

Cost Effective Retention in Today's Hyper-competitive Mobile Telecom Market

The NEED vs. AFFORD Customer Retention Model

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White Paper

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Introduction

The UK mobile telecommunications market is one of the most dynamic in the world. With high levels of market penetration and customer churn rates, the UK market presents a pool of customers that are increasingly knowledgeable, proactive and effective in negotiating with their telecommunications service provider for the best deal.

This climate of tough negotiation means that marketing, retention and customer services managers must review their customer retention performance figures frequently in order to maintain their customer margins - let alone improve them. This paper explores the current retention strategy of various mobile telecommunications providers, and looks to uncover the way in which by switching from an AFFORD based customer retention system, to one that is based on NEED, mobile operators can significantly reduce the cost of retention.

The Retention Challenge

Whilst many of the UK's telecommunication providers achieve their customer retention targets, what is less clear is the increasing cost of this retention to their business. That is, as customers become more mobile savvy they demand greater incentives to prevent them from switching between service providers, which adds to the total cost of their retention.

According to an article in Mobile News², many operators offer discounts of up to 50% to retain their existing customers. As a consequence networks must absorb a 50% reduction in the total revenue received from that customer over an 18 month period. For this reason it is not surprising that this sort of retention strategy "does incredible damage to operator margins", as noted by a senior member of one network operator.

CInergy has worked with the UK's leading mobile operators and in particular, has spent a great deal of time speaking to call centre agents that deal directly with customers searching for a better deal. All of these agents testify to losing a significant number of customers each day. They also claim that they are frequently forced into using their best offers in order to retain the customer.

Many mobile network operators have invested heavily in decision management systems that calculate the value of each customer and determine how much an advisor can afford to spend to retain them. Whilst these systems unquestionably provide mobile network operators with a vital front line capability, by focusing only upon how much the mobile agent can afford to spend there is a limit to how much they can achieve.

In fact, rather than focusing solely upon how much the agent can afford to spend, CInergy suggests it is critical to understand the amount the advisor actually needs to spend in order to keep the customer. That is, rather than calculating an agent's maximum spending allowance, CInergy seeks to calculate the minimum amount that the mobile operator needs to spend to match the competitor offering and retain the customer.

A YouGov survey of 1,432 mobile users in the UK found that¹:

- **58% of customers called their mobile supplier in order to switch service provider in search of a better deal**
- **39% of these customers claimed to have been successful in negotiating a better price from their present supplier**
- **49% claimed to have received something for free from their supplier in exchange for their retained custom, things such as free insurance, gifts or a reduced handset charge.**

¹ Data sourced from YouGov poll undertaken in the UK in December 2007

² Mobile News (August 2008) Customer Retention http://mobiletoday.co.uk/Customer_retention.html

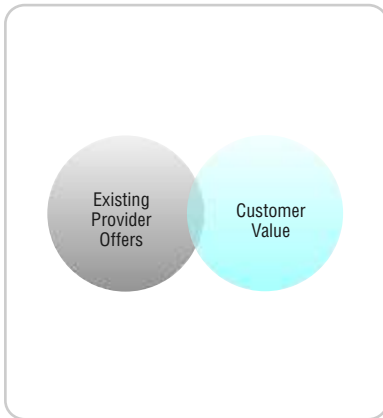


Fig. 1: AFFORD Retention Model

Current Retention Strategy: the AFFORD Approach

Mobile operators are beginning to view their customers in more sophisticated terms, by treating their retention as an investment decision. This is highlighted by the increasing interest in providing decision management applications to their call centre staff. The underlying aim of these applications is to improve the return on investment delivered from the operator's retention budget. These applications tend to be internally focused by drawing upon metrics such as how much the customer is worth to the business, what value the customer might have in the future and how much the operator can AFFORD to spend in order to retain that same customer.

The recommendation algorithms are therefore orientated around what the operator can AFFORD to invest in order to achieve a given return. The customer's usage and current monthly billing are incorporated into these algorithms, typically by using the data to allocate the customer to a 'value band', out of which call centre staff are then presented with a range of retention offers. In turn, the call centre agent is offered incentives in order to negotiate hard and to achieve the best outcome for the supplier. The box below outlines three typical renewal conversations.

Contract Renewal Conversations

Many mobile customers are looking for an offer or deal when it comes to renewing their contract. Those customers who get into a renewal conversation fall into three primary categories.

- **Inertia Renewers** – those who accept the deal offered by their existing service providers and continue as a customer
- **Upgrade Seekers** – those who call and ask for a specific handset or request an improved contract but without having researched the market or sought a competitive offer
- **Bargain Hunters** – those who have a competitor offer in mind – either because they intend to leave or because they want to use it as leverage for a better deal from their existing supplier.

Arguably, where there is a limited degree of competition the AFFORD approach works reasonably well and may be apparent in conversations with either Inertia Renewers or Upgrade Seekers. Yet there is still a case for improving the capacity of the agent to negotiate more effectively – particularly with the *Bargain Hunter* segment of the market.

The Retention 'Third Dimension': The NEED Approach

By providing the agent with market information relating to competitor offers, the agent knows as much as, if not more than, the customer at the other end of the line. This allows the agent to assess what they NEED to spend in order to retain or acquire a customer, and adds a third dimension to the typical AFFORD approach.

When considering a typical *Bargain Hunter* conversation, the need for competitive information and analysis is even more compelling. In fact, by integrating topical market knowledge into the retention process, the agent is able to drill down into the detail of competitor deals and to negotiate more effectively. This may at times involve providing the customer with hard evidence to show how and why a competitor offer may not be as beneficial in the long term.

Overall this market information will enable the agent to show that:

- The competitive offer favoured by the customer may not be ideal for their particular usage pattern;
- The competitive offer may appear superficially attractive to the customer but may have hidden costs, such as penalty clauses or an unviable cash-back offer.

In this sense there is an overall difference in dimension between the AFFORD retention model and the NEED approach. Whilst the AFFORD approach considers only the internally calculated value of the customer, and the offers available by the existing service provider, the NEED approach (fig. 2) also includes competitor information as the third dimension of this retention solution.

Looking at the dynamics of this added dimension reveals a number of associated costs inherent in the AFFORD approach. Firstly, to simply spend what the AFFORD retention model suggests necessarily adds a cost to the supplier and delays their return on investment. Secondly, because there is no guarantee that a customer's value will remain unchanged, basing levels of retention investment upon a customer's previous usage patterns runs the risk of the operator gaining no return on their investment. The addition of competitive information reduces the additional cost associated with retention spending.

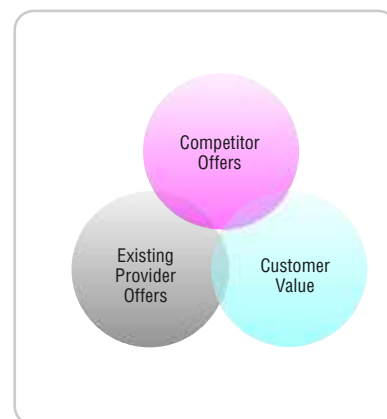


Fig. 2: NEED Retention Model

The NEED approach offers the potential to save the supplier a significant amount of its retention budget.

In this example, the agent saves £150 using the NEED vs. AFFORD model.

For example, while the AFFORD retention model may suggest investing £250 to retain or acquire a customer, this may be reduced to £150 by using the NEED retention model, with recommendations based upon current market information. In this sense, the NEED approach offers the potential to save the supplier a significant amount of its retention budget.

This may be demonstrated more clearly by outlining a typical customer retention conversation:

Using the AFFORD model:

- A customer calls up requesting to cancel and mentions a competitor's deal;
- The agent pulls up the customer record and sees that this is a high spending customer. The decision management system authorises a maximum spend allowance of £500 (including handset) with a target spend of £250;
- The agent is able to retain the customer for a further 12 months and spends only £300, saving the mobile network operator £200 based on the maximum figure that they were authorised to spend.

Using the NEED model:

- A customer calls up requesting to cancel and mentions a competitor's deal;
- The agent pulls up the customer record and sees that this is a high spending customer. The decision management system authorises a maximum spend allowance of £500 (including handset) with a target spend of £250;
- The agent accesses details of the competitor's deal and is provided with a comparative analysis with the existing provider's most relevant deal. The cost variance between the two deals is only £150;
- The agent is able to confirm the variance and retain the customer for a further 12 months and spends only £150, saving the mobile network operator £350 based on the maximum amount they were authorised to spend.

In this example, the agent saves £150 using the NEED vs. AFFORD model. Furthermore the NEED approach also enables the agent to inform the customer of any incorrect recommendations made by its competitor, which has the additional benefit of undermining any trust previously placed in the hands of the competitor.

The benefits of this approach to the supplier are twofold:

- Better investment decisions with improved return on the retention spend and greater profitability of the customer contract over the full term;
- The development of a stronger, fact-based relationship with the customer that sets the supplier apart from its competitors. This more positive customer experience may benefit the mobile operator in terms of its future retention.

Financial Impact Analysis

In view of the fact that 58% of users surveyed by YouGov called their mobile supplier in order to switch service providers in search of a better deal, it is worth identifying the financial implications of both the AFFORD and NEED approaches respectively.

The figure below compares the financial impact of the AFFORD and NEED approaches using assumptions based on the knowledge that CInergy has acquired from working closely with the UK's leading mobile operators. In the example below, the NEED model delivers a saving of £783,000 a month or £9.4m a year.

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AFFORD Model

200,000 inbound retention calls per month

of which

116,000 calls where a retention advisor is 'up against' a competitor offer (58% of the base)

X

Base conversion rate of 30%

X

Average retention spend of £250

= £8.7m spent per month to save 34,800 customers

NEED Model

200,000 inbound retention calls per month

of which

116,000 calls where a retention advisor is 'up against' a competitor offer (58% of the base)

X

Base conversion rate of 30%

X

Average retention spend of **£175** (through integration of competitor offer knowledge into retention process)

= £7.9m spent per month to save 34,800 customers

As the table below shows, savings will increase dramatically the more the NEED approach is applied, i.e. wherever the variance between the current supplier and competitor offer is less than the maximum spend allowance. The amount of that variance equates to the reduction in retention spend and reflects the difference in value between the two offers. For our example above we have applied the median value as indicated by the cell highlighted in pink below.

Monthly reduction in retention spend from NEED to AFFORD

| | | % of Converted Calls Where NEED < AFFORD | | | | |
|--------------------------------------|------|--|----------|-----------------|------------|------------|
| | | 10% | 20% | 30% | 40% | 50% |
| Average Reduction in Retention Spend | £25 | £87,000 | £174,000 | £261,000 | £348,000 | £435,000 |
| | £50 | £174,000 | £348,000 | £522,000 | £696,000 | £870,000 |
| | £75 | £261,000 | £522,000 | £783,000 | £1,044,000 | £1,305,000 |
| | £100 | £348,000 | £696,000 | £1,044,000 | £1,392,000 | £1,740,000 |
| | £125 | £435,000 | £870,000 | £1,305,000 | £1,740,000 | £2,175,000 |

CInergy International customers include:



Using CInergy Accelerated Intelligence™ to Enable a NEED Strategy

In order to unlock the true potential of the NEED retention model, it is essential for a network operator to be able to match customer value AND the competing offers to their own offers. This requires access to regularly updated application logic which understands all of the constituent elements of all available offers and deals in the market and the terms, conditions and rules that bind them together. This information then has to be delivered directly to call centre agents in a format that they can use whilst on the phone.

CInergy's Deal Recommendation Engine (DRE) converts raw voice and data customer usage logs into a digestible profile that is processed using proprietary algorithms. This enables CInergy's DRE to position the customer's current offering against the competition and to deliver the findings to call centre agents in real time. The solution incorporates a real-time data management application which aggregates a large amount of market information and competitor offers daily and updates them continuously throughout the day.

CInergy's DRE is delivered either through CInergy's web-based Accelerated Intelligence™ platform or via an API into existing CRM and Decision Management systems, such as Chordiant or Siebel, thereby protecting network operators' investments in these platforms. It can be integrated into DM and CRM systems in a matter of weeks.

About Accelerated Intelligence™

CInergy's Accelerated Intelligence™ (AI™) puts competitive information into the hands of customer-facing teams, enabling them to counter competitive offer and achieve higher retention and sales performance. The service enables service providers to significantly improve the number of sales they close in a single call, helping to drive down the cost of customer acquisition and retention as well as improving revenues.

Accelerated Intelligence™ is proven in the UK mobile telecom space having worked with four of the UK's main network operators, delivering an average incremental customer save rate of 1.59% and reduction in call handling time of 22 seconds.

CInergy International was set up in 2003 to deliver customer acquisition and retention solutions to providers of mobile and fixed telecom, broadband and digital television services.