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Customer loyalty – the new battleground for telcos

“Churn is the single greatest problem facing telcos operating in a competitive environment. Operators that choose not to take a proactive approach to minimising churn will never achieve a stable customer base, will not be able to attain their revenue potential and, ultimately, will fall behind in the telco evolution.” *Andy Bairsto, author of Customer Retention and Churn Management*

More bad news for telcos

As telecoms markets mature and competition increases, it is no longer enough to simply grab the ‘best’ customers. New customers will have to be won from competitors, which will also be trying to steal your customers. To remain profitable telcos need to identify and retain their profitable customers, and to do that they need to have an effective CRM system.

But, despite the fact that CRM has been a buzz word for years, and has been talked to death by telecoms operators and vendors alike, the surprising fact is that the actual level of customer service provided by telcos is falling and churn is on the increase.

How can effective CRM help?

“At a time when churn is on the increase and the actual level of customer service provided by telcos is falling, it is vital that operators understand where their processes have gone wrong, destroying their credibility with their customers. By learning from the mistakes of others, companies can prevent costly mistakes.” *Ann Swallow, author of Best Practices in CRM*

CRM is not just about customer acquisition and retention and it is not necessarily a software system. Chorleywood Consulting’s new report Best Practices in CRM looks beyond these confines to consider the whole relationship between the customer and the telco. The report examines the way in which a telco can successfully build long term, profitable relationships with its customers by delivering what they want in a way that keeps them happy, using best practice to achieve the balance between customer satisfaction and the telco bottom line.

The website is a precision tool being used like a blunt instrument

The Internet provides an effective vehicle to deliver more personalised service and new forms of customer interaction – the telco’s website is a vital weapon in its armoury. It can be used to encourage selfservice (thereby driving down costs while improving accessibility), to promote the telco brand and to gain valuable customer information. But too many websites fail to provide the customer service they promise.

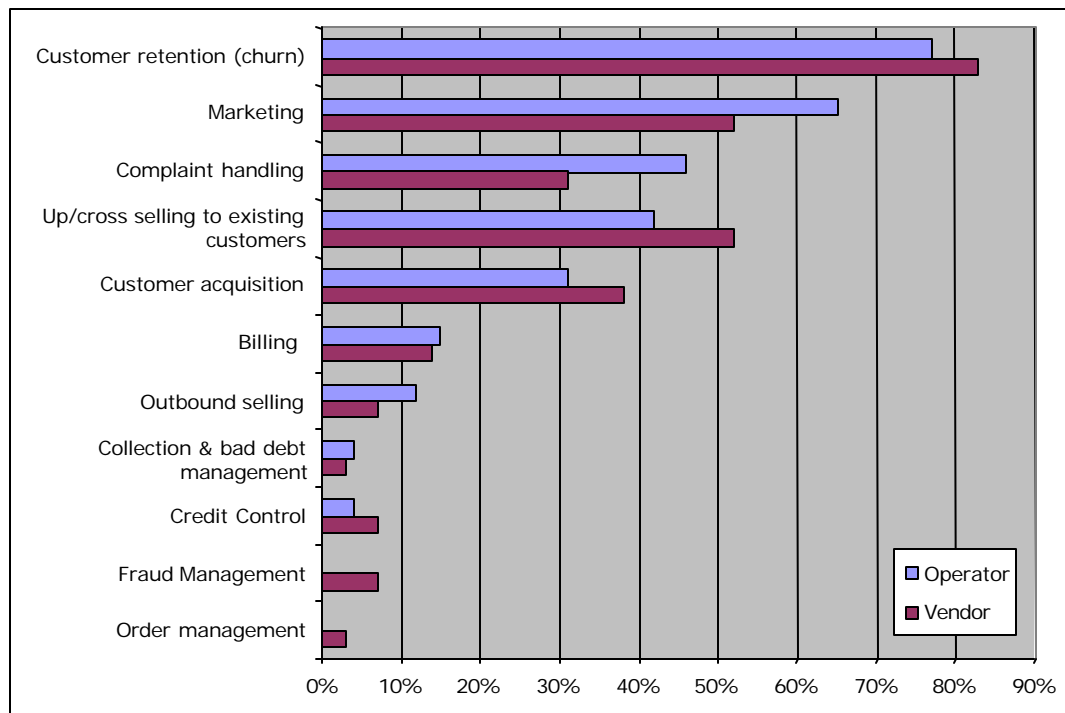
And even an effective website is just one weapon and not the whole armoury. Although customers may be willing to deal with many routine transactions on a self-service basis, they will still need help from a human being (the CSR) to deal with exceptional or complicated issues, and some customers will always prefer to speak to a CSR rather than use the website.



Chorleywood Consulting industry survey

Chorleywood Consulting carried out a survey of professionals attending a CRM conference and exhibition in Lisbon in June 2000 to test perceptions and priorities for CRM amongst system vendors and telcos. They were asked to state the functions they perceived as coming into the scope of CRM and of those, the three they considered most important. The figure shows the results.

Figure 1 The Three Most Important Elements of CRM (% of Respondents)



The Number One Issue- Churn

Churn is a measure of the proportion of subscribers that leave a service over a given period. The period of time varies from one country to another. Sometimes quoted churn figures are monthly and sometimes annual.

There are two main types of churn:

- involuntary churn – this is due to unavoidable circumstances or is initiated by the telco. Reasons for this type of churn include: death of the subscriber or disconnection due to fraud or bad debt
- voluntary churn – this is initiated by the subscriber and might be for pricing reasons, because of poor customer service or network problems.

There is no single way of reducing churn across all customer segments – different drivers of churn are important for different customer types. Similarly, different customer groups will respond to different types of approach in combating churn.



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It is important for telcos to understand their own churn statistics and those of their competitors, the effects churn can have on their business and the benefits reducing churn will have. It is also necessary to be able to quantify the benefits of implementing a churn reduction policy or of introducing churn management software.

A sea change is taking place

In newly competitive markets, churn was low on telcos' agendas. The focus was on acquiring new customers, not on retaining the customers they had. In fact telcos usually treated new customers much more favourably than existing customers— effectively encouraging their subscriber base to churn.

But with increased competition, maturing telecoms markets and the effects of the massive increase in prepaid subscribers (such as higher churn rates, higher cost of acquisition and falling ARPUs), churn rates are being examined more closely. Telcos have recognised that they can achieve substantial business benefits by reducing their churn rate. These include:

- increased profits
- improved case to investors
- lower customer acquisition costs and a higher customer lifetime value
- improved image
- increased customer confidence.

The bottom line is that every 1% reduction in churn rates typically results in a 6% increase in profits.

What is an acceptable level of churn?

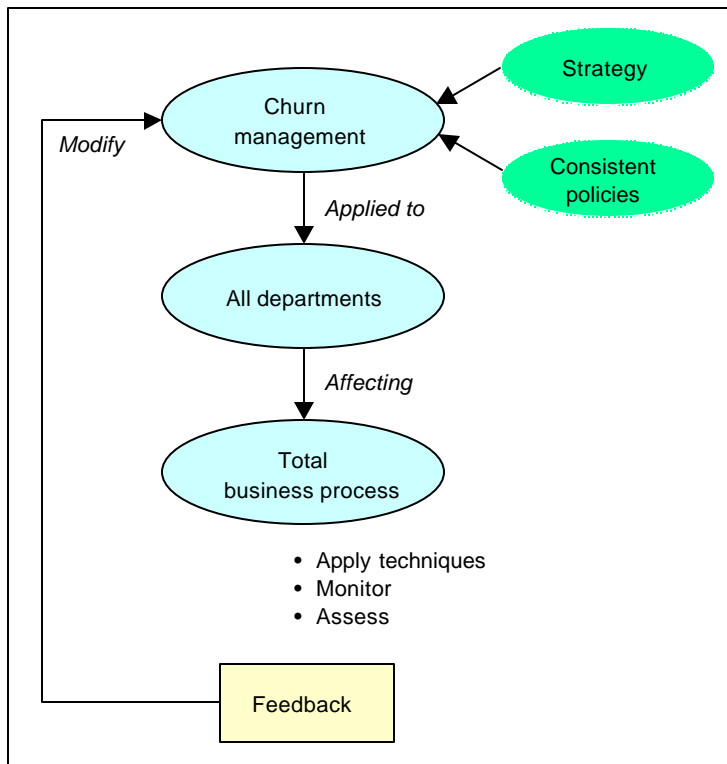
Churn levels vary widely according to geographical markets and service type. Chorleywood Consulting conducted a survey at a CRM conference which asked operators what their churn rates were and what they thought an acceptable level of churn was:

- the average churn rate was 19.3%
- the average 'acceptable level' of churn was 14.4%
- virtually everyone said that an 'acceptable level' was 5% below their current level of churn.

But churn rates in themselves can be highly misleading. There is little consistency in the way churn rates are measured and it is very difficult to make comparisons between one telco's churn rates and another's. And because churn rates can make a real difference to a telco's share price and to its reputation, the rates are sometimes 'massaged' to make them appear more positive than they actually are. Turkcell, for example, stated that its churn rate was 0.1% in 1999 and 0.3% in Q1 2000 – amazingly low figures. However, it later disclosed that at least 200,000 customers that had been disconnected for bad debt had been left out of these figures.



Figure 2 Churn Management is a Strategic Management Issue



Source: Chorleywood Consulting

How can you reduce churn?

There are a variety of mechanisms for a telco to reduce its churn rates. These include:

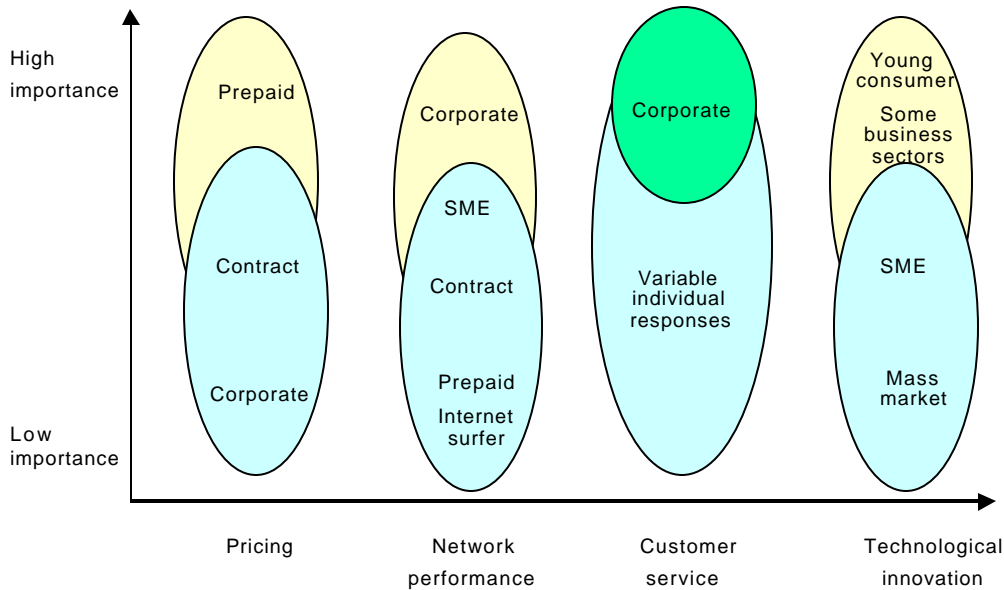
- addressing churn due to changed circumstances
- tackling subscription fraud
- tackling bad debt
- using pricing strategies
- improving customer service
- improving network deficiencies
- using billing
- using personalisation
- using loyalty and affinity schemes
- using predictive churn modelling to target likely churners.



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To reduce churn significantly, however, telcos need to take a strategic view of it. Reducing churn involves the whole organisation, working together to make the customer experience a better one. Half hearted attempts will be ineffective and a waste of money. If telcos are serious about reducing their churn levels, they need to find out what their customers want and give it to them – and this takes time and money.

Figure 3 Churn Drivers for Different Customer Segments



Source: Chorleywood Consulting

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Chorleywood Consulting offers research, consulting, integration and publishing services to the global telecommunications market. Core capabilities are business analysis, BSS system selection, revenue assurance and integration for telcos, together with strategic development and market analysis for system suppliers. Management reports and databases cover many aspects of BSS and CCB, concentrating on mediation, tariffing, customer retention and fraud management. For further details of all our products and services please email enquiries@chorleywood.com or visit our website at www.chorleywood.com