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## Optimizing Customer Retention Programs

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### EXECUTIVE SUMMARY

Managing customer churn continues to flummox direct marketers. They struggle to define, target, or properly value customers. But increasingly marketers are turning to predictive analytics to power retention programs. Uplift modeling is an emerging technique that can help marketers improve the performance of their retention programs. Does uplift modeling work? Telenor thinks so. The telco reduced churn rates by an additional 1.8%.

### MARKETERS STRUGGLE TO MANAGE CUSTOMER ATTRITION

A large majority of direct and database marketers are equally focused on adding new customers and retaining existing ones.<sup>1</sup> But in an economic environment where top-line growth is slow, customer retention programs take on an added significance. Still, firms struggle to manage their retention programs effectively because marketers:

- **Fail to agree on a common definition for customer churn.** Customer attrition — with its inherent message of failure — is a hard topic for marketers to tackle. Marketers often lack agreement on the timing of churn and the process of identifying customers with a high likelihood of churn. For instance, financial services firms may look at churn as: 1) a reduction in activity; 2) a lowering of average balances; or 3) a reduction in number of accounts. Disagreement on the actual definition makes it hard for marketers to set up processes to measure and address customer churn.
- **Lack the ability to target appropriate offers to churners.** Identifying customers who are likely to churn is only the first step. Marketers must then empower the operational staff and channels to reach out to these customers with relevant offers. Relevance is critical because untimely and irrelevant offers can trigger churn — the exact opposite effect of what marketers want to achieve.
- **Try to retain all customers, not just the profitable ones.** When it comes to retention, marketers treat all customers equally. Few marketing organizations have valuation methodologies — like customer profitability analytics, customer risk profiles, or customer lifetime value — in place to segment and treat customers based on value. This means marketers take a scatter shot approach to retention programs and waste valuable resources trying to retain unprofitable customers. Case in point: The current credit crunch was largely driven by indiscriminate acquisition and retention programs by the mortgage industry.

## UPLIFT MODELING CAN HELP

Marketers have long relied on analytical techniques to identify and reduce customer churn. For instance, segmentation models help marketers to better profile customers and understand behavior, while cross-sell and upsell modeling deepens relationships and creates barriers to exit. Advanced analytical marketers use survival analysis techniques to predict the time of churn and develop strategies to extend customer lifetime. Marketers can now add uplift modeling to the arsenal of tools to combat customer attrition. Forrester defines uplift modeling as:

*An analytical technique that models the difference in behavior between target and control groups not just the behavior of a target group.*

Traditional modeling approaches focus on predicting the likelihood of a customer to perform a specific action like purchase or churn. In contrast, uplift modeling focuses on predicting the change in likelihood to conduct the same action. The core tenets behind uplift modeling are:

1. **All customers do not share the same reaction to marketing offers.** Some customers may buy a product based on the message while others may completely ignore the message or even react negatively. Identifying how an individual is likely to respond to a campaign helps narrow the target population.
2. **Retention efforts should primarily focus on positive responders not all customers.** Marketers who target all types of respondents not just the positives risk wasting valuable resources on indifferent customers or at worst even triggering churn. This is especially critical in this climate of pressure upon marketing spend.
3. **The focus is on modeling the uplift in outcomes not just the outcomes.** By modeling the uplift in outcomes, marketers can predict the change in a customer's behavior when targeted.

## Uplift Modeling Refines The Target Audience

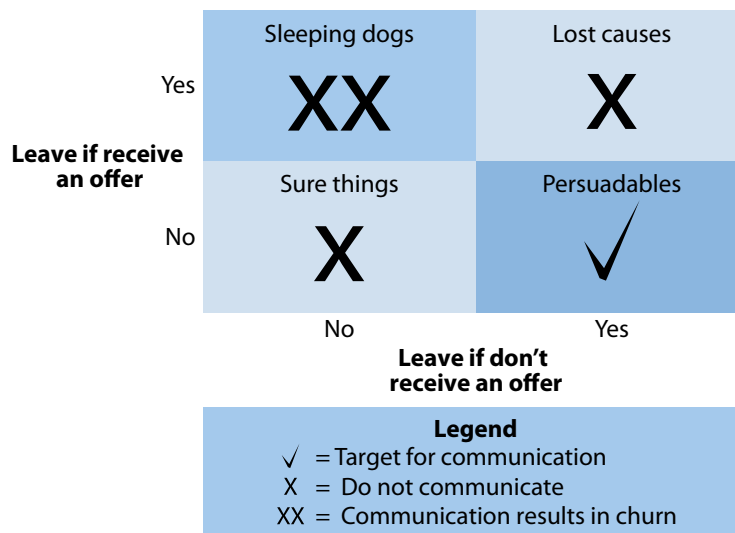
In theory, a retention campaigns' target audience can be classified into three major groups — customers who are (see Figure 1):

- **More likely to respond positively to the retention campaign.** This segment, also known as “the savables,” is the sweet spot for any retention program. Customers in this segment are characterized by their increased likelihood to act only if targeted. Marketers should recognize these customers as high attrition risks who are on the verge of ending their relationships with the firm. A timely, well-targeted offer can help change their minds and prolong relationships.
- **More likely to respond negatively to the retention campaign.** This group of individuals, referred to as “sleeping dogs,” is exactly the customers whom marketers must avoid. Why? A marketing intervention like an ill-timed mail offer is just the reminder these customers need to end their relationships with the firm.

- **Unaffected by the retention campaign.** This group of customers can be further classified into two subsegments: 1) “sure things” — customers who are likely to stay regardless of whether they receive an offer, and 2) “lost causes” — customers who will attrite regardless of the offer and its relevance. This segment of customers is characterized by an overall indifference to marketing’s intervention.

While in reality marketers cannot classify every customer into these segments, uplift modeling helps marketers understand probability of purchase in two cases — customers who receive a marketing message via a campaign and those who aren’t exposed to a marketing message. This helps marketers to only target savable customers. This disciplined approach to retention: 1) increases program performance since “savables” become the focus of efforts, and 2) reduces wasteful spending on “sleeping dogs,” “lost causes,” and “sure things.”

**Figure 1** Conceptual Segmentation For Retention Campaigns



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Source: Forrester Research, Inc.

### TELENOR: A CASE STUDY IN UPLIFT MODELING

To better understand how organizations can use uplift modeling to improve retention program performance, we caught up with one of the early adopters of this technique: Eva Helle, head of Customer Analytics at Telenor. The world’s seventh largest mobile operator, Telenor, offers mobile, broadband, fixed line, and broadcast services. Telenor Norway operates in a business environment that is:

- **Filled with low-cost, local competitors.** While Telenor is Norway's dominant player in mobile communications with more than 50% market share and broad network coverage, it competes against many providers offering low-cost packages in an attempt to grab share. To combat price-based acquisition strategies, Telenor ramped up its customer relationship marketing programs — increasing focus on customer care and value-added services.
- **Focused on customer retention.** Firms in mature markets with downward price pressures emphasize churn identification and focus on designing programs to retain and deepen existing relationships. Telenor is no different. But to really focus its retention activities, Telenor tailored its programs to the most valuable customers. A wide variety of metrics — such as plan size, call volume, and additional number of products — help Telenor assign customer value.

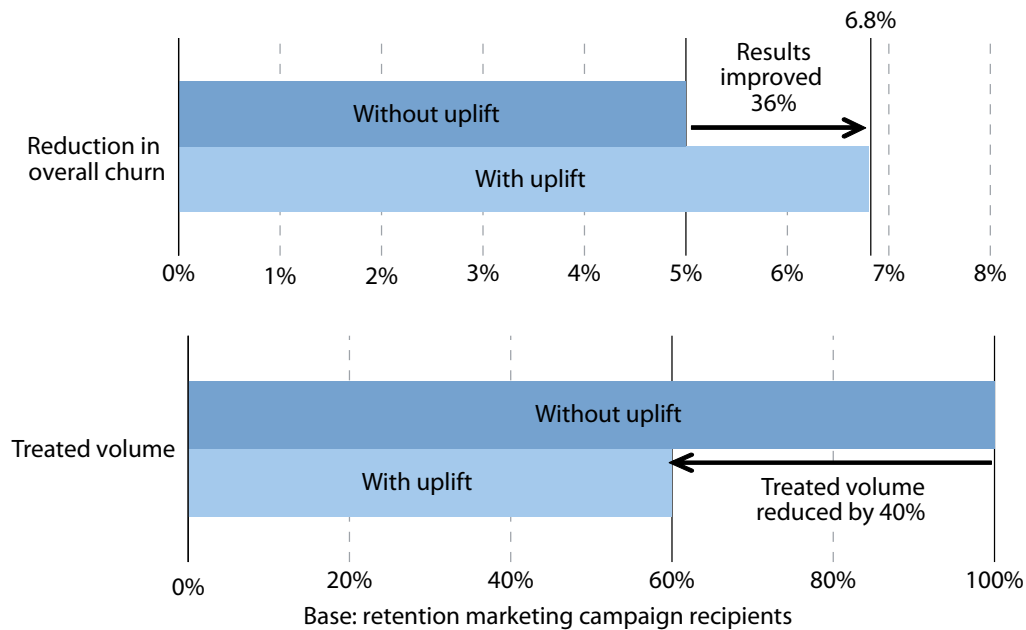
### Uplift Modeling Lowers Overall Defection by 1.8%

The Customer Analytics team has a wide variety of customer attributes from billing systems, customer service databases, and CRM systems at its disposal. The team uses this data to build several churn and purchase propensity models to model customer behavior. In addition, the team refines retention activities by using a micro-segmentation approach to divide customers into smaller segments based on their propensity to attrite and value to the organization. This micro-segmentation approach helps Telenor identify “savables” and prioritize retention program investments based on value.

While the retention programs worked well and Telenor was able to lower annual churn by 5% among its most valuable customers, it also uncovered some startling information. The retention programs were triggering high levels of churn — slightly more than half of the customers who rejected the offer subsequently defected (see Figure 2). To address this problem, Telenor turned to uplift modeling from Portrait Software, a provider of analytical software. The results were revealing:

- **Drop in overall churn.** Telenor found that by only targeting persuadables, it was able to reduce overall churn by 1.8%. A more telling statistic: These improvements were driven by only targeting 60% of the potential churners. The benefits of targeting smaller groups is clear — cost savings achieved from fewer contacts by telemarketing and lowering of customer fatigue through selective contacts.
- **Improved campaign ROI in the first year.** The combination of increased retention rates and lower cost means Telenor will realize an 11-fold increase in uplift campaign ROI when compared with existing programs.

**Figure 2** Retention Marketing With Uplift Produces 11 Times The ROI



Source: Telenor Norway, 2008

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Source: Forrester Research, Inc.

## RECOMMENDATIONS

### WHAT MARKETERS CAN LEARN FROM TELENOR'S RETENTION PROGRAMS

Direct and database marketers addressing customer churn can learn from Telenor's approach to its retention programs. The key takeaways include:

- **Extend customer understanding as part of the planning process.** Rather than take the easy approach of treating all customers equally, Telenor sought to improve its understanding of the intrinsic value of customers through micro-segmentation. Assigning customer value is an important first step to managing customer churn. Metrics like customer lifetime value and margin lend direction to the retention program; they help marketers identify and prioritize the customers to protect and those to let go.
- **Refine retention programs with advanced analytics.** Simply looking at likelihood of churn isn't sufficient to power retention programs. Marketers must understand the timing of defection as well as their own ability to come up with the right offer to retain the customer. What does this mean for direct marketers? Emerging techniques like uplift modeling help marketers do more than identify churners. They also help marketers understand

how customers are likely to react to a marketing message. This helps marketers to narrow programs to only focus on customers who react positively.

- **Consider customer contact strategies when developing retention programs.** Marketers must consider their overall contact strategy when including customers in retention programs. Why? Growing media and channel fragmentation and volumes of customer communication have cranked contact fatigue up to unmanageable levels. The evidence is overwhelming — consumers actively seek tools like spam blockers, do-not-call lists, and ad-skipping technologies like TiVo to avoid marketing messages. Retention programs that pile on top of uncoordinated or frequent messaging may actually trigger churn.

## ENDNOTES

- <sup>1</sup> Eighty-one percent of the direct and database marketers we surveyed say that their databases drive both acquisition and retention programs. See the March 7, 2008, “[The State Of The Database Marketing Organization In 2008](#)” report.