaign. Here, and only here, is where true uplift comes in. Any numbers of things may make a person a "persuadable" to change their behavior and do something that they would not have otherwise done—the trick is to identify the characteristics and triggers that make them a prime candidate for new business.

Sure Things. Sure Things would buy or renew with or without any contact. Marketing to this group doesn't result in true incremental business; and, it eats into the limited "permission" the business has to contact them. (This permission may or may not be explicit; but, overstepping can result in customers tuning or opting out). These "Sure Things" may, for example, be the people who follow the latest trends and upgrade like clockwork every time a new phone hits the market.

DON'TS

Lost Causes. Lost Causes won't buy or renew regardless. It's a waste to spend money trying to change their behaviors. At best, they will ignore the contact; at worst, they may complain about it in person and/or online. They, for example, may use their old cell phone until it dies or grab the next free phone when they have an upgrade opportunity, not caring at all about the next new thing.

Sleeping Dogs. Include this group in marketing efforts, and they may respond negatively by closing accounts and/or halting future business. For communications marketers, these may be the customers whose mobile contracts are about to expire who otherwise would likely have rolled over without considering alternatives—an ill-timed contact may make them realize they have an opportunity to shop around. These also may be customers who have recently taken issue with some aspect of the company's service. Contacting them now can upset them further, and cause them to take to their social media networks to voice their complaints to others.

Customers are organized into four categories to identify their potential for incremental gain.

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Retention marketing with uplift produced eleven times the ROI for Telenor Group. Reducing treated volume by 40% resulted in a 36% retention improvement.

fast-paced, over-messaged world, consumers have little patience for messaging that does not offer a benefit. They appreciate and increasingly expect interactions that show that the business understands them.

Uplift touchpoints

Uplift modeling has proven its worth in an outbound context, helping marketers to determine when and what communications should be sent (and not sent). It is designed specifically to increase ROMI and demonstrate customer knowledge.

Uplift modeling can also be used in a real-time context to help drive best-next-actions on an inbound basis. This helps join campaign activities across touchpoints for a more unified customer engagement experience and enrich profitable customer relations.
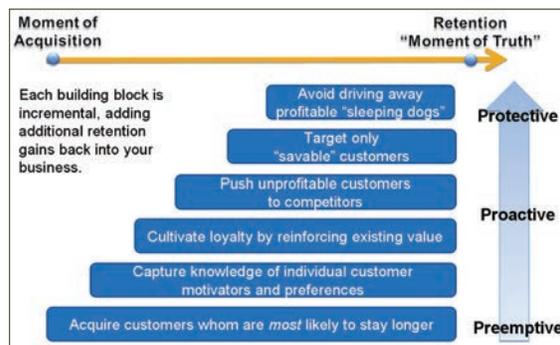
Strategic retention marketing essentials

Retention marketing is one of the most challenging practices to do well due to its complexity. While often considered a tactical activity that only occurs "at the retention moment of truth" when the customer renewal date occurs, retention marketing is much more. Success can actually be established back at the "moment of acquisition".

Retention marketing is difficult because:

1. Not all potential customers are created equal: Some customers will be less likely to have a long lifespan with your business.

2. Individual customer motivators are different: Typical retention marketing groups offers and actions by defined segments. The problem is that different customers care about different things and take actions for different reasons. The business needs a means for capturing, understanding and acting upon individual level insight.

3. Some customers are worth more than others: Not only will some become more valuable than others, some will become more costly as well.

4. Likelihood of attrition becomes evident long before they leave: Waiting until the retention moment of truth limits your success. Businesses need a capacity for understanding downstream risk and getting in front of it.

5. For some, churn marketing actually accelerates attrition: As much as 20% of your retention marketing could in fact be pushing your customers away faster.

BUSINESSES THAT SEEK TO MAXIMIZE RETENTION EFFECTIVENESS NEED TO PRACTICE A MORE COMPLETE STRATEGY TO AVOID LEAVING MONEY ON THE TABLE.

Strategic retention building blocks avoid unnecessarily lost business and lost revenue to ensure maximum program profitability.

For these reasons, businesses that seek to maximize retention effectiveness need to practice a more complete strategy to avoid leaving money on the table.

Watchwords for intelligent analytics

Overall, as companies seek stronger analytical results, Forrester advises that to benefit from customer analytics across the life cycle, customer intelligence professionals must:[1]

• Examine the cost/benefit of analytics intervention

• Seek help from analytical technology and service providers

• Get the data house in order first

• Focus on analytical process efficiency

• Assemble an analytics governance team

Analysis should be proactive, customer focused, results-oriented and designed for long-term value.

Learn more

Telecommunications companies are increasingly challenged to minimize churn, maximize loyalty and differentiate offerings. To be successful, analytics must yield value-added intelligence that can drive business results, instill confidence and ensure relevance at the point of every customer engagement. Pitney Bowes Software offers a powerful suite of interactive tools, including Portrait Uplift, proven to improve customer experience and increase customer lifetime value. To learn more, visit us today at pb.com/software.

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