Proactive beats reactive in churn management

*By **Rodrigo Belo***

It's an age-old business dilemma – how to prevent or reduce customer churn. Organisations broadly use one of two customer retention strategies: reactive and proactive. In a recent collaboration with a major telecoms provider, our research shows that taking a proactive approach really does reduce churn rates and increases client lifetime value.

Proactive churn management can help firms reduce a consumer's non-renewal to subscription telecoms services. But just what do I mean by proactive churn management and its advantages?

Proactive churn management is a practice in which firms aim at identifying people subscribing to their products or services on a contract basis that are likely to churn (or, in plain English, stop being clients) in the near future, and to then take action in order to prevent this taking place.

By contrast, reactive churn management, ie, the traditional way, is to wait for a call from a user stating that they want to leave, and stop receiving a supplier's products or services, and then react to that call. This is usually less effective, as many users will likely have already taken a decision to leave, and they might in fact have already signed a contract with a competing supplier.

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How important is it to business?

Identifying likely churners ahead of time can mean the difference between commercial success and commercial failure. In most fields of human endeavour, prevention is perceived as almost always being more effective and cheaper than a cure.

If people who have not yet made up their minds on a subscription renewal – might not have even thought that they would leave a supplier in the near future – might be persuaded to stay connected in return for a lower discount than if they had already decided to quit, company profits will reflect that, all other things being equal.

Key challenges

It is quite hard to clearly identify who is going to churn in the future, and there is a clear trade-off between (a) identifying the right people and (b) doing it ahead of time. If you try to identify likely churners for several months in advance you will almost inevitably make more mistakes. And any intervention that you make is probably not going to be as successful.

Key findings

There are two key findings from research I conducted with co-authors Miguel Godinho de Matos and Pedro Ferreira. Firstly, implementing a proactive churn retention strategy on top of a reactive one is cost-effective, even in the presence of a reactive churn management system. Secondly, the targeting of friends of likely churners (by offering them discounts and/or other incentives) further helps in the retaining of them (the likely churners) as subscribers, and it is still a cost-effective process. ▶

Proactive beats reactive in churn management (continued)

*By **Rodrigo Belo***

When making a purchase, whether it be a car, a television or a phone, people will normally ask friends, family and others for advice. Occasionally, some might even listen to that advice. Financial discounts and vouchers are standard industry tools, but the importance of peer group influence should not be underestimated.

Lessons for managers

Many readers will look for reassurance that there are lessons to be learnt. In this case, proactive churn management, if done well, can make a difference. But it demands investment, of time, patience and other resources. You need to set up a process to periodically collect data from the relevant sources. You need to train models that predict who is going to

ing costs involved in setting up a new connection with a router, TV box and fixed phone are high, and also inconvenient to users. So you can retain them by finding them early enough and offering them a relatively good deal.

Experimentation and theory

The information gathered from a practical experiment is inherently more valuable than pure theory. Theory does not inform you, for example, how sensitive customers are to different offers, or whether you would be able to identify likely churners with enough precision.

In this case the role of theory is limited. You need to go into the field and experiment. And you need to be sure you are measuring the effects correctly,

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churn. You need to have an operations team that will act upon this information in order to retain those customers.

In this specific case, we studied churn in the telecommunications sector, which no one will need reminding is a very competitive market, and users are constantly bombarded by the competition to switch.

Usually, churn in this market means that customer switch providers (and not that they stop being subscribers of a telecom product). However, the switch-

which is why you need to implement randomised control trials, as in the spirit of this year's Nobel Prize winners.

For the benefit of readers who might not have followed the process closely, this year's Nobel Prize in Economics was awarded to Abhijit Banerjee, Esther Duflo and Michael Kremer 'for their experimental approach to alleviating global poverty.' This year's Nobel Prize is therefore, in a way, recognition of the methods – the experimental approach

and the use of randomised control trials – that many researchers have been using for some time.

Practical implications

As alluded to earlier, the research has practical implications for managers and businesses. I would say that it is important for any commercial enterprise operating a subscription business model to experiment, and to try out different strategies.
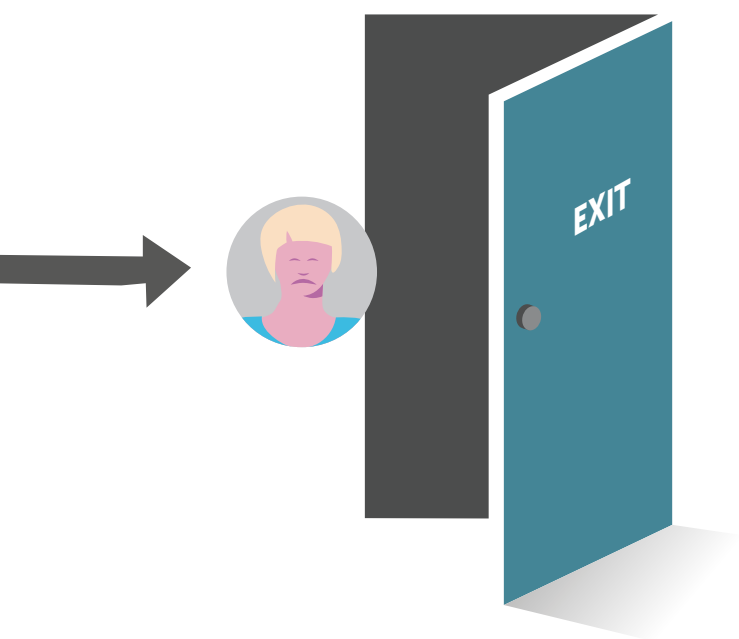
Dealing with data

Certain key elements of our research and the way in which we conducted it must remain confidential, so there are limits to how freely I might discuss the primary gathering of data and then the data analytics involved that played a central role in determining the findings of the researchers.

We can say that we worked closely with a European telecoms operating company with a triple play model (that is, they provide telephone, television and internet services), and that the data and resources they put at our disposal allowed us to run the necessary randomised control trials to assess the effectiveness of proactive churn management.

Moreover, this context allowed us to run our experiment in a networked environment, which in turn allowed us to find that targeting friends of likely churners made the process even more effective. ■

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The first dimension is to check whether it is possible to predict who is going to churn in the near future; the answer to this question is highly dependent on the context and on the available data.

The second dimension is to decide on which interventions should be applied in order to prevent churners from doing so; there are many alternatives at the outset and only after trying them out do we know whether they work.

Many businesses are still struggling with setting up an initial proactive churn management system. I would say that setting up such a system can pay for itself in a couple of months (depending on the sector), but managers need to build the right team. This team must include data managers, data scientists, and someone who can translate the resulting models into everyday practice.