

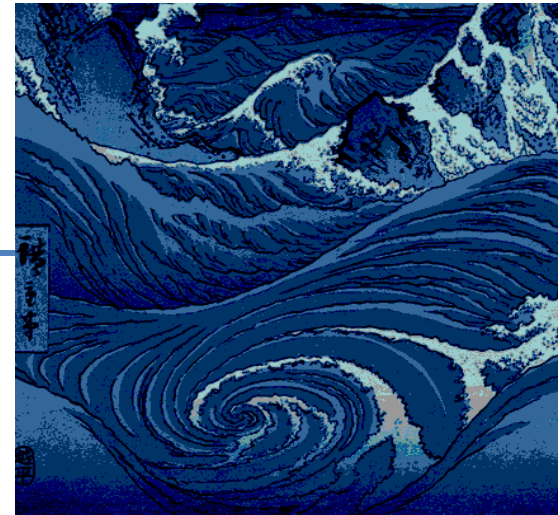


Customer Churn Research

Issues and Methods

Sample output

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Issues and Methods



Reasons for churn

- Strategies and tactics to stem customer churn must start with a conceptual understanding of the problem, specifically—
 - Why does it typically happen?
 - What negative impacts does it have on a company's market position?
 - Brand positioning, negative word-of-mouth, and
 - Financials (e.g., decreased revenue, loss of profit)?
- It is well understood that customers leave for a number of basic reasons—

Voluntary

- Bought away
- Allowed to slip away
- Pulled away



Involuntary

- Intentionally pushed away
- Supply problems
- Out of business



Customer loss is costly

- Stemming churn can greatly improve profits
 - One often-cited estimate—
 - A 5% reduction on churn can boost profits up to 20% ¹
- Costs of regaining lost customers can be higher than the cost of gaining new prospects
 - Likelihood of selling services to former customers has been estimated as being 10% to 33% of likelihood of selling to current customers²
- Customers who leave on bad terms can cost twice as much, in negative effects on potential customers, as those who are lured away or pulled away ³

*Don't let
them leave feeling
like this*



¹ Reichheld, *The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value*

² Griffin and Lowenstein, *Customer Winback: How to Recapture Lost Customers*

³ Hogan, Lemon and Libai, "What is the True Value of a Lost Customer?"

Acting on customer feedback is critical

- Gathering customer feedback on problems and reasons for defecting is important
 - But not acting on this insight is a waste of money
 - An estimated 98% of companies gather customer feedback
 - But only 15% ever make any process changes as a result
 - And only half of these ever bother to close the loop with their customers
- Change in direction is difficult—but less so if guided by robust research to increase gains and reduce risks



Steps and methods

- With this as our conceptual starting point, these are the steps and methods to address customer churn

Key Data Inputs

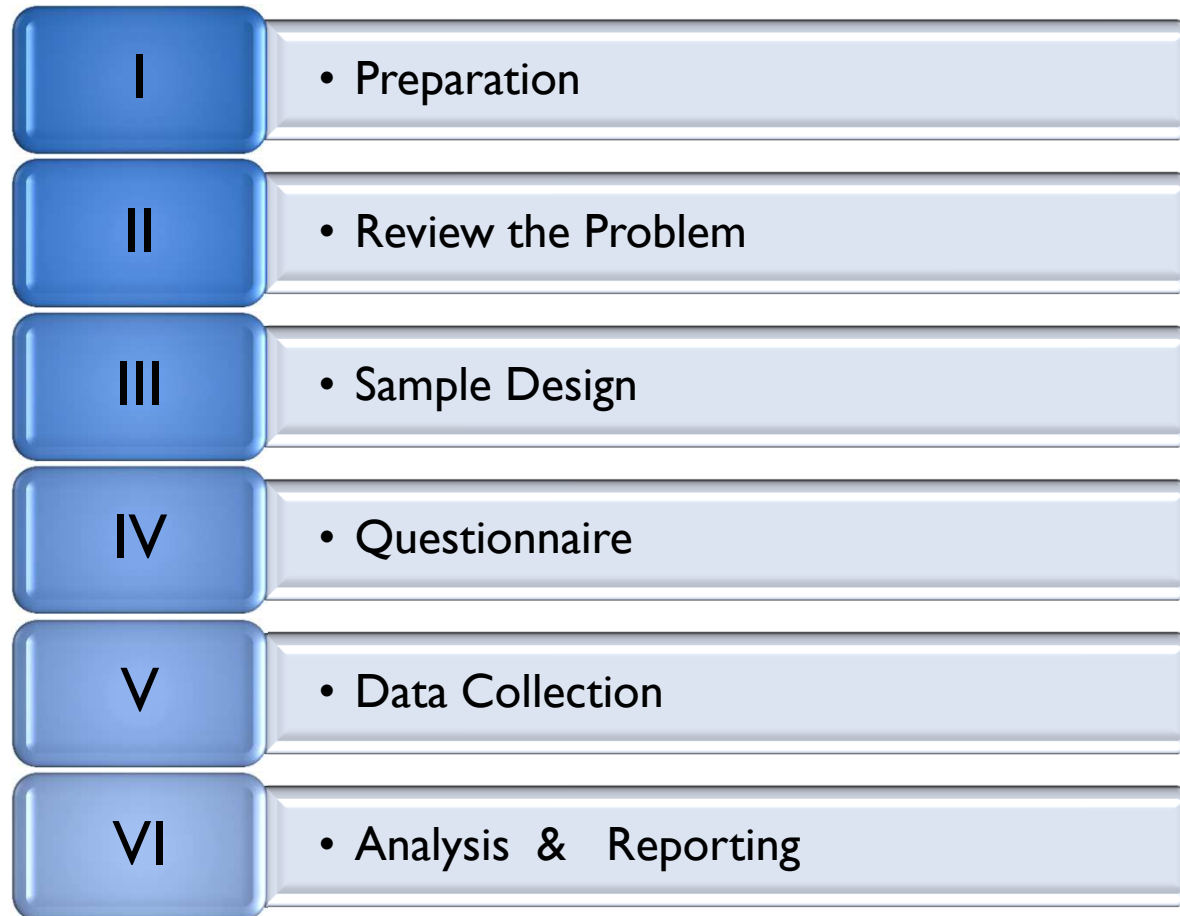
- Identify reasons for churn
- Assess opportunities to save and likelihood to return
- Identify competitive providers to whom customers switched/may switch to along with the share of churners acquired by each competitor
- Evaluate perceived performance of your brand relative to the new provider

Key Analytics

- Self-explicated factors in churn and key drivers
- Model to explain combinations of factors leading to churn
- Model to identify existing customers who are at risk for defection or reduced spending
- Model of likelihood to spread positive/negative word-of-mouth

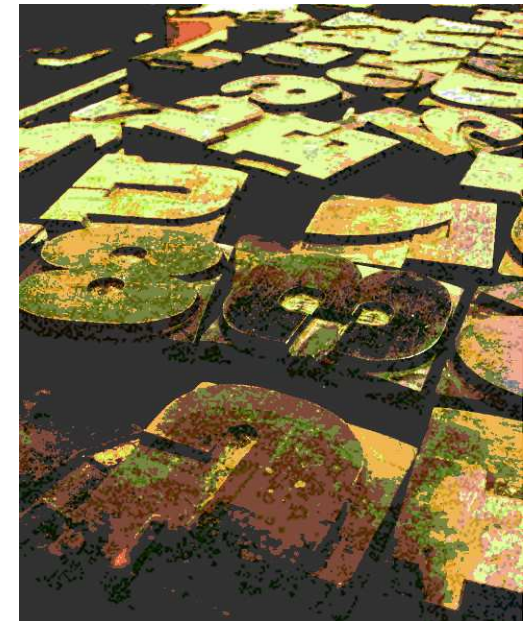
Steps to take

- Addressing the problem entails six steps



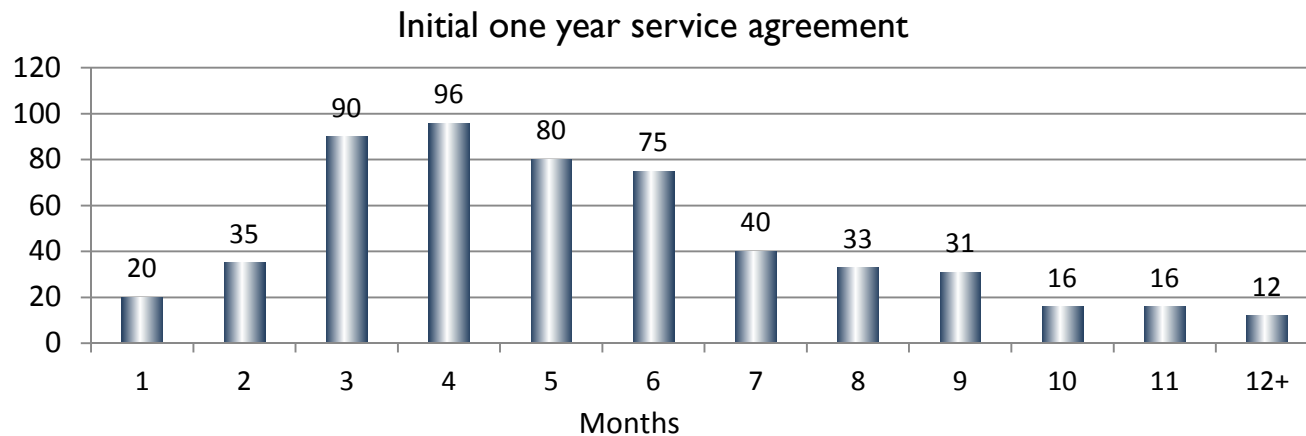
Preparation

- Meeting with stakeholders is a critical first step
- Goals for this step:
 - Ensure agreement on the purpose and application of the research
 - Identify and discuss expectations
 - Get commitment to acting on the guidance provided
 - Get agreement with the proposed research approach, deliverables, timelines and obligations of each party
 - Begin an effective ongoing communications process





- Understanding customer churn should start with a review of the business customer database
- This can reveal patterns, such as when in the customer lifecycle churn tends to take place



- This chart a real example of the number business customers churning in the first year of their telecommunication service agreement
- It clearly indicates a period of extreme churn early in the customer life cycle—clearly a situation that should be addressed



- Sampling needs to take into account any important customer segments
- In addition, to capture reasons for churn and customers behaviorally likely to churn, it is best to stratify the sample in terms of three types of behaviors
 1. Have left your brand entirely for a competitor
 2. Are now spending less with your brand (timeframe to be determined)
 3. Current customers who have not altered their service
- Supposing 3 segments, a reasonable sample would be 200 interviews each
 - i.e., a total of **600** interviews
 - Readings would be robust at the column-total and row-total levels
 - However, individual cells would be too small to read with confidence
 - A total sample of **900** would allow reading of each cell

Customer type	Segment			Total
	Segment 1	Segment 2	Segment 3	
Left	66	66	67	200
Reduced	66	67	66	200
Unchanged	67	66	66	200
Total	200	200	200	600

Organizational
Preparation

Review the
Problem

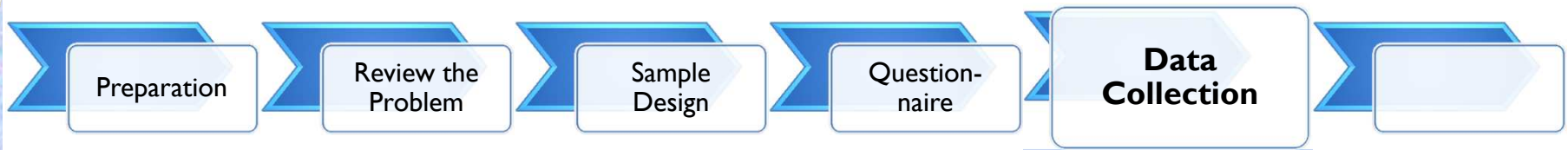
Sample
Design

Questionnaire

A 20-minute survey that can cover the following concerns—

- Type of churn
- Stated reasons for dropping service(s)
- Likelihood of canceling other services (if haven't defected entirely)
- Ratings of client's brand and competitors to whom switched on key performance attributes and the importance of these attributes
- Likelihood of returning
- What, if anything, client's brand could do to win their business back
- Satisfaction with new provider, if any
- Word-of-mouth behaviors





- All interviewing should be done at one point in time
- Means of interviewing most likely will be phone, due to—
 - Difficulty in getting lapsed customer to participate via Web
 - High likelihood that current customers will take a phone interview



Fortunately, things are more automated now



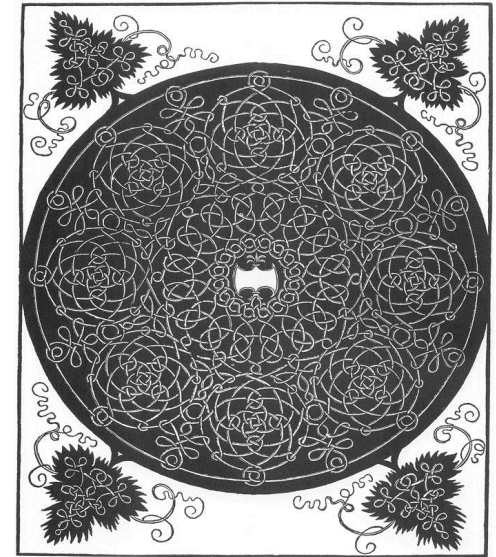
- Analysis focuses on answering the basic business questions and providing useful insights
- Three key multivariate analyses are used:
 1. Forced trade-offs via **MaxDiff**
 - Precisely measures what respondent groups consider most important
 - Findings will drive analysis of
 - How respondent groups differ
 - How client compares to competitors on factors leading to churn
 - Similar to conjoint, MaxDiff forces individuals to make decisions about what truly is important to them
 - Respondents consider 3 performance attributes at a time, and are asked to pick the most important the least important in each group.
 - Analysis allows us to understand the relative importance of each attribute at ratio level
 - As in, “Attribute B is 2.3 times as important as Attribute C”





2. Classification trees or CHAID will find—

- Critical combinations of performance factors that drive customers away or to drop services, and
 - Which combinations do the most damage
- Key differences among customers
 - Contrasting those who stay vs. those who have dropped some services, vs. those who have defected entirely
- This creates profiles of at-risk customers for churn pre-emption
- How the analysis does this
 - It first searches through all variables (or questions) to find the *one* most strongly differentiating groups, in terms of churn levels
 - It repeats the process among high churn groups, finding subgroups with still stronger contrasts
 - It repeats this and runs until no significantly different sub-groups can be found
 - It creates a tree-like structure with increasingly contrasted groups, which we will see in sample output



*Though it seems appropriate
not really about CHAID*

Preparation

Review the
Problem

Sample
Design

Question-
naire

Data
Collection

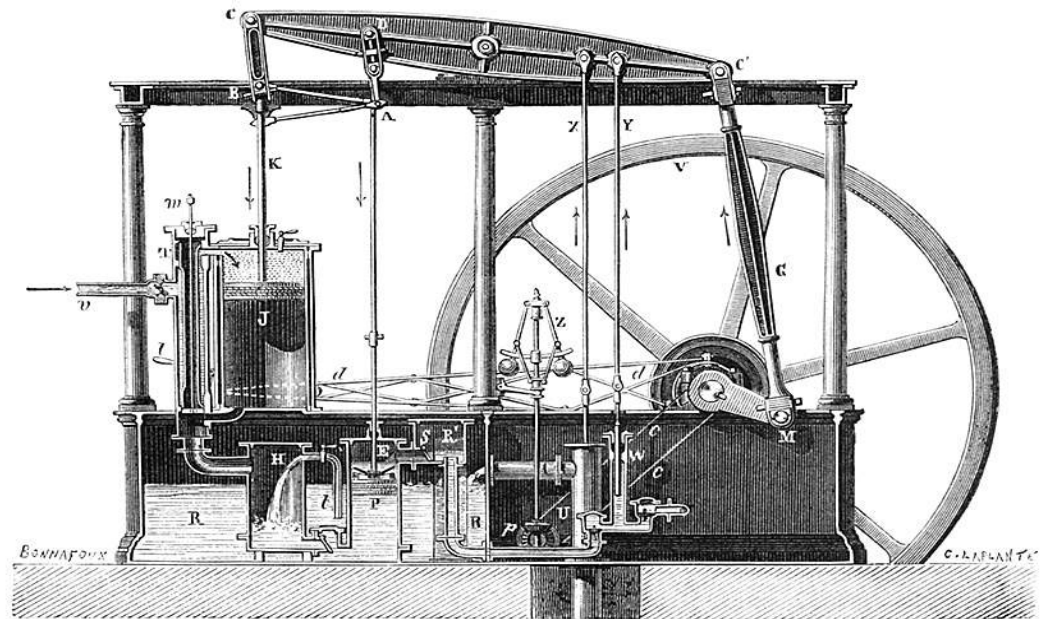
Analysis &
Reporting

3. Analysis of **word-of-mouth** identifies the spectrum of those exhibiting positive to negative word-of-mouth
 - This is supported by discriminant-based analyses to identify performance factors that impact this word-of-mouth behavior
 - Analysis focuses on the critical junctures, where a customer either becomes more likely to defect or more likely to stay
 - Analyses focuses on answering each of the 3 key business questions:
 - Why are some customers leaving the company for a competitor?
 - Why are other customers reducing their spend?
 - What can your brand do to minimize this churn?

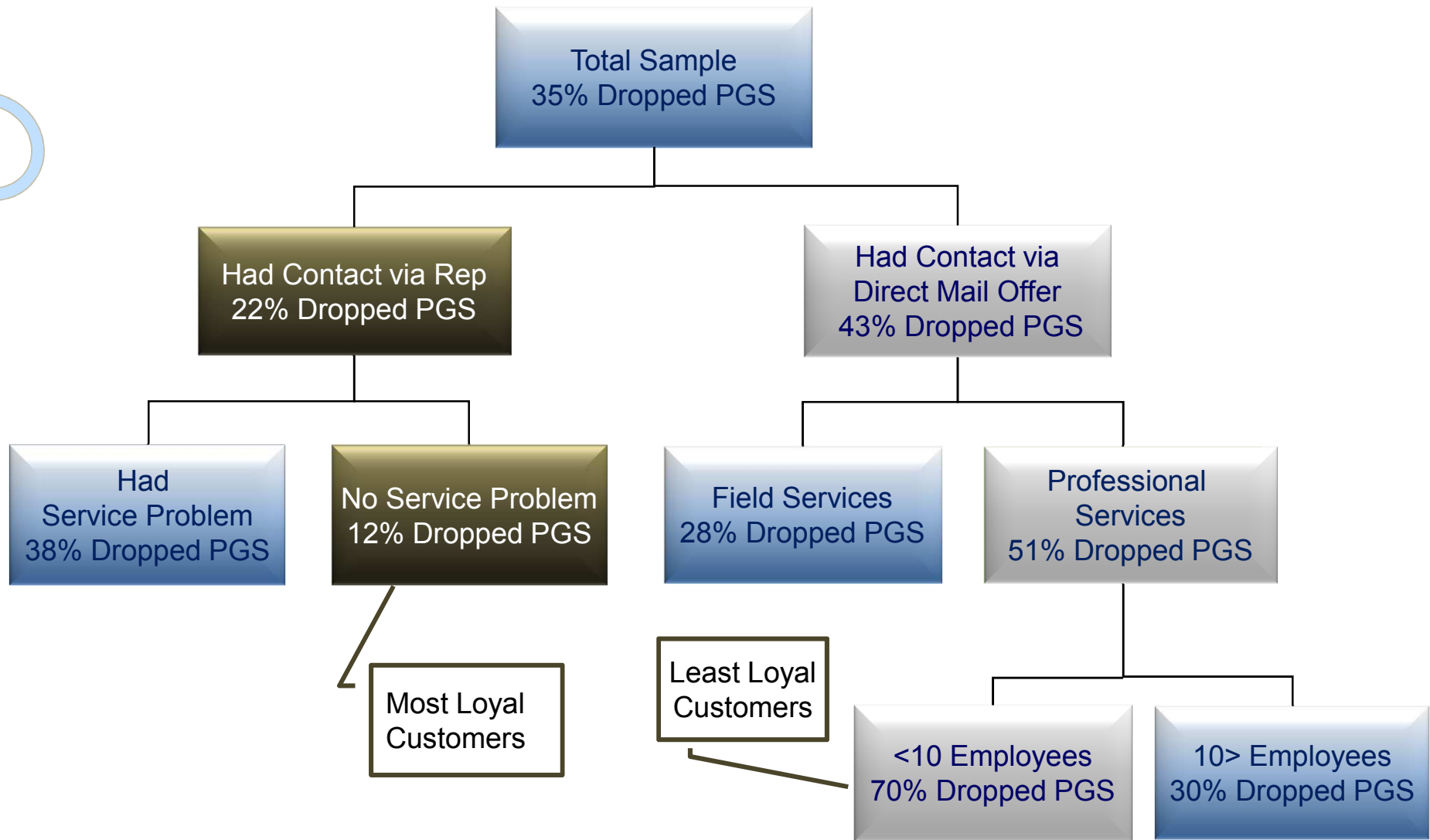


*Word of mouth
can be powerful*

Sample output

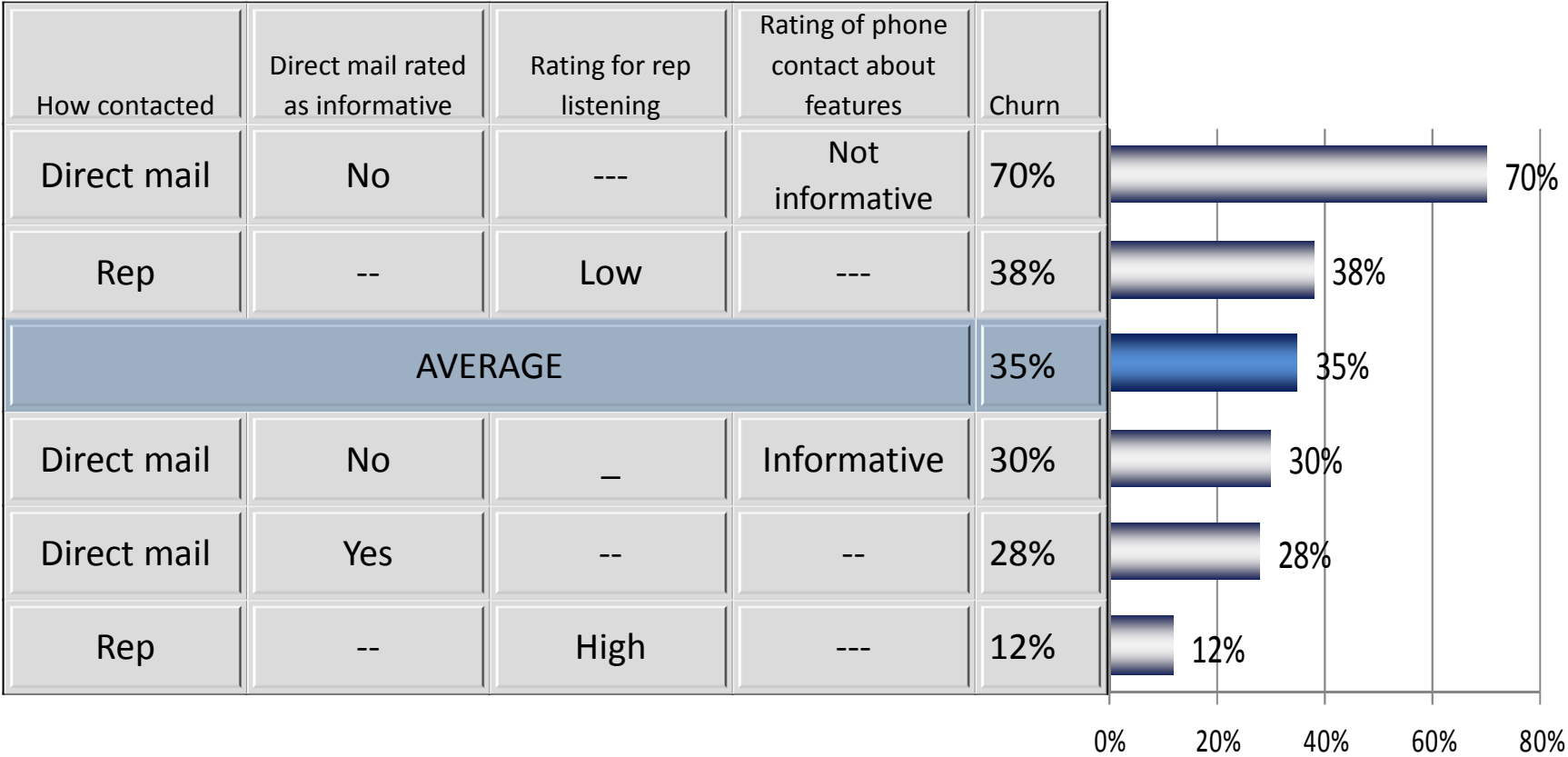


Combinations of characteristics and actions lead to vastly different churn rates



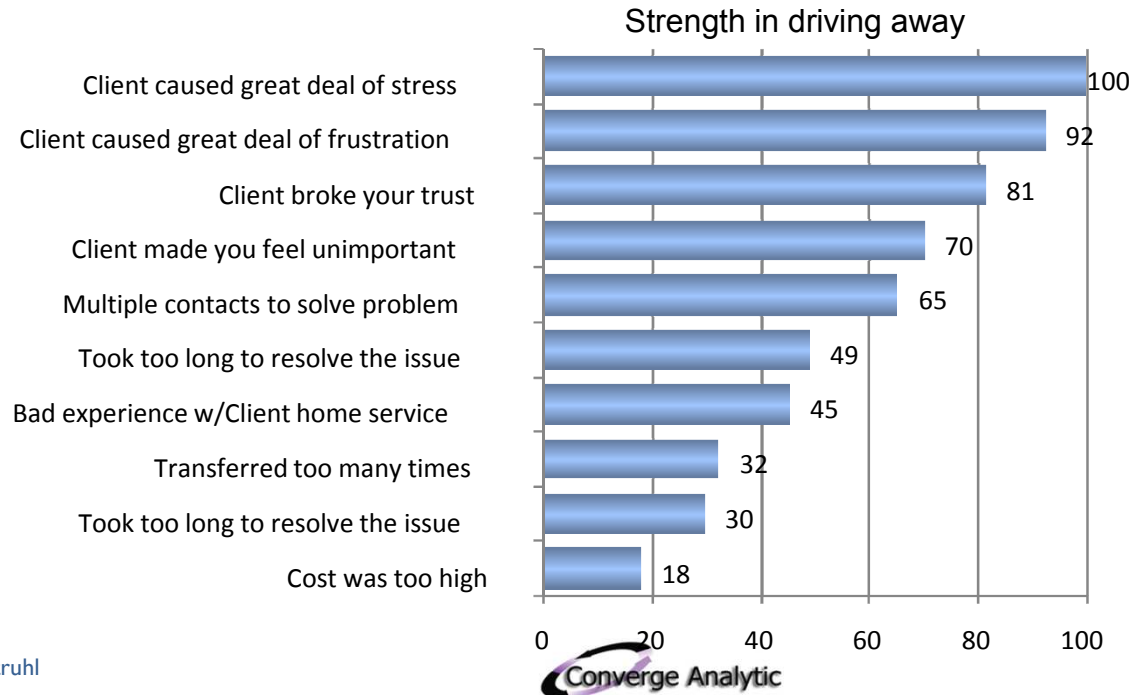
CHAID tree translated into a simple table

- Showing how customer characteristics and experiences work together to lead to greater risk of churn



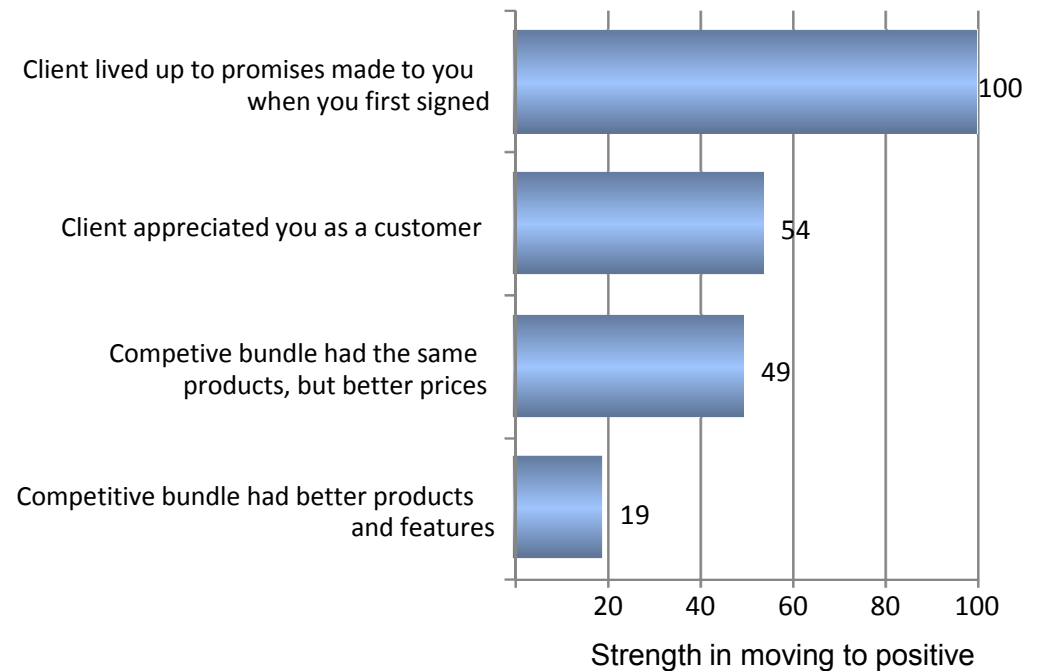
Discriminant analysis: Factors causing users to move negative

- Client causing stress and frustration and breaking trust were the strongest factors differentiating neutral lapsed customers from those who said they never would come back
- Various forms of delays, including multiple contacts, too much time to resolve, and too many transfers also were important factors
- Cost entered only moderately
- Knowing just these differences in responses, we can distinguish the most negative lapsed customers from neutral ones 76% of the time



Factors differentiating those who definitely would return from the neutral

- The leading factor differentiating lapsed customers who “definitely” would consider returning from more neutral lapsed customers was the Client living up to promises
 - This was twice as powerful an incentive to return as any other factor
- Client appreciating them as customers was another important factor
- Competitive bundles being better also were mentioned more often by customers who “definitely” would consider returning
- That is, they did not leave because of something the client did
- Knowing just these differences we can correctly identify who is neutral and who definitely would return 73% of the time



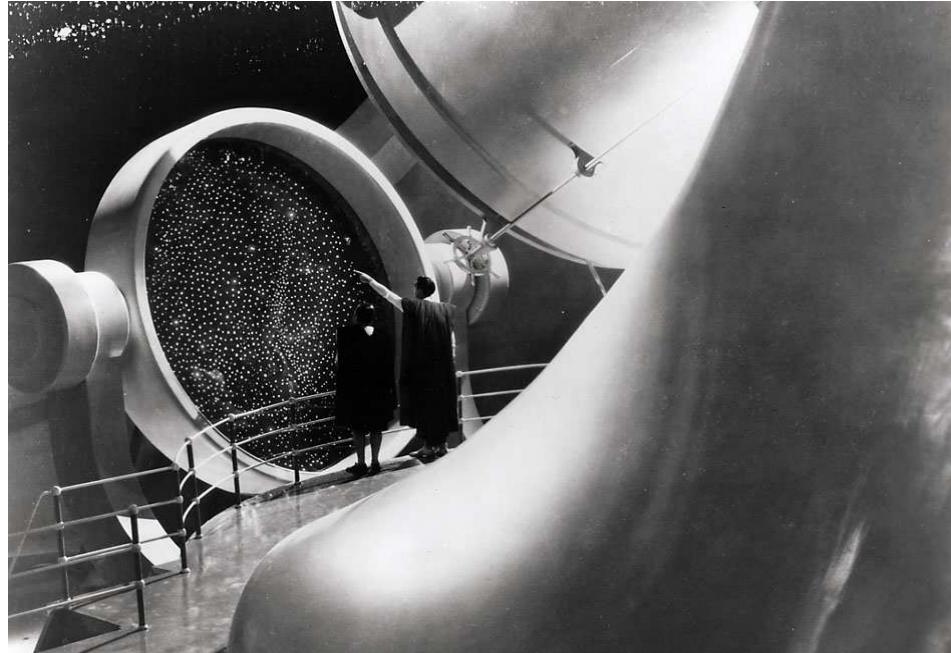
Word of mouth: Cancelled customers voice far fewer positive opinions

- Cancelled customers are only slightly more likely (23%) to say only negative things than current or reduced customers (both 15%)
- The majority of cancelled customers are neutral or mixed
- As might be expected, the sharpest difference is in voicing only positive opinions: 13% of cancelled customers, vs. 39% of reduced and 35% of current customers

How often saying positive or negative things	Current customer	Reduced customer	Cancelled customer	Total
Negative, rare/no positives	15%	15%	23%	19%
Neutral, rare/no positives or negatives	40%	41%	54%	46%
Mixed, both positives and negatives	10%	5%	11%	10%
Positive, rare/no negatives	35%	39%	13%	25%
Total	314	41	284	639

Questions? Comments?

There is more to discuss



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