The Data-Driven, Journey-Based Guide to:

Predicting & Reducing Customer Churn

EXIT

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What Is Customer Churn?

COMPANIES TYPICALLY SPEND MOST OF THEIR EFFORT AND RESOURCES ON CUSTOMER ACQUISITION, EVEN THOUGH THE COST OF RETAINING AN EXISTING CUSTOMER IS 5 TIMES LOWER THAN ACQUIRING A NEW ONE.

Customer retention is a measure of how many of your customers continue to buy from you over time and are therefore loyal to your brand. Churn, sometimes known as customer attrition, is at the opposite end of the spectrum, i.e. how many customers stop buying from your company.

Industries that use a subscription-based business model have traditionally focused more on churn than others.

Banks, telecom companies, insurance firms, energy services companies, are among the many types of businesses that often use customer attrition analysis and customer churn rates as one of their key business metrics.

With the rise of businesses based on recurring revenue models, such as Software as a Service (SaaS), churn has become an important business metric for software companies.

> *"Only 1 out of 26 unhappy customers complains. The rest churn."*
>
> *- Esteban Kolsky*

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For instance, Bain estimates that for a telecom provider with 5 million customers and an average churn of 2 to 2.5%, a reduction in churn by even 50 basis points would be worth $410 million in customer lifetime value over 30 months.

When customers leave after poor experiences, not only will they not return, but with social media, will often amplify their message of dissatisfaction to others.

Here are a few reasons why you should care about churn:

- Customer churn reduces profitability through revenue loss

- Churn results in greater marketing and re-acquisition costs

- The probability of selling to an existing customer is a lot higher than to a new prospect

- Knowing the customer churn rate is helpful for calculating customer lifetime value

- It is a measure of the company's health and long-term prospects

- Customer churn determines whether customer retention is improving

- It helps identify which customers and segments and segments are the best fit for your product

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Why a Journey-based Approach to Churn is Needed

Businesses previously did not have visibility into real, end-to-end customer journeys, so they focused only on the last one or two customer interactions, incorrectly assuming that the last one or two poor experiences caused a customer to churn.
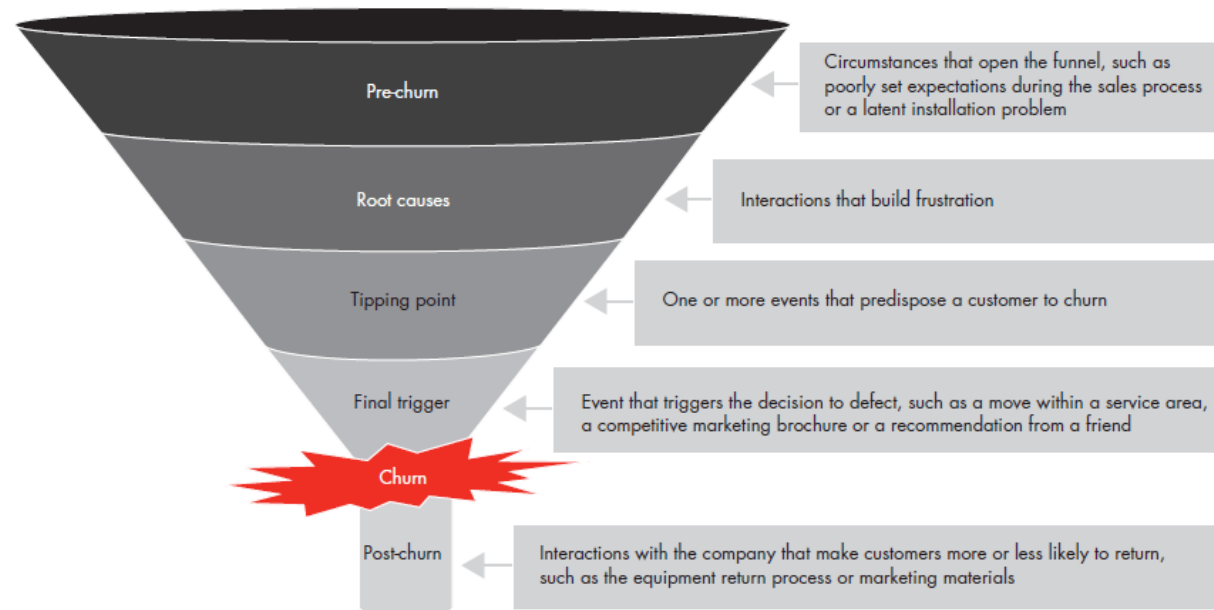
But poor experiences accumulate over time. Much like personal relationships, trust, or conversely resentment, can build over years in customer relationships as well. They too can feel neglect or indifference, and frequently the point at which they churn has roots far earlier in the relationship.

The point is, if you don't look at the complete journey, you will reach the wrong conclusions.

With the breakthrough technology of customer journey analytics, you now have the power to look across millions of complete journeys connecting multiple touchpoints

Using customer journey analytics platforms, you can now visualize and discover the root causes of churn in real-time based on the complete history of interactions with a customer.

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

- **Pre-churn** — Circumstances that open the funnel, such as poorly set expectations during the sales process or a latent installation problem
- **Root causes** — Interactions that build frustration
- **Tipping point** — One or more events that predispose a customer to churn
- **Final trigger** — Event that triggers the decision to defect, such as a move within a service area, a competitive marketing brochure or a recommendation from a friend
- **Churn**
- **Post-churn** — Interactions with the company that make customers more or less likely to return, such as the equipment return process or marketing materials

Source: Bain & Company

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8 Steps To Predict And Reduce Churn

Step 1: Calculate Your Churn Rate

You can't reduce what you aren't measuring, so the first step is to calculate your customer churn rate.

There are several different ways to calculate your churn rate. *Netflix* was even sued by its shareholders over the way it reported churn rates. The shareholders' argument was that Netflix used an improper calculation that resulted in an artificially low churn rate. The case was thrown out by a judge, ruling that there is no single, industry-wide measure of calculating churn.

So, let's start by defining two ways to measure churn: customer churn and revenue churn.

Customer churn is the proportion of contractual customers or subscribers who leave a supplier during a given time period.

Revenue churn, on the other hand, is the proportion of recurring revenue lost in a given time period. Revenue churn is commonly used in SaaS and other business models that rely on recurring revenue models.

Customer Churn Rate

Basic churn rate is calculated by detrmining the customers lost during a timeframe and dividing it by the total number of customers at the start of the timeframe.

HOW TO CALCULATE BASIC CUSTOMER CHURN RATE

To start, choose a timeframe for your calculation. Companies typically calculate monthly customer churn rates but you could also do quarterly or annually. In this timeframe, determine the customers lost and divide it by the total number of customers at the beginning of the month.

$$\text{Customer Churn Rate} = \frac{(\text{Customers at start of timeframe} - \text{Customers at end of timeframe}^*)}{\text{Customers at start of timeframe}}$$

* *Avoid including new sales during the month.*

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Revenue Churn Rate

Revenue churn rate can be calculated in two flavors: *gross* and *net*

To calculate your gross revenue churn rate, start by choosing a timeframe. In your chosen timeframe, determine the revenue lost from existing customers and divide it by the revenue at the start of the timeframe.

$$\text{Gross Revenue Churn Rate} = \frac{\text{Revenue lost from existing customers during timeframe}}{\text{Revenue at start of timeframe}}$$

To calculate your net revenue churn rate, start by choosing a timeframe for your calculation. Companies typically calculate monthly customer churn rates. Net revenue churn also takes into account increases in revenue due to up-sells to higher cost subscriptions and is a critical indicator of the health of a SaaS business.

$$\text{Net Revenue Churn Rate} = \frac{(\text{Revenue lost from existing customers} - \text{Revenue gained from upsells})}{\text{Revenue at start of timeframe}}$$

Revenue Churn Rate (con't)

So, applying the Net Revenue Churn Rate formula on the previous page, if company X has $10M of monthly recurring revenue (MRR) at the beginning of the month and $1M of MRR from existing customers is lost from cancellations and subscription downgrades during the month, but $2M of MRR is gained from upsells, then the net revenue churn rate is:

(1-2)/10 = -10%

Net revenue churn can be confusing, because positive numbers are bad and negative numbers are good. A strongly negative net revenue churn means that a company's revenue would increase even if there were no new sales. If net revenue churn is near zero, then churn erases the growth from upsells, so all growth must come from new customers. If it's positive, the company's sales team must work harder to overcome revenue leakage from existing customers.

Step 2: Calculate Churn For Different Time Periods

Churn can be categorized as short term, mid term or long term, depending on how long customers have been active before they decided to discontinue and cancel the service.

Short-term churn is when customers churn after the initial few months. Short-term churn rates are typically high, as customers test out different products and decide whether or not it adds value or they like it. When your short-term churn rate is extraordinarily high, examine your sales and marketing funnel to see if you're targeting the right customer segment.

Mid-term churn occurs when customers have used the product for a few months and have had a chance to evaluate, understand and experience it. Improving mid-term churn rates is about keeping customers engaged and interacting with your product and giving them reasons to keep coming back. This can be done by adding features, providing consistently good customer service and maintaining regular communication.

Long-term churn happens when an established customer with a long history decides to cancel your service. To keep customers engaged over the long-term, you need to reinforce the core value of your product consistently. Look for up-sell and cross-sell opportunities to keep them invested and interested in your product.

Step 3: Identify At-Risk Customers to Reduce Churn
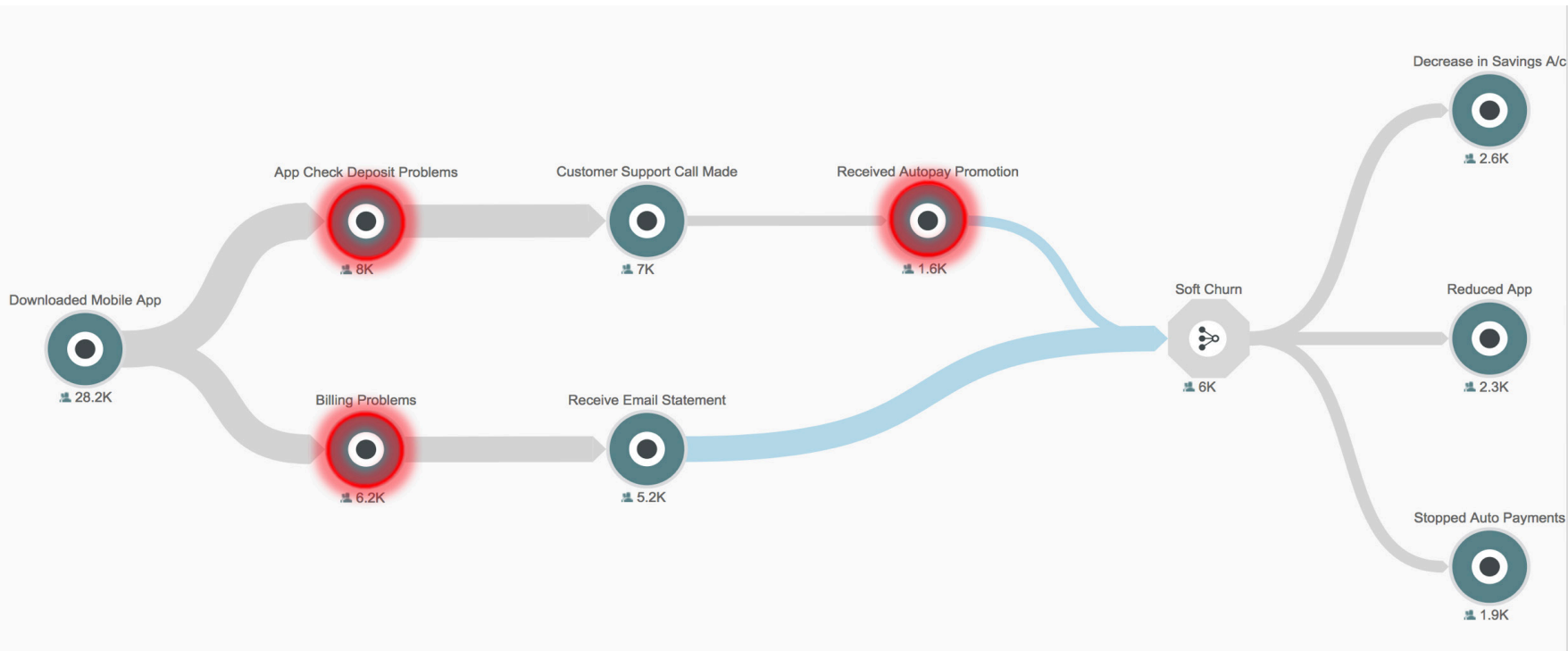
Prevention is better than cure, right?

Some customer groups, and more importantly, some customer behaviors are more predictive of churn than others. But it is hard to spot these behaviors proactively and in real-time so you can take steps to make these at-risk customers stay.

Companies are using customer journey analytics to improve their ability to identify at-risk customers and

thereby reduce customer churn. By gaining a data-driven understanding of customer preferences and the best ways to reduce friction in particular situations, companies can more easily identify and prioritize opportunities for improvement.

Using predictive analytics and machine learning algorithms, journey analytics can help identify which customers are most likely to churn, thus providing you with valuable data to turn the situation around.

THIS DIAGRAM SHOWS SOFT CHURN BEHAVIOR FOR A RETAIL BANK VISUALIZED IN TERMS OF JOURNEY STEPS

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Decrease in Savings A/c — 2.6K

App Check Deposit Problems — 8K

Customer Support Call Made — 7K

Received Autopay Promotion — 1.6K

Soft Churn — 6K

Reduced App — 2.3K

Downloaded Mobile App — 28.2K

Billing Problems — 6.2K

Receive Email Statement — 5.2K

Stopped Auto Payments — 1.9K

3

You can use customer journey analytics to find those particular touch points that prove to be an obstacle in the customer journey, putting customers at risk of churning.

A call into your call center to sign-up for a new service, for example, may be a point at which most customers are abandoning their journey. However, a deeper investigation could reveal that the average wait time for a particular set of customers is higher than average. Now you can take remedial steps and monitor the journey to see if there have been improvements in the signup rate for these customers.

Moreover, by employing customer journey analytics your efforts to woo back your former customer are significantly more likely to succeed, as you reach out to them with the right message through their preferred channel within the right timeframe. Even if you fail at winning back that customer, the information you gather will help you take proactive steps before customer churn becomes a more significant problem.

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A Leading Telco Uses Customer Journey Analytics to Reduce Churn

Customer churn is particularly troubling for the telecom industry due to slim margins and saturated markets. At any point in the customer journey, telecom customers are only a click away from switching to a competitor if they are not happy with the level of customer service provided.

Telecom companies are now using customer journey analytics to pinpoint problem areas such as customer care calls and analyze how to improve them or provide alternatives via self-help methods. This has resulted in improved NPS (Net Promoter Scores) and lower cost to serve.

As described in Deloitte's *2017 Retail, Wholesale, And Distribution Industry Outlook Report*, a leading US-based wireless provider used customer journey analytics to determine the probability of a customer calling in for a certain support issue across all online support channels. Agents now proactively know what issues need to be resolved, how the subscriber tried to address the issues, and how best to deliver an improved customer experience.

After operationalizing customer journey analytics, the time customers spent in the interactive voice response unit (IVR) decreased by 67 percent. This had a positive impact on customer satisfaction index (CSAT) and customer effort (CES) scores, customer retention rates and top-line revenue. According to Deloitte, a one-half of one percent increase in customer churn or retention is worth an estimated $1.3 billion in revenue to this telecommunications company. In addition, the company reduced call center volumes by 30 percent which saved 15 dollars per call without negatively impacting service levels.

Step 4 - Discover Your Most Profitable Customers and Focus on Keeping Them

Let's face it – all customers aren't equal, and while you may want to retain all, your resources aren't unlimited and you need to focus on the most profitable ones first.

Customer journey analytics plays a big role in this endeavor by providing a detailed, quantitative picture of the entire customer journey, how they interacted with the product, the problems they faced and the resolutions at each step along the journey.

Using customer journey analytics, you can group your customers into segments defined by profitability, readiness to leave and the likely response to offers to stay. In this way, you can reduce customer churn by better predicting it.

> *If I offer an incentive to customers most likely to churn, they may not leave the company, but will it be profitable for me? The traditional method is focused on reducing churn, but we contend the goal should be maximizing profits, rather than only reducing churn."*
>
> *- Sunil Gupta, Professor, Harvard Business School*

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Step 5 - Target the Right Customers to Begin With

If you're going to work hard to retain your most profitable customers, then another way to reduce customer churn is to be laser focused on acquiring customers that are less likely to churn.

No matter how deep and sophisticated your retention strategy, it will be a huge waste of resources if you are attracting the wrong audience. It is imperative to make sure you are targeting those customers who are the best long-term fit for your product and can see the value in it.

Customer journey analytics tools can help you better target and segment customers based on behavioral, demographic and product attributes. Journey analytics tools discover the most predictable paths and the key attributes of prospects who eventually turn into long-term, profitable customers.

Armed with this information, you can more precisely target the right audience, set the appropriate customer expectations and significantly reduce the possibility of eventual churn.

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Step 6 - Engage with Customers at Optimal Times Through Their Preferred Channels
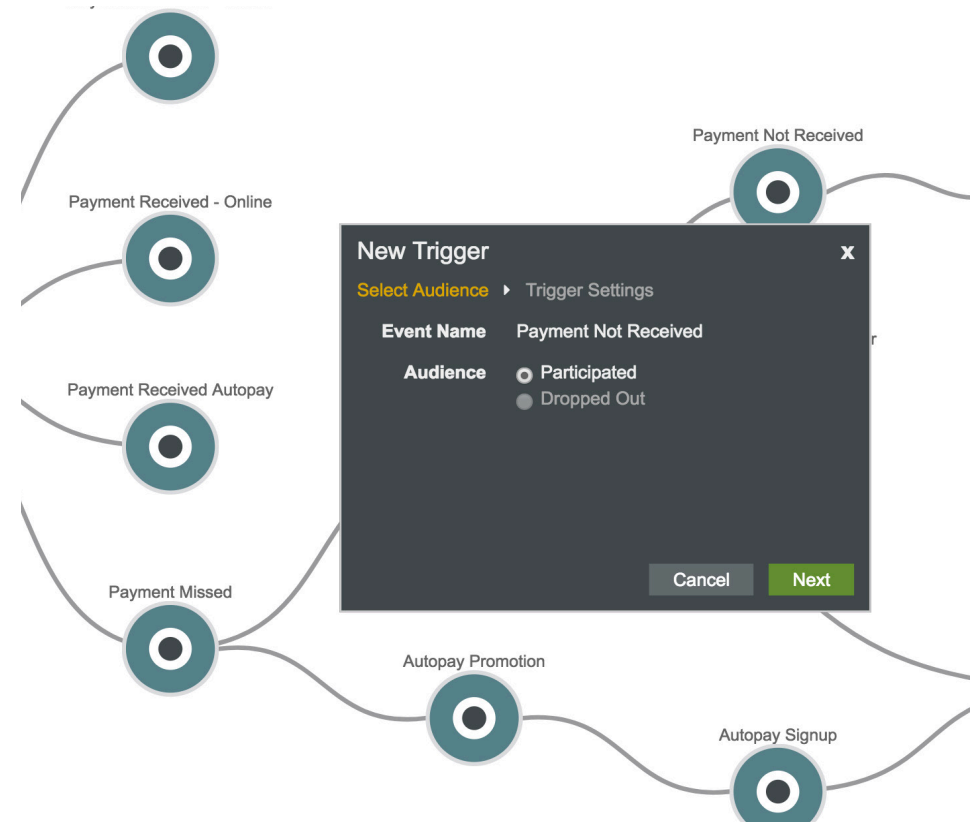
You'll be surprised by how many companies only communicate with customers when they either want to upsell or when the customer is breathing fire.

Besides emails and phone calls, there are other techniques such as those suggested below to proactively and consistently talk to your customers:

Satisfaction Surveys – Conduct short, open-ended customer surveys which let customers voice their opinions in an easy, convenient manner.

Social Media – Be present and answer questions through all your social media channels. After all, your customers spend most of their time on social channels, so why wouldn't you be there too?

Feedback Bar – Incorporate a feedback bar into SaaS products and mobile apps, so customers can ask questions, comment on features or give feedback as they are using the product.

Payment Not Received

Payment Received - Online

Payment Received Autopay

Payment Missed

Autopay Promotion

Autopay Signup

New Trigger   X

Select Audience ▸ Trigger Settings

Event Name   Payment Not Received

Audience   ◉ Participated
   ○ Dropped Out

Cancel   Next

Customer journey analytics can help you optimize omni-channel journeys by automatically engaging with each customer at the best time, and in a relevant, personalized way. By embedding triggers at any point along the journey, you can engage with your customers in the moment.

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Step 7 - Identify CX Problem Areas

Customer journey analytics is the best approach to help you quickly identify problem areas throughout the customer journey. These problem areas could be caused by flawed and inefficient processes, inconsistencies in your user experience, lack of personalized service, bugs, or a whole host of other things.

By using these data-based insights, you can now decide on the appropriate steps to take to mitigate these customer experience issues and create experiences that reduce customer churn and suit the best interests of the customer.
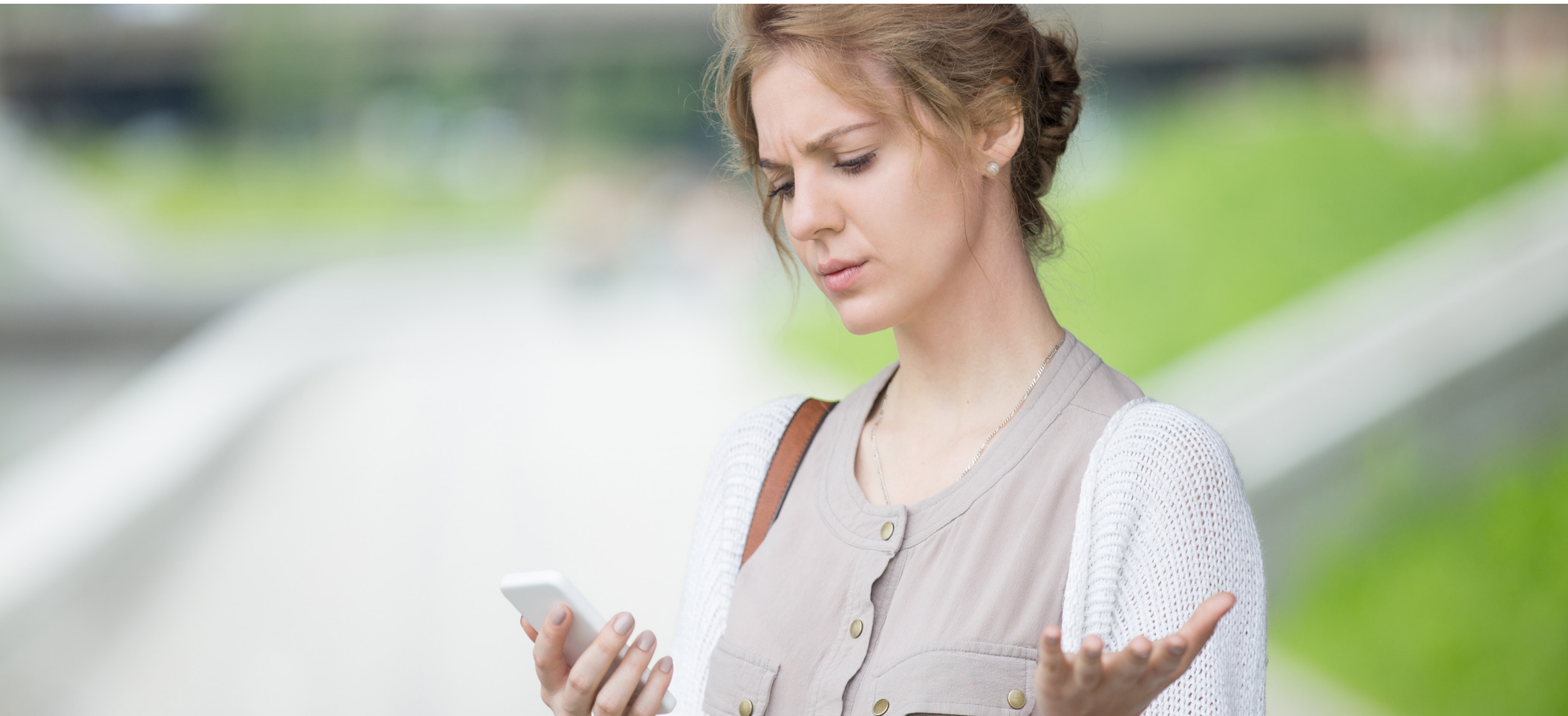
Insurance Company Reduces Churn By Improving Operational Efficiency

An insurance company did a deep study of customer journeys and found a major operational inefficiency in the way it handled the claim filing process for customers who suffered an automobile accident.

The process of filing claims was long and tedious, with a number of lengthy interactions required with the loss adjuster. This led to high customer dissatisfaction, so the insurer invested the time to understand and analyze their customer's journey.

To resolve this customer experience hurdle, they created a new mobile app, which reduced the time to complete the entire claim filing process to a matter of minutes. The app sends messages to customers, updating them on the status of their claim and providing real-time processing and cash payout. The insurer even went a step further and enabled customers to directly make appointments with repair shops using the app.

The insurer found that taking care of a distressed customer in the wake of an accident was an opportunity to build loyalty and reduce churn.

Providing customers with a better experience over their entire journey— from identifying the cause of damage to finding a repair provider to paying the bill—provided them with a great way to mitigate customer experience issues and significantly reduce the likelihood of churn.

Step 8 - Create A Customer-Centric Culture

A lot of companies pay lip-service to the concept of creating a customer-centric culture in the organization. But real change comes when you put resources behind it, measure it and share the results across the organization.

One highly effective idea is to connect compensation to important customer experience metrics such as churn rate. This creates an organization-wide focus on the issue.

Use customer journey analytics to monitor these KPIs in real-time and over the long term through dashboards. Share these metrics regularly across the organization.

In addition, when hiring new employees (even those in non-customer-facing roles) look for customer centric attributes and skills. Invest resources and time in training and supporting employees to be customer-focused. Give your employees the power to do what it takes to meet and exceed the customer experience standards you have set and reward those who consistently shine in this aspect.

Empower your employees to do what it takes to meet and exceed customer experience standards

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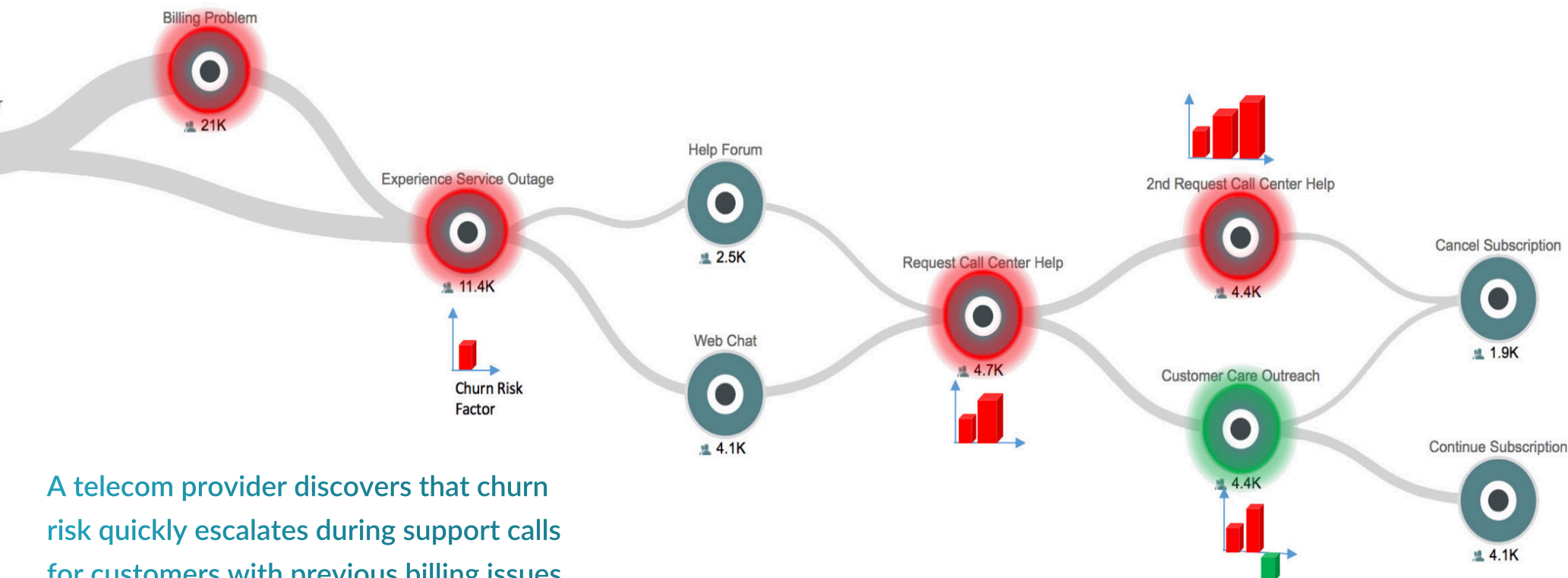# Pointillist AI - Actionable Insights To Reduce Your Churn Problem
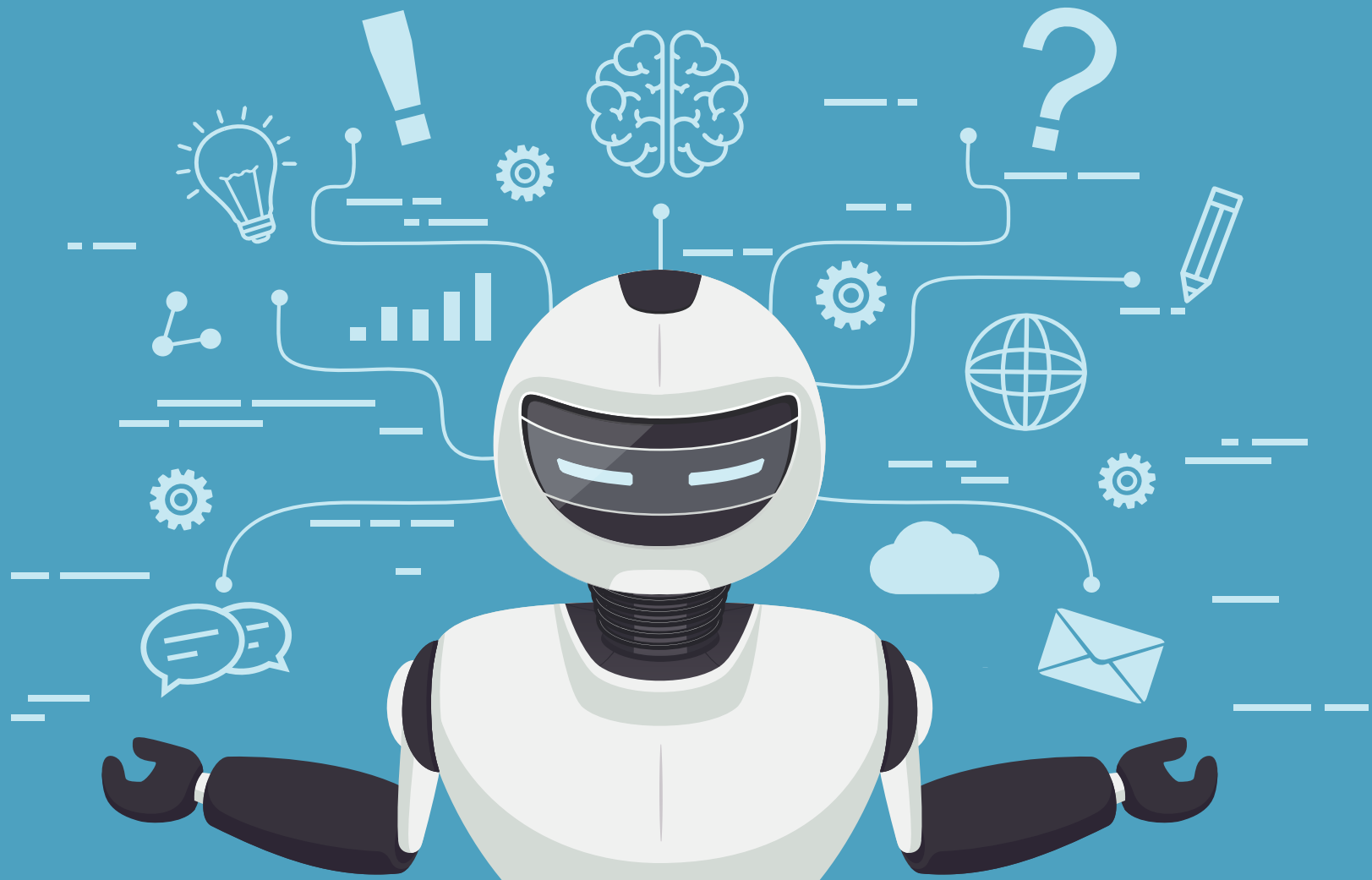
Pointillist AI explores billions of data points in places you'd never think to look, and finds every relationship in the data that exists. Unlike other 'black box' AI tools that present their results without context, Pointillist AI is truly your analytics partner. For the first time, you have the power to know precisely where, when and why churn occurs as your customers interact with your company.

With Pointillist AI, simply indicate that you're looking to reduce churn and it will discover those customer behaviors and attributes that have the highest impact on churn, within the contect of your customers' actual journeys.

You can focus on evaluating insights and deciding which ones to act on first, rather than spending all your time managing data.

Pointillist AI can even discover whole new customer segments and behaviors that are more predictive of churn than. New behavioral segments discovered by Pointillist AI, defined by profitability, readiness to leave and the likely response to offers to stay, can then be used to inform your strategies for churn reduction, customer retention and growth.

Billing Problem
👥 21K

Experience Service Outage
👥 11.4K
Churn Risk Factor

Help Forum
👥 2.5K

Web Chat
👥 4.1K

Request Call Center Help
👥 4.7K

2nd Request Call Center Help
👥 4.4K

Customer Care Outreach
👥 4.4K

Cancel Subscription
👥 1.9K

Continue Subscription
👥 4.1K

A telecom provider discovers that churn risk quickly escalates during support calls for customers with previous billing issues

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Discover and Influence Your Customers' Journeys

Pointillist makes it easy for marketers and CX professionals to uncover and optimize the journeys that matter to your customers, so you can improve marketing and customer experience results.

- Visualize real customer journeys rapidly

- Measure the impact of customer behavior on your metrics and KPIs

- Create personalized customer experiences

Unlike other analytics solutions, Pointillist lets you connect the dots between customer interactions and quantitative business goals in seconds, rather than days or weeks. By using machine learning to reveal high-impact journeys and predict likely behavior, Pointillist is like having a personal data scientist that's always on call.
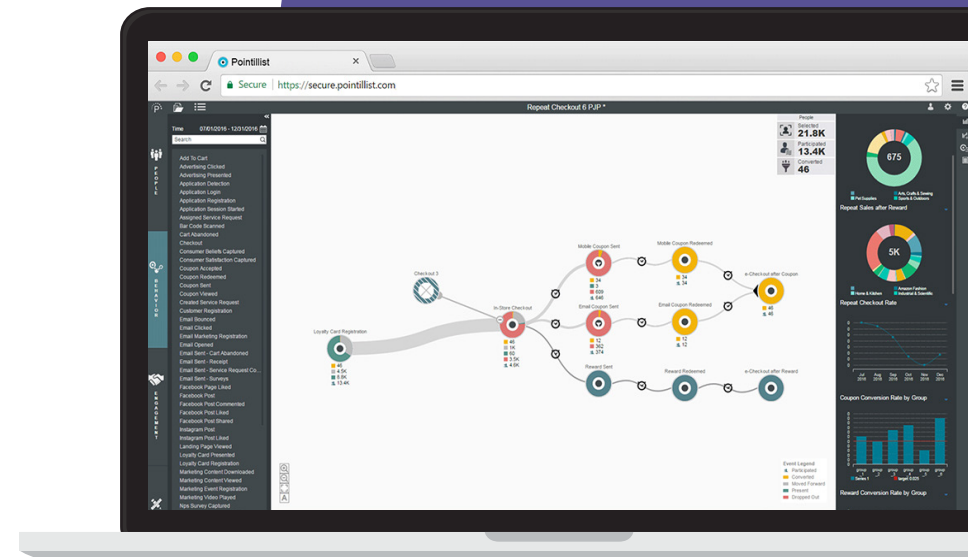
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