## *Case Study: Wireless Churn Reduction*

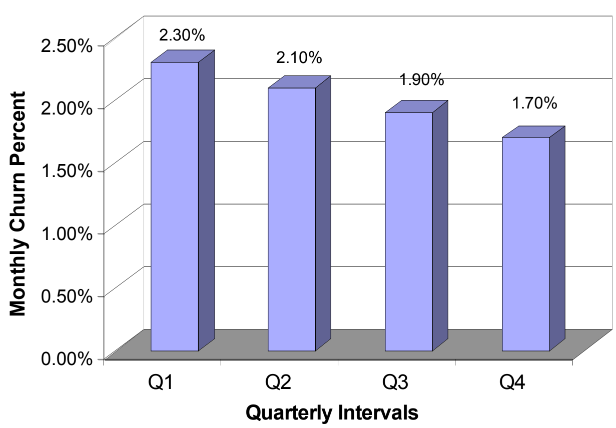
A large wireless company with a major churn problem worked with an outsourced analytics provider to solve their problem. Their success was very impressive. Here is how they went about it. .

To begin with, they started out with a serious churn problem: 2.3% per month which meant that they were losing 27.6% of their customers every year. The overall loss was several billions of annual dollars.

To deal with the problem, they outsourced their customer marketing database to a company that specialized in analytics. This firm divided the wireless customers into behavioral segments and built models for each segment – updating them on a daily basis. To create the models, the analytical firm appended more than one hundred demographic and behavioral attributes to each of the wireless customers. The models were used to score the database on a weekly basis. Based on the predictions of these models, the wireless company pursued an active marketing communications program. The program sent personalized messages with customized rewards specifically tailored to the behavior and lifestyle of those high value customers in segments shown by the models to be particularly likely to defect. The results were amazing.

Initially it took more than a year to build the database, append the data, and build the models. At the same time, the firm had to totally revamp their communications program. The new program was designed to personalize each message so that it was designed for each particular customer. The new messages reflected the copy style of such experts as Harry Walsh who said: “The tone of a good direct mail [message] is as direct and personal as the writer’s skill can make it. Even though it may go to millions of people, it never orates to a crowd but rather murmurs into a single ear. It’s a message from one letter writer to one letter reader.”

Once the database was built, data had been appended, models built and the communications began the resulting churn reduction over one year looked like this:



The churn reduction had significant effects on other aspects of the wireless company's bottom line. By focusing its communications and rewards on only those customers shown by the model to be high value and in danger of defection, the wireless firm was able to reduce its overall customer communications costs. Second: since the monthly loss in customers came down dramatically, the company was able to reduce what it had been spending on total customer acquisition. While the numbers of subscribers continued to grow, the company was not wasting as much of its acquisition efforts on replacing losses, as in concentrating on acquiring the type of new customer who was shown by the models as being more likely to be loyal.

During the first year of full operations with the new system, the reduction in costs had a dramatic effect on profit margins which increased from 28.9% to 32.6% -- an increase in one year of 12.8%. This increase in margin came during a period of intense competition from other wireless firms. To keep the churn rate low, the firm had to make specialized competitive offers. The overall effect was to reduce the company's ARPU which fell during the year from $50.51 to $48.84 -- a reduction of 3.3%

| | Margin | Costs | Revenue Millions | Profit Millions | ARPU |
|---|---|---|---|---|---|
| **Before** | 28.90% | 71.10% | $8,609 | $1,153 | $50.51 |
| **After** | 32.60% | 67.40% | $9,218 | $1,516 | $48.84 |
| **Difference** | 12.80% | -5.20% | $609 | $363 | $1.67 |
| **Change** | 44.30% | -7.32% | 7.07% | 31.5% | -3.3% |

The churn reduction program had the effect not only of cutting the losses of existing customers, it helped boost customer acquisition which grew during the year by 10.5% -- stemming from three causes: reduction in attrition, plus better targeting of acquisition programs based on predictive modeling, and general increase in wireless customers throughout the entire wireless industry. The growth in the number of customers acquired, the reduction in the loss of existing customers and the reduction in cost of customer communications increased the gross revenue by 7.05% and operating profit during the year by 31.5%.

These highly impressive results were documented by the chief financial officer of the company who presented them to the company's investors in the summer of 2006.