Breaking the back of customer churn

Five fallacies derail most churn-reduction efforts. Here's how communications service providers can stop churn before it starts.

By Tom Springer, Charles Kim, Frédéric Debruyne, Domenico Azzarello and Jeff Melton

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Tom Springer is a leader in Bain & Company's Customer Strategy & Marketing practice and is based in Boston. Charles Kim is a co-leader in the firm's Telecommunications, Media & Technology practice in the Americas and is based in New York. Frédéric Debruyne is a Brussels-based partner in the firm's Telecommunications practice. Domenico Azzarello is a Paris-based partner in the Telecommunications practice. Jeff Melton leads Bain's Asia-Pacific Performance Improvement practice and is based in Melbourne.

Reducing customer departures and defections has become a high priority for most communications service providers as markets mature and competition intensifies. So why do high levels of customer churn persist?

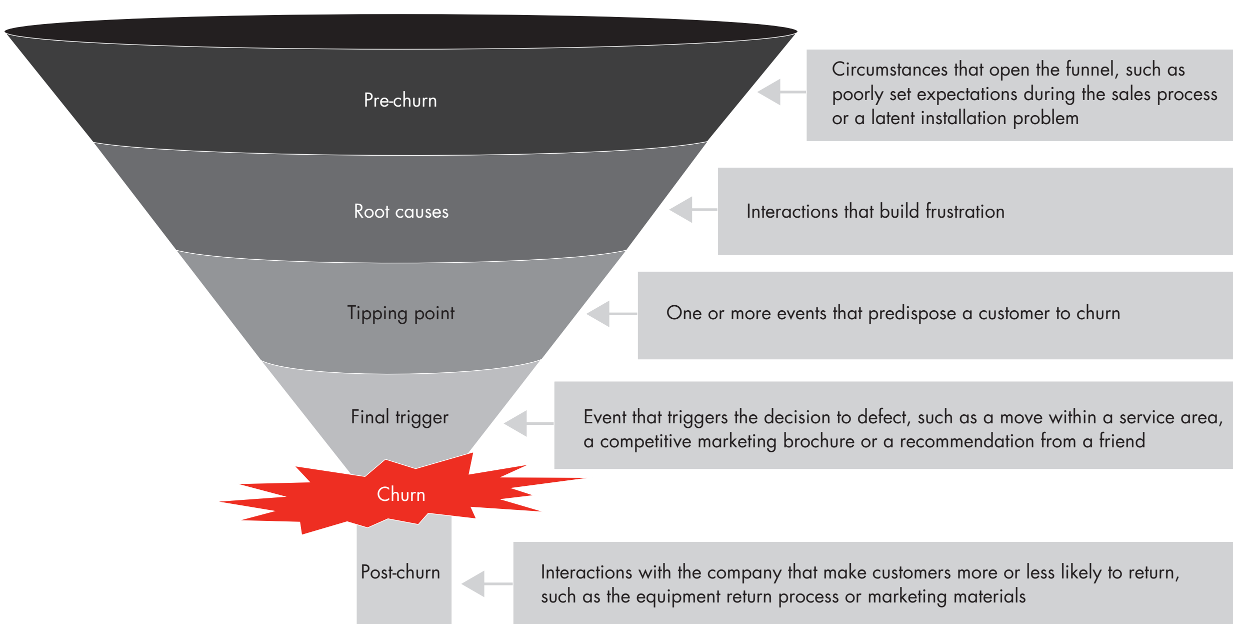
Service providers know that churn corrodes their business, but many of them don't truly understand how churn works or what to do about it, because they're often aiming at the wrong target. These firms thrived in the past as customer acquisition machines, built to grow through rapid penetration of the digital television, Internet and voice products they introduced during the past decade. Their cultures and capabilities haven't adapted to the new reality of greater choice for consumers, including choice of satellite and over-the-top online video alternatives. They still reward more for new installations than for growth in the number of profitable subscriptions. They invest more in advertising and marketing than in service technicians or in set-top box capabilities that would delight or at least retain customers. And they don't pursue the rewards of customer loyalty as much as they hunt aggressively for new sales to replace departing customers.

> Communications providers thrived in the past as customer acquisition machines. Now they have to invest in capabilities that will retain and delight customers.

As a result, service providers have made little progress in reducing customer churn. Churn levels vary a bit by provider and country of operation, but among wireline providers, for instance, they tend to hover around 2% to 2.5% per month.

For a wireline company with 5 million customers, that means an estimated 1.32 million people and $2 billion in revenue walk out the door each year. Reducing churn by 50 basis points thus would be worth roughly $240 million in lifetime value after 18 months and roughly $410 million after 30 months. If one includes operating expenses

Figure 1: Churn results from the cumulative experience of many episodes



Source: Bain & Company

that could be avoided, the value would reach roughly $320 million and $490 million, respectively.

Adapting to the realities of churn

Communications service provider executives should take a hard look at their own organization's assumptions and behaviors. Our experience working with service providers globally suggests that five fallacies about churn hinder breakout performance. Understanding the real dynamics behind each of these fallacies will allow executives to break the corrosive cycle of churn.

Fallacy 1: One or two poor episodes cause churn.

Reality: Churn results from a series of episodes over time.

Remedy: Focus on the entire customer journey, not the latest episode.

When we ask communications executives what causes their customers to defect, they often point to the last thing that happened before the customer left. Often, that's a competitor's promotional offer. Competitive offers do sometimes lure customers to switch, but typically after a long period of eroding trust that results from a series of misadventures ranging from a poor installation to spotty network performance to a faulty bill. These customers have already been primed to leave by the time an attractive offer arrives, so that any change in their lives, such as moving to a new house, can bring the decision to a head. The episodes that condition a customer to dislike his or her provider and the actual decision to leave can be years apart (*see Figure 1*).

Treating only the last episode or two rarely leads to a complete solution that addresses the customer's discontent.

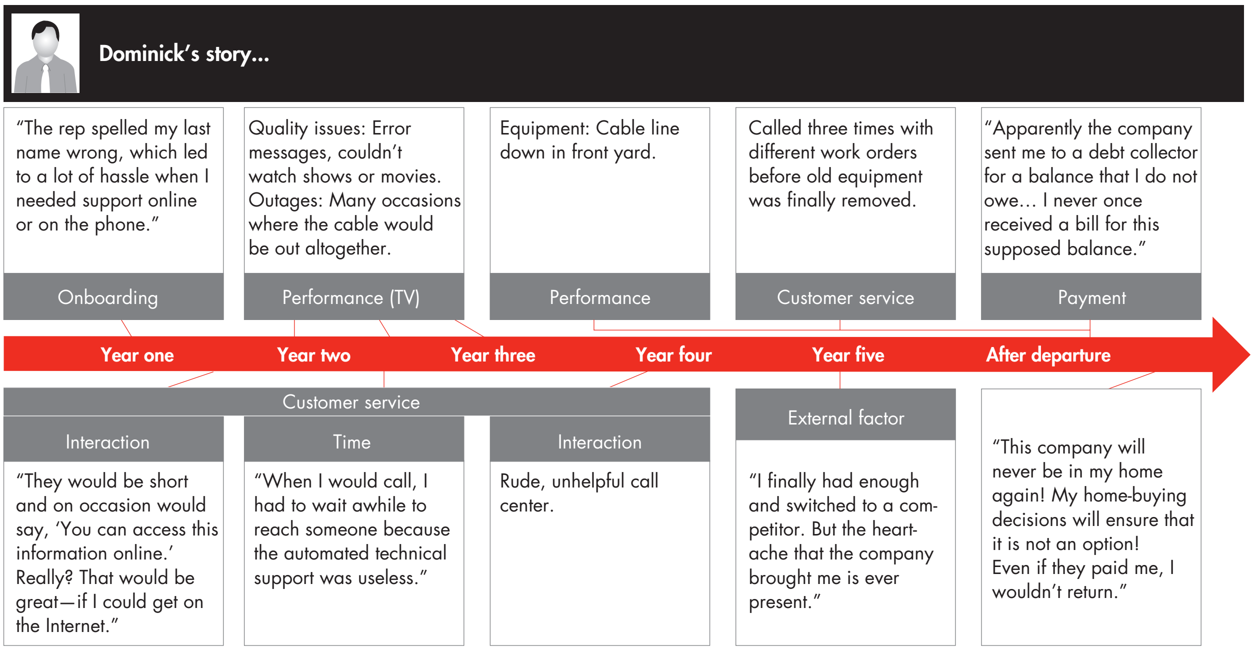
For one US wireline provider, we convened focus groups with customers who had recently departed, asking them to write a brief story about their relationship with the company. Each story recounted a series of bad episodes over many years, such as error messages when trying to watch a movie, call center representatives spelling names wrong or debt collectors calling for a bill that wasn't owed.

These episodes had built up misery and resentment in customers' minds. An initial irritation worsened until a trigger event caused the customer to pull the plug. "I finally had enough and switched," wrote one departed customer. "Even if [the company] pays me, I wouldn't return" (*see Figure 2*).

The five fallacies that derail churn-reduction efforts

1. One or two poor episodes cause churn.
2. Intervention at any point can save the day.
3. One silver bullet will stop churn.
4. Satisfying customers is good enough.
5. Success hinges on installing the right technology and processes.

Figure 2: Most customer problems can be spotted early on



Source: Bain & Company

Some companies will escalate service automatically when a negative event occurs in order to resolve the issue quickly before it builds resentment in the customer.

To counteract churn journeys in progress, some companies experiment with event-triggered service escalation. For example, multiple trouble calls within a week trigger an outbound service call from an elite troubleshooting unit, which has the authority to schedule an immediate service visit if the problem cannot be resolved quickly over the phone. Or negative feedback from a high-value customer in a post-interaction survey triggers an immediate call from the relevant supervisor, who can resolve outstanding issues and offer compensation for poor service.

Advanced analytics can further refine such interventions. Sentiment analysis, for instance, can mine social media for what people are saying about the company and its service in online chat forums and social media platforms. People posting about an outage in their neighborhood can help companies anticipate a surge of calls, and criticism of a particular service can serve as an early warning of potential detractors.

Fallacy 2: Intervention at any point can save the day.

Reality: It's more costly and less effective to intervene later.

Remedy: Excel at a few interactions from the start in order to build equity with the customer.

If episodes were unconnected in the customer's mind, he or she might well remain happy as long as a company manages the last interaction well. In fact, consumer attitudes take shape through a series of episodes, and after a few negative ones it becomes increasingly difficult and expensive to intervene successfully.

Yet that is exactly what most service providers try to do. They make an offer of expanded services or lower prices in an effort to "save" the customer at the moment the customer is attempting to quit. These "bribes" sometimes can be effective in averting defection in the moment, but they're ineffective and costly over the longer term. Dangling such carrots teaches customers to expect incentives when they have other problems in the future, and fails to address the problem that prompted the customer call in the first place.

Had the provider paid attention to the journey that ended at the "save desk" and resolved earlier episodes in a graceful way, it might truly have saved many of these relationships. Fixing the problem early on, or taking time to create a great initial experience, goes a long way toward building equity with customers.

To do that, leading companies identify and invest in those few activities at the start that can delight customers and deposit goodwill in the equity bank.

Verizon, for instance, has learned that the installation of its FiOS package in the home is a moment of truth. Instead of taking the standard approach of doing the installation as fast as possible, Verizon overinvests. Its well-trained, well-spoken staff often spend four to six hours in a customer's home, running through how the system works and making sure that every application is functioning well. That makes the experience memorable for the customer and also sets up Verizon for fewer technical troubles later on.

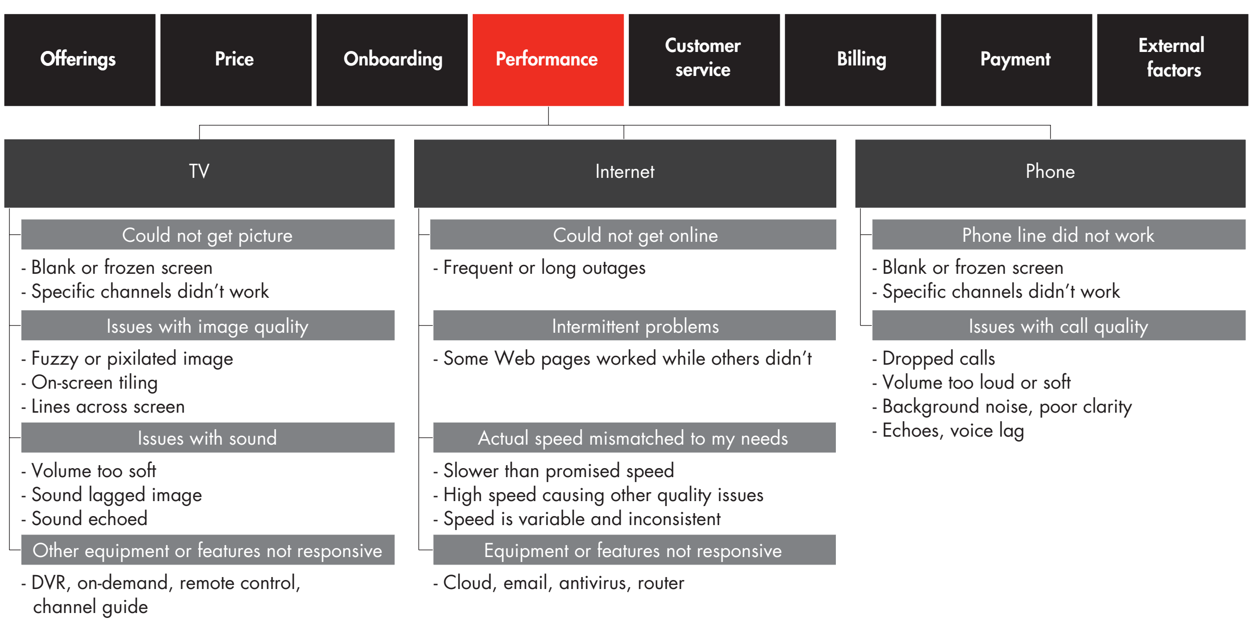
Fallacy 3: One silver bullet will stop churn.

Reality: Churn will not succumb to a single initiative, because churn takes different paths and each path stems from several root causes.

Remedy: Focus on the subset of root causes that have the greatest effect.

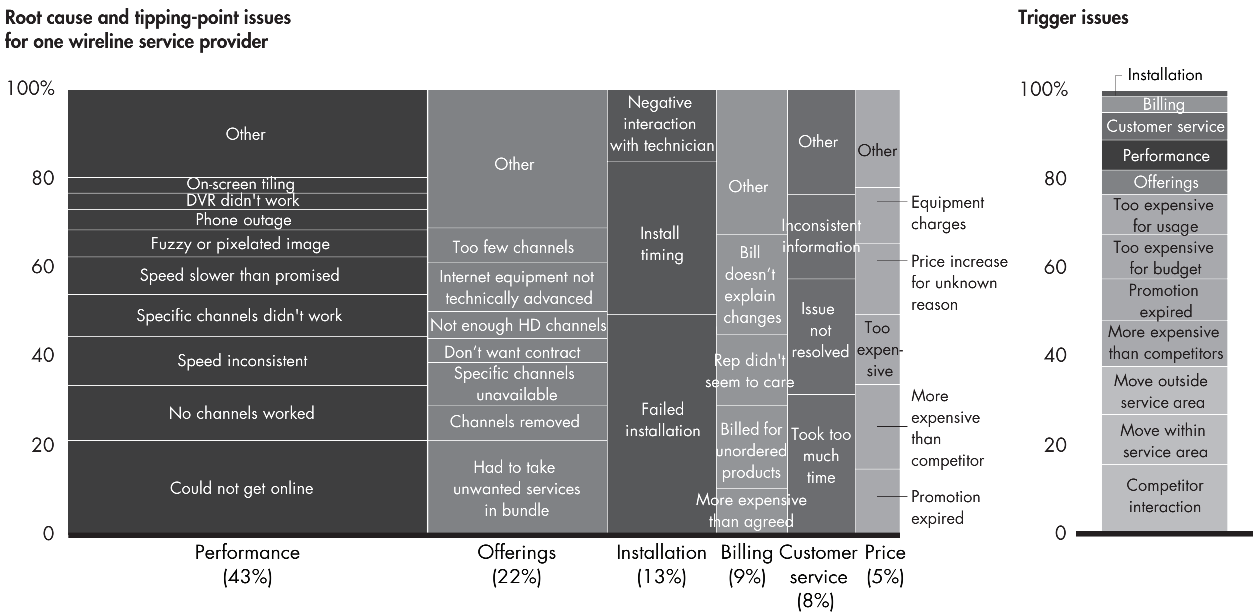
Given that churn results from a chain of episodes, the chain is only as strong as its weakest link. Fixing one link at

Figure 3: Sift customers' verbatim feedback to precisely identify and attack root causes of churn



Source: Bain & Company

Figure 4: Looking at customer survey data by frequency and volume of issues shows where a company can focus its initiatives



Column width weighted by combination of how many customer journeys cross that category and how many customers are on each journey

Source: Bain & Company

a time merely extends the time it takes to see results. Any one of numerous problems can erode the customer's trust, and each problem may have several root causes.

One initiative, in other words, won't stop churn.

Instead, it's more effective to attack on multiple fronts, after teasing out the root causes of a problem. This starts by soliciting customers' feedback about all of the important episodes they experience. Companies that use the Net Promoter System℠, for instance, regularly ask customers one question right after an interaction: "On a zero-to-10 scale, how likely is it that you would recommend this company to a friend or colleague?" The companies sort their customers into promoters (9s and 10s), passives (7s and 8s) and detractors (zeros through 6s). The Net Promoter Score℠ (NPS®) is the percentage of promoters minus the percentage of detractors.

Through a series of follow-up questions, Net Promoter® companies use customer feedback to quickly identify what they are doing right and what they are doing wrong in customer episodes. Verbatim customer comments, when sifted by the latest text mining tools, produce a catalog of defects by type and frequency (*see Figures 3 and 4*). The picture will change by city, by customer segment and over time. So it's critical to analyze the right groups of customers and to regularly refresh the data. The company can then take action to improve the experience, which helps to turn customers into promoters who don't want to leave for a competitor. In the communications sector, companies have found that improving their NPS relative to competitors correlates with reduced churn.

For example, At Bat, an application of Major League Baseball, asks the customer at the end of a game about the quality of the video stream. Such usage-related sources of customer feedback can be matched against technical metrics to help the provider modulate the experience in real time.

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The list of potential root causes—product performance, installation, billing and so on—looks largely the same across wireline companies, geographic markets and even customer segments. But the importance of each root cause can vary widely across different providers, within a provider's regions and products, and within churn journeys.

One provider we worked with had been focusing its churn-reduction efforts on back-end saves and price concessions. After it started to solicit customer feedback and do root cause analysis, the provider uncovered major issues with product performance, which then could be traced to a lack of investment in the network over the previous few years. Using that information, the company then doubled down on investing in repair and maintenance of its physical plant (see Figure 5).

But there was a wrinkle: Churn was lower in certain regions that had ignored the original directive from headquarters to cease investing in the network. In those regions, upon further investigation, the root causes of churn turned out to be pricing, channel bundles that customers did not want and faulty installation.

Fallacy 4: Satisfying customers is good enough.

Reality: Customers who call themselves satisfied may be passive and easily wooed by competitors.

Remedy: Earn customers' active advocacy by delighting them at key moments.

For some service provider executives, the lack of churn among most customers suggests that all is well and that an unruly few cause most of the problems. If customer satisfaction scores seem reasonable, the thinking goes, there's no systemic problem as long as the company doesn't do anything to annoy customers.

That neutral position, however, does nothing to excite the customer or build a store of goodwill. It's no surprise, then, that many customers who defect were previously categorized as satisfied.

And the bar for satisfaction is relatively low. Fixing service defects might satisfy the customer yet still not manage to engender active advocacy. To achieve that level of engagement, companies must also emphasize "wow" moments that delight customers, especially high-value customers. Raving fans will forgive a mistake by their provider, as long as it's a blip in a steady stream of positive episodes.

For each moment of truth, it's critical to take the customer's point of view. In a fiber-optic installation, for instance, the field technician can do everything by the book, but if after his departure the customer is not able to receive email, that will cause major frustration requiring an expensive follow-up call. Taking a customer-centered view, the field technician would sit with the customer to walk through common email and other applications, making sure they're working as promised.

Fallacy 5: Success hinges on installing the right technology and processes.

Reality: Having the right technology, processes and policies remains important, but great service also requires employees with a customer-centered mindset and the latitude to act.

Remedy: Give employees the tools and incentives they need to rapidly address customer feedback.

Service providers typically have robust systems that can support efforts to reduce churn. But the best infrastructure won't be enough to stem the tide of customer defections. Companies need highly engaged employee teams with the right data and feedback from customers and a culture that focuses first on their customers' priorities. Successful companies also en-

Figure 5: Analysis of customer feedback caused a cable company to shift its investments

Before	After
• **Focus on back-end "saves" and price concessions** because price and competitive offers appeared to cause churn	• **Focus on improvements earlier in the funnel** because price doesn't matter until the end of the journey
• **Limit plant investment** due to low ROI, tenuous connection to churn	• **Double down on plant investment** because product performance is a major source of annoyance
• **Limit focus on the installation experience** because it's technically simple and furthest from moment of churn	• **Installation is a moment of truth** that can color the rest of a customer's experience
• **Billing and customer service are the main pain points** after price and competition	• **Focus on offerings,** deemphasize billing and customer service investments

Source: Bain & Company

courage cross-functional collaboration in order to make structural improvements leading to a great experience for customers.

For employees to effect change, it's critical to build customer feedback into daily operations and quickly share the comments with the employees most responsible for the experience. That feedback forms the raw material for a root cause analysis of problems that may eventually cause churn.

Such feedback helped a European telecommunications provider reduce the excessive flow of customer inquiries to its call center. Workshops with employees generated many hypotheses about what prompted the calls, and the company used customer feedback loops to winnow the hypotheses to a handful that merited attention.

Among the causes of detraction were confusing bills and product installation guides, limited call center hours and long phone wait times. Armed with this solid data, the company set about revising each of these areas, which helped to sharply reduce the volume of calls and increase customer loyalty scores.

For employees, rapid and frequent customer feedback forms the raw material for a root cause analysis of both problems and points of differentiation.

People on the front lines have a great influence over the quality of the customer experience. So companies that take a customer-centered view often change their processes to give employees greater decision-making autonomy. That does not mean anything goes; employees should rely on the systems and processes put in place to improve customer advocacy. But within that framework, individuals with clarity about their mission who receive positive reinforcement for helping customers will give companies their discretionary effort.

How leaders can make a difference

We've noted the importance of frontline employees in bringing loyalty to life. Leaders up and down the spine of the organization play important roles as well.

At many customer-centered companies, the CEO and COO make earning customer loyalty one of their top three priorities. They show employees how "we put the customer first" means moving beyond words to actually behaving in different ways. They serve as role models through their own actions, keeping the senior team on board with the goals of reducing churn and earning loyalty. They also break through functional turf to insist on collaboration among different departments and business units, to advance the common cause.

Other executives can advance churn-reduction efforts by building a strong business case for investments that will convince CFOs of the attractive returns. In call centers, for instance, a company could estimate the financial impacts of switching from incentives that reward solely for average handle time to those that factor in first-time-right resolution. Or it could show how selectively launching a truck roll avoids more customer calls in the future and thus costs less than a policy of avoiding truck rolls.

The supervisor's role primarily involves reorienting teams around closed-loop feedback from customers. Supervisors and their team members need to flag problems that create resentment among customers, like a punitive fee, and bring the problems to the attention of people with authority to make a change.

Most customers will tolerate mistakes if they perceive the company responds in good faith.

Most customers have resilience. They'll tolerate mistakes if they perceive the company corrects its mistakes in good faith. And they're willing to give their advocacy to companies that win them over early on and then resolve the inevitable problems with grace. For communications service providers, improving the experience of using products and getting service will be far more effective than bribing unhappy customers to stay.

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Key contacts for Bain & Company's churn-reduction work:

Americas:	**Tom Springer** in Boston *(tom.springer@bain.com)* **Charles Kim** in New York *(charles.kim@bain.com)*
Asia-Pacific:	**Jeff Melton** in Melbourne *(jeff.melton@bain.com)*
Europe, Middle East and Africa:	**Frédéric Debruyne** in Brussels *(frederic.debruyne@bain.com)* **Domenico Azzarello** in Paris *(domenico.azzarello@bain.com)*

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