Other Books by Rob Mattison:

*The Telco Revenue Assurance Handbook* - 2005

*Web Warehousing and Knowledge Management* - 1999

*Winning Telco Customers Using Marketing Databases* - 1999

*Data Warehousing and Data Mining for Telecommunications* - 1997

*Data Warehousing: Strategies, Technologies and Techniques* - 1996

*The Object-Oriented Enterprise: Making Corporate Information Systems Work* - 1994

ACKNOWLEDGEMENTS

I would like to acknowledge my very dear friends at IBM and in Indonesia, Taiwan, Turkey, Australia and the US. I have had the privilege of working with these people over the past few years and each of them has contributed so much to my understanding of customers and the challenges organizations face when trying to serve them that I can never give enough credit to them and the many others involved.


A very special credit to the East Bay Support Team of Mary Ann Crandell, Bob Gokay and Gregg Derevyanyik. Your many hours of diligent reading, proofing and editing helped make this book a success.

A very special credit to the East Bay Support Team of Mary Ann Crandell, Bob Gokay, and Gregg Derevyanyik. Your many hours of diligent reading, proofing, and editing helped make this book a success.

Working with people like you is not work at all. It is fun, exciting, interesting, educational, and extremely satisfying.

Thanks
To my loving daughters, Chris and Stephanie. What a pair you two are! Beautiful, talented, interesting, responsible, creative, volatile, all rolled into one. You continue to inspire and fascinate me and you always will.
After reading this book, many of you may say, “I wish I had known this years ago.” Go back and remember the first time you realized that churn was a problem and that it wasn’t going away.

My first encounter with churn was in 1985 as the sales manager for New Vector Communications (US West Cellular, now a part of Verizon). When I received my first customer statistics report, the high numbers listed as disconnects alarmed me. I called the home office to chat with the marketing people to try to come up with a better way to measure the impact these disconnecting customers were having on our business and to see if there was a statistic we could use as a measure to monitor the problem. Being in sales and being paid for getting new customers, I was sure it wouldn’t be long before someone would figure this out and change our targets and compensation to make up for this “hole in the bucket”. We began tracking churn by dividing the number of disconnected lines for a month by the total number of lines in service at the beginning of the month.

It didn’t take long before the whole cellular industry was talking about churn and in 1988 I found myself running a customer service organization at the height of the “Total Quality” movement. Our churn was then running between 2.5 and 3.0% per month. Having been from sales, I asked myself how we might get people excited about improving the churn situation. I assumed that everyone in the company would have the same attitude as the sales people. My view of the world was that there were two kinds of people in the business world. One group was paid to bring in new customers and new revenue and other was paid to make sure that those customers stayed. The first time I shared this view with the customer service reps in my call center, I thought they were going to kill me. From their perspective, sales people were the enemy, acquiring all kinds of difficult to manage customers that they, the customer service reps, then needed to deal with.
I looked at the churn numbers and asked myself, “Why are we counting churn numbers anyway?”

Is it our goal to eliminate “all” churn, and never loose any customers? Is anyone even motivated to try to accomplish that kind of objective?

Being new to customer service and to running call centers, I began reading everything I could about how to improve them. I visited organizations such as American Express and L.L. Bean to see how they were handling customers and what they did about churn in their industries. I also examined my own behavior as a customer. I asked myself, “Which companies do I stick with? “ and “Which companies do I leave?”

Then it hit me. Everyone in the industry talks about customer satisfaction and improvement of customer service as key issues, but no one ever actually talks about the customers themselves. People talk about “retention” and “head count” and “minimizing the churn rate” and about “retained subscribers”. No one talks about what our customers need, or how we can make them more satisfied.

I began asking our executives and employees to describe the long-term relationships they have with companies. I asked them to think about the companies that they are loyal to, and to try to figure out why. I asked them, “Have you ever referred to yourself as a “retained subscriber?” The answer was always “No.”

In fact, when we really like a company and use its products and services and recommend it to our friends and family, we most likely call ourselves “loyal customers.” When I proposed that we replace our statistic of tracking churn, a negative measure with a target of 0 to “Customer Loyalty” (the inverse of churn), with a positive goal of achieving 100% customer loyalty, I was almost laughed out of the boardroom. I had really gone too far when I suggested that using the word “retention” in the same breath with customers was also
sending our employees the wrong message. I asked people how they liked the idea of being “retained” rather than valued and respected.

I you’re still reading this you must share my passion for customers. How we talk about people (yes customers are people) demonstrates our attitudes towards them. I do not think of myself as a subscriber and I don’t want to be retained by anyone!

After you read this book, you’ll be even more passionate than ever to get everyone in your company, from the president to the receptionist, talking about “the golden opportunity” that exists when you understand what it takes to “delight” the right customers and enjoy their loyalty.

The first time I heard the term “customer delight” I thought that this has gone too far. I’m not looking for any telephone company or cellular operator or Internet service provider to delight me; all I want is good quality and fair price. I wasn’t committed to “customer delight” until I went to the Czech Republic to run a start-up GSM operator, EuroTel. I was working with the marketing and customer service teams, developing our first customer satisfaction and loyalty surveys, and began describing for them the concept of customer delight. They were puzzled and told me that there was no Czech word for delight, and that delight and satisfaction are the same thing.

I asked them the think about dating and the process of looking for Mr. or Miss Right. We all start out with a list of what we’re looking for, the minimum requirements that must be met to satisfy our needs, wants and desires. I asked them to think about what changed when they met the right person, the one who they were willing to commit to, to be loyal to. In fact, for most of us, commitment and loyalty come not because we’re satisfied, but because we are delighted. When we find that person (or company) that goes beyond simple satisfaction and into delighting us, we find the one we will stick with. The one who delights us is the one who introduces us to
what we never looked at before, to reevaluating our priorities and to benefits that we never even put on our original list.

This idea of going beyond satisfaction to delight is a powerful one. It makes us want more. It takes us to a higher level in our relationships, to the level of commitment and loyalty that makes us feel better about ourselves.

Would you like your customers to be delighted, to be as passionate about their relationship with your company as they were when they found Mr. or Miss Right? Then read on and get ready to take action. Rob Mattison understands our industry and the problems we face. This book will give you tools that can make a difference to your customers and to your profits; they go hand in hand.

Joseph H. O’Konek
President
Far EasTone telecommunications Co. Ltd
ATT Wireless
Taipei, Taiwan
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Churn. It is the number one topic for telcos around the world. Many people have varied opinions about churn, but everybody agrees on one thing: churn is bad. Granted, churn brings with it many negative consequences, but we believe that it is probably the best thing that can happen to your organization. Our hope is that, by the time you get to the end of this book, you will understand why we view churn as a golden opportunity.

Talk to anyone involved in marketing within the telecommunications industry today, and the odds are good that your discussion will quickly turn to the issue of churn. Churn, it seems, is a big deal to many telecommunications providers, and for good reason.

Welcome to the World of Churn

If you are a member of the management team for a telecommunications firm almost anywhere in the world, then this story probably hits a bit closer to home than you would like to admit.

Churn has found the telco. Whether you are a wireless provider or a long distance carrier, a competitive local exchange carrier (CLEC) or an incumbent, churn is, or will very soon be, the single most important issue that you will be focusing on when it comes to customer management, advertising, and sales. For many telco executives, fig-
uring out how to deal with churn is turning out to be the key to the very survival of their organizations.

**Wireless Churn in the U.S.**

The industry research tells the story loud and clear. The graph in Figure 1-1 shows the projections for the number of subscribers that the U.S. wireless industry is expected to have by the year 2004 from the current level of 70-80 million to almost 200 million.

As encouraging as those numbers are, take a look at the corresponding increase in churn that is expected to accompany this growth. From some 20 million churners today to an unbelievable 60-70 million churners by 2004 — almost as many as the number of subscribers those companies have today!
Indeed, as Figure 1-2 shows, the wireless industry in the U.S. anticipates an increase in the annual churn rate from the current 30 percent (2-3 percent per month) to 40 percent by the year 2004.

**CHURN IS PERVERSIVE**

Wireless providers in the U.S. are very much aware of the presence of churn in their market, but what about the rest of the world? Is churn a part of the entire wireless industry or simply a problem in the U.S.? Statistics from around the world all issue the same message about churn.

*Churn around the World*

The chart in Figure 1-3 shows that wireless providers are experiencing churn ranging from 30 percent for the older technologies, to 4-5 percent per month (or an annualized rate of 50 percent), to an incredible 12-13.5 percent rate of churn (or an annualized rate of 156 percent) for prepaid services. Without a doubt, churn has, or will soon, become a major problem for every carrier on the planet.

![Figure 1-3: Global Churn Rates](image)

**CHURN FOR LONG DISTANCE CARRIERS**

As intimidating and frightening as the wireless churn numbers might appear to be, they are nothing compared to the experiences of carriers in the long distance industry. In the U.S. alone, carriers of long
distance and international services have been experiencing churn rates of anywhere from 45 percent to 70 percent annually for several years now!

Those kinds of churn rates are typical for markets around the world where true competitive environments have been created. In Chile, for example, open market competition resulted in the creation of no fewer than seven long distance carriers in less than two years, all of whom posted losses their first three quarters of operation. In that market, only two of the carriers still remain in business today.

**CHURN IS INEVITABLE**

When they hear about churn problems at other companies, most telco executives tend to believe that “it can’t happen here.” The thinking goes something like this: “Wireless telephony is a regionally diverse phenomenon. Long distance churn is symptomatic in only certain parts of the world. Every country has its own regulatory environment. Every country develops its own culturally unique wireless and telco experience.” This leads most telco executives to have a case of what we call “terminal uniqueness.” In other words, they believe that their company and their situation is unique and that they will somehow avoid what other companies experience.

This is not true in the case of churn. When it comes to telco and wireless, all companies will eventually be forced to deal with serious churn problems. Churn, in wireless and telecommunications in general, is inevitable for a number of reasons.

**The Technology**

The first reason that churn is guaranteed to happen is that technology keeps changing. As long as there are newer, better, more stylish, and less expensive alternatives invented, customers have more and more to choose from. Telco technology, as it stands today, generates its own obsolescence in an unbelievably short amount of time.
The Customers

The love affair between consumers and the telephone was the Cinderella story of the 20th Century. In less than 100 years, better than 60 percent of all citizens on the planet have gained access to telecommunications in one form or another. Even more startling is the rate at which wireless telephony has been accepted. In less than ten years the wireless telephone has gone from being the play toy of spies and millionaires to becoming the leading symbol of youth, affluence, and modernity in societies all over the world.

Worldwide Acceptance of Wireless

Figure 1-4 shows the 1999 subscription rates for countries in Europe. Surprisingly, Italy, though far from being the largest European country in population, is by far the biggest European purveyor of wireless devices with over 20 millions subscribers (and the number is still growing).

Europe is not the only country with wireless mania. In China, wireless providers have experienced growth rates of up to one million new subscribers added in one month. Japan, Korea, and Taiwan each check in as one of the largest users of wireless technology in Asia. The U.S. is today’s leading user of wireless phones with over 86 millions subscribers at the end of 1999, and Mexico, Brazil, Canada, and Argentina are not to be left out of the world’s top twenty. Even the Middle East has its contenders with Israel and Egypt participating with millions of subscribers.
The Fickle Consumer

With all of this activity in the telco sphere, it is no wonder that wireless providers believe that their markets have so much growth ahead of them that churn will not be a problem for many years to come. However, consumers that quickly fall in love with your new technology can just as quickly fall out of love again.

The Regulators

If you find that you are not dealing with much competition in your marketplace, then you are pretty much guaranteed that the regulators will address that deficiency. The economic analysis from around the world is in, and it is clear, without doubt, that the countries with the more liberal, more aggressive deregulations are the ones with the best quality, lowest-cost services.

Because of this evidence, more and more governments are changing their deregulatory schedules and are increasing the rate at which competitors enter into the marketplace.

The Competitors

Of course, the real reasons for churn is not technology, consumers, or regulators, but competitors. It is the competitors who develop new networks, new offerings, introduce newer technologies and, most importantly, reduce prices. If there are competitors in your marketplace that are hungry for new business, you can be assured that the first place they will look is to the ranks of your customers.

CHURN IS EXPENSIVE

Not only is churn an inevitable part of doing business in wireless, it is also proving to be an extremely expensive experience. Churn has many consequences, and most of them carry a large price tag.
Lost Customers = Lost Revenue

The biggest consequence of churn is, of course, the loss of revenue. Depending on the country, the average customer brings in anywhere from US$20 to US$80 per month. The loss of a large number of customers can create a big dent in the corporate balance sheet.

Lower Rates = Lower Revenue

Direct loss of revenue through the reduction in subscribers is only one of the hard costs associated with churn. Also endemic to the churn environment is the sometimes drastic reduction of billing rates. When churn starts to happen, most companies react by dropping their prices. They try to convince customers that they are competitively priced and that customers don’t need to leave to get good prices. This reduction of rates leads quite logically to a reduction in annual revenues for the firm.
The Cost of Reacquisition

Despite their best efforts to prevent churn, the company will inevitably lose some of its customers to the competition sooner or later. When they do, they often realize that it is possible to win them back by running reacquisition campaigns. These campaigns are often successful but, of course, entail costs of their own.

The Cost of Customer Retention

The more proactive organizations actually create campaigns to help prevent people from leaving in the first place. These loyalty or retention campaigns allow the company to make offers or create customer relationship experiences that help the consumer decide not to leave the current provider.

Advertising Escalation

In addition to these direct costs, a churn environment also creates some side effects. When churn starts, one of the first things a company will do is to increase its advertising to have more media “face time” than the competitor.

By escalating advertising in response to a churn threat the wireless company actually opens up a challenge to the competitor to do the same. In some markets that battle for media supremacy continues, and the baseline advertising investments keep escalating.
The Price Spiral

In addition to the increasing expenses that this battle creates, an equivalent battle to continuously drop prices lower than the competition will also occur. This downward price spiral, obviously, leads to more and more revenue loss.

Organizational Chaos

Although the costs of churn are substantial from an economic perspective, they pale to the consequences that churn environment have on the working environment within the telco. Churn is, unfortunately, not a condition that most wireless companies are prepared to face. When churn troubles begin, they take their toll on the people, the processes, and the organizations as they struggle, often unsuccessfully, to address the problems.

Planning and Budgeting Chaos

One of the obvious side effects is a planning and budgeting chaos. How can you project your revenues and headcount for the year when a large percentage of the customers suddenly start leaving? Even more importantly, how can you make decisions about how to best invest money to prevent the churn?

Churn economics involves costs, revenues, investments, and long-term stockholder value at the core of every major wireless company’s financial planning process.
**Investor Relations Liability**

Logically, all of these other factors cannot help but have an impact on investors and their confidence in the company. Bad churn problems and the failure to be prepared to respond to churn decisively and predictably will degrade the rating of any wireless companies.

Churn problems often occur at the worst possible times, such as right before a critical IPO or refunding effort. Clearly, from almost every perspective, churn is, without a doubt, expensive.

**CHURN IS DIFFICULT TO MANAGE**

You can find churn problems everywhere in the world, but churn’s pervasiveness is not what makes it so interesting to people. No, the most perplexing quality of churn is that it is very difficult to manage. For many reasons churn can quickly make itself the biggest single problem that your organization faces.

**The Big Surprise**

The most annoying thing about churn problems is that they seem to come suddenly and without expectation. Time after time executives have related stories to us about how they were going along, doing business as usual, when one day they realized that the rate of customer churn had somehow gotten out of hand.
There are many reasons that churn surprises people, some of them obvious, some not so obvious. By now, however, enough evidence has been assembled to make people realize that they should plan on it happening sooner or later.

**Difficult to Predict**

Not only is anticipating churn difficult, but so is trying to predict how large a problem it will turn into, how long it will last, and what the ultimate consequences of the phenomenon will be. There is a certain randomness to churn that can be very intimidating to people, at least until they learn to understand it better.

**Difficult to Explain**

When your company first starts to experience churn, one of the most maddening experiences will be to figure out why it is happening. After all, if you knew why the customers were leaving, you could do something about it. Unfortunately, most companies are ill prepared to give this kind of explanation.

**Difficult to Defend Against**

And, of course, if you don’t know when it will happen, or why, then you will not have much luck putting together a plan that allows you to defend against the loss of your customers.
CHURN, THE GOLDEN OPPORTUNITY

At this point you are doubtlessly beginning to think about churn a little more seriously. If you are part of an organization that is already engrossed in the battle for customers, then you are probably familiar with many of these issues. If, on the other hand, your company has not yet had to face these challenges, then you are presumably thinking about what you can do to get ready for it.

However, with all of the data, and all of the implications that the problem of churn seems to bring, the question is still, “Why is churn in fact a golden opportunity?”

How Do We Turn Churn into a Good Thing

The sudden appearance of churn in your marketplace would certainly set you up for a lot of nasty surprises, but it is not especially true that there is no way for you to turn the situation to your advantage.

The bad news is that, when churn conditions are right in your market, there is no way that you will come out of the experience unscathed. Churn changes matters drastically for most carriers. Revenue goes down; marketing expenses go up. Not a good formula for profitability! The good news is that, when churn conditions appear in your market, your competition will go through the same pain as you are. There is no way around it.

That means that one of two things will happen. Either you and your competitors do pretty much what you have always done, in which case all will end up with the same market share they started out with. Or, you figure out how you can turn it to your advantage (and to the disadvantage of your competitors).

Making Radical Changes in Market Position

Analysis of telecommunications markets has shown clearly that the relative market share carriers start out with typically defines the share they will have for a very long time. Market momentum and early brand image messages tend to carve out a niche for the carrier that is fairly hard to shake. Once people think of you as “number 2” it is very difficult to change that impression in their minds.
However, when churn rates start to pick up in your marketplace, the market momentum and position that you have established can easily be changed (for the better or for the worse.) When aggressive churn begins to happen, it means that consumers are reconsidering their earlier decisions about who the best carrier is. And this open-mindedness can be translated into, not only incremental shifts in market position but also momentous shifts. History has shown, again and again, that, when churn conditions are prevalent, major shifts in relative market position can occur quite easily.

**Making Radical Changes in Profitability**

Along with an opportunity to significantly improve your market position, there is another opportunity that is even more important (though much more subtle).

For most carriers, the process of starting up business, getting competitive, and fighting to survive has resulted in the creation of a customer portfolio that includes many customers that are of little or no value. In fact, some carriers have actually been misled into believing that they were gaining big market share, only to find that their competition was off-loading bad customers onto their acquisition campaigns.

What churn situations provide you with is an opportunity to reevaluate your customer portfolio and develop a strategy that allows you to “swap” with your competition. You give them your bad customers and take some of their good customers — clearly, a much better long-term solution.

**Making Radical Changes in Corporate Culture and Org. Structure**

There is yet another, even more significant and subtler benefit to be gained by aggressively addressing churn issues. Churn gives you the opportunity to reexamine the fundamental nature of your organization itself. By forcing you to grapple with the complex, unprecedented issues that churn creates, it provides you with the perfect opportunity to reexamine the assumptions that you made when you first put your organization together and, hopefully, helps you realize some more effective ways to operate in the future.
Churn Helps You Learn about Your Business

When the telecommunications executive is faced with churn issues for the first time, it can be a most un-nerving experience. Suddenly, the corporation realizes that it does not have any idea who their customers are or what they want.

Learning about Who Your Customers Are

Churn is an incredibly complex and personal decision for most people. This means that, to truly address churn in an efficient manner, you have to figure out exactly who your customers are. Churn management strategies that treat all customers as basically the same yield very poor outcome and, as we will show, result in giving away revenues that don’t need to be lost.

Learning about What Your Customers Want

Aside from figuring out who your customers are, you have to come up with some way of determining exactly what these customers want and need.

“I know what they need.” you may be thinking, “They need phone service!” Well, let’s hope that is not what you were thinking, because this simplistic view of the industry went out with the rotary telephone. Diverse customers have diverse sets of needs, and those wants and needs are changing as new technologies become available.

Survival for the telecommunications firm of the future will depend, not only on their ability to figure out who their customers are and what they want today, but to anticipate the needs those consumers will have in the future quickly, accurately, economically, and before the competition figures it out.

Learning about What Your Company Should Do Next

This then brings us to the real lesson that churn has for you and your organization. Churn can teach you how to run your company differently. It can teach you to run it, not driven by the requirements of the technology, but by the needs of the consumers. Learning
how to anticipate customer needs and building an organization that can respond quickly to those changes in needs are the keys to your success in the future.

Churn gives you the information, the opportunity, and the justification you need to turn your organization into exactly what you want it to be.

**HOW CAN THIS BOOK HELP YOU?**

It is our hope that you find this book practical and insightful. Our goal, from the outset, was to create a book that addresses the real problems faced by wireless companies dealing with churn issues and to provide those companies with a guide to:

- Diagnose their current churn situation
- Anticipate when, where, and how churn will appear in the markets
- Create a practical, immediate, effective response to churn situations
- Develop an organization equipped to manage churn situations
- Build a churn management system to support churn management
- Evaluate and implement effective churn strategies

**THE WIRELESS INDUSTRY**

This then brings us to the real crux of the issue from the reader’s perspective. Churn is a distinctively unique phenomenon in the wireless industry, and this industry is a fairly exclusive group. There are less than one thousand wireless companies in the world, spread across every corner of the planet and ranging in size from the very small to the very large.
In 1998 the International Telecommunications Union reported that there were approximately 610 wireless providers in the world. These companies have revenues ranging from: 42 percent that generate less than half a billion U.S. dollars of revenue; to 29 percent that make between half and one billion; to 23 percent that make between one and ten billion; and 6 percent bringing in over ten billion a year.

At the same time, industry research shows that as of 1998 there were less than 300 CLECs and about 300 long distance carriers. Depending on how you measure the growth in this industry, there are only somewhere between 2,000 to 3,000 carriers covering all facets of telecommunications around the world.

Who then could possibly presume to know more about this phenomenon than the industry executives themselves?

**INTRODUCING THE “CHURN BUSTERS”**

Indeed, the executive should be cautious in accepting advice from the uninitiated. In a relatively small industry with a unique problem area there is no clear way that other industries or purely academic contributions can provide truly effective and useful insights.

There is only one kind of person who can hope to provide this kind of value-added insight, and that would be a consultant who has experience solving churn problems for dozens of companies. That is exactly who we are.
More than three years ago, two consultants, Rob Mattison, a data warehouse, direct marketing, and marketing operations expert, and Dr. Paulo Costa, an experienced statistician and marketing strategist, got together and began to discuss some of the ways that telco churn problems could most effectively be addressed. At the time, only a few companies struggled with churn, but it was clear that the problem would grow exponentially as the industry itself grew.

In the time since that first meeting, this team has been able to help customers all over the world with their churn. The team has helped wireless organizations in the U.S., North America, South America, Europe, and Asia deal with the panic that first occurs when churn problems arise, the shock to the organization that follows as they struggle with trying to figure out how to manage it and finally with the development of effective strategies, techniques, and approaches that allowed them to gain control over their churn situations.

Eventually, the team got to be known as the “Churn-Busters” because of the effective churn management solutions they were able to deliver.

THE CHURN BUSTERS’ PRESENT
“CHURN: THE GOLDEN OPPORTUNITY”

Contained herein you will find a wide collection of insights, information, techniques, tips, case studies, and practical examples of the ways that telcos around the world have managed to get control over their churn situations and have leveraged the situation to turn it to their competitive and strategic advantage. The Churn Buster team has helped many organizations to see past the churn crisis that most organizations try to avoid and instead to embrace it as the churn opportunity that they so desperately want and need.

We hope that you read it, enjoy it, and find it useful in your own churn battles.
The key to taking advantage of churn is to appreciate the fact that every product and service that you offer consumers has a very limited shelf life. Telecommunications innovation can make your current offering obsolete long before you get a chance to really exploit it.

The business of the telecommunications providers is not to find “the best” telecommunications technology and then offer it to consumers for as long as possible, but to learn how to “read” the customers’ need, and the changes in technology and to provide customers with the optimum progression of technological stepping stones that will bring them to the future.

Your objective is not to provide them with their last telecommunications product, but with their next one.

It is actually quite odd that churn should be such a special problem for telecommunications companies. After all, churn is nothing more than customers exercising their rights to change the company from which they purchase a product or service.
ALL INDUSTRIES HAVE CHURN

To understand why maintaining customer loyalty is so difficult for the telco provider, you first need to understand the basic differences between the various industries and the way they maintain relationships with their customers.

There are many different industries dedicated to meeting the needs of consumers. Banking, retail, airlines and auto manufacturers, all of them have customers and all of them have to deal with churn.

Is churn management for telcos so unique a problem that nothing can be learned from these other churn management groups? Is telecommunication’s churn completely different than churn for a retailer or an airline?

In general, the answer is both yes and no. On the one hand, there are certainly important lessons and good examples of effective churn management that service providers can pick up from these other industries. On the other hand, the nature of the telecommunications business and the relationship between providers and their consumers is very unique and, therefore, requires a distinctive management approach.

Telecommunications as a Technology Product

In the next few chapters, we will consider several of the different aspects of telecommunications churn. By far, one of the most crucial characteristics that makes telecommunications unique is that fact that it is an industry that is not only driven by technology, but is actually defined by it in fundamental ways.

What exactly do we mean by this?

Industries Affected by Technology

Clearly, there is no industry in the world today that is not affected and driven to change through the presence of technology.
The retail industry has seen massive improvements in productivity and effectiveness through the use of computer systems that help retailers manage their inventories, and through the use of the Internet to help open new channels to the customer.

The manufacturing industry has seen similar productivity boosts by implementation of efficient customer response (ECR) systems and the use of the business to business (B2B) Internet to speed supply and distribution efficiency.

Undeniably, technology has affected these industries in profound ways.

However, while technology is making it possible for these businesses to operate more efficiently, for the most part, it is NOT changing the nature of the business itself. Retail is still about getting the right products to the right people for the right price. Manufacturing is still about making better products for less cost. These industries are affected, not changed, by technology.

**Industries Created By New Technology**

There are certain industries where technology plays a different kind of a role. In most industries, technology provides business people with a way to do what they have always done better. For high-tech industries, however, the new technology actually creates new businesses for the company to participate in.

The leading examples of the high-tech industries include computer manufacturers, software companies, and telecommunications firms. These companies are not only able to make themselves more efficient through the use of technologies, but the stream of innovations that are regularly introduced is constantly redefining them.

This means that the high-tech companies are in a constant state of decline and rebirth, in a cycle that makes other industries dizzy. What this translates into is a very special environment when it comes to issues of churn.

Basically, we are finding that high-technology industries, such as telecommunications, have a built-in product obsolescence cycle that guarantees that churn is going to be a continuous problem (or opportunity).
Ultimately, telecommunications is an industry founded on churn. Churn is, in fact, the lifeblood of the industry and the key to the firm’s long-term survival.

THE NEW TECHNOLOGY ASSIMILATION LIFECYCLE

Much research has been done in the past few decades to help consumers understand the role of new technology in their lives and how people and businesses come to assimilate that new technology into their day-to-day operations.

One of the most frequently quoted books in the subject area is “Crossing the Chasm” by Geoffrey A. Moore. This book sets out to define for the makers of new computer technology exactly how consumers and marketplaces actually go about this assimilation process.

![Figure 2-1: The new technology assimilation curve](image)

Figure 2-1 shows the basic new technology assimilation curve that helps explain how this phenomenon actually happens. Essentially, what the curve shows us is how different people jump on the new technology bandwagon at different times. The vertical axis of the chart measures the number of people that make use of the new technology and the horizontal axis measures the time elapse.
Early Adapters

When the technology is first presented to the marketplace, there are a small number of users who jump in almost immediately and try it out. (Figure 2-1: A.). We call these people the *early adapters*. They are the ones who want to have the newest, fanciest, most sophisticated, and even experimental technology as soon as it is available.

Early adapters are important to the market because they are the people who “test” the items.

The “Chasm”

A very interesting discovery made during the new technology assimilation study is that, once the early adapters figured out how much they liked the new technology, many would move on in search of the next innovation to explore.

This accounts for a drop in the already relatively low numbers of users. This dip in the utilization of the new technology is called the *chasm*. (Figure 2-1: B) It is the time before the technology becomes readily available to the mass market, but after the early adapters have made their judgements. The result is a temporary lull in subscribership.

During the chasm period, companies go through a ramping up process: Finding investors, building out the network and, in general, getting ready to do business.

Expansion Phase

After the chasm period comes the most exciting time, the expansion period. (Figure 2-1: C)

During the expansion phase we find a very rapid, often exponential, increase in the number of people signing up to use the new technology. As more consumers use the product, like it, approve of it, and tell their friends about it, a momentum builds and the expansion goes faster and faster.
Most wireless companies have found themselves in the expansion phase during the past few years.

**Maturity Phase**

As the market becomes saturated, we begin to see a leveling off of demand. Everybody that is going to take to the new technology is already using it. During this time period, the rapid expansion stops. (Figure 2-1: D) Now there are no new customers to acquire.

**Decline Phase**

Eventually, alternatives to the technology are invented and consumers decide that a replacement technology will help them more than what they are currently using. More and more consumers drop out of this particular market and eventually there are no subscribers at all. (Figure 2-1: E)

**THE TELECOMMUNICATIONS ASSIMILATION CYCLE**

The technology assimilation study describes a general cycle, but its applicability to the telecommunications industry is clear. In fact, understanding this curve helps us to understand several issues about the churn phenomenon as well.

**Wireline Lifecycle**

To begin with, let’s take a look at how this assimilation cycle applies to the traditional wireline telecommunications business. See Figure 2-2.

The curve in Figure 2-2 has a shape very similar to that of the new technology assimilation study. The big difference is the timeline across the bottom of the chart. The lifetime of the technology is measured in decades instead of years.
Bell Invents the Telephone

In 1876, Alexander Graham Bell invented the telephone. A few months later he was awarded the patent for it. Shortly afterward, he began trying to sell the new technology to interested parties. (Figure 2-2: a)

What few people realize is that during the first several years of its existence, no one was very much interested in the telephone. Bell spent all of his time taking the new device to county fairs, asking people to pay five cents to talk with someone at the other end of the fair grounds.

The Early Days of Telecommunications

Eventually, Bell got some investors interested in the technology and the first truly public production phone system was installed in the Northeastern United States in 1877. It had 600 subscribers. Service at that time consisted of 300 pairs of phone. Each phone was connected to just one other phone. There were no exchanges and no ability to dial up.

On January 28, 1878, the first telephone exchange was established in New Haven, Connecticut. It had twenty-one subscribers and an operator placed calls manually. These were the early adapters of phone service.
After that, many, many companies sprung up all around the world and the great telecommunications race was underway. (Figure 2-2: c)

During this expansion phase for telecommunications, one that lasted for several decades, many different telephone companies competed for preeminence. Eventually, the one-country-one-phone-company model emerged in most cases and small competitive telcos became rare.

Telecommunications Maturity

At some point, several decades ago, the meteoric increase in the use of telecommunications began to ebb. The technology, in and of itself, saw no real improvement for a very long time, and the market entered the maturity phase. While it is true that telephone wireline subscribership continued to increase, those increases were for the most part incremental in nature. (Figure 2-2: d)

The Decline of the Wireline Telephone

At this time, we are beginning to see something that would have been unimaginable just a few short years ago, the decline of the wireline telecommunications industry. (Figure 2-2: e)

![U.S. Wireline vs. Wireless Subscribers](source: Cellular Telecom.Ind.Assn.)

We now find that the actual number of wireline phone numbers is decreasing around the world, that the number of wireline subscribers is decreasing, and that a large number of people are shifting to
wireless, Internet, and broadband alternatives to the traditional wireline service.

As we can see from the statistics in Figures 2-3 and 2-4, wireline is definitely in the decline in the large industrialized nations.

**Wireless Technology Lifecycle**

Looking at the lifecycle of the wireline industry provides us with several valuable insights.

First, it confirms that the new technology assimilation lifecycle analysis is a valid one.

Second, it provides us with a model for understanding how the wireless industry is behaving and is most likely to perform in the future.

Third, we see the incredibly long time it takes for the lifecycle to play itself out. The wireline industry has lasted for over 100 years and will continue for some time into the future.

As we shall see, this issue of the duration of the new technology lifecycle is an important component of any analysis.
The AMPS Lifecycle

To understand more clearly how this relates to the wireless industry, we need to apply the same analysis to the first generation of “real” wireless technology, the *advanced mobile phone service* (AMPS) wireless product.

AMPS was the first truly viable and extremely successful implementation of wireless telephony in the US. The technology was invented and first deployed by AT&T in 1983 in Chicago.

AMPS was the hot new wireless technology for many years and it experienced extremely high rates of growth. In fact, it was the technology, not the market place that limited the expansion of AMPS. AMPS technology was only able to support a limited number of subscribers per cell. It requires that one analog channel support one user at a time. Therefore, a typical channel will support anywhere from 20-32 users per day. A network with 50 channels, therefore, can support a maximum of 1000-1600 subscribers.

The result was that the AMPS networks were utilized to capacity in a very short amount of time.

![Figure 2-5: The AMPS Lifecycle](image)

Restricted by technological limitations, bandwidth availability, and economic factors, AMPS technology both established the viability of large-scale wireless technology *and* became the first victim of the assimilation process.
In less than five years, several alternatives to AMPS technology were developed including code division multiple access (CDMA), time division multiple access (TDMA), and new advanced mobile phone service (NAMPS) in the U.S., and global system for mobile communications (GSM) in Europe and Asia. In no time at all, these newer technologies, which provided more capacity, better quality and more reliable service, began to supersede AMPS, leaving it to die out.

What is most interesting to note in Figure 2-5 is the incredibly short time it took for the technology to play out its lifecycle (10 years vs. 100 years), and that the technology itself became the limiting factor on the life and health of the approach.

The PCS/GSM Lifecycle

More recently, as we have already mentioned, the personal communications services (PCS) NAMPS, CDMA, TDMA and GSM technologies have superseded AMPS as the main wireless technology. While some AMPS networks still exist (in many cases they are guaranteed survival by regulatory requirements), the new generation of wireless PCS/GSM is now what we define as the wireless business.

One of the most interesting and important characteristics of the current trend is trying to understand just how long the phases will last and when these technologies will be superceded by the next generation. See Figure 2-6.
For the most part, analysts and governments are amazed at how deeply wireless technology is penetrating the market. Some are talking about a 110% market penetration (meaning that everybody has at least one phone and some have more than that).

Will PCS/GSM become self limiting the way AMPS was self limiting? Will the number of subscribers become too great to manage, or will the third generation broadband wireless make the investment in PCS/GSM obsolete in just a few years?

Understanding the shape of this new technology assimilation curve, determining your current market position on the curve, and anticipating how the curve reshape itself over time is critical to any wireless company’s overall planning, including the decisions of how to manage churn.

**Wireless Implications**

The implications of the new technology assimilation curve are extremely important to wireless providers. Embedded within this chart are the keys to understanding much about your market position and how to manage and maintain it.

When viewed from the perspective of the industry overall, and the lifecycle of the individual products, it is easy to see how customer churn is truly endemic to the telecommunications industry itself.

**LONG DISTANCE TECHNOLOGY CYCLES**

While the wireless industry tells a dramatic and easy to follow story about technological obsolescence and customer loyalty, the other forms of telecommunications are not immune to the phenomenon.

It wasn’t that long ago that the long distance industry began its own cycle of technological upheaval. Those familiar with the history of telecommunications and deregulation know that, in the U.S. at least, it was the alternative long distance carriers (MCI with its microwave based long distance network) that precipitated the famous Judge Green decision, making the U.S. a deregulated marketplace.
The battle for long distance customers and the continued increase in long distance efficiency and call quality have persisted ever since.

Figure 2-7 shows a dramatic indication of exactly how much downward price pressure can be expected in the long distance industry over the next five years.

This chart, prepared by the Boston Consulting Group, shows that the average wholesale cost of long distance is expected to drop from an initial value of 1/10 of one cent per minute in 1998 to as low as 1/100,000 of a cent per minute by 2002.

How carriers choose to maintain their market shares and their profit margins in a market where competitors can offer higher quality service at a fraction of the cost currently being charged is a serious challenge.

TECHNOLOGY AND THE CLEC AND LEC

So far, the local exchange carriers (LECs) and the competitive local exchange carriers (CLECs) have managed to stay clear of any serious churn challenges. However, the horizon is starting to shape up as a future churn battleground for these carriers as well.
As CLECs figure out how to penetrate the home with fixed wireless, cable, fiber optic, and digital subscriber line (DSL) access, it is a sure bet that this last bastion of the non-competitive telecommunications environment will fall to the churn bug as well.
To truly address the issues surrounding churn we must first define exactly what we mean by the word. There are dozens of definitions for the term and hundreds of reasons that people decide to change carriers. For many carriers, the biggest and most expensive type of churn does not involve the customers who want to change providers but those who are forced to end their subscriptions. We refer to these as the “involuntary churners.”

One of the first challenges that you face when you decide to do something about the churn your company is experiencing is coming up with a good description of what churn actually is.

**Churn Name Confusion**

It seems that everyone we talk to has a different definition of what exactly churn is in their company.
Different Perspectives, Different Names

Financial people report churn as the former customers who are now no longer subscribers for whatever reason. Marketing personnel consider churn to be those people who choose to subscribe with some other service provider. Some groups include those that have been disconnected for reasons of non-payment along with the people who simply stop using their phone without even making an official termination phone call. We worked with one prepaid management group who consider churners to be all those that have not recharged their phone in the past three months.

With so many different meanings associated with the word churn is it any wonder that people are confused about how best to manage it. How can you possibly manage what you cannot even define?

The Need for a Comprehensive List

It is critical, then, before we address churn management strategy that we develop a comprehensive understanding of just exactly what the different kinds of churn might be. There are many ways to categorize customer churn. You can group it by the time it happens (people who churn within one month of signing up, after one year, or when their contracts expire), by the way the customers do it (phone churners, in-person churners, and missing person churners), or by the reasons they give for churning. The most useful approach is to categorize by the reasons for the churn.

The Challenges of Reason-Based Churn Categories

Categorizing by the reasons for the churn has one large problem in that we have no way of being sure why the person actually leaves. The problem is twofold.

First, when customers churn, it is unlikely that they tell us the real reason for their leaving. People may be embarrassed by their real reasons, or may not want to hurt the feelings of the company employee or interviewer.
Second, many times customers do not even know themselves why they are churning. The churn decision is often a complicated one, which even consumers do not understand.

**Why Use Reason-Based Churn Categories?**

If churn categorizations are so inaccurate, why use them at all? It is very simple. The list of churn reasons that we have assembled here include all or most of the commonly identified reasons that have been discovered by different interviewers, surveys, focus groups, and other forms of research. While we cannot always get consumers to tell us what reasons they have for churning, we can find ample evidence for each of these churn types in the secondary research material.

**THE CHURN REASONS TAXONOMY**

Figure 3-1 shows a complete taxonomy for all the major reasons that customers have for churning.

This chart provides you with a handy reference for understanding the reasons for churn and how they relate to each other.

![Figure 3-1: Taxonomy of Churn](image-url)
Two Major Categories of Churn

Before getting into the more specific reasons for churn we start with two very obvious, very high-level categories that divide our churning customers into two useful groupings. Basically, we can divide all churners into the categories of voluntary and involuntary.

The rest of this chapter will be dedicated to exploring the involuntary churn category. In the next chapter we will delve into the many voluntary churn reasons.

Involuntary Churn

The easiest types of churners to identify are the involuntary churners. They are the customers that you decide should be removed from the subscribers list. Involuntary churn has turned out to be the biggest kind of churn problem for some providers and an almost non-existent category for others. This category includes people that are churned for fraud, non-payment, and under-utilization.

Figure 3-2: Involuntary Churner
Fraud (Customers Who Cheat)

A few years ago fraud was the biggest single problem that wireless companies faced. Ingenious criminals had figured out how to steal the identification code from passing cell phones and place them into other phones. This process, known as cloning, meant that a customer’s phone number could be stolen and used by criminals to make phone calls for free.

This problem got to be so bad that wireless providers needed to build all sorts of safeguards into the sales and activation process just to try to catch these situations as soon as possible. (This problem was made especially aggravating when the cloners used the phone to make long distance phone calls. The wireless provider had to pay long distance carriers for calls that were never registered or paid for.) Newer wireless technologies like CDMA and GSM have eliminated the majority of cloning cases by making use of encrypted partial and full keys and handshake protocols that make cloning virtually impossible.

Today, fraud cases are usually associated with tracking down the theft of actual handsets or with customers violating the terms of their contracts.

Non-Payment Churn
(Customer with Credit Problems)

A problem that is growing in importance for many carriers is non-payment, or credit, churn. This situation occurs when subscribers fail to pay their bills, usually for several months in a row.
Credit churn is a particularly interesting form of churn. It is completely up to the carrier if or when to cut off the customer and terminate the contract. There are customers who will continue to use the phone for as long as they possibly can with no intention ever to pay. Then again, there are also customers who intend to, or will at least try to, pay when offered some assistance. This makes credit churn a challenge for the provider. If you are too abrupt or offensive with the customers, you run the risk of angering them and encouraging them to go to a competitor (who might get paid on time every month). On the other hand, if you are not firm enough you run the risk of donating a lot of airtime to a customer who will never be any good.

The whole problem of customers and churn has several layers of treatment.

Don’t Give Phones to People with Credit Problems

The process of checking out customers’ credit ratings before giving them a phone is an important one. The looser the credit requirements for subscription, the more customers you will have, but the more credit problems you will have in the future. On the other hand, tighter credit constraints up front force many customers to consider the competition.

Establish Cutoff Dates

The second layer of credit churn exposure is to control the period of time that you allow people to go without payment. In some markets the payment is allowed to lapse for as long as 180 days. In others it
is as short as 30 days. In all cases, the tradeoff problem is the same, the tighter your restrictions the more likely you are of antagonizing otherwise good customers who might be suffering a temporary cash flow problem.

Friendly Acquiescence

One of the nicer ways to develop your credit churn escalation procedure is to gradually disable some aspects of the defaulting customers’ services, allowing them to have partial use of the service until they return to a fully paid status. You can disable voicemail, call forwarding, and other extra services first, then block outgoing calls, allowing them to only receive calls, and then, finally, disconnect the entire account.

The friendly acquiescence is most effective because as long as customers have partial service they are unlikely to go to a new provider.

Underutilization Churn
(Customers Who Don’t Use the Phone)

Another new category of involuntary churn that some telcos are beginning to pay attention to is underutilization. For some telcos the fact that customers have a phone and a number but are not making good use of it is reason enough to disconnect them. These telcos keep track of how much a phone is being used and cancel subscribers after a certain period of time. (Underutilization is only an issue for the prepaid customers or those who pay no monthly fees.)
MANAGING INVOLUNTARY CHURN

The nice thing about involuntary customer churn is that you, the company, have a great degree of latitude in how this kind of churn is managed. You also have a great deal of control over the amount of involuntary churn risk exposure that you take.

Fraud, credit, and underutilization are all problems that can be anticipated ahead of time. By tightening up your customer screening efforts you can prevent many of these situations. On the other hand, you can loosen up the criteria, allowing more customers into the firm, thereby increasing your potential revenues but also increasing your risk of having to deal with these kinds of churn more often.

Ultimately, it is simply a tradeoff decision based on a number of factors. Some companies need to have a high headcount (for reasons of investor confidence or marketplace image). In these cases, allowing the obviously higher risk customers to sign up can be one of the best ways to address the issue. The downside, of course, is that you will have to deal with these people at a later time.
When we try to understand exactly why our customers are churning, we begin to see how little we know about who our customers are, why they subscribe to our service, and what prompts them to change carriers. While customers may be very clear about their reasons for churning (the number one reason being price), the decision to actually change carriers is a complex one with many contributing factors.

Learning why your customers churn teaches you why they were attracted to you in the first place. And as telecommunications becomes more complex, it provides you with the information you need to anticipate what their next set of needs will be.

**Voluntary Churn**

Although the involuntary churn categories define a large part of the customer attrition problems, when people think about telco churn it is usually the voluntary kind that comes to mind.

Voluntary churn occurs when the *customer* initiates termination of the service contract.
Market Research on Voluntary Churn

A great amount of market research has been done on the topic of voluntary churn. In fact, it is probably the number one topic on the research priorities of just about every carrier in the world. The results invariably show differences in various markets, countries, and cultures, but most surveys find that the major stated reasons for churn include:

1. Price
2. Quality
3. Coverage Area
4. Customer Service
5. Image

While a great number of variations will show up, these five reasons inevitably are at the top of all churn reasons lists. They have been reported to be the primary reasons for churn by long distance carriers.
customers, local exchange carrier customers, and wireless customers as their primary complaints about the service. Surprisingly, this holds true for just about every country where such research has been done. Figure 4-2 shows the results of a recently conducted U.S. survey on churn reasons.

Also interesting are the results of a survey of long distance customers for the reasons they changed to their current carrier and why they continue to like this provider.

Figure 4-2: Customer Satisfaction Reasons - Long Distance

Under the category of voluntary churn we recognize two major types of voluntary churn, incidental churn and deliberate churn.

**Incidental Churn**

Incidental churn occurs, not because the customers planned on it but because something happened in their lives, and the termination of the service is a side effect.

**Change in Financial Condition Churn**

Change in financial condition churn is attributed to the customer losing a job, going bankrupt, ending up with large bills, or any other kind of financial calamity. Obviously, under such conditions the customer will be forced to discontinue service.
Change in Location Churn

The other incidental churn occurs when the customer moves outside of your service area. This happens more often in countries such as the U.S. or China where people can easily move between carrier boundaries without leaving the country. In countries that are less geographically dispersed change in location churn is much less likely.

Change in Life Situation Churn

Finally, the change in life situation churn covers most other reasons that might cause customers to terminate service when it isn’t their idea. Customers die, their parents take away their phones, or any other of a variety of causes.

DELIBERATE CHURN

For the most part, incidental churn occurs only in a very small number of cases and is usually nothing more than a natural part of any business. More important are the many kinds of churn that happen when customers deliberately leave your company. Deliberate churn happens for reasons of technology (customers wanting newer or better technology), economics (price sensitivity), quality factors, social or psychological factors, and convenience reasons.

TECHNOLOGY-BASED CHURN

In our technology-based society and with the high technology, new and improved profile that wireless telephones offer it should come as no surprise that wireless customers are sensitive to technology issues and will switch carriers in response that. Technology-based churn can be divided into three major categories: handset churn, feature/function churn, and network churn.
Handset Churn

Handset churn is an especially pervasive type of churn that has been significant in many markets, especially in Asia. Basically, customers decide that their handset is not new enough and that the easiest way to get a newer one is to simply change carriers.

What is especially nefarious about handset churn is that the carrier who provides the phone service loses a customer, not because of the phone service, but as a result of the technological or psychological obsolescence of the handset the customer uses.

Handset Churn Conditions

Handset churn is obviously not a problem for long distance and CLEC providers, but for wireless carriers in certain markets it can be extremely important.

In a market where consumers pay full price or close to full price for the handset, the customers have nothing to gain by changing carriers. If they want a new handset, they simply buy it and keep their current carrier.

In subsidized markets it is a different situation. Here, the wireless provider pays for much of the cost of the handset assuming that the customer will pay the company back for the investment in phone utilization. Unfortunately, it is very easy for customers to switch phone companies every three to six months, get a brand new handset, and lose nothing in the process. This turns out to be a very
good deal for the customers, but the provider is not able to recoup the investment before the churn happens.

**Feature/Function Churn**

Similar to handset churn is churn that happens for new features and functions. In this situation the customer discovers that there are new features available from a competitor and then switches carriers to gain access to them. Customers who want or need to have voicemail, call forwarding, wireless application protocol (WAP), short message service (SMS), Dial-A-Joke, or any other kind of ancillary service will look for and switch to the carrier that offers it.

**Network Churn**

Handset churn and feature/function churn are relatively easy to combat by simply making sure that you can give to the customers what they are looking for. Network churn, however, is a much more difficult problem to address. Network churn occurs when alternative, newer network technologies enter your market and consumers are offered the opportunity to upgrade to the newer service.

In wireless, the most recent cases of network churn occurred in the early-established AMPS markets. These markets were very quickly overcome by the second-generation wireless technologies (TDMA, CDMA, and GSM).

In the long distance market, the race to build out a significant long distance backbone for the Internet has resulted in the creation of many, many surplus miles of telecommunications capacity, based on the latest in fiber optic and other high-capacity network technology. This means that new carriers can enter the market, purchase long distance capacity from these long-line wholesalers and offer the service to consumers at drastic price discounts.

For the local Internet service provider and other dial up providers, the entry of DSL, cable modem, and fiber optic on the scene has made it increasingly difficult to justify their prices in the face of lower-cost, higher-capacity alternatives. It is very difficult to convince customers that they should keep an older, more expensive, lower-quality product when a much better option is readily available.
Dealing with Technology Churn

Customers who is willing to pay hundreds of dollars to gain access to the latest and greatest new phones when they sign up with your company will almost certainly switch when something newer and better is offered.

Technology-based churn is actually one of the most obvious types of churn that a provider should be aware of, yet far too many companies are surprised when it happens. In fact, the whole issue of technology-based churn brings us back to the discussion we had in Chapter 2 regarding the new technology assimilation life cycle and the increase in customer interest in the technology. What we didn’t talk about very much is what happens when your products are on the downward side of the curve.

Early Adapters and Technology Churn

We have a similar situation with all three kinds of technology churn. When the technology offered by the provider is first introduced, the first customers to come on board are the early adaptors. Later, as the technology matures, more and more people subscribe, and we begin to climb the market expansion curve.

What takes many providers by surprise, however, is that the early adaptors that signed up a year or two ago to get the latest new technology are now unhappy and looking for a change. These consumers to whom new technology is very important are now walking around with two-year-old handsets and very limited feature/function bundles. Of course they are going to churn, and soon, if the company doesn’t do something about it. We call this “early adapter curve jumping.” (See Figure 4-5.)
The Early Adapter Challenge

Early adapters offer the service provider a rare challenge. Since they are usually the first to become your customers, they represent the group with whom you have the longest-standing relationship. If you ignore this group because you are too busy trying to sign up customer number three million, then you will quickly lose those early loyal customers in exchange for newer, untested customers.

This may make sense from a purely sales perspective, but it is counterproductive for the company overall. It costs much money to win a customer, and losing a customer that you have already earned and nurtured for a year or two is simply not good business.

The early adapters present management with an interesting dilemma, one that is actually the core of the entire churn problem. How do we create a business model that always includes all the newest technology in the offerings to consumers (which then allows us to compete with the newest competitors in the marketplace and acquire more new customers) and make it available to existing customers without creating havoc within the sales, support, and accounting organizations?

Retroactive Enhancement

This is a retroactive enhancement problem. Basically, retroactive enhancement is the process of incorporating newer and better capabilities, features, and functions into the suite of offerings to consumers without upsetting the nature of the service agreements made with existing customers.

In the wireless industry that is growing and changing at a very high rate, new technologies and innovations are constantly making older ones obsolete. For example, let’s say that on the day you started your company AMPS was the best technology available. You created a business model that allowed you to recoup the investment you made into the AMPS network (towers, cells, infrastructure, etc.) by offering customers a certain level of service. Two years later AMPS technology is looking less than attractive to most consumers (and to you) as CDMA and GSM provide the ability to carry much more traffic of higher quality for each cell installed.

The challenge for the existing AMPS carrier is clear. Do I try to maximize my current AMPS business model or upgrade the network
to carry both AMPS and GSM, taking on a large additional expense to remain competitive and increase my customer base? Most companies choose the upgrade option if the licenses can be acquired.

But this then creates a problem for your old customers and your old business model. You now have a new network, new costs, and better service to offer. What exactly do you tell your old customers? You could say, “Sorry, if you want GSM you have to re-subscribe.” Or, “You have been such a good AMPS customer, we will give you a free GSM handset and lower your rates.” Which will it be? Making that decision is not an easy one.

Handset Promotion: The Bad Surprise

This problem of retroactive enhancement is especially difficult in the area of handset churn. Customers like new handsets, and they are happy to get a new one every once in a while. In fact, handset manufacturers work very hard at making their new handsets fashionable and powerful.

Making the replacement of consumer handsets economically feasible is a problem for most providers. When they conceive of handset promotions and develop their subsidy, rate, and contract duration parameters, they generally assume that the customer will take the new handset, be happy, and remain loyal. Unfortunately, consumers that respond to this kind of promotion are extremely vulnerable to a similar offering by a competitor when the handset gets a little older. The best way to handle this is to view handset subsidies not as a one-time event, but as a cycle that has to be maintained to keep your customers.

Technology Churn Lessons

Although there are many other kinds of churn to consider, those customers who participate in technology churn are an extremely important group for the provider to pay attention too. Technology churners are customers who give you advance warning about the direction the market is taking. If you are managing handset, feature/function, and network churners well, then your company is maintaining a healthy position on the technology deployment front. This means that your company is successfully managing new technology and working it into business model.
If, on the other hand, you find that you are losing many customers to technology churn, then there is a very good chance that you have some serious long-term deficiencies that will have to be addressed.

**Maturity Phase Churners**

The early adapters who practice technology churn are acquired during the early days of your firm’s existence. The groups that churn for price, convenience, social/psychological, and quality reasons churn much later in your life cycle. They come on board during the expansion and maturity phase.

*Expansion Phase Churn – Rare*

During the expansion phase, everyone in your market will be clamoring to sign up as many people as possible as quickly as possible. Customers typically shop the different offers and then settle down with the technology to see what it is all about.

![Expansion Phase Market Share for Competitors (Conceptual)](image)

During the expansion phase, a company’s market share is usually based on the size of its marketing budget, initial network outlay, and ability to sign up customers quickly. In most markets, this relative market size will not change as the market expands.
Figure 4-6 shows a typical market share distribution for competing carriers in an expansion market. The solid line at the top represents the growth of the overall market over time. The dotted lines indicate the market growth that each individual carrier experiences.

Market forces and market momentum keep the carriers in their position no matter how well or how poorly they manage the customers. For a while the service provider is given a grace period. Customers do not know what to expect of the technology, so they have no standard yet against which to judge the competition. During this period, however, consumers begin to establish standards for acceptable levels of service, price, and value.

**Maturity Phase Churn – Common**

As the expansion phase comes to an end, the consumers will have resolved these issues. They now look at offers with a more discerning eye and they listen carefully to claims by competitors offering better coverage or call quality. If the customer isn’t relatively satisfied, then the competitor has a chance that was not likely a few months earlier.

It is during the market maturity phase that we see major shifts in customer membership based on how well the company is managing churn. Figure 4-7 shows how relative market share can shift greatly during the maturity phase as some carriers manage churn and acquisition better than others. Companies who are aware of consumer need and who make adjustments accordingly can pick up many additional customers during this time. Others may lose a significant chunk of their market.
ECONOMIC CHURN

The most easily understood of the churn types is churn for economic reasons. Despite the best efforts of service providers to make their companies unique and interesting, the resounding number-one reason for churn mentioned by consumers is always price. Since customers are sensitive to price, you must respond to price pressure from your competitors.

The Price Suicide Play

During the expansion phase, churn is not a major concern. Competitors may drop prices to invite new customers, but other offers may also attract customers. When the market begins to saturate, however, and a carrier is looking at declining enrollment numbers, the knee-jerk solution to the problem tends to be to reduce prices to attract customers away from the competition.

Unfortunately, the decision to use price as the main churn tool has one very large flaw. Price reductions may be easy to execute, but it is just as easy for your competition. This means that if you start to push price to gain customers the competition is likely to respond in kind. The ultimate result is obvious.

A. Each company will retain the relative share of market they started with.

B. Each company will be working at a lower profit margin than before.

Avoiding Head-to-Head Price Competition – Price Obfuscation

To get around the problems created by direct price competition, many companies create programs, promotions, and campaigns that allude to price benefits, but which obscure the nature of the savings to the point that consumers are unable to compare competitors’ offers directly. For example, in one market a carrier offers customers per-second versus per-minute billing. This means that the consumer saves money on every fraction of a minute left over at the end of a call. Although this might be of obvious value to a consumer, trying to compare the benefit in actual dollars would be quite complicated.
In another market, carriers create complex variable rate plans based on the time and duration of the call. We label this kind of advertising *price obfuscation*. It can be quite effective.

This points us directly to our three types of price churn.

1. **Rate Plan Churn** - when a consumer prefers the rate plan offered by one competitor over another.
2. **Per-Minute Cost Churn** - when the consumer changes to get a better per-unit charge rate.
3. **Activation Rate Churn** – when the customer switches providers because the competitor eliminates or discounts the activation fees (possible but very unlikely).

### Quality and Churn

Although price is the number-one reason people churn, quality is the second most common reason. This is not a surprise either. The wireless industry is, after all, a service industry, and the quality of the service is what people are buying.

Thus far in our discussion of churn and why consumers decide to change carriers the issues have been straightforward and objective. If consumers want new handsets, they go wherever they get the best deal on it. If they are sensitive to price issues, then they look for the carrier with the best price.

When it comes to churn for quality, social/psychological, and convenience factors, however, the job of churn manager becomes much more difficult because these areas are no longer quite so objective. For the consumer, decisions about quality, convenience, and social/psychological value are very personal and subjective and as such are extremely difficult to measure, assess, and act upon.

### Quality, Perception, and the Incumbent Advantage

Churn for quality issues put the provider into a particularly difficult position. Market research has shown that the consumers’ feelings
about the quality they are receiving and the actual quality provided can be quite different indeed.

Government-sponsored research into the quality of competing providers in the areas of customer service, network, call quality, and coverage often indicate that the former national monopoly provider supplies some of the worst wireless services in the marketplace. However, in most of those same markets, as unbelievable as it may seem, the wireless services provided by these former incumbents are ranked as of the highest quality by consumers participating in market research and focus groups. There are several theories as to why this could be happening.

The Familiarity Factor

One theory is that consumers are responding to a familiarity factor. This theory proposes that consumers are so accustomed to the level of services provided by these incumbents that they automatically assume that it is the best they can expect to get and that anyone else must be doing less.

The Might-Makes-Right Factor

Market research has also shown that a large, well-financed, well-known brand name company by default will establish the benchmark for the lead in quality and service. There is in fact a built-in boost in customer perceptions for the incumbents.

Quality Perception and the Advertising Advantage

Some interesting market research data has indicated that it is not so much the actual quality of what the company delivers that counts with consumers but the amount of advertising done to convince consumers that the quality is there.

Recently completed market research in the U.S. long distance market has shown that AT&T, the longtime U.S. incumbent and arguably the company that initiated both the telephone and the wireless industry, has dropped down to second place in the minds of many U.S. consumers regarding quality and technological leadership issues.
Surprisingly, the Sprint Corporation, which runs major advertising campaigns, has been ranked either as a clear number one or as an even match for AT&T in many quality areas. Also unbelievable is how incredibly low the other providers are ranked. While objective research seems to indicate that there is very little difference between the quality from these competing providers, the marketplace clearly perceives a gap.

This would seem to indicate that the best way to win the battle for quality is to be sure that you not only have good quality but that you spend much time and energy telling your customers that it is so.

The quality criteria used by most consumers fall into the following major categories.

**Coverage**

One of the most easily recognized quality criteria for the wireless customer is coverage. The bottom line is that if the wireless phone doesn’t work in certain key locations the consumer will be upset and look for a new provider with the desired coverage.

Coverage issues can be complex or simple depending on the physical terrain and the regulatory environment. In markets where inter-regional roaming is enforced (as in the case of the U.S. and AMPS regulations) it is difficult for a consumer to complain about lack of coverage since all handsets are dual band (AMPS and an alternative) and all carriers must provide for AMPS coverage. These consumers could, however, complain about the quality of service in particular areas.

In other regulatory environments the density of tower placements and bandwidth is much more critical, and here consumers will develop clear preferences for carriers with the best coverage.

In some markets, consumers actually attempt to ameliorate this problem by acquiring multiple handsets from multiple providers, guaranteeing that they have coverage at all times.
Call Quality

Although the coverage that a customer can expect is fairly easy to determine, how a consumer views the call quality is a different matter entirely.

Objective Call Quality Measures

There are at least a few things that can be done to get an objective idea about call quality. First, monitor your own network (via Call Detail records) and see how many dropped calls there are. Second, monitor customer complaints about quality through the customer service organization. Third, have the network engineering organization run their normal diagnostics and tests.

Additionally, it is important to remember that if customers get a “no connection available at this time” message on their handsets, they will consider this a network quality problem when in fact it is a capacity issue.

In all, a fairly decent picture of the company’s objective network quality can be developed through these means.

Subjective Call Quality Measures

It is important that the company conduct research into as many of the objective quality measures as possible so that management has a good idea of what the real quality baseline is. After that, it is important to get a measure of consumers’ subjective opinions about call quality. The most common means of collecting these subjective opinions is through customer satisfaction surveys and market research.

Technological Excellence

Another interesting facet of the customers’ perceptions of quality is their opinion of the company as a technological leader. In a world where consumers are in love with everything technological, they will often define the quality of the company in these terms. How a consumer forms an opinion of the company’s technological prowess is defined by the following:
Advertisements that boast of technological innovation
Carriers that seem to be first in introducing new features and functions
A sensitivity to claims that networks are being upgraded, retrofitted, or in other ways improved.

**Customer Service**

Anyone who has ever had problems with their phone service has experienced the quality, or lack of quality, of the customer service staff. These company employees are a critical part of your overall perception of the company. Customer service (or the lack thereof) appears again and again on the list of the customers’ biggest complaints about a carrier.

As with all of the other quality issues, we have some serious challenges to figuring out exactly how to set up the customer service component of our churn-proofing activities. The topic of customer service in wireless is so broad and involved that we could write an entire book about that subject alone.

The biggest complaints consumers voice about customer service are:

- Rude or unfriendly customer service reps
- Reps who are unfamiliar with the company, offers, or service problems
- Reps who are unresponsive or don’t follow up

The problem, of course, in the management of this kind of organization is in figuring out how to create, staff up, and support such a group on
a limited budget. From the customer service representative’s point of view, major complaints include:

- Lack of information about customers
- Lack of information about promotions, campaigns, and service issues
- Lack of training and familiarization with the telecommunications business in general

The resolution of customer service problems is difficult. Automated call center support software, databases, and training all contribute to a solution, but ultimately the real test of the effectiveness of these efforts is how well it helps convince customers that their current provider is the best one available.

**Billing**

Billing systems are the bane of every telephone company. Nobody likes the billing system, but without it you cannot collect money from your customers. Billing systems are not automatically part of the list of quality issues that a customer might have with your company; however, several billing system problems will place it on the top of their list in a hurry. Major billing system problems include inaccurate bills and bills that are late. Either of these will make the customer very unhappy very quickly, especially if it is a recurring problem.

**Social/Psychological**

So far we have discussed technology, price, and quality. Although these are by far the biggest reasons for churn, some other more subtle factors, which by themselves will probably not cause churn to happen, can contribute to the consumer’s churn decision. People are social animals, and friends, family, and many other social influences sway them. Social pressures can even cause a person to drop a carrier and switch to one that is more socially acceptable.
**Friends/Family**

The strongest of the social churn factors is the friends and family issue. People will often change the decisions they have made based on pressure from these groups.

In many Chinese and other Asian cultures, the family will exert a strong influence on decisions. Adult children many times change their decisions to conform to the wishes of parents. Some of the people interviewed in focus groups gave family pressure as the reason for changing.

Even more powerful than family pressure is peer pressure, especially on teenagers and young adults. If a carrier happens to be recognized as the cool, hip, young people’s carrier, many customers will switch from their competition due to social pressure.

Two cases come to mind that underscore this effect. The *Dingo Blue Company* in Australia established a strong unique young image, which produced an almost complete counterculture association for subscribers. This company created an image that leverages strong peer pressure to become one of the people with the “right” provider. In another market, a company was able to establish such a strong recognition as the best, that people having the “wrong” phone number (the phone number prefix associated with the less popular carrier) are singled out as “uncool.”

**Image**

Strongly related to the pressure that friends and family may create for a consumer is the self-image that the consumer brings to the provider contract. In some cases, the image projected by the company can clash with the self-image of the consumer. In these cases, consumers will switch to a company with an image more in line with their own.

**Experimentation**

Finally, there is a small group of consumers who simply have a need to try new things. These consumers will switch carriers just to see what the other service is like and to give themselves a basis
for comparison. The experimentation category showed up during interviews of a focus group. As with all of the churn reasons, it is difficult to know exactly how valid the experimentation reason actually is. It is very possible that this is given as a reason when people do not want to tell you the real reasons for their churn decision.

**CONVENIENCE**

As with many of the churn reasons we have considered, the types of churn events that occur as a result of convenience are probably not so much reasons as contributing factors. The category of convenience churn includes all those types of activities that make it very easy for the customer to make a churn decision. Customers often name these convenience events as their churn reasons.

**Channel Churn**

One of the most nefarious and difficult to combat kinds of churn is what we call *channel churn*. Channel churn occurs when the agents and independent retailers that sell your services to consumers use that relationship to encourage customers to change carriers.

In the most typical scenario, an agent will sign up a new customer for your firm based on a promotion you are running. Twelve months later the agent will realize that the customer’s contract and handsets are old and that the customer may be interested in upgrades. Since the agent makes no commission on reinforcement of the existing contract, offering your competitor’s package to that customer is an easy way for your agent to create revenue. Many times, the customer accepts the offer.

Combating channel churn is extremely difficult. Detecting when channels are doing this kind of activity and when customers are accepting it is just about impossible. The only truly effective approach to the prevention of channel churn is to make sure that your customer has no reason to be interested in churning in the first place.
Promotion Churn

Another channel-related convenience-based churn is promotion churn. Promotion churn occurs when your customer sees an interesting promotion from a competitor and decides to take it. Typically, promotion offers are combinations of discounted handsets and lower rates per minute and can be quite effective in convincing customers to switch. As with channel churn, the only good defense against promotion churn is a happy customer.

Internet/Alternative Channels

Customers can also be drawn away through the use of alternative sales channels such as the Internet, trade shows, or other unconventional customer touchpoint activities. These alternative channels can function in much the same way as promotions do, providing customers with new inputs and new options.

Churn Taxonomy Conclusion

In this chapter we spent much time considering the reasons customers give for churning and some of the implications and insights that those reasons can give us.

It should be obvious at this point that churn is in fact a very large, complex, and multidimensional problem. In the chapters that follow, we will explore the various means available to managing the vast assortment of churn criteria.
The telecommunications industry has revolutionized the world as we know it. It has made modern society and the global economy a reality. No single industry has fostered more change, innovation, and growth than telecommunications. No business, no person, no government has been untouched.

And yet somehow we naively assume that the change created in the wake of this telecommunications revolution in all of its forms (long distance, wireless, Internet, etc.) will somehow not have any impact on the consumers who use that technology on a day-to-day basis. The belief that everything that is touched by telecommunications changes, except for telecommunications itself, is seriously flawed.

To understand the customer’s loyalty to the telco and to know what churn really means you must first recognize how consumers’ attitudes are changing about the role telephone service plays in their lives and about how they make their service provider selections.

So far, we have defined what the telco churn phenomenon is all about, have seen that there are many reasons that churn will occur, and have realized that customers make their churn decisions based on a large number of variables. To finish our exploration of the reasons that customers churn we need to include one more perspective.
HOW DO CONSUMERS MANAGE ALL OF THIS INFORMATION?

When you consider the amount of information consumers have to process on a day-to-day basis in order to make an informed decision, and when you realize just how many financial, emotional, and practical variables they need to take into account to choose a service provider, you wonder how consumers keep track of it all.

As overwhelming as it seems to us, remember that we are the professionals and this is our business. We get paid to think about all of these issues. How does a consumer, who is working at a full-time job, raising a family, and dealing with all the stress of life, process all of this data and come up with a purchase decision? There are several tools they use, but the most functional one is something we call their *shopping cycle*.

SHOPPING CYCLES

Obviously, no one can take the time to do all of the minute and detailed analysis necessary to make the best possible decision about every product purchased. There just isn’t enough time in the day. So, what happens instead is that people develop patterns of behavior that help them define how they will go about making their decisions. These patterns of behavior help them decide:

- When to start looking around for an item
- How much time to spend looking for alternatives
- How much energy to put into consideration of alternatives
- What the negotiation process should be like

The Shopping Cycle for Automobiles

To help us understand shopping cycle analysis let’s look at the typical shopping cycle for a different industry. The Buick Buyer Cycle is a well-recognized shopping cycle in the automotive industry. It got its name from the pattern that was first discovered with regular buyers of Buick automobiles.
Characteristics of the Buick Buyer

Market research has shown that the Buick buyer is a typical middle-aged American male. He is middle-class, conservative, and not subject to many impulse buying decisions. This buyer tends to follow a fairly regular pattern, one that repeats again and again over many decades of car buying.

The typical Buick buyer believes that a new car should be purchased every three years. At the beginning of the third year in the life of the buyer’s current car, the Buick buyer will begin his shopping cycle. First, he will begin to pay attention to television advertisements about the new models and styles available. (He will typically not notice ads for compact cars, sports cars, or pick up trucks.) Then, after several months of tuning into the ads and about three months before the time for a buying decision, he will begin to visit automobile dealerships. He will test drive cars, discuss colors and accessories with his wife, and begin to zero in on the purchase decision. Ultimately, two or three dealers will then be played against each other for the final purchase decision.
When we understand the consumer’s shopping cycle, we realize how buying (and churning) decisions are made.

Churn and the Buick Buyer

Given the buying cycle just described, we can define what we mean by Buick Buyer churn. Since a Buick buyer typically buys every three years, there are two kinds of churn that we will want to be aware of.

Catastrophic Churn for Buick

The Buick buyer will only decide to get a new car in less than three years if he becomes very unhappy with his current car or if some truly amazing alternatives become available in the short term. This kind of churn is, by far, the worst for the seller, because the out-of-cycle churn means that the consumer is very unhappy with the last purchase decision. We call this catastrophic churn.

Catastrophic churn is bad because it means that the consumer has lost faith in the provider. The customer is so unhappy that the normal buying cycle is abandoned to correct what is perceived as a purchase mistake.

Natural Churn

The other kind of churn for a car buyer can hardly be considered churn at all. In this case, the buyer is going through the normal shopping cycle and chooses a different provider the next time a decision needs to be made. For example, a woman may buy a Buick Regal. She likes it, is happy with it, and drives it with no problems for three years. This person will certainly look at the latest model Buicks when the shopping cycle begins. But she may find that there is a Dodge brand automobile that is just as nice and includes some new features that the Buick doesn’t have. So our Buick owner becomes a Dodge buyer, and the shopping cycle starts all over again.

Natural churn has some negative consequences for the seller of the original car, just as catastrophic churn does. After all, the sale is lost. However, the big difference is that the company has suffered no serious damage in terms of its reputation with the buyer. During
the next cycle, the buyer will once again include Buick as one of the options. In the catastrophic case, there is a very good chance that the customer will not even consider the Buick again for many cycles because of the bad associations in the buyer’s mind.

**Shopping Cycles for Convenience Stores**

Understanding the nature of the customer/provider relationship and learning to manage it is aided greatly when we understand the normal shopping cycle for the product or service in question.

The retail industry is rich with examples of many kinds of cycles with the nature of the cycle dependent on the particular products, services, and consumers. One business with an incredibly short shopping cycle is the convenience store. Included in this market are the 7-11 stores, gas station convenience markets, and other vendors who attract people interested in making a quick purchase of an item they need often.

Let’s consider the convenience store cycle. Consumers have certain categories of services and products that they need on a regular basis but at a rate and time that is difficult to anticipate. A customer may run out of bread or milk or may need a quick cup of coffee. These consumers define their shopping behavior more by their day-to-day activities and their travel schedules than anything else. Typically, they have certain routes they travel on a regular basis (from home to work, from work to school, etc.). For them, a convenience store is only useful if it is located near one of those routes and can be
accessed quickly enroute from one location to another. For the convenience market then, the shopping cycle is directly correlated with the customer’s transportation habits and daily schedule.

**Convenience Store Churn**

Although the term is not used that often in the retail industry, how exactly would we define churn behavior in this kind of situation? As we already established in the Buick buyer example, we need to think about two kinds of churn, catastrophic churn (when the buyer breaks the normal cycle for some reason) and normal churn (customer selection that is part of the normal shopping cycle).

In the convenience store case, catastrophic churn occurs when shoppers go well out of their way for something they need that their normal provider (convenience store) does not stock, a certain brand of cigarettes, for example. A customer may end up spending much extra time trying to find an alternative source. This extra time often generates negative feelings about the convenience store.

Natural churn in the convenience store case happens when customers change their patterns (e.g., move to a new location, change jobs, etc.) and find that the convenience store is no longer convenient. Contrast the three-year car buying cycle with the daily convenience store cycle. Clearly, each industry has its own unique pattern of relationship with the consumer. Different issues are important and cause customers to increase or decrease their loyalty.

When dealing with issues of churn in the telecommunications and wireless industries, our challenge is to understand what those consumers’ shopping cycle is.

**Stable vs. Unstable Shopping Cycles**

As you might well imagine, consumers and their shopping cycles are far from stagnant. Consumers have much that they need to buy and so they have many shopping cycles to deal with. For some items that they purchase frequently or for which they have a long history of experience they will tend to have relatively stable and predictable cycles. Consider, for example, how people shop for food, clothing, and home appliances. Other purchase items that are new, interesting, or exciting will result in erratic, unstable cycles. Think about the
erratic patterns of buying behavior witnessed in the computer industry, or when the Beanie Baby or Hello Kitty toys first came on the market.

Understanding consumers’ shopping cycles becomes very important when we get involved in the diagnosis and management of churn.

**UNDERSTANDING TELECOM SHOPPING CYCLES**

What do we need to take into account to understand what the consumers’ shopping cycles are for telecommunications products and services? The answer is complex and has many factors such as the nature of the telco service contract and the regulatory environment, the consumer’s history with traditional telco services, and the competitive environment in the market.

*Alternative Telco Contract Types*

One big difference between the telco and other industries is the confusing nature of the contracts that consumers and telcos develop. The terms of these contracts are defined in part by regulators, in part by the technology, and in part by the company and its competitors. In general, the telco industry has to deal with three kinds of contracts depending on regulatory and market conditions. They: (1) fixed-term contracts, (2) automatic renewal, and (3) prepaid relationships.

**The Fixed-Term Contract Model**

In some markets people are required to sign up for service as part of long-term but fixed duration contracts. Contract periods of one, two, or even three years are common. Again, depending on the country and the regulation, some people might be required to pay monthly fees for the service; others may get the subscription for free. Some will pay per minute or per second for the service received; others might pay a flat monthly fee and use as much service as they want. Sometimes people pay penalties for terminating a contract early. Obviously, in markets where contracts are the rule, the nature of the contracts will do much to define the shopping cycle.
The Pay-As-You-Go Model

In some markets, fixed-term contract arrangements may be forbidden by regulators or allowed to coexist with other kinds of arrangements. Here, consumers are able to change carriers at any time without the constraint of contractual obligations. We call these pay-as-you-go models because consumers pay only for what they use when they use it and not as the contract implies or enforces.

One might assume that a pay-as-you-go model guarantees a very high rate of churn. Many times it does, but often it does not. This is because consumers still have to deal with the hassles of changing phone numbers and billing arrangements when they change carriers. This can be a source of inconvenience for them.

In these markets, the shopping cycle is shorter than in the contract case and is based on how badly consumers want the benefits that competitors offer versus the costs of changing. When the benefits outweigh the costs, the consumers change.

The Prepaid Model

The most interesting and newest of the business models are in markets where prepaid service is taking hold. There, almost all of these barriers have been removed.

In a modern prepaid market, customers change carriers by simply switching the subscriber identity module (SIM) cards in their handsets or by dialing up a special long distance access number. The SIM card formats the handset so that it works with the network of the carrier that provides the card, and the prepaid access number lets the consumer access long distance service that is automatically deducted from the deposited amount.

If a consumer wants to gain access to three different carriers, it is not a problem. Buying three SIM cards or purchase three different prepaid long distance plans will do the job. The consumers can make their buying decisions every time they run out of minutes and they can switch carriers any time they want to.

This shopping cycle is very much like that of the retail customer, and the provider ends up competing much in the way that the sellers of consumer products compete. Not surprisingly, the churn rates in
these highly volatile prepaid markets are extremely high, oftentimes three to five times greater than in the more traditional wireless markets.

The Hybrid Model

In most markets, however, the regulatory and competitive forces have created environments where management has to deal with a unique combination of these three different models. The coexistence of so many contract types forces companies to get extremely creative in the way they manage the differing shopping.

THE CONSUMER/PROVIDER RELATIONSHIP

To help us understand how companies and consumers react to each other in churn situations, it may help to look at the history of the relationship between these two groups over time. In fact, it is impossible to consider the relationship between consumers and providers as it exists today without taking into account the history of that relationship over the last hundred years.

The relationship has been a long-standing one with many ups and downs along the way. Until just a few years ago, telcos were protected monopolies in the majority of countries around the world. This fact defined many of the characteristics of the relationship that still operate in the background of people’s thinking about what that relationship should be and how it should work.

Consumer Expectations

Because of its privileged status as a protected monopoly, consumers in many markets have come to automatically, and in many cases subconsciously, associate many of the characteristics of their original relationships with providers.

The basic rules of the telecom provider/consumer relationship were simple. Telcos were responsible for providing high-quality phone
service to all citizens of the country on an equal basis. Rates for the services were set by the government. This meant that consumers never needed to develop a sense of value for the services they received. Phone service was phone service, and that was all there was to it. There was no concept of shopping or negotiating for the service. This history has created several interesting side effects in today’s marketplace.

Everybody Hates the Phone Company

Because customers could not bargain for services and because there were no alternative providers consumers learned that there was only one avenue for communication with the phone company, and that was to complain. Complaining to and about the phone company got to be a standard lament for many consumers. Comedians in almost every country in the world had a collection of phone company jokes that made fun of the poor quality, appalling customer service, and terrible frustrations that most consumers felt.

Lily Tomlin’s famous Phone Lady on Rowan and Martin’s Laugh In television show in the 1970s highlighted this stereotype. The character, a phone operator, would answer phone calls, threaten customers, and in general display an attitude of arrogance and power that many people believed typified the attitude of the phone company.

In the 1960s movie, The Presidents Analyst, the star, James Coburn, spent the entire movie uncovering the fact that the phone company had taken over the world and was controlling all of the governments and companies through the use of information gained by listening in on everyone’s conversations.

Although such comedic stereotypes were meant to be jokes, the reason that most people found them so funny was because they reflected their real perceptions of the nature of how the phone company treated them.

Pre-Competitive Shopping Cycle

In the days before competition and wireless, the consumer’s shopping cycle was simple. Consumers bought a new phone when they moved. A telephone was an essential part of any home or office,
and so whenever you changed your home or office you changed your telephone as well. As far as shopping behavior, there really was none. The government set the rates you paid, and you had no real choice when it came to who your provider would be.

While this arrangement has some obvious disadvantages as far as competitive pricing is concerned, let’s not ignore the positives about this cycle. This environment made shopping for telephone services easy. You had very few decisions to make. The big decisions were deciding how many phones to buy, what color they would be, and which room would get which phone. Other than that, everything was taken care of for you.

This created an atmosphere where consumers really didn’t have to develop any kind of criteria for appraising the quality of the services they were receiving. None of the normal shopping filters, factors, and timing issues were ever addressed. In a sense, consumers were blind to issues they would be sensitive to in a competitive marketplace.

**The Competitive Telecom Shopping Cycle**

In today’s marketplace there are more and more options for consumers. New technologies, new connectivity options, and new companies bring a dizzying assortment of choices to the consumer’s attention.

**The Wireline Cycle**

The traditional wireline business is by far the least affected by the current competitive environment. Although long distance and wireless have become embroiled in competitive activity, the wireline vendors have remained largely untouched.

In countries all over the world, wireline companies have maintained their incumbent and dominant positions as they have maintained their ownership of the “final 100 yards.” (In other words, they own the wireline connection between the home and their switches). For the wireline business the shopping cycle is still what is has always been.

The competitive local exchange carriers (CLECs) have made significant inroads. Their presence can be felt in certain countries
and in certain niche markets in those countries. However, on a
global basis, the CLECs have yet to create a serious threat to the
basic phone service that is the backbone of the wireline industry.

The Long Distance Cycle

Although wireline companies have been able to continue with an
almost business-as-usual attitude, long distance carriers have been
forced to learn new ways of doing things.

The typical pattern for the introduction of long distance to a market
is for the government to provide licenses to competitors and then to
create conditions that make it easy for those competitors to begin to
accumulate market share.

When competition comes to a market, consumers are actually forced
to change their long distance shopping cycle. Imagine how this
looks from the perspective of the average consumer. At a minimum
a consumers that never had to make a long distance carrier decision
before now have to make an explicit choice. Although they can
certainly choose to keep whatever current provider they had
before competition, the decision still has to be made. Consumers
are suddenly forced to choose a provider when they never had any
choice before. They haves to learn how to shop, compare prices, and
choose a provider. In exchange for all of this they get some pricing
options.

In the short term, deregulation creates an artificial shopping cycle
for long distance consumers. It is clear, however, that consumers
have developed no truly identifiable shopping cycle yet. Since they
can keep the same long distance carrier wherever they move to, and
since the service doesn’t get old or spoil the way other products
do, consumers can make their shopping decision once and then not
worry about it any more. In other words, it is possible, and probable,
that at least some consumers actually lengthen their shopping cycle
for long distance. They can choose a long distance carrier once and
then live with that decision for the rest of their lives.

Alternative Long Distance Patterns

More realistically, however, several types of consumer cycles have
started to be recognized by long distance carriers. We find people
who still have their original carrier, those who made a choice when
deregulation first occurred and now stick with that decision no matter what, people who change carriers periodically (annually, sporadically) for a number of reasons, and those who change carriers consistently based on responses to advertising campaigns (professional churners). The variety of behaviors is still in the process of being analyzed, and it will take several more decades of deregulated history before truly dependable patterns will emerge.

The Wireless Cycle

Although consumers have a history of dealing with wireline companies and by extension with their new long distance carriers, they have absolutely no history of how to deal with a wireless carrier. Commercially viable wireless that is priced in a range attractive to consumers has only existed for ten years or so. Even more importantly, the average wireless consumer has had service for only five years or less. This means that there are no shopping cycles on which to base decision-making about wireless customer loyalty and shopping behavior. What is the wireless consumer’s shopping cycle? Annual? Quarterly? Every decade? It varies, of course, depending on the market.

Several factors contribute to an incredibly chaotic environment. Every time the government opens up another set of licenses for wireless frequency, it creates yet another cycle of wireless shopping mania. The presence of new carriers in a marketplace guarantees that new technology, better service, lower prices, and aggressive advertising campaigns will follow. Each time the regulatory environment shifts, another round of shopping will occur.

This regulation-based shopping cycle, however, is not the only one. Another major source of pressure to change carriers comes from competitors in the marketplace. When competitors sponsor large, well-funded promotions, consumers often respond. This is an advertising-based churn cycle. In many ways, the wireless industry is more like the retail industry than the telecommunications industry.
MODERN TELCO SHOPPING CYCLE BEHAVIOR EXAMPLES

Over the past several years, the nature of the consumer/provider relationship has been changing. A new model of how the consumer and phone company relate is being developed. Now there is competition. Now there are options. Now, negotiation is possible. Shopping is possible. The phone company can no longer simply dictate terms.

It is indeed interesting how this change of options has altered people’s perceptions. As with most cases where significant and radical change occurs, consumers are reacting in various ways to the situation. We already find the development of several alternative telecommunications shopping cycles.

The Incumbent Do-or-Die Cycle

There is clearly a significant part of the population that will continue to do and see things the way they always have no matter how much change happens around them. This is also true in the case of phone companies. There is a distinct and sometimes significant percentage of any market that continues to cling to the incumbent telco that served them for years as their one and only service provider option. For whatever reasons, it is as if these consumers neither know nor care about the fact that competition has come to the telecommunications industry. These people continue to consider their long-time incumbent provider as the only option for services.

Not only do these consumers continue to use the incumbent to provide the traditional services, they also tend to prefer them for new services such as Internet, wireless, and DSL. Not surprisingly, these customers tend to be very resistant to price sensitivity as well. The incumbent can charge far higher than normal prices and these customers will continue to be loyal. As time goes on and as markets mature, we find that this group becomes a smaller and smaller portion of the population. However, this behavior must certainly be taken into account.
Incumbent Brand Image Curiosities

There are some other interesting side effects of this tendency people have to view their original provider as the only provider. Many times, consumers fail to recognize that a change has even occurred. In one market where a competitor had legislatively replaced the incumbent, market research found that more than fifty percent of consumers believed that their old carrier was still their phone company. Somehow, in the minds of these consumers, the fact that phone bills were now being paid to another company didn’t change their beliefs about who was actually providing their service.

Positive Associations with Former Monopoly Providers

Along with the tendency to completely discount the existence of competitors in the marketplace comes an even more pervasive tendency to consider the incumbent to be the de facto standard against which all other providers are measured. Surprisingly, in most countries, no matter how bad the relationship with the incumbent was before competition arrived, after the competitive environment becomes established many consumers come to consider the incumbent’s level of service to be the best available, no matter what the facts happen to be.

Professional Churners (a.k.a. Professional Shoppers)

There are, of course, also consumers who take the completely opposite attitude about incumbents. These consumers embrace competitive options and rush to give business to the best service providers in the marketplace. Ironically, those consumers that really get serious about the options available to them get even smarter than the providers. These consumers learn how to be very adept at playing one carrier’s offers against the other’s to their own advantage. From the consumer’s perspective, all that has happened is that they have learned to be professional shoppers.

The Confused Consumer

We find consumers at both ends of this spectrum of provider relationship management. Some consumers are blindly loyal to
the incumbent; others are voraciously aggressive in their shopping behavior. For the most part, however, the majority of consumers and providers both find themselves lost somewhere in the middle between the old relationship and the new. Clearly, there is an as-of-yet undefined relationship that will ultimately determine how the telco/consumer relationship is to be managed by both parties.

**Shopping Cycle Chaos**

Ultimately, we have a bad case of customer shopping cycle chaos in the telecommunications industry and especially in wireless. Consumers are not sure of how they are supposed to shop for telecom services. Some do it the old-fashioned way, some shop constantly, and some respond to major stimulation from a variety of sources.

**Strategies for Managing Shopping Cycle Chaos**

All of this means that the telco or wireless company hoping to manage churn will have to take all of the possible consumer shopping cycles into account when formulating a strategy. This is one of the biggest reasons that the development of a churn management strategy for telcos is such a complex problem. For an optimal job of managing churn overall you need to have a different strategy for each of the different shopping behaviors. Attempting to develop an approach that addresses the churn created by professional churners will do nothing to help with the management of the loyal customer who has decided to leave because the new offer made by a competitor is just too good to pass up. Each situation requires a different kind of response.
CHAPTER 6

TRADITIONAL VIEWS OF CHURN MANAGEMENT

The business of churn management can be an extremely frustrating experience. Churn can be addressed and effectiveness measured in so many ways. A part of the frustration most telcos feel when they launch churn management initiatives is the fact that almost everything they do seems to work.

This limited success only makes churn management more confusing. If everything works so well, then what is the difference between the approaches? How do we decide how to allocate funds? Since executives are left with no real criteria for answering these fundamental questions, they end up using all of them. This creates another set of problems on top of the churn.

Any time customers churn, they are sending a message. That message is clear and simple: “One of your competitors is doing something better than you are!” When that message comes, there are many ways to interpret it and even more ways to react to it. The only thing we know for certain is that we will have to do something.

HOW OTHER INDUSTRIES MANAGE CHURN

Before jumping headlong into an analysis of how telcos can or should handle churn, let’s consider how some other industries deal with it.
The Retail Buying Experience

When it comes to churn management, no industry is more familiar with the fickleness of consumers than the retail industry. For the retailer, every moment is a struggle to re-convince the customer that being loyal to one provider is a good investment. Think about what retailers have to deal with:

1. For the most part, retailers have access to the same, or similar, pool of suppliers. You can buy the same brand-name products from many different retailers. (Consumers can get the same handsets, the same coverage, and the same types of services from many providers.)

2. Retailers are forced to compete for customers’ attention on an almost daily basis. Customers buy from stores often. Some consumers go daily to certain stores (convenience stores), weekly to others (grocery stores), or monthly to some (clothing stores). Other types of consumers buy only once every few years (beds, furniture, and appliances, for example). (The frequency with which consumers reevaluate their purchase decisions is called the buying cycle or shopping cycle, and the size and shape of the telco consumer’s shopping cycle is one of the big challenges the telco churn manager has to face).

Retailers must deal with churn in a way that no other industry needs to. In fact, retailers don’t even give a special classification to the phenomenon. For a retailer, churn is simply the day-to-day nature of their business.

Retailers have several advantages when it comes to dealing with customer loyalty, however, that the telco provider cannot hope to emulate. Most retailers have a physical location that the customer associates with the buying experience. This can be both bad and good. It is good because a good location can develop a consumer’s preference simply because access is convenient. That is why you tend to see retailers located in places convenient to large populations. It is also good because the physical location provides consumers with a reference point. When customers think of a retailer, they get a mental picture of the store, the people, and the whole retail experience. The disadvantage with a good location is that your competition has the same option. It is not uncommon to find clusters of retailers specializing in the same kinds of products in certain sections of a city. This, of course, takes away from the location advantage.
The other big advantage retailers have is that, since consumers remake the loyalty decision on a regular basis, this selection process has the opportunity to be reinforced regularly. Remember that customers actually walk into the retail establishment every time they make a purchase. They meet real people who talk to them, help them make decisions, and leave them with lasting impressions of the experience of being in that store.

How Retailers Manage Churn

Retailers have a clear set of guidelines for managing customer churn or disloyalty. For the retailer, every visit to the store is a new decision point and a new opportunity to convince the customer to enter the establishment. Some of the techniques that retailers employ to increase their chances for customer loyalty include:

1. Good service at each location
2. Clean, well organized stores and merchandise that is attractively displayed
3. Aggressive image advertising to promote the store as a good place to shop
4. Aggressive promotion designed to intercept competitors’ attempts to steal customers

In short, the retailer battles churn by

a. Creating a “store experience” consisting of sales people, store ambiance, and location appeal which constantly reinforce the customer’s shopping decisions.

b. Aggressive promotion designed to direct consumers getting ready to make a purchase decisions to their store

The key to the retail customer management experience is consistency, understanding the retail experience from the customer’s perspective, and constant consumer awareness.

Retail Applicability to Telecommunications

Although the retail industry provides us with a great body of knowledge about the nature of the relationships that can develop between companies and consumers, we must be careful when trying to apply retail techniques directly to the telecommunications experience.
The shopping/buying cycle for telco services is very different than for retail. Consumers do not make the telco purchase decision every day. They make big decisions about which carrier to choose on a rather infrequent basis. (This is changing somewhat with the increased popularity of prepaid cards, but the observation is still basically valid).

While the retail consumer gives the company many opportunities to establish an ongoing relationship through repeated visits to the retail establishment, the telco has no such anchor. Many consumers never enter a telecommunications company office. Most never have a reason to talk with a customer service rep. In fact, from the consumers' perspective, after the purchase decision has been made, they would prefer not to think about the carrier at all. Most people prefer that the selection of a telco provider be a background issue. The only times they will even think about the carrier is (a) when a bill arrives or (b) when there are problems with service.

**Airline Industry Churn Management**

Although retail is undoubtedly the most prominent of the industries that must deal with customer loyalty, the situation that airlines find themselves in is probably more similar to the telco customer relationship. Like the telecommunications company, airlines are not a part of the average person’s day-to-day life the way retail establishments are. People count on airlines to deliver their service when it is needed. At other times, they don’t think about airplanes.

Like the telco, airlines need to deal with a wide variety of customers with many different needs and preferences, and they deal with customers that have very erratic and unpredictable shopping/buying cycles. Because of the unique nature of the airline business, however, the airline industry has developed a number of unique loyalty management (churn prevention) techniques that are now being mimicked by other industries.

**Frequent Flyer Programs**

By far the most extensive and most successful of the customer loyalty programs ever to be launched is the airline frequent-flyer program. The basic principle behind the program is simple. Keep track of how often consumers make use of your service and reward
them each time they do. The more business they give you, the more benefits they accrue.

Here is how it works. The consumers signs up for the frequent-flyer program, thereby signaling to the airline that they will now care who they fly with. They are issued a membership member number with which the airline keeps track of accumulated miles or points that are accrued towards future benefits of free travel or travel discounts. As the number of accumulated miles increases, the status of the consumer is raised as well. Silver, gold, or platinum standing is tied to specific points plateaus reached, such as, say, 500,000 miles. As the passenger’s status gets higher, the benefits increase as well. Free entry to the airport lounge, free upgrades on flights, special treatment at check-in, are some of the ways loyal frequent flyers are honored and rewarded.

Why Frequent-Flyer Programs Are So Successful

Frequent flyer programs are an extremely successful component of most major airlines’ loyalty programs.

First, frequent-flyer programs create an environment wherein the consumer’s decision to fly with a particular carrier is reinforced on a regular basis. The program, by its very nature, forces the consumer to choose a favorite airline and to use it as often as possible.

Second, frequent-flyer programs, for the most part, create a business environment that is oblivious to price. No distinction is made between consumers who pay a lot and a little. Everything is reduced to neutral miles flown. This means that consumers develop a loyalty that is immune to price, thereby discouraging downward price pressure as the primary means of buying customer loyalty. In fact, these programs actually create upward price pressure. Many times customers will pay a premium to get flights with their frequent-flyer airline simply because they want accumulate more miles and gain access to the other benefits.

Third, frequent-flyer programs create an environment in which airline service personnel are encouraged to treat higher-rated customers better. The customer’s frequent-flyer status is printed on tickets and itineraries and is displayed on the computer screen whenever the customer’s name is called up. This device is extremely helpful in getting all parts of the organization to concentrate on making the best customers the happiest.
Airline Loyalty from a Telco Perspective

Although the lesson is not directly applicable, a carrier can learn much from the airline frequent flyer programs. The advantage airlines have over providers is that there are many outlets for transportation. For example, a business traveler can use the frequent-flyer miles for a free vacation to a place that is otherwise unaffordable. The basic currency of the airline, miles traveled, is easily converted into different kinds of value to the customer. Unfortunately, the basic currency of the telco, minutes of phone usage, is directly convertible only into more minutes. Even more importantly, the cost per minute is so low and the typical number of minutes used so high, that it is very difficult to imagine a frequent-caller program that turns into something more than discounted minutes to customers. This, then, puts everything back into the price dimension, a dimension that competitors can very easily usurp.

The other disparity is that the airlines have the same kind of advantage that the retailers have, namely that consumers must show up, meet the staff, and get on the physical airplane as part of their transactions. This gives the airline ample opportunity to reinforce the carrier selection decision. The telecommunications company, alas, has no similar experience to provide. All the provider can do is be sure that the minutes that people spend on the phone are with the least interruption and of the best quality possible.

Typical Telco Churn Management Techniques

We can separate how a telco responds to churn into two major categories. The first category we will call preemptive churn management, which includes all of the churn management actions that attempt to prevent the churn from initially occurring. The second is reactive churn management. This category includes all those actions that attempt to correct or compensate for the churn that has begun to occur, or churn events that are already underway.
PREEMPTIVE CHURN MANAGEMENT

From the provider’s perspective, there are two ways that the rate of churn can be affected. The first way is to eliminate or minimize customers’ dissatisfaction. If the customers are already receiving the best price, the best service, the desired call quality and coverage, and these customers are associated with a firm whose brand image is appealing to them, then churn will not occur. A company’s attempts to prevent churn through the proactive satisfaction of customer churn reasons is preemptive churn management.

The Economics of Preemptive Churn Management

At first glance, the idea of trying to prevent churn opportunities from occurring makes sense. Imagine positioning yourself so you do not have to worry about your customers switching despite all your competitor’s efforts to try and lure your customers away from you. While this thought process seems appealing, there are some economic realities to consider.

Pre-emptive churn management will cost the firm money. There are expenditures for improving customer service, call quality, and coverage. These expenditures often come in the form of the reduced prices that you will have to offer your customers so that you are able to compete in the market. There are also marketing and advertising expenditures to ensure that your brand image and reputation remain intact and on par or better than your competition’s image.

These expenditures can quickly add up to a lot of money, and a company cannot afford to “churn proof” all of its customers in this fashion. Of course, the other consideration, which we will examine further, is that no company should want to pay to keep all of its customers.

Reasons for NOT Blanket Churn-Proofing

There are several reasons why attempting to churn-proof your entire customer base is not a good idea. Some of the more notable reasons are:
1. Not all of your customers are worth keeping.
2. Different customers have different values to your company.
3. There is no need for churn proofing before it becomes necessary because it will cost you revenue that you don’t have to spend yet.

Not All Customers Are Worth Keeping

The major reason for not investing a large amount of money in the churn proofing of your customer base is because you, undoubtedly, have a group of customers that are not worth the investment. Besides the fraud and credit problem customers that every company encounters, it is likely that your company will have a significant group of customers that are not profitable to you or are only marginally profitable. To invest money in the churn proofing of these customers makes no economic sense. This is the reason that a large investment in customer service, in the creation of 100 percent coverage, or in a 100 percent high quality network is not an especially good idea.

Although some customers are not worth investing in, as we have discussed, your company must make sure it invests in the retention of its more valuable customers.

Premature Churn-Proofing Is Expensive

The final reason to delay or forgo large scale, blanket churn proofing activities is that they can cost your company a lot of money that it may not have to spend. Responsibly investing in the prevention of churn is certainly a good idea, but it makes no sense to invest in a churn prevention activity before it is absolutely necessary. For example, let us assume that you know that your competition could, at any time, decide to offer your customers a greatly reduced rate for services. In order to churn-proof these customers you could offer them a greatly reduced rate for services now, before the competition has a chance to tender the offer.

This makes sense from one perspective; the customers will probably be retained (assuming all of the other satisfaction factors are being met). However, we should consider that if your company reduces the rate to all of your customers in order to prevent a price reduction by the competition, how much revenue will it cost you? How many
months could you have been able to maintain the same old billing rate without jeopardizing the customer?

This decision about when to churn-proof a customer is critical. The trick involved in running pre-emptive churn management is to delay the expenditure of funds or the reduction of customer rates as much as possible without actually allowing the churn event to take place. On the other hand, failing to address the issues proactively greatly increases the chances of losing the customer altogether.

**Selective Vs. Blanket Preemptive Investing**

There is a lot of flexibility involving how and when you might administer any of the pre-emptive churn management techniques. The most important factor is making sure your company does a good job of managing the investment. An overzealous pre-emptive campaign can be extremely wasteful and can expose a bad business sense.

To illustrate how pre-emptive churn investment can work, we will examine one of the most critical areas of customer dissatisfaction: Customer Service. We will also analyze how this pre-emptive investment can be managed in the most efficient and effective manner.

**The Case for Customer Service**

Since one of the main reasons for customer dissatisfaction in the wireless industry stems from poor customer service, it would make sense to make a pre-emptive investment in this area of the firm. This observation may seem obvious, but it gets a bit tougher to recognize when we need to address the specifics.

How do we know the appropriate amount to invest in customers? Should we spend $1 per customer per month, $10 per customer per month, or more? There are several techniques available to help us answer some of these questions, but before we start investing anything in the customer service function, we should first consider a few important facts. Any investment in customer service is an investment in a capability that will be spread across the entire customer base.
For example, if we were to invest an average of $5 per month per customer in customer service, that would mean we would be spending $5 per month on the pre-emptive retention of all of our customers. This may sound positive on the surface, but let us consider the economics of this scenario. This kind of blanket investment really means that we would be spending $5 per month to try to retain a very good customer (say a customer that is worth $200 per month in revenue). At the same time, it also means that we would be spending the same amount to retain a very poor customer (say a customer that is worth only $20 per month in revenue).

Does this make sense? It would make much more sense for us to determine the value of the different customer sets, and then arrange to apportion appropriately sized investments in these sets. This would allow us to invest in the retention of each group of customers in proportion to their value. So, instead of investing $5 per month to help prevent the churn of all customers, we would invest $20 per month in the retention of the very good customers, and we would invest next to nothing toward the retention of the less lucrative customers.

It is interesting to note that this type of thinking seems to be very difficult for telecommunications executives and customer service groups to embrace. This should actually come as no surprise, however, since the entire history of the telecommunications industry has been one of equalitarianism. This is because telecommunications companies were for many years protected monopolies and, therefore, required by the government to make sure that all customers were treated equally. In today’s highly competitive, non-regulated industry, this type of thinking can actually be detrimental to a firm’s success. Several of the pre-emptive management techniques we have discussed are approaches that specifically address these issues.

**Preemptive Management Techniques**

There are several types of programs that can help a company accomplish the objectives of anticipating churn events before they become imminent. Many of these techniques may seem obvious. However, it is critical that someone within the firm be assigned the task of constantly monitoring the status of churn event programs, and of making the appropriate recommendations when it comes time to take specific action.
Addressing Deficiencies

The first action to prevent churn is to find any serious consumer perceived deficiencies and address them as quickly as possible. These deficiencies would include factors such as call quality and coverage, but they could also include other areas that no one has anticipated yet. Before taking specific action, two types of analyses must be developed namely a good risk profile and a reasonable impact analysis.

A risk profile is a report that examines the deficiency in question and attempts to identify what risks are associated with allowing the deficiency to continue. Understanding the actual risks is key to planning a strategy to address a particular deficiency.

The risk profile should include the following information:

- The number of customers impacted.
- The types of customers impacted (the revenue they represent, their influence over other customers or public opinion, etc.).
- The severity of the impact (the extent of trouble or inconvenience this deficiency causes the customer).
- The competitive risk (the chance that the competition will perform better, for less money, or will have the ability to use the deficiency against the company).
- The brand image risk (the impact the deficiency will have on the company’s brand image).

The second examination performed in deficiency situations is the impact analysis. An impact analysis is a report that details what it will cost the company to eliminate the deficiency. It includes an analysis of the solution for the problem from both an operational perspective (How much money will it cost to fix the problem?) and from a marketing and image integrity perspective (How will we repair the bad impression this deficiency has made on the customers?)

- The nature of the problem.
- The extent of the deficiency.
- The cost to repair the deficiency.
- The impact that the repairs will have on other areas.
- The current negative reputation that needs to be addressed.
The costs and approaches associated with the reputation repair.

Each wireless provider is unique, and deficiency scenarios can range from the trivial (e.g. we can’t get coverage in a tunnel where no one else can provide coverage either) to the substantial (e.g. we are the only operator that is unable to provide service in the downtown area because our network infrastructure is weak). In all cases, a systematic approach is needed to review the situation and to make a decision based on the best interests for both the company and its customers.

Call Quality and Coverage Problem Approach

If a company identifies a potential churn problem because of call quality or coverage problems, the company can follow a sequence of steps to solve the problem:

Step 1 – Identify that the issues are serious enough to warrant an impending churn event.

Step 2 – Assess the potential revenue and image impact of the problem.

Step 3 – Determine the amount that the firm is willing to invest in the problem.

Step 4 - Invest in a solution for the problem (through network improvement and infrastructure overhaul).

Step 5 – Invest in a campaign to convince customers that the problem has been corrected (direct mail to effected customers).

Step 6 – Invest in a public relations campaign to adjust general consumer perceptions.

This approach could be large, complex, and expensive, or it could be simple, straightforward, and critical to the long-term viability of the firm. It all depends on the conditions of the potential churn problem.
Branding and Image Maintenance

Another way a company can prevent a churn situation from occurring is by maintaining its intended branding and image strategy. Companies with strong brand images tend to have a more loyal customer base than those companies that have a very weak or nonexistent brand image.

To test the strength of your own company’s brand image, ask yourself the question “Does our typical customer feel glad to be associated with our firm, or embarrassed when they see our brand and image advertising?” This is an important and difficult question for you to answer.

Preventive Maintenance

Everyone is familiar with the proverb “An ounce of prevention is worth a pound of cure.” This saying certainly applies when addressing the area of customer satisfaction. While many wireless providers are surprised to find out that they “suddenly” have a churn problem, many of these companies become victims of churn because they fail to remain focused on the needs of their customers over the long haul.

A pre-emptive campaign should apportion a reasonable amount of time addressing the following areas within the company:

- Evaluating customer service and customer satisfaction levels
- Upgrading and maintenance for billing and other supporting information systems
- Monitoring and maintenance of service call quality
- Reviewing the basics of good telephony

The problem here is determining exactly how much preventive maintenance is enough? How can you know when you are merely doing enough, or when you are going overboard? Luckily, there is an answer to this question, and the utilization of industry benchmarks can help you get the answer. For example, if the industry standard for customer service is $3 per customer per month and you find that your company is spending approximately this much also, then you know that the company is operating within reason. If the industry standard for customer satisfaction is at about 10 percent and your
company is at 12 percent, then you are in the ballpark here as well. The use of industry benchmark measures along with a little common sense can help serve as good decision-making tools for your preemptive campaign.

LOYALTY PROGRAMS

There is more that a company can do to prevent churn than simply upgrade its overall customer satisfaction. More forward thinking companies have been very successful at implementing different kinds of customer loyalty programs. These programs actually prevent churn because, when they are implemented properly they can create a strong bond between the customer and the provider. The history of marketing is full of stories about successful and interesting loyalty programs. Loyalty programs create a bond between the customer and the supplier that goes beyond the plain transactions that occur. These programs actually move both parties into a more substantial kind of relationship. There are many kinds of loyalty programs. Some are easily adapted by the wireless provider and some are not applicable. It is worthwhile to examine some of the more popular loyalty programs.

Sponsorship

One way that companies can highlight or differentiate themselves from the competition is by sponsoring some kind of activity, event, or cause. The act of sponsorship often creates a situation where customers develop a special connection with the company. When a company provides substantial leadership or sponsorship in a group, organization, or cause, the customer will often view the company in conjunction with the entity that the company is sponsoring. This scenario creates a customer loyalty toward, not only, the cause, but also to the company affiliated with the cause.

For example, a person who feels strongly about finding a cure for cancer might develop a very strong sense of loyalty to a company that donates 5 percent of its profits to cancer research. Another customer might feel that it is worthwhile to support a company that is sponsoring a local trade fair. In many cases, a company that sponsors local business activities causes people to associate it with
an effort toward building a strong local economy. This not only enhances your company’s position within the community, but it also detracts from the competition because customers may then view your competitors as outsiders that take money away from the local community. There are many variations of sponsorship programs, and in many cases these programs have proven to be an effective loyalty building technique.

Clubs and Chat Rooms

Another approach, similar to sponsorship, is when a company actually takes the initiative to start a special interest group or forum that allows people to come together and share a common interest. Special interest clubs or forums serve a similar function as sponsorship, but it is a much stronger and pro-active approach.

Some of the more interesting club approaches include a “Cat Fanciers Club” created by a cat food company and the “Mother’s Mutual Support Group,” organized by a baby food company. A forum that relates directly to your product is ideal, but it is certainly not critical. Many companies sponsor clubs for teenagers, single persons, married persons, and hobby enthusiasts of all kinds. In an interesting modern variation of this special interest approach, many companies are now creating special interest chat rooms on the Internet.

Whatever the method or medium, all of these approaches share the same strategy. The objective is to support and enable people’s social interaction, while at the same time getting them to associate these interactions with the company that sponsors the function or group.

Points and Awards Programs

Another loyalty approach that has been popular for many years is the use of incentive offerings such as points and awards to build customer loyalty. Long ago we referred to these offerings as the “green stamp programs.” Before the days of computers and fancy marketing campaigns, a company called S&H came up with an interesting concept for helping companies build customer loyalty. S&H’s green stamps concept created an environment that enticed customers to return to particular vendors.

S&H created special green stamps that they sold to stores for a small fee. The store distributed these stamps to customers as a
reward for buying from them. The more the customers spent, the more stamps they received. By getting people to become interested in collecting these stamps, the stores were able to elicit loyalty from their customers. But why would anyone want to collect these silly stamps? Well, after collecting the green stamps over a period of time and pasting them into book after book, the customer was eventually able to redeem these stamps for some very nice prizes. The S&H Company offered transistor radios, cooking utensils, even a new television, all for the correct number of books.

The S&H green stamp is no longer the big agent of customer loyalty, but similar programs have been able to mimic its effectiveness. The modern program, though more sophisticated, works basically the same way. Customers are rewarded for buying more. Sometimes they get prizes; sometimes they get price discounts.

While points and awards programs have their place in the market, there are several serious drawbacks.

First, the programs, meant to encourage loyalty, have little effect if all of the competition institutes equivalent programs. For example, in the S&H green stamp case, the loyalty factor was neutralized because all of the stores in the neighborhood began offering the same stamps for the same products. Second, as consumers become more sophisticated, the loyalty objective of points and awards programs can quickly be reduced to a form of price haggling. In this instance, customers are not developing loyalty; they are displaying shrewdness in their negotiations with your company.

Preferred Customer Status

One of the most successful loyalty approaches in practice today is the customer preferred status approach. In this kind of program, customers are recognized for their value to the company and treated accordingly.

By far the strongest and most easily recognized preferred status programs exist in the airline industry. Here, customer loyalty is an incredibly serious problem. There is fierce competition for price, travel times, locations, and a myriad of other factors that influence a consumer’s decision. More importantly, the difference in revenue and profit gained from a high value customer is much greater than from a low value customer.
The airlines desperately needed an approach that would dynamically and continuously monitor the potential value of a customer, and an approach that would adjust a customer’s status and treatment accordingly. The program the airlines instituted was simple and straightforward. The number of miles that a customer flies is tracked and totaled. When the customer accumulates a certain number of miles within a certain period of time, his or her status has changes and a whole new level of service, benefits, and privileges is now made available such as: quicker check-in, preferred seating, and higher priority during waiting. As the customer travels more and more miles, the status and availability of benefits from the airline continue to increase.

What makes the preferred customer approach so much more effective than other approaches is that it constantly reinforces and strengthens the bond between the customer and the company. It accomplishes this by implementing a system that relies upon an ongoing customer loyalty and company recognition that encourages continuous transactions.

**REACTIVE CHURN MANAGEMENT**

While it should certainly be the goal of every company to develop as much pro-active and pre-emptive churn management activity as it can, this is not always possible. There are several reasons a company might find itself in a position where large numbers of its customers begin leaving with little or no advance warning. (In the next chapter we will explore some of these situations.) When this occurs, the company’s only alternative is to react and to try to stop or slow the churn.

**Reactive Management Techniques**

A reactive churn situation is very difficult to deal with when a company has very little time to prepare a defense. Time is a critical element in churn defense, so it is important for a company to have a clear picture of what options it can implement when necessary.
Loyalty Appeal Campaigns

One of the least effective reactive churn campaigns that I have ever seen is what I call a “loyalty appeal” campaign. This campaign, launched via television, posters, billboards, and other mass media, attempts to directly stir up feelings of loyalty in the customer. The objective is to get the customer to associate their current provider with stability and to get the customer to think twice before switching providers because if they did they would be leaving a very good friend behind.

Parity Campaigns

The most popular response to churn activity initiated by a competitor is known as a parity campaign. In this type of campaign, a company analyzes what incentives the competition is offering the customer, such as discounted price, better service, or wider coverage. Then the company responds by matching the competitor’s offer so that its customers will agree to stay.

Parity campaigns can be effective in the short run, but they establish several bad precedents and consequences in the long run such as:

- Causing customers to be more price sensitive
- Making your company look bad and giving the impression that the only reason for the price reduction was because of the competition. (Although this may be true, you still don’t want your customers to focus on this issue.)
- Causing your company to offer discounts to customers who really do not deserve them.

Setting a precedent where customers will look for equivalent action every time your competitor initiates a campaign.

Predictive Response Campaigns

The loyalty appeal and the parity campaigns can be launched quickly to respond to a churn event initiated by a competitor. However, these campaigns also have several disadvantages. One disadvantage is that they are blanket campaigns. In other words, these campaigns make the same offer to every customer regardless of whether or not this customer is actually considering switching to another provider.
The other major category of reactive campaigns is the *predictive response campaigns*. Instead of launching a blanket campaign, predictive response campaigns attempt to identify which customers want to switch and the reasons why. After gathering this information, a company can then construct a campaign specifically targeted toward these potentially churning customers.

Predictive response campaigns are typically launched through the utilization of direct marketing (call center, mail, personal sales calls, etc.) rather than by means of mass media (television, billboards, print, etc.). This provides companies with several additional benefits including:

1. Ability to tender different offers to different customers.
2. A cheaper alternative to mass marketing.
3. More control over the timing of the campaign.
4. Ability to build layered campaigns that involve several steps.

There are many ways to construct predictive response campaigns and we will spend time discussing them in detail. At this point, however, we should consider some of the different approaches for these types of campaigns.

**Data Mining and Predictive Models**

Data mining is the key to running a predictive model. It has been proven that, given the right set of conditions and the correct collection of data, it is possible for a company to predict exactly which customers are going to leave, when they will churn, and the level of confidence for this prediction. The accuracy and effectiveness of these models depend on many variables, but, in general, the approach has been an incredibly effective and useful tool. There are many different ways to create these models and to run the subsequent campaigns, but they are not all equally effective. We will analyze some of these approaches.

**Blind Predictive Response Campaigns**

The easiest, and least effective, predictive response program is the *blind churn campaign*. This approach contains the following steps:

1. The company obtains an overall profile of customers that have left in the past.
2. Based on this profile information, the company creates a model that predicts which customers will leave in the future.

3. The company makes special offers to these targeted customers in an effort to keep them.

The blind campaign is the easiest to implement and it can be extremely accurate, but it does have certain drawbacks. Since it is a blind model, it really does very little to help you understand and identify who the churning customers are, what their values are to the company, and whether the company actually wants to keep them. The model accomplishes exactly what its name implies; it blindly predicts what customers will churn.

Value-Based Predictive Response Campaigns

The value based predictive response model is a variation on the blind response model. This approach not only determines which customers are going to leave, but it also includes an analysis of the value each customer brings to the company. The value based predictive response model is much more useful than the blind model since it allows the marketing department to vary offers according to the customer’s value.

Segment-Based Predictive Response Campaigns

A blind model is a useful tool for a company and a value-based model is even better, but these approaches still fail to provide marketers with information about customers’ characteristics and tendencies. What are the customers’ likes or dislikes? What is their actual reason for leaving? What would it take to get the customers to stay?

Segment-based predictive response models have the ability to answer all of these questions and they allow the marketer to create a powerful, targeted, highly effective, and highly personalized campaign based on a complete understanding of the customer. In the following chapters we will discuss these approaches in much more detail. We will also see how providers all around the world use these models to make significant changes in the way they are able to manage churn.
RANDOM, DISORGANIZED RESPONSES TO CHURN

Unfortunately, the majority of telcos have no idea of precisely how they should respond to churn. For many reasons, that we will discuss later, this lack of a clear approach to managing churn leaves these companies with no choice but to continuously respond to churn events with sporadic, disorganized, and usually spurious and ineffective techniques.

Ironically, it is not the nature of the churn campaigns and programs themselves that create the problem. In fact, most of them are quite effective. It is the erratic combination of the programs that tend to actually do more harm than good. When the various parts of the, looking at different aspects of the churn problem, develop decidedly different perspectives of what the problem is and how it is best addressed, the results are campaigns that conflict with each other’s objectives and confuse customers. The programs often do worse than cancel each other out; they actually stimulate more churn. A few examples will illustrate this point.

The Churn Stimulation Campaign

This situation occurs in far too many situations. Executives at the telco realize that they are having a problem with churn. They proceed to hire a data mining group to develop churn prediction models. These models look at information about the customers and determine which ones are more likely to churn. The models generally attempt to determine which customers are unhappy with price, quality, coverage, service, or any number of other variables and then create a “hot list” of customers who are most likely to churn in the near term.

Great! So the data mining models are run, and the list of names of potential churners is given to the marketing and advertising departments who have much experience in building ads that attract customers to the firm and much collateral available to convince people to join up with the firm.

What happens when a group like that is given a list of potential churners? One group may realize that this is a churn situation and
recognize the need to understand who these customers are and why they are churning before they build a campaign that will convince them not to leave. Alternatively, they may say, “We really don’t know anything about these people or why those statisticians think they will leave. Let’s just send them one of our typical acquisition campaigns and see if we can get them to sign up again!” That is the wrong response. What do you think will happen if the marketing group goes with the second option?

Think about it. You are a customer who, for a number of reasons (price, quality, image etc.), has been unhappy with your service provider. Chances are good that you have started to look around for alternatives and that you are thinking about your options. Now, suddenly, you get an impersonal advertisement in the mail. It does not acknowledge that the sender knows that you are a customer. It does not acknowledge that you might be unhappy. All it does is give you some impersonal pitch to sign up with a company that you already subscribe to. Your likely emotional response will be to churn quicker and more decidedly than you would have otherwise.

We call these types of promotions *churn stimulation campaigns* because they actually motivate people to churn quicker than if they hadn’t received a mailing. Ironically, churn stimulation campaigns usually operate with churn prediction models that are highly accurate. Of course, the reason they are so accurate is because they actually help to create the churn.

**Stealing Your Own Customers**

Another all too common practices is the *steal-your-own-customers campaign*. This scenario goes something like this: Your sales have been declining because there are no more new customers to be found in the market. Your sales force is desperate to increase the sales numbers and make their key performance indicators. Now, the sales staff realizes that many customers’ contracts are about to expire soon. There are no such things as retention sales campaigns, and there are no commissions paid to a salesman who convinces a customer not to churn. But a commission will be paid for the reacquisition of a customer who has left. So the salesman calls the customer and says, “Listen, you call up and cancel your subscription, and I will give you a new account with better rates. Ok?” What customer would not go for that deal? So, the sales force reports good sales acquisitions, and the company reports huge churn.
What Is Wrong with That?

You might wonder what is so bad about this approach. We have some churn, but it is actually just a loyalty campaign. Isn’t it? The answer is yes and no. Yes, you are keeping the customers and so, in effect, it is not really churn. No, if you are including expensive gifts or subsidized handsets as a part of the reacquisition deal. Then there is a very good chance that this reacquisition will cost you more money than the customer will bring in as revenue. This approach can be very expensive.

Mixed Messages, Poor Returns

These two examples are extreme views of what can happened when telcos attempt to manage churn. What is much more likely is that the telco ends up sending two, three, or more different messages to the customer at different times. This bombardment of customers with inconsistent messages will produce the following impressions:

1. The company doesn’t know what they are doing.
2. They do not value me as a customer.
3. If I wait a little while, they will probably offer me something even better.

A Systematic Approach to Churn Issues

It should be extremely obvious that any kind of churn management strategy that consists of a number of unrelated and uncoordinated activities will be doomed to failure in the long run. These short-term solutions do little to actually impact churn. More importantly, they leave executives and investors more confused than ever about the true nature of the telecommunications marketplace and what the true marketplace strength of the provider might be.

To put together a truly strategic and effective approach the organization must establish a solid conceptual, organizational, and operational foundation on which all churn management activity is based. Once that foundation is established, it will serve not only
as the basis for truly effective churn management but as the basis for a clearly superior method for the management of customer relationships in all facets of the business.

Over the next few chapters we will create such a conceptual, organizational, and operational framework.
With so many different ways to look at churn management, determining how to approach analysis and problem solving is a difficult one. We would be greatly aided if we understood the core issues and the basic assumptions that define the churn phenomenon. What we need is a way to separate the trivialities from the critical factors, the knowledge-based on experience from the unfounded opinions of non-experts.

In this chapter, we review some of the more critical assumptions and conditions that experience has shown to be the most important.

Given the wide variety of churn types your company may be facing and the economic implications of those churn events, some guidelines for developing an effective churn management strategy are in order.

As we shall see, churn management in the telco environment is not an easy task. Telecommunication companies, like many other new generation startup businesses, have very little experience or “ground rules” to draw upon when addressing a relatively new problem like churn. To get a perspective on churn, therefore, we need to develop a few simple rules.
BASIC RULES OF CHURN

There are a few fundamental concepts that are critical to anyone’s understanding of the churn situation in telco today. These rules may seem apparent once you think about them. However, there is a big difference between accepting a concept as having some validity in theory and understanding the underlying consequences that truly accepting these principles entail.

As we review each of these “rules” of churn, it is important is that you consider the impact these rules have on your basic assumptions about how your company and your customers need to be managed.

Churn Always Happens

The first and most important rule to understand is that churn always, always, always happens.

Now as obvious as that might seem to some people, it is actually a very difficult concept for a telecommunications professional to accept in most situations.

CHURN ALWAYS HAPPENS, EVENTUALLY

The fact of the matter is that, until very recently, the concept of customer churn was unheard of in telecommunications circles. Basically, customers did business with you or went without a phone. In today’s competitive environment, however, churn is quickly becoming a market reality.
It Won’t Happen Here

There seems to be an unrelenting optimism with many executives that let’s them believe that their firm and their market will miraculously be immune while other markets are suffering from churn. In some situations, this belief may seem well founded in fact. There are several forces that will prevent churn from becoming an issue in your market.

Regulatory Environment

When regulators seem reluctant to allow competitors into the marketplace then, yes, you will be immune from churn for a while. However, it is critical that we not overlook the following.

1. The United Nations and many other agencies have proven that the deregulation of telco is good for the economies of the world, and that the more liberal the regulation, the better for consumers.

2. New technologies can come around in a very short time frame, creating situations where customers will turn away from your technology entirely.

Market Dominance

A manager may feel confident that churn will never be an issue because the firm is currently performing as the dominant player in their market. If the dominance is strong enough, one might mistakenly believe that competition can be effectively shut out indefinitely through aggressive promotion, investment, and management of the customer base.

Catching Up With The Times

No matter how good your current position, the reasonable business person will assume that churn will be reality sooner or later. Although some regulatory bodies or competitors will lag behind, leaving the existing telco provider with an advantage, eventually, the national and global market forces will catch up and churn will happen in that market as well.
Churn Only Happens When Conditions Are Right

Given the basic assumption that churn will happen in your market, the next challenge is to resolve the how and when.

If churn was nothing more than a byproduct of doing business, then all telcos would experience it all the time. No, churn is inevitable, but when and how it happens is a direct result of certain conditions.

Those conditions signal the onset or the rapid increase in your current churn rate.

The End of the Expansion Phase

Usually, the first time your company notices churn is when the rapid expansion of the telco marketplace begins to slow down.

Telecommunication is an incredibly useful and popular technology. When it is first introduced to the market, a huge surplus demand builds up. It takes most companies one to two years of very aggressive growth and expansion just too keep up with the backlog of demand. However, as the market begins to saturate at the current
price/performance ratio (as you begin to reach the maximum number of people that are willing to pay the price you are asking for the service), expansion will begin to slow down.

When the slowdown occurs, every telco provider in the market has the same problem. They are all geared up for very high sales numbers and those numbers are becoming harder and harder to make. When this happens, they inevitably will begin to go after your customers.

During the Maturity Phase

While the initial shock of churn occurs during the end of the expansion phase, the day-to-day “steady state” churn conditions that the company must deal with will occur only when expansion is over and the maturity phase begins. Maturity phase churn is more predictable and, therefore, more easily managed.

During the Decline Phase

Naturally, when your current technology is made obsolete by new technology, you will see extremely high rates of defection from your customer base. During this time, management targets optimization of the revenues that can yet be recognized from the declining market.

When Contracts Expire

In markets where customers sign binding contracts for differing periods of time, the customers contract expiration date is the best predictor of churn.

When New Competitors Enter Your Market

Another interesting twist occurs when your basic technological profile remains unchanged, but new competitors enter your market. The presence of competitors where there were none before is a clear indicator that predatory acquisition campaigns are soon to be headed your way.
When Serious Customer Satisfaction Issues Are Not Addressed

Churn will definitely occur if you have serious customer satisfaction issues that are not being addressed. If your customers are experiencing repeated problems with call quality or coverage, then you can be sure that they will actively search out alternative vendors.

When Competitors Launch Predatory Acquisition Campaigns

A competitor may, at any time, decide to make a big push in luring many of your customers away from you. The decision to launch an aggressive predatory campaign might be based on the competitors need to:

1. Show high subscription rates to entice investors
2. To prepare for an IPO bid
3. To gain market positioning for some future strategy
4. To take advantage of a weakness they perceive on your side

Figure 7-3: You cannot prevent churn
When Conditions Are Right, You Cannot Prevent Churn

Given that there are so many different conditions that might create a churn situation, it is important that you do something to manage the situation. However, many people have a persistent, naïve preconception about churn that must be addressed before any serious churn management can begin. They mistakenly believe that, if the company acts in the right way, churn can be prevented. That is simply impossible.

When competitors enter the market, their aim is to either secure customers before you get them, or to take away the customers you already have. These competitors have a limited number of tools they can use. The options for action are limited, assuming that all carriers in the market have the same basic advantages in the areas of regulation, network building expense, and other administrative criteria. They can …

1. Reduce prices
2. Invest heavily in advertising
3. Invest in promotion and handset subsidy

No matter how happy customers are with your service, if a competitor continues to advertise better and better prices, it is only a matter of time before they change over.

Figure 7-4: Distribution of monthly revenues (U.S.)
Figure 7-4 shows how the average monthly revenue for a U.S. wireless carrier is distributed for different costs. The average customer bill of $33 per month is allocated to network expenses, administration, billing, and marketing/customer retention.

If we assume that the administration, billing, and network costs are similar for all carriers (and cannot be reduced) then the only place where competitors can “play with the numbers” is in the marketing/customer retention budget area.

The reason you cannot prevent churn, therefore, is because you cannot prevent your competitors from reducing prices and advertising heavily enough to entice a certain number of your customers to their side. The simple fact of the matter is that, unless you have a larger source of funding than your competitors, they can force you into a position where you need to let some of your customers go.

*When Conditions Are Right, You Will Loose Money*

By looking at issues of churn from the economic perspective, it is easy to see how it happens and why you cannot prevent it from occurring. This perspective also gives us insight into our next observation about churn, namely, that when churn conditions are right, you will loose money no matter what you do.

This is the point that brings the entire churn issue into perspective. After all, if churn was preventable, or if churn conditions could be experienced without the loss of revenue, then churn would not be perceived as that big of a problem. Unfortunately, no matter what you do, when churn conditions are right then competitors will try to take your customers either reducing prices, increasing service, or creating advertising campaigns that attract them. And revenues will suffer.

When this happens, you have only three options.

1) Ignore the Predatory Activity

This is the default position that most companies take when churn first begins to be a problem. Since you don’t anticipate it or understand it, the tendency is to ignore it and hope that it stops soon.
Companies that take this approach quickly find out just how expensive churn can be. In this case, the financial loss is revenue lost from customers that are no longer on board.

2) Launch Counter-Measures

When churn conditions exist, a company can launch counter measures to try to head off the churn. Such counter measures can take several forms: price discounts (to offset the reductions offered by competitors), handset subsidies (to replace old equipment), and loyalty programs of many different styles.

In this case, the cost of churn comes from the retention campaign activities and from the loss of revenue due to price reductions. These outlays are likely to be less than the revenue lost by ignoring the churn situation.

3) Initiate Your Own Predatory/Reacquisition Activities

For the less sophisticated, or the unprepared carrier, churn countermeasures are not an option. They may, instead, to try to make up for the revenue lost by launching their own predatory campaigns. These campaigns are geared toward trying to win back customers, and also to try to acquire new customers from the competition.

As with the churn countermeasures scenario, this approach also has a price tag associated with it.
No Matter What You Do, You Loose

Clearly, as stated earlier, when churn conditions exist you *will* loose money. The trick is figuring out how to minimize the damage.

**Better To Manage Churn Than For Churn To Manage You**

When churn conditions exist, your management will have to make a number of critical decisions that will impact your profitability and possibly even your long-term viability. They need to institute a program to manage churn.

**THE CUSTOMER FACTOR**

All the discussions about market share, churn strategy, and revenue loss are certainly important. More critical, however, is to understand that churn is behavior exhibited by customers not markets. This human side of churn must be taken into account when it comes time to put together a churn management strategy.

When is comes to customers and churn, we need to remember that:

A. All customers are not of equal value
B. Customers churn for complex reasons
C. Firms act as large groups, customers react as individuals
D. Customers represent a revenue stream
E. Customer behavior can be anticipated
F. Some customer behaviors can be predicted

**All Customers Are Not Of Equal Value**

A very important fact to know and understand is that all customers are *not* of equal value. While a firm that is focused on rapid growth and expansion is concerned only with the acquisition of as many customers as possible, regardless of their identity, the churn management organization cares about this a great deal.
We are talking about creating a major shift in the way the entire organization looks at customers. The organization must shift from a headcount view to a *customer-value view* of decision-making. Everyone in the organization must understand that …

a. It costs money to retain customers

b. The money spent on retention is most likely greater than the value that the customer can be expected to deliver to the firm.

Many companies, when they first undertake to manage churn, try to do so by spending the same amount of money to retain a very good customer as they spend to keep a very bad one.

This is illogical. The more efficient solution is to spend more on the good customers and less on the bad. In fact, the optimum solution would be to determine the appropriate ratio between earnings potential and retention cost and to spend exactly that amount.

**Customers Churn For Complex Reasons**

Not only are customers of differing value, but they will all churn for different and complicated reasons. Customer surveys that report the top churn reasons (price, quality etc.) only provide a rough summary of those churn decisions. In reality, churn occurs when many factors, often dozens, work together.

The fact that churn decisions are complicated means that no overly simplistic ad campaign or promotional offer will effectively address your churn in an efficient matter. Complex decision-making on the part of the consumers requires complex analysis on the part of the company wishing to address it.

**Companies Act On Segments, Customers React As Individuals**

By far, one of the biggest problems facing churn management executives is that of individuation. (We use the term individuation to describe the process of acting upon groups of people in a way that the individuals think they are being addressed as individuals.) Creating an environment of individuation is key to churn management success.
Individuation can be accomplished in many ways. For instance, when customers see an ad on television that addresses a problem they are having, individuation occurs. The customers viewing the ad identify with the situation, thinking “Hmm, that company obviously knows what I need.”

Conversely, if a middle-aged businessman, for example, sees an ad targeted towards teen-aged girls, then the opposite of individuation happens. In this case, the customer sees the ad and says, “That’s my company but they are very big. They don’t really know me.”

Individuation at the mass marketing level is, of course, a tricky and complex business. However, mass market disconnect in the individuation area is not what bothers customers. Customers get upset when the more personal kinds of interactions fail to recognize them. When a very good customer calls customer service and gets put on hold for 10 minutes, the customer says, “This company obviously does not know me. I am a good customer, but they don’t even know or appreciate that fact!”

Even worse is when the customer receives direct mail or phone solicitations that fail to recognize who they are. It is very common for a customer to get an ad for a service they already have. This truly antagonizes the consumer. “If you know me well enough to send me mail, why don’t you know that I already have that service?”

Effective churn management needs to consider the effects of all customer interactions and create individuation as much as possible.

Every Customer Behavior Can Be Anticipated

Understanding that different customers have different values and that their decisions to churn are complex could cause you to throw up your hands and say, “We might as well just keep on doing what we have been doing.”

While learning by trial and error is one way to determine the best way to handle churn, experience would seem to indicate that, with this method, you would probably never achieve an optimum approach.

Fortunately, despite the customers’ seemingly erratic behaviors, there are things that we can do to anticipate their churn decisions.
When we use the term anticipate here, we have a very specific meaning for the word in mind. What we mean is that we can collect the various reasons customers may have for churning (see Appendix A) and use the data to see if specific customers are leaning more or less in the direction of leaving us. The fact that we can anticipate an individual’s churn decision means that we can develop an approach to preventing that churn decision (if the customer is one that we want to save).

**Some Customer Behavior Can Be Predicted**

Some of the most effective churn management approaches involve more than simple anticipation. When the conditions are right and you have the capabilities in place, it is actually possible to predict the customer’s churn decision.

**Prediction vs. Anticipation**

So what is the difference between anticipation and prediction? In a very liberal sense, we could say that anticipation is a type of prediction. Used here, however, the terms take on very specific meaning.

The term *anticipation* refers to the development of a qualitative measure of the likelihood of someone to churn. In other words, we are basing our prediction on judgement, common sense, and good guessing.

In contrast, we use the term *prediction* in the strictest statistical sense. When we *predict* people’s churn, we have a very high mathematically provable likelihood that they actually will churn.

Prediction is much stronger and certain than anticipation. In fact, most predictions come with a confidence level, a percentage that tells us how sure we can be that the anticipated event will happen. To say that we are predicting that a specific person will churn with 90% accuracy means that we are very sure of the outcome.
Our ability to anticipate and predict churn changes the nature of the churn management equation significantly. Without it, we must assume that any customer could leave at any time, for any reason. That would mean that our churn approaches would be very expensive and not very effective.

On the other hand, if we can anticipate (low confidence) and predict (high confidence) that different people will be churning at different times based on different conditions, we suddenly have created a situation where efficient and effective strategies can be launched.

Timing Issues

Timing is the other aspect of customer churn that is important for us to include in our solution development. As it turns out, timing is probably the most important component of the equation. A little analysis will help us to understand why.

When To Take Action?

To understand the critical nature of timing, let’s consider the following situation. You have some very good customers that never complain and have very high monthly revenue. Your competitor is constantly bombarding the market with offers for free handsets, deeply discounted per-minute charges, and free gifts. What would you do?

One reaction might be to say, “Hmm, our competitor is offering this great deal to my customers. I must offer them an even better deal to keep them from leaving.”

The other action might be to say, “My competitor is making these great offers, but maybe my customers don’t care about those things. I am not going to do anything right now and hope that my customers stay loyal despite the temptation.”
Two extreme solutions, but approaches that many companies take. Let’s consider the consequences of each of these solutions.

The Consequences Of Acting Too Soon

Being proactive about churn management is certainly a good idea, but there is one huge downside to such an activity. What if you make adjustments to help keep the customer loyal (by reducing prices, offering gifts, or any of a number of approaches) and it wasn’t necessary. After all, some customers will stay loyal no matter what you do, and some will leave no matter how hard you try.

So the down side of proactive churn management is that you spend money, or give up revenue, that you didn’t have to. Of course, as we said, you will have to reduce revenue or spend money on promotion eventually, but when is the best time?

Imagine a situation where you, a telco provider, see a competitor offering prices 10% lower than your own. You might decide that an effective churn management strategy would be to lower all customers’ prices by a matching 10%. What will the result of this action be?

First, revenue will immediately be reduced by 10%. Obviously, since you dropped your rates.

Second, some customers will leave anyway. They will leave because price wasn’t their real reason to churn and the promotion simply offered a convenient opportunity.

Third, you will have taught your customers that they should expect a price reduction whenever the competition offers one. In fact, you have also taught the customer that if you don’t match the price reduction, then you are probably cheating them.

Fourth, although reducing prices immediately by 10% probably saved a few customers from leaving, in the majority of cases you have simply reduced the price for many already satisfied customers, customers who would have kept on paying the higher price if you hadn’t initiated the reduction in the first place.

Ultimately, then, the problem with acting on churn issues too soon is that it costs you money and creates mixed messages for the customer.
The Consequences Of Acting Too Late

The other side of the equation is when we react too slowly.

Using the same situation as before, but this time you decide instead to do nothing. What are the consequences?

First, some customers will see the competitor’s price reduction and churn. An equivalent amount of revenue will be lost.

Second, a large number of customers will stay, but will begin to question their decision to remain with your firm. Their likelihood to churn will increase. These customers will be much more susceptible to the next price reduction they see.

Finally, the company will try to reacquire the lost customers, or replace them with new ones by eventually offering the price reduction.

The customers that come back have learned that a good way to get a price reduction is to churn often. We have creates “professional churners.”

Most often, the customer will not come back anyway.

Finding the Critical Moment

To develop an optimum churn management strategy, we need to create a mechanism that allows us to monitor the likelihood of a customer to churn at any given time, so that we can determine the best time possible to make the churn prevention investment.

While figuring out the absolutely perfect critical moment is functionally impossible, it is feasible to establish approaches that allow us to approximate the optimum moment and define at least a “critical time zone” in which action should be taken.
STRATEGIC APPROACHES

The various perspectives of churn that we have discussed so far all provide us with valuable information required for the development of a strategy, but they do little to recommend which action is best.

Basically, three fundamental strategic approaches are possible for a telco company to maintain when it comes to issues of churn. All of them are legitimate, with their own strengths and weaknesses, and each can be effective in its own way.

Also, there is no reason why a firm should be required to execute only one of these strategies. It is common to develop a plan that utilizes all three simultaneously.

Equally important for us to be aware of is the fact that, no matter which of the three strategies we are talking about, the prerequisite information we have been discussing will be fundamental to the construction of an implementation plan that allows us to execute the strategy for optimal results. The basic strategies are as follows.

**Offensive – Continued Expansion**

One strategy, the one most commonly effected by carriers, especially during the early phases of churn problems, is for the company to simply ignore the loss of customers and try harder to acquire new customers as replacements.

This approach can be compared to the process of trying to make up for a whole in a bucket by trying to add fresh water faster than it can leak out.

In the short run, this approach can be effective, but only until competitors switch to alternative strategies.

**Making the Continued Expansion Approach More Effective**

When a company has decided to use continued expansion as its primary churn management strategy, it can still benefit from the insights we have been talking about. Gathering intelligence about
which kinds of customers are of the most value and are the least likely to churn can be a valuable bit of information for the developers of acquisition campaigns. Altering the company’s acquisition strategy to target only the best-value customers of least likelihood to churn can improve the churn profile dramatically.

**Offensive – Predatory Acquisition**

The second most common strategy pursued by companies that are loosing customers is to try to steal customers from their competitors to make up for the losses.

Predatory acquisition is most common when the market is near its full saturation rate and there are very few new customers to gain. At this point, growth can only come at some other carrier’s expense.

**Making Predatory Acquisition More Effective**

Predatory acquisition, like the regular expansionary acquisition, can be conducted naively, or can make use of what is known about customers and their churn behavior. Just as in the expansionary acquisition case, the people designing predatory campaigns can be sure to target high value, low churn customers in their efforts.

Even more importantly, the campaign designers can use what they know about why a person will churn to help develop programs that will easily seduce the customer away from the competition.

**Defensive – Retention Management**

Eventually, most firms come to realize that their acquisition efforts alone are not enough to truly address churn issues. As companies mature and as their analytical and operational capabilities become more sophisticated, they begin to build customer churn management capabilities.

**Making Churn Management More Effective**

By taking these rules and observations into account, the organization can create a churn management capability that guarantees that they
will be operating at the optimum level at all times. To do this they need to take the rules of churn, the customer factors, the timing issues, and the strategic objectives into account.

**FACTORS OF EFFECTIVE CHURN MANAGEMENT**

It is has been our experience that churn management efforts that do not take all of these factors into account fail to address the optimum churn management strategy for any firm. To summarize then, we need a good definition for the objectives for any churn management effort.

**Churn Management Objective Statement**

The objective of any churn management operation should be to …

- a. Develop a best estimate of the likelihood that each customer will churn in the immediate, medium, and long term
- b. Identify the current and future value that those customers represent
- c. Develop treatments (campaigns, policies, programs etc.) that reduce the likelihood of churn
- d. Assure that the cost and nature of the churn prevention treatment is consistent with the associated value and churn risk

**The Churn Management Equation**

The key ingredients of churn management strategies then are:

- (R) Risk – Determining just how likely the customer is to leave if nothing is done
- (T) Time – The timeframe that the risk applies to
- (V) Value – The loss of revenue that the churn event will represent
- (I) Investment – The investment of money in treatments that will reduce that risk
The objective is to make the optimum investment to reduce the risk of customer churn, especially in the short term.

In general, the higher the value of the customer, the lower we would like to keep the risk factor across all time periods. Conversely, the lower the value of the customer, the less concerned we are with the risk one way or another.
So what is the best way to manage churn? When you peel back the layers of complexity you find that churn is not the real problem but the symptom of a larger underlying problem. Namely, the organization does not know how to manage the complex, critical relationships with customers. They don’t know who the customers are, what they want and need, what makes them stay, and what makes them go. Because of this, churn appears to be such a big problem.

The reality is that customers come and customers go. Some are good and some are not so good. To attempt to prevent customers from leaving is to stifle the long-term economic and marketplace health of your organization. To learn who your customers are and how to manage the complex relationships with them optimally is the key to churn management success.

Churn is a complex issue. It is complicated for the customers, who have many reasons for churning, and it is even more complicated for the carriers who have so many ways to evaluate a churn event. The continuing nature of rapid change and assimilation in the telecommunications area guarantees that these complexities will only increase over time and will happen at an ever-faster pace.

If we hope to put together a comprehensive strategy for the management of churn, we need a simple, straightforward, and easy-to-understand framework for evaluating what churn is and what it means to our organization. That strategy must continuously adjust to these ever-changing situations. An approach based on anything less is doomed to failure since we are guaranteed of nothing except that
change will happen again. With this frame of reference in mind, we will then be able to propose a solution.

So, what part of the organization has to address the churn problem? Is churn a revenue issue? If it is, then it is best addressed by the financial organization. Is it a marketing issue? Then let the advertising and market research people worry about it. Maybe it is more of a customer satisfaction issue? Then, by all means, place responsibility on the customer service organization for handling it.

But no, we realize very quickly that churn is an issue of import to absolutely every part of the telco organization. Churn events have impact on, and provide valuable information to every part of the business. Engineering and network management, investor relations and regulatory agency management, marketing, sales, customer service, and billing all play a part, and everyone is affected.

A DIFFERENT FRAME OF REFERENCE IS REQUIRED

Even the most cursory review of the first seven chapters of this book should prove to even the most skeptical reader that telecommunications churn is an important phenomenon. Clearly, no telco can afford to ignore churn activity because of the severe short- and long-term financial consequences.

More importantly, no organization can afford to continue to respond to churn in the haphazard, ill-conceived, and erratic manner that most telcos have followed up until now.

What is needed is a different way of looking at churn. What is needed is a framework for understanding churn events that:

a. Takes all of the vagaries and inconsistencies of the customers’ continuously morphing attitudes about the service provider into account;

b. Takes all of the technological and competitive volatility into account; and

c. Structures it within a framework that the people in your organization can understand and work with.
A tall order indeed. What if we were to throw out all the detail and history about churn that we have been considering? What if we were to stop approaching this problem from the same old direction that people have been using for decades? What would an entirely fresh look at this situation be?

**WHAT ARE YOU TRYING TO MANAGE?**

We are assuming that you are reading this book because your organization is facing, or will soon be facing, a serious churn threat in your marketplace and that you would like to figure out what to do about it and how to manage churn.

Let’s review what we have figured out thus far.

1. The telecommunications industry is founded on churn. The rapid displacement of old technologies and old companies with the new and improved is a critical reason for its success and value.

2. Telecommunications technology is changing at an ever-increasing rate, making technologies obsolete long before they are fully utilized.

3. The competitive marketplace of today can change dramatically overnight.

4. Consumers take dozens of factors into account when they churn in a never-ending combination of complex mental and emotional calculations.

5. Consumers’ attitudes about when, how, and where to buy telecommunications services are constantly evolving.

6. The changing economic ground rules upon which the company evaluates customers is continually subject to change and reevaluation as all of these other factors continue to play out.

In other words, the optimum churn equation is always changing.
Is It Really Possible to Manage Churn?

Before we go any further in our discussion then, let’s consider this concept of churn management more closely and see what is implied by the term. One problem, of course, is that everybody seems to define the various types of churn differently.

Managing Involuntary Churn

First of all, if you said that you wanted to find a way to manage involuntary churn (caused by credit and fraud problems), no one would disagree with you. Taking on customers that mean to cheat you out of services or who are unable to pay their bills is just plain bad business.

The best way to manage this kind of churn is to determine who is likely to be fraudulent or create credit problems and prevent them from subscribing in the first place.

In this case, the best churn remedy is to completely avoid these situations.

Managing Price-Based Churn

Once we consider the different types of voluntary churn, however, we no longer have immediate agreement. What does managing price-based churn mean? You have customers who are going to change carriers because the competitor is offering the same or better service for a better price. What exactly is it that you want to manage? Do you want to trick the customer into staying with you and pay you more than the competition is asking? Is that what you mean by churn management? (That’s not likely to last very long.) Or do you want to figure out which customers are likely to leave and adjust their prices so that they are more likely to stay? Again, is this a simple matter of keeping the customer from leaving, or is it really a question of understanding what they can get from competitors and negotiating a new deal with them based on our willingness to make the adjustment?
Managing Technology-Based Churn

What about situations where customers want to change to a carrier that has newer or better technology? Do you want to convince them that using the old stuff is better? Is that churn management?

Are we really unable or unwilling to provide this customer with a technology upgrade for their service? Are we offering them old technology or nothing, or is this simply an opportunity for us to upgrade our customers to a new generation of technology?

In all of the situations we have mentioned, and in every single churn case that you can think of, the churn problem is never as simple as preventing customers from leaving.

Churn is a Symptom

When you peel away the confusing layers of rhetoric that surround the churn issue, what you find in every single case is that churn is only a symptom. The real problem is always that your organization is unable to make an appropriate assessment of the churn situation.

Optimum churn solutions are not developed with unfounded guesswork or brilliant marketing campaigns. Remember that whatever you do in the marketplace, your competition can see and mimic. Whatever kind of offer you make to your customers, your competition can do the same. No hammering away at the churn problem with the old tried-and-true marketing techniques will yield any kind of sustainable competitive advantage.

If you want to win at the game of churn management, your only option is to take on and solve the underlying issue, namely the customer relationship management problem. Once you solve that, the churn management problem literally disappears.

Why? Because when you understand who your customers are, what they want, and what you are willing to do to keep them, when you treat your interaction with customers like a relationship, then when they leave, it will be by mutual consent. You will both agree that it is better that way.

Churn does not especially reflect a failure on your part. It can reflect good judgment just as well.
Managing Relationships – the Marriage Model

You can wait to manage your relationship with customers until it is just about ready to fail (when churn is about to occur), or you can try to manage the customer relationship overall, from beginning to end. The latter will generally get much better results. Treat the relationship with customers like a marriage relationship? How can that be done? What possible bearing could the rules for human interaction at the personal level have for a telco with millions of customers?

A radical concept? Certainly. But applying analogies to new approaches is often very helpful. Analogies refer us to something familiar and help us understand what is still new and strange. So to help us understand how a telco can have a good relationship with customers, we will compare it to what it takes to have a good marriage relationship.

Figure 8-1: A Marriage of Consumer and Provider

MARRIAGE COUNSELING FOR THE TELCO

What then are the keys to a successful marriage relationship and how can that be applied to the telecommunications business? There are hundreds of books written on the subject of human relationship management and millions of expert opinions that you can obtain
by opening any newspaper, listening to the radio, or asking just about any person on the street. This wisdom can be boiled down to a few core concepts. It is our premise that these same core concepts are equally valuable for the person trying to manage a personal relationship as they are for the telco trying to manage customer relationships.

All of the advice to the lovelorn boils down to five basic rules of relationship management.

1. Know who you are getting involved with. Know the person you are having a relationship with.
2. Define the type of relationship you want to have with the person before getting involved.
3. Be sure that you are equipped and ready to participate in the relationship as agreed.
4. Establish good lines of two-way communication to keep the relationship healthy. You must invest in the relationship if you want it to last.
5. Pay attention when there are problems and warning signs and take appropriate action to prevent disaster (churn prevention).

As we will see, these five rules can provide us with exactly the ingredients we need to develop a sound customer relationship management strategy as well as a sound personal relationship strategy.

Who Are You?

We hear so often of people who have been married for many, many years who realize one day that they really don’t know the person they are living with. Men living double lives. Women with secret ambitions or careers.

Knowing the person you are in a relationship with is the foundation of any relationship and our first consideration.

Know Who You’re Getting Involved With

The first rule of marriage and a very important one is: Don’t marry the first person that asks you. Marriage is a serious commitment,
and you cannot hope to have a good one if you don’t find out about the person ahead of time. Who is the person that you are considering marrying? What are his likes and dislikes? What is her profession? What kind of partner will she be? Is he messy or neat? Does she pay her bills on time or is she always late? Most people would agree that a little background research on a prospective mate would be a good idea.

Knowing Your Customer

How well does your organization know the customers? Naturally, for a service provider/customer relationship, what we want to know is different than for a marriage relationship. However, clearly we should gather some core information before the customers sign up or at least while they are our customers. How much information do you have about your customers? How much screening do you do before signing the contract? How do you know these are the customers you want to be in a relationship with?

Relationship Models

Of course, just because you know everything there is to know about a person does not guarantee a good relationship. Ask anyone who has been madly in love with a person who didn’t even know the other existed. No, a good relationship is a two-way street, but at its core is a clear understanding of what the nature of the relationship really is.

Different Kinds of Marriages for Different Kinds of People

As any student of human nature can tell you, humans have developed an amazing variety of marriage relationships. While almost everyone in the world gets married almost no one does it in the same way. In some societies husbands have many wives. The fact that other women will be present in the home is a part of the nature of such a marriage relationship. In other societies, the one-man/one-woman rule applies. In others there is a one-woman/many men configuration.

Imagine the chaos that would (and does) reign in relationships where the parties do not agree on the fundamental rules of how the
marriage is supposed to work. If the man is working on a multi-wife model and the wife is a believer in monogamy, then the relationship is pretty much guaranteed to fail before it starts.

Agreeing on the number of husbands or wives is only the most obvious of relationship models that we have to deal with. All sorts of rules and understandings go into any model of marriage. Who will raise the children? Who will have a career? Who will be the leader? Who will be the follower? All of that needs to be established if the relationship is going to succeed.

**Alternative Telco Relationship Models**

Just as relationships between marriage partners can have different models for how they operate, so too can we see many differences in the way service provider/consumer relationships work. Some telcos want to be the sole supplier of all of the consumers’ telecommunications needs. Others just want to provide one or two specialized services. Some consumers are looking for the provider with the lowest cost with little concern for anything else, while others would rather have a dependable provider that they can count on for the long haul.

Indeed, with so many models for the provider/consumer relationship, it is no surprise that there is so much confusion. As a matter of fact, no real clarification of the churn management issues can hope to succeed until the telco makes a decision about what kinds of relationships it wants to have with its customers.
Are You Equipped to Do The Job?

How many times have people gotten involved and married before they were really old enough and ready to make such a big decision? How many marriages run into problems because the people taking part in it are not really equipped to do what it takes to make the marriage work? Readiness is a key ingredient for success.

Can You Deliver the Goods?

The subject of readiness in the telecommunications business can be a sensitive one. There are stories of telcos that have opened up for business and signed up customers, only to find that they did not have the network capacity to meet their customers’ needs. Such situations are unfortunate and are usually unintentional and eventually taken care of. But what about when the telco organization is unable to respond in the way that the customer expects to be responded to? Organizational competence and readiness is a major reason for customer relationship management problems in the great majority of telcos.

Communication

Once you know who your customers are and have decided how you want to relate to them, it is then time to establish those critical lines of communication.

One-way, Two-way, No-way

Have you ever been in a relationship with someone who never listened to anything you had to say? (The no-way communications mode) Obviously, it is not possible to have a good relationship with a person who never communicates with you. Even worse, what about a relationship with a person who simply ignores you for long periods of time and then suddenly takes an interest in your life and starts telling you what you should do? (The one-way communications mode) This kind of one-way communication does little to make your relationship work.
Establishing Communication with Your Customer

So how does it feel when the person you have a relationship with ignores you or only talks to you when he or she wants you to do something? How do you suppose it feels to a customer who subscribes for service and is then ignored until the contract expires, only to then receive a phone call and be begged to re-subscribe for another two years? It surely does not feel good.

Participating in the Relationship

A very natural consequence to opening the lines of communication between you and your customer is that you will begin to learn from each other. The customers will change their attitudes based on your communication with them. And if you are smart, you will change what you are doing based on what you hear from the customers. It is here, at this juncture, that your organization will really begin to reap the benefits of a relationship-based model of customer interaction.

Note, however, and this is critical, that you must really communicate with customers and you must actively listen to them. If you truly want to benefit from this process, then you must be ready, willing, and able to change in response to what they are saying. We are not talking about merely running market surveys once a year and changing the nature of advertising copy based on shifts in consumer behavior. We are talking about actively listening and trying to figure out how to propel the continued growth of your organization in the direction that your customers need.

Remember, this is telecommunications, not retail. You customers’ needs will change quickly, and your technology options will change

Figure 8-3: One-way Communication
quicker yet. You need to navigate these worlds if you are going to be successful.

**When the Relationship Is in Trouble**

Even when two people are doing everything the right way, they sometimes find that their relationship can still be in trouble. When this occurs, there are two choices. Figure out what’s wrong and remedy it, or decide that it is better to end the relationship and do so as painlessly as possible (hopefully leaving the option open for a reconciliation in the future).

Churn situations are exactly the same. When customers are getting ready to churn, they are considering ending the relationship. At that point, you must pay special attention to the relationship and do all you can to try to prevent the breakup and, if necessary, be prepared to end it on good terms.

**Moving Forward with the Marriage Relationship Model**

Seeing the many parallels between customer relationship management and the management of personal relationships, we will proceed to see how much we can learn about the one from the other.
A RELATIONSHIP WITH A TELCO

Although everyone agrees that making the telco more customer-centric is critical to its long-term success, no one seems able to identify exactly how that would be done.

It is easy to talk about how the telco should behave toward a customer, but an entirely different matter to get the hundreds of employees involved in marketing, sales, customer service, billing, and all other departments to interact with the same customers in the same way.

The problems are complex but can be narrowed down to two simple observations.

First, to succeed you must have a mechanism in place that allows you to coordinate the activities of the various business units so that all are aware of all dealings with the customer.

Second, you must have the organizational structure in place to enforce a consistent set of rules for the treatment of customers.

In Chapter 8, we proposed that the true nature of the churn problem, as most people understand it, is a symptom of a much bigger problem: how telcos manage their customer relationships. We also proposed that these problems could be resolved by addressing the critical areas.

1. Understand who your customers are.
2. Understand the nature of your relationship with the customers.
3. Be ready and able to participate in that relationship as it is defined.
4. Establish ongoing lines of communication with them.
5. Participate in the relationship (really listen, and then change based on what you hear).
6. Pay particular attention when churn situations arise.

**FLAWS IN THE LOGIC OF THIS ARGUMENT**

The argument may seem perfectly logical, but there is a clear flaw in the thinking.

*Telcos are not Individuals; They are Corporations*

The first flaw in our logic is simple enough. We are talking about the relationship between the telco and the individual customer as if that telco were a single person, a person capable of having a conversation, remembering exchanges of information, and keeping track of where the relationship is going.

Well, a telco is not a person. It is a business, usually a very large business, and that means that its activities are governed not by the wishes of any one person but by the net impact of the actions of hundreds and sometimes thousands of people. Because it is a big business, to manage the relationship with the customer you have to take into account all of the actions of all of the people that have any dealings, direct or indirect, with the customers.

Attempting to have the telco behave appropriately in the relationship with the customers then will require that we somehow figure out how to get all of the different people that are interacting with or acting on the customer’s behalf to coordinate their activities. This is no small task.
Markets Are Made Up of Millions of Customers

The activities of the telco cannot be directly subjected to the same analysis as the behaviors of individuals because of the number of employees involved. When we try to apply our analogy to the millions of customers who make up the ranks of a typical telco’s customer population, we also run into a problem.

The fantasy of one-to-one marketing may sound nice, but in reality no company can afford to operate on a one-to-one basis with millions of people. These problems of scale, from both the provider and the consumer side, must be addressed if we are going to have any hope of applying our relationship model with success.

The churn solutions picture we have drawn thus far seems to be simplicity itself. Determine who your customers are, how much revenue they represent, and how likely they are to leave. Then spend just the right amount of money to convince them to stay. Conceptually, this is simple enough to work. Practically, there is one more challenge to overcome before the approach can become reality. That challenge is the fact that a telecommunications company is an organization, that is, a very large group of people who work together. Because it is an organization, it must deal with additional complexities and challenges.

CHALLENGES

The first challenge that must be addressed is the problem of dealing with the organization itself. But why should the organization be a problem? Why would we not be able to implement the strategy and expect it to work? There are several reasons.

Culture

One of the biggest challenges is dealing with the culture of the company. You might think that the industry is much too new to have developed much of a culture. Yet it’s true; each telecommunications...
company, the new start-up service provider, the wireless, ISP, or CLEC, has a culture with interesting elements.

1. The companies are mostly less than five years old (2.7 years average) and tend to be very large, successful, and profitable, which creates a culture of managers who feel that they know a lot.

2. The only real historical legacy is borrowed from the incumbent long distance carrier. Many executives and employees came from there. This means that many of the beliefs about customers (they are an inconvenience), customer service (customer service = a good billing system), and what the business is really about (engineering, not people) permeate the organization.

3. For Internet service providers (ISP) and e-businesses, the legacy is even worse. Most employees come from either retail backgrounds or from technology companies.

4. Rapid expansion and aggressive growth are the result of a highly motivated, highly skilled, and focused sales and channels organization that is geared towards creating daily high activation numbers.

Combine all of these factors and you get a group of people that are not very interested in sophisticated, subtle, and unconventional ways of doing things.

**Business Model**

An obvious by-product of the typical culture is the business model. For most companies the business model, known as the activations-based model, leaves no room for concepts like retention management in its scheme.

**Information and Intelligence**

Even if a company had no cultural or organizational challenges to face, there is still the problem that the customer management, at the level we are talking about, requires that the company gain access to much new additional and often hard-to-find information and customer intelligence. To manage churn effectively the company, overall, must develop new analytical capabilities and execution sophistication.
TYPICAL ORGANIZATIONAL STRUCTURE

To truly understand how to make your organization effective in the management of churn, we need to figure out what the current organizational structure is and why that structure will not support the churn management process. Telcos typically have similar organizational structures.

As we see in figure 9-1, the typical telco is divided into several major units.

1. Engineering – the people responsible for the planning, construction, and maintenance of the network
2. Sales and Marketing – the units that are dedicated to the advertising, distribution, and sales that bring in the business
3. Customer Support – based on the billing systems, the customer service organization and other supporting functions
4. Finance – accounting and financial controls and reporting

The Telecommunications Value Chain

To see how the various functions and processes of a company relate to each other, we would normally consult the firm’s organizational chart. Unfortunately, organizational charts often tend to be confusing and misleading because they outline who reports to whom, not how the job of delivering service to the customer is accomplished. To get a non-political and non-personalized view of the functions that
happen within a telco, we use instead a device known as a value chain.

The value chain provides a clear snapshot of the critical functions that go into the delivery of value to the customer. It shows the way these functions link up with each other to deliver that value.

![Value Chain Diagram](image)

Figure 9-2: Telecommunications value chain

Figure 9-2 shows a value chain with all of the critical functions necessary to deliver service. Notice also the functions that are not part of the chain (accounting, information technology (I/T), human resources). They are the support functions that actually deliver no direct value to customers, but provide support for the critical value chain functions.

For a detailed explanation of the telecommunications value chain see “Data Warehousing and Data Mining for Telecommunications” by Rob Mattison.

THE DESPERATION PLOY – CREATION OF A CHURN MANAGER

Did you notice that neither the org–chart nor the value chain have a place for customer loyalty management? Do you think that perhaps this is the crux of the problem? If we just created a churn management department then everything would be okay?
Unfortunately, as logical and easy as that solution sounds, forming a churn management function does very little to address churn issues in most firms. All too often, the churn management- or loyalty group ends up an under-funded, isolated, ineffective staff function that is constantly struggling to justify its own existence. Even if the churn management group is given much funding, it still cannot do much to address the problem by itself. Why? The answer to that question is the key to the whole problem of churn and customer relationship management.

**Churn/Customer Relations are Created by the Entire Organization**

The reason that a new churn management or customer relationship management (CRM) function cannot fix the churn your organization experiences is because churn is not created by any one person, department, situation, or activity.

*Churn is the willful act of a customer that tells you in no uncertain terms that somebody else is delivering value better than you are!*

Those are very strong words, but the truth they contain will become obvious. As we have already established, customers churn for many different reasons. Sometimes those reasons are obvious and straightforward; more often, however, they are subtle and indirect. Churn is the customers’ way of telling you what is important to them and that you are not delivering the goods.
That explains why we believe that churn is a rejection of the overall customer experience. But to say that churn is a message being delivered by (former) customers might seem exaggerated. However, think for a minute about all of the reasons that a customer has for not churning. Think about how busy they are, how pressed for time, how bombarded with messages and responsibilities and then realize how much trouble it is for them to take on a new provider. They must be very motivated (unhappy) to invest that much energy into making the decision to switch!

Churn Can Only Be Managed By The Entire Organization

Taking this into account, it should be clear why filling a position of Chief Churn Officer (CCO) will not put a dent into your churn numbers. No, churn is created by an entire organization failing (usually in many small ways) to meet the expectations of customers. Only an organization-wide effort can change your current churn situation in any dramatic fashion.

CUSTOMER RELATIONSHIP MANAGEMENT

From a broader perspective, we see that churn is really just a part of the bigger problem of customer relationship management (CRM). Although we do not intend to present an entire thesis on the execution of CRM, we need to establish at least a rudimentary understanding of the discipline and the ways that churn fits into its scope.

The CRM Components of the Value Chain

Realistically, one could argue that CRM is nothing more than the label given to a certain subset of links from the value chain of the organization. In other words, to understand what CRM and its scope of activity is, we have to revisit the value chain and determine which functions fall under that definition.
In the case of telecommunications, the value chain links numbered 8 through 13, which include the customer touchpoint functions (billing, customer service, sales, marketing, etc.), constitute the CRM sub-group of the value chain.

A CRM-SPECIFIC VIEW OF THE BUSINESS

Ignoring all the idiosyncrasies that make the telecom different than the dot.com, we can create a CRM-specific organizational view that helps us understand how the different parts of the company work together to manage the customer relationship (and consequently the customer churn decision).
Figure 9-5 illustrates a good model of the different parts of the CRM structure and how they relate to each other. In the next few sections we will review what each represents and how they work.

**Management Structure**

We refer to the entire left hand side of this organizational chart as the management structure section. It is from here that the organization gets its instructions and where responsibility for all decisions and the coordination of activities lies.

**Stockholders and the Board of Directors**

Although not illustrated on this diagram, the beginning and end for all directional responsibility in the firm comes from the owners and stockholders and, when applicable, the Board of Directors. This group sets goals and profit expectations that the upper management group is expected to deliver. All decisions within the company should be based on directives from this level.

**Upper Management**

Upper management, the top executives of each functional area, is commissioned with executing the corporate goals. The fundamental mechanisms for communication of these goals include:

1. **Budgets** – The funds allocated to each organizational unit to function for the year.
2. **Goals** – The objectives that each organizational unit is expected to meet in the coming year.

In effect, you have an annual negotiation process between management and the operational units — a certain budget in exchange for a certain level of delivery around the set objectives.

**Metrics, Measures, and Key Performance Indicators**

The budgets and goals that are set for each business unit will vary according to any number of complex and functionally specific criteria. We call this collection of budgets and goals the **metrics, measures, and key performance indicators** of the firm.
We use the term metrics to represent the numbers that establish the budgetary limits of the different organizations. Measures refer to the methods of evaluating an organization’s performance in other than quantitative terms. Key performance indicators label all of those reports, evaluations, and measurement numbers that tell upper management whether the organization is fulfilling its primary function.

**Computer Systems and Reports**

The typical organization can consist of anywhere between 10 and 10,000 individuals. It is, therefore, not possible to keep track of all of the metrics, measures, and key performance indicators (KPI) for everyone without the assistance of computer systems. These computer systems are of two types:

1. Operational – Computers that manage specific operations (such as billing or order processing)
2. Analytical – Computers that provide management with reports and analysis of business activities.

These three components, (1) upper management; (2) measures, metrics, and KPIs; and (3) computer systems and reports, make up the management half of the CRM equation.

**Customer Relationship Organizations**

Further to the right in Figure 9-5 you can see the customer relationship organizations that actually execute the company’s CRM strategy. Different companies will organize functions differently, but all of the jobs need to be done by at least one group. It is actually not uncommon to find several groups executing the same functions.

**Advertising**

This is the group responsible for development and placement of advertisements on television, radio, and several print media types. The role of advertising in CRM is clear. Advertising creates the messages that bring the customer to the firm. It often plays a key role in the maintenance of the customer relationship.
[Market Research]

Related to advertising is the market research function. Most startup telecoms and dot.coms cannot afford their own personal market research department, but just about all of them make use of external market research sources. Market research provides advertising and upper management with valuable information about customers and their feelings about the company.

[Marketing]

The marketing function typically includes advertising and market research, but may also have a totally different set of responsibilities. Marketing can include product development, brand image creation and protection of that image, development of customer acquisition strategies, and a wide range of other customer related areas.

[Direct Marketing]

Direct marketing, another potential subset of marketing, is the discipline involved in the marketing activities that touch customers on a personal basis. The two most common media of direct marketing are mail and phone. The direct marketing discipline, as opposed to the other forms of marketing, is possible only with the use of large marketing databases. These systems allow the direct marketing organization to manage the names, addresses, and personal information about millions of customers and to launch specific campaigns to effect their individual wants, needs, and buying patterns. A direct marketing staff may include an in-house mail shop that develops, creates, and executes mail campaigns and/or an outbound-call-center that executes telemarketing campaigns.

[Sales]

Outside of the realm of marketing we have several other disciplines. One of them is the sales function. The sales function may include a large staff of salespeople who call directly on consumers (a consumer sales function) and/or a sales force that calls on agents, distributors, and retailers (a wholesale sales function). Amazingly, the sales organization is often left out of CRM and churn discussions, which is ironic since no single part of the company has more direct and indirect customer contact than this group.
Channel Management

Sometimes the job of managing the different sales channels of a company falls to the sales department, and sometimes marketing runs it. Some organizations create a separate channel management organization. Managing a number of differing channels can be a big job, and since these channels have significant impact on how your customers come to view your company, they play a critical role in the CRM and churn management structure.

Agents

No matter how you manage them, most firms are highly dependent upon independent agents to drive much of their business. Agents, independent resellers of your services, are difficult to manage, but are a critical component of your successful customer relationship.

Retail Outlets

Many providers have their own retail outlets. These outlets are subject to all of the critical customer relationship aspects that any retail has. Location, layout, personnel, inventory all play a role. Retail outlets are a particularly difficult component of the customer mix to manage well when you are not a retail business as such.

Customer Service

In addition to the traditional proactive customer contact groups most businesses also have the more passive customer support groups. Customer service can be an extremely large group, sometimes numbering in the hundreds. The quality of the customer service people’s interactions with customers can play a very large role in the customer’s ultimate churn decision.

Internet Channel

Many companies have established Web sites and other forms of Internet channels. These new, and for the most part untested, additions to the customer relationship management mix are growing in importance, especially for certain high-technology, early adaptor, and youth markets.
Billing

When it comes to telecommunications there is no doubt about the importance of the billing system in overall operations and in customer satisfaction. A billing system that is accurate, timely, and user friendly can go a long way in resolving customer difficulties. A system that is inaccurate, habitually late, and uncommunicative can drive customers away as quickly as any other form of negative public relations.

What Do These Business Units Do?

Although each of the different customer touchpoint organizations has a different mission and a different set of tools to get the job done, they all generate activities that reach out to and interact with customers in some way. Marketing campaigns, sales promotions, customer service policies, all affect customers directly. We refer to these various activities as customer treatments. Ideally, we would like to coordinate the touchpoint activities of these business units in a consistent way.

Getting the Organization to Act Like an Individual

With so many different people having so many different jobs to do, it is difficult to get them all to treat the same customers the same way.

Organizational Contention Challenges

How can the company possibly hope to send a consistent, positive, and effective message to the customer over an extended period of time with so many different avenues for contact? Unfortunately, for many companies this kind of coordination of effort is next to impossible. What makes a comprehensive customer relationship management, and consequently churn management, so difficult is that different organizational units of the company look at customers differently.
Different Functions: Different Views

Let’s say that we picked the name Jane Smith out of a customer database at random to do some research on. We will call her up, interview her, talk to her friends about her, check out her job history, and look at her bank accounts. Given all of that information, we will really know who Jane is. Now let’s talk to our different customer management groups and ask them about Jane. None of them have the complete picture that we have, and each group will likely have a different view of Jane.

When we ask the customer service group about Jane, they check their contact management system and see that Jane has called in to complain about her bill six times in the last four months and complained about service twice. Customer service is likely to consider Jane a bad customer, a complainer who is high maintenance.

When we talk to the advertising people about Jane, a completely different picture emerges. Jane, they say, is a middle-aged successful businessperson, owns two cars, and is mother of three. Jane fits precisely the demographic profile that they have been trying to appeal to. According to the advertising department, Jane is the best kind of customer that we can have.

Going on to the billing organization, yet another picture of Jane emerges. Jane’s phone bills are quite erratic. She uses hundreds of minutes one month and few minutes the next. Her average phone bill, at $25 per month, is well below the average revenue for a customer. From their perspective, Jane is a marginal customer.

Each of these different perspectives about Jane, taken in isolation, can be considered to be an accurate appraisal of Jane as a customer. However, none of them truly describe her well, and each of them will treat Jane differently, some better, some worse, according to their particular perception.

Different perception, different treatment. Jane feels that the customer service person is rude and the sales person nice. Ultimately, her appraisal of how she is being treated will be the sum total of all of the different messages.
Problem No. 1: Creating a Single View of the Customer

The first problem we have to deal with, then, is to create a single view of the customer.

**Different Functions: Different Objectives**

Getting everyone to see the same customer in the same way will certainly contribute much to your ability to manage churn well. However, gaining this single view will not do the job by itself. There is a second problem to face that is ameliorating the different objectives set for each organization. In fact, part of the reason that the various organizational units view customers differently is because of their different objectives. Let's consider how those objectives vary.

- Sales – Acquire as many new customers as possible
- Credit – Prevent sales to as many bad credit risk customers as possible
- Customer Service – Answer and resolve as many customer complaint calls as possible within a preset budget
- Advertising – Create ads that make the company look as attractive to as many people as possible

Is it any wonder that problems occur? What happens when the sales person wants to bring in a new customer and the credit department wants to prevent the sale? Conflict.

What happens when a very good customer calls with a problem to resolve on the same day that customer service was inundated with calls asking about a new confusing program that was shown on television the night before? A very unhappy good customer.

Problem No. 2: Creating Comprehensive and Consistent KPIs

The underlying problem for the entire customer relationship management process, and the churn management process in particular, is the conflict between the different organizations that manage customer contacts. We cannot possibly hope to establish an effective churn management policy and process if we cannot develop a set of key performance indicators that assign the responsibilities for the total customer experience to each of the groups.
Sales Example

To see how this works we will take a closer look at the sales organization. The effectiveness of the sales organization is measured by the number of new customers it brings in. The KPI for this group, then, is headcount. But what does this have to do with churn?

Depending on the situation, some types of customers are more likely to churn than others. One such group we call the professional churners. They are the consumers who change company whenever there is a chance to get a better deal from the next promotion. Professional churning may not be illegal, but it is expensive. You would really not want your sales people to spend money on attracting these kinds of customers. The most effective churn management technique in this case, is to never acquire that customer in the first place. However, since sales people are compensated based on how many customers they bring in, not on how many customers stick around, you have an immediate problem.

What is needed is a set of key performance indicators that address not just the primary mission of each of the different customer relationship groups, but that assigns responsibility for all customer relationship aspects to all of them.

Different Organizations: Different Information

The fact that it is extremely difficult to share customer information across organizational boundaries is another factor to consider. Each department in the organization has its own sources of information. Billing has the billing system. Customer service has the customer contact management system. Marketing has the customer database and market research facilities. Sales has a sales management system.

Since each organization uses its own systems to direct the activities of its employees, it is extremely difficult to find out what people are doing in other departments. A salesperson knows if a prospect has been approached because the contact management system reports that information. But the salesperson does not know that a particular customer has called four times with a complaint because that information is stored only in the customer service system.
To solve that problem, everyone working with customers should know all of the available information about a customer regardless of which department they happen to work in. The real value of a customer, and the criteria for deciding how to treat that customer can only be determined when all of the relevant information is available.

Problem No. 3 – Making Pertinent Customer Information Available

Making more information about a customer available to any employee in contact with that customer prevents many problems and can definitely prevent churn. For example, say that Tom Smith has been a good customer for many years with a good payment history, and good utilization. He has called several times in the past three months with complaints about his bill. It would not be a good idea to send a direct marketing campaign to Tom, telling him how great your customer service is. It would also be bad form to have a salesperson call on Tom about upgrading his current contract without at least warning that salesperson about the history of trouble.

The converse situation is also true. For example, say that Mary Jones has been professionally churning for the past eight months, dropping and re-subscribing every time a new promotion is available. It would be a very good idea to make the sales staff aware of that fact and to discourage them from acquiring Mary once again. What if Mary’s brother, Peter Jones, was an especially bad credit risk? It would be very advantageous if the sales department could be alerted to that fact so that they would avoid providing Peter with a phone.

Who is In Charge of the Customer?

Finally, even when all of these other mechanisms have been put in place, we still have one serious overriding problem that will prevent us from truly functioning well in a relationship. Unless we put some person or organization in charge of managing the customer relationships themselves, there is no way that all of these different people, groups, and views are ever going to get coordinated.

Each of the different groups involved in customer touchpoint activities are assigned to manage one portion of the relationship.
One group manages advertising messages, another manages sales activities, and yet another does customer service. No one group or person, however, has the authority to override the decisions of the other groups for the sake of the health of the overall relationship.

**Problem No. 4: Someone Needs To Be Responsible For Customers**

Business units are commissioned with execution of specific objectives. Each unit will do whatever it takes to accomplish those objectives and will, therefore, slant how they manage the customer relationship for the sake of their functional responsibility. This means that, unless there is a referee and a higher customer relationship management authority, these conflicts will not be resolved.

Even more fundamental than a customer advocacy group is the fact that there has to be someone who decides how all of the coordination and cooperation will happen in the first place. Without someone taking responsibility for negotiating these efforts and making sure that everyone understands and participates in the “new order,” there is little chance for the approach to work.

**The Problem of Information Overload**

Although providing as much information as possible to everyone sounds like a good idea, there are several reasons why any such effort needs to be tempered.

First, there is the problem of relevancy. While it might be helpful for everyone to know everything about every single customer, what is the likelihood that all of that information will actually be helpful in making the decision at hand?

Also critical is the problem of capacity. How much information can a customer service representative or salesperson take into account? Most professionals deal with customers at a very rapid pace. The service provider can spare only a few seconds or a few minutes at most for each customer. The thought of expecting all customer contact persons to take five minutes to study a customer profile report is ludicrous, to say the least.
Finally, we have the issue of what it would cost to collect and disseminate this information, balanced against the value it would ultimately deliver.

Problem No. 5: Need to Filter, Organize, and Prioritize Information Sharing

There is certain key information about the customer’s relationship that is collected by each department. Some of that information could be very effectively shared between groups. What is needed is a way to systematize that process and make it as efficient as possible.

COORDINATING CUSTOMER TOUCHPOINT ACTIVITY

In chapter 8 we established that one of the key ingredients for a good relationship with your customers is to define what kind of relationship you want to have and then be ready and able to follow up on that commitment. Now we see that we must also figure out how to get everyone in the organization to participate in that relationship in the same way.

When the customer begins a relationship with your organization, it is based on a contract that has been negotiated between the two of you. Some of the contract is explicit (the terms of the service agreement contract) and much of it is implied (promises made by advertising, sales people, and customer service).

When the relationship gets underway, however, what are the chances that everyone interacting with that customer knows what this contract is really about? What are the chances that different customer touchpoint organizations will confuse, confound, and aggravate the customer with their interpretations of the contract? The odds are very high.

What is needed is a mechanism that will keep everyone synchronized around the contract that is currently the reality for the customer.
The Corporate Customer Data Warehouse

Ultimately, there is only one way that any organization can hope to get all of these different parts of the business to synch up around customer issues. They need to share a common repository of information about the customer and a common set of policies and practices for dealing with that customer.

Note please that this is a two-part statement. First you must have a centralized location where information about the customers and their contacts are stored. Second, you must get all customer touchpoint organizations to operate with a standard framework for interacting with those customers.

The Good News

The good news is that creating such a repository of customer information (although expensive and time consuming) is a relatively simple process. A central computer repository holds and manages all core information about every single customer and prospect.

This repository must be managed by a group of people who will be responsible for keeping it up to date and running efficiently. This group will need to make sure that everyone is using the database in the right way and that all of the information needed by the different customer units is delivered effectively. Also understand that this database must be a single physical database. It cannot be a virtual collection of files, databases, and other data odds and ends. Only with a large, centralized repository can we hope to make this process work.

Figure 9-6: Customer Repository (Data Warehouse)
The Bad News

The bad news is that the biggest, most expensive, most extensive customer data warehouse in the world will be completely useless if you do not get the other half of our conditions to work. That is, you need to get all of the different areas of the business to make use of the information in a standardized, consistent way and you need to tie all of the information systems and databases that are used to drive customer interactions into this database so that the coordination can occur. That will be very difficult to do, politically, culturally, organizationally, and physically.
Telecommunications customer relationship management activities fail in most cases, not because the ideas they are based on are faulty, but because telcos fail at executing coordinated customer activity. The real reason customers are dissatisfied with their provider relationships is not greed (they want to get the best price possible) or laziness (the telco doesn’t try hard enough to keep them happy) but that the relationship tends to be scattered and schizophrenic. The customer doesn’t have one relationship with the telco but several with the various parts of the telco in a seemingly random, chaotic, and disturbing fashion.

Compare this experience with the relationship these same consumers have with well-run customer relationship management organizations such as MacDonald’s, for example. The key to the customer’s appreciation of the relationship here boils down to the fact that, wherever they go and no matter what part of the organization they interface with, the message and the relationship is consistent. MacDonald’s stores maintain very high levels of store cleanliness, food quality, and friendliness from millions of employees around the world. Advertising messages, public relations activities, and any other interactions are marked by the same consistency of message.

Our first order of business, therefore, should be to make sure that our plans are executable across the board. We need to figure out how
we can be consistent in whatever strategy we adopt. The primary tool to accomplish that objective is the customer data warehouse.

In Chapter 9, we established several reasons why executing a consistent strategy is difficult for the typical telco. A legacy of an engineering-based monopoly business model, combined with a culture of quick change and the rapid expansion of many different customer relationship management groups, has led to an organizational smorgasbord that finds it difficult to approach customers in a consistent and timely fashion. We propose that a central repository of information can serve as the authoritative central source of information about customers and provide the organization with a badly needed coordination point.

THE DATA WAREHOUSE TRAP

Calling for development of a centralized customer data warehouse to solve the problem is probably fairly obvious to most readers. For almost a decade now, the industry (all industries in fact) has been circulating, re-circulating, and regurgitating the idea that customer data warehouses are the key to customer relationship management and to churn management. The thinking goes something like this:

1. We don’t know anything about our customers.
2. We cannot get our hands on the information.
3. Let’s put all the information about customers into one place where it is easy to get at.
4. Then our customer relationship management problems will be solved

Seems like good logic? Thousands of companies and hundreds of telcos around the world have spent billions of dollars on the construction of customer data warehouses; yet many of them are no closer to getting a handle on their CRM problems.

The Typical Scenario

The idea that your business problems will disappear with a data warehouse is erroneous. The people promoting this solution tend to begin by showing the typical “data mess” diagram. They generally
argue that there are too many versions of data out there, that the data is scattered, too complex, and difficult to access. “The real culprit is the data!” they propose.

Data Warehouse to the Rescue

After they present this bleak data logic situation, the people advocating the construction of the new data warehouse then show a diagram of the new, better, easier, simpler world, one with only one large repository of customer data. Now, they say, all of the problems are addressed. All of the smaller, confusing, expensive, and conflicting systems are replaced by one large, efficient new data warehouse.
But It Doesn’t Work!

Many companies build a second, a third, and a fourth, believing each time that this warehouse will be the one that turns the problem around. Sadly, they find that they still have made hardly a dent in the core customer management problem. How is it that so many people can put so much effort into developing these types of systems and still be stuck in a customer information desert? There are several reasons.

Know What You Are Trying to Build

The first problem that most developers of these telecommunication data warehouses experience is that they have no idea how the warehouse will be used. They set out to build the systems with the best intentions but quickly get lost in the morass of confusion, contradiction, and irreconcilable differences that define the relationships between different telco customer touchpoint organizations. Since the computer systems developers must rely on the business people to tell them what they need the system to do, and since the business people don’t know, the resultant system is a nightmare of contradiction and confusion.

Salvage Operations through Scope Reduction

At this point there are two ways to go, either continue building the large, amorphous, unfocused master warehouse that no one will find useful, or reduce the scope of the system to the point where you can actually deliver something of value. Those who take the first option end up with multi-million-dollar data junkyards. These systems hold much information that nobody cares about and no one can make use of. Option two proponents create smaller, focused, highly effective data marts that deliver great value to the groups that use them.

A Data Warehouse Cannot Repair a Broken Business Process

The sad truth about misdirected data warehouse efforts is that, no matter how hard we try, we cannot get a data warehouse to fix a broken business process. Data warehouses cannot change how
business organizations operate. They cannot change how groups cooperate. They cannot dictate policy. They can only reflect those things.

**A Single View of the Customer Is Not Enough**

We said that the first thing we need this warehouse to do is help us create a single view of customer, which ensures that everyone treats the same customers in the same way. If we can collect all the information about customers in one place then, clearly, the first step has been accomplished. However, that does not guarantee that anyone will use it. If the system is not developed to meet the actual needs of each of the business units, then they will not use it, pure and simple. Any system that the members of the customer service, sales, marketing, or advertising organizational units perceive as delivering no value or creating more work for them will quickly be dismissed as useless.

Remember, treating customers with a single view is not an important objective for individual business units. They are out to accomplish their particular business objectives (more new customers, more sales, increased revenue). To them, customers are interchangeable variables in an equation targeted for the accomplishment of their goals. If the centralized data warehouse does not help each customer touchpoint organizational unit meet its objectives and key performance indicators (what management reviews to decide whether the unit is doing its job), then the units will ignore the system.

This scenario underscores the entire CRM challenge. How do you get a group of independently tasked, measured, and managed business units to cooperate for the sake of the long-term relationship with a customer when doing so will make their jobs more difficult? That is the real challenge.

**The Data Warehouse Must Have Teeth**

This also underscores the single reason that so many efforts at customer relationship management and the use of customer data warehouse systems have failed. If you do not give the customer data warehouse (the system you have created as the means of
guaranteeing the appropriate treatment of customers in all situations across all organizational boundaries) some teeth, then it will not be effective.

This data warehouse needs to hold consolidated information about the customers, but it also must provide you with the means to set customer relationship management policy and to enforce those rules effectively.

**INTRODUCING THE CUSTOMER MANAGEMENT SYSTEM**

What is needed, is a data warehouse system that is different from any warehouse built before, one that includes all of the functionalities of a passive reporting system and can be used to create and enforce policy and resolve differences. We refer to this special kind of data warehouse as the *customer management system*.
BUILDING AN EFFECTIVE CUSTOMER MANAGEMENT SYSTEM

The customer data warehouse must be much more than a passive dumping ground where all random facts about customers are deposited for some future reference. It must serve an active, viable, critical role in running the business itself. The system must serve as the true core of any customer touchpoint activity and have power to assure that the individual business units carry out customer relationship management policies.

Critical Success Factors for the Customer Management System

A customer management system will provide the central location where customer touchpoint activities are managed. For that, the warehouse must meet certain criteria. It must be both

1. The authoritative source of customer information and
2. The place where all customer related KPIs are set, assigned, and measured.

Let’s examine each of these statements and see what they mean.

AN AUTHORITATIVE SOURCE OF CUSTOMER INFORMATION

A customer data warehouse is the place where you find information about customers, but we want it to be much more than that. We want it be an authoritative source. What exactly does that mean? In our case this means that the system is to be the one, only, and true source of information about customers. That is a very strong statement and is perhaps a little difficult to swallow.
To guarantee the success of customer relationship management efforts, there are several reasons why this customer data warehouse must be the authoritative source of customer information.

Dominion

If we do not establish one single system where all customer information is managed, then all we do is create yet another system to compete with all of the other customer information systems. If there are two or more places to go for information, we quickly lose our ability to guarantee consistent customer treatment. For example, if the sales group uses an isolated version of the sales call tracking system as its source of information and the customer service department uses an equally isolated database associated with the call center management application, then the two groups will be almost guaranteed to treat the same customer in a totally different way. Only by creating one central source can this be avoided.

Unquestionable Integrity

The information coming out of this system has to be indisputable and above reproach so that everyone can accept it as accurate and correct. This is necessary because of people’s tendency to question the integrity of the numbers and facts as soon as there is contention.
over the way customers are being treated. To be effective, the information in the warehouse must be totally accepted.

Figure 10-5: Integrity

Directive Capabilities

Not only must the information in the warehouse be considered the best and ultimate source of customer information, the data has to have the power to direct people’s activities. If the information is passive and informational only, then no real improvement in integration of customer relationship activities will occur. The information in the warehouse must be of the type that can be used as the basis for important and even critical decisions. If it is not, then the warehouse will fail to provide the structure that the organization needs.

Figure 10-6: Directive Capabilities
Where Customer-Related KPIs are
Set, Assigned, and Reported

The reason we want this data warehouse to have dominion, integrity, and directive capabilities is that we want this warehouse to perform one other job. We want it to be the one place where all key performance indicators for all the customer touchpoint organizational units are created, assigned, and communicated.

Measuring How Well Units Do Their Jobs

Chances are that we cannot get the various business units to cooperate and forego what makes accomplishing their objectives easy, unless we force them. We can, of course, trust that everyone will work in the best interest of the customers and the organization, but that is not likely to work. Alternatively, we can ask that the business units alert us if other units are undermining their efforts (also known as the tattletales management approach). This does not address the problems of uncoordinated customer management except in the most obvious cases. We could also appoint a customer relationship management policing organization that would monitor cooperation and report identified problems to upper management. This too is guaranteed to fail. The problem with all of these approaches is basically the same. You cannot get business units to cooperate if their key performance indicators are in conflict.

You cannot get business units to cooperate if their key performance indicators are in conflict.

To really change the built-in contention and insensitivity to customers as individuals, you will have to change the KPIs. For this,
you need a very powerful single source of accurate, high-integrity, incontestable information.

**The KPI Challenge**

The KPIs that are used to measure the effectiveness of advertising, sales, customer service, marketing, and other touchpoint organizations have to be recalibrated so that they are synchronized. That is not an easy task because we have to change how the KPIs are managed. These changes will take two fronts.

**Universal Segmentation to Measure Unit Performance**

To make business units more sensitive to customers as individuals and to respond appropriately we must first eliminate the gross-numbers-form of KPI measurement and instead switch to a universal segmentation measure. That means that the success of an advertising, sales, or customer service activity is no longer measured in terms of the net numbers. Instead, successes are applied to specific groups of customers.

For example, one way to measure the effectiveness of the sales organization is net adds (the net number of new customers added since last month). Commissions, bonuses, and the success rate of the sales group hinges on a high net adds number. What we would like to see instead is a KPI based on net adds for the major customer segments the company is targeting. Instead of a general target of, say, 100,000 net adds, the sales group's goals are met after they have added:

- 25,000 customers from the teenage segment
- 50,000 customers from the businessperson segment
- 10,000 customers from the student segment
- 15,000 customers from the retired persons segment

By forcing all customer units to accomplish their objectives against the backdrop of the specific types of customers the company is interested in having a relationship with, the nature of the relationships get better immediately.
Setting Segment Targets with WAR Metrics

Making business units more sensitive to the identities of the people they are interacting with is only half of the KPI revolution. All business units also need to have a set of goals to accomplish. The complete set of metrics is known as the WAR objectives. WAR is an acronym that stands for

- Wallet share (the average revenue that the user provides)
- Acquisition (the number of new customers acquired)
- Relationship (maintenance of customer loyalty)

We will want to make sure that all business units have segment-based KPIs, not only for their primary objective (acquisition) but for the others as well. For example, what would happen to the churn situation at your firm if sales people were paid only half of the commission when the customer is first acquired and the other half once the customer has stayed enrolled for an entire year? You can be sure that your churn problems will almost magically be reduced without having to launch any kind of churn management campaign.

The issues of universal segmentation and the WAR key performance indicators will be covered in greater detail throughout the rest of this book.

ALTERNATIVE CHOICES FOR THE CUSTOMER SYSTEM OF RECORD

Not everyone will agree that a customer data warehouse should have this kind of authority. They may argue that transaction-processing systems should be used, and many candidate systems come to mind. What about the billing system? This is the system of record for everything else within the telco already. Why displace it as the center and ultimate source of information? Others may point to the call center management system as more appropriate or see a campaign management software package as a more logical source for this kind of information. Still others may propose that prepackaged customer relationship management software will get
the job done faster, easier, and better than the cumbersome process of building a customized data warehouse.

Unfortunately, none of these options have ever proved viable in the past, and they are unlikely to do so in the future.

Billing System Problems

Of all of the alternatives, the thought of using the billing system as the definitive source of customer information is both attractive and repellent at the same time. It already holds the majority of the information that we need. Why not just retrofit it a little bit to do the rest of the job?

Anyone who has worked with billing systems for more than a few hours knows the answer to this question. Billing systems are already the most over-used and most under-maintained of all computer systems on the face of the earth. There is not a telco on the planet with a billing system that is smart enough, fast enough, and flexible enough to meet even current processing demands. And there is not a billing system in existence now that is not waiting for several man-years of backlogged maintenance and upgrades. Even more importantly, almost all billing systems are in the process of being replaced. No, the billing system is not an option.

Call Center and Campaign Management Software

Can the existing call center or campaign management systems do the job? After all, much of the functionality that we are looking for to support customer relationships are there: segmentation, management of customer groups, activities tracking, etc.

Unfortunately, here too we run into serious problems. Call center and campaign management systems are built to perform specific, narrowly defined business functions and are made to be used by certain groups of business users. When we try to expand customer management to include all the customer touchpoint operations, we quickly outstrip the functionality that these systems are able to provide.

Even more importantly, our central customer repository must be organizationally and operationally neutral. It has to support all
business units equally and impartially. The marketing group is not likely to accept any numbers measuring their activities that are produced by the customer service group’s software.

Why Not a CRM Package?

Finally, some would like to believe that there are software packages that can do the job. Although software packages can certainly help, they will have to be built on top of a customized customer data warehouse if they are going to succeed.

The great majority of the functionality that is required in this situation is in the area of data preparation, storage, and access and has very little to do with processing and other typical online transaction processing functions. Because of this, using software packages to get around the challenges of data warehouse building only makes that job more confusing and expensive.

DEFINING HOW THE CUSTOMER MANAGEMENT SYSTEM WILL WORK

Now that we have a much better understanding of what it is that we need this system to do, we are ready to take a look at exactly how it will work and how it will interface with the other systems in the organization. Basically, the warehouse will have to support several jobs simultaneously.

Housing the Master File of Customer Information

First and foremost, the customer data warehouse will have to house all of the critical information about the customers themselves. Of course, we must be careful that we not interpret this statement too literally. We do not propose here that all information about customers be kept in this warehouse, only information that is critical and central to the management of customers.
What Is Included in the Master Customer File?

Certainly critical to the population of the central data warehouse are the following:

- Core information about the customer’s identity (name, address, zip code, contact phone number, etc.)
- Revenue and sales history summary (as much as possible)
- Product usage history summary (the more the better)
- Segmentation membership – (all segment memberships that a customer belongs to must be recorded here)
- Contact history summary (all contact with the customer by all customer touchpoint organizations and the outcome)

What Does Not Need to Be Kept in the Warehouse?

Other useful information about the customer can be stored wherever it is convenient. This will include:

- Detailed billing history
- Call detail record history
- Detailed customer touchpoint history

This information needs to be accessible but can be managed by the organizations that run those particular systems.
Feeding Customer Information to Touchpoint Management Systems

The second job of the data warehouse is to feed information about customers into each of the customer touchpoint management systems. Included in that list are:

- Call center management systems
- Campaign management systems
- Sales tracking systems
- Billing systems
- Internet sales systems
- Distribution channel tracking systems
- Many others

The data warehouse needs to be set up in such a way that each of these systems can be fed with key information about the customers. Both the obvious information, such as customer name and address, and the less obvious, such as segment membership, contact history, customer ranking, and other measures, need to be communicated.

Figure 10-10: Feeding Information to Other Systems
Receiving Information from Touchpoint Management Systems

To perform its duties the data warehouse needs to be constructed in such a way that each of the customer touchpoint systems is feeding it fresh customer information on a regular basis. The nature of these data feeds will vary based on the type of information and the sophistication of the environment. At a minimum, we can expect that each system will provide at least a monthly refresh of all pertinent information.

Billing System Feeds

The data warehouse will probably not be called upon to feed information into the billing system. However, the billing system will be, by far, the single largest contributor of information to the warehouse. All of the revenue, product utilization, and promotional information about customers will come from there. After all, the billing system is the system of record for customer economic activity.

The rate at which the billing system is able to provide information to the warehouse will most probably be dependent upon the billing cycles that are run. For the most part, real-time updates will be economically unfeasible, but monthly refresh should be imminently practical.

Call Detail Record Feeds

In reality, there is no need for any direct call detail information in the master customer data warehouse itself. What is required, however, is a place where call detail records can be processed and summarized. The results of that summarization and exploration activity will be fed to the warehouse.

Call Center, Campaign, and Contact Management System Feeds

The other major customer touchpoint systems — the call center-, campaign-, and contact-management systems along with any other transaction-based operational systems, all need to have strong,
intimate, and timely interfaces with the warehouse. Each of these systems holds information about customer contacts that needs to be summarized and stored in the warehouse for access by the other business units.

At the same time, each of these systems needs to collect the pertinent contact information that other systems have gathered and use that data to update their own customer profiles.

In addition to this transaction-based interface, the customer data warehouse needs to continuously update the segmentation and customer status information that each of the transaction-based interfaces maintain. For example, if a customer is rated a poor risk due to an inability to pay the bills for four months, the customer service, sales, and marketing organizations need to know that information as soon as possible so that the customer treatments can be modified in accordance with the new status. Conversely, if the customer is granted a special status as one of the best customers of the firm, then all business units need to be aware of that as well.

Getting Information to and from Organizations that Have No Systems

Unfortunately, not all customer touchpoint organizations have fully functional, integrated information systems to run them. For example, retail channels or agents usually function autonomously with little or no direct computer interface with the organization. Although this lack of electronic information certainly makes integrated activity difficult, there are still many ways that the warehouse can and should be used to bring these less connected organizations in line as well.

Most organizations that have no direct computer interface with the telco usually have either a manual forms-based interface or a telephone check-in-based communications method. In these cases, the organization needs to examine the nature of these forms and make sure that all of the information that is needed by the warehouse is being collected on the forms. (Unfortunately, this also means that staffing and support will need to be found so that the manual data can be input into the system.)

As far as communicating information to these organizations goes, we will need to count on two things to guarantee their conformance to the customer relationship management policies. First, the com-
pensation structures for these organizations need to be adjusted so that the plans reflect the accomplishment of CRM objectives. Second, the data warehouse can be used to create printed reports that the unconnected people can use in lieu of the real-time computer access.

Managing the WAR Key Performance Indicators

Sending and receiving information about customer activity and keeping all the business units informed on customer interactions will certainly provide much value to the firm. However, to be assured that everyone will use that information to the best advantage, the warehouse also needs to become the primary location for setting the key performance indicators for each of the business units.

This is the place where the organization determines the WAR objectives (wallet share, acquisition, and relationship building) for each of the segments and where those objectives are translated into specific goals and objectives for each of the business units. Setting the KPIs needs to be a formal process that the data warehouse manages.

Data Warehouse KPI Management Functionality

How will the warehouse manage the KPI process? It must be able to accomplish several objectives. First, the warehouse is used to define the segmentation that each business unit will use to measure its activity. Second, the specific targets set for each business unit are stored in the warehouse. Third, it will be used to collect the results of each unit’s activities.

KPI management is a complex and critical process, one that must allow the people managing the KPIs to review, modify, and analyze them on a regular basis to see how well they are running.

Creating the WAR Key Performance Indicator Reports

Finally, the data warehouse must be the one place where all WAR key performance indicator progress reports are created. There is only one way for the data warehouse, the segmentation, and the KPIs to be fully used and integrated into the operational framework of each
of the customer touchpoints. The system communicating the targets must be the same system that creates the reports that management uses to evaluate the performance.

Creating the KPI reports may be the single most important job that the data warehouse fulfills because through these reports (and management’s subsequent enforcement of the results) the customer relationship management goals can become a reality.

**WHO IS IN CHARGE OF THE CUSTOMER MANAGEMENT SYSTEM?**

What the customer management system should look like and how it should be used for maximum impact presents an interesting and compelling story. It describes a world where the basic organizational structure of the organization remains intact, but where the fundamental assumptions people make about their job objectives and how they accomplish those objectives is made many times more complicated. It also describes a world where the dreams of integrated customer relationship management can be a reality instead of fantasy.

One little glitch still remains in the plan as we have laid it out here, however. The problem is this: Who will make the thousands of decisions about what the warehouse will do, how it will work, and how it will be used? Who will decide which segmentation scheme will be used to measure the performance of business units? Who will determine the WAR targets for each segment? Who will decide what to do when a conflict arises between business units regarding interpretation of what the warehouse is reporting?

**The Customer Relationship Management Organization**

What is needed, then, in addition to the computer system and organizational adjustment, is a fundamentally new kind of organization. What is needed is a person or a department whose job it is to manage not sales channels, not products, and not any single metric. We need a department whose responsibility it is to manage the customers and their relationships over and above any single group’s objectives or goals.
This group will be responsible to the corporation for the care and management of the different groups of customers with which they are entrusted. It is this group that manages the warehouse and makes the decisions on how it will be set up and how the customer touchpoint organizations make use of it.

This group will set the KPIs for the segments overall and then work with management to define the KPIs for each of the business units to guarantee that the units are working to meet not only their immediate short-term goals but also the long-term goals of the corporation.

**BUILDING THE ORGANIZATION AND THE SYSTEM**

The systemic and organizational concepts proposed here are in many ways revolutionary. They call upon us to take existing organizational structures and computer systems paradigms and to stretch our understanding of how they should be used to new levels. What we are proposing will not come easily. Large investments of time, money, and organizational re-structuring will be required to make the model function.

Ultimately, however, the real question is, “Does your organization have any alternative?” Clearly, the telcos that learn how to create, staff, and implement the system we are describing here will create for themselves an unassailable long-term edge in the marketplace. The ability to function quickly, consistently, and precisely with customers, to react more quickly to their changing demands, and to interpret more accurately the vagaries of their behavior are the keys to business success in the next generation.
AN INTRODUCTION TO SEGMENTATION

Segmentation is without a doubt the single most important and least understood of customer relationship management tools. The art and science of segmentation has undergone a number of revolutions over the past several decades and more mistakes, confusion, and waste have been created as a result of this than any other single factor.

Ultimately, segmentation is the only tool we have at our disposal that will allow us to treat our customers with consistency and clarity. Through segmentation we can reconcile all of the conflict and confusion that typify attempts to manage customer relationships on a large scale.

Throughout the previous chapters we have repeatedly stated that segmentation will play an important role in the development of churn management and customer relationship management solutions. Before we get into the details of that role we must establish some background information about segmentation itself. Segmentation is a complex, confusing discipline. Practiced by marketers, data miners, and most businesses, it is a greatly maligned discipline. The objective for this chapter is to define some of the basic concepts that underlie the segmentation discipline and to review the more popular types of segmentation in use in telecommunications today.
SEGMENTATION OVERVIEW

The term segmentation is used much in the churn, customer relation management (CRM) and marketing areas; however, few really understand what it is. In its simplest and most basic terms, segmentation from a CRM/marketing perspective is the process used to divide a very large group of customers and prospects into logical, easy-to-manage, smaller groups. The example in Figure 11-1 illustrates how a population of customers can arbitrarily be divided into two groups, thus creating segmentation.

![Figure 11-1: Any Division of Customers into Groups is a Form of Segmentation](image)

Reasons for Doing Segmentation

Of course, random organization of customers into groups does not accomplish anything by itself. The customers should be grouped in such a way that we can better understand and provide their needs.

The One-to-One Marketing Misunderstanding

Modern marketing theory has created a number of new, interesting, and sometimes useful concepts. It has also created many confusing, counter-productive, and misleading terms.

One of the most misused terms in marketing today is “one-to-one marketing.” The term claims as its basic premise that the world of
marketing is shifting from a mass marketing model (one company marketing one product offering to a very large group) to a one-to-one model that basically sees the firm creating individualized offerings for each customer. While this concept of one-to-one marketing is very interesting and has applicability in some industries, far too many people use the term in a totally unrelated manner.

For the telco industry, at least, the concept of one-to-one marketing is not very useful or practical. Telco companies need to deal with economies of scale that demand that they interact with customers on a one-to-many, not a one-to-one basis. We can, however, simulate a one-to-one relationship through the use of segmentation.

Segmentation Provides a Simulation of One-To-One Marketing

With effective segmentation we identify groups of customers with wants, needs, and opinions that are so similar that we can create product offerings which appeal to a large group while appearing to the individuals as made just for them. A good job of segmentation produces the benefits of a one-to-one approach from the customer’s perspective but generates the economies of scale that a one-to-many approach makes possible.

Given this understanding, we see three major reasons for participating in a segmentation exercise. One, we create manageable groups of people. Two, we develop a highly focused and refined understanding of customers’ wants, needs, and characteristics. (We get to know our customers better.) Three, we create the means to develop measurable objectives.

Segmentation to Create Manageable Groups

Telecommunications companies today are forced to deal with thousands and thousands of people on a regular basis. In a perfect world we would want to treat everyone equally, providing the same level of service, responsiveness, and outreach, but that is not possible.

To make management of so many relationships feasible, we need to group customers so that we can allocate resources to manage each group. For example, imagine that you have hired 100 sales people and allowed them to sell wherever and to whoever they wanted. You would have utter chaos. People living in some areas would get...
dozens of sales calls, while others would be ignored. Segmentation provides us with the means to turn a large population of customers into smaller, more manageable sub-populations.

**Segmentation to Create a Distilled Understanding of Customer Wants, Needs, and Characteristics**

Because telecommunications companies have many thousands of customers to deal with, there is no way to learn and attend to all their individual needs and wants. We need to find out what large numbers of people are interested in. That way, we can make the most people happy with the least effort. Segmentation is the discipline that allows us to do this kind of analysis and prioritization.

**Segmentation to Set Measurable Goals**

Finally, segmentation provides us with the ability to set goals and measure how well we meet them. For example, say that we wish to prevent the churn of 10,000 customers over the next six months. That is a good high-level metric to address. To determine how we will accomplish this objective it will be very helpful to understand how many of those retained customers have what kinds of background, history and revenue base. Segmentation allows us to make our goals trackable and executable in a very real, tactical sense.

**SEGMENTATION MEMBERSHIP RULES**

Another interesting issue in segmentation is that of exclusivity and inclusivity. Basically, for every segmentation scheme we create we need to consider how we will handle uncertain customer segment memberships.

The purist school of thought teaches that segmentation schemes should be mutually exclusive, (that is, a customer placed into one segment cannot also be placed into another) and all-inclusive (that is, all customers must fit into one of the segments we have created). However, this presents some challenges during actual segmentation.
Mutually Exclusive and All-Inclusive: An Example

In some situations, the use of exclusivity and inclusivity rules makes perfect sense. For example, when dealing with geographic segmentation, exclusivity and inclusivity is automatic. People only live in one place at a time and so our segmentation naturally enforces mutual exclusivity and complete inclusivity with no real effort on our part.

When it comes to segmentation by more intangible groupings such as attitude, behavior, likes and dislikes, we run into a problem. Many times, some of our customers do not fit very well into any one category. Other times, we end up with segmentation schemes that leave large groups of customers unaligned with any segment. When this happens, we need to be in a position to understand what the real purpose of the segmentation is and be sure that the scheme was appropriately established.

Multidimensional Segmentation

As long as we are able to limit our segmentation to only one dimension at a time (for example, segmenting customers only by age, or by sex, or by geographic location), the problems of mutual exclusivity and all inclusiveness will not appear. It is easy to accomplish these conditions with only one characteristic to keep track of.
Unfortunately, simple, one-dimensional segmentation is not all that useful in the real world. Most organizations find that they need segments based on many characteristics and many dimensions. For example, it is not uncommon to find a segmentation scheme that includes age, sex, geography, income, social status, and credit rating in its definition. Once we start adding and combining characteristics, we create segmentation models that usually do not meet these criteria.

Problems with Mutual Exclusivity

The situation becomes more difficult for the developer of segmentation schemes when we try to integrate less tangible and more descriptive criteria into the formula. As long as our segmentation is based on hard, tangible facts such as age and sex, we have little problem with mutual exclusivity. That is no longer the case when we build segmentation based on concepts such as “young urban professional,” “single parent working from home,” or “people who like new technologies.” With these types of criteria, we tend to create the situations where one person fits easily into several categories. Whether or not this lack of mutual exclusivity is a problem depends on what the segmentation will be used for.

Exclusivity – Only An Issue in Certain Situations

If the segmentation is a targeting segmentation — used to help us identify a group of people to pursue for a particular activity — then this mutual exclusivity is no problem. Likewise, if the segmentation is a descriptive segmentation— helping us to understand the

Figure 11-3: Multi-membership Segmentation
characteristics of individuals — then mutual exclusivity is no requirement.

If, however, the segmentation is used for measuring purposes (to measure the effectiveness of a channel, campaign, or activity) or for structural purposes (to define how the general population will be covered) then mutual exclusivity is a must.

Problems with All-Inclusiveness

Next, let’s consider situations where all-inclusiveness is a problem. Assume that we have created a segmentation scheme that includes age, sex, and income as the defining characteristics and that we have identified young females (ages 15-25) with incomes of between $40,000 and $65,000 per year as one primary segment of high value and another segment of males (ages 45-60) with incomes of between $65,000 and $85,000 as the other primary segment.

The organization will then create strategies and programs that address these groups. However, no matter how good this segmentation scheme may be, we inadvertently have created a problem at the same time. What about all of the other segments in our population? A great many people could be very good customers but are not included in these two primary segments. Since our segmentation scheme is not all-inclusive, we have left a large part of the population out.
This kind of segmentation scheme can provide all sorts of problems for the organization if employees try to use it too literally. For example, what does the sales or customer service organization do when someone shows up who is not part of the targeted segments? Since the segmentation scheme was not all-inclusive, it left an operational and procedural hole in the organization’s CRM plan. This procedural hole can cause problems and confusion for the customer and for the organization itself.

All-Inclusiveness Required or Not?

As with the mutually exclusive schemes, all-inclusiveness is only an issue in certain situations. Neither targeting nor descriptive segmentation requires that we be all-inclusive in our schemes. However, when building structural or measurement segments, we need to be sure that all people fit into one segment or another.

Membership in Multiple Segments

The problems and issues that revolve around segmentation issues can be quite complex. Put into simplest terms, many kinds of segmentation can be used by many different groups of people to accomplish very different results.

Unfortunately, because of this complexity and conflict, much confusion, contention, and wasted effort can result. Too often, organizations that want to be sure that their view and agenda for a segmentation scheme are taken into account try to impose their schemes on other groups for other needs. This approach can never turn out a successful outcome. Missing in these situations is the understanding that all of these segmentation schemes are in fact valid and have a place in the corporate planning structure. All types of segmentation should be developed and used as needed, while allowing all of the other segmentation schemes to be in affect as well.

This model of allowing for multiple segmentation schemes is easily executable if the information systems supporting the organization can take it into account.
Another issue to consider in our review of the organizational principles behind segmentation is the concept of a segmentation hierarchy. A hierarchical segmentation scheme dictates that customers belong to small segments that belong to larger meta-segments (combinations of smaller segments) and that these meta-segments can even belong to super-meta-segments (collections of meta-segments).

A few of the more common hierarchical segmentation schemes include:

- Corporate Organizational Structures – companies belong to branches, collections of branches make up a division, groups of divisions make up the corporation overall.
- Consumer Households and Community Building – a number of consumers belong to the same household, several households create a community.
- Geographical – an address, a city, a state, a country.

Figure 11-5 shows a good example of the template for a typical corporate hierarchy structure and Figure 11-6 is an example of how that hierarchy might look for a typical corporation.
Hierarchy systems are most commonly used to help manage corporate customer segments and allow customer relationship managers to consider the overall impact of the activities of corporate groups.

**Dynamic vs. Stagnant Segmentation**

One important consideration of segmentation models is the relative permanence and life cycle of the segmentation scheme. Far too often the developers of segmentation models give no thought to the viability of their models over time.

*Short-Lived Segmentation Schemes*

The major reason for this lack of concern is that the segmentation being developed is often short-lived in nature. Because the scheme is used once and then abandoned there is no need to worry about the life cycle of segments.

The most common utilization of such short-lived segmentation models is for marketing campaigns. Here, marketers are interested in the groups of customers that are the best targets for particular advertising activities. They try to determine to best advertising message to appeal to certain types of people. We refer to this type of segmentation activity as *targeting segmentation* because its goal is to identify the target for a specific marketing message.

After the segments have been defined and the campaign run, the segmentation scheme itself is often abandoned. Targeting requires the constant reevaluation of results and refinement of the segments. Clearly, in this situation, the life cycle of the segmentation scheme is not an issue.

*Long-Term Segmentation Treatments*

Segmentation schemes are employed in many other ways that are not so transient in nature. They are also used to help define departments,
establish sales territories, and track the management of customers overall. In these situations, a short-lived segmentation scheme that is changed often and spuriously is not very useful. Here, the actual life cycle of the segmentation models needs to be considered.

Stagnant Segmentation

One of the worst situations that can occur (and does in far too many situations) is that the people preparing a non-transient segmentation scheme fail to consider the lifecycle of the model. They build the model just as they would develop any marketing campaign model based on current conditions and business assumptions. This model is then etched in stone and turned into a permanent part of the definition of how the firm does business. This causes problems because business conditions as well as customers and their attitudes change. Segmentation schemes that are pertinent today will probably make no sense in just a few years. Imagine trying to apply a typical segmentation scheme from the 1950s to the business world today.

Businesses generally use their stagnant models until they no longer makes any sense. Then they build an entirely new segmentation scheme and start the process over again.

Renewable Segmentation

An alternative to developing one stagnant model after another is the renewable segmentation scheme. Renewable segmentation schemes are put together with the clear understanding that they will be used for an extended period of time and, as such, will have to be refreshed and adjusted on a periodic basis if they are to remain useful.

With a renewable segmentation scheme we can plan the obsolescence of the existing models and greatly ease the transition of the organization from one version of the model to the next. Using renewable segmentation models can do much to ease the organizational shock that results from imposing dramatically different segmentation approaches.

More importantly, a well designed segmentation renewal scheme will allow the organization to track the long-term progress made with particular groups of customers and will greatly enhance the accuracy and pertinence of organizational evaluation reports.
DISASSOCIATED VS. RECOMBINANT SEGMENTATION

Another critical aspect of segmentation strategies that is overlooked by the great majority of organizations is the issue of segmentation scheme compatibility. Because most segmentation models developed in the past were basically short-lived targeting segmentation schemes, no one really worried about whether the memberships of customers under one scheme could be mapped to their memberships in another scheme. Basically, each model stood alone and was unrelated to any other model.

The problem with this approach is that, unless you can map the customers from one segmentation scheme to another, there is no way to compare the impact of differing campaigns on the individual customers.

Disassociation Example

For example, let’s say that Mary is a middle-aged businessperson living in the northern part of the city and that she has two telephones and makes use of Internet services.

One marketing group is launching a campaign offer that will allow Mary to sign up for new services at fifty per cent of the cost of her existing plan. The targeting segmentation, based on geography, has chosen the northern part of the city. Ads, mailings, and other offers are all concentrated in that area.

While Mary is considering whether or not to accept this offer, another business unit launches a Woman Executive Package. This package provides a free phone line and 1,000 free minutes of service per year. Mary receives another offer, different from the first, and she is now confused. More importantly, good marketing money has been wasted since Mary is not likely to accept both offers (they conflict with each other).

The problem was created because the developers of the two campaigns used different segmentation schemes and did not provide for crosschecking the overlapping membership between the two activities.
Tracking the Overlap – Not Optional

It is important that the organization eliminate the many situations where customers can be the recipients of conflicting and sometimes disturbing messages. The first step is to establish a policy that assures a cross-check capability for all schemes in use. It requires development of a recombinant segmentation discipline, which provides that all memberships in segments can be cross-checked and mapped to all other segmentation schemes in the organization.

GEOGRAPHIC SEGMENTATION

We are now ready to review the major categories of segments by their characteristics.

The easiest type of division to create is geographic segmentation. Under a geographic segmentation model, all customers and prospects are dividing into groups based on where they live or where their businesses are located. Most of these groups are hierarchical segmentation, organized by addresses, branches, regions, divisions, zones, etc.

For most sales and customer service organizations, geographic division is the primary basis for structural segmentation.

BEHAVIORAL SEGMENTATION

By far, the single most important type of segmentation to consider when dealing with issues of customer relationship management is behavior. Although the other types of segmentation have their place, they are almost meaningless unless they are combined with some kind of behavioral segmentation.
Behavioral Segmentation
– Foundation of Segmentation

To say that behavioral segmentation is in fact the prerequisite to almost any meaningful segmentation exercise is a very strong statement to make. However, it is also very well founded. What understanding about your segmentation activities do you actually have if you do not include behavior? Take your population of customers and segment them by any of the other segmentation criteria you can think of. Divide them by age, sex, geography, or lifestyle. What does that segmentation by itself really tell you? You will know how many of your customers come from each of those groupings. But how useful is that information, really?

You will know, for example, that females in the south are more likely to be customers than males in the north. But it does not give us the critical piece of information that we are desperate to have, namely, what kinds of customers are these people?

Suppose we find that females in the south are the most frequent customers we have. We might then assume that we should target our marketing activities more in that area.

But what happens when we look at the behavior of those females and find that they are in fact the worst customers we have, spending only small amounts of money, running all kinds of credit problems, and using large percentages of customer service expense? Suddenly, the group that looked good when viewed from a non-behavioral perspective looks terrible when the behavior is taken into account.

Sales and Buying Behavior

By far the most common form of behavioral information available is the customer’s buying behavior. Every company keeps track of their customers’ sales records (it is how customers are billed). Therefore, it is usually fairly easy to get your hands on that type of information.
The Basic Revenue Approach

Customer buying behavior numbers can take several forms, but the most common is to report the monthly revenue that the customer generated. Reports based on those numbers are easily created from the monthly billing records.

Multiple Forms Of Revenue

For the more sophisticated analysis, several forms of the customer’s revenue can be taken into account. For example, you might want to compare the billed amount to the paid amount to see how much the customer accrued in revenue versus how much was actually paid.

Breakdown by Product/Feature/Function

For the truly sophisticated analysis, the analyst will want to see how the revenue generated breaks down by each product, phone line, feature, and function that the customer carries. This, of course, can be much more difficult to acquire based on the nature of the billing system and the way that revenue numbers are initially captured and used.

Segmentation by Buying Behavior

To develop segmentation schemes based on the revenue and sales numbers collected, the analyst needs to do is establish value ranges and then figure out which customers fit into which range. For

<table>
<thead>
<tr>
<th>Customer Spending per Month</th>
<th>Segment assigned</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.00 - $25.00</td>
<td>Low</td>
</tr>
<tr>
<td>$25.01 - $50.00</td>
<td>Medium</td>
</tr>
<tr>
<td>$50.01 - $75.00</td>
<td>High</td>
</tr>
<tr>
<td>$75.01 - $100.00</td>
<td>Silver</td>
</tr>
<tr>
<td>$100.01 - $150.00</td>
<td>Gold</td>
</tr>
<tr>
<td>$150.01 - $1,000.00</td>
<td>Platinum</td>
</tr>
</tbody>
</table>

Figure 11-7: Segmentation by Revenue
example, a typical analyst’s approach will be to divide customer revenue into five or six dollar-amount ranges and then assign names to each segment. Figure 11-7 shows how customers are divided into the Low, Medium, High, Silver, Platinum, and Gold categories based on their average spending per month.

Revenue Segmentation – Most Common Segmentation Used in the Telecommunications Industry

Interestingly, I have found that a segmentation strategy by revenue amounts, as illustrated here, is the single most common form of segmentation used almost universally by telecommunications companies around the world. Revenue segmentation, clearly, has attained this popularity because it is easy to do and understand and helps people prioritize their decisions

Utilization Behavior

There are other forms of behavioral segmentation that can yield even more and better information about customers. Revenue numbers only give us clues about how customers use our services. Looking at how they actually use the phone on a day-by-day, call-by-call, minute-by-minute basis can provide much better insights. The way people use our telecommunications service is called utilization behavior.

Getting Utilization Data – from Billing or Call-Detail Records

Of course, getting our hands on utilization information takes a little more effort than uncovering their buying behavior. Collecting utilization behavior is a big job because customers make millions of calls per day, and the only way to map their utilization behavior is to sort through all of those records and pull out what is of interest to us.

There are two levels of utilization behavior that we can take a look at.
Reviewing Billing System Records

At the higher level we have the utilization analysis of billing system records. Since most billing systems provide customers with a complete list of every call made, it is easy for us to discover all kinds of interesting information about the caller’s behavior from those billing transactions.

Some of the more popular forms of call record analysis, developed by Dr. Paulo Costa, the world’s leading authority on telecommunications segmentation analysis, include the following.

- Duration of Call Analysis – Categorizing the number of calls placed by the number of minutes they last (e.g. 10 calls between 1 and 5 minutes, 25 calls between 5 and 10 minutes)
- From-To Analysis – Attempting to identify patterns in the places that a person calls (For example, does the person call the same three numbers repeatedly or different numbers every time?)
- Time-of-Day Analysis – Looking at the time periods within which most calls are made
- Hybrids – Hybrid analyses that look at unique combinations of the first three approaches such as patterns between time-of-day, from-to and duration (For example, some make long phone calls during the late night hours to the same numbers every day.)

Billing system information, such as revenue data, is relatively easy to obtain can yield some very interesting and useful insights.

Reviewing Call-Detail Records

The billing records present us with a distilled view of the customers’ successful calling activities, but the call detail records themselves can provide us with a much more detailed insight into those customers. When we go to the call detail records (and the actual switching transaction logs), we are usually looking for one of two things.

1. We want to know about the customers’ less than successful attempts to use our service
2. We want to do an analysis of the physical locations from which people are using their phones
By looking at the actual switching records, we can figure out these particulars. Call detail and switching records tell us not only when a person has successfully completed a call, but also when the call has been dropped. This provides information about problems customers may be having with coverage or call quality. For wireless phones, the switching records of some systems identify which cells the customer is calling from and traveling through.

**Company Interchange Behavior**

The last kind of behavior that we want to consider is how the customer interacts with the company. A customer’s track record as a credit and collections problem, as a constant complainer, as a monopolizer of customer service or sales resources, provides us with a valuable piece of additional information. With company interchange behavior, acquired from customer service and sales systems, we can begin to draw a truly accurate picture of the customer’s behavior from all perspectives.

**DEMOGRAPHIC AND PSYCHOGRAPHIC SEGMENTATION**

The final type of segmentation that we will consider here is demographically and psychographically based. Much work has been done in marketing to explore the many facets of this form of segmentation and there is little that we can add here. In general, anything about a customer that is descriptive, factual, or qualitative and interpretive that we can gain information about, we can utilize as a demographic characteristic upon which to base a demographic segmentation.

**Consumer Demographics**

Of course, consumer demographics receive so much attention in the modern world that it is easy to find references to demographics that everyone is familiar with. Segmentation based on the fundamental identifiers such as age, sex, and income is, of course, classical. Almost as well worn are the references to psychographic characteristics such
as Yuppies (Young Urban Professionals), DINKs (Double Income No Kids), and SWM (Single Working Mother).

The most interesting insights occur, however, when we combine these neutral identifiers with the extremely powerful behavioral qualifiers to get true insight into who our customers are and what they want and need.

Most Common Consumer Demographic Characteristics

Several studies have been done to determine what demographics are the most useful to telecommunications providers. Although studies vary, a core list always seems to include the following.

- Characteristics that define how technology savvy consumer are:
  - Internet usage in hours per week
  - Attitudinal research into how well they accept new technology
  - Usage of cable or satellite dish television

- Characteristics that are basic demographics:
  - Income
  - Educational level
  - Age
  - Occupation
  - Address (zip code)

**Business Demographics**

Applying demographics to the segmentation of business customers is particularly interesting. They have to be appraised according to different criteria than individuals. When analyzing a company’s demographics or psychographics you have to find metrics that:

a) Provide meaningful insight into behaviors that are important to you

b) Can be acquired at a reasonable cost (if at all)
Sources for Corporate Demographic Research

Getting background information to develop demographic profiles for business customers can be very difficult or quite easy depending on the country you are in, the industry you are dealing with, and how much money you are willing to spend. Numerous firms are in the business of gathering and selling information about companies. The information may be as easy to acquire as the local Yellow Pages, or might require spending several hundred dollars per company for detailed investors’ analyses.

The main alternative is for your customer service or sales organizations to collect the information directly from the customers.

Either way, the decision to attain this data must include balancing the cost of the material versus the benefit of including it in the analysis.

Most Common Business Demographic Segments

There are a wide variety of demographics that can be used to describe companies. Some of the more commonly accepted and used characteristics include the following.

- Purely descriptive characteristics:
  - Industry – Different industries have different telecommunications profiles
  - Number of employees – The more employees, the more phone needs
  - Number of Locations – The more locations, the more need to call between them
  - Location – The physical place they are located

- Financially related characteristics:
  - Company’s current spending with own firm
  - Company’s overall telecommunications budget
  - Company’s overall revenue for the year
  - Company’s growth rate
  - Company’s sales expense
WHAT DO YOU DO WITH ALL THIS SEGMENTATION?

Our review of the various approaches to segmentation and some of the issues that arise when trying to figure out how to develop segmentation are only a small sampling of the subject. It is any wonder then that segmentation provides us with so much potential value and so much confusion at the same time?

Segmentation Summary

In this chapter we have established what the major types of segmentation schemes are and the primary issues surrounding their construction.

Major Types of Segmentation

The principle types of segmentation include:

- Geographic (organizing customers by their physical location)
- Behavioral (organizing customers by behavioral characteristics – including, most importantly, their buying, shopping, and product usage behaviors)
- Demographics and Psychographics (organizing customers by their physical, social, psychological, or attitudinal characteristics)

Each of these major categories of segmentation contains hundreds of variations and levels. More importantly, real, practical segmentation schemes are typically hybrids of combinations of sometimes dozens of characteristics from each of these three major categories.

Segmentation Membership Issues

We also saw that, when it comes to building segmentation schemes, several issues arise about the mechanics of organizing the segmentation schemes. Included are issues regarding:

- Exclusivity – Should the segments be organized so that membership is mutually exclusive (each customer belongs
to one and only one segment?), or should a customer be allowed to belong to several segments concurrently?

- Inclusiveness – Should the segmentation scheme be built so that all customers or prospects are forced to participate in at least one segment, or should the scheme only classify customers that meet the appropriate criteria?
- Hierarchies – Should hierarchies of segments be built, or should it be a simple, one-dimensional structure?
- Recombinant vs. Disassociated Membership – Can the members of one segmentation model be cross-checked against membership in other models?
- Transient vs. Stagnant vs. Renewable Models – What is the lifecycle of the model and how will it be refreshed when required?

### Segmentation Applications

We also saw that different segmentation approaches can be used to accomplish different goals, including:

- Identification of clusters of customers with similar wants and needs
- Organization of groups of customers for management purposes
- Development of targets for specific treatments (campaigns, programs, and policies)
- Creation of measurable units for tracking the success of customer touchpoint activities

In the next chapter, we will tackle the issue of how segmentation can be used to drive effective, integrated customer relationship and churn management.
Segmentation is undisputedly the key to driving the entire integrated customer relationship management (CRM) organization. The segmentation processes we are describing here allow the firm to identify who its customers are, to manage them, interact with them consistently, and also to determine how well the customer touchpoint organizations are doing their jobs. The framework we are describing is in some ways complex and in others simplistic and obvious. It is the foundation for the creation of a new business model for the telecommunications firm.

Controversy and debate abound in the world of marketing about the subject of segmentation. Authorities in the areas of market research from academic and business communities have published volumes of work on the subject and arguments about what defines a good or a poor segmentation approach can involve many hours of heated debate.

We make no effort to contest any of the many expert opinions about segmentation. What we propose instead, is that we take the already significant amount of work done in this area and create a framework for its use; one that will enable the organization to accomplish
its customer relationship management objectives. Although the telecommunications firm has certainly made use of segmentation and data-mining disciplines to their advantage in many situations, until now the application of those disciplines has been sporadic, disorganized and, in many ways, undirected.

Our goal is not to gain random improvements in various marketing processes here and there. Instead, we want to get the maximum benefit out of the many kinds of segmentation that are available to the firm and create a CRM framework that really focuses on the management of customers as individuals. For this, we need more than the random application of clever segmentation in certain situations. The firm must impose a specific CRM discipline on the entire organization, one that has at its heart a consistently applied, continuously controlled, and improved set of segmentation models that actually create the framework within which the entire CRM organization will function. We are proposing to escalate the role of segmentation from its status as the favorite informal tool of the creative marketing executive to being the primary force for the organization and consistency of customer management within the telco.

**Segmentation Required**

To make our vision of a fully integrated organization a reality, we will need several segmentation models, each playing a different role in the overall management of customer relationships. The segmentation schemes will be organizing into four basic categories:

1. **Base Segmentation** – to determine how to manage customers as a whole.
2. **Structural Segmentation** – to define the boundaries in which each organizational unit will function
3. **WAR Segmentation** – to defines how the performance of each customer touchpoint organization will be measured and evaluated
4. **Targeting Segmentation** – to develop particular campaign activities (segmentation’s traditional role)
Key Characteristics of This Framework

To accomplish the goal of fully integrated CRM, we also need to establish a set of ground-rules regarding how the four segmentation models will be developed, created, implemented, and enforced.

Segmentation Schemes to be Stored and Managed within Customer Management System

The first rule is that these models be developed, stored, managed, and maintained in the same place, specifically in the customer management system. It will do us no good to build a sophisticated set of models if they are scattered in various places, managed by different people, and created and dispensed with varying degrees of quality control and consistency. In effect, the creation, maintenance, and use of segmentation schemes becomes one of the major functions of the customer management system and of the CRM organization.

All Segmentation Schemes to be Recombinant

Not only do we require that all segmentation schemes be centrally managed but also that they be recombinant with each other. Basically, the true value of this framework cannot be realized unless the membership of individual customers can be mapped directly to the different segmentation schemes that they are a part of.

This ability to place customers in as many segmentation schemes as necessary to meet the needs of the business units while still keeping track of those same customers as individuals makes the whole approach viable.

All Segmentation Schemes to be Authoritative and Definitive

Besides being centrally managed and recombinant, we also want to be sure that these models are authoritative and definitive. That is, they should be accurate, viable, and considered the last word on whatever issue they are meant to address. Implicit in this condition is the assumption that the models will be well developed and timely and have a high degree of accuracy.
Finally, and most critically, if the segmentation framework is to be effective, it must become the foundational structure for all CRM activity. Each customer touchpoint activity, each campaign, each policy change, each customer contact and service call must be related to these structures. Otherwise the framework will have no power to make the required changes in the organization. The rest of this chapter explores these segmentation disciplines in more detail.

**BASE SEGMENTATION**

The most important of the segmentation schemes to be developed in our CRM framework is the *base segmentation*. It might be referred to as the real customer segmentation scheme or the enterprise segmentation plan for the telco.

![Figure 12-1: Base Segmentation](image)

**Purpose of Base Segmentation**

To change your organization’s focus to be more customer-centric your must create a master segmentation scheme that identifies
exactly who you think your customers are. The base segmentation will then define how the organization as a whole will look at the customers.

**Base Segmentation As a Surrogate for a One-to-One Relationship**

As we have discussed earlier, it is impossible for a firm to have a true one-to-one relationship with all of their customers. There are simply too many to take into account. However, it is entirely feasible to segregate your customers into logical groupings that allow you to develop a consistent strategy for treatment of the members of those groups. This is the purpose of base segmentation. It is intended to be the default segmentation upon which all strategies regarding customer management are to be based. By creating a base segmentation and sticking with it you take the first step in gaining control of the many relationships the organization will have with its customers.

**Using Base Segments to Provide for Long-Term Consistency**

Each of the business units commissioned to work with customers (advertising, marketing, sales, customer service, et al.) has a unique set of objectives. They need to generate sales, increase revenues, create market awareness, and in other ways deliver results that impact the bottom line for the firm. To deliver those results as quickly and efficiently as possible, they need to be able to constantly reevaluate whom they are dealing with and what they are offering. Any attempt on the part of upper management to hamper the business units’ ability to deliver those results will be counterproductive.

In the process reevaluating who their customers are and which groups are most likely to respond to certain appeals the units will undoubtedly end up with a constantly shifting population of customers to be targeted. This, unfortunately, means that there is high likelihood that a customer is treated differently each time a new campaign activity is run.

Herein lies the heart of the CRM problem. How do you create a framework that allows each customer touchpoint organization to do its job as efficiently as possible and at the same time make sure that
the constantly shifting targeting will not disenfranchise? We have a classical short-term return versus long-term value tradeoff. How do you allow business units to maximize the short-term success they can obtain through the constant reevaluation of customers and objectives without damaging the long-term relationship?

Many telcos have tried to develop base segmentation approaches, but the efforts often failed for a number of reasons. The answer is simple: create a default base segmentation that becomes the benchmark against which all other customer relationship management activities must be measured. This default segmentation can then provide the baseline consistency in treatment that you want to accomplish for the customers within each segment, while at the same time allowing business units to explore as many possibilities as possible.

**Base Segmentation As an Activity Constraint and Guideline**

The base segmentation scheme becomes your means to assure that customers that are important to the firm overall are as such by all business units regardless of that business unit’s current objectives. A very good customer who is not a good prospect for the sale of a new product is not a bad customer. Neither is a historically good customer bad just because of a few missed payments.

Base segmentations provide the organization with the ability to set standards for the treatment of groups of customers, which the customer touchpoint units can then carry out. It also allows the firm to set limits on what touchpoint units can do with or about customers. Fundamentally, base segmentation is what provides the managers of the CRM organization with the means to oversee how their charges are being handled.

**Structure of Base Segmentation**

To be effective, we must impose a number of constraints on this segmentation approach.
Base Segmentation –
All-Inclusive and Mutually Exclusive

First, the base segmentation must be all-inclusive. All customers and prospects must fit into one of the segments. Otherwise, the company will end up with customers that do not fit into the system.

Second, the segmentation scheme must enforce mutual exclusivity. In other words, no customer can belong to two or more segments. It is basically a one-person, one-segment model. This is the only way that consistency in treatment and measurement of results can be attained.

Basis for All Recombination

Going to the trouble of creating these base segments and assigning customers to them does not do us much good if we do not provide the mechanism for mapping the members in each of these segments into the many other segmentation schemes that the organization requires. We need to make sure that all of these other segmentation schemes map back to the base and that, no matter what other segments the customers belongs to, they are always understood to belong to their base segments as well.

Building a Base Segmentation Scheme

Base segmentation schemes will be unique for each organization since other types of consumers and business models require that customers be viewed in different ways. Although we cannot tell you exactly what should go into a base segmentation, we can provide some guidelines for their construction.

There are two types of base segmentation; one defines consumers, the other businesses. (Small and medium business segmentation schemes are a hybrid of the two.)

Consumer Base Segmentation

Consumer base segments pull segmentation criteria from all three of the major segmentation categories (behavior, demographic, geographic). However, some criteria will be more useful than others
Behavioral Segmentation Basis

By far the most useful factor for developing a base segmentation is behavior. Behavioral criteria are and should be the primary basis of telecommunications segmentation because it is the customer’s telecommunications behavior that is the most important to the firm. Demographic and psychographic information might be useful, especially when targeting of specific campaigns. However, what is most important to the telco is not the consumers’ age, sex, or income but how much they use their telephones.

Many wireless companies have intuitively gravitated in this direction for many years now. They use a Gold/Silver/Platinum classification system that ranks customers by their monthly revenues. Customers with very high monthly bills are placed in the Platinum category; the next highest group is Gold, and so on.

This base segmentation scheme guarantees that anyone dealing with that particular customer will know how valuable this consumer is to the firm. Average customer revenue, average usage in minutes, the numbers and types of additional products used, and the trend in usage are some of the behavioral component of the base segmentation.

Demographic and Psychographic Enhancement

To be truly useful, a base segmentation needs additional information about the customers. Once distinctive behavioral groups of customers have been identified, it is often useful to conduct more detailed demographic and psychographic research. Applying such criteria to a behavioral segmentation can provide the telco with extremely powerful and useful symbols for managing large groups of similar customers.

Geographic Optional

Geographic criteria have a varying degree of importance for a base segmentation, depending on the specific telecommunications products in question. Wireless customers are notorious for being geographically insensitive, while more traditional wireline customers are obviously geography dependent. The inclusion or exclusion of
geographic criteria in the base segmentation will be dependent on the organization and market conditions.

**Business Base Segmentation**

Although most telcos spend an inordinate amount of time on their consumer base segmentation, few pay much attention to the segmentation for business customers, and this could be a serious mistake. Business customers, just like consumers, need to be managed for consistency. They contribute a very large proportion of the revenues of the firm, and yet little time is spent on understanding them.

**Industry Basis**

Although consumer base segmentation is best accomplished using behavior as the starting point, the same is not true for business customers (small and medium businesses that are best managed like consumers). For the large business, the most important criterion to base your segmentation on is the industry. The industry a customer is in tends to identify much of their behavior as well as their demographics.

Implementation of hierarchical segmentation is extremely important in the business area. Because corporations related by legal or organizational ties often behave and purchase in consistent ways it is crucial that you include hierarchies in your business segmentation is.

**Behavioral Enhancement**

Once the core industrial segmentation has been done, it is useful to enhance it with the typical consumer behavioral measures (revenue, minutes of usage, usage trend). Additional insights can also be attained by adding number of phone lines and average revenue per line measures.
Geographic Options

Geographic criteria can also sometimes add useful content to the segmentation scheme.

Applications of Base Segmentation

Given all of these definitions and criteria for base segmentation, we are left with only one question: How will this segmentation be managed and applied?

When to Build the Base Segmentation

Base segmentation schemes should be built as soon as the firm opens its doors for business. When the network engineers are first planning the infrastructure for the network, those decisions must be incorporate base segmentation assumptions.

If the company has been in operation for some time and no formal base segmentation exists, it should be developed as soon as possible. It is typical for incumbent monopoly telcos to function for years with no conception of what a base segmentation is. Having all business units understand and begin working with a base segmentation immediately is the best way to get your integrated CRM efforts off on the right foot.

Building the Base Segmentation Should be a Formal Process

The base segmentation is the foundation to your entire CRM capability. If all the members of the various departments recognize and utilize it as an official and crucial part of their success with the firm, then it will be used well. If, on the other hand, it is developed by a small group of people in a casual manner and circulated informally around the firm, there is little chance that it will be taken seriously.

To guarantee that the base segmentation is recognized for what it is supposed to be, the responsibility for its development must be assigned to the appropriate group —the CRM organization. In addition to that, creation, approval, and distribution of that segmentation scheme to all parts of the business need to be conducted in a formal and
authoritative manner. The announcement about the nature, details, and intent for usage of the base segmentation should come from the CEO or the Board of Directors directly to all employees. It must be recognized at the outset that this segmentation is a serious matter.

Annual Renewal of the Base Segmentation

A base segmentation is not static or permanent. It would be naive to assume that the way you view customers in 1975 is the same way you should be looking at them in 2005. This means that you will have to set up some kind of formal reevaluation and refresh cycle for your base segmentation. Each year, the base segmentation scheme should be evaluated according to several criteria:

1. Does the segmentation accurately reflect the true nature of who our customers are today?
2. Does the segmentation accurately project the view we have of our customers for the future?
3. Has the base segmentation been useful and practical?

Small changes to the segmentation plan to reflect changes in corporation direction and attitudes about customers should be anticipated and executed.

STRUCTURAL SEGMENTATION

The second kind of segmentation that we will consider is structural segmentation. Base segmentation tells us who the customers are, but there are other reasons for organizing and segregating customers. One of them is to determine which business units will deal with which customers in order to cover certain functions.

Suppose that a telco has three products (wireless, long distance, and local) and four CRM channels (direct sales, inside sales, inside call center, and independent agents). How do we assign customers to these channels? The possibilities are almost endless. We could divide our sales forces by products (one group each for wireless, long distance, and local) or by geography (one group for every region of the country). We could divide customer coverage by type
of customer (consumer vs. business) or we could allocate them by our base segmentation scheme.

The answer is typically a combination of these options, depending on many factors. What is certain, however, is that the structural segmentation will be different from the base segmentation.

![Figure 12-2: Structural Segmentation](image)

**Organization of Structural Segmentation**

Although the base segmentation had to be very rigid in its application (mutually exclusive and all-inclusive), we require no such stringency in the definition of structural segments. Structural segments need not be all-inclusive. If we don’t assign business units to certain groups of customers, there is no ill effect. For example, we might decide that there are certain remote regions of our coverage area or certain market segments of questionable value that we would rather not develop at this time. In this case, we simply assign no marketing or sales resources to that region or market. Neither do we have to worry about enforcement of exclusivity between structural segments. In fact, an overlap in structural segments is often necessary and desirable. For example, the structural segments for marketing, sales, and customer service units should overlap. Each of these groups should be covering the same customers in their own respective roles.
Building of Structural Segments

Like the base segmentation scheme, the structural segmentation plan needs to be built and renewed on an annual basis. Development of the structural segmentation scheme, like the base scheme, should be a formal annual process; however, the segmentation does not need to be done by the CRM group. It usually makes more sense for the operational business units that will make use of it to create the segmentation.

Components of the Structural Segmentation Scheme

Like all segmentation schemes, structural segmentation has a combination of criteria from the behavioral, geographic, and demographic areas. In most cases, the first criterion is geographic, usually followed by demographic. For example, dividing sales and customer service coverage by geography and subsequently, within that, by industry and type of customer. The two main behavioral criteria are product usage (dividing territories by the types of products) and by revenue (separating high-revenue from low-revenue customers).

Recombinant Requirement

As with all segmentation, the structural segmentation scheme must map back to the base scheme. Every customer in a structural segment should have a known location in the base segmentation established by the firm.

Application of Structural Segmentation

Developing a sound, formal structural segmentation is critical to the firm for several reasons. If you formally define for each of the business units which segments they are supposed to be working with you will eliminate at least the most basic contention between units. The formal declaration of structural segments will eradicate the gray area between units.
Structural Segmentation Defines the Responsibility of the Business Unit

More importantly, the formal structural segmentation can become the principle tool used by the firm to define the responsibilities of the business units for the care and maintenance of the customer relationships. By forcing all units to declare their objectives in terms of segments, you develop business unit accountability for those customers.

Structural Segmentation and Budgeting

One of the very important benefits of a formal structural segmentation process is that the negotiation of budgets for a given department can be tied directly to the customer segments they are taking responsibility for. The process infuses an increasing sense of responsibility for customers and accountability for their management.

WAR SEGMENTATION

So far, the segmentation schemes that we have been talking about have been basically passive in nature. They exist to provide people with guidelines and boundaries that help direct their activities. All segmentation is not passive, however. WAR segmentation is a good example of a more active approach.

Figure 12-3: WAR Segmentation
Purpose of WAR Segmentation

We use the acronym WAR (wallet share, acquisition, and relationship management) to establish the three main objectives of any CRM business unit. Every organization that touches customers (advertising, sales, channels, customer service, etc.) does so to accomplish one or more of those objectives.

Given that all customer relationship business units have only these three objectives, and given that each of the business units has now declared which segments they will be accountable for (through the structural segmentation), it will now be possible for management to set explicit segment specific goals for each business unit in each of these areas. By forcing all business units to declare a structural segmentation, the firm is for the first time in the position to manage, coordinate, and enforce the consistent treatment of customers across organizational boundaries.

Making It Work

Of course, to get the WAR segmentation approach to work, the firm will have to enforce all of the prerequisite terms we have been talking about.

1. Base Segmentation – Formal and enforced
2. Structural Segmentation – Formal and tied to the budgeting process
3. WAR Segmentation – A means to evaluate the job of the business units

WAR Segmentation Must Become the Principle Means of Measuring Business Unit Performance

The last condition is the most important. The whole point of this entire formalized segmentation process is to bring us precisely to this point where we can effectively manage the disparate operational agendas of different business units, while at the same time exercising control and influence over how those decisions are made.
Structure of WAR Segments

The WAR segmentation is usually based on either the base segmentation alone or on a combination of the base and structural segmentation. Trying to enforce a WAR segmentation scheme that varies too far from those foundational points, although technically feasible, will probably be too confusing for most organizations to manage effectively. Unlike the structural segmentation scheme, however, the WAR segments will be mutually exclusive and all-inclusive in nature.

Building of WAR Segments

The WAR segments need to be built at the beginning of each year. They should be constructed and managed by the CRM organization, stored in the customer management system, and reevaluated and refreshed monthly, or at most quarterly.

Application of WAR Segments

As discussed earlier, WAR segments have only one purpose: the measurement and evaluation of the effectiveness of the customer relationship job done by each of the customer touchpoint business units.

TARGETING SEGMENTATION

Students of the science of segmentation may think that the segmentation approaches we have discussed thus far seem strange and nonsensical. That is because, for the majority of people, segmentation is about what we call targeting segmentation.

Purpose of Targeting Segmentation

Targeting segmentation is the development of a customer segment profile, which can be used to identify those people most likely to respond positively to an offer or action. In other words, targeting
segmentation is the primary tool of the person trying to determine how to best launch a specific customer-related campaign.

Targeting segmentation is what advertising agencies use to determine whom an ad campaign should be directed towards. It is also the tool used by direct marketers when they create and score a direct mail prospect list. Clearly, the CRM and churn management organizations will still have to make use of these fundamental tools.

**Structure of Targeting Segments**

Targeting segments can be extremely complex and detailed. Many will involve dozens of criteria (whereas our base-, structural-, and WAR segments have only a few). Targeting segmentation is typically based predominantly on demographic and psychographic criteria and will then include behavioral (especially revenue) and geographic criteria in its definition. Geography will only be a factor for campaigns such as billboard, radio, or print media.

**Building of Targeting Segmentation**

The base-, structural-, and WAR schemes are fairly infinite in their life span. Once created, they are reviewed, modified, and reused over and over. Targeting segmentation, in contrast, is extremely short-lived. A targeting segment is typically built to support one particular campaign or activity and is subsequently abandoned. Each activity
gets its own segmentation project. The fact that targeting segments are short-lived does not mean, however, that they do not need to be tied back to the base segmentation.

**Application of Targeting Segmentation**

As we have already discussed, the primary purpose of targeting segmentation is to allow marketers and others to develop optimum targets for their activities. However, within our framework there is another important objective for targeting segmentation.

**Tying Discrete Campaign Activity to the Base Segments**

When business units start interacting with customers in contradictory ways, the organization loses control over the customer relationships. Enforcement of a structural segmentation that ties back to the base segmentation scheme and is used to form the WAR segments addresses that vulnerability.

Another way confusing, contradictory, and negative messages get sent to customers, is campaigns. Tying the targeting process employed by marketing to the base segmentation will alleviate that problem. All targeting segmentation schemes must relate back to the base segments and all targeted customer relationship interactions must be directed and measured according to the WAR segmentation targets. By requiring this dependency we address the second major area where customer relationship management breaks down.

**MANAGING THE SEGMENTATION PROCESS ITSELF**

Formalization of the segmentation process as we define it here is entirely new to the telecommunications industry. Although partial attempts have been made at it in the past, no one has been able to assemble such a complete framework for the execution of such a plan. With a framework like ours, the firm can corral the divergent forces at work within the telco and get them all to focus on accomplishing the same customer objective.
Role of the Customer Management System

The job of revamping the infrastructure, culture, and expectations of a telco to make this vision a reality is a tall order. To make it a reality is the biggest job of the CRM organization and the CRM system and it will take many months, if not years, to accomplish.
Over the course of the last few chapters, we have concentrated on presenting a case for the development of strong, consistent segmentation discipline that can be used to develop and enforce a consistent treatment of all customers in all situations, while at the same time allowing individual business units to function in a relatively autonomous manner.

Putting such a discipline in place all by itself, however, does not guarantee success. Two outcomes are required to achieve a significant benefit from all of this effort. The first outcome is to make sure that the telco has a consistent, effective customer relationship management (CRM) strategy and business model in place that will be used by everyone. (We will be considering this issue in the next section.) The second outcome is to ensure that the segmentation models that are developed are models that provide valuable information about the customer and that can be used to help direct decision making.

Although we cannot discuss all the details about the development of these models here, there are a few critical components we should examine. By far, one of the most important concepts we need to include in our segmentation efforts is the standardized treatment of customers based on their intrinsic value to the firm. After many years of trial and error, we have found that the following approach
provides us with the best single metric for the resolution of this critical issue.

**WHY IS CUSTOMER VALUE IMPORTANT TO CHURN ANALYSIS?**

One of the most important criteria to consider when making decisions about customers and handling churn situations, is what a customer is worth to the company. The more revenue a customer brings in, the more value that customer has to the company. Reasoning suggests that we should alter our churn planning so that the more valuable customers receive more than their fair share of retention investment, while the least valuable customers get the least share of investment.

To make optimum churn management decisions and to make these kinds of calculations, we need to have a technique that allows us to quickly identify how much value a particular individual actually offers to the company.

**WORKING WITH THE CUSTOMER VALUE FUNCTION**

We are now ready to actually build a usable customer value function (CVF) to incorporate into our churn strategy and planning. The CVF consists of several dimensions of the customer value calculation problem. The key components are:

- Revenue
- Credit risk and company interface behavior
- Utilization behavior
- Customer characteristics
- Future customer value categorization
These inputs will be used to generate a number of useful and interesting metrics, some of which could include:

- Relative value of customer index
- Relative value of customer ranking

These metrics can then be included as one of the crucial components of any segmentation effort. When we use the same valuation metrics for all segmentation efforts, we guarantee that all of the specified segmentation models will treat customers consistently along this dimension.

In the following sections we will elaborate on each one of these models and explore their use.

**PRINCIPLE COMPONENTS OF THE CUSTOMER VALUE FUNCTION**

The first step toward generating useful customer value function calculations is to assemble the various collections of input data necessary to make the function viable.

*Past Revenue*

One of the biggest mistakes individuals, attempting to develop a customer value function, make is assuming that they can assign a relative value to a customer based on that customer’s revenue history. This is an erroneous assumption for a number of reasons.

The first problem is that telecommunications products, costs, and prices change at such a rapid and volatile rate that revenue history itself provides a highly inconsistent picture of true future revenue potential. In a business where customer prices are dropping, a pure revenue history appraisal will yield a very poor estimation of future value.

The second problem is that the true customer value is also related just as much to measuring the full cost to the organization. This
means that soft cost factors such as credit risk and customer service maintenance costs need to be included for an accurate appraisal.

Lastly, telecommunications products and services change so quickly that a good future customer might only be a mediocre one today. We must evaluate customers on their future value, not just their current value.

There are many reasons that using past revenue alone, as a reliable predictor of future revenue, is not relevant. However, there is no reason to believe that future customer spending on products and services will in some way be related to past behavior. In fact, past customer revenue is still the strongest single factor and a critical component to the generation of customer valuation approximations. Therefore it is critical that accurate, customer-specific past revenue data be available and included in the CVF calculation process.

**Credit Risk and Company Interface Behavior**

Although being aware of the customer’s revenue history is a good starting point for evaluating customer value, how valuable a customer is in terms of soft costs is also relevant. For example, a customer that generates very high revenue, but is constantly unable to pay bills on time is not nearly as valuable as a customer who generates less revenue, but pays bills on time every month.

A major part of the process of determining a customer’s full value is including the cost of doing business with that customer. Customers with chronic complaints to customer service, multiple service calls, and continuous sales support needs are very expensive. While we do not want to ignore these customers, we do want to reduce the investment necessary in retaining them.

**Utilization Behavior**

As we discussed earlier, it is impossible to acquire good customer profitability information to include in our customer valuation analysis but, by incorporating utilization into the equation, we can get a useful approximation of profitability.
**Customer Characteristics**

The final piece we need to input into the customer value function assembly and utilization process is the development of a customer characteristics profile. Age, address, education, psychographics and, most importantly, a customer’s relationship with and utilization of new technologies is a critical part of this profile mix. This profile will allow us to evaluate whether this customer will be a good prospect for future product developments or rollouts.

### Assembling the Customer Value Function Components

Once the revenue, credit, company interface, utilization, and demographic/psychographic information about a customer has been collected, we are ready to begin organizing it and using it to support our analysis. The specific nature of the customer value function (or functions) generated will depend heavily on the kind of data available and what we are trying to do with this data.

**Step 1 – Definition of Variables to Be Included**

The first step in the development of a customer value function is identifying the variables that are going to be important to the organization. Each organizational unit has an existing base of customer information and a set of priorities; so the details of how the function gets calculated will be unique to the organizational unit. However, experience has shown that CVFs include several of the following components.

**Participation of All Business Units Is Critical**

In assembling the initial list of customer value variables, it is important to include all the business units involved in the calculation or use of value information. This means that the finance, costing, product development, sales, marketing, customer service, credit, and channels organizations all need to be involved. Each of these groups will need to understand what the CVF will be used for and
will need to provide the developer with input regarding important customer value criteria.

Finding the Variables

Even though you have convinced each of the business units to tell you what they think is important to include in the CVF, there is no guarantee that you can use them. Depending on the sophistication of your billing system, the extent of its history and detail, and the nature of your market research, you will probably find that the CVF will include a lot less than you would prefer. The good news is that, over time, you can continue to improve the function by enhancing it with new values and historical information that your CRM system collects for you.

Step 2 – Assignment of Relative Weights To Each Variable

After each of the variables for your CVF calculation have been identified, the next, and more interesting, part of the process can begin. You now have to figure out what relative importance and relationship these variables have to each other and toward determining overall organizational customer value.

The process of assigning relative weights and relationships to the variables is a method that again includes input from each of the business units and the application of sophisticated mathematical approximation and valuation. Ultimately, the CVF calculation equation will be relatively large, complex, and sophisticated. The single number that it creates must be a number that everyone in the organization understands and accepts as the standard for customer value approximation.

Step 3 – Execution of Function Calculations

After the CVF equation has been finalized, we will return to our central database of customer information and gather all of the input variables into a file. The CVF variable file will then be read into the CVF calculation program. This program will read the file and calculate the actual functions.
TWO TYPES OF CUSTOMER VALUE FUNCTION

The CVF can take several forms, depending on your use. The fact that it is supposed to provide us with one number to represent relative customer value does not mean that it will not take on different forms for different applications.

The Customer Value Function Index

A CVF index is a number that assigns a relative value to a customer’s worth based on different scales. The most commonly used scales rank those customers on a numeric basis. For example, “Rank all customers on a scale of 1 to 10, where 1 is a very high value and a 10 is the lowest value.” These scales can cover any number of ranges. For example, you might go from 1 to 100, or from negative ten (-10) to positive ten (+10).

In all cases, as long as the index is built and used consistently, the same result will be achieved. A categorical, rather than numerical, scale might be used as well. For example, you might create categories of customers with “Very High Value,” “High Value,” “Average Value,” “Low Value,” and “Very Low Value.” In fact you could use both.

The Customer Value Function Ranking

Sometimes having a simple index of values is not enough. Sometimes the organization would like to see the relative value of a customer across the entire population. In this case, a CVF ranking is created. Basically, a ranking submits all customers and ranks them in relation to each other. For example, if you had three million customers, the CVF ranking would assign a unique number to each of them, so that your most valuable customer would be 1 and the least valuable 3,000,000.
MAKING USE OF THE CUSTOMER VALUE FUNCTION

Developing a file full of CVF numbers, in and of itself, provides us with no real value. The real value occurs when we take these numbers and populate them throughout the organization.

Using the CVF for Segmentation

The first place where CVF variables will be applied is in the calculation of segmentations. Almost every type of segmentation needs to include customer value in its appraisal. (Certainly the base, WAR, and targeting segmentation types do.)

Once a corporate CVF has been generated, it can be used in the development of all of those segmentation schemes. This will guarantee that all schemes will consistently treat the customers based on value.

Using the CVF to Populate Customer Touchpoint Systems

Including CVF values in a segmentation scheme is only half of the benefit. The other half comes when we populate all of our customer touchpoint systems with the same index. Sales management, customer service, and credit appraisal systems all should use the CVF. In this case, it is used not as a number to be factored into a larger equation, but as a unique tag that identifies, for the person talking to the customer, the value and long-term potential of the customer to the company.

Refreshing the CVF

Just as the segmentation schemes, we have discussed, need to be updated and refreshed on a regular basis, so too should the CVF. In fact, the refresh of the CVF definition and generation should be tied to the refresh cycles of the other segmentation schemes. This refresh should be performed at least once a year, and a case could be made for running it on a quarterly or monthly basis, as well.
Timing is the single biggest problem facing the person wishing to manage customer relationships to prevent churn. Your competition could, at any time, offer better products, services, or prices to your customers, and there is no way you can prevent it. Your only option, to prevent this customer from leaving, is to find out as quickly as possible when better offers are being made by the competition and respond to these offers as quickly as possible. The customer churn index (CCI) is one of the most effective ways available for formalizing the process of responding to competitive offers and preventing churn.

For the past few chapters we have been investigating some of the ways that a more consistent and well-coordinated customer relationship management approach, practiced by the telco in all facets of its operations, is a clear prerequisite to good churn management. But even if the CRM approach we are examining, the CRM systems, segmentation schemes, and customer value functions are in place, we are still no closer to figuring out exactly what to do about the specific problems associated with churn.

In this chapter and the following chapter, we will return to a direct examination of the churn problem by investigating two of the most powerful tools available to the telco organization to help combat churn effectively. The problem is that to determine whether a customer will churn or not involves a large number of variables that need to be applied to a variety of situations.
MAKING ANALYSIS SIMPLER

On the one hand, trying to keep track of all of the aspects of the customer churn equation would seem to be important, since each of them helps us better understand the customer. However, doing this seems to be a cumbersome and over-complicated task.

You may recall that at the end of Chapter 7, “Churn Management Wisdom,” we proposed that the whole problem of churn management could be reduced to a simple equation that includes the following key components:

(R) Risk – Determining the likelihood of a customer to leave if nothing is done
(T) Time – The time frame that applies to the risk
(V) Value – The loss of revenue that the churn event will represent
(I) Investment – The investment of money to help reduce the risk

The problem is, to determine for all customers, at a given point in time: how likely they are to churn (R), for how long of a time period we can expect that risk to be valid (T), and what we appraise to be their current and future value (V). Based on our appraisal of those three variables, we can then decide what kind of investment (I) we are willing to devote in the prevention of the churn.

Building the Churn Management Equation

So far, we have provided an explanation of how some of the pieces of this equation can be assembled. The development of a CRM system, complete with a history of customer activities, information about their membership in all the different segmentation schemes, and the presence of an organization that works with that information are critical first steps.

The development and propagation of the CVF provides us with another key ingredient. Clearly, with this information we can determine how valuable a customer is to our firm and, therefore, how much investment we are willing to make in the retention of that customer. To this point, what we haven’t addressed at all, however, are the issues of timing and risk.
The Customer Churn Index (CCI) Concept

In an attempt to develop a user-friendly, shorthand method for the evaluation of customers and their propensity to churn, we have created a device that we call the customer churn index (CCI). The purpose for this index is simple and straightforward. Ideally, we would like to create an easy-to-use method that will allow us to take all of the different aspects of the customer’s susceptibility to churn, and translate it into an easy-to-understand reference number (or set of numbers). To achieve this, this method will have to take into account all of the major dimensions of the churn susceptibility equation and provide us with the means to assign each of our customers a number (or set of numbers) that will create an index value for us that will tell us the likelihood of them to churn in any given situation.

Differences between the CCI and Churn Prediction Models

At this point, it is important that we differentiate between two very different concepts.

What is the Customer Churn Index?

On the one hand, we have the customer churn index. The CCI is a number that allows us to see, at a glance, how the factors that affect the customer’s decision to churn have combined to create a greater or lesser propensity to churn for any given individual. What the CCI will give us is a good understanding of how much pressure there is on an individual customer to churn at any given point in time. What the CCI will not do, and cannot do, is give us any actual predictive capability. The CCI is developed to provide us only with a relative measure of customer satisfaction and likelihood to change.

CCI – Churn on a Continuum Basis

To help you understand exactly what the CCI does, imagine that we wanted to create a gauge, or barometer, that would show us an instantaneous measure of exactly how close a customer is to making a churn decision. If the customer is very, very unlikely to churn, because they are very, very happy with everything that is important to them, then our barometer will assign them a very low score.
On the other hand, if the customer is very, very unhappy and, therefore, very likely to churn, then the score would be very high.

Of course, this barometer does not actually attempt to predict if, or when, customers will churn. It only tells us how likely they are to churn.

Customers can move up and down this scale quite a lot from one day to the next. Sometimes the customer may be unhappy, and then
less unhappy. The CCI provides us with a temperature reading for the customer.

To predict a churn event, however, we will need to include more variables and approach the problem in a different way than with using a CCI. We will need to include time lag, causation, probability, and a number of other factors, all of which require a very different approach and a different way of looking at the churn problem. (In Chapter 15, we will concentrate on the churn prediction problem.) The CCI that we are describing provides us with nothing more than a snapshot of the condition of the customer’s propensity to churn.

Understanding Churn Prediction Models

On the other hand, there is predictive modeling for churn. When we do predictive modeling for churn, we employ the skills of a data-mining specialist. This statistical expert examines a number of predictive and behavioral characteristics, including the history of the behavior of people who have churned in the past, and this expert creates a specific prediction about who is likely to churn in the near future.

In other words, predictive models include several factors that the CCI does not. The predictive model includes varieties such as: A time frame evaluating the validity of the prediction, along with evaluating a large number of intangible and not directly measurable characteristics which can be worked into a predictive model, but cannot be worked into our CCI. As a matter of fact, our CCI will, no doubt, be of great value to the developer of a predictive churn model.

Predictive churn models forecast who is likely to churn and when, but not why.

Figure 14-3: Predictive Churn Models
model because the factors it measures help strengthen the model’s accuracy.

The biggest difference between the CCI and a predictive churn model is that churn models try to predict when a customer will churn, without explaining why, whereas the CCI tries to explain why, without helping us determine when.

**Making Use of the Customer Churn Index**

Assuming that we were able to create a single number, a customer churn index number that could help us understand exactly how susceptible a customer is to churn at any given point in time, in any number of different situations, whatever would we do with it? Although the idea of creating such an indicator might seem, at first glance, to be attractive and interesting, this does not mean that it would be useful.

So, before we create this index, let’s consider how we could use it. The first, and most critical, use would be to employ it to help managers understand and measure customer satisfaction.

*Individual, Enterprise-Wide, and Segment CCI Scores?*

Once we have created the CCI, however, we will find that we can use it to accomplish a number of jobs. Actually, once we create CCI scores for individual customers, there are several ways we can accumulate, average, and otherwise, manipulate them so that they can tell us about individual customers as well as groups of customers.

Consider for a moment the possibilities. The CCI score for an individual tells us how strongly a customer is leaning towards churn. This means that distinctive CCI scores can help us make the best decision possible regarding our treatment of an individual. On the other hand, the composite of CCIs for the entire population of customers will tell us how likely our entire customer base is to churn. This means that an enterprise-wide CCI can provide us with
a good measure of the overall health and effectiveness of our churn prevention activities.

Last, but not least, we will find that by looking at the composite CCI for separate segments of customers, we can effectively and efficiently measure how satisfied each segment is as a group.

By creating and combining the CCI in various ways, we create a powerful and flexible tool that can help us deal with churn in a number of ways.

**Using the Individual CCI Scores**

The first and most obvious use of an individual CCI score is to help the individuals dealing with that customer make the best decision about how to manage the customer. This situation can occur in many ways.

**Customer Service and Individual CCI Score**

A customer service rep, who gets a call from a customer wishing to complain about a problem with the service or the bill, would find it helpful to know if the customer is still basically happy with the firm or is on the brink of changing providers because of the current problem. By providing customer service reps with the CCI score of an when taking a call from an individual, you give them the ability to respond more appropriately.

**Sales and the Individual CCI Score**

Arming sales staff with the CCI score can be very helpful in improving sales. The CCI score could very well be an important parameter for a sales rep when deciding on whether to bother calling on a particular customer. More importantly, it can help the sales rep understand the kind of approach and kinds of offers the customer should be shown during the call.
Using Enterprise CCI Scores

CCI scores for individuals interpret a customer’s likelihood to churn. As mentioned, if you take the average of all the CCIs for all the customers you have, you will get an enterprise CCI, a measure of how likely your entire customer base is to churn. This number too can have some interesting applications.

Periodic Measure of the Health of the Customer Base

By computing an enterprise CCI on a periodic basis, upper management can have access to a barometer that measures how well the firm is doing overall in the maintenance of a secure customer base. Sharp drops in the number can serve as a warning that something needs to be done to upgrade customer relationship management on a generalized basis. Improvements in the number can reflect progress made on critical objectives.

Key Performance Indicator – Enhancement

The CCI can serve as a useful adjunct and enhancement to whatever key performance indicators (KPI) your company is using to measure retention. Although the retention KPI will tell you how well your retention activities are working, the CCI can tell you what performance to expect in the future.

Baseline against Which Other Groups Are Evaluated

The enterprise CCI also provides us with a good number for evaluating the effectiveness of various channels and organizational units on the customer satisfaction and churn-ability topics. You can easily compute a CCI for the enterprise and then compare it to the CCI for the customers belonging to each of the groups in the organization. For example, assume that we have a CCI of 5 (or average) for the organization overall. We then might want to look at the CCIs for:

1. The customers in each of five sales territories with average CCI scores of 3, 5, 7, 8 and 5.5 respectively
2. The customers served by each of three customer service centers with average CCI scores of 5.2, 4.9, and 6 respectively
3. The customers attained via the Internet channel with an average CCI score of 2.

We could also look for any other number of organizational partitions. The CCI allows us to measure the long-term, overall effectiveness in keeping customers happy. It also provides us with valuable insight into problem areas and where improvements might be made.

**Key Retention Investment Decisions**

One of the most powerful applications for the enterprise CCI numbers can be found in the way they can be used to help evaluate how to make major investments in key retention solutions. Companies are constantly forced to evaluate and re-evaluate decisions about how much to invest in retention capabilities.

For example, do we need to invest more money in customer service? Should we spend more money on retention campaigns? Are there reasons to install an automated call center? Do we need an integrated data warehouse for customer management?

The decisions to spend the large sums of money to create these capabilities are difficult to make and require significant justification. Analysis of enterprise CCI parameters can help the firm determine exactly what kinds of investments to make.

**Making Use of Segment CCI Scores**

Although individual and enterprise CCI scores provide valuable insight, perhaps the most powerful use of CCI comes when we develop the scores for each of the segments we are trying to manage. Remember that there are many reasons for us to create segments — to define organizational territories (structural segments) and to define targets for organizational units, campaigns, programs, and policies (targeting segments).

Given that each of the segments has been created to help us manage groups of customers, it would, therefore, make perfect sense for us to integrate the measurement of the CCI into the numbers we use to appraise how well the targeted segment is being managed.
CCI Scores Should Not Always Be Low

The reason that monitoring CCI numbers for target segments is important is not necessarily what we would first suppose. The naïve assumption that people might make is to take a simplistic view of the CCI and say that, in the case of measuring CCI against different segments, low CCI scores (scores that indicate a low propensity to churn) are good and high CCI scores (scores that indicate a high predisposition to churn) are bad.

Although, this may be true in some cases, it is not true in all cases. When matching up CCI scores to segments, it is important that parity exists between the value of the segment to the company and the score that it receives.

Different Segments Have Different Values

What we tend to forget, when discussing customer service and satisfaction issues, is that all customers are not of equal value to us. Some customers will have a very high value to us because they bring in the highest revenues, are key influencers, or are part of a market where we are trying to establish dominance.

What we would like to see, for these very attractive customers is the lowest CCI score possible for the least amount of investment. On the other hand, there are other customers that may be extremely uninteresting to us. They may be very poor credit risks, have low revenue, or be part of unattractive segments.

In this case, while we may not want to chase the customers away, we certainly will want to minimize the amount of money we invest in keeping them happy. Therefore, we would like to see higher scores (scores indicating that they are not quite as happy as they could be) for these groups.

Inappropriately High CCI Scores Represent an Over-Investment

In an indirect way, the segment-based CCI score can tell us how well we are investing our retention activities budget into each of the segments. The CCI score provides us with a good, indirect indication of areas where more or less retention budget might be spent.
Segment CCI — Key to Preemptive Churn Planning

In fact, the number one greatest value that the CCI can deliver to the firm is to provide planners with the critical tool necessary to drive pre-emptive churn decision-making. You can more effectively plan pre-emptive strategies with segment-based CCI information since you have the means of measuring what the current churn propensity of your segments are. At the same time this information can provide the means to measure whether your activities are having a positive impact.

Using the CCI as Part of Predictive Churn Applications

One of the more obvious applications of a CCI would be to use it to predict which customers are the most likely to churn in the immediate future. Although the CCI cannot do the job that a predictive churn model does, it can certainly add more depth and strength to the model.

CREATING A CUSTOMER CHURN INDEX

Given all of this background, then, how can we create a CCI and how can we determine the values for it?

Dimensions of Churn Decision

To create this CCI we first need to determine how many sets of variables will be needed. As we have discussed many times before, churn is a complex issue with many dimensions. There are four dimensions that are most critical to the churn decision that a customer will make. Each dimension is related to the others and each dimension resides on a scale all its own.

Reasons to Churn

The first dimension, and the foundation for the rest of our churn index, is the core list of reasons or issues that a customer considers
as important enough to be willing to churn. As we have discussed before, the biggest reason for churn in this industry include cost, coverage, quality, customer service, image, and the latest technology and features. In the process of building their own CCIs or predictive models, the wireless firm may find other variables that are also important. When these other variables are discovered they should be included in the CCI equation. Our first step is to create this core list of churn reasons. See Figure 14-4.

![Major Churn Reasons](image)

**Figure 14-4: Core List of Churn Reasons**

### Customer Rating of the Firm for Each Reason

After the list of reasons has been developed, our next step is to get the customer to assign (or to determine how we think the customer would assign) a ranking of the firm based upon each of the issues.

In our case we will use a simple sliding scale from 1 to 10. A rating of 10 means that the customer thinks that the company is excellent at providing that particular feature, while a rating of 1 means that the customer feels the firm does a very poor job. So, let’s say for example, there is a customer who feels that the company is excellent at everything except for very poor job in coverage. The customer might assign the company a 1 for the poor coverage, but a 10 for everything else. See Figure 14-5.
In general, customer rankings will be more randomly distributed across the full range of values.

**Importance of Reason to the Customer**

After discovering how the customer rates the firm for each of the variables listed, our next task is to determine how important each factor is to this customer. After all, if a customer ranks the company lower for image, but considers image to be rather unimportant, then a low rating can be positive. On the other hand, if the customer thinks that image is the most important variable, then a low rating is very negative.

The table in Figure 14-6 indicates that this particular customer thinks that coverage, new technology, and quality are the most important factors. Since the company is ranked as a 10 for two of these, then that is good. However, a ranking of 1 for coverage is bad since the customer thinks that coverage is the most important factor (ranked 8).
Availability of Alternatives

Finally, to maximize the use of our churn index, we must include a factor for measuring the kinds of alternatives available and to what degree are they available. For example, price may be the most important factor to the customer, and may have ranked the company high in this category, but the real test of churnability comes only when a lower cost alternative becomes available. The same is true for all of the other factors as well. For example, poor coverage in an area where no one else can offer any better coverage is not a serious liability. We will assign the availability of alternatives to our index using the same scale of 1 to 10, and we will use our own research to provide the values.

The Churn Cube

What we are left with, to generate our CCI, is a three-dimensional matrix that assigns a customer ranking, a customer rating of importance, and a competitive availability number for each churn factor for each customer. Once these values have been assigned, then we are in a position to generate the actual CCI for a given customer or group of customers.

LOADING THE CUSTOMER CHURN INDEX – CUSTOMER VARIABLES

So far, we have described a relatively simple way to take many variables into account to help us understand the customer’s churn propensity. What we have not done, however, is describe exactly how to collect the values to load into our CCI.

Although the CCI seems straightforward, it will be very challenging to fill it in accurately and completely. Because of this difficulty, we can approach its use several ways to help us achieve a maximum benefit for a minimum investment of time and energy.
Assigning the Customer Rankings and Importance of Factors

We first need to assign our CCI the value for our firm ranking for each of the churn factors and the importance of these factors for each customer. These factors can be derived in several ways depending on what we are trying to accomplish and what kind of grouping we are trying to apply them to.

Straightforward Individual Customer Surveys

The easiest way to collect the information necessary for the CCI is to create and administer a survey. This survey could be issued via telemarketing, customer focus groups, customer service, or a phone exit interview when customers leave the firm. In all cases, the direct customer survey can provide valuable and tangible insight.

The problem with customer surveys, of course, is that they are expensive and difficult to reproduce on a massive scale. Although issuing such questionnaires to all customers is logistically feasible, it is certainly not something you would want to do on a periodic basis. Therefore, we need to develop a method to execute a minimum number of such surveys, yet gain information needed to apply the results on a wider scale.

Extrapolation for a Segment or Group Based on Sample Surveys

To collect the information needed to fill in our index for large groups of people, we need to institute an approach that allows us to extrapolate the results of a small number of surveys across larger populations. We can do this through the miracle of statistical analysis and extrapolation. The subject of extrapolation and statistical sampling is a large and complex one, and many books have been dedicated to the subject.

In order to load our CCI with survey data, we must either survey the entire population in question (segment or group), or employ sampling techniques. It is not at all unreasonable, for example, to do a 100 percent survey for the top 10 percent of your customer base, or for your top two segmentation groups.
On the other hand, strategic use of surveys within the context of a sampling approach can yield valid numbers for many groups and for the entire customer population.

Derivation of Values Based on Available Data

The other way we can collect the values for our CCI is to look at the available data in our systems and derive the values. For example, a check of call detail records can show us which customers are having more dropped calls. We can use this data, the number of dropped calls, to derive a customer ranking for call quality. Similarly, an audit of customer service complaints can provide us with a customer value for customer service appraisal.

Commercial and Consumer Derivations

One particularly useful and easy-to-apply set of derivations is to make a distinction and some assumptions about the differences between consumer and commercial users. For example, we might be able to assume that commercial customers care less about image and more about price.

Assumptions Based on Psychographics and Demographic Segments

The other technique that has proven fruitful in the past has been to create behavioral, psychographics, and demographic profiles of groups of customers and then derive or assign the most likely values for each factor based on an understanding about the segments and people in them. In fact, many times people develop these sets of postulations and then run sample surveys to simply validate their assumptions.

LOADING THE CUSTOMER CHURN INDEX – COMPETITIVE VARIABLES

Once the two customer appraisal dimensions have been assigned (the dimensions reporting on customer opinions about the firm’s
performance on the churn factors, and their judgments about how important each one is) we are then ready to assign the most difficult dimension variables. Determine what customers think about our performance is difficult, but it is nothing compared to the job we must undertake if we are going to accurately appraise the availability of alternatives for them.

Objectives for Competitive Values

Although the first two dimensions of our CCI tell us much about how customers feel about our performance, that information alone does not tell us enough to make adequate churn management decisions. In addition, we need to determine how easy it will be for those customers to attain improved scores from alternative sources. For example, if we are the incumbent telco in a market closed to competition, then having terrible scores on price or quality has minimal impact on our responsiveness. In this case, customers will churn only if they decide to go without phone service at all. Similarly, if our customers tell us that price is important and say that our price is too high, but there are no alternative providers offering better prices, then there is no reason for us to do anything about our price. The customer values of our CCI tell us what the customers want while the competitive values tell us what they can do about it. Once we have both of these sets of information we are able to begin to formulate a strategy.

ASSIGNING COMPETITIVE VALUES

What we want to do then, for each of our churn factors, is establish a ranking, using our same scale of 1 to 10 to help us understand how accessible alternatives are for the customer. Let’s take a look at each of these factors and explore how we might establish values. If we are dealing with a situation where our company is the best and is perceived as the clear and pronounced leader, then we would rank our competitive availability for that factor as a 1 (By the way, if there is no competition for a given factor, then we are, by default the best, therefore ranked as a 1). If, on the other hand, we were the worst in the market, then we would rank at a 10. If we seem to win and lose evenly, depending on the situation, then we might weigh it with a 5.
Perception Is a Part of the Equation

When evaluating your rating of the competition, keep in mind that consumer perception is just as important as the reality of the situation. Many times, the low-cost provider can have a reputation as a high cost provider, causing many consumers to make decisions based on perception rather than reality. This can be especially devastating when you have a reputation for poor quality or coverage. Therefore, we must factor both reality and perception into our appraisal.

Price

Since price is the number one reason for customer churn, it is obviously important to evaluate the pricing alternatives offered by the competition. Getting price information can be very easy or very difficult depending on the situation. In the most obvious cases, your competition will put up aggressive price-based campaigns that offer low flat rates to customers. These price situations are easy to identify and address. It can get a bit more difficult when the competition begins to bundle offerings and create complex pay plans, offering various minutes at various times or combining long distance and wireless services into the same package. These complexities can make the job of comparing prices quite difficult for both the consumer and the competition. In the final analysis, however, consumers will figure out the bottom line and so must you.

Quality and Coverage

Getting competitive information about quality and coverage will be difficult unless you have access to some kind of mandatory regulatory reporting. Some countries require wireless companies to provide the government with statistics about cell locations and network performance as part of their frequency lease agreements. In these situations you can collect factual information about the true quality and coverage that you and your competitors offer. In any other situations you will need to depend on surveys and focus groups.
Image

The art and science of determining how well a company’s image has been received by the general public and what problems may exist is a well-established part of the public relations and advertising industry’s disciplines. Through execution of public opinion polls, focus groups, and other methods, these groups can develop a snapshot of how strong your image is versus the strength of your competition’s image.

Customer Service

The customer service groups of most organizations are equipped with the ability to measure customer satisfaction and the effectiveness of their own efforts based upon their own organization and activity reports. However, figuring out the strength or weakness of your competition’s customer service satisfaction is an entirely different issue.

Alternative Sources of Competitive Information

Except in those situations where direct observation is possible, companies will come to depend on the following to gather their competitive intelligence. These techniques can be used to collect information for all of the factors.

Market Research

The most common way to collect baseline competitive information is to hire a market research firm to poll the general public and find out exactly what people think. This market research can be extremely helpful and is often the best means possible of evaluating your current situation.

Customer Exit Interviews

Another extremely useful technique is to survey customers when they are leaving, asking them to rate you for these factors and advise how important these factors are as well as how they perceive any
competitive offers. This can be extremely valuable and low-cost information to collect.

The Proxy Approach

The other very popular, if somewhat unethical, approach that some companies use is to have designated employees sign up as customers of the competitor’s service. These proxy customers can then experience how good the pricing, customer service, quality, and coverage are of the competition. This technique allows the firm to control many of the variables and obtain valuable information through direct observation of how a competitor conducts business. If enough proxies are used, then some interesting and valid extrapolations can be gathered. On the other hand, it is giving business to the competition, and the proxy customers must be well trained if their observations are to be unbiased.

Competitive Scores Population

As was true with the other dimensions of our CCI scoring process, the scores given to the competition will vary depending on the customer population under study.

Universal Factors

The easiest factors to appraise are the company-wide factors. Market research against the entire population of potential customers can yield extremely valid results with small samples. Unfortunately, this generalized data can be very misleading when we look to smaller segments, and it is the smaller segments, after all, that interest us most.

Adjusting Factors for Segments

Some of the most powerful delineation of competitive profiles will occur when we try to apply them according to specific customer segments. For example, there can be some pronounced differences in the way competitors treat commercial versus consumer account-holders. More importantly, if our competition treats various types
of customers differently, then any such sensitivity that we can work into our models will only make them stronger.

Adjusting Factors for Geography

One of the easiest adjustments to make is to fine-tune our competitive evaluations for customers with dissimilar competitive profiles that live in different geographical areas. This kind of modification is most pronounced for companies dealing with, for example, national markets where competitors vary from region to region.

CUSTOMER CHURN INDEX – CONCLUSION

The CCI index is a strong tool in the battle to fight churn, but it is a complex and multidimensional process. It produces a number, or set of numbers, that provides information, at a glance, to executives, salespeople, or customer service representatives. The number indicates how happy or unhappy a customer is, what the customer’s likelihood to churn is, and what the reasons are behind this propensity to churn.
The customer churn index (CCI) described in Chapter 14 provides us with a generalized appraisal of the customer’s churn attitudes and reasons, but does not give us solid predictability. What all churn managers ultimately would like is a magical crystal ball that tells them precisely when a churn event will occur. Predictive churn modeling is as close to that crystal ball as anyone can get. Although the CCI presents us with some good insight into the reasons why customers might decide to leave, we would like to know more than that. Ideally, we would like to know exactly who will leave and when. Theoretically, at least, this information would give us the ability to plan and address the churn event before it occurs.

When we move out of the realm of the less specific, from more generalized qualitative measures such as the CCI (A CCI is qualitative because it measures the relative quality of the customer’s relationship with the firm.) into the specific quantitative measurement techniques (Predictive models are quantitative because they can be used to predict the number of people that will churn, when they will churn, and/or their likelihood to churn.), we find a number of additional rules that we must conform to in order to achieve the desired results. Quantitative measures can give us tangible facts that
we can use to make important decisions. Because of this, the science of creating predictive analyses is subject to all of the rules of good, sound, statistical analysis, along with good business sense.

**Basic Operating Assumptions for Churn Prediction**

In summary, then, our primary objective is to predict with some degree of certainty the churn behavior of individuals in our customer population. To accomplish this we have to make certain assumptions based upon certain fundamental principles that underlie scientifically provable and accurate predictions.

**Principle No.1 – Historical Precedent**

The most important principle that underlies our ability to create reliable predictions is the rule of historical precedent. This rule says that predictive models can be developed based on historical analysis of the behavior of individuals who are members of the population that we want to analyze. This rule tells us that, if we can look at how individuals in a population have behaved in the past, we might be able to discover a predictive pattern that we can use to anticipate the behavior of similar individuals in the future.

To create predictive models we must, of course, have access to historical information about the same behaviors from our population. Good predictive models cannot be generated without this basic input.

**Example of Historical Precedent in Use**

An example can illustrate this principle. Assume that a company has experienced churn of three percent per month for the past fifteen months. The first step toward developing our predictive model is to identify which customers left during each of these months. Once we identify these customers, we look at the conditions that were prevalent in these customers’ environments at the time of, and leading up to, the churn event.

Examination of these factors may lead to any number of interesting insights. We may discover that customers who churn tend to have a history of making several complaining calls to customer service
two months previous to the churn event. We might also find that customers tend to churn during a certain time of the year.

No one knows what kind of factors we are going to identify when we do this analysis, but we are looking for the strongest association possible between the actual churn event and anything else that happened in these customers’ environments. When we find a pattern of behavior or conditions that seem to occur on a regular basis before a customer churn event, then we have identified a predictive factor. Strong predictive factors allow us to build strong predictive models.

Principle No. 2 – Stability of Causal Factors

The second factor that underlies our ability to create good predictive models is an assumption related to the stability and consistency of the environment that we are using to develop our predictions. We must make sure that the environment described by our historical review is similar to the environment for which we are trying to make predictions. In other words, predictive models will be of little value if major changes in the customer’s environment have occurred between the time the history information was collected and the time for which we are trying to make predictions.

Stability of Factors Example

For example, let’s say that we looked at the customer churn behavior over the past several months and found that we had a regular churn rate of three percent per month and that most people who left had three different predictive factors that we could identify. As long as business conditions remain the same, we will probably be able to build a very strong churn prediction model based on these factors.

However, if one of our competitors goes out of business, causing prices to increase for most competitors and leaving less churn options available to our customers, then we can probably expect to see a lower churn rate and a shift in the factors leading up to the churn event.
Ways to Strengthen the Validity of Churn Predictions

The use of historical information and the stability of factors allow us to create churn prediction models with a certain level of accuracy and reliability. Getting a bare minimum of predictability is nice and certainly better than nothing, but what we would really like to do is construct predictive models that are strong and have a high degree of probability. We can take several steps to increase the accuracy of our predictions.

Optional Principle No. 3 – Identification of Causal Factors

We use the term causal factors to describe whatever actually causes the customers to switch companies and churn. What makes predictive models so powerful, however, is that we do not actually have to identify any causal factors to create accurate or useful models. We can develop churn models that tell us what we want to know without telling us why. However, when we can identify causal factors and can associate them with our other predictive capabilities, we strengthen the model appreciably.

In Chapter 14, we talked about the development of the CCI (customer churn index). This index is a collection of the best causal factors that we can identify for wireless churn. When the model developer can incorporate CCI factors into the churn prediction model, the strength of the model is increased significantly.

What We Can Predict

The next step in the process is to get even more specific. There are many situations we can predict, all of which are important and can be used for various business purposes.

What is especially interesting about these various types of churn prediction models is that each requires different input information to generate them, and each can use different techniques to generate results. This means that different kinds of models will have different levels of accuracy and confidence, using very different kinds of input information.
Predicting How Many People Will Churn

When we think about churn prediction, we do not necessarily assume that we can identify all of the individuals that will leave our company. Although predicting the who and when of churn can certainly be useful, prediction of raw churn numbers is equally important. It is the gross number of people that are expected to leave during a given time frame.

Predicting Who Will Churn in a Given Time Frame

The more classical approach to churn prediction is trying to predict which people will leave, so that, in theory at least, we can do something to prevent this event. In the following sections we will take a closer look at each of these churn prediction models.

PREDICTING RAW CHURN NUMBERS

The raw churn prediction model that is very useful because it predicts how many people will leave in a given time frame. A model like this will not identify who the individuals are that will leave, but it will provide us with some useful information nonetheless.

Figure 15-1: Raw Churn Prediction Chart
Figure 15-1 shows a typical raw churn prediction chart, giving the actual number of customers that have churned for each month up to the current month, and then predicting what the churn will be in the months ahead.

Ironically, even though the raw churn prediction model is less specific than the targeted model, it is usually both easier to build and more accurate. This is simply one of the truisms of statistical analysis. It is easier to predict the behaviors of a large population of people than to predict the behavior of any one individual in that group.

*Reasons To Generate “Raw” Churn Numbers*

Even though the development of raw churn numbers is easy and accurate, that does not necessarily mean that it creates useful information. There are, however, several areas where this kind of information can be extremely valuable.

**Capacity Planning**

Raw churn numbers can be used to provide assistance in capacity planning for the different channels. Typically, the customer service organization is the one hardest hit by churn activity, and any way that we can help customer service know how many customers will be churning each month is of considerable value.

It is not uncommon to find large spikes and dips in churn activity overall. When these spikes and dips can be predicted, the customer service organization can staff up or staff back accordingly, saving much money from their overall customer service budget.

**Budget Management**

In the same way that customer service would like to be warned about impending upward or downward activities, so too would the accounting and budget management organizations. Armed with this kind of predictive information, these groups can prepare more accurate revenue and cost projections and provide upper management with the ability to make more realistic adjustments to the overall business plan for the year.
Raw Churn Numbers And Prepaid Wireless

Prepaid wireless, one of the biggest new growth areas in wireless telecommunications, forces planners into a position where they must perform the majority of their predictive planning using only raw numbers, since many times, prepaid activity does not offer the ability to track individual customer activities. The problems of the prepaid wireless managers are very similar to that of a typical retailer where customers have complete freedom to buy or not buy on a transaction-by-transaction basis.

Techniques for the Prediction of Raw Churn Numbers

Although the specific details about how churn prediction models of this nature are actually calculated is a well-guarded secret in most cases, it is possible for us to at least review some of the logic behind the construction of those models. Assuming the basic prerequisites of available historical information and a stable business environment, the person developing this type of model will perform the following tasks.

Mapping the History of Churn Activity

The first step in creating these models is developing an accurate understanding of the historical rate of churn. It is here, in the development of this churn history, that problems involved in the definition and the tracking of churn will become evident. Analysts preparing these models will spend a large amount of time simply poring through large volumes of customer activity data, trying to identify the true churn events.

Investigation And Discovery Of Strongly Indicated Causal Factors

Once the history of churn has been clearly identified, the analyst then begins the investigative part of the process. Analysis is performed to determine if there are any clues provided by the data that indicate that a churn event is likely to occur in the future. For example, it is a well-known fact that a customer who is bound by a contract for a specified amount of time has a very high likelihood of churning...
shortly before or after that event. The expiration of the contract is the causal factor.

Expiration of a contract is a relatively obvious and easy-to-identify factor, but the analyst specializing in churn investigation will work hard to discover as many factors as possible.

Projection of Discovered Factors onto the Future Population

Once the causal factor is identified, the next step in the process is to see how these factors can be used to predict the future churn event. For example, if we find out that fifty percent of the people whose contracts expire in a given month will leave and find another carrier, then we will have the necessary information to do predictions. To project this rule into the future, all we need to do is find out how many contracts will expire each month. We know then that, based on our historical analysis, half of them will churn.

CREATING TARGETED PREDICTIVE MODELS

Another predictive model that we develop is the targeted model. With targeted models we attempt to understand the actual churn activity of individuals, thereby helping us identify where to focus our retention activities.

Reasons to Generate Targeted Predictive Models

As in the case of the raw churn numbers, there are several reasons we might want to build predictive models that target future churners.

Preemptive Campaign Planning

One of the best targeted predictive model is one that predicts a customer’s churn activity so far in advance that we are able to create churn prevention campaigns (preemptive campaigns and campaigns
that anticipate churn reasons to prevent them before they become imminent).

**Last-Minute Churn Prevention Campaigns**

The most common application of the targeted churn model is to develop one that predicts which customers are most likely to churn in the near future. Although a preemptive campaign must know about imminent churn many months in advance, a last-minute churn prevention campaign will only need to predict the churn event one or two months ahead of time.

**Segment Management**

Another useful application for this model is to run targeted predictive models for those segments of customers that we are the most interested in managing. By running this kind of model on a regular basis, the segment manager can maintain retention targets for the segment in the best possible manner and within the established limits.

**Techniques for Generating Targeted Predictive Models**

The problem with creating a list of people who are likely to churn is a bit more complicated than the problem of predicting how many will churn. In the first case, we need to know much more about individuals, their likes and dislikes, and their likelihood to behave in a particular way (the latter case becoming more of an impersonal raw numbers game).

**Step One – Accumulation of Detailed Individual Customer History**

Just as the prediction of the raw numbers models depends on the availability of information about all customers who churned, the same is true of our targeted model. The difference here is that, instead of looking at the aggregate behaviors of large groups of people, we now look at the specific behavior of individuals.

The first thing that the analyst does is collect all information possible about all customers that have and have not churned for a given period
of time. Information about payment schedules, phone utilization, increases or decreases in revenues, customer service contacts, and everything else that can be discovered about a customer’s interaction with the firm is scrutinized.

**Step Two – Identification of Churn Causal Factors**

The next step is to find anything about the behavior or activities of the customer before churning that seems to be related to the churn event. For example, you might find that customers who churn show a marked reduction in their minutes used in the three months prior to contract termination. Or you might discover that some of the customers who churn typically make several calls to the customer service organization to complain about coverage six weeks before they leave.

All such potentially predictive events are identified and categorized. Each is given a weight indicating its probable strength or weakness as a predictive factor.

**Step Three – Calculating the Churn Probabilities**

Once the factors are identified and weighted, the information is built into a formula (model), which is then applied to all customers. The formula is run, and all of the factors that apply to existing customers are evaluated. The more causal factors that show up, the more likely that person will be to churn, the fewer the factors, the less likely to churn.

**Making Use of Individual Churn Predictions**

When the individual churn prediction process is run, the analyst is provided with a list of the names of every customer in the firm. Associated with each customer’s name is a number that indicates his or her likelihood to churn. With such a list, the churn manager now has that key ingredient that was missing from our churn management
formula, an idea about the risk of churn associated with the customer and the time frame for which that risk applies.

This Is Not an Exact Science

The good news is that churn prediction models provide the firm with some good clues about where a large population of potential churners might be found. The bad news is that not everyone on the list will churn for sure, and others not on the list may churn.

This is why churn management is not an exact science. It is also the reason that all of the other factors we have been discussing are important as well. The organization cannot depend on churn prediction alone to fight churn. The use of the customer relationship management system, the enforcement of consistent customer treatment in all situations by all business units, and the use of the customer churn index are also important parts of a complete customer churn management approach.
Early in this book, we said that three elements are needed to do a good job of managing customer relationships and churn. First, you need to know who your customers are, and what they want and need. The section on segmentation, models, and functions provides us with this piece of the puzzle. Second, you need a mechanism in place to coordinate the activities of all of the departments and groups that interact with customers. Again, the segmentation, combined with an active customer relationship management system, makes that possible. Finally, you also need to have a good idea about precisely what kind of business model you are trying to run.

All telcos have sales, marketing, customer service, and advertising departments, and all are dedicated to managing customer relationships in one way or another. However, the way you organize those departments, the missions you assign them, and your assumptions about how they are supposed to work together are a big part of the entire churn management package. In the next three chapters, we will look at the three most common models used by telcos today and discuss the advantages and disadvantages of each model.

At this point, we will assume that the framework we have been describing makes sense, and that you are convinced that integrated customer relationship management, using information systems and organizational alignment is a good idea. The next challenge that you will have to face is figuring out exactly how each of the departments and groups in your corporation are expected to work together.
SHOPPING CYCLES AND RESPONSE MODELS

You may recall that, in Chapter 5, we invested some time describing the consumer shopping cycle. The consumer shopping cycle is the term used for the collection of habits, patterns, beliefs, and values that consumers associate with the purchase of goods and services. We discussed some relatively stable shopping cycles in the retail and automotive areas, and then we explored some of the models that consumers associate with telcos.

This exploration of consumer shopping cycles provides us with some insight into the nature of consumers and their churn probability patterns, but it becomes a template. Organizations can define their consumer response models against this template.

**Consumer Response Model – Definition**

Just as consumers fall into typical patterns while dealing with product and service vendors, organizations also fall into complementary patterns in response to them. The model that businesses use to most appropriately respond to consumer shopping cycles is called the consumer response model.

Consumer response models are very obvious in some industries. For example, the consumer response model for MacDonald’s, Burger King, and Kentucky Fried Chicken is fast food. The response model for 7-11 is convenience store. Each company looks at consumers and their shopping cycles and puts together a business model that is believed to achieve the best response.

**Response Model Challenges for the Telco**

It should come as no surprise that the telecommunications provider will have a hard time coming up with a good response model. As we have already noted, consumer shopping cycles are currently in a serious state of flux in the telecommunications area. There are millions of customers and dozens of shopping cycles at work. The challenge is for the telco to figure out which model makes the most sense.
Characteristics of a Response Model

The key ingredients of a consumer response model are straightforward. The response model defines the following elements for the organization:

- The basic attitude towards consumers
- Ease or difficulty of access to your services
- Commitment to a certain level of consistency in delivery
- Commitment to a certain level of accessibility to people, policies, etc.
- Willingness (or lack thereof) to compromise and be flexible

Making a response model tangible is no small task. Many organizations create grand-sounding consumer commitments and corporate vision statements only to deliver little, or none, of the promises made to consumers.

How Is a Response Model Executed?

You can tell what the company’s real, versus idealized, response model is by examining the following:

1. Budgeting and staffing of departments – The number one way that a commitment to consumers is made is in the staffing of consumer support services. Low numbers of sales or customer service people, or worse yet, large numbers of untrained, low-paid, unmotivated people, will tell the consumer what the company really thinks.

2. Measures, metrics, and key performance indicators – Another way to determine how serious the company is about commitments to customer relationships is to look at their key performance indicators. What do they encourage people to do?

3. Assignment of roles to departments – Good indicator of the company’s response model is the relative importance and the definition of the roles that groups play.
ALTERNATIVE CONSUMER RESPONSE MODELS FOR TELECOM AND WIRELESS

Because there is still much confusion and chaos in the consumer relationship, it is not surprising that the telecoms are having trouble identifying a consumer response model that makes sense. After all:

- Most telecoms have undergone several generations of regulatory chaos in the past few years
- Telecom technology has been changing in fundamental ways on a yearly, and sometimes even quarterly, basis
- Consumers have continued to surprise and baffle planners with their erratic and pronounced behavior changes as a result of these factors.

All of this has contributed to a very disorganized organizational response. The typical telecom or wireless company tends to operate with a consumer response model that appears to be nothing more than a random assortment of strategies, departmental initiatives, policies, and approaches. What’s worse is that, when viewed as a whole, each of these disconnected and uncoordinated activities seems to have been devised with a primary objective of sabotaging the previous efforts.

Key Organizational Themes

Although this environment is confusing, it is possible for us to identify some underlying organizational themes that connect these apparently unrelated approaches. We have found that there is, in fact, a collection of underlying assumptions that have contributed to the creation of this irrational environmental situation. In fact, there are three different basic modes of operation that the telecom can choose from when making customer relationship management decisions. The three models most commonly practiced are:

1. The Monopoly Consumer Response Model – This is the model that has prevailed for telecoms over many decades. It is how we defined “business as usual” before deregulation.
2. The Retail Consumer Response Model – This is the model that most competitive telcos in the long-distance and wireless areas specifically have attempted to implement in
the past few years. This approach modifies the basic assumptions about how to manage customer relations to better reflect the new competitive marketplace. It tries to embrace many of the principles, approaches, and strategies common in the retail industry and superimposes them on the underlying telecom organization.

3. The Telecentric Consumer Response Model – A telecommunications-specific, customer-centric model that we will define later.

THE PROTECTED MONOPOLY CONSUMER RESPONSE MODEL

Clearly, the consumer is in the process of learning new ways to work with phone companies. Conversely, most telcos are undergoing a similar re-evaluation process as they try to determine how to synchronize their efforts with those of customers. However, the situation was not always this difficult for the carrier. The original consumer response model for a monopoly business is simple and has very little to do with marketing or any kind of complicated consumer relationships.

Many Operators are Still Working Under this Model Today

Although regulators and industry pundits will rave about how competition is the state of telecommunications today, the fact is that many carriers, especially in the local exchange business, are dealing with largely the same monopoly playing field as in the past. True, these companies will compete on the long-distance, wireless, broadband, and other specialized services fronts, but the core of their business is still monopolistic.

Monopoly Does Not Mean Bad

Also note that just because a company is working in a monopoly model (whether they are in a monopoly market or not) that is not in any way a bad thing. The monopoly model has been an extremely viable model that has served the needs of consumers for over 100
years. The fact that other models are now available does not mean that the monopoly cannot work well in a competitive environment.

*Monopoly Does Not Mean Consumer-Insensitive*

The assumption that the monopoly model, by definition, treats people poorly or ignores their needs is absolutely not true. The monopoly model, when executed well, is very responsive to consumers. It is when the model is executed poorly that problems arise.

*Characteristics of the Monopoly Model*

Under the monopoly model, the starting point for all consumer/provider interactions is the government. The national government decides who the provider will be for the consumer and sets the national tariffs for services accordingly. By taking this responsibility, the government and the regulatory agencies define how large the telecom will become, how many customers it will support, how growth will occur, and how the relationship between the consumer and the provider will be conducted. Under the monopoly model, the provider simply opens up shop, builds an infrastructure, and starts taking customer orders for service.

*The “Build It and They Will Come” Business Model*

The key ingredient to operational decision-making for the telecom under this organizational framework is the “we built it and so they must come to us if they want it” model. Basically, this model recognizes the fact that the telecom has a service that consumers want and need, and so the burden is placed on the consumers to determine how to get what they want out of the phone company.

This model can have a strong or weak presence depending on the country, the cultural expectations that exist in that country, and the country’s regulatory environment. The model can deliver services and an environment that is benevolent and responsive or incredibly unfriendly and recalcitrant, depending on how well, or poorly, it is executed.

In some of the best cases, such as in the U.S. or Europe, consumers are able to command an extremely high level of service with very
little effort. On the other hand, the model can also deliver far less than optimal results. For example, in countries such as Brazil and Indonesia customers were forced to wait years just to get a new phone line installed, and after waiting all that time, the service they received was far from optimal quality.

**Regulatory Review and Consumer Complaints**

Naturally, the “we built it and so they must come to us if they want it” model will not be very effective without some inherent checks and balances. A telecom that needn’t answer to anyone for what it delivers or how it treats customers will do as little as possible for the maximum rates possible. The checks and balances in this model can be directly between consumers and providers or, when challenges or impasses occur, they are often best managed indirectly through intervention by government regulatory agencies.

When small problems arise, the consumer is often able to call the customer service organization and get the problem rectified. However, what if the problem is a difficult one? What if the provider does not want to respond to the customer’s problem or just doesn’t want to respond to it quickly? What options does the consumer have? For the most part, in a monopolistic situation, if the consumer withholds payment, the phone service is disconnected and there is no alternative provider to help out. So, ultimately, the consumer must go to the government and file a complaint with the regulatory agency. The agency will then contact the company to try to rectify the situation.

*The Monopoly Consumer Response Model*

This creates a customer relationship model with consumers on one side, customer service and sales people in the middle, and regulators on the other side. This model, though complicated and expensive, ultimately gets the job done. To keep regulators from issuing fines or allowing competition into the market, providers have the incentive to work hard to keep the number of customer complaints to a minimum. They will try to promote an attitude of responsiveness and support for consumers and they will tend to do as much as possible to keep consumers from going to the regulators with problems.
What is most interesting about this model is the nature of the relationship between customer service and the consumer. Basically, the job of customer service is not to fix the consumer’s problem, but rather to get the consumer to admit that the provider is not responsible and that the consumer should not file a complaint with regulators.

The Retail Consumer Response Model for Telco

Clearly, the monopoly model for telecommunications is not going to serve very well in a competitive marketplace. In the competitive market, consumers do have alternatives and any telco attempting to survive by clinging to that model alone is doomed to failure.

In the competitive environment consumers have choices. They can choose not to pay for poor service. They can seek other providers. They can vote with their wallets. Not only that, but consumers typically still have the option of also going to regulators if they are dissatisfied.

This can create an exceedingly confusing environment for the telco. When telcos go from non-competitive to competitive markets typically they modify their consumer response models to address
the changes. Unfortunately, this change usually focuses on the front end of the relationship, in the customer acquisition area. In other words, they focus on the sales and marketing part of the business and assume that the rest of the business should continue as always. Advertising budgets grow into the millions of dollars. Sales groups and marketing campaigns employ many additional resources, all focused on getting consumers to sign up as quickly as possible.

This model that attempts to attract new customers and to sign them up as quickly as possible we call the **offensive consumer relationship model**. The term **offensive** refers to the company taking a proactive stand in its relationship with consumers.

### Advantages of the Retail Model

Telecoms and wireless providers have come to quickly embrace the retail model for several reasons. One reason is that the model provides results. Telecoms that never had to go out and get customers before have found this model a useful approach. Not surprisingly, telcos (who have little competitive experience) adapted the retail model because there they found ample expertise and rich examples to draw from.

### Disadvantages of the Retail Model

Even though the retail model has helped telecoms to establish themselves in the competitive marketplace, it is not an optimum solution for telecoms. As we have already proposed, the telecoms’ consumer response model needs to align itself with the consumers shopping cycle if it going to be optimal. So far, evidence indicates that consumers, for the most part, are not and probably never will be able to approach the telecom relationship in the same way they manage the retail relationship.

This means that a better model is required. While the retail model assists telcos in the area of new customer acquisition, it is actually terrible at helping the telcos manage wallet share and churn activity. This misalignment between the telecom’s version of the retail model and customers’ behavior is covered in Chapter 17.
The Retail/Monopoly Hybrid

Ultimately, since the telecoms embrace the retail model to support the front end of the consumer relationship and do very little to change the back end (the customer satisfaction/customer service side of the equation), they end up with a model that combines both. Aggressive marketing brings the customers in, but the laissez-faire, “it’s not our fault” customer service function does nothing to prevent customers from leaving.

From a functional and operational perspective, this strange mix of consumer response models provides a perfectly logical and reasonable explanation for why churn is such a problem for telecoms and wireless providers. Basically, you have a consumer relationship engine that brings them in but can’t keep them.

In the words of the vice president in charge of marketing for a major long distance carrier, “We were bringing the customers in at a frantic rate, but they were leaving even faster. It’s as if we had a hole in the bucket bigger than our ability to replenish the supply.”

Figure 16-2: The Hole in the Bucket
The combined retail/monopoly response model that most telcos use does a fairly good job of explaining how and why telcos are functioning the way they are. Despite this, the model leaves little hope of a game plan for the development of long-term solutions for telco customer relationship problems. A completely different model is required, one that addresses the acquisition needs of the modern telecom but also integrates the management of churn issues and wallet share improvement activity that is necessary for the telco’s survival in the long term, after the initial start-up phase has ended. The new model needs to take into account the incredibly chaotic factors that we have been discussing and still help deliver consistency, predictability, and value to the organization and the consumer.

In the next two chapters we will examine the retail and telecentric models in more detail.
Although the monopoly business model was without doubt, the primary mode of operation for telecommunications organizations in the past, most found that they needed to change their organizations in significant ways to compete in the new, deregulated environment. Attempting to retrofit the telecommunications business to work under the rules of a retailer certainly has its weaknesses, but those telcos that have embraced the model have generated some impressive results.

In Chapter 16, we learned that the business model used by most telcos is nothing more than a combination of approaches based on the monopoly relationship model (which takes a passive “let the customer come to us and minimize their complaints” approach). This model was modified and combined with the aggressive and proactive retail model (which uses big budget advertising, brand image development, and aggressive sales and promotional activity to attract new customers) to create a hybrid. This hybrid customer relationship model obviously works, since many telcos that use this model are enjoying success.

However, there is a big difference between showing some success (which is what this model delivers) and providing an optimal solution (which is what we would like to deliver). To propose a model for the management of customer relationships and churn in the wireless or telecommunications organization that can improve on the company’s current performance, we need certain information at the outset.
We need to understand how the current model is working and what benefits it is providing. We cannot improve the organization’s performance if we cannot guarantee that the new model will deliver the same positive benefits. We also need to understand the model’s weaknesses and where it fails to address the telco’s churn issues. This will help us discover where we can make improvements that have the greatest impact.

**Understanding the Challenge**

We can identify which consumer response model a telco is practicing by examining the key performance indicators that the company uses to measure the success of the organization. Under the monopoly model, success is measured in number of phone lines, volume of calls, and the number of complaints. (Recall that, under the monopoly model, the rate limits are set by law; therefore revenue, profit, and other measures are all coincidental and depend directly on calling volume.) A telco operating under the retail model will take a decidedly different perspective and will, therefore, have different measures for success.

**Financial Perspective**

In the retail model of operation, the financials are the first elements that interest upper management. In the competitive mode of operation, pricing and profits are not given, but they are part of a complex equation that must be calculated. Because of its financial impact on the corporate balance sheet, churn is an important issue. Upper management interest in churn is directly related to the amount of money that it is costing the firm. This explains why monopoly and expansion phase telcos are completely unconcerned with churn. If customers are not leaving and if rates are not being dropped to resist churn, then upper management will ignore it.

Conversely, as competition increases and churn rates grow, upper managements scrutiny will increase. The revenue loss makes churn important. It is crucial that we keep this in mind throughout all of our explorations of churn management. For the retail-focused organization, churn is, first and foremost, a revenue issue.
**Market Share View**

Many managers may be obsessed with watching the bottom line but it is not always the only element that management focuses on. Sometimes, in certain strategic situations, upper management will set a priority on increasing the number of new subscribers regardless of the revenue implications. Although this would only be a short-term goal, it can certainly be a valid one.

The chart in Figure 17-1 shows a market situation where this condition would be true. Although this market is experiencing an explosive growth in new customer interest, it will be hard for the firm to focus on anything but headcount.

Concern about headcount over revenue typically occurs in only special situations. It often happens when management is concerned about how the company appeals to the investment community. The assumption that a low headcount equates to a low potential value means that a high headcount can attract more investment dollars. Many sharp managers of start-up wireless companies have found this formula to work well in immature markets and industries. For these companies, gaining a temporary and, often times, artificially high number of subscribers helps their long-term survival.
CHURN MANAGEMENT WEAKNESSES
OF THE RETAIL MODEL

After establishing that either the headcount or revenue implications will be upper management’s driving reasons for addressing churn issues, we come to our next question about churn. Why is it so difficult for an organization operating in the retail frame of reference to do anything about churn? After all, churn is a relatively straightforward and common business situation. What is it about churn that makes addressing it such a slippery issue? There are actually several reasons.

Lack of Responsibility

One of the biggest problems with the retail model is the lack of responsibility assigned to people regarding churn situations. Under the retail model, everyone is concerned with only one issue: attracting and closing new business. This drive to close deals with customers is intense for a retailer who must re-win the customer’s attention and loyalty for every purchase, but it is actually counter-productive for a telecommunications firm. There are some fundamental flaws in the logic behind running a telco like a retail concern.

MISSIONS, FUNCTIONS,
AND DEPARTMENTS

It is very easy to discuss philosophies and approaches and say that the telco is not doing its job correctly. It is quite another thing to show how these elements take shape as real-world attitudes, policies, practices, and organizational structures.

Figure 17-3: The Mission, Function, and Department Mode

To see how the basic philosophy and assumptions behind the retail model take shape in the telecommunications business we first need to understand how this happens in any organization.
In Chapter 9, we started to develop this issue by looking at the jobs provided by departments to help manage customer relations. We saw how important it is to have a “single view of the customer” and that all departments can share consistent key performance indicators that guarantee that all business units are in pursuit of the same objectives for those customers.

Uncovering the Hidden Business Model

Unfortunately, it is not possible to truly explore the real workings and discover how they can work better by simply looking at the organization at face value. This is the area where many analysts and authors fail to generate truly useful insights. The problem is that business operations are much more complicated than the simple theoretical framework most people apply toward the business.

If matters were uncomplicated, then any discussion of telecom operations could be managed with a straightforward review of a telco’s organizational chart. An organizational chart includes the major departments of the company and, in theory, by understanding this chart you should be able to understand the operation. This is hardly ever the case. Corporate organizational structures show us how the people have been organized, but they do not tell us how the work gets done.

To truly understand how the organization works and how the activities of groups are interwoven into the symphony that is the operation of a modern telecom, we need to analyze three levels of operation. These levels include the missions (what people are supposed to accomplish), functions (what they do to accomplish their missions), and the departments (groups of people organized to execute functions to accomplish their missions).
The missions people are expected to define the intent and wishes of upper management in terms of the relationships these people have with customers. The functions and organizational structure determine whether these missions will be well or poorly executed.

Only by understanding the missions, functions, and organizational structures that have been assembled to manage customer relations can we begin to determine the adjustments necessary for providing better churn management.

We see in the diagram in Figure 17-3 that missions, functions, and organizational structure are related to each other. However, their relationship is hardly ever clear-cut. Typically, real departments attempt to execute many functions to accomplish different missions. More importantly, missions and functions tend to seriously overlap among the groups. It is here where the great majority of contention and confusion originate.

The Retail Model of Customer Relationship Missions

At the highest and most abstract level, the job of managing the relationships customers have with the organization can be organized into a series of related missions. These missions define the parts of the overall customer relationship that groups are trying to enhance or maintain.

One model that is used quite often to help explain the roles of marketing, advertising, promotion, and sales in the development of customer relationships is known as the Costa model. The Costa model attempts to explain what needs to be accomplished to convert a consumer into a customer. As the Costa model shows in Figure 17-4, we must accomplish several missions to make this conversion.

Awareness

The first subject that any company has to address, if it hopes to convert a consumer into a customer, is to make the consumer aware of the company. Awareness is the process of battling against the millions of stimuli that a consumer contends with in a given day and making sure that, somehow, the consumer becomes aware that your company exists and is a viable source of the products and services
that you are selling.

Familiarity

After a consumer has become aware of your company, the next challenge you have to face is to make that consumer familiar with your company and your company’s name. The process of creating familiarity is getting the consumer to trust that you are a company that will be around for a while. Familiarity, therefore, is a special kind of awareness.

Preference

After familiarity has been established, the next objective for the customer relationship function is to get the consumer to prefer your offer to the competition’s offer. When preference is established, your company begins to experience presence in the marketplace. By accomplishing consumer preference, the customer relationship group creates an environment that makes sales and the maintenance of long-term customer relationships a reality.

Negotiation

After preference, the consumer will typically move into the state of negotiation. During the negotiation phase, consumers engage in dialog with the company. They start to consider the actual purchase of a product or service. Negotiation may be a physical process where consumers sit down with a sales person or agent and negotiate a
deal, or it may be a process that takes place in the consumer’s mind. In either case, the consumer considers the options, weighs the alternatives, and decides to move forward with a particular purchase.

**Transaction (Sale)**

In the typical retail/marketing-oriented view of the process described by the Costa model, the final step and the ultimate success of the entire process, is the business transaction or sale. The entire objective of customer relationship management, from this perspective, is to generate sales. How do you know the process is working? You generate sales! How do you measure how well the process is working? By the number of sales!

**The Retail Model**

For the typical telecommunications executives, especially those involved in sales and marketing, the retail model we have just described should look both familiar and comfortable. It describes how the retail-oriented telecom views the overall process of customer relationship management. Not surprisingly, this model also, clearly and strongly, reinforces the headcount and activation model for measuring the success of those customer relationship management activities.

**FUNCTIONS**

The next layer to consider is organizational functions. Functions are the actual jobs and disciplines that are traditionally employed by businesses to accomplish various objectives. Not coincidentally, the functions discussed here correspond directly to the functions described in the telecommunications value chain. Listed here are some of the major functions that relate to the customer relationship missions we have been discussing.
Advertising and Marketing

Advertising is the name given to all those activities directly related to placement of ads using television, radio, and print media. Advertising played almost no role in the development of customer relationships for the monopoly phone company (everybody was already familiar with the phone company). However, in the modern competitive marketplace, advertising is the primary weapon in the battle to establish relationships with customers. With a market full of new providers, there is only one way for the provider to get on the consumer’s radar screen and that is through advertising and marketing.

Sales

Just as the role of advertising has changed with the adjustment to the consumer’s shopping cycle, so too has the sales function. In the old days of monopoly business, sales was a process of sitting and waiting for consumers to come and ask for services. In today’s competitive market, the sales process involves an often proactive and aggressive approach towards consumers with a variety of methods. Included in the category of sales are the many innovative ways that telephone services are being brought to the consumer, such as the extensive field of promotions and promotional activity, the recruitment of partners from the retail, Internet and services businesses, and the use of agents and direct sales forces.

Customer Service

A discussion of customer relationship management would not be complete without the inclusion of the customer service function. This department provides a critical link in the ongoing support of customer relationships. As we have already noted, the quality of a customer’s customer service experience plays a large role in overall satisfaction and subsequent likelihood to churn.

Billing

We also need to include the role of billing and billing systems and their ongoing support. Although billing may have shifted in its
importance, as competition becomes more prevalent, it is still the heart and soul of the telecommunications business.

**Aligning Missions and Functions**

So, the missions dictate what we want to accomplish and the functions dictate how to execute the missions. The next step is to see how well we can map the missions to the functions. The retail model provides us with an almost textbook explanation of how the telco advertising and sales functions work. Figure 17-5 also shows that the customer service and billing organizations, key to customer satisfaction and loyalty, have not shared any of the missions defined here.

At this point, one of the fundamental problems of churn management in the telco starts to become clearer. If the Costa model truly reflects the way people view the customer relationship management process, and if customer service and billing play no part in it, then there is a serious breakdown in the model’s effectiveness in churn situations.

![Figure 17-5: Aligning Missions and Functions](image)

**ORGANIZATIONAL STRUCTURES**

Finally, on top of this already confusing assortment of missions and functions, we add the actual organizational structure used by the company. The naïve observer might conclude that there is a direct and easy way to trace the correlation between missions, functions, and organizational structures. However, anyone who has worked in the telecom environment for even the shortest amount of time...
knows that there is often overlap, disconnect, and conflict when it comes time for reality to set in.

Organizational Alignment

So what is the nature of this organizational alignment? How does the corporation allocate missions and functions to departments in the first place? Let’s look at some examples.

Let’s consider the mission of awareness. We know that customers need to be aware of our company if they are ever going to become customers. The corporation decides that the best way to create awareness is to sponsor some aggressive advertising campaigns on television, let the public relations group create some press events, and run some promotional activities. So the decision is made to generate awareness and accomplish the awareness mission.

Now, it becomes more complicated. Which organizational units will be responsible for accomplishing these objectives? This is not a simple decision. When we look at the actual organizational chart for a real telco we do not find an easy correspondence between functions and departments. In theory, each telco would have one marketing department to handle all marketing activities for all departments, one sales department to handle all sales of all products to everyone, and one public relations department, etc. In such a case, alignment would be easy.

However, we find that most telcos have several marketing departments, or at least many groups that perform marketing-type functions in one capacity or another. The particular arrangement of competing marketing functions will vary, but the theme is basically the same. Different groups attempt to isolate different applications of the function to meet the needs of certain special interest groups.

Functional Specialization

This process of creating subsets of a specific function it to meet the needs of different groups within the telco is called functional specialization. Functional specialization occurs when one department in the telco decides that the department commissioned with the overall generalized responsibility for a given function will not do an adequate job of helping to accomplish its objectives. As a
result, the department creates its own mini-function to make up for the shortfall.

Functional specialization is a clear necessity in business today. Too many departments with large, complex, and sometimes conflicting objectives must vie for limited resources. Many times, simply recreating the function at a more appropriate level makes the most sense.

**Marketing Example of Functional Specialization**

One of the most easy-to-identify cases of functional specialization occurs when we examine the way the marketing function is allocated across the organization. Most telcos have a main marketing department. Most also have several other departments that have “marketing” in their name. The differences between these competing marketing departments have everything to do with their scope of responsibility and accountability. This functional specialization can be organized in several ways.

![Figure 17-6: Functional Specialists](image-url)
Corporate Responsibility

Usually there is a group known as “corporate marketing.” The responsibilities of this group apply to the mission and management of customer perceptions of the corporation overall. As such, this group will typically focus on brand image and television brand advertising.

Functional/Mission Responsibility

In many telcos, the responsibilities of marketing can be allocated to marketing groups based on the type of mission or the sub-function that needs to be accomplished. You can have a group dedicated to awareness with another dedicated to preference, or you can have groups organized by the media they will use (i.e. one group for television, one for radio, one for print, and one for direct marketing).

Product Responsibility

Marketing groups can also be established to handle marketing for specific product lines. In the wireless business, many telcos have separate groups for prepaid vs. post-paid marketing. Long distance companies can divide responsibilities between distinct long distance product packages. Wireline companies typically allocate specific marketing departments to Internet, local, ISDN, and other types of products.

Segment Responsibility

Another extremely popular approach is to define marketing responsibilities by customer segment: geographical, business vs. consumer, banking vs. manufacturing, rural vs. urban.

Department Responsibility

As if all of this confusion were not enough, it is very common for different functional departments — especially the sales, customer service, and other customer relationship departments — to create their own marketing functions to meet their particular needs.
**Functional Specialization for Other Areas**

Marketing is only one example of how functional specialization helps confuse our understanding of *who* is responsible for accomplishing *what* missions within the organization. Although marketing functions tend to spread across many organizational units, so do several others functions. These functions include:

1. Sales and Promotion – Many times different product groups will have their own sales and promotion departments.
2. Billing – Often times, different products (wireless vs. long distance for example) require different billing systems, resulting in the existence of several billing organizations.
3. Customer Service – Unbelievably, even the customer service function can become schismed across several organizational boundaries.

**Measures and Metrics to Support the Retail Model**

Despite the problems presented by misalignment, telcos are still able to function and accomplish their objectives despite sloppiness in the organizational structure. How does this happen? How is it possible that, despite this confusion, the telecom is successful in the marketplace? The answer is that, despite the organizational conflict we have described, the model has one redeeming quality: the missions that people are asked to deliver under this model are clear, simple, and easy to measure. As long as upper management is directing these groups to accomplish these missions, ultimately, the job will get done.

To understand how upper management directs these activities and guarantees this ultimate success, we need to understand the measures and metrics used.
**Advertising Role**

Under the transaction model of telecom customer relationships, there are two major participating business functions responsible for delivery: marketing and sales. The marketing function is responsible for the delivery of the awareness, the familiarity, and some of the preference perceptions of consumers. Through television ads, print ads, and other devices the company can create consumer awareness helping to create a relationship with the consumer.

**How It Works**

Basically, upper management directs the marketing group to create an environment that will support a high volume of sales. This is communicated through a budget (a large amount of money to be spent on the advertising) and a target (a certain number of expected new subscribers at the end of the process).

**Problems/Challenges**

The major challenges for these marketing groups are two-fold. The bad news is that there is no way for them to directly equate their marketing activity with sales. The only thing that advertisers can do is measure the brand awareness that their ads create or check to see if the sales group has delivered the customers. This means that the marketing group is totally dependent on the ability of the sales group to actually close sales to meet its objectives. Nonetheless, the
approach works well, and advertisers are usually able to accomplish their part of the customer relationship mission.

**Sales Role – Headcount**

The primary responsibility for the remaining execution of the Costa model typically falls under the sales group. Through agents, retailers, bundles/packages and direct sales efforts, the sales groups will take responsibility for picking up the familiarity and preference that the advertisers have created and drive these consumers through the negotiation process and into the sales zone.

There are a number of challenges faced by the sales groups that actually deliver customers to the firm, but ultimately, the single metric that drives everyone is the headcount, usually communicated via the activations report.

**Roles for Other Functions**

The most interesting and most telling use of this retail-oriented model of consumer relations is the role that billing, activation, network maintenance, customer service, and the other groups play. Although these groups are undeniably important to the management of the relationship with the customer, they are typically afforded a less than critical role from the corporate perspective. They take on a less than critical importance in the mind of management because they are generally not directly associated with the delivery of the sale.

These groups, after all, are only associated with the customer *after* the sale. The customer never sees them, knows about them, or cares about them until after the decision to subscribe with the firm has been made. For this reason, these functions are, for the most part, considered less important.
The Great Churn Irony

There is a great irony in this situation. All of the groups in the telco that have power over customers’ long-term satisfaction and that are the true caretakers of the customers and their churn decisions are not considered to be part of the main consumer management process that drives the thought process of the firm. The company measures success by headcount and brand awareness and congratulates marketing and sales for delivering the numbers. However, the decision to churn will be made by a customer who gets poor network quality, poor customer service, and a number of other non-sales related reasons. The company has nothing to measure or evaluate the most important part of the relationship.

Metrics and Measures for the Non-Critical Functions

Basic metrics and measures are required for these groups to define how upper management expects the non-critical customer service, network maintenance, and other customer support groups to perform. Although the business wins customers with the retail model, it tries to maintain relationships and prevent churn using the monopoly model. The metrics that customer service, billing, network maintenance, and these other groups are measured by are usually basic cost-per-customers-served metrics. The groups are expected to address the maximum number of customer contacts as possible with the minimum amount of effort and/or investment. This clearly establishes a situation where churn can become a big problem in the long run.

The Retail Model, the Perfect Formula for Generating Much Churn

In fact, an argument could be made that this arrangement of a customer management model is a good way to create a churn-rich situation. An environment that emphasizes the sales and initial attraction of
the customer and relegates the follow-up relationship management
to a simple “cover as much as you can with as little as possible” is
the perfect formula to create a high churn environment. Creation of
a churn management department will do little to actually attack the
churn problem. Churn is a problem that the entire organization must
address.
In the preceding two chapters we provided some alternatives views of how customer relationship and churn management operations are organized and run. We proposed that, along with the operational efficiency of the organization, the consumer response model that the company chooses defines how well the telco is be able to manage customer relationships. We described two of the models most obviously in force in telcos today, the monopoly and the retail models. We also proposed that neither of these models provides an optimum organization of business units to truly address good customer relationship management or churn situations.

In this chapter we present what we call the telecentric (telecommunications customer-centric) model, a radically different way of viewing telecommunications missions, functions, and departmental alignments.

Our exploration of telecommunication and wireless corporate philosophies, history, assumptions, and operational models has shown us how each has contributed to the creation of the typical telecommunications business structure that we find today. It is easy to see why most telcos manage relationships with customers the way they do and how the basic assumptions of who the customers are and how to manage those relationships has resulted in a headcount-based model. It is also becoming obvious that this model and basic philosophy will not serve the telco of the future very well.


**A New Model Is Called For**

For many reasons, the old headcount model is beginning to fail for many telcos around the world. Changing market conditions, smarter consumers, aggressive competitors, and enlightened regulators all conspire to make it increasingly difficult for the telco to show profits with the older tried-and-true marketing methods. Clearly, the modern telco needs more than a simple modification of the existing business model. It needs a complete overhaul of its basic assumptions of the business and how it should be organized.

*Transaction Focuses on the One-Time Deal*

The main reason why the headcount and transaction-based model of the telco will not work in the long run is that it is based on a one-sale-at-a-time model. This model assumes that the basic nature of the relationship is culminated in the execution of a sale. However, the connection that a consumer has with a telco is much more related to the relationship itself than the to the sale.

> For the retail customer, the sale marks the end of the relationship; for the telecommunications customer it marks the beginning.

The one-transaction-at-a-time model is the heart and soul of the retail industry, but it is far from the kind of model that telecommunications providers should want to create. For the retail customer, the sale is the end of the relationship; for the telco customer it is the beginning of the relationship.
The preferred model for the telco is an approach that emphasizes the more long-lasting, trust- and relationship-based aspects of the consumer/provider association and one that de-emphasizes the more immediate price- and transaction-based characteristics.

**Consumer Shopping Cycle and Expectations are Maturing**

Assuming that the history of the nature of this relationship will continue to dictate how it is managed is a big mistake. The ranks of the old-generation telephone users who cling to the idea “There is only one phone company and all others are simply anomalies” are quickly falling away. In their place we are finding more and more consumers that are incredibly savvy in maximizing the value that a telco delivers. These consumers are also getting quite good at figuring out how to play one provider against the other to their own advantage.

A different model — one that recognizes not only the past but also the present and the probable future of the industry — will help the telco to survive and thrive in the future.

Although several perspectives have yielded a number of models, the one developed here is founded on the assumptions that modern customer relationship marketing decision making needs to be based on business intelligence, not on the more traditional methods. We call this new model the telecentric business model.

**MANIFESTO FOR A NEW, IMPROVED CUSTOMER RELATIONSHIP MODEL**

As a result of significant investigation into alternative customer relationship models across many industries, it is clear that a completely new set of assumptions about the nature of the consumer/provider relationship needs to be proposed. This alternative approach must accomplish several objectives:
1. It must take into account the current organizational structure and the history of the relationship of providers and consumers. A model that is radically different from one that employees of telcos and consumers have grown accustomed to is doomed to fail because it will be too difficult to grasp. To create a consumer relationship model for telcos that doesn’t include the concepts of subscribers, activations, customer service and that doesn’t appreciate the critical role of the billing system in the telecommunications context will create much pandemonium. Telecommunication is already burdened with more chaos than people can handle. The approach, therefore, must build on the existing telco culture, not attempt to destroy or ignore it.

2. It must recognize that the provider/consumer relationship is unique to the telecommunications industry. Telcos may have borrowed some marketing tips from financial institutions and retailers, but we must accept that the provider/consumer relationship is unique and different. We need an approach that recognizes the uniqueness of the telco consumer/provider relationship.

3. It must have at its core the assumption that the nature of the relationship between the provider and the consumer is dynamic, not stagnant. The assumption must be that consumers will not change how they maximize their relationship with the provider today, but that this evaluation will continue. As technologies continue to expand and new options become available, consumers will reevaluate the relationship again and again. In other words, while a retailer or a financial institution can count on a long and stable history in their relationships with their customers, the telco is unlikely to establish these kinds of dependable patterns for some time to come. Our model must assume a constantly changing consumer/provider relationship.

4. The approach should be based, not upon opinion, conjecture, good guesses, or other form of estimation, but rather on as many facts as possible. Today’s telecommunication provider has more information available about its customers than any other industry. Modern technologies allow the savvy organization to capture that information and use it to make intelligent, fact- and data-based decisions, as opposed to the “best guess” and “lucky guess” decisions that have dominated the industry until now. The term used to define the discipline of making data- and fact-based decisions is known in some markets as scientific
management, but is more commonly referred to as making use of business intelligence. The approach must therefore be based on the latest in available business intelligence.

In summary, the new model we propose has the following objectives:

- Leverage and build on the cultural legacy of the telecommunications industry
- Recognize that provider/consumer relationships are unique and like no other industry
- Recognize that the provider/consumer relationship is dynamic and will change continuously
- Make use of as much business intelligence as possible

**Telecentric Operational Zones**

The new model must include the best aspects of both the monopoly and the retail model while taking into account the uniqueness of the modern provider/consumer relationship. In this model we view the consumer as an independent free agent who can choose to learn more about our firm and to move closer to our company or further away depending on how attractive we are and how we meet the consumer’s needs. This is contrary to the monopoly model, which assumes that consumers are stuck in a stagnant relationship with the provider. (They cannot leave, they cannot negotiate, they can only endure whatever services they can get and complain if it gets bad enough.) It also not built upon the retail model, which assumes

![Figure 18-1: The Basic Zones Diagram](image-url)
that the consumer is just one of many and that this multitude must be encouraged to traverse the gauntlet of marketing and sales until trapped into performing a transaction.

We call this the telecentric zone model and it is the foundation for our telecentric approach. Figure 18-1 shows a representation of the telecentric zone model. As you can see, we have recognized the same basic missions to be performed as in the retail model. We still must make consumers aware of our existence, make them familiar with what we have to offer, entice them to prefer us over alternative providers, engage them in negotiations, and, finally, convince them to sign up and continue to use our service.

The difference, the very significant difference, is the way we view the consumer’s role and the company’s role throughout this process.

THE ZONES FROM THE CUSTOMER’S PERSPECTIVE

It is easy to understand how these zones (awareness, familiarity, preference, negotiation, and transaction) apply to our understanding of how to manage a non-customer. Basically, the objective is to turn a non-customer into a customer. However, when we try to apply this same model to existing customers we need to modify our understanding somewhat.

From the company’s perspective, each of these zones defines an objective that the organization is trying to accomplish. They reflect the company’s ability to impart an ever-deepening awareness onto the consumer’s psyche.

From the consumer’s perspective, these zones and objectives look quite different. Explaining these zones in a different way will provide some additional insight into the nature of the consumer’s true relationship with and loyalty to the company.
Emotional Investment Zones Analysis

The level of attention consumers are investing changes as they move between zones.

In the Background - Awareness

Awareness, though important, does not require much emotional investment on the consumer’s part: see an advertisement, take quick note of the company’s presence, and get back to the job at hand.

Awareness defines much more than an on/off switch that acknowledges that the company exists. It is that background level of recognition that consumers have that the company exists and is a viable entity in their consciousness. In a sense, the consumer’s emotional investment in awareness is almost completely subliminal.

Low-Level Attention - Familiarity

Familiarity, too, indicates more than the fact that the consumer knows what you sell and what your corporate logo looks like. Familiarity defines a level of intimacy that the consumer associates with your organization.

Consumer familiarity is the sense that consumers have of how well they know who you are, what you stand for, and how you will help them. It therefore involves more conscious and emotional investment on the part of the consumer than awareness, but it is still mostly a background, subconscious activity.

Conscious Awareness - Preference

As we move from familiarity to preference, however, the consumer’s emotional and psychological participation steps up dramatically. To have a preference one must think and analyze, and review and make choices. When consumers begin to have a preference for your firm, they are able to assemble a picture, both mental and emotional, that causes them to believe that your firm is comparatively better. Preference requires an even higher level of emotional investment from the consumer.
High Activity – Negotiation

Once you get to negotiation, the customer is fully engaged on an emotional level. A decision to change the status quo is imminent. The negotiation zone is probably the most critical for the organization hoping to do something about churn in their marketplace. Keep in mind that consumers negotiate not only when they sign up, but also later when they reflect on potential substitutes. The negotiating done after customers sign up for service is the mental energy they spend on thinking about moving on to a competitor.

Negotiation:

*What a prospect does before becoming your customer*

– or your competitor’s customer.

Negotiation, in this case, is what we call the process that customers go through when they actively invest mental and emotional energy into considering how alternative providers might provide a better deal.

Action – Transactions

The level of emotional investment by the consumer at this stage is at the highest, and it is here where the churning actually occurs. Although the decision to churn has generally been made by the time the transactions occur, the telco can sometimes reverse a decision by reopening the negotiation process.

*Emotional Investment Zones and the Shopping Cycle*

When we look at these zones from the perspective of the customer’s activity rather than from the company’s objectives, we see that the zones are directly related to the shopping cycle that the consumer decides to employ in relation to telco purchase decisions.
The particular model that a consumer chooses to follow for telecommunications purchase decision defines his or her reaction to each of the zones.

Customers who only want to think about telecommunication issues when absolutely necessary (such as when the contract expires or when a radically new technology or pricing structure is introduced) will make the purchase decision and then let that decision slip low on their list of priorities. Once the decision has been made these customers prefers to never see an ad or hear about phone service again.

On the other hand, consumers who are very proactive about phone service and believe that constant scrutiny of prices and options is warranted will be revisiting the negotiation zone on a regular basis and will appreciate much additional stimulation.

Our model of loyal customer relations maintenance, therefore, is further complicated by this fact that not all customers will react in the same way to the same messages. Some will respond to an approach positively (become more loyal) while others may react negatively to the very same actions (less loyalty).

Emotional Investment in First-Time Subscription

By viewing the customer relationship zones as zones of emotional investment on the consumer’s part, we develop a better understanding of not only the sales process but of the loyalty process as well.

As consumers go through their day, they choose to invest more or less energy and attention in what is important to them. They are made aware of wireless companies and services from advertisements, friends, and associates. As their interests gets piqued, they pay more attention, become familiar with the alternatives, and begin to develop a preference. When their interest level is high enough, they will try on the possibility of buying a phone, and the negotiation process begins.

Eventually, the decision to buy is made. After that, the customers expect to cut back on the energy invested in the process. Their expectation is that the service will meet their needs. So they back away from the transaction and negotiation phases into the more passive awareness and familiarity zones. If the telco is lucky, the
customer will stay in these more passive, low-investment zones and just use the phone and pay the bill.

Emotional Investment after the Purchase

However, several situations can cause the consumer to leave these zones. Negative events such as poor service, poor customer service interactions, inaccurate bills, or just hearing a rumor can make the customer agitated. Even worse, if your company is advertising new rates or promotions that cause customers to feel that they didn’t get the best deal, they might reconsider their decision. Positive situations can also create discord. If the customers see advertisements from competitors that promise better rates, better service, or any other significant improvement of conditions, they might start changing their original preference decision or even reopen the negotiation process.

EMOTIONAL ZONE PERSPECTIVE — IMPACTS

When we recognize the nature of the relationship between consumers, their emotional investments, and the various missions (awareness, familiarity, preference, negotiation, and transaction), we see that some reconsideration of the assignment of responsibilities to departments is in order.

Missions Within the Zones

Assuming that different departments of the telco are assigned the execution of different issues in the model, moving from the transactional to the emotional investment view also necessitates a shifting of the assignment and practice of missions. The mission each organization must accomplish within each of these zones is different depending on where the customers are in their shopping cycle.

The objective of the people managing the zones during the initial contact with the customers is to continuously heighten their
awareness and get more and more emotional investment from them until a sale is concluded.

After the sale, the mission shifts. Now the company wants the consumers to minimize their emotional investment and possibly not think about the selection process at all. The job of the zones managers at this point is one of convincing the customers not to worry about the subscription decision and to relax and enjoy the decision they made.

**The Damper Effect**

Ironically, when we view the customer’s relationship with the telco in this light, we see that companies, in their transaction model efforts to fix problems, actually contribute significantly to the churn.

It is in the company’s best interest, once the decision to subscribe has been made, to have the customers not worry about the telecom selection decision anymore. What you would like is for the consumers to stop responding to the types of ads that you used to bring them on board.

However, in their misguided efforts to use the transaction-based formula, telcos oftentimes create more and more campaigns to stimulate more and more emotional investment by the consumer. This effort often creates negative results. The more activated the customers are and the more emotionally invested, the more time they will invest in comparing offers from carriers. Ultimately, this can result in turning the commoditization of the entire industry.
Instead, the telco needs to determine how to damper the consumer’s interest in negotiation after the decision has been made.

**Shopping Cycles and the Zones**

As we discussed in the previous chapter, the consumers’ shopping cycle for telecommunications is *not* the same as the cycle for retail. Consumers do not remake their service provider decision every time they pick up and use a telephone.

A telecommunication provider in this sense has a big advantage over the retailer. Telecommunication consumers do *not* want to constantly have to rethink a provider decision. They want to make the best decision and then stick with it until it becomes incredibly obvious that the trouble of changing carriers is worth the investment of time.

This means that the telecommunication provider, having successfully brought the customers into the transaction zone the first time, is much better off resolving how to keep the customers close to the company. The more comfortable the consumers are with the situation, the more easily they are prevented from seeking out transactions a second time.

Once consumers decide to subscribe with a company they, in effect, grant that company a special trust that says, “I prefer not to change carriers again, so I will trust that you will continue to deliver to me the same level of value and quality that I believe I am getting now. As long as I am not confronted with any clear message that your competitors are offering me a superior relationship to the one I have with you, I will ignore those possibilities and get on with my life.”

**Practical Use of the Emotional Zone Model**

This radically different model of how to manage a customer relationship has many consequences. First and foremost is how this model shows us how all of the interactions between the company and the consumer contribute to the ultimate customer loyalty decision.
Let’s consider a few typical events and how they can impact our customers’ positioning in the zones. We will assume that, when the customers initially sign up for service, they are happy and have no intention of leaving. Their handset is new, they are happy with the rate plan they signed up for, and they are looking forward to years of trouble-free telephone service.

Call Quality Problems

What happens, however, when our new subscriber starts making phone calls and finds that the quality of those calls is not always the best? Basically, each time there is a problem with a call the customer will move a little bit further away from the loyalty zone. If the call quality is only a problem once in a while, then the customer will probably just shrug it off and not worry about it. In this case, he will move just a little bit further away from feeling good about the company. The next time he starts thinking about carriers (negotiating), his current provider will be in a little bit weaker position.

If, on the other hand, the consumer has problems with many calls, then this could actually cause the consumer to immediately reconsider his decision. Enough bad experience can create a negotiation (possible churn) event.

Customer Service Calls

Although call quality can move the customer closer or further from feeling loyalty for the firm, other matters also have that kind of impact. Each time consumers call customer service and ask for help with a problem, they will be either moved in closer or further away. Imagine the impact on a previously loyal customer when a customer service rep is rude and unhelpful. Imagine the impact on an angry customer when a rep is friendly and helpful.

Each customer service event has the potential to pull customers in closer or push them further away.
Public Relations, Rumors, and Reputation

Not only will the more immediate interactions with the telco move the consumer back and forth across the loyalty continuum, so too will other matters. Public relations events, rumors among the populace, and the ongoing reputation that the firm has with consumers all play a role and move consumers in or out.

Why the Old Model Works

When viewed in this light we see that, if the telco is to take advantage of consumers’ implicit trust and maintain the loyalty of customers, some serious scrutiny of these zones of influence is in order. This perspective also makes clear that every department of the telco plays a role, not only in winning or serving customers, but also in maintaining customers’ loyalty.

Looking at the retail/transaction-based model of customer relationship management, two key factors stand out that make the model so extremely successful.

1. The model assigns responsibility for delivery of specific missions to specific organizations — advertising takes care of awareness, sales takes care of negotiation, etc. This assignment of responsibility allows the groups to specialize.

2. The model provides a clear, easy-to-understand measure that lets everyone know if the approach is working. All involved in the delivery of the transaction model concentrate on the transactions delivered.

We therefore have several questions to answer regarding the implementation of this new model.

1. Which departments do we assign to what responsibilities for the maintenance of the zones?

2. How do the roles of these departments change as a consequence of this assignment?

3. How will the organization measure and monitor the actions of these groups?

4. How can we tell if the model is actually working?
ASSIGNING DEPARTMENTS TO MANAGEMENT OF ZONES

Our first task, then, is to determine which departments should be assigned to what jobs and, in some cases, to ask whether the creation of new departments might be in order.

Reassigning Marketing and Sales to the New Model

The first part of the assignment of zones to departments is easy. We know that the marketing and advertising functions will continue to play the same role they always have. There is simply no better way to make consumers aware than through advertising and sales activities. Fortunately, it is a relatively simple process to assign responsibilities for zones to different organizational units. In general, the core groups involved are the same ones as under the transaction model.

- Advertising and marketing for awareness, familiarity, and preference
- Promotion and sales for preference, negotiation, and transactions

Addition of Other Departments

Although the sales organization can certainly help bring the customers in, it can do little to help keep them close to the loyalty zone. After the sale, the sales and promotion groups no longer have any contact with consumers. While the sales group will have some responsibility for the customer relationship, most of that responsibility falls to the customer service, billing, and network maintenance groups.

Since customer service, billing, and network maintenance are the groups responsible for the majority of the customers’ day-to-day interactions with the telco, the nature of their jobs takes on a much greater importance under this model.
ZONE MAINTENANCE – A DIFFERENT JOB DESCRIPTION

The transaction-based model for customer relationship management provides straightforward goals for organizations. Those same jobs that organizations had to accomplish under that model still have to be handled in this new organizational scheme as well as some additional tasks.

Where are Customers in Their Relationship to the Provider?

What makes the transaction model so easy for everyone to execute and manage is the fact that there is no need to keep track of people as individuals. Advertisements go out to the general population, promotions and sales people call on anyone they can, and as long as sales occur at the end of the day everyone is happy.

The major difference and the biggest challenge for executing the zone model is that you have to actually evaluate and interact with customers as individuals. It is impossible to operate in the way we have been advocating if you do not know who your customers are and what zone they are currently in.

This is critical because we cannot expect the group assigned to a particular zone to manage that zone if we have no idea who is in it. Also, without differentiating who the customers are, there can be no measurement of effectiveness of the activities focused on loyalty.

We need to create an environment with a complete built in feedback mechanism. This means that the people assigned to managing a zone will have to:

1. Evaluate and determine which customers are in the zone they are responsible for
2. Evaluate what the status of the customer’s relationship with the provider is (e.g. loyal, disenchanted, angry)
3. Implement activities that will manage the relationships to accomplish their objectives for that zone
Redefining the Role of Marketing

Let’s consider how this new perspective on customer relationship management impacts the marketing organization in its responsibilities as the manager of the awareness, familiarity, and preference zones.

Two Categories of Consumers

For the marketing organization, the redefinition of responsibilities (or shall we say the shifting of their focus) to include management of the awareness zone means that they have to come up with a different major categorization of customers. In its simplest form, marketing sees the public as just that, one large group of people. Although marketers may attempt to identify different segments of customers to help them understand what kinds of people are out there, the objective of most advertising is to find the non-customers and turn them into customers.

When a company is just starting out (especially long distance and wireless companies), this approach makes much sense because there is usually a large ratio of non-customers to customers for many years. However, as the market matures this emphasis needs to change. The market is no longer just a mass of non-customers; there are many existing customers out there as well.

Our redefinition of the role of marketing says that this group should not be focused only on sending messages to the non-customers (the transaction model), but must be equally responsible for sending messages to the current customers. In other words, marketing, through the use of advertising media, has as much responsibility for churn prevention as customer service or any other group.

Focus On the Customer’s Impressions

But how can the marketing organization hope to have an impact on the churn rate? Marketing is about bringing in customers. What kind of role can it play in driving the loyalty of consumers?

Actually, there are several roles marketing can play. The marketing organization will need to start concerning itself with understanding exactly how consumers (both existing and potential consumers) feel
about the company in terms of those factors that are likely to increase churn. Until now, marketing organizations have focused the majority of their research on consumer awareness and name recognition, but have invested little in understanding how consumers feel about the provider in terms of the major churn issues. Is the company perceived as a high priced/low value provider? Does it have a reputation for poor customer service or poor network quality? How well does the company’s advertising combat those kinds of media messages?

Market research has shown that consumers sometimes react more strongly to the reputation than to the facts. The fact that you are the low-cost provider is not very important if the competitor’s advertising has your customers convinced that you are high-priced.

As the market matures and as churn becomes more of a factor, it becomes critical that the marketing organization begins to understand and address these issues.

Overlap Between Transaction and Zone Functions

What makes the company appealing to a prospective customer and to an existing customer overlaps considerably. However, differences are present and a focus on transactions at the expense of the existing customers’ perceptions can be a serious mistake.

You Can’t Stop Advertising!

One of the clear implications of this analysis is that, no matter how mature your market gets, you cannot significantly diminish your advertising activities, not as long as competitors are trying to undermine your position. Even if you are the current provider, you cannot afford to let up too much on your media exposure. If your customers see an increase in advertising by your competitors, accompanied by a serious drop-off in your own, you run the risk of losing credibility. The consumer might think that this lack of exposure on your part is a sign that something is wrong. It also leads to an increasing familiarity with the competitor — to your detriment.
New Metrics, New Segments, New Research Required

To take on this greatly expanded responsibility the marketing, advertising, and market research organizations will have to be equipped with some new tools and some new approaches. An entirely new set of metrics for measuring the effectiveness of activities will have to be developed. A new set of segmentation schemes that organize customers and prospects in more meaningful and useful ways is needed. Also required are new kinds of market research that help the organization understand, not only what makes customers subscribe in the first place, but also what makes them stay loyal.

Redefining the Role of Sales and Promotion

Although the continued and expanded role of marketing and advertising is clear under our new zonal view of the customer landscape, the redefinition of sales and promotion functions takes on a new meaning. Certainly, the sales and promotion groups will have to continue in their efforts to bring in new customers, but that role will need to change to take the new insights into account.

The End of Blind Acquisition

If we are to be effective, then the whole process of acquiring new customers needs to be handled differently. First, we have to eliminate the concept of blind acquisition. Blind acquisition is the process of taking on new customers from anywhere for any reason. The basic philosophy of most start-up sales organizations is that any customer is a good customer and the best are those that are easiest to get. Under this model no consideration is given to the type of customers that are being approached, their history, or their potential value.

This view is valid for the retailer to whom it does not matter who buys the goods as long as they pay for them, but it is absolutely not valid for the telco. The decision to take on a telecommunication customer is not a retail transaction, but the beginning of a relationship, one
that is expensive for the carrier to maintain. If the telco hopes to adjust to the new competitive marketplace of loyalty-based activity, then some filtering of customers is a must.

**Acquiring Customers from the Competition**

Chances are that the customers you are acquiring now are less and less likely to be first-time subscribers but rather customers from the competition. When the majority of the customers that you are signing up comes to you from the competition, then many new variables get introduced into your equation.

**Handling the Professional Churner**

A certain number of your new subscribers will be professional churners. Professional churners are people who go back and forth between telcos to get the best deals possible. They are the customers who stay in the negotiation zone all of the time.

The sales and promotion group needs to ask if it makes economic sense to acquire this customer. The answer, of course, depends on several factors. How long is the customer likely to stay this time? Will the revenue generated before the next churn offset the cost of acquiring this customer?

Making this determination and making the right decision must become a requirement for the sales organization under this new model.

**Handling the Low-Value Customer**

Not only must the sales and promotion groups consider the impacts of bringing in high-churn customers, they also need to be aware of the consequences of paying large amounts to acquire low-value customers. Although every telco would like to have many customers, it is important that those subscribers be profitable. If you run a promotion that subsidizes a customer for $500 and that customer generates $250 per year in revenue, then you have probably made a bad investment.
How Do You Cure the Blindness?

The challenge, of course, is that it is difficult to infuse this kind of selection sophistication into most sales and promotion organizations because these groups have been structured based on the transaction delivery model. That does not mean, however, that the telco can afford to ignore the problem and steps must be taken to inject this kind of facility into the process.

No amount of clever, expensive, or otherwise intensive form of loyalty management approach will help a telco that continues to acquire low-quality and high-churn customers. This kind of blind acquisition can easily gobble up any profit that improvements in other areas produce.

Sales Segmentation

The first step to make such sophisticated acquisition a reality is to generate new sets of data that can help sales and promotion groups determine which customers to acquire. The organization needs to learn who the high-value and low-churn potential customers are. This is not an easy process, but it is a critical one. By figuring out what kinds of customers to look for, these organizations can do a better job of bringing them in.

Sales Measurements

The next step is to set up the key performance indicators and sales targets that encourage focusing on the acquisition of the right kinds of customers. The cornerstone of this must be the development of techniques that prevent investment of large amounts of money in the acquisition of low-value and high-risk customers.

New Targeting Techniques

The other way for a sales or promotion group to embrace its new role in the customer-centric organization is to work with a more focused targeting technique. Sales and promotions strategies need to incorporate all of the information generated by the customer management system into the very process of deciding what kinds of customers should even be approached.
REDEFINING CUSTOMER SERVICE AND CUSTOMER SATISFACTION

One could argue whether or not marketing and sales need to play a less prominent role in the telecentric organization, but the roles of customer service, billing, and network maintenance organizations will definitely move up in stature. Clearly, if they are to concentrate on managing relationships, then these are the groups with the ultimate responsibility for the nature of that process.

However, before we start doubling the size of the customer service budget and ordering new call center automation systems, let’s consider what an enhancement of this role actually means.

Redefining the Role

We say that we want to redefine the roles that the customer support organizations play within the telecentric firm. That does not mean that we should spend more money on those organizations so that they can do more of what they have already done. Instead, some fundamental adjustments in assumptions about how these groups work is in order.

THE NEW CUSTOMER SERVICE MISSION

The customer service organization in most telecommunications companies is a business unit that operates on a clear set of principles: Respond to as many customers as possible, as quickly as possible, with as little impact as possible on the rest of the organization. Let’s consider the consequences of this dictum.

Minimize the Expense

The minimize-the-expense rule has probably the most pronounced impact on the quality of the customer service experience for most
telco customers. Minimizing the expense means that customer service organizations tend to define their functions in terms of the lowest-paying job description. According to this model, if you can define the customer service job in such a way that non-professional, lower-paid, often temporary workers can be used, then you can minimize the expense.

The problem with this is obvious. If the customer service organization is to be your front line for the maintenance of customer relationships, then what happens when the customer service group has your least professional, least dedicated staff? Exactly the opposite of what you want.

**Maximize the Contacts**

The maximize-the-number-of-customer-contacts rule has an impact similar to that of the minimize-the-expense rule. Because of this rule, most customer service organizations have eliminated customer service centers where customers can come in and meet a person face to face. Instead, huge call centers are created. This way, the number of contacts is maximized.

Again, this means is that the customer service rep’s primary mission is to get the person off the phone as quickly as possible so that the next call can be taken. That is not very conducive to quality relationship building.

**Minimize the Organizational Impact**

The final rule is also a devastating one. Most customer service organizations are encouraged to take care of the customers’ problems, but are also discouraged from bothering the people in marketing, sales, network maintenance, and billing when problems arise. The customer service group is perceived as a buffer designed to keep out customer disruption of activities rather than as the primary agent for change in the business.
Customer Service Vision

The more appropriate vision for the customer service organization needs to be almost the opposite of what it is today. If it is to function as the true front-line maintainer of customer relationships, then the quality of staff must be upgraded and a culture developed that holds the professional customer service agent as one of the most valuable members of the team.

The metrics that measure a customer service rep must be changed to reflect the quality of customer experience created, rather than the speed with which a customer problem is dismissed. To do this, the customer service organization must be integrated into the core strategy development part of the business as well as the day-to-day operations. Customer service reps need to be trained and made part of the entire telecommunications provision process.
Throughout the past 18 chapters we have explored many of the perspectives that help us to understand the churn phenomenon and the alternative ways that a telco can develop responses to these events. Let’s recap briefly.

We indicated that the telco management team needs to understand who their customers are, the types of shopping and buying behaviors they exhibit, the expectations the customers have for their providers, and the alternative models that can be used for organizing the business. We considered churn from the customer’s perspective, the financial perspective, the technological perspective, and the personal perspective. We examined churn as a factor in the momentous shifting of forces in the global marketplace and as the immediate and personal response of an individual to minor irritations. We also considered in some detail the typical telecommunications organization and its ability to respond to churn. We saw that the biggest challenge in churn situations is to react quickly to consumer responses to new technology economics. Finally, in Chapter 18, we talked about a new organizational paradigm for the modern. We proposed a model that is not based on appeasing regulators (the monopoly model) or on bombarding telecommunications consumers with better, faster, and less expensive products (retail model).

We will now look at some tangible examples of how it all comes together. In this chapter, we will discuss issues of time frames and intimacy appropriateness.
THE TELECENTRIC PERSPECTIVE

To accomplish this objective, however, there are two additional major hurdles to overcome. These involve issues of timing and customer intimacy.

TIMING ISSUES

One of the very nice qualities of the monopoly and retail business models is that everyone in the business understands exactly what is important and when. With either of these models, everyone in the company is encouraged to work on extremely short-term, future-oriented timelines. The nature of the business two years ago or six months into the future is not that important. What matters most is the number of sales this week and how many customer complaints are expected next quarter.

Although these time frames create a certain amount of pressure for employees, it also creates much comfort. Everyone knows the when that is being focused on.

Customer Relationships — Past, Present, and Future

When you focus on customer relationships, you can no longer center on just the immediate time frame. If you want customer relationships that last for years, then you need to expand your thinking about those customers to include years. It is not enough, however, for a few strategies in the corporate offices to look at the long-term. Everyone has to embrace the concept.

Tactical Long-Term Thinking

You need to establish the concept of tactical long-term thinking within the entire organization. That phrase, “tactical long-term thinking,” may seem like an oxymoron. After all, we typically associate strategy with long-term and tactical with short-term
thinking. Tactical long-term thinking means that we want every employee making any kind of tactical decision about how to react to a customer at any given point in time to make that decision based on three factors:

1. The history of the relationship with this customer
2. The current situation and the reaction that is called for
3. The company’s future hopes for this relationship

This is how a person makes decisions about personal relationship situations. Why would we expect any less in our customer relationship management situation?

Creating Tactical Long Term-Thinking Capabilities

To say that we want individuals to change their thinking about how they make customer decisions is one thing, but to actually be able to do it is another. For that we need to do the following:

- Collect and provide pertinent historical information to the people that need it.
- Create management-based prospectuses that let everyone know exactly what the company’s long term plans for this particular customer are.
- Provide the people making these decisions with the authority to react appropriately based on what they then know about the situation.

This is a tall order but one that the customer management system-based environment can clearly support.

Short-Term Customer Relationship Activity Time Frames

Timing issues are also critical when we organize and execute larger scale activities. We need to be aware of the timing implications of our advertising, marketing, and sales activities, just as we need to be aware of our reactions to a customer service situation.
Customer Service and Timing

The customer service organization has perhaps the most difficulty with time frames because that group, more than any other, must deal with the customers now, immediately. Because of this, the customer service organization is the most critical practitioner of tactical, long-term thinking that the organization has.

Information Required by Customer Service to Make Good Customer Relationship Management Decisions

To equip the customer service organization with the tools for the job, the customer management system (through the auspices of the call center management system) needs to provide customer service reps with the following information. At a minimum, to do their job as customer relationship managers effectively, a customer service rep needs to know:

- How long the person who is calling has been a customer
- What the customer’s average revenues per year (per month) have been
- What products or services have been utilized
- The number of dropped calls or other service troubles experienced (whether the customer reported them or the network management system detected them)
- The number and nature of all calls this customer has placed to customer service
- The customer’s current and past billing plans or special deals
- Any other special contractual or relationship information
- The customer’s value function
- The customer’s churn prediction value
- The churn shield index for the segment this customer is a member of
- The identity of the segment that this customer belongs to

Customer Service Prerogatives

Just as the customer service organization needs to have much information to make informed decisions, so too must the customer
service rep have latitude in determining how to respond to the
customer service complaint or service call. Instead of being given
simple alternatives from which to choose to help the customer, the
customer service rep should be provided with ranges of response
options that they can invoke to respond appropriately to who the
customer is and what the customer call is about.

**Measuring Customer Service Activity**

The typical method of measuring customer service effectiveness
(i.e. accomplishing the maximum number of customer calls handled
in the minimum amount of time) becomes a dangerous and counter-
productive measure in this kind of environment. The customer
service organization under this scenario needs to be evaluated based
on the appropriateness of responses and on the net impact on the
customer’s ultimate disposition (stay or leave).

Of course, this means that the measurement of effectiveness
of customer service, such as the management of the customer
relationships themselves, must take on a much longer time frame
than usual. The customer service organization needs to be evaluated based,
not only on the number of calls handled, but on the number
of customer relationships bolstered for the extended time frame (six
months to one year).

**Sales and Timing**

Just as the customer service organization needs to deal with the past,
present, and future issues regarding a customer, but viewed from
within the tightly focused window of the immediacy of a customer
call, so too must sales use a special kind of timing filter. The special
challenge for the sales organization is that, in most cases, it will
have little or no history of the new customer. Their appraisal of the
customer must be based on a best estimate of the customer’s current
and future values.

**Using Segmentation to Aid Sales Activity**

Although salespeople will, in most cases, be unable to get a good
profile of the new customer’s past telephone behavior, they can
focus on the right kinds of people to attract through segmentation
analysis.
When the organization identifies the primary customer base segments that it wants to concentrate on and declares its desire to increase the subscribership numbers for customers of that sort, it makes an informed decision about the most likely future value of those customers. Instead of asking the sales and promotion organization to bring in any customer they can find, management needs to set discrete sales targets for certain kinds of customers.

For example, instead of setting a sales goal of one million new subscribers in the next twelve months, management could set goals such as the following.

1. Acquire 200,000 new teenage subscribers at minimum average revenue per user (ARPU) of $20 per month and an average billing rate (ABR) of 12 cents per minute.
2. Reacquire 150,000 customers at an ABR of 7 cents per minute who left the company within the last year and who had an ARPU of $50 per month before they left.

By setting these kinds of targets, management injects present- and future-based criteria into sales targets.

**Measuring the Sales Organization**

Just as modification of the time frames changes how we measure customer service activity, so too does it change measurement of sales activity. The practice of measuring and rewarding organizations for net adds within thirty days of the acquisition fails to encourage the right sales focus. If you still pay full commission and reward meeting short-term objectives, then your chance of truly changing sales behavior is low. Instead, sales plans should be structured so that some immediate credit is awarded at the close of the sale but full compensation realized only after an appropriate period of time, a timeframe long enough to measure the ARPU and loyalty of the new customer.

**LONGTERM TIME FRAMES**

The sales and customer service organizations are by far the most intimate with customers. Because of this intimacy (meetings are...
face-to-face and decisions are immediate), these organizations exercise much power over the nature of the relationship. Clearly, the information made available to these groups and the effectiveness of their delivery will be key to any relationship.

The marketing and advertising organizations (with their capacities of product creation and price setting) have a much longer-term perspective on customers that also have a marked impact on the relationship. These groups have some special problems they must deal with.

**Two-Way, Non-Intimate Communication**

Sales and customer service reps are able to immediately evaluate the customer’s state of mind, opinions, and wishes, but the advertising and marketing groups have no such advantage. Although these departments exhibit a tremendous amount of influence over the customer’s ultimate satisfaction with the products and services offered, they are greatly hampered in the level of feedback they can expect. Indeed, this failure to acquire and use adequate and appropriately collected information from customers at this level can lead to many serious customer satisfaction problems.

**Advertising and Marketing Generated Discontent**

Because of the nature of their missions, the advertising and marketing organizations are the most likely to create situations where discontent is generated.

**Pricing Discontent**

For example, it is the marketing organization that sets pricing programs and pricing policies for customers. Typically, pricing programs are developed to cover long periods of time (three or six months – one, two, or three years) and they bind a customer to a particular rate. In a market where prices are dropping quickly and radically, customers may find themselves holding a contract at a rate-per-minute far higher than they feel is reasonable based on current prices offered by competitors.
Wrong Image Broadcasting

In a similar vein, consider the company that spends millions of dollars on an advertising campaign to appeal to the young, liberal, free-spirited teenage market, associating their telephones with youthful energy and exuberance. This message, while appealing to one segment, could potentially disenfranchise a large group of existing customers who are older, more conservative, and business oriented. They could interpret this advertising message as implying that the telco is not dependable, frivolous, and high priced.

Great Advertising, Terrible Service

Probably, the most nefarious of mixed messages customers can receive is a bombardment of advertisements about great line quality and friendly customer service. These advertising messages may drive the customer to your firm, but failure on the part of customer service and network management to deliver what has been promised will change consumer attitude about your company.

The Time Lag Effect

Although powerful advertising images and aggressive pricing may have driven the customer to the company to begin with, those same activities can have the opposite effect as the duration of the relationship with the telco lengthens. The reality is that the customer does not stop having feelings about the company when the advertising messages stop. As the relationship continues, customers will remember old messages and interpret new ones based on that history.

The challenge in addressing these kinds of problems, of course, is experienced by the company over the long run, not in the immediate time frame. A customer does not have an epiphany and immediately drop service. Instead, the little irritations and inconsistencies build up, creating a backlog of discontent.
ADDRESSING LONG-TERM CUSTOMER CONTENTMENT

How then can the advertising and marketing organizations hope to participate in a relationship with consumers under these terms? In today’s world, it is a situation akin to a marriage where the partners stop talking to each other. The telephone company (the suitor) puts on its best face possible to woo the consumer, but after the contract is signed, the company stops listening to what consumers have to say.

Customer service can be helpful in this case, providing some feedback, but by the time the receive the call, the customer is probably already very angry, far past the irritation point. The people commissioned with responsibility for the long-term health of customer relationships need to have ongoing feedback from those consumers before it gets to the point of a customer service intervention.

Intimacy Issues

But how do the advertising and marketing organizations establish this kind of feedback? Typical marketing wisdom calls for the company to aggressively research the market on a regular basis to ascertain how the public at large perceives the telco. This is a good first step and provides important insight. Unfortunately, this kind of market research, at the level of the general population, does little to tell us how well we are responding to the needs of individual customers.

Inappropriate Intimacy

Using our marriage analogy, one might conclude that the marketing and advertising organizations need to call each customer on a regular basis (say monthly) and ask them how they are doing. Are they happy with the service? Are they happy with the price? Is there anything they need?

Unfortunately, this is not practical. For one, it is very expensive. No organization can afford to ask each customer for a health check on the relationship on such a regular basis. More importantly, such a
technique would quickly be perceived as extremely intrusive (like the nagging spouse who never stops asking the same questions). Although the phone company might want to be more intimate with consumers, few customers are really keen on discussing phone service on a monthly basis with their providers.

**Neglect – The Absence of Intimacy**

Although customer satisfaction queries can be inappropriate, intrusive, and irritating, completely ignoring customers, while continuing to send them arbitrary messages, is also less than optimal. Somehow, a balance between these extremes is required.

**Appropriate Intimacy – The Role of Segmentation and Market Research**

Luckily, there is a solution to this dilemma. Although we cannot afford to work with each and every individual customer, we can work with each of our primary customer segments as if they were individuals. In fact, that is precisely the reason we created the segments in the first place.

To determine how well our efforts are impacting each of the segments, all we need to do is conduct periodic (monthly or quarterly) market research and focus groups. This segment-based activity provides the customer relationship management groups with the feedback required to maintain good relationships on a long-term basis.

**Advertising, Marketing, and Timing**

The advertising and marketing groups, then, are challenged to manage timing in a very different way. Their job is to track the history of the relationships the company has maintained with the customers within each segment and to set goals that allow them to accomplish their objectives in the same long-term way.
Measuring the Effectiveness of Marketing and Advertising

Just as with the other organizations, measuring the effectiveness of marketing and advertising in the telecentric organization is complicated. Now, measurement involves not only the effectiveness in an indeterminate, nebulous group of customers known as the public, but looks to ascertain how well segments are being managed in the long-term for wallet share, acquisition, and loyalty dimensions.
Thus far, we have focused mainly on the more strategic, theoretical, and high-level aspects of churn management. Now, we are finally ready to deal with the more tactical characteristics. In this chapter, we begin with the most fundamental and critical of tactical churn management issues: reporting churn to the organization. Without accurate and meaningful churn reporting, no one will be able to do very much about churn.

Churn management and the development of effective churn management approaches can be a large, complicated task that requires a great deal of sophistication on the part of the organization. However, many organizations fail to realize that, if they do not put the basic information reporting systems in place to identify and measure the churn as it occurs, then all of the strategic thinking and sophisticated planning is for nothing.

A SYSTEMATIC APPROACH TO CHURN DIAGNOSIS

There are several techniques for accurately assessing a churn situation. Some of the most popular, proven techniques include the following:

1. Understanding the current saturation for your products and services in your marketplace.
2. Recording and reporting the raw churn headcount numbers for your organization (past and present).
3. Defining standard definitions for the types of churn that you want to track.
4. Creating the mechanisms that capture the reasons why customers churn.
5. Creating reports that communicate the past and present churn numbers by segment, churn type, sales channel, bill code (tariff), and other criteria.

These steps provide a guide for developing an effective and accurate analysis of churn.

**STEP 1 – DETERMINE THE CURRENT MARKET SATURATION**

Understanding the current condition, maturity, and direction of the marketplace where you are competing is the first critical issue. If you do not know the saturation level of your current marketplace, then you cannot evaluate the seriousness of your churn problem. Remember that churn can be either negatively motivated (when customers are so dissatisfied that they will proactively search for alternatives) or positively motivated (when customers are seduced away by better competitive offers). Understanding your market conditions will help you determine which kinds of churn pressure you must address. Several forms of analysis can help evaluate the current market conditions.

**Determine the Market Life Cycle Stage**

In Chapter 2, we examined the new technology assimilation cycle and saw how customers gradually come to experiment with, accept, and then drop new technologies in a never-ending cycle of technological maturity. We identified four phases that each new generation of telecommunications technology goes through as it is presented to the market. These phases include startup, expansion, saturation, and decline.
The first step is to define our marketplace in terms of its market life cycle. We can make this determination in several ways. If the industry is less than one year old, then it is highly likely you are in the startup or expansion phase. If the market is more than three or four years old, then you are probably in the saturation phase. If new technologies are dominant on the scene and customer turnover is very high, then you are probably dealing with the decline phase.

**Determine Current Market Penetration**

It can also be helpful to ascertain the current rate of penetration for your customer base. By looking at this number for your area and comparing it to the numbers of other areas (different countries or regions of the country), you can decide whether your market has reached the saturation point. The closer you are to saturation, the more likely you, or your competitors, are to participate in predatory churn activity.

**Reviewing Tele-Density Numbers**

The tele-density index for you area is the first number you should determine. Tele-density numbers give you the percentage of the population that has cell phones. For example, the tele-density for wireless in France is 28 percent, while the rate for Indonesia is 1 percent. Right now, the highest penetration rate for wireless in the world is in South Korea with a tele-density of over 40 percent. Comparing the tele-density numbers for your market to other markets like yours can tells you how much potential unmet market demand still exists.

**Comparing Wireless Tele-Density to Wireline Tele-Density**

Another useful step in this process is to attain the wireline tele-density numbers for the same markets where you have wireless numbers. Since we know that the general market trend is for wireless to replace wireline, then one might reasonably expect that the current wireline tele-density numbers are reasonable estimates for the eventual rate for wireless.
Defining the Churn Pressure Index

Many companies use the *churn pressure index* to help them identify how much pressure there is on competitors to steal customers from each other. To calculate the churn pressure index you need three numbers: the number of subscribers that all wireless companies in your market currently have (x) and the estimated number of potential customers yet to be acquired (y). Whey you add x and y together you get (z), the total number of people in your market that could possibly be wireless subscribers.

\[
X \text{ (current subscribers)} + Y \text{ (potential subscribers)} = Z \text{ (total market for wireless)}
\]

To calculate the churn pressure index, you simply divide the total number of potential subscribers (Z) by the number of current subscribers (X).

\[
\text{Churn Pressure Index} = \frac{Z \text{ (# of potential subscribers)}}{X \text{ (# of current subscribers)}}
\]

For example, say that you have a market with 500,000 people between the ages of 18 and 90, with income high enough for them to be considered potential wireless customers. In this case, the variable Z will be equal to 500,000.

Assume further that currently 100,000 people have cell phones. X is equal to 100,000. This means that there are 400,000 more customers yet to be acquired in the market. The Churn pressure index in this case is Z/X or 500,000/100,000 or a value of 5.

Later on, as the market matures, assume that the number of potential subscribers stays consistent at 500,000 but that aggressive marketing campaigns have led to the sign up of another 300,000 customers. This means that you now have a total subscriber base of 400,000 (the original 100,000 plus the additional 300,000). The churn pressure index is now equal to 500,000/400,000 or 5/4 (or 1.25).

The more subscribers in the market, the closer the churn pressure index is to 1.
STEP 2 – RAW CHURN COUNTS

At this point, you need to put together some estimates about the true nature and scope of the current churn situation. The first step in this process is to get accurate numbers of just how many customers are leaving under any condition. At a minimum, these reports should state the raw headcounts (number of customers that no longer have service) in both the voluntary and involuntary churn categories. Additionally, corresponding reports that reflect the amount of average monthly revenue that the loss of these customers represents can also be very illuminating.

Headcount Metrics

The easiest metric for your own churn can often be attained through headcount reports. Most telecommunications companies use headcount as one of their most basic key performance indicators.

Unfortunately, looking at headcount numbers can be very misleading. For example, most headcount reports simply report on the firm’s gross number of customers. They usually do not include acquisitions. This means that a company can be showing a constantly increasing headcount (since acquisitions continue all the time) but may also have an ever-increasing churn problem. This of course, can only happen when the acquisitions occur faster than the churn. It also means that, when you see decreasing headcount numbers, you are not getting a good reflection on churn. The churn might be much worse than indicated by these reports.

Accurate Headcount Reports for Churn

The best headcount reports for providing accurate churn numbers consist of the following information:

♦ The number of customers acquired this month
♦ Added to the number of customers enrolled last month
♦ Minus the number of customers enrolled at the end of this month
♦ Equals the real churn number for the month.
Reports of this nature, to be of real value, should provide this calculation on a monthly basis for every month since the firm began doing business.

**Account Cancellation Metrics**

Although every telco has the ability to create headcount reports, it is actually much more difficult for many of them to acquire accurate account cancellation data. Systems are usually not built to track cancellation events, and customers often do not officially cancel but simply stop using the service. The only way to develop accurate reports by cancellation is to use a customer database that tracks each customer as an individual and reports on changes in status.

**Revenue Metrics**

Headcount and cancellation reports are useful, but the best reports are those that show not only the number of customers that have left the company in a given month but also what this has cost the firm in unrecognized revenue. Revenue loss or opportunity cost churn reports give management the best picture about the real impact of churn on the firm.

**The Need for Regular Churn Reporting**

Very few companies in wireless today have ever thought about needing to address churn issues. As a consequence, most are ill prepared to accurately report on it. Good churn management requires the company to do an adequate job of reporting on the churn.
should not be an exception type of reporting.) Without a regularly run churn monitoring mechanism, the company runs the risk of being caught unaware of potentially damaging churn situations.

**STEP 3 – DEFINE THE CHURN TYPES**

The raw churn reports mentioned above are, by all means, the first set of reports that any organization should create to manage churn. These reports will tell you if churn is a problem, and, if so, will also communicate how big of a problem. They are early warning reports that create awareness of the problem. To actually address churn, however, you need reports that are much more informative. Before we can create these reports, however, we must determine what kinds of churn we want to track.

**Types of Churn**

You may recall our extensive discussion about the types of churn in Chapters 3 and 4. One way to approach churn reporting might be to create lists of the churners and their reasons for churning. Of course, there are several problems with this:

1. Customers often leave for a combination of reasons and evaluating churn by any one reason can be misleading.
2. Customers may be reluctant or unable to tell you why they are leaving, making accurate reporting impossible.
3. Collecting all of these possible churn reasons is too expensive and difficult.
4. It is not especially useful to have reporting of so many different categories.

Because of the many challenges in churn categorization, most organizations develop from three to seven churn classes and limit churn reporting to these categories. (Of course, data mining, segmentation, and prediction modeling can take many more variables into account).
Battling over Churn Categorization

The process of assigning churn categories for reporting might seem to be a trivial matter, but in many situations it is not so effortless. The problem is that each organization will tend to have a slightly different perspective on the churn issue and will define churn differently. Some organizations consider it a churn event any time a customer leaves. Others call it a churn event only when the customer leaves to take up service with another firm. Still others focus only on involuntary or on the voluntary types. Getting the entire organization to agree on standard definitions for churn types and then making use of standard reports can be a big job.

### STEP 4 – CHURN REASON COLLECTION

Once company standard churn definitions are established, our next problem is to determine how to collect that information and incorporate it into the reports.

**Billing System or Customer Service System Entries**

Depending on the billing system and customer service management system you are using, you probably have a ready-made facility for collecting churn reasons. The easiest, quickest, and most common way is to instruct the customer service personnel to go through a standard set of responses when a customer calls to discontinue service.

**Defining Standard Churn Reason Codes**

Next, we need to turn the standard definitions for churn, defined by the organization, into a chart of reason codes. This chart provides anyone encountering a churn situation with the criteria for assigning a churn reason to the event. It is very important that the chart of churn reason codes be prepared, formalized, and distributed to the
entire organization. This way, everyone knows exactly what is being reported and why.

<table>
<thead>
<tr>
<th>Code</th>
<th>Churn Type</th>
<th>Churn Reason Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Voluntary</td>
<td>Price Complaint</td>
<td>Customer complaints about price</td>
</tr>
<tr>
<td>102</td>
<td>Voluntary</td>
<td>Promotion Offer</td>
<td>Customer indicates that they are responding to a competitor’s promotional offer</td>
</tr>
<tr>
<td>103</td>
<td>Voluntary</td>
<td>Customer Service Issues</td>
<td>Customer complaints about poor customer service indicate that this is the reason they left</td>
</tr>
<tr>
<td>205</td>
<td>Voluntary</td>
<td>Poor Network Quality</td>
<td>Customer complaints about call quality, or historical records that show a history of call problems</td>
</tr>
<tr>
<td>207</td>
<td>Voluntary</td>
<td>Billing Problems</td>
<td>Customer complaints about billing</td>
</tr>
<tr>
<td>210</td>
<td>Voluntary</td>
<td>Moved, Deceased, Military</td>
<td>The person is moving, died or has entered military service</td>
</tr>
<tr>
<td>335</td>
<td>Involuntary</td>
<td>Credit Problems</td>
<td>Account discontinued for failure to pay bills</td>
</tr>
<tr>
<td>345</td>
<td>Involuntary</td>
<td>Fraud</td>
<td>Account discontinued because fraud was detected</td>
</tr>
<tr>
<td>380</td>
<td>Involuntary</td>
<td>Non-usage</td>
<td>Account discontinued because it was not used for 6 months</td>
</tr>
</tbody>
</table>

Figure 20-3: Chart of Churn Reason Codes

Instructing Customer Service in the Proper Diagnosis of a Churn Event

After the chart of churn reason codes has been prepared, the customer service organization, in particular, needs to be briefed on the codes definitions and how they are to be used. Detailed instructions regarding which fields in the billing or customer service systems are to hold the reason codes and how to successfully record the events need to be provided.

Capture of Churn Reasons in the Billing or Customer Service Systems

At this point, churn reasons can be harvested from the billing system as required.

Direct Identification Using Exit Polls

If you cannot get a computer-generated list of customers that have churned, then you are left with no other alternative but to manually collect the exit information as the customers leave. Probably the
The easiest way is directly from the customer (or ex-customer) through exit interviews or exit polls either by telephone, in person, or via surveys mailed to the customers. The valuable aspect of this technique is that you can collect important information about customers and their churn behavior that is impossible to acquire through indirect means. The bad news is that it is difficult to get all of the customers to provide this information, and nothing prevents them from not telling you the truth.

**ALTERNATIVE CHURN REPORT FORMATS**

There are, of course, thousands of possible forms that churn reports can take, and each of them has merit. We provide a few examples of report types that other organizations have found useful.

**Viewing Churn by Different Dimensions**

After you have put together the best list possible of the customers that are leaving and have gathered as much information about them as you can, you are then ready to determine what kinds of people these customers are. The analyst will want to try to understand the raw churn numbers according to several different dimensions to gain insight into who is leaving and perhaps even provide clues as to why they are leaving.

**Attrition by Revenue**

The analyst will want to see a report that shows, by different revenue levels, how many customers are leaving. In other words, we want

<table>
<thead>
<tr>
<th>Voluntary Churn by Revenue</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Attrition</td>
<td>5,000</td>
<td>7,500</td>
<td>10,100</td>
<td>2,200</td>
<td>4,000</td>
<td>8,000</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0-$50 / month</td>
<td>1,500</td>
<td>1,750</td>
<td>2,100</td>
<td>500</td>
<td>500</td>
<td>1,500</td>
<td>200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$50.01 - $100 / month</td>
<td>1,000</td>
<td>2,000</td>
<td>3,000</td>
<td>200</td>
<td>1,000</td>
<td>1,500</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$100.01 - $200 / month</td>
<td>2,000</td>
<td>3,000</td>
<td>4,000</td>
<td>300</td>
<td>1,000</td>
<td>2,000</td>
<td>300</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over $200 / month</td>
<td>500</td>
<td>750</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 20-4: Attrition by Revenue Report
to know whether those that are leaving are low, medium, or high revenue consumers. A typical attrition-by-revenue report will break down the customers into three or four revenue categories and show the attrition counts for each month. See Figure 20-4.

Attrition by Geography

Another interesting insight can be generated if we review the people that are leaving the firm by their geographic locations. The analyst may be able to glean critical information about the churn events, detecting reasons such as:

1. Poor customer service coverage in certain geographic areas
2. Poor network coverage in certain areas
3. Aggressive acquisition activity by competitors in certain areas

<table>
<thead>
<tr>
<th>Voluntary Churn by Revenue</th>
<th>Eastern Region</th>
<th>Southern Region</th>
<th>Northern Region</th>
<th>Western Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>500</td>
<td>1000</td>
<td>1500</td>
<td>2000</td>
</tr>
<tr>
<td>Feb</td>
<td>750</td>
<td>2000</td>
<td>1750</td>
<td>3000</td>
</tr>
<tr>
<td>Mar</td>
<td>1000</td>
<td>3000</td>
<td>2100</td>
<td>4000</td>
</tr>
<tr>
<td>Apr</td>
<td>1200</td>
<td>2000</td>
<td>500</td>
<td>5000</td>
</tr>
<tr>
<td>May</td>
<td>1500</td>
<td>1000</td>
<td>500</td>
<td>1000</td>
</tr>
<tr>
<td>Jun</td>
<td>3000</td>
<td>1000</td>
<td>1000</td>
<td>2000</td>
</tr>
<tr>
<td>Jul</td>
<td>4000</td>
<td>1000</td>
<td>1000</td>
<td>3000</td>
</tr>
<tr>
<td>Aug</td>
<td>5000</td>
<td>1000</td>
<td>1000</td>
<td>4000</td>
</tr>
<tr>
<td>Sep</td>
<td>6000</td>
<td>1000</td>
<td>1000</td>
<td>5000</td>
</tr>
<tr>
<td>Oct</td>
<td>7000</td>
<td>1000</td>
<td>1000</td>
<td>6000</td>
</tr>
<tr>
<td>Nov</td>
<td>8000</td>
<td>1000</td>
<td>1000</td>
<td>7000</td>
</tr>
<tr>
<td>Dec</td>
<td>9000</td>
<td>1000</td>
<td>1000</td>
<td>8000</td>
</tr>
<tr>
<td>YTD</td>
<td>5000</td>
<td>10000</td>
<td>15000</td>
<td>20000</td>
</tr>
</tbody>
</table>

Figure 20-5: Attrition by Geography Report

Another interesting insight can be generated if we review the people that are leaving the firm by their geographic locations. The analyst may be able to glean critical information about the churn events, detecting reasons such as:

1. Poor customer service coverage in certain geographic areas
2. Poor network coverage in certain areas
3. Aggressive acquisition activity by competitors in certain areas

<table>
<thead>
<tr>
<th>Voluntary</th>
<th>102</th>
<th>103</th>
<th>205</th>
<th>207</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>1500</td>
<td>1000</td>
<td>500</td>
<td>1375</td>
</tr>
<tr>
<td>Promo</td>
<td>2250</td>
<td>750</td>
<td>1500</td>
<td>2062.5</td>
</tr>
<tr>
<td>Customer Service</td>
<td>3030</td>
<td>1010</td>
<td>2020</td>
<td>2777.5</td>
</tr>
<tr>
<td>Network</td>
<td>600</td>
<td>440</td>
<td>220</td>
<td>405</td>
</tr>
<tr>
<td>Billing</td>
<td>1200</td>
<td>400</td>
<td>800</td>
<td>1125</td>
</tr>
<tr>
<td>Moved</td>
<td>2400</td>
<td>800</td>
<td>1600</td>
<td>2250</td>
</tr>
<tr>
<td>Credit</td>
<td>300</td>
<td>300</td>
<td>0</td>
<td>275</td>
</tr>
<tr>
<td>Fraud</td>
<td>600</td>
<td>200</td>
<td>200</td>
<td>600</td>
</tr>
<tr>
<td>Non-usage</td>
<td>11340</td>
<td>4700</td>
<td>6640</td>
<td>10385</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Involuntary</th>
<th>210</th>
<th>335</th>
<th>345</th>
<th>380</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>250</td>
<td>1000</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>February</td>
<td>375</td>
<td>2000</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>March</td>
<td>505</td>
<td>3000</td>
<td>1000</td>
<td>1500</td>
</tr>
<tr>
<td>April</td>
<td>110</td>
<td>250</td>
<td>250</td>
<td>500</td>
</tr>
<tr>
<td>May</td>
<td>200</td>
<td>1500</td>
<td>1000</td>
<td>500</td>
</tr>
<tr>
<td>June</td>
<td>400</td>
<td>200</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>July</td>
<td>600</td>
<td>200</td>
<td>100</td>
<td>250</td>
</tr>
<tr>
<td>August</td>
<td>1180</td>
<td>8150</td>
<td>3950</td>
<td>4450</td>
</tr>
</tbody>
</table>

Figure 20-6: Attrition by Reason Code
We can see by the report in Figure 20-5 that our rural region is suffering the worst of the churn, leading us to suspect that one of the geographic indicators listed above is at fault.

Attrition by Reason Code

Determining how many customers are leaving and determining the exact reasons why they are leaving can help an organization become more discerning about how it will handle churn.
How do sales and promotional offerings impact churn? After all, sales are designed to attract customers and churn is about retaining them. When it comes to churn, the sales organization, more than any other group is responsible for creating situations that lead to churn.

Any comprehensive churn management program must start with flexible, lasting relationships with customers. To accomplish this, we must do more than design lower-cost rate plans. We must examine the foundational concepts that drive the telecommunications sales organizations.

We need to shift the emphasis of the sales organization from sponsoring increasingly inexpensive rate plans, to creating and promoting more viable, interesting, and customer-focused relationship plans. Customers need to be offered a clear choice of alternative plans based on the level of need or service desired and then adjust price, service, and quality accordingly.

Talking about the fact that churn is a problem that the entire organization helps create is one thing; determining what role each part of the organization will play to contribute to the solution is another. The way a typical telecommunications organization is set up, and the way each customer relationship management organization perceives its role, leaves a vacuum of responsibility for the management of the customer relationship itself.
RATE PLAN-BASED OFFERINGS

There are no quick, easy reorganization schemes, or clever marketing campaigns that will help the telco address churn management problems in any profound way. If we make no changes in how the basic products and services are packaged and promoted to the consumer, then the inherent, underlying causes of the churn phenomenon will remain.

Changing the Consumer Shopping Cycle

The inherent problem that creates the churn in the first place is the combination of consumer attitudes and shopping cycles and the telecommunications products and consumer response models that a telco adopts in reaction to the consumers. If we want to significantly modify this business model, then we must change the basic underlying attitudes and conditions.

What Consumers Shop For ... The Rate Plan

What do consumers shop for when they consider telecommunications services? More importantly, what does the telecommunications organization create and promote as the primary unit of purchase? The fact remains despite all of the brand image building, all the talk about customer loyalty and all the attempts to appeal to the “softer side” of the consumer’s psyche, what the telco sells to the consumer is a rate plan.

Rate plans are how telcos package products. By examining the rate plan, we discover the weakness of the existing customer relationship model. Rate plans, billing codes, tariffs and many other names are used to identify the currency of the telecommunications world. No matter what it is called, the rate code identifies exactly what the customer is buying.

Rate Plans – The Common Denominator in All Sales Activities

Rate plans are the point of any sales or promotional offering. The rate plan is used to distinguish one campaign from another. The
terms of the rate plan provide the sales and promotional groups with an opportunity to create the story that is used to target a specific consumer.

If you need additional proof of the universality of rate plans, look at some billing systems. Many different billing systems are used at telcos around the world. Each is different, but all have one common feature. Every billing system tracks important customer information such as name, address, telephone number and, of course, the rate plan.

Assumptions Underlying The Rate Plan

Once we accept that the rate plan is the true definer of the relationship between the telco and the consumer, we are presented with an interesting insight. What exactly is a rate plan and what does it imply?

Despite the best efforts of most telcos to expand their concept of their product, the basic assumption behind the rate plan is simple and straightforward. The company has a network that provides telecommunications service. This network has a certain capacity to provide standardized levels of quality and service across a predefined geographical area. The rate plan is a customized price that the consumer agrees to pay for access to that basic network infrastructure.

RATE PLAN-BASED BUSINESS MODEL WEAKNESSES

Given our understanding of what rate plans are, it is easy to see why the telecommunications industry is constantly fighting challenges of commoditization (turning the telecommunications product into a commodity that is only differentiated by price), as well as high churn rates, and incredible downward price pressure.
No Differentiation of Product or Service

When consumer response models are based on the assumption that the quality and nature of the products and services are basically the same, no matter what price you charge, then consumers will constantly search for the lowest price possible.

No Reason to be Loyal

It creates a situation where:

a) Consumers see no differentiation of goods and services, therefore

b) There is no reason for consumers to feel loyalty of any kind.

ATTACKING THE RATE PLAN ASSUMPTION

If you really want to change the underlying paradigm that creates and propagates churn, then you must attack it at the source. You must question your dedication to rate plans as the unit that defines what you are selling to customers.

Changing the Rate Plan paradigm

Changing the dependence the organization has established on the rate plan is no small task. It will require serious rethinking of the basic nature of how the telco is organized.

Billing System/Rate Plan Dependency

At least in the short term, the practice of special codes used to identify customers and the products and services they receive will need to continue. The billing system is still the core of any telco, and will continue to be for some time (at least until flat rate billing
replaces the current mode.) This means that the telco will have to build whatever new paradigm it will work with by leveraging that functional requirement. You cannot get rid of rate plans, or more specifically, you cannot eliminate the use of a code to identify the type of contract the customer has.

You can, however, make use of the codes to do more than simply indicate the cost of service.

Introducing the Relationship Code and Relationship Plan

In fact, instead of eliminating these codes, we will have to increase their usage and importance. As an alternative for using the codes to specify the cost of service, it will also indicate what types of products, services, and other values the customers expect from the telco. This new billing code will define not only what price the customer pays for a minute of airtime, but also describes the complete set of products, services, privileges, and dependencies that the customer has accepted as part of the telecommunications contract. The new code, referred to as the relationship code, signifies the relationship plan a customer is contracting for.

Relationship Plan based on Internal Differentiation

This means that the telco must reshape its offerings and build more differentiation into them. Instead of offering consumers a contract that says that you will treat everybody the same way, offer the same service to everyone, but expect customers to pay more or less depending on how well they negotiated, you need to make contracts available that offer true choices.

Of course, every telco works to create products and services with approaches that differentiate it from the competition. What we are referring to is creating products, services, and approaches that allow the telco to differentiate what it offers to consumers, an “internal differentiation.”
This internal differentiation will mean that the consumer will be provided with options that allow the customer to choose exactly what kind of relationship they want to have with the telco, with a clear understanding of the costs, benefits and risks associated with each.

**Internal Differentiation – Network Quality**

Older network technologies provided telcos with little ability to differentiate between consumers whereas the newer switching connectivity options allow for all types of differentiation possibilities.

**Long Distance Differentiation**

Long distance services offer a good example of this. Today’s long distance carrier has many alternatives for carrying long distance traffic for the consumer. Voice over IP (VOIP), private network, leased network, and network wholesalers offer a wide variety of choices and network providers have many ways of connecting different customers to different options.

One option for a long distance carrier is to select the best combination of those options and offer one grade of service to all customers. The company could then create a variety of rate plans and attempt to obtain a maximum revenue stream by selling this standard service to as many customers as possible. Alternatively, the company could create different levels of service. The levels of service could be designed to provide varying degrees of quality, dependability and capacity. These differentiated products would then be sold to different people.

**Wireless Differentiation**

As wireless technology advances, similar opportunities to create different levels of quality and service in wireless will become viable. As wireless telcos accumulate technologies (e.g. U.S. wireless providers with AMPS technology) it is reasonable to imagine a world where different network capacities are offered to different consumers at different prices.
Passive Differentiation

Of course, not all differentiation on the part of the telco needs to be overt. All sorts of passive differentiation can be executed without making it an explicit part of the contract. For example, the company might look at its customers, and establish three levels of customer service, regular, special, and premium.

Customers could be offered different levels of service by providing them with a specific customer service dial up number, or by programming call center software to identify them upon call in and routing them to the appropriate customer service reps.

CREATING THE RELATIONSHIP PLAN

It will take the cooperative efforts of many groups to make this type of “relationship plan” approach a reality. Customer service, marketing, advertising, promotion, sales, and network management all must participate in deciding exactly what kind of relationship offers the telco will make available. It will take a concerted effort on everyone’s part to continuously upgrade those offers as the market matures. It will also require the concentrated efforts of all those in the organizations to shift their emphasis and become more sensitive to the spirit intended by the relationship plan, and to make sure that this spirit is delivered to the customers.

RELATIONSHIP PLAN-BASED SALES ORGANIZATION

Assuming that the relationship plan approach is adopted, the sales and promotion organizations must take the lead in making it a reality. Because the change will be more than just a modification in the number and types of offers made to consumers, the sales organization will have to do more than simply conduct business as usual.
Being More Selective about Who You Sell What to

The sales organization will need to be more selective when choosing which relationship plan it sells. The relationship plans will be much more complicated than the rate plan previously offered. More importantly, the sale of the wrong relationship plan to the wrong customer could have disastrous impact for the firm.

Increasing the Sophistication of the Sales Process

The job of the sales and promotion groups of most telcos is fairly simple and straightforward. One network, one level of quality, and a set of rate plans that you attempt to sell to customers. Sales people usually differentiate on price, or extras (such as new handsets or promotional giveaways.) As a result, the level of sophistication involved for the sale of the products is quite low. On the other hand, when the telco begins creating and offering internally differentiated services; the entire sales landscape changes drastically. No longer can the sales organization blindly push the network based on price and ignore the other consequences.

Qualification

The first thing that the sales rep will need to do is a better job of matching the prospects with the appropriate packages. The economic viability of the relationship plans will be based, in no small part, on the assumptions that the designers of the plan make about the people that purchase it.

For example, a company might create a relationship plan that offers low cost, high quality service to customers who are young, professional business people. The plan is designed to attract this type of customer to the firm so that future sales of Internet and other services will be made easier. For this reason, the company will pay a premium rate discount against future anticipated sales.

What happens to the economic model for this relationship plan if the sales organization turns around and sells the majority of the plans to teenagers? The program will most likely end up costing the company money with little of the anticipated return. The sales organization in this kind of situation needs to understand and match
the qualifications of the customers to whom these relationship plans are offered.

**Education and Expectations**

To make the sales job more complex, the salesperson must now make sure that the customers understand what they are getting. For example, the customer who buys the economy package must clearly understand the quality and dependability trade-offs implied by the package.

Conversely, customers who opt for a premium solution must understand what to expect and how to invoke the privileges they have purchased and are paying for.

**Accountability for Long Term Health of the Relationship**

In addition to the greater accountability of matching the customer to the relationship package the sales organization must be held accountable for the long-term health of the relationship. One of the more crippling aspects of the customer/telco relationship is the way customers develop a short-term positive relationship with a sales rep and then never see that sales person again, while at the same time beginning to develop a negative, problem-based relationship with the customer service organization. Nowhere is the initial positive customer relationship continued after the sales.

As time goes on, and as relationship plans are developed, the inclusion of the sales organization in ongoing customer support will clearly need to be addressed.
CHAPTER 22

CUSTOMER SERVICE: CHAMPIONS OF THE CUSTOMER RELATIONSHIP MANAGEMENT MISSION

Although we can certainly take steps to help the sales and promotion organizations focus more on the creation and delivery of relationship packages to consumers, eventually the customer service organization will bear the brunt of the responsibility for this transition. While the sales and promotion organizations will always define the beginning of the relationship and the terms, it is up to the customer service organization to make sure that the relationship package is actually delivered. This means that the customer service organization must play a much more significant role in the entire customer relationship management process. Instead of being forced to participate toward the end of the process, trying to futilely deliver whatever deals the sales and promotion group has assembled, the customer service organization and its capabilities must become the key ingredient in the formulation of how a relationship package should look.

Ultimately, the sales, promotion, and customer service organizations are commissioned with responsibility for the management of the intimate contact that the telco has with its customers. For this reason, these organizations must be focused on making sure that the consumer offers are part of a relationship package that can actually be delivered effectively. The role of customer service will, therefore, have to become much more significant than it has been in the past.
THE CUSTOMER SERVICE LEGACY

The single biggest handicap that the customer service organization has throughout this whole process is the organizational legacy that it carries from pre-competitive days.

Echoes of the Monopoly Model

You may recall, from our earlier discussions, how the customer service function began in the early days of telecommunications. In Chapter 16, we talked about the monopoly model and the nature of the customer relationship. In that chapter, we saw how the consumer’s relationship with the telco was defined by the regulatory environment. We also saw how the customer service organization grew to be the primary department where consumers registered complaints and looked for a company response.

The basic model in this kind of environment measures the effectiveness of customer service by:

1. The number of calls processed per hour
2. The number of potential complaints settled with customers.

This kind of model, while extremely efficient from the perspective of the cost/performance measurement of the business unit, is actually quite detrimental to the establishment of quality customer relationships.

A Model Reflected in All Industries

It is not our intention, however, to paint a picture that says the telecommunications industry is, in any way, unique in the handling of its customer service function. The same model is promoted for customer service in other industries.

The Retail Store Complaint Department

The prototypical image of the retail store and its complaint department comes to mind in this situation, as well. The policy of many retail
organizations to create small, unfriendly office spaces where tough-nosed, demanding customer service representatives attempt to intimidate people in order to avoid refunds is well known.

Recent years have seen an aggressive attempt to change this model in many retail environments. The 100-percent-guaranteed return policy with no questions asked is an ever increasing alternative customer service model for many retailers with obvious positive consequences from the customer relationship perspective.

The High-Tech Industry Help Desk

Some of the most frustrating customer service business models can also be found in the high-tech industry. Here, hardware and software manufacturers create expensive, large, and extremely complex products and services that are distributed to thousands or millions of consumers. These products and services are often much too difficult for people to make use of effectively without guidance. But in many cases, the manufacturers provide customer support using untrained, low-wage customer service reps who try to help hundreds of people with technical problems far beyond the rep’s knowledge or ability. This kind of model usually results in a company that may sell a lot of product in the short term but with very little customer satisfaction in the long term.

Why This Model Cannot Work Anymore

If the telco organization is to truly embrace the belief that the old business model for telecommunications will have to be abandoned for something better, then addressing customer service needs to become a major part of that overhaul. To create true relationships with customers, the customer service organization will have to be the champion and leader of the effort. After all, customer service is the organization that has the most intimate contact with customers throughout the life of the relationship. Customer service is the organization that is called when problems arise, and it is the most logical group for the company to utilize and hold responsible for ongoing maintenance of quality relationships.
The Customer Service Value Proposition

This means that we need to redefine the value proposition and the key performance indicators that are used to shape the customer service mission. We need to question the rationale that puts a premium on minimization of the customer’s contact. After all, the telco has very few opportunities for customer interaction. Do you really want that interaction to be as short, curt, and dismissive as possible?

Incongruous Objectives

Many organizations give lip service to the concept of quality customer interactions and utilizing the customer service organization to cross sell, but few companies actually consider the fundamental changes in the business model that customer service has to work with to make those changes effectively.

Changing the Customer Service Mission Profile

So what we are really discussing is an entire revamping of our understanding of what the mission, operating principles, and basic business model for customer service should be, and this is no small task.

Customer Service Missions

To create this new vision of a customer service organization we need to reconsider its missions and key performance indicators.

Acquisition Responsibilities

The most difficult stretch of our imagination involves extending our understanding of customer service to include the acquisition of new customers. Although the generation of new business has always been the primary mission of sales, it is clear that customer service can participate in this process as well.
The Friends and Family Model

One of the most classic stories of using customer service-like roles to drive sales can be found in the famous MCI Friends and Family campaign. Under that model, existing customers were asked to provide MCI with the names of friends and family that they thought would be interested in discounted inter-family calling rates. These acquired names were then called, recruited, and, in turn, asked to provide their own list of names. The approach was responsible for a significant increase in subscribership for MCI.

Customer Service for Lead Generation

Although the Friends and Family campaign is a good example, little has been done to formalize or make use of the customer service organization to enhance sales opportunities in the majority of telecommunications organizations. There are many reasons, but most have nothing to do with the appropriateness or effectiveness of the idea. Instead it is generally a lack of capability on the part of the customer service reps to perform an effective job. In addition, it is also the lack of an infrastructure and compensation plan that rewards reps for such efforts, and the lack of an infrastructure to make it all operationally feasible.

Affinity Responsibilities

The other area where customer service currently fails to contribute in any significant way is in building customer affinity. You may recall that the customer affinity mission is concerned with the development of positive customer feelings toward the organization overall and the company’s delivery of a quality, consistent brand image.

The affinity KPIs are typically associated only with the advertising organization, but consider for a moment how large of an impact customer service has on how customers feel about the company. Although advertising promises a positive experience when dealing with the telco, it is customer service that either delivers, or fails to deliver, that promise. Because of this, it is critical that the customer service organization be rated on the affinity that it creates.
Wallet Share Responsibilities

Probably the easiest part of the customer service mission portfolio to realize involves motivating customer service reps to exploit customer service events to expand the range of goods and services the customer uses. Many organizations attempt to realize this vision in many ways, but just as we find that customer service organizations, systems, culture, and personnel are ill-equipped to deliver sales and acquisition support, we also find they are hampered in their ability cross sell.

Loyalty Responsibilities

Many organizations have already realized that the customer service organization is the best group to employ in an effort to prevent churn and build loyalty. However, what is missing is actually making that organization responsible for key performance indicator numbers in this area.

CREATING NEW CAPABILITIES

Assuming that our goal is to expand the mission of customer service to embrace all of the WAR metrics, it becomes clear that the realization of these goals will require a restructuring of the customer service organization itself.

Support Systems

What needs to occur to realize this vision of the new, improved customer service organization is to create a working environment where customer service reps can deliver quality, informed, and action-based support for customers who call in or are contacted. This will require a caliber of sophistication in the customer service management systems area far above what most systems are capable of delivering today. Without the appropriate tools and the complete integration of the information required, the customer service group will not be able to perform up to the new standards.
Caliber of Personnel

In addition to upgrading the level of sophistication in the customer services support software, the organization will also have to seriously upgrade the level of professionalism found within the ranks of the customer service staff.

Training and Expertise

Most organizations have already realized that providing serious training for customer service organizations is critical, but most of this training involves the mechanics of learning how to use the customer service software and how to execute corporate policy decisions.

The new age customer service rep will need much more training. Regular doses of training about the company’s products and how they are developed, how they work, who should be using them, and how to use them, need to be provided to the reps more frequently on an increasing and continuous basis. Indeed, the modern customer service rep will probably need several days of training per month, every month of the year.

Workload and Quality of Customer Experience

The very nature of the customer service rep’s job must also change. Rewarding people to dispatch customers quickly is no way to create lasting, positive impressions. Key performance indicators that focus on high turnover are the opposite of what you want to accomplish. What you would want, instead, are KPIs that drive toward increasing the customer’s contact with the customer service rep and increasing the comfort that the customer feels when calling customer service. This means that new ways of evaluating how customer service reps perform their jobs will have to be developed.

Compensation for Customer Service

Obviously, a customer service rep that is smarter, nicer, more pleasant, better trained, and motivated will be attracted to the job only if the salary and bonus compensation packages are commensurate with the value that they will be delivering to the firm. A hybrid compensation scheme that is part commission, part customer service salary, and part bonus-based will clearly be in order.
CUSTOMER SERVICE ROLE IN PRODUCT DEFINITION

With the more critical role that customer service will play, the ongoing support and services component will become a critical part of the relationship package that is offered to customers. The number, quality, training, and receptivity of the customer service organization to support relationship offerings created by product development will soon become the limiting factor on what product developers can actually hope to offer. Participation of customer service in the construction of a package will become a prerequisite to product roll-out.
Although the managers of the more intimate aspects of customer relationships have a big role to fulfill in the amelioration of churn risk for the organization, this does not mean that those organizations responsible for the more impersonal and longer-range objectives can continue to do business as usual. The advertising, marketing, product development, and brand management groups also must change their basic mode of operation if a truly different approach to churn management is to become a reality.

The constant theme throughout this book has been that churn is a problem created by the entire organization and can, therefore only be adequately addressed by the entire organization. We have also illustrated examples of how each customer touchpoint organization contributes to the churn problem.

At this point, we are ready to take one last look at the less intimate customer relationship management functions (marketing, advertising, brand management, and product development) and consider how their missions can be modified to support our more customer focused churn preventing view of the world.
PRODUCT DEVELOPMENT AND CHURN

As we have already established in Chapters 21 and 22, the real underlying problem with churn management can best be diagnosed as a problem with the way telcos define and market the products and services. By trying to “productize” what is primarily a service business, telcos have inadvertently created an environment guaranteed to commoditize their own business model. In other words, the current approach pushes competitors, consumers, and regulators faster and faster in the direction of non-differentiation by anything but a price parameter.

Alas, resolving this problem is dependent upon the industry itself. The argument could be made that one lone telco attempting to de commoditize the market by itself could end up driving itself out of business. Equally viable arguments exist stating that the company that responds to this opportunity the soonest and the best will gain an unbeatable market advantage in both the short and long term.

Developing Churn Proof Products

Another way of looking at this problem is to say that the consumer products created by telcos are inherent churn attracters. In other words, telcos make products that encourage churn. It then follows that telcos should be creating products that resist churn and are, by their very nature, churn-proof. What are the ingredients of the product development formula that can accomplish this objective? There are three.

Developing Products that Morph with the Market

Telco products of the future must be able to change dynamically and automatically with shifts in the marketplace. In the new telecommunications marketplace, consumers need protection from the vagaries, risks, and constant changes that this never-ending stream of new technologies represents. At the same time, these consumers will want a reasonable evolutionary path that prevents them from falling too far behind. Telcos need to abandon the concept of the rigid, fixed product and instead embrace a packaging concept that is much more flexible, especially in the area of technological upgrade and downgrade.
Computer Leases and Upgrade Guarantees

Good examples of how this philosophy is penetrating the business world can be found in the personal computer market where several PC manufacturers have begun to offer upgrade-guarantee programs. Consumers lease computers (instead of buying them outright), thereby affording access to the latest technology. As innovations become available, the rentals are automatically and painlessly upgraded for a fee.

Automotive Lease Programs

This computer leasing program for consumers is not too different from the automotive leasing programs that became so popular just a few years ago. These programs, like the computer lease programs, are based upon a simple premise. Consumers are not interested in owning and managing a fleet of cars (nor in running a computer operations center). They merely want transportation (or computer power) and anyone who is able to reduce their risk and minimize the administrative and bureaucratic overhead required to gain those benefits will get a large number of loyal customers.

Minimizing the Telco Customer’s Risk and Hassle

There are an unbelievable variety of avenues that the telco can investigate to make its product offerings easy to access, risk-reduced, and administratively minimized. The individual strengths, weaknesses, and market positions of each of these firms will dictate how well these avenues work and which options the individual telco decides to leverage.

Developing Products That Sell Other Products

Another way to approach the product development discipline is to prepare people for the purchase of product upgrades in the future. In the old days of manufacturing and consumerism, product developers invented the concept of planned obsolescence (creating products that need to be replaced in a relatively short time). In the present telecommunications marketplace, obsolescence is more than planned; it is relentless. Telcos need to recognize the obsolescence that is built into the industry and turn it into an advantage.
Current product development strategies tend to focus on the next big offering with all future values and projections based on a three- to six-month window. Instead, companies need to think of products that can be used to grow customers into related capabilities. For example, how can you create a series of product offerings that migrate customers from recreational cell phone usage, to handling some business decisions with the wireless, to using the cell phone to drive most business transactions? What about a migration path for teenage users, housewives, working mothers, and sales people?

Creating streams of products and developing migratory product clusters will give the telco unique and unchurnable products to offer the consumers.

The Relationship Plan Approach

What is a relationship plan and how do we package it? This question brings us to yet another perspective. Each of the approaches that we have illustrated provides us with another part of the answer.

KILLER PRODUCT PACKAGE COMPONENTS

As you put together a customer relationship plan, you can vary the terms, conditions, products, and promotional components of your products. However, if your new relationship package plans do not incorporate components that address these four aspects, then you are not creating anything that truly differentiates your company. You must expand the concept of what defines a successful product that affords more than short-term sales success. A successful product offers a definable market differentiation or creates real churn proofing.

A Flexible and Renegotiable Pricing Component

The most important component of any churn-proof product offering must be a mechanism that lets consumers and companies dynamically
adjust the pricing in response to changing market conditions. This kind of capability, involves more than a sliding scale.

There are many special challenges to creating this kind of offer. First, you need to create a program that prevents customers from continuously and constantly renegotiating because that would increase the cost of the program far beyond the benefits. Second, you need to package the pricing program so that consumers do not feel that they are being cheated or that there is free money available for the asking. The program needs to be structured so that consumers understand that they are involved in a risk/reward transaction, not a something-for-nothing situation.

The Consumer Price Protection Plan

The concept of a consumer price protection plan is a good example of a flexible pricing program. In an environment of radically changing prices, assuring customers that you will protect their investment in your organization will address their foremost window of vulnerability.

The Role of Customer Service in Renegotiability

Introducing the concept of dynamically adjustable pricing programs presents a good case in point for the significantly more important role that customer service has to play in a more churn-responsive organization. To make a renegotiable price plan work, the customer service organization will have to be staffed with people capable of understanding renegotiation terms and these reps must be empowered to make those decisions.

A New Technology Upgrade Component

The second critical factor that telco product developers will need to build into their products is an automatic protection for consumers from the obsolescence of their (and the company’s) technological investment. Although the telco may have the best quality products and services today, that does not assure consumers that they will continue to lead tomorrow. If the telco wants to churn-proof their offerings, then they must build product and technology evolution into the product definition. Just as the pricing component protects
consumers from inappropriate prices in the long run, flexible and variable technology components protect the customers’ technological investment.

Wireless – Handset Protection

A good example of this kind of program can be found in the wireless industry. Handset churn is one of the most difficult to manage aspects of wireless churn. In some markets, the customer’s handset and the network provider are intimately linked. When customers shop for new handsets, they automatically shop for a new network. This means that, even when customers are very happy with their network service, they will switch to another provider if they are offered newer and better handsets. To address this vulnerability, some wireless providers are creating handset upgrade programs for their loyal customers.

Gradiated, Differentiated, and Valuable Service Component

The final piece necessary for the new product definition mix is the upgraded service component. To truly differentiate your company you need to provide consumers with service level options. A company that cannot offer various levels of service to different types of consumers might as well embrace the commodity view of their market and attempt to stay in business by delivering the most network for the lowest cost to all consumers equally.

BRAND MANAGEMENT, ADVERTISING, AND CHURN

Although the product development and pricing functions of the marketing group will play a large role in the development of churn-proof products, the brand management and advertising groups have their own roles to fulfill as well. In Chapter 17 we discussed how advertising and brand management organizations can drive consumers out of the public and into the customer category. This herding mentality, borrowed from the retail industry, has helped many telcos gain the market recognition necessary to compete in the
highly competitive telecommunications arena. Yet, as the industry matures, we must wonder whether the continued support of this model makes sense from a long-term perspective.

Post Sales Advertising – Auto Manufacturer Example

Exploring industries other than consumer retail uncover other models that use advertising for more than creating interest as highlighted by the Costa model (see Chapter 17). In the automotive manufacturing industry, for example, we find a model where the majority of sales are driven by local dealer organizations who bombard the public with dealer-specific advertisements found on local television, on the radio, and in newspapers. Mass media and big dollar advertising does not play a role in the generation of transactions.

However, auto manufacturers do advertise nationally and internationally. What is their objective? For this industry, high-cost, high-image advertising is not created to stimulate business. These companies use advertisements to reassure consumers that the purchase choices they made were the right decisions.

Reinforcement, Not Recruitment

The basic mission of big-budget national advertising in the auto industry works on the affinity aspect of the customer relationship. Market research has shown, again and again, that the time period from one day to three weeks after the purchase of a car is the time when most consumers question their purchase decision and consider returning the car as a bad choice. To combat this, the auto manufacturers realized that high-prestige, high-value image advertising greatly reduces this post-purchase anxiety.

Reinforcement for Telecommunications

It has become necessary for the telco’s advertising and brand management organizations to explore the roles they play in the creation of a price-based, high-churn environment, in the definition of new products and services that are more churn-proof and, finally, to reevaluate the entire advertising and brand management effort in light of the affinity generated (the objective of reinforcing the buyer’s purchase decisions).