

USING CHURN PREDICTION AND ANALYSIS TO INCREASE CUSTOMER RETENTION

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Abstract

Customer Churn (or Customer Attrition) is a tendency of customers to abandon a brand and stop being a paying client of a particular business. The percentage of customers that discontinue using a company's products or services during a particular time period is called a 'Customer Churn (Attrition) Rate. One of the ways to calculate a Churn Rate is to divide the number of customers lost during a given time interval by the number of acquired customers, and then multiply that number by 100 percent. For example, if a business has got 150 customers and lost three last month, then its monthly churn rate is two percent.

Introduction

Churn Rate is a health indicator for businesses whose customers are subscribers and paying for services on a recurring basis. Customers [of subscription-driven businesses] opt for a product or a service for a particular period, which can be rather short—say, a month. Thus, a customer stays open for more interesting or advantageous offers. Plus, each time their current commitment ends, customers have a chance to reconsider and choose not to continue with the company. Of course, some natural churn is inevitable, and the figure differs from one industry to another industry. But having a higher churn figure than that is a definite sign that a business is doing something wrong.

There are many things where brands may do wrong, from complicated onboarding when customers are not given easy-to-understand information about product usage and its capabilities to poor communication, e.g., the lack of feedback or delayed answers to queries. Another situation could be one when longtime clients may feel unappreciated because they do not get as many bonuses as the new ones. In general, it is the overall customer experience that defines brand perception and influences how customers recognize value for money of products or services they use. Customer Churn Prediction refers to detecting which customers are likely to stop using the product, or cancel a subscription to a service. It is a critical prediction for many businesses because acquiring new clients often costs more than retaining existing ones. Customer Churn could happen for many different reasons, and churn analysis helps to identify the right one, opening up opportunities to implement effective retention strategies.

Several examples can be given for customers' churn and some of them are given below:

Customers' Churn Examples:

- Subscription Cancellation
- Suspending an Account
- Decreased Activity for some time
- Non-renewal of a Contract or Service Agreement
- Provider Switch (customer acquisition by another provider)

Putting the Customer Churn Predictions in Use

At this stage, the main goal is to give the company a targeted set of actions to improve customer retention. Once an accurate Machine Learning Model has been trained, all past and present customers will be run through the Predictive Model. This could give three different results. The table below shows a sample data set with prediction results and actions a company should take on each particular customer:

Customer	Status	Prediction	Action
Anand	Active	Active	Nothing
Surya	Inactive	Active	Marketing
Gopal	Active	Churned	At-Risk
Satya	Active	Active	Nothing
Kiran	Inactive	Churned	Nothing

If the prediction matches the actual status of the customer, then no action is necessary. However, if an active customer is likely to be a churned customer, this will imply defining the customer as at risk of churning. Alternatively, if a customer is inactive (meaning that they previously churned), but the prediction is that they will become an active customer and this indicates that they are an excellent target to attempt to reinstate business. It is also helpful to build a **Customer Churn Dashboard** that enhances reporting by providing account managers with a list of clients to target with retention efforts and identifying the best prospects to try and win back. These crucial insights maximize customer preservation and accurately pinpoint marketing efforts.

Focus on High-Quality Leads

Customers are less likely to churn if they are similar to a company's primary target customers. If it has access to data about its customers and a list of potential customers, this is an excellent opportunity to focus on only those who are less likely to churn. But this is done by applying algorithms and comparing the features of the company's current customers to those of its potential customers. The ones with similar characteristics (FTE Size, Annual Spend, Job Title, Type of Industry) to the company's existing customers are probably most likely to desire its product, find it valuable, and therefore stick around. A company's **segmentation** now becomes crucial. Each customer segment provides distinct features that will help you quickly *identify the company's next customers*.

Segment People in Order to Focus on Retaining the Right Customers

- *Using data analytics to segment people into different groups means, the company can identify how each segment engages with its brand and product.* It allows the company to draw business insights and implement various communication and servicing strategies to increase retention for its most desired customers.
- *Analyze data* such as the company's customer's demographics, lifestyle, purchase products, frequency, and value. This way, it will discover *which types of customers are driving the most revenue* (some of them generate too many costs to deliver revenue). Then the company can decide whether it wants to focus its efforts on them.

- Establishing the differences between various types of customers can make or break a business, especially if it is just starting. ***Knowing customers' value*** is crucial in making critical decisions.
- A business can segment clients by historical value, lifetime value, worth over the next year, or the average customer value by segment. The ***proper segmentation will allow it to create highly targeted product recommendation offers***.
- Segment the company's customers to offer relevant discounts for different channels (in-store, online, mobile). Mix it up—each customer does not have to receive the same offer.
- Another helpful way to use segmentation is to ***monitor your promotional codes' time sensitivity and seasonality***. By tracking sales data, a business can see whether these codes are redeemed more often in the morning or afternoons or perhaps straight after sales communication.

The more a business knows about what a demographic group responds to, the more it can focus on taking the right actions.

Best Practices of Customer Retention Analytics

- ***Businesses have to gather multiple data points to make relevant recommendations***

Businesses need to be pragmatic and avoid making assumptions from solely one set of data. Even though someone who lives in Rajasthan, India, bought winter boots, it does not necessarily mean they want to be bombarded with similar product suggestions. Maybe they got them for their sister, who lives in Srinagar!

- ***Leverage Social Proofs Wherever Businesses Can***

If a company's customers do not respond to specific products, maybe all they need is a little reminder that other customers use those products and are satisfied with them. Use testimonials from surveys, and social media comments on its marketing communications and website.

- ***Turn Insightful Data into Effective Action***

It's a fact that better data means better results. Companies can achieve better business results by improving their internal data collection. In other cases, they might have to purchase better data. Valuable data is not static but it is a continual observing, acting, and learning process.

Building a Churn-proof Retention Flow

Even after identifying the behavioral patterns through Churn Analysis and setting the following steps based on that, it is highly advisable to start working on a ***retention flow*** after the customer activation. When a customer shows the ***ultimate form of interest*** for example, logging in to the app and starting using it—they must immediately know the company is interested in helping increase their growth.

- ***Define the Objective of the Nurturing Flow***

First of all, businesses must have enough data ***to determine the main objective of the customer retention flow***, such as increasing the number of customers using a specific feature or rising user activity within the app. It is an essential step since a particular kind of content, frequency, and even the communication channel may change depending on it.

Target Customers	Flow's Objective
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Users who purchased the product but are using just one of the features	Show different features and the benefits of using them in their business’s strategies
Users who are gradually activating fewer events, with low activity within the app	Encouraging the customer to use the product in order to boost their desired results
Users who are active and browsing in the product, but are not effectively using it	Guide and help the users to develop their own strategies through the product’s features

In the form of a flow chat, businesses need to create retention nurturing flow to avoid customers losing their interest (which might turn into Customer Churn). The flow is focused on showing new features to customers who are using just one option among those offered by the product.

STEPS IN THE FLOW CHART						
Step-1	Step-2	Step-3	Step-4	Step-5	Step-6	Step-7
Assess Condition	Send e-mail	Assess impact	Send another e-mail	In-app Message	Assess Result	Introduce Automation

Determine the Channel and the Approach

Will the retention strategy take place within the customer's inbox? Or will they be able to interact and learn more directly within the product through in-app messages? While the channel is essential to develop communication with the customer, the approach must be well thought out to avoid making them feel you are just another spamming company. A good strategy is to blend emails and in-app messages, as the second one is an excellent way to reach customers using the product. Within the app, it is easier to encourage them to carry out a specific action. In the earlier flow-chart example, customers get emails that point out a feature they are not using. Combining them with in-app messages enables giving them instructions and complementary content. This way, guiding them through the features interface and its functionalities is more straightforward.

Write the Content of E-mails and In-app Messages

Since the approach and channel of communication have already been defined, the next step is to produce the content that will be sent effectively. The best strategy is to keep it simple and clean. A nurturing flow is built with content, so it is essential to have a content marketing strategy up and running to help these customers achieve more significant results. This content is also a part of your retention flow. It is recommended to use some content marketing tactics: Middle of the Funnel (MoFU) and Bottom of the Funnel (BoFU) content with a product-focused approach. Since customers are already using the product, they could also take advantage of valuable resources to improve the way to use it.

Building a Churn-proof Retention Flow

- *Create the Marketing Automation Flow*

Since the Retention Stage of the customer lifecycle starts right after the Activation, businesses should not wait too long to begin their retention-focused flow. It would be best if they kicked off the activities a few days after the user onboarding is done. Following our example, marketing automation starts three days after user onboarding. Their actions are monitored and added to different lists according to behavior. If the customer fits the established criteria of "Contact is in

the list," they would receive a feature suggestion email. When the customer clicks on a link within the email, automatically, they will be redirected to the product within-app message to help them discover more about the feature. Using marketing automation, businesses can set condition triggers, that will define the next steps based on user behavior. Thanks to it, it is possible to create various scenarios in the flow, that will personalize a customer journey.

Also, there is an "alternative path" for customers who do not click the email. If they are not interested, the system adds them to another flow and approaches them again after some time, but not too soon. Following the steps shown in the flow chart, each company can develop a different retention flow according to the main objective and the chosen approach. There is no rule for how many flows can be created in a single journey (but the company should always avoid turning the flow into spam).

Key Benefits and Insights

1. **Boost Profits:** Selling to existing customers is easier and more cost-effective than selling to new ones.
2. **Win Back Business:** Identify the root causes of why customers leave and establish re-acquisition strategies.
3. **Retain More Customers:** Proactively launch campaigns and strategies to decrease customer attrition.
4. **Avert Losses:** Customers' loss is substantial, long-reaching, and can impact everything from revenue to opportunity for competition.

Final Thoughts

Churn Rate is a health indicator for subscription-based companies. The ability to identify customers that are not happy with provided solutions allows businesses to learn about product or pricing plan weak points, operation issues, as well as customer preferences and expectations to proactively reduce reasons for churn. It is important to define data sources and observation period to have a full picture of the history of customer interaction. Selection of the most significant features for a model would influence its predictive performance: The more qualitative the dataset, the more precise forecasts are. Companies with a large customer base and numerous offerings would benefit from customer segmentation. The number and choice of Machine Learning (ML) Models may also depend on segmentation results. Data scientists also need to monitor deployed models, and revise and adapt features to maintain the desired level of prediction accuracy.

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