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Churn

Which customers could possibly get lost?

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Report CIC-2011-01
ISBN 978-90-367-4989-3



Table of contents

- ✓ Introduction: the meaning of churn for companies page 3

- ✓ Implementations: develop a churn model in a few steps page 11
- ✓ Choices: some statistical methods work better page 25
- ✓ Evaluations: check a churn model before usage page 35
- ✓ Pitfalls: avoid problems with churn models page 43

- ✓ Conclusions and recommendations: improve the churn model page 49

- ✓ CV's of the authors page 52
- ✓ Main references page 54
- ✓ About Customer Insights Center page 57

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Introduction

How do churners impact companies



Disappearing customers…

- What may happen to your corporation, turnover and profit?



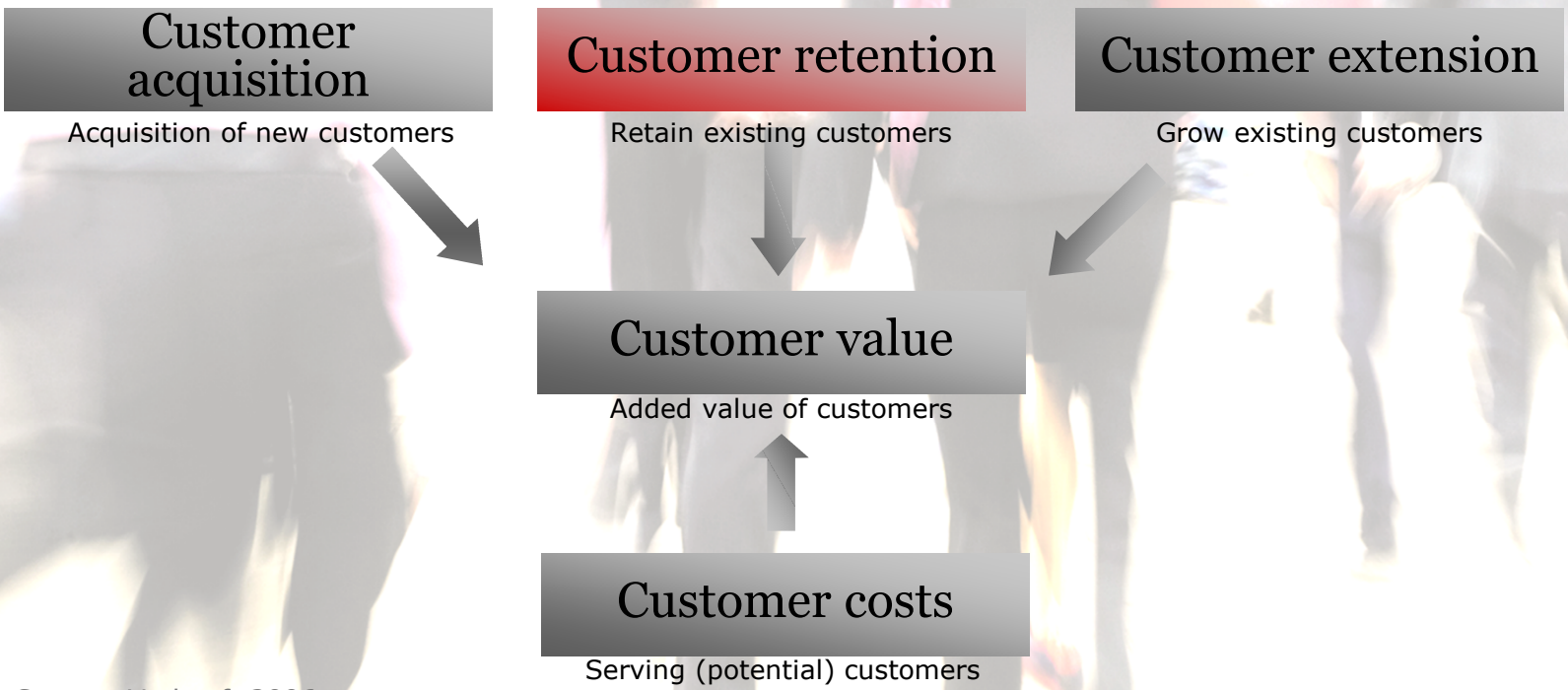
What does churn mean?

- ✓ Churn is a relatively new topic and was used first in e.g. the Telecom industry.
- ✓ Churn means: a customer who leaves a corporation.
- ✓ Churn is in fact the opposite of loyalty and retention. In principle one could state: Churn = (1 - retention).

- ✓ Churn is a metric that is used often in practice:
  - ❑ Within corporations with ongoing customer contracts churn is directly measurable. When a customer abandons the contract this leads to a database change and to no more turnover.
  - ❑ Within corporations without ongoing customer contracts churn is not directly measurable. Here the question arises whether the customer has permanently moved on, or is temporarily away. This requires assumptions in a churn model.

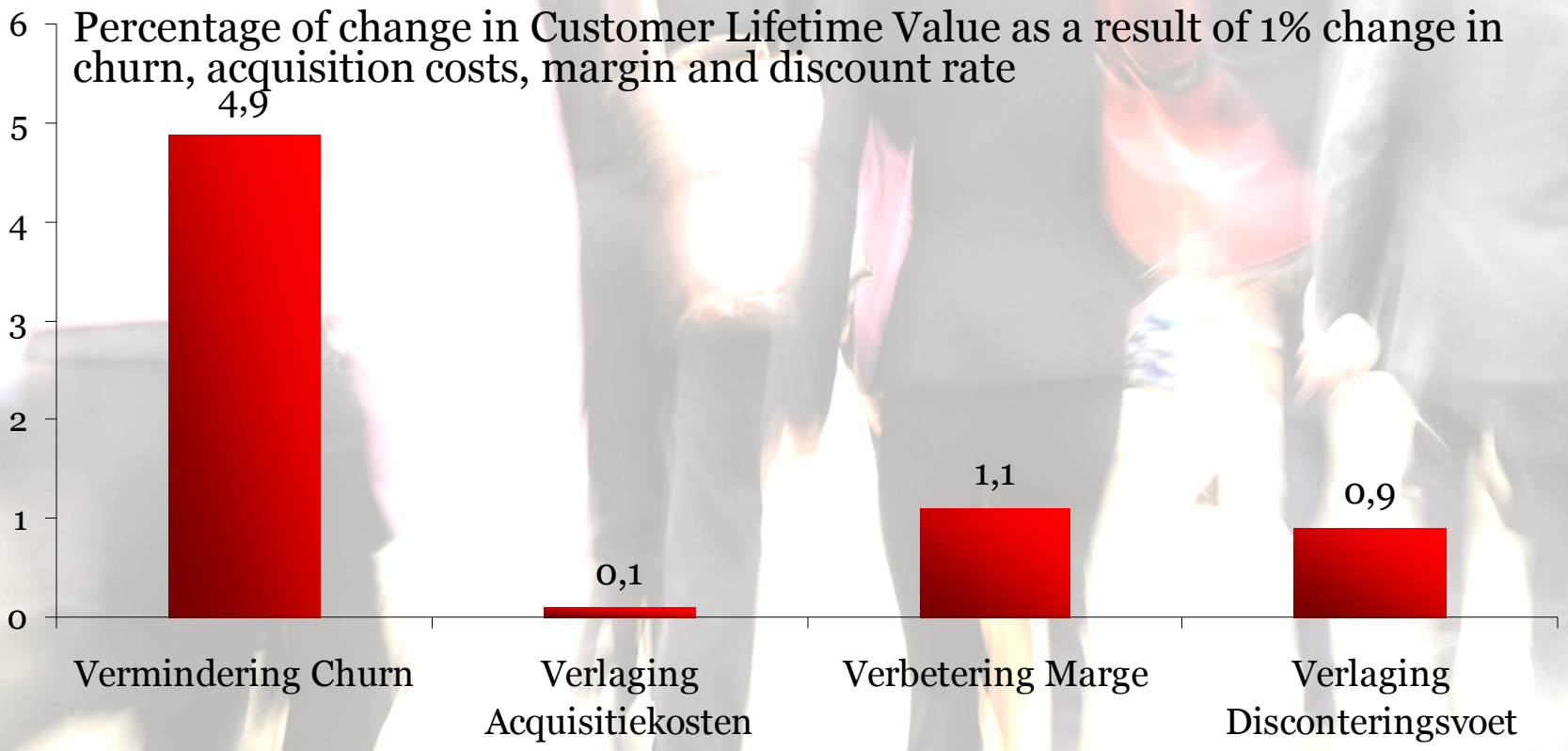
Why is churn important?

› Customer Lifetime Value (CLV) Growth is usually caused by customer acquisition, retention (= 1-churn), expansion and costs*.



Source: Verhoef, 2006.

Often churn is the most important value driver

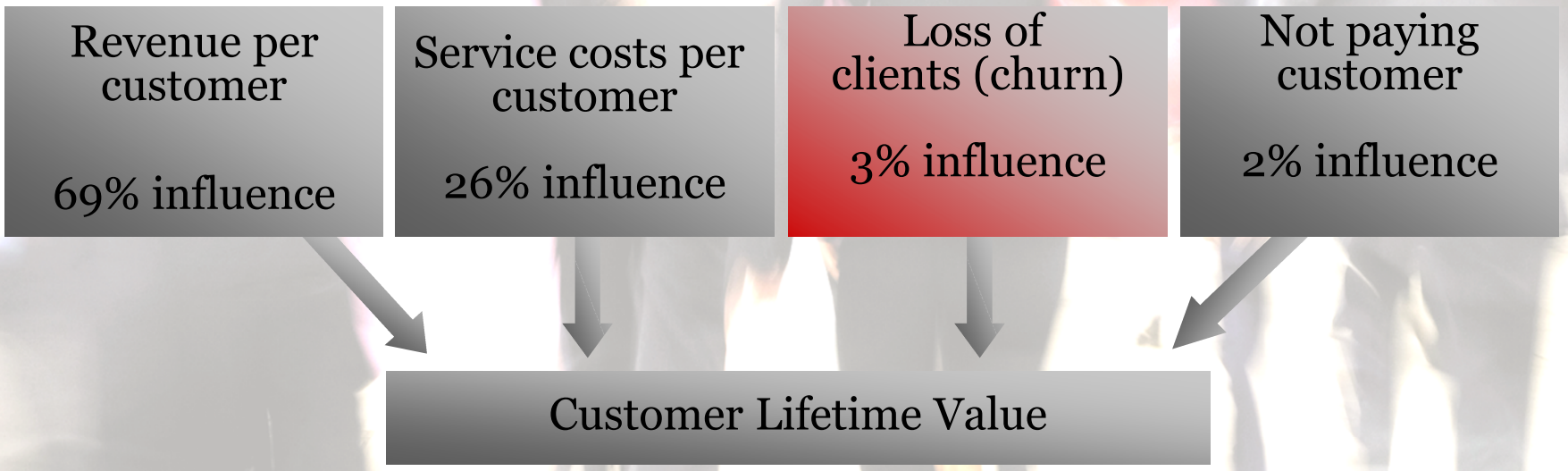


› Companies that manage customer value, should put churn on the agenda.

Source: Gupta, Lehmann & Stuart, 2004. American research by Amazon.com, Ameritrade, Capital One, eBay & E-Trade.

Watch out for exceptions!

Churn is not equally important for all corporations:



› At this company, lowering churn will only have limited Customer Lifetime Value: focus more on revenue and costs is, in this case, more effective.

Source: Snoeck, van Nierop & Verhoef, 2010. Dutch research in the energy sector.

How relevant is churn for your corporation?

› Academic literature shows a positive influence from churn on customer value in general. Of course it is important for corporations to determine first how relevant churn analyses are in your industry setting:

+ Within corporations with a relatively high customer churn AND a high turnover per customer churn is often found as a determinant of customer value growth. Especially in saturated markets churn is relevant.

- Withing corporations with a low customer churn (e.g. less than 10 to 20% of the annual customer base) churn management and churn models usually add less customer value growth. These corporations should focus more on lowering costs and customer expansion (more turnover per customer).

Business case*: what is the value of a churn project?

› Total corporate turnover:	100.000.000	euro last year
› Total net profits let's say 10% of turnover:	10.000.000	euro last year
› Total number of active customers:	100.000	persons last year
› Loss of 10% active customers (= churners):	10.000	persons last year
› Average turnover per customer:	1.000	(= turnover / customers)
› Average profit per customer:	100	(= profit / customers)
› Annual turnover loss if nothing was done:	-10.000.000	(= turnover CV x churners)
› Annual profit loss if nothing was done:	-1.000.000	(= turnover CV x churners)
› Development and analysis costs churn model:	- 40.000	(= raw estimation)
› Salaries costs customer retention team:	- 100.000	(= raw estimation)
› Realisation 22% less churners:	+ 220.000	(= churn % x profit CV)
› Churn project adds annual profits of:	**€ 80.000**	(= sum of the above)
› Churn project Return On Investment (ROI):	**over 150%**	(= profit / investment)

* Illustrative calculations, based on experience of the Customer Insights Center in the Dutch insurance industry.

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Implementations

Develop a churn model in a few steps

