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Churn management in telecom operators

MMC Group's approach in churn management strategies for the telecom sector

By Carlos Valdecantos / David Thomas

In the last couple of years telecom markets have reached full penetration and churn has become a key lever with direct impact on EBITDA performance. Therefore, a retention strategy is becoming critical in order to reduce costs and increase revenues. For this reason, mmC has developed a holistic, comprehensive approach to churn, that allows clients to implement a long term strategy towards churn.

mmC believes that it is not enough to produce a churn prediction model. We believe it is necessary to fully understand the underlying reasons driving churn. That is why we focus all of our experience in helping telecom operators understand the churn drivers at work in their company. Our deep diagnostic analysis provides a full understanding of the reasons behind churn and prioritises the actions to obtain the maximum benefit.

Our approach has a direct impact on EBITDA earnings, reducing costs and improving the operator's customer base value.

Summary

Over the last five years, significant changes in the telecom market have reshaped the competitive landscape, yet again. The main difference is a renewed competition for existing customers in the shape of: new entrants with different business models; easier switching procedures embodied in Mobile Number Portability (MNP) and law regulation against excessive exit charges in telecom; convergence into triple and quadruple players; a certain commoditization of customers towards the more traditional services and products, etc.

At the same time, we have to consider the fact that, except for Broadband where there is still some room for growth, Telecom markets have reached full penetration in Western Europe and much of the rest of the World. This has shifted priorities: retention is now a major issue. The battle is now for existing customers and these are continually becoming more commoditized and knowledgeable.

In this context, it is necessary to implement a churn management strategy that focuses on eliminating possible shortcomings in the operator's overall strategy/actions. We believe that to retain a customer is by far cheaper than to acquire a new one, especially in the context of a fully penetrated market. Therefore, by capping churn the operator will reduce costs, with the consequent positive effect on EBITDA performance. By implementing a comprehensive retention strategy, the operator will not only be reducing churn, it will also be reducing dissatisfaction levels amongst the customer base. This in turn will bring about other positive side effects, such as increased usage and loyalty.

Moments of truth in churn management. Comprehensive churn management approach

Having worked with multiple clients to successfully improve their profitability and increase the lifetime value of their customers, we have identified three core churn management missteps:

- An over-reliance on saves queues and churn models as the primary (or often only) tools to address churn.
- The absence of a clear understanding and prioritization of addressable churn drivers, and thus sub-optimal alternatives for allocating remediation resources.
- A departmental focus on incomplete performance targets (i.e. the Acquisition group's focus on gross adds; Marketing's focus on gross revenue; and the Retention group's emphasis on churn or save rates), at the expense of overall profitability

In most of the cases, operators do not have a clear understanding of true churn drivers and priorities, and don't face the organizational challenges that must be overcome to eliminate the root causes of churn and thereby increase profitability. mmC's approach can help them in these specific topics addressing specific churn reasons depending on the operator and the competitive landscape.

mmC has designed an overall churn reduction approach that considers the implications that the different areas of the company and client-related processes have in influencing churn. Before churn can be effectively addressed, the causes need to be understood. Developing an accurate and detailed picture of the exact root causes for churn enables three important findings:

- Acknowledgement of those churns factors that can not be influenced (or would be exceedingly diffi-

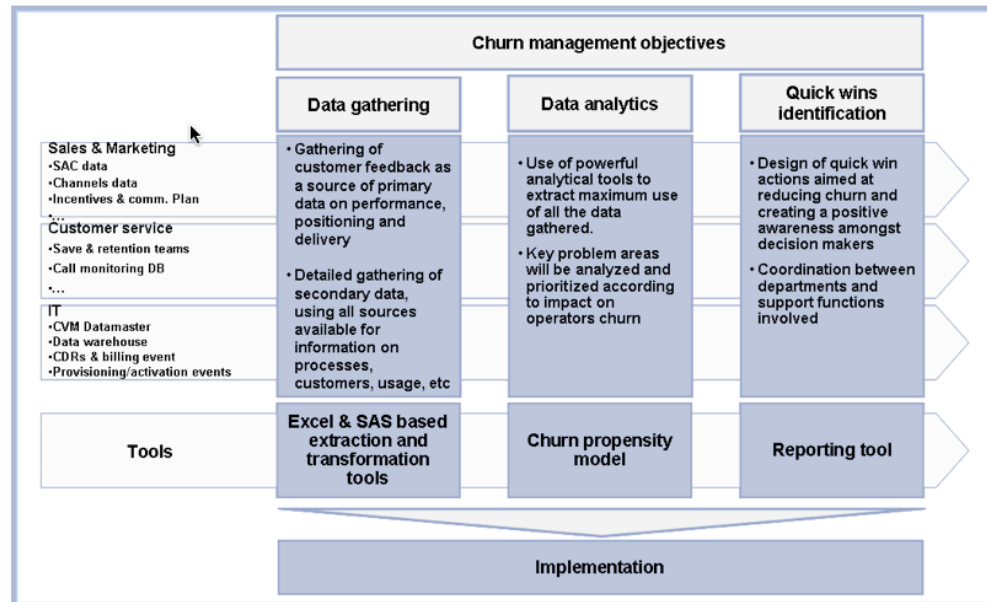
cult to influence in the near to mid-term). Examples are macro-economic conditions like rising gas prices or mortgage rates putting financial pressure on certain segments and prompting voluntary or involuntary churn

- Quantification of churn caused by a company's own (profitable) actions. For instance, migration campaigns are often Net Present Value (NPV) positive even though they induce a small amount of churn.
- Isolation, clear definition, and prioritization of the churn drivers that can be attacked to increase profitability for the company.

Understanding the first two findings enables the company to set a realistic churn baseline that reflects market realities and other business priorities. The third finding brings a high degree of focus to churn reduction efforts. In order to gain a deep understanding of churn drivers, there are a range of tools that can be deployed, to varying degrees, depending on the operator's situation. The main components of our churn approach are:

- Detailed process analysis (business and technological) of core customer support systems.
- Call monitoring in cancellation/saves queues and perhaps sales, customer care/billing, and tech support queues.
- Primary research for direct customer feedback.
- Strong data analytics using a wide array of customer account, usage, and transaction data.

This framework is graphically explained in the next figure:

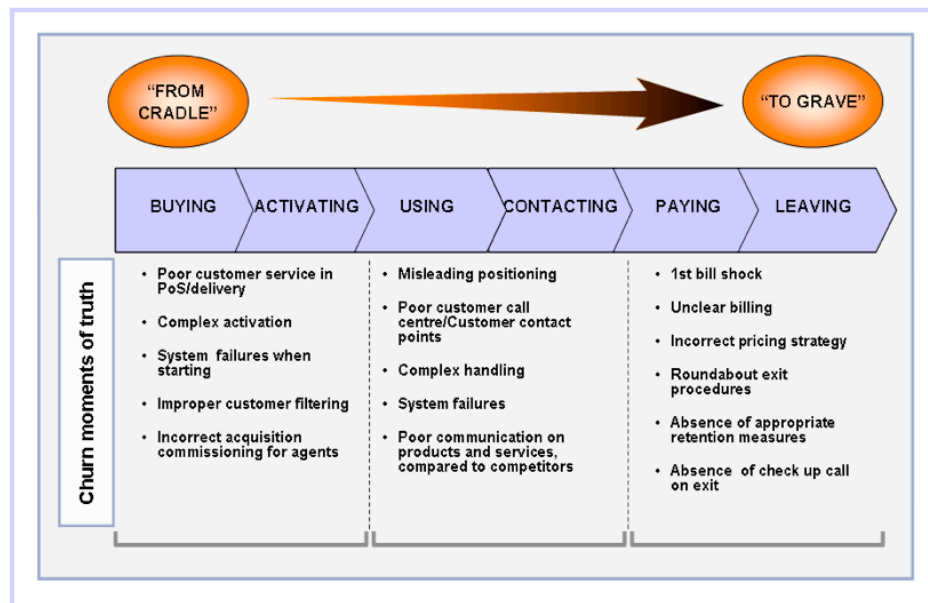


Data gathering and hypothesis generation

The first stage of mmC's approach is a detailed data gathering from all sources available in the company such as: sales, save queues, billing, IT and other customer support areas. Leveraging on mmC's experience this stage will outline any gaps in the technological and business process.

A second round of data gathering will be focused on direct primary research and customer feedback. The object of primary research is to surface any possible gaps in marketing, positioning, brand awareness and service delivery.

The output at this stage will be a matrix with all the gaps and possible churn drivers, developed to be further analysed with the tools at our disposal. In this way, we will present a comprehensive picture of the operator with all possible shortcomings.



Customer data analytics

Based on our strong data analytics and supported by the wide array of customer account, usage and transaction data, we will prioritise the areas where action has to be taken. The focus will be on the impact that churn drivers are having on the business, the development of actions to minimise the impact and decision making on where resources can best be allocated.

This involves the design of actions targeted for the specific segments or products under review, with a detailed analysis of the costs derived from the actions and an estimation of the impact that the actions will have for the business in terms of churn reduction, increased revenues and cost saving.

Quick wins identification

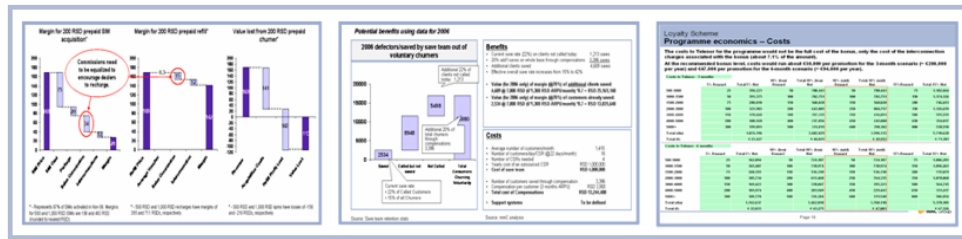
The design of short-term actions will allow the company to quickly take marketing driven decisions to reduce churn and, help create awareness among key decision makers in the different areas of the company about the importance of a churn-reduction initiative.

Long-term actions

By designing the long term actions and the implementation road map, mmC will help to structurally contain churn on a continuous basis in the future. Actions will be prioritized and designed in such a way as to maximize the results whilst constraining the costs of the actions.

Results and sample outputs

mmC has developed a strong experience in several churn management projects with millions of customers i.e. country-wide cable operators and east European mobile networks. We believe that only by addressing the root causes at market, product and transaction level can churn be properly managed. In this way a customer's lifecycle can be expanded, clients value can be increased and the brand awareness be further promoted.



More on Churn management

Marketing executives working for telecom operators interested in increasing their EBITDA, ARPU, identifying sources of potential loss of revenue or simply reduce their churn, should address any inquire to Carlos Valdecantos at cva@group-mmc.com

About mmC Group

mmC Group is an international management consulting firm with extensive experience and a strong focus on marketing, sales and business strategy, mostly acquired in the Technology, Media, and Telecommunications (TMT) sector in engagements in more than 20 countries and 3 continents. Founded in 2003 by a group of professionals from various strategic consulting houses, the mmC team has extensive experience in marketing, sales and business strategy, mostly in mobile, fixed line and broadband operators. The key characteristic of the team's experience has been the combination of strategy and execution in advising shareholders and management teams, strategy definition and business opportunity assessments and operations management.

About the Authors

Carlos Valdecantos (cva@group-mmc.com) is a Partner in mmC Group Telecom and High Tech practice. Carlos has experience across Latin America, Europe, and Asia in launching fixed and mobile operators and helping them grow through new technologies, new products, channels, and business models. His 15 years of management consulting experience have been focused in customer segmentation, sales & marketing, and technology for leading wireless operators and alternative wireless providers. Carlos also has expertise in fixed-mobile and telecom-media convergence, and he recently advised a telecom operator on acquisitions in the european media industry.

David Thomas (dth@group-mmc.com) is an associate in mmC Group Telecom and High Tech practice with experience across Europe, and Asia in developing wireless operators' market entry strategies and launching new products and services. His experience also comprises pricing strategy, operations improvement, customer value management, and MVNO strategy for leading wireless operators as well as market opportunity analysis for a major wireless handset and infrastructure vendor.

Contact data and more info available at www.group-mmc.com.