

# Triangulating on Customer Retention

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You Rule.

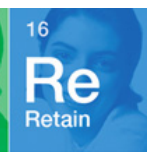
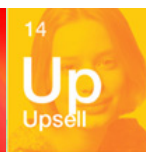


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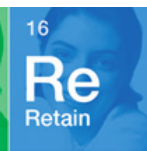
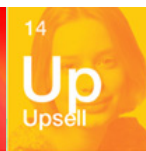
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# Triangulating on Customer Retention:

## A Three-Step Framework for Meeting Customer Needs

- Defining the Challenge
- The Customer Retention Framework: A Three-Step Approach
  - Root Causes of Churn and Customer Dissatisfaction
  - Customer-Level Churn Propensity
  - Customer Lifetime Value
- Transforming Theory into Action: Virgin Mobile USA
- Q & A

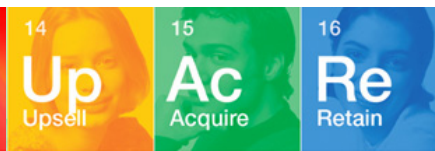


# Triangulating on Customer Retention Efforts

## Defining the Challenge

Customer retention efforts across the commercial space have been heavily weighted on several factors:

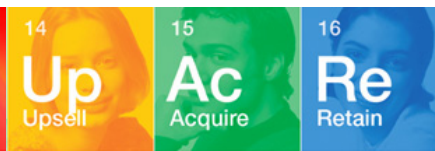
- Leveraging price as a “one-trick-pony” to retain customers
- Taking a reactive approach to customer dissatisfaction
- Assuming all customers with similar values are created equally
- Treating all customers based on revenue contribution



# Triangulating on Customer Retention Efforts

## Defining the Challenge

- Increasing direct & indirect competition requires a more complex approach to lifecycle management practices
- Just incorporating a proactive customer retention program is not enough
- A triangulation methodology at the individual customer level will enhance success:
  - **Churn Drivers & Dissatisfiers** – Identifies what is precipitating the future churn activity and customer dissatisfaction, and provides insight into likely remedies to the issues
  - **Churn Propensity** - Identifies which customers are likely to churn & when
  - **Customer Lifetime Value** – Identifies why a customer is in a value category and how much you might be willing to spend to entice that customer to stay



# Triangulating on Customer Retention Efforts

## Defining the Challenge

		Churn Drivers & Dissatisfiers													
		Care			Equipment			Education			Pricing				
		Driver # 1	Driver # 2	Driver # 3	Driver # 1	Driver # 2	Driver # 3	Driver # 1	Driver # 2	Driver # 3	Driver # 1	Driver # 2	Driver # 3		
Churn Propensity	Very High													High	Customer Value
														Medium	
														Low	
	High													Negative	
														High	
														Medium	
	Average													Low	
														Negative	
														High	
	Low													Medium	
														Low	
														Negative	
Very Low													High		
													Medium		
													Low		
													Negative		



# Triangulating on Customer Retention Efforts

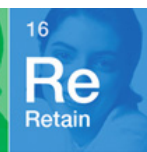
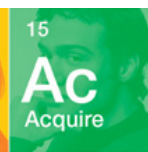
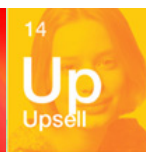
## Defining the Challenge

Leveraging these three keystones for each and every customer provides marketing with the ammunition to methodically and proactively address:

- Dissatisfiers for affected customers (Treatment)
- Root causes of dissatisfiers over the longer-term (Prevention)

### The objectives:

- Break the cycle of only competing on price
- Enhance the overall Customer Lifecycle process
- Allow earlier detection and treatment of dissatisfiers
- Maximize Customer Value in conjunction with Customer Satisfaction

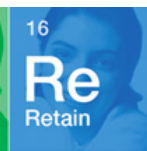


# The Customer Retention Framework: A Three-Step Approach

## Root Causes of Churn and Customer Dissatisfaction

Root Cause Analysis enables organizations to:

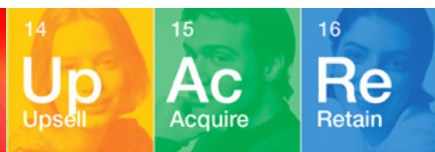
- Identify the key reasons/drivers for customer satisfaction levels
- Assess customer likelihood to continue service
- Define actionable tactics to address root causes
  - Short-Term
    - Treating affected customers (e.g., providing relief)
  - Long-term
    - Preventing a repeat of the dissatisfaction driver (e.g., operational modification)



# The Customer Retention Framework: A Three-Step Approach

## Root Causes of Churn and Customer Dissatisfaction

- **Gain insight on customers at risk by grouping them in pre-determined segments**
  - Based on their predicted likelihood of, and reason for, churn at an aggregate level
- **Identify the various components of churn to find out what factors are working against customer loyalty and satisfaction**
  - Operational → Business process change
  - Marketing → Develop strategies tailored to the segment
- **Profile risky versus loyal groups based on multivariate attributes**
  - Demographic, geographic, LOB, account type, service moving trend, care issues, etc.
- **Provide the building blocks for long term growth and customer retention**
  - Improve campaign efficiency and effectiveness

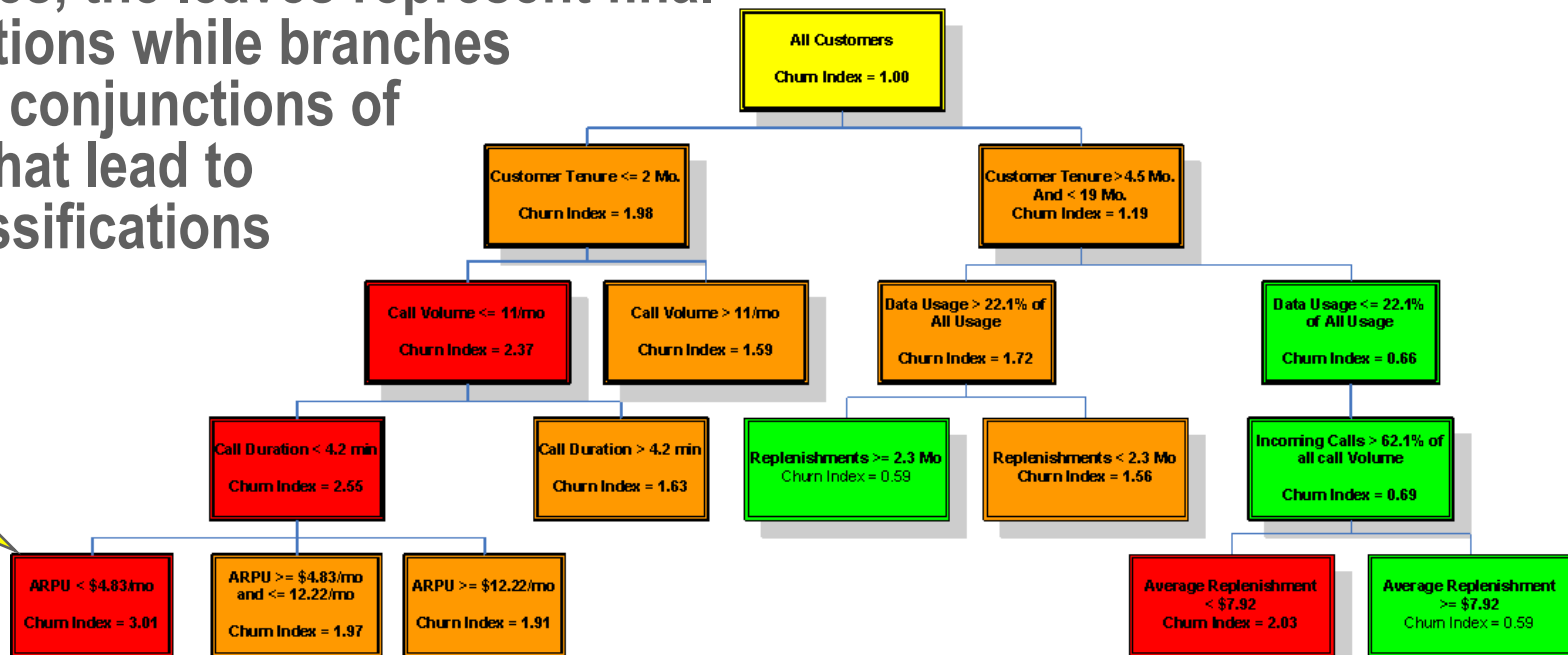


# The Customer Retention Framework: A Three-Step Approach

## Root Causes of Churn and Customer Dissatisfaction

- One methodology to decipher root causes is through decision tree analysis
- A decision tree is a statistical technique that selects distinguishing attributes via a split search algorithm
- In the trees, the leaves represent final classifications while branches represent conjunctions of features that lead to those classifications

3 times more likely to be a churner



# The Customer Retention Framework: A Three-Step Approach

## Root Causes of Churn and Customer Dissatisfaction

Segment	Mature Youngsters	Toddlers	Teenagers	Young Adults
Pop %	31%	35%	22%	12%
Descriptive	This group has been using the service for less than 4.5 months on average. They have a low volume of calls, but talk the longest, and generate significant revenue.	This group very recently joined the service (< 8.5 weeks on average). They are utilizing the service for the first time, and lack significant data to identify discrete root cause issues.	This group has been using the service for 12 months on average. They tend to use data services more heavily than the Young Adults, and replenish in lower denominations.	This group has also been using the service for 12 months on average, but have higher voice usage than their counterparts. They also tend to receive more incoming calls than other groups and replenish in higher denominations.
Deact Rate	5.99%	18.78%	2.12%	1.78%

•Such classification can aid in creating a Churn Segmentation, which provides insight into root causes and descriptors for various portions of the population.

•Diving more deeply also allows organizations to find “pockets” or opportunity and discrete root cause scenarios

Mature Youngsters				
Group	Segment Count	% of Total	Sept. Deact Rate	Deact Index
1	10,804	17%	29.22%	488
2	1,907	3%	4.70%	78
3	7,626	12%	2.44%	41
4	43,213	68%	0.87%	15
<b>Total</b>	<b>63,550</b>	<b>100%</b>	<b>5.99%</b>	<b>100</b>

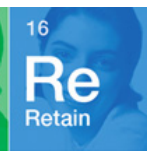
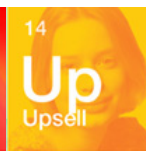


# The Customer Retention Framework: A Three-Step Approach

## Customer-Level Churn Propensity

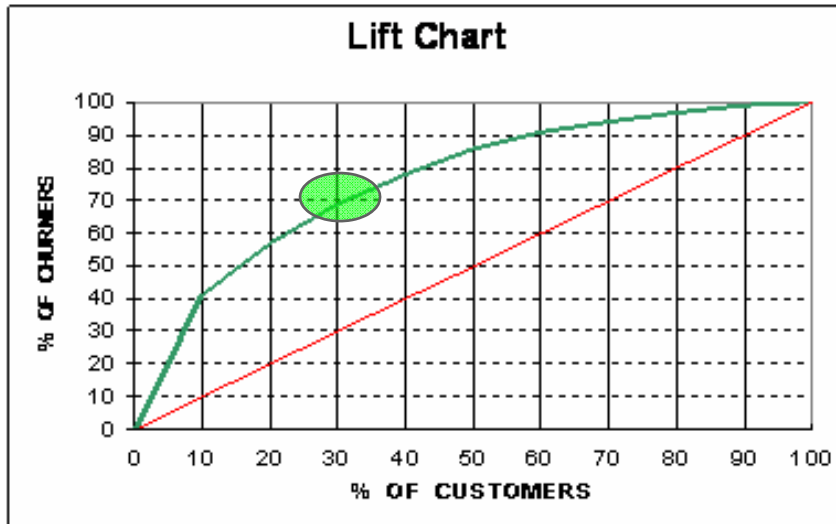
Customer-Level Churn Propensity Modeling enables organizations to:

- Define which individual customers are likely to churn within a specified time period
- Derive key behavioral and operational drivers of the predicted activity
- Enables a deeper understanding of customers to support ancillary initiatives (acquisition, on-boarding, customer value, etc.)
  - Can be implemented to the customer universe or for specific segments



# The Customer Retention Framework: A Three-Step Approach

## Customer-Level Churn Propensity

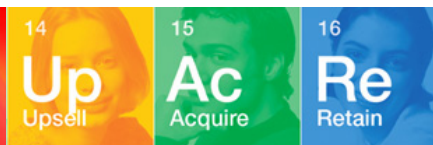


- Enables organizations to touch a majority of churners while only reaching out to a small percentage of the overall customer base

- Flexibility in the churn prediction “window” allows organizations to support the various marketing timelines that exist for customer outreach programs

### Advantage of predictive modeling:

- Can target customers with higher likelihood to churn while targeting less customers.
- Target customers at the right time and lower the risk of over communication.

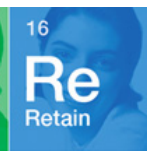
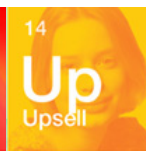


# The Customer Retention Framework: A Three-Step Approach

## Customer Lifetime Value

What is Customer Lifetime Value (CLV)?

- CLV tells you approximately how much every customer will be worth in dollar terms
- Helps determine how to most efficiently spend marketing and operations dollars with visibility into short- and long-term returns (e.g., payback, etc.)
- A strategic tool for assessing top- and bottom-line impact for large-scale operational or infrastructure changes (e.g., network expansion, etc.)
- A marketing metric that projects the value of a customer over the entire history of that customer's relationship with a company (e.g., value migration, etc.)



# The Customer Retention Framework: A Three-Step Approach

## Customer Lifetime Value

Use CLV to create optimal targeting strategies by:

- Ranking customers in order of profitability to create value segments
- Analyzing root causes within each value segment
- Defining segment clusters based on drivers

### Value Segments

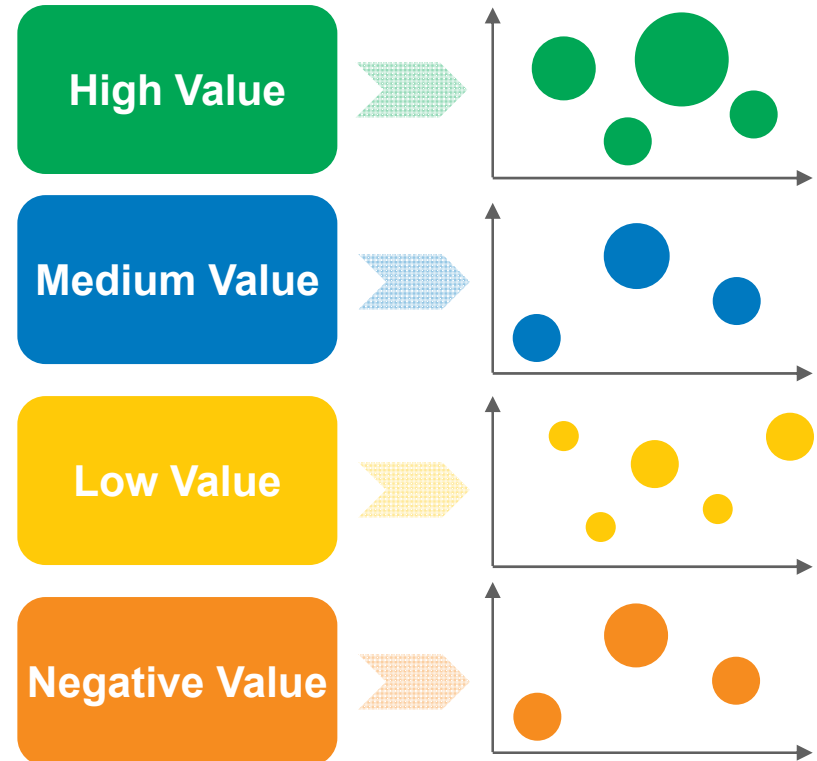
High Value

Medium Value

Low Value

Negative Value

### Segment Clusters

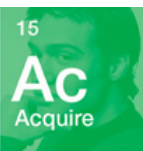
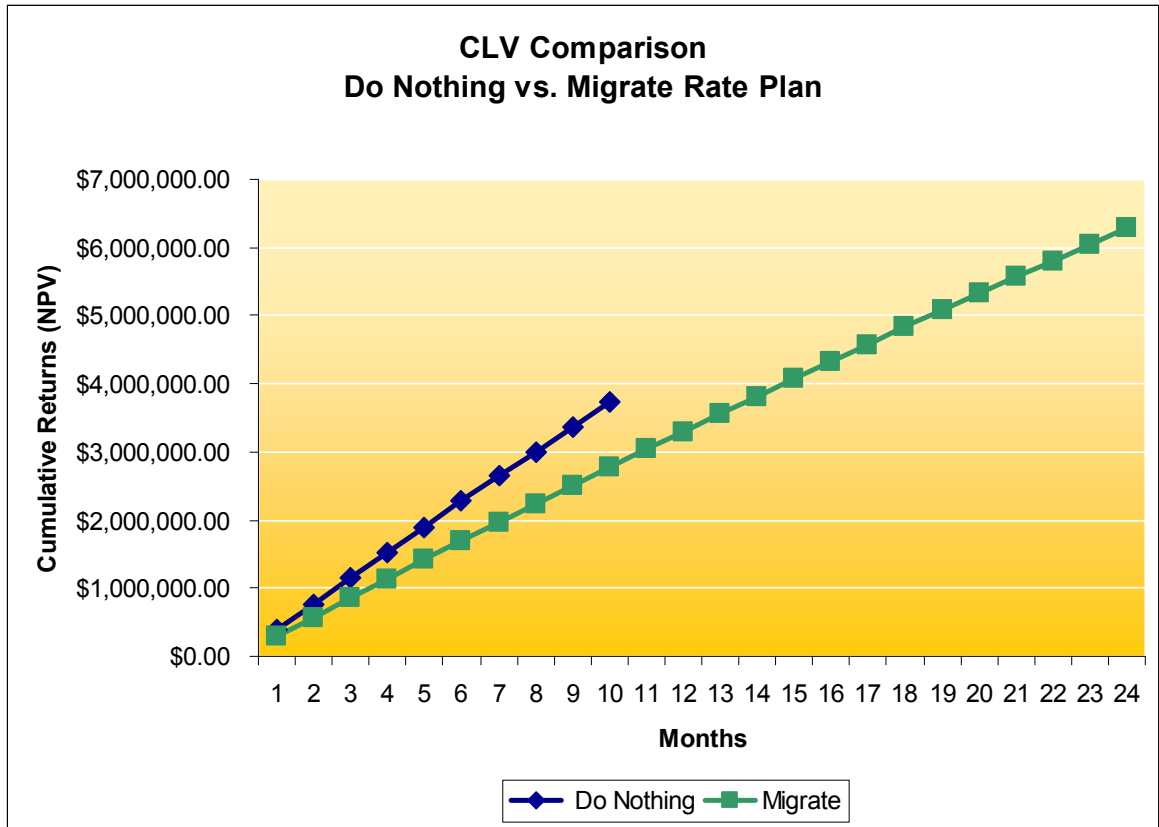


# The Customer Retention Framework: A Three-Step Approach

## Customer Lifetime Value

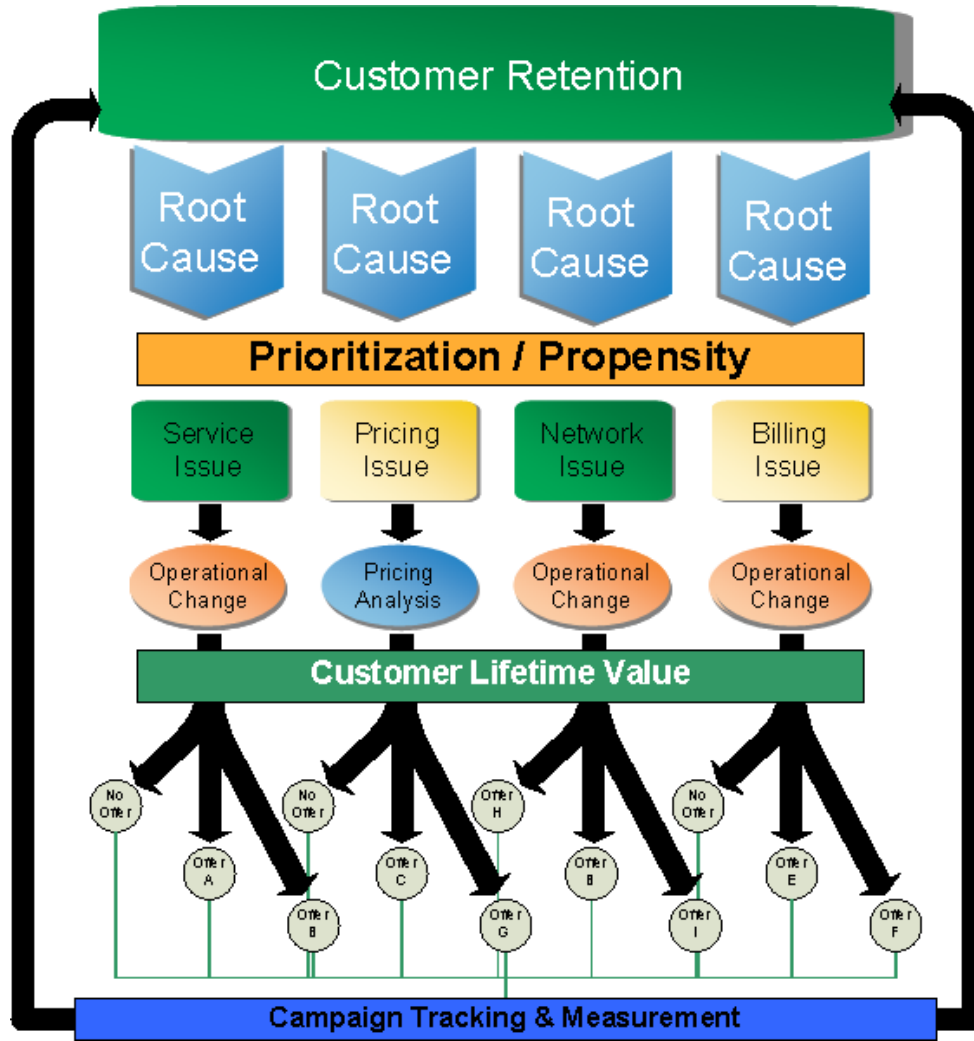
- CLV can be leveraged to effectively migrate existing customers to new rate plans while enhancing customer lifetime and loyalty.

- The methodology can be used to focus on long-term value gain, rather than limiting the assessment to immediate returns



# The Customer Retention Framework: A Three-Step Approach

## Optimizing Customer Satisfaction



Customer retention can be drastically improved, when leveraging the three keystones:

- Churn Drivers & Dissatisfiers
- Churn Propensity
- Customer Lifetime Value

Combined with a robust measurement system, customer satisfaction will improve in coordination with better bottom line results



# Transforming Theory into Action: Virgin Mobile USA



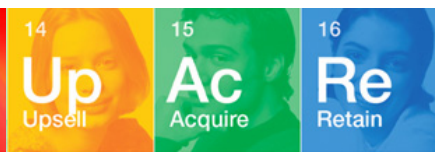
# CUSTOMER LIFECYCLE STRATEGY

## OVERVIEW

At Virgin Mobile USA, the customer lifecycle strategy has developed significantly over the past 2-3 years, based upon increasing development and utilization of analytics to help target LCM (Lifecycle Management) programs.

The process has developed as follows:

- **LCM program development** is a group effort of Marketing, Market Research, and Analytics, based upon churn drivers, available incentives and offers, analytic tools available, and past program results.
- A **churn propensity model** has been developed to identify likely churners for incentive-based offers. Targeting of these offers is based not only on churn propensity, but customer value also.
- **LCM program optimization** is a key focus of the Analytics and Marketing teams, as continual tracking, testing, implementation of targeting models, and other improvements can significantly impact overall program profitability.



# BASIC LIFECYCLE OF VIRGIN MOBILE USA CUSTOMER

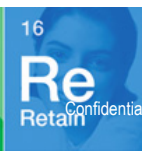
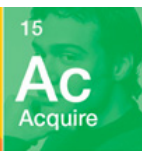
**Activation**

**Must top-up within 90 days  
to remain Current**

**Past Current status for 60  
days**

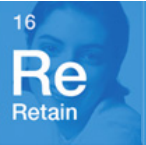
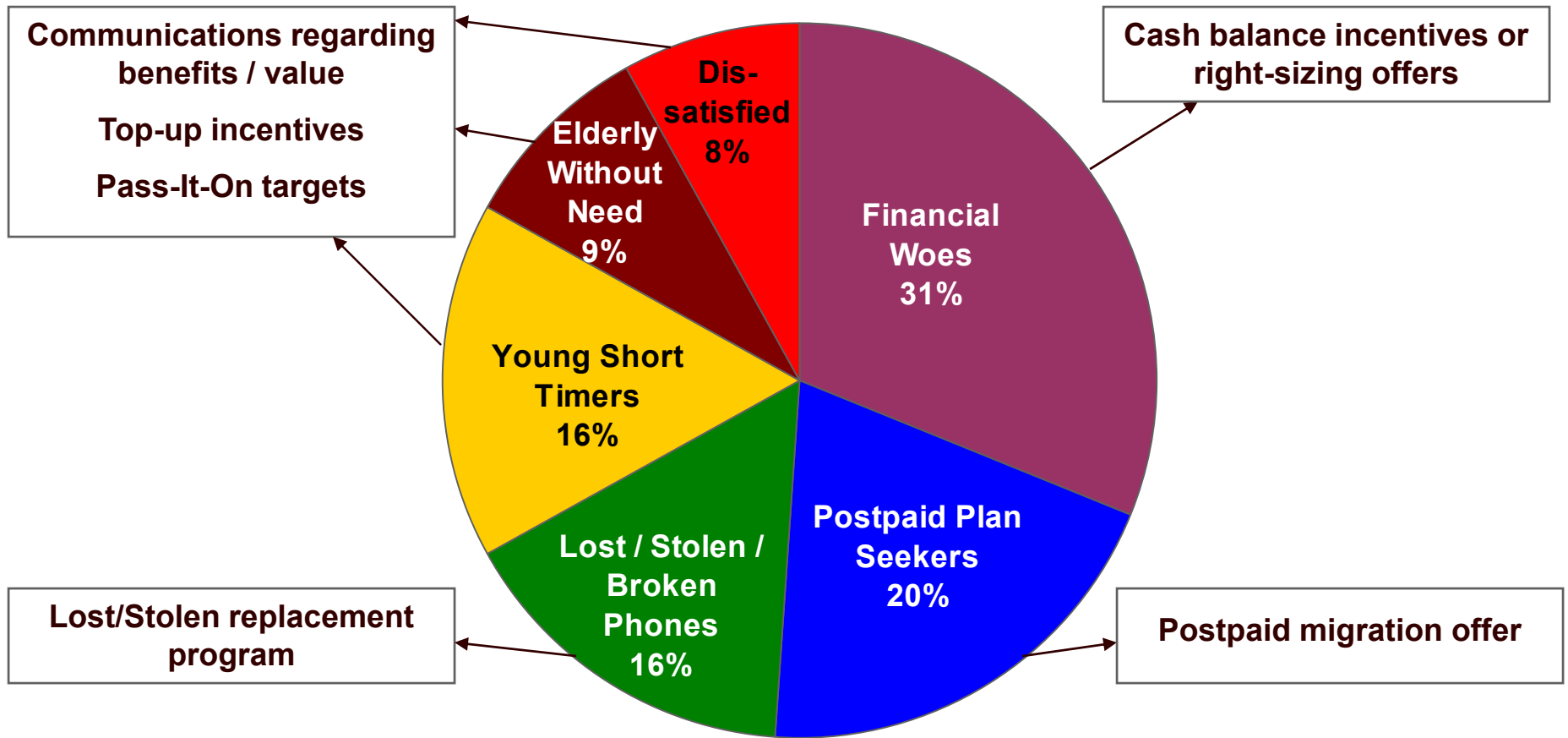
**Churn at 151 days  
since last payment**

- A customer must provide a minimum of a \$20 payment every 90 days to remain “Current” – i.e. a customer in good standing.
- On the 91<sup>st</sup> day, if a customer has not topped up (i.e. provided payment), then the customer is moved to “Past Current” status, and their handset will not be able to send or receive calls or data.
- A customer remains in the suspended “Past Current” status for 60 days. If the customer does not top-up in that period, then they churn.
- Customers may re-activate after their churn date, but their phone number may not be available at the time of reactivation.

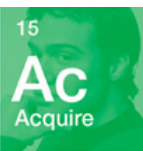
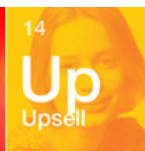
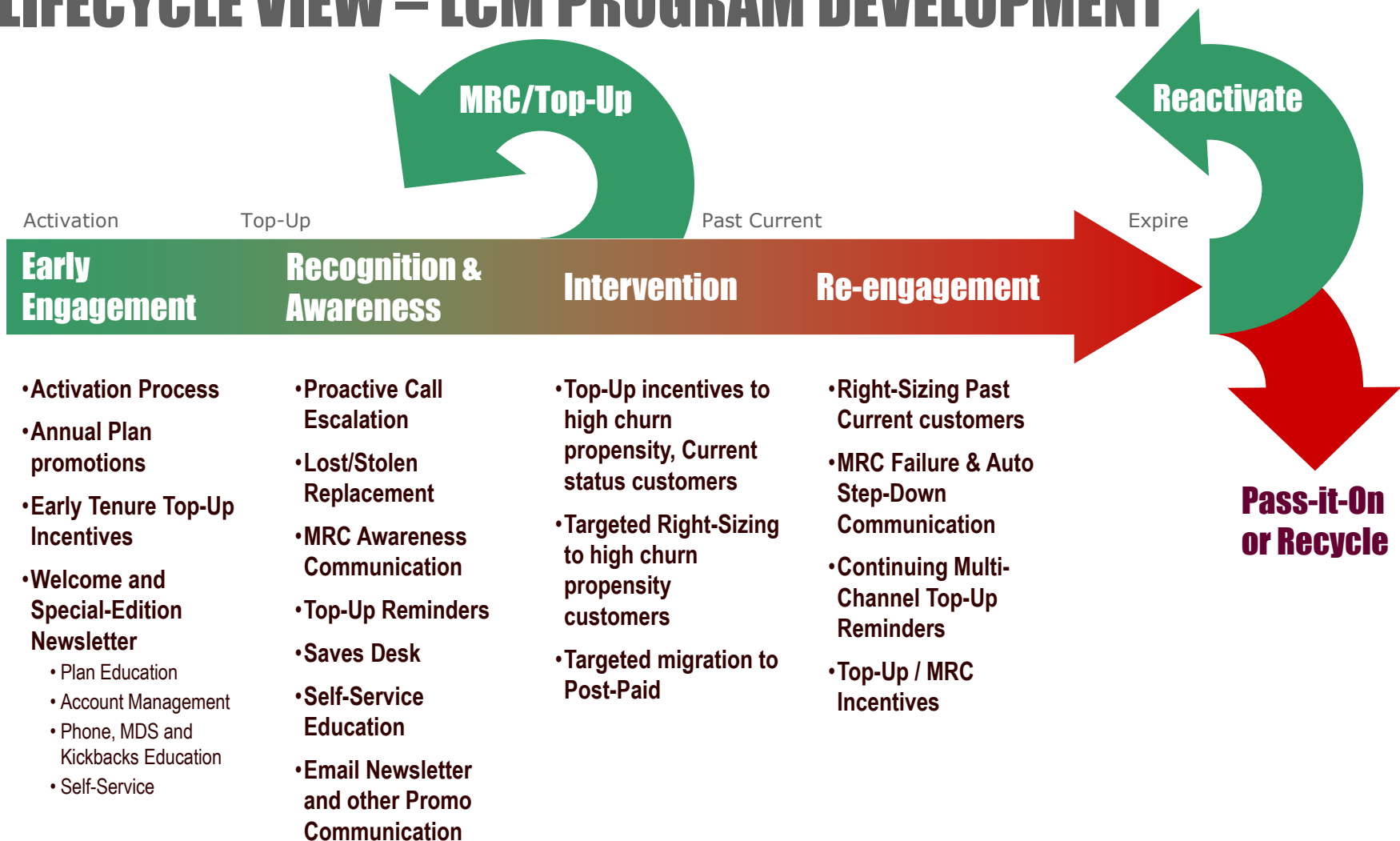


# CHURN DRIVERS INCORPORATED INTO LCM PROGRAM DEVELOPMENT

LCM program development is based upon the major churn reasons, and targeted appropriately.



# LIFECYCLE VIEW – LCM PROGRAM DEVELOPMENT



# CUSTOMER TARGETING FOR INCENTIVE-BASED LCM PROGRAMS

Activation

Must top-up within 90 days to remain Current

Past Current status for 60 days

Churn at 151 days since last payment

Targeting Early in Lifecycle:

**Advantage:** Customers are responsive and more likely to be engaged.

**Disadvantage:** Accurate targeting is critical, to avoid providing “collateral damage” of providing incentives to already-satisfied customers.

Targeting Late in Lifecycle:

**Advantage:** Customers targeted late in their Past Current cycle are very likely to churn, so incentives provided to customers who were not going to churn (i.e. collateral damage) is minimized.

**Disadvantage:** Changing customer behavior through an LCM program is difficult, as the customers are likely to have switched carriers, or become disinterested and disengaged.



# CHURN PROPENSITY MODEL DEVELOPMENT

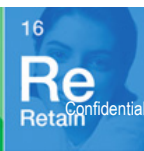
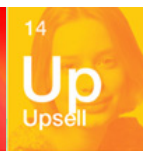
The churn propensity model was developed to aid in targeting customers earlier in their lifecycle. Key drivers of churn propensity are shown below:

## Least Likely to Churn

- Long tenured customers
- Frequently and regularly top-up
- Regular usage patterns
- Have never gone Past Current or churned previously
- Older in age
- Have swapped handsets in the past
- Carry a reasonably large balance
- Have a high-end handset
- Provide email, address, phone information to VMU

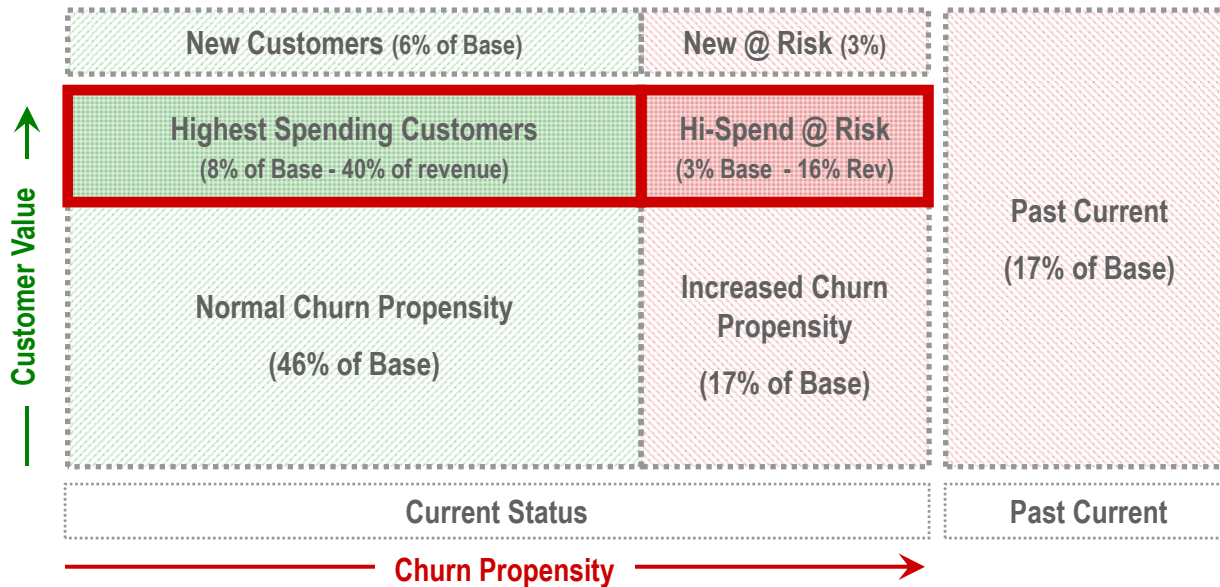
## Most Likely to Churn

- New acquisitions or shorter tenured customers
- Top up infrequently and at irregular intervals
- Significant increase or decrease in recent usage
- Have gone Past Current or churned previously
- Younger in age
- Have not upgraded their original handset
- Have a low or zero balance
- Have a low-end handset
- Do not provide alternate contact information to VMU



# EVOLVING SEGMENTATION OF THE BASE

Adding a revenue dimension allowed VMU to invest resources in treatments that are consistent with the value that a customer contributes:

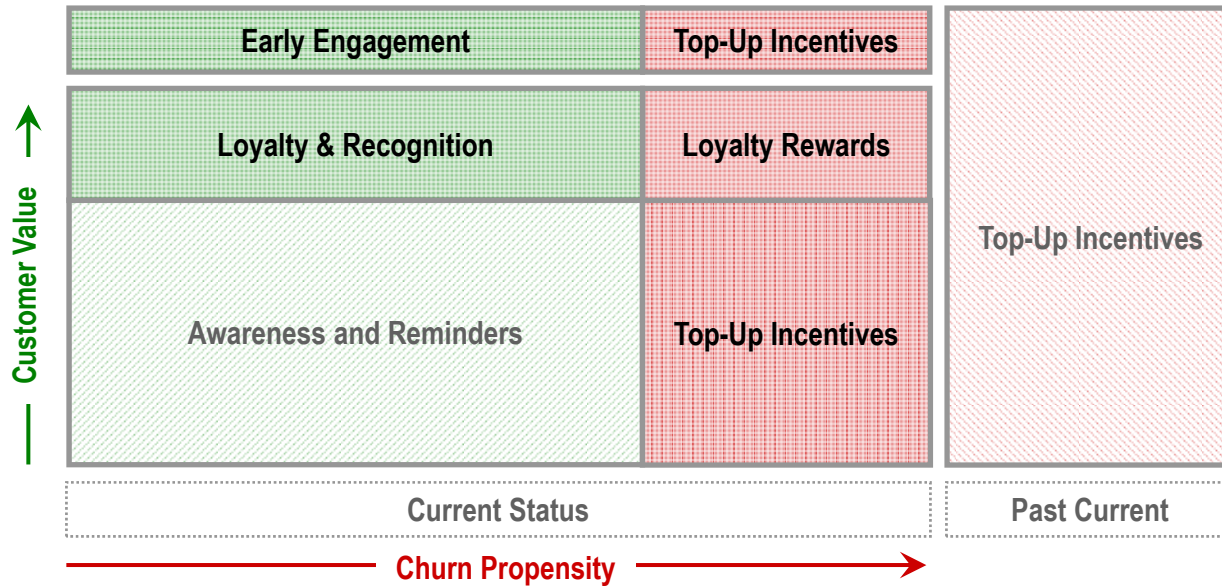


The highest 11% of customers (all Current) generate ~56% of all Top-Up revenue

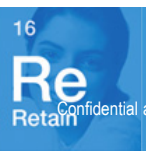
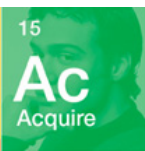
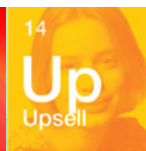


# MATCHING TREATMENT TO SEGMENTS

Matching new and ongoing treatments to these actionable segments:



These lifecycle treatments are in addition to situational treatments addressing specific customer needs.

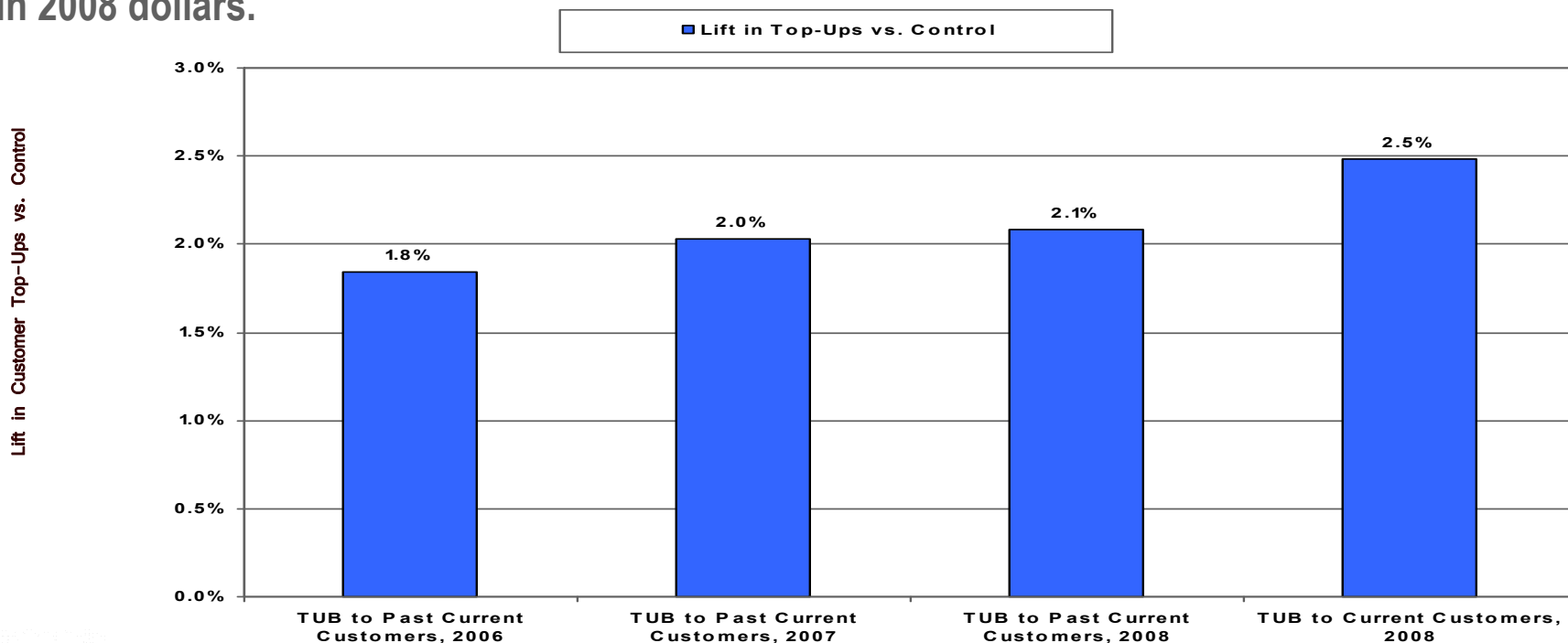


# LCM PROGRAM DEVELOPMENT

## TOP-UP BONANZA (TUB) PROGRAM

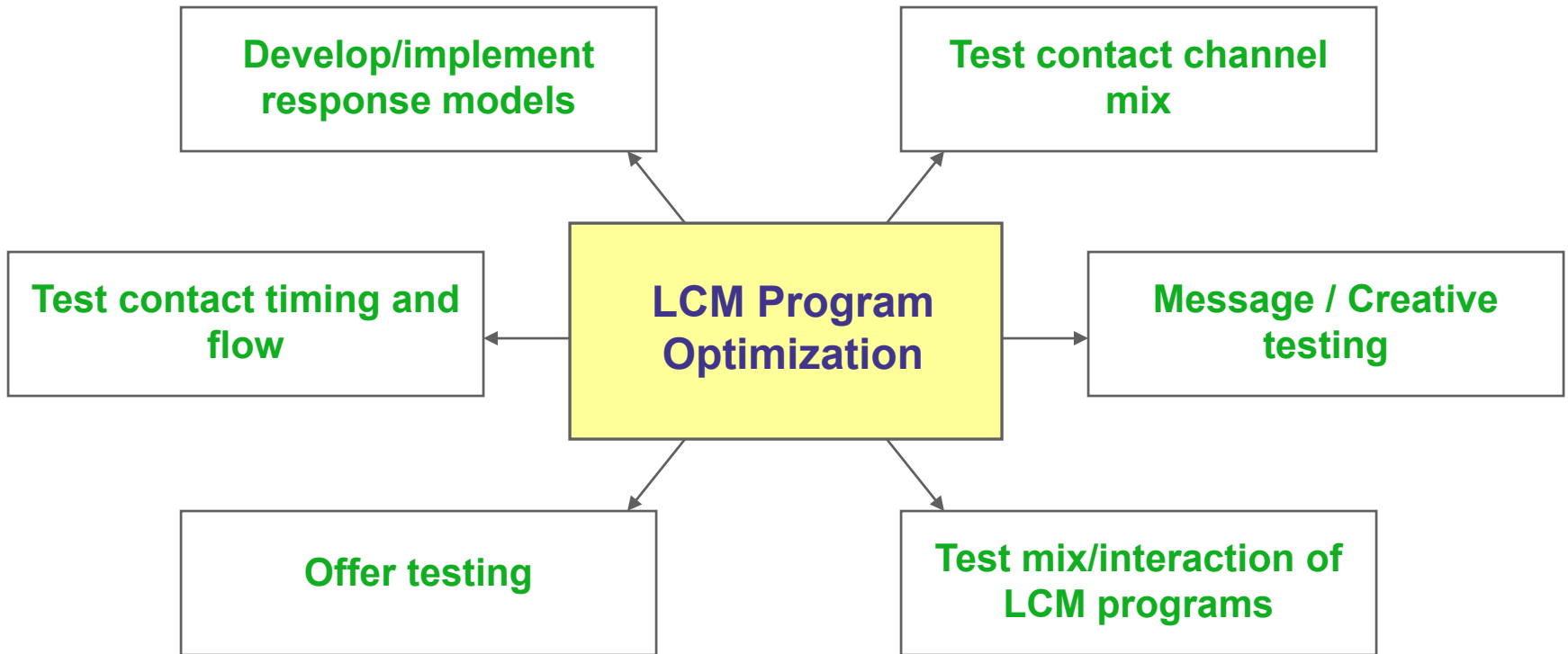
•From 2006 to 2008, the percentage of Past Current customers “saved” versus the Control group via Top-Up Bonanza (an incentive based program) has increased, due to improvements in creative, contact timing, etc.

•In 2008, the churn propensity model was leveraged to target likely churners among the Current customer base. The result was a 20% increase in lift – equating to 5.7K more saved customers annually over Past Current TUB, or just over \$1M in incremental lifetime top-ups in 2008 dollars.



# LCM PROGRAM OPTIMIZATION

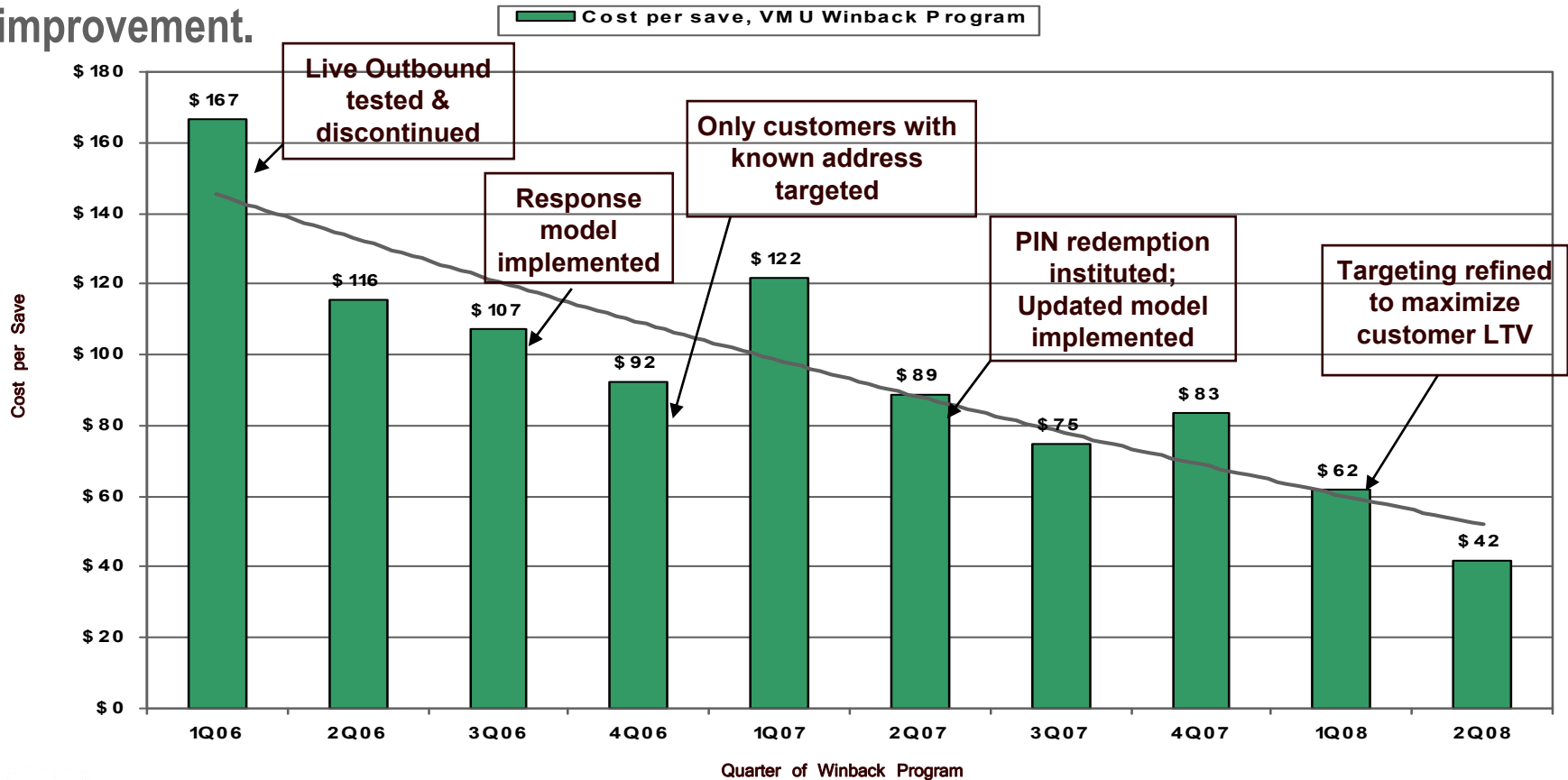
Once an LCM program is implemented, monthly testing is undertaken to optimize the efficacy of the marketing dollars spent. Among the dimensions of optimizing a program, the development of churn propensity and/or response models are the most critical components of maximizing profitability.



# LCM PROGRAM OPTIMIZATION

## CUSTOMER WINBACK PROGRAM

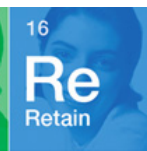
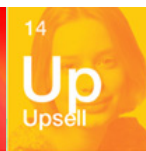
In the past 2+ years, the VMU Winback program has transformed from an untargeted and unprofitable program to a targeted and profitable program – through the application of analytics, program tracking, and process improvement.



# CUSTOMER LIFECYCLE STRATEGY

## CONCLUSIONS

- Identify primary reasons for churn, and brainstorm on potential offers and incentives that would help retain each group of customers.
- If there is a hole in the lifecycle strategy (i.e. a source of churn that cannot be significantly stemmed through business-as-usual), work to develop infrastructure that will help reduce churn.
- Leverage churn propensity modeling and value segmentation to identify key target groups.
- Develop LCM strategy based around the communication streams to key target groups.
- Utilize analytics to maximize the efficacy of LCM programs (response modeling, Test vs. Control program tracking, message and offer testing, etc.).



# Q & A

