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Maximizing Customer Retention

A Strategic Approach to Effective Churn Management

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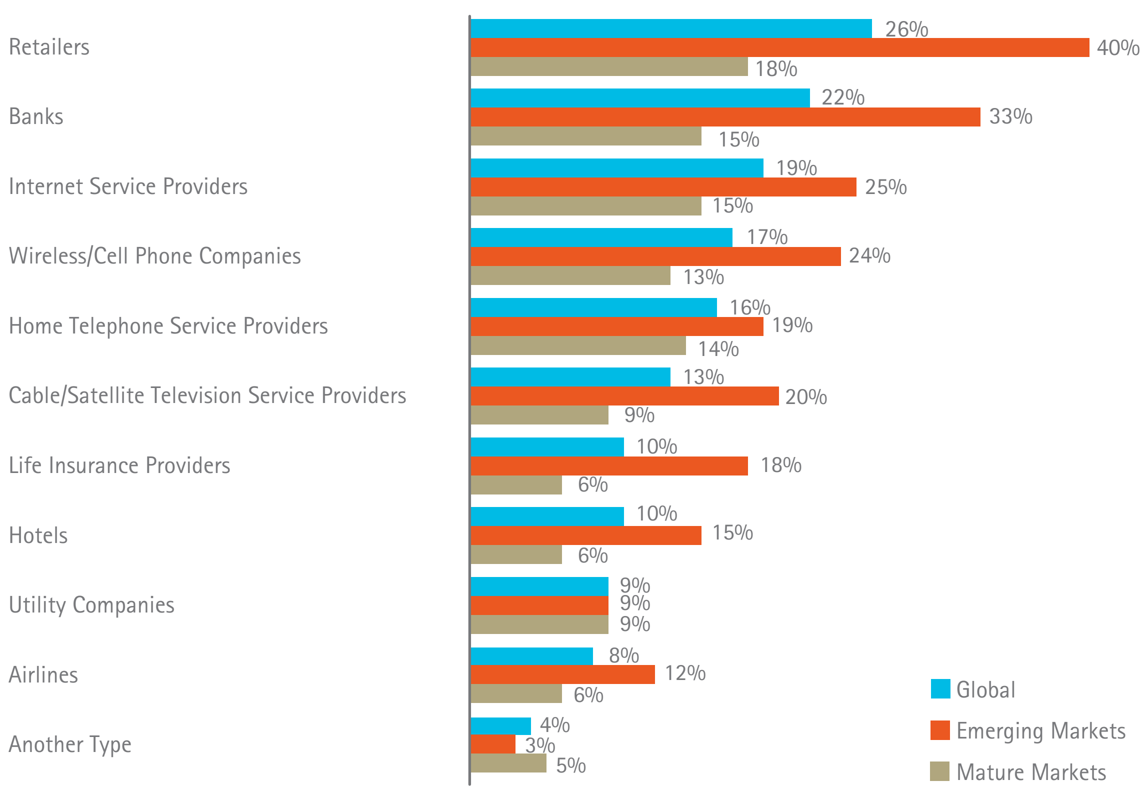
Companies can achieve better retention rates, reduce acquisition costs and boost market share by addressing the root causes of customer attrition and applying targeted treatment strategies that involve all service channels and functions in an end-to-end effort to improve the customer experience.

The Challenge

Today's customers want it all—competitive pricing, value for money, and above all, high quality service. What's more, they won't hesitate to switch providers if they don't find what they're looking for. Even in industries where satisfaction is relatively high, loyalty levels are declining. And thanks to social media—the ultimate in word-of-mouth communication—individual switching decisions can have rapid and widespread consequences.

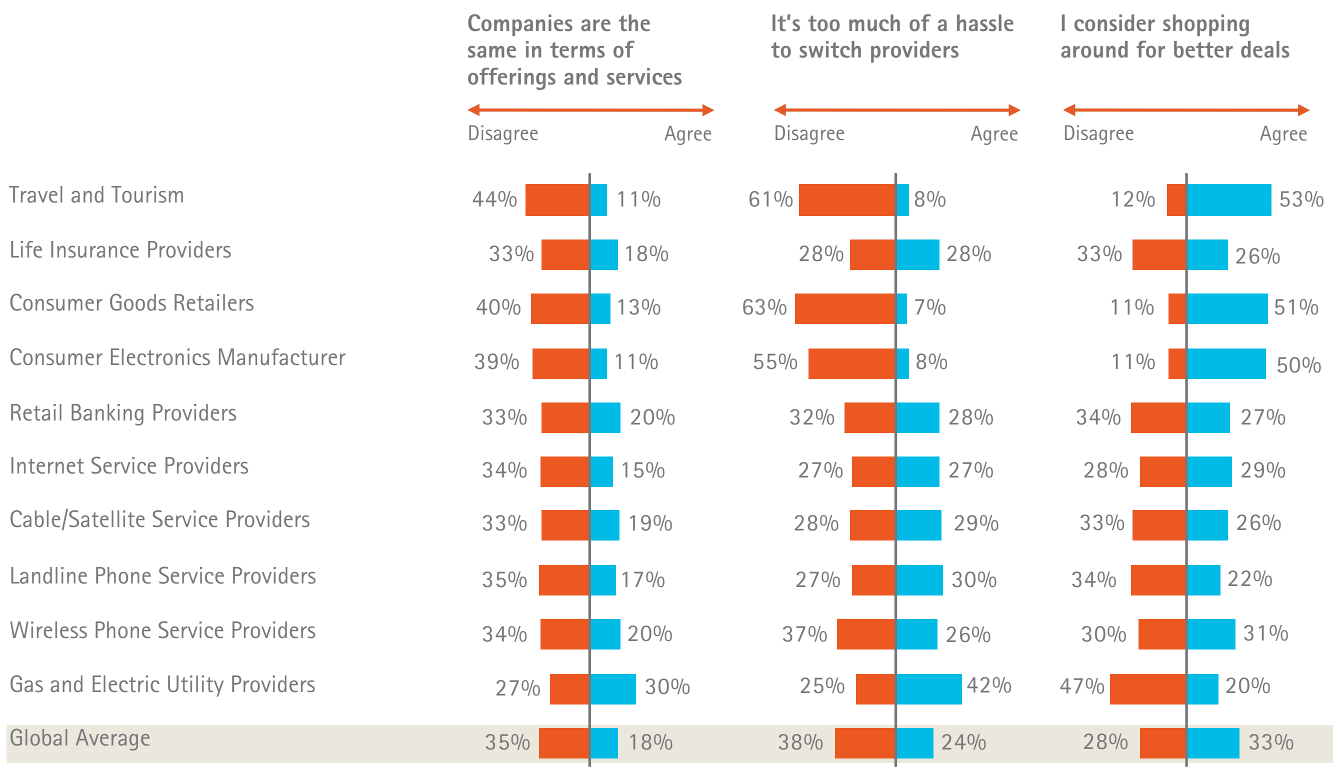
Accenture's most recent global research exposes the scale of the challenge. Despite a small overall decline in switching levels, two in three customers have changed providers in the past year in at least one of the industries covered in the research because of dissatisfaction with service levels (see Figure 1). Consumers, moreover, perceive few barriers to switching in their constant quest for differentiated offerings (see Figure 2).

Figure 1: Percentage of Customers Who Switched by Industry Due to Poor Customer Service



Source: Accenture 2010 Global Consumer Research

Figure 2: Perception of Providers Offerings and Shopping Behavior



Source: Accenture 2010 Global Consumer Research

Switching varies by industry, but customer churn is plainly a universal problem—a cause for concern since the cost of acquisition is always significantly higher than the cost of retention. Indeed, our research findings suggest that most companies with large and diverse customer or subscriber bases are struggling to retain customers. Yet few understand exactly why customers leave them—and fewer still know what to do about it.

- Many organizations lack the tools to identify the drivers of churn. The ability to correlate churn to actionable customer segments, for example, is critical to retaining customers by proactively addressing their needs.
- Few organizations are masters of retention marketing. The ability to deploy highly targeted offers in-market across multiple channels at speed; to learn which offers work most effectively, and scale them; and to take full advantage of customer-initiated contacts in order to make highly-targeted retention offers.
- Loyalty programs are often inconsistently executed; and incentives for front-line employees are frequently misaligned with overall retention goals.
- Many companies lack cohesion across their customer interaction channels—Web, call centers, retail stores—or fail to implement incentives for front-line employees that are aligned with overall retention goals.

The upshot: Unhappy customers who too often suffer the consequences of organizational processes optimized to deliver operational efficiencies, instead of positive customer experiences—poorly executed product or service launches, erratic or conflicting experiences across multiple channels, and inadequately trained and equipped employees.

The Solution

A few companies are winning the battle for customer share. The secret of their success: Combining a top-down, enterprise-wide retention strategy with sophisticated analytics that enable them to "micro-segment" their customers.

Leading players have established a company-wide culture of accountability for churn management across channels and organizational siloes, with the core tools to support integrated execution. As a result they have been able to reduce customer attrition, improve customer loyalty, and increase both revenues and profitability.

Accomplishing this goal requires significant and simultaneous changes in many areas of the organization, as well as a committed leadership team. But even relatively small improvements in churn can pack a punch on the bottom line.

Consider, for example, the case of one North American telecommunications provider, which boosted incremental margin by $1 million a month as a result of a 10 basis point improvement (e.g. moving from 0.5 percent to 0.4 percent) in its customer churn rate (see Success stories sidebar for other examples).

Guiding Principles of Successful Churn Management

In many markets, growing the customer base has been all about the acquisition of new customers and retention marketing has typically come a distant second in terms of senior management attention and resource allocation. To reverse this legacy mind-set and manage customer attrition effectively, organizations need to adhere to three fundamental principles:

1. Ensure the support of senior leaders, and a strong governance structure. Accountability requires the ownership of fully engaged stakeholders with the confidence and authority to challenge organizational bottlenecks and take pro-active steps to remove them. Success also requires cultural change and commitment to a permanent business model that that may challenge the organization's beliefs about who owns customer relationships.

2. Recognize that not all customers are the same. Customer value and profitability are key elements of the company's retention tactics.

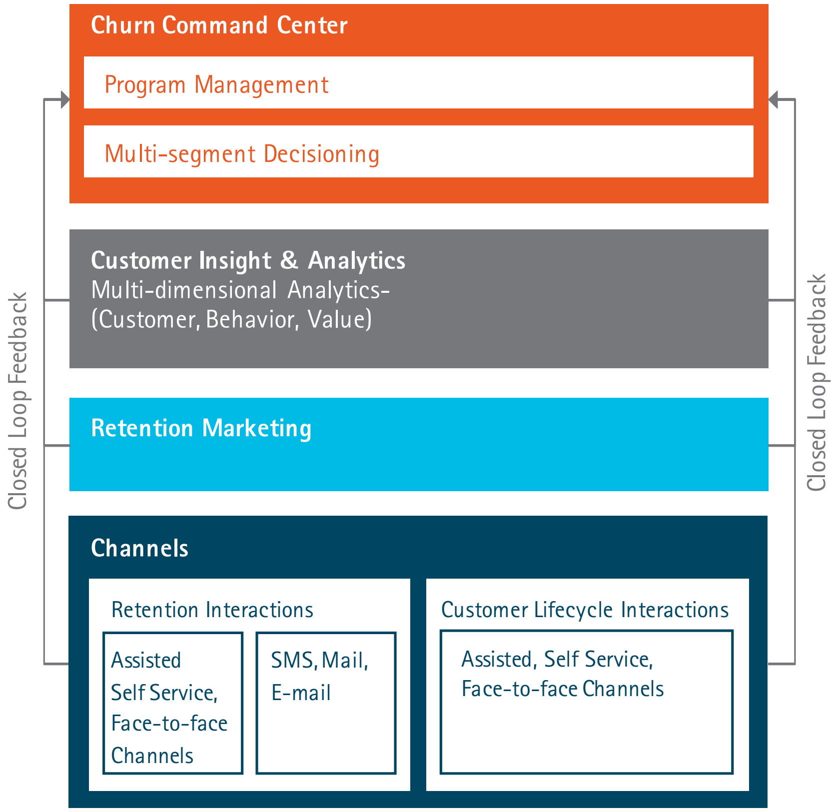
3. Build a new set of capabilities. Acquire a detailed, fact-based understanding of customers' intentions and what makes them switch; get offers to market swiftly, using a rapid "test, learn, and scale" mode; deploy real-time treatment tools across customer interaction channels that will ensure the right retention decisions by weighing customer churn propensities against customer value.

Organizations with the commitment to adopt these principles can focus on building an appropriate operating model to manage churn.

The Operating Model

It's essential that any operating model take an end-to-end approach to churn management—from overall program management, through analytics and retention marketing, to the management of channels (see Figure 3).

Figure 3: Churn Management Operating Model



CAR—Driving Success with the Right Data

How do you know what data really matter to your business? There are thousands of customer attributes that one could potentially collect, and determining the most important is not straightforward.

Accenture tackles the challenge by constructing a comprehensive view of the customer and the interactions with the customer and the company across all channels.

Our patented Customer Analytic Record (CAR)[1] database includes thousands of variables and uses proprietary methods built over years of experience to pinpoint those variables that will be useful in a particular situation. The CAR provides a single view of the customer for use in analytics and modeling. It also provides a framework for standardizing and automating analytic processes, as well as reducing the effort involved in scoring different segments.

Users can benefit from fast and cheap experimentation to develop customer-targeting models in just a few hours. And because CAR pinpoints the data that matter, it significantly outperforms traditional approaches to raising sales campaign closure rates.

The Churn Command Center: An Integrated, Cross-Functional Approach

The Churn Command Center is the nerve center of a successful churn management program. Spanning organizational boundaries and centralizing churn improvement decisions, it streamlines the end-to-end churn reduction process—across analytics, marketing, channels, IT and finance—and drives swift and timely course corrections based on a closed-loop feedback around the effectiveness of existing treatments.

Thanks to its cross-functional structure, the Command Center eliminates the inefficiencies caused by organizational bottlenecks, thereby significantly accelerating the time-to-market of retention treatments. It is also responsible for driving any necessary cultural changes, including the introduction of new performance metrics and incentives. And because its decisions affect the enterprise as a whole, it's vital that the company's senior leaders are involved in setting the direction and governance of the churn management program it coordinates.

Customer Insight and Analytics: Understanding Why Customers Churn

Retention strategies based on customer value and profitability are critical to success—hence the importance of analytics.

By leveraging a diversity of data—demographic and behavioral (products, usage, interaction), as well as value-related—retention analytics can predict just when and why customers are likely to churn. They determine the customers' value to the company in terms of both current and future revenue and profitability, as well as their influence on other customers. They also infer the drivers of churn by using multi-dimensional analysis in novel ways. Correlating churn with the interactions a customer has had with the company can trigger retention treatments, as well as identifying areas where the customer experience needs to be improved. This may sound straightforward, but it requires the ability to build a service interaction history across all interaction channels—retail, contact centers, Web and Integrated Voice Response (IVR) systems (see CAR sidebar).

Once a churn "hot spot" has been identified, and its churn drivers inferred, the right retention treatments can be developed and tested.

Success Stories

By taking the strategic, systematic and holistic approach to customer retention embodied in the Churn Management Operating Model companies worldwide have been able to reduce churn and boost revenues:

- A leading US wireless provider was able to cut churn by 15 percent in six months, retain more than one million subscribers and generate hundreds of millions of dollars in incremental net OIBDA—all thanks to analytics-driven customer segmentation, and the company's commitment to the creation of a cross-functional Churn Command Center dedicated to driving customer lifetime profitability.
- A major European wireless operator reduced churn by 53 percent—thanks to a micro-segmentation strategy that revealed the distinct characteristics of high-risk customer segments and thus enabled a targeted and differentiated marketing campaign.
- An Asian telecommunications company with multiple customer segments reduced churn by between 10 percent and 30 percent—thanks to deep analytic insights into both customer behavior and average revenue per user.
- A French telecommunications operator leveraged churn analytics and churn prediction models to develop both inbound and outbound marketing campaigns—and as a result realized a 250 percent increase in campaign response and a 23 percent improvement in customer lifetime value.

Retention Marketing: Accelerating Speed to Market, Cross Channel and at Minimal Risk

An effective retention marketing capability focuses on three key outcomes:

Speed to market is critical to maximizing the impact of analytics. The competitive environment means that many churn "hot spots" are often short lived. And unless a company can implement insights quickly, much of the potential retention benefit will be lost. Companies can shorten their offer development cycle, and minimize the handoffs and bottlenecks that cause delays, by employing a cross-functional team of resources in analytics, marketing, finance and channel support. In our experience, such a cross-functional approach can cut cycle times by as much as 50 percent to 70 percent.

Maximizing campaign return while minimizing risk depends on a rigorous, test-and-control approach. Many companies launching retention campaigns evaluate their effectiveness via traditional marketing metrics (the take rate, for example) without comparing the treated customers to a control group—an approach that can end up boosting churn and/or costs because it treats customers with no intention of leaving. Campaign analytics, by contrast, tell companies just what their churn rates really are. They evaluate test offer effectiveness in terms of such indicators as size of treated population and contract renewal rates across multiple dimensions—channel, customer segment and offer variant—and then use the information to inform scale decisions and select the treatments to be continued. Our experience suggests that companies should expect 10 percent to 20 percent of treatments not to be scaled; indeed, a lower proportion indicates that the marketing team is taking enough risk in finding innovative offers and treatments. Campaign analytics should also evaluate the performance of retention programs throughout their lifecycle, combining this data with information around incremental revenue and costs to come up with a true campaign ROI.

Operational reporting of key metrics. Churn is a lagging metric that may take six to twelve months to show improvement, depending upon the timing of treatment in the customer lifecycle. It's important during the test-and-control phase to closely monitor such leading indicators of campaign effectiveness as list penetration and offer-take-up rates. There are several ways to monitor success or failure—but in our experience, operational level reporting should occur at least weekly to identify execution issues quickly and allow mid-pilot campaign adjustments. This approach will accelerate the scaling of treatments that work, and rapidly eliminate those that are underperforming.

Channels: Delivering the Right Experience to the Right Customer

For better customer retention, organizations must improve two types of customer interaction:

Retention interactions can be either proactive or reactive, but in both cases reducing churn hinges on: Expanding the number of self-service interaction channels in which retention offers can be made (e.g. Web, social media); aligning employee incentives to company churn objectives; improving the delivery of channel-specific training material; and ensuring consistent channel processes and system capabilities. Companies should also consider providing on-site execution support to identify and resolve issues early and swiftly. In the short term, offers and treatments under this new approach can be managed manually. As the number of marketing treatments expands to cover smaller groups of customers, however, campaign optimization and real-time decision-making tools will be needed in order to provide offers that are effectively differentiated by channel.

Customer lifecycle interactions can be root causes of churn as well:

- **Early life:** When the customer is "trying out" a recently purchased product or service; a critical moment in the customer's decision making.
- **Change of life events:** Such as marriage, divorce, a change of profession or geographic location.
- **Mature life:** When a customer is nearing the end of a contract, or of the useful life of the product they are using.

Organizations need the capability to correlate churn to any of these interactions across any channel (see USAR sidebar). And once the interactions that are root causes of churn have been analyzed, they must devise policies, processes, and tools that support the delivery of a better customer experience.

USAR—An Integrated Approach to Customer Interactions

The root causes of customer churn can be hard to trace. They may lie buried in negative experiences associated with any one of multiple interactions. In order to improve and sustain customer retention rates over time, companies must improve the customer experience of all these interactions. But in an enterprise where customers may have millions of monthly interactions, across a variety of channels, how do you find them all? And how can you tell which interactions drive churn—especially when customer interaction data records are usually contained in different systems that do not communicate with one another and are collected in varying data formats?

Accenture approaches this challenge by integrating customer interactions across multiple channels through an asset known as the Unified Service Analytic Record (USAR)[2]. USAR allows business leaders to identify and understand the needs of chronic customers and repeat contacts; identify cause/effect relationships between the customer experience and churn; identify and address root-cause behaviors at the agent level.

Summary

Keeping customers can be challenging—but as markets mature, successful retention strategies are becoming an increasingly essential element of competitive advantage for many different industries. Accenture experience shows, moreover, that such strategies can be developed. They hinge, crucially, on really understanding what motivates different customers to churn—a capability dependent on sophisticated analytics. They also require the support of senior leadership, strong governance and the commitment to build a whole new set of capabilities that accelerate speed to market, maximize campaign return while minimizing risk and ensure the right experience for the right customer. Equipped with an end-to-end operating model that optimizes customer interactions across all channels, companies can ensure delivery of a better experience for all their customers.

References

1. Features of the Accenture CAR may be covered by one or more pending or issued patents worldwide.

2. Features of the Accenture USAR may be covered by one or more pending or issued patents worldwide.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 223,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$21.6 billion for the fiscal year ended August 31, 2010. Its home page is www.accenture.com.

About Accenture CRM Solutions

Accenture's Customer Relationship Management service line helps organizations achieve high performance by transforming their marketing, sales and customer service functions to support accelerated growth, increased profitability and greater operating efficiency. Our research, insight and innovation, global reach and delivery experience have made us a worldwide leader, serving thousands of clients every year, including most Fortune® 100 companies, across virtually all industries.

Contact us

For more information about how such a Churn Management Operating Model can help your company minimize customer attrition and achieve high performance, please contact:

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