NPS 101®
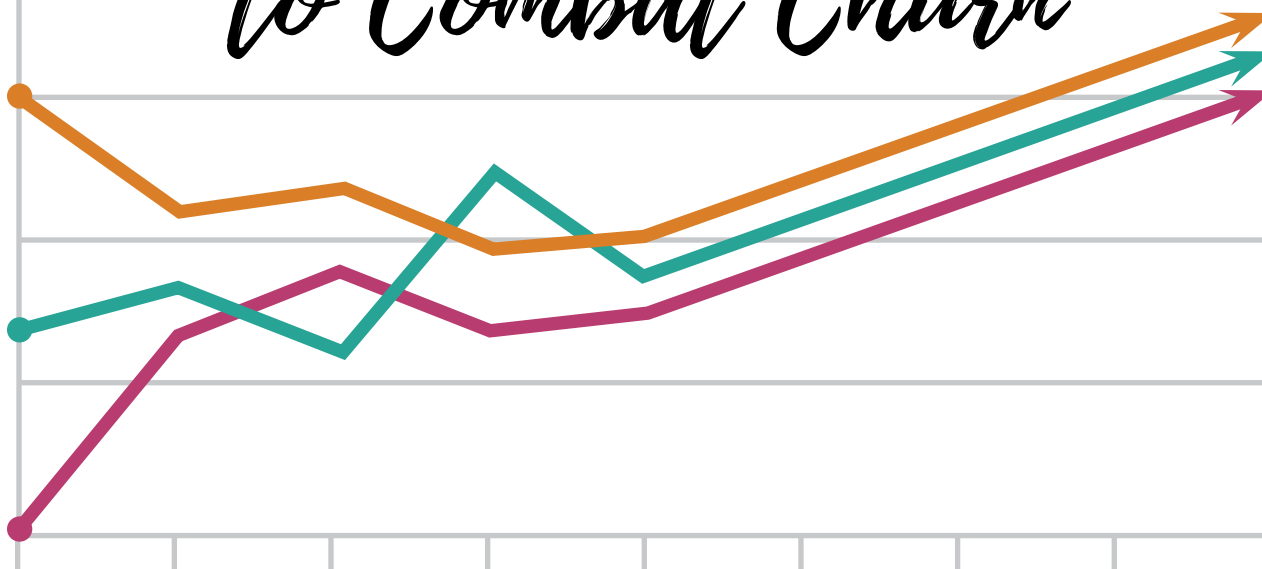
Retention
MANAGEMENT
to Combat Churn

CustomerGauge

NPS 101®

Retention MANAGEMENT to Combat Churn

How many customers leave you every month…every year? Do you know why they leave you? Do you know which customers might leave you next? If these questions have never crossed your mind (nearly 44%[1] of c-suite executives either don't know their retention rate or why customers are churning), or you live under the illusion that all of your customers love everything you do (news flash: they don't), then consider this lesson plan a wakeup call.

The need to focus on retention has never been greater in a market where companies constantly battle for the loyalty and attention of their customers. In this e-book, we'll discuss the basics of retention management and taking control of churn through NPS®.

[1] Taken from our 2016 NPS Benchmark Survey

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What's Churn

&

Why Should I Care About Retention?

It's 10% Less Expensive

to sell to your existing customer base

&

5% ➡ 25-85%

Retention Growth — Profit Growth

Have you ever heard this one? A hungry customer walks into a restaurant, stomach rumbling. They are graciously greeted by the host who leads them to a table with a great view of the city. The waiter comes over with waters in hands, smiles, makes casual conversation, and takes their order. When the food arrives, the patron quickly realizes they ordered a side of veggies not fries, and that their steak looks burnt. Wanting to correct the error they let the waiter know. The waiter nods, apologizes and then…never comes back.

Alright, so the punch line needs a bit of work. But, sounds odd, right? Rarely do our waiters disappear on us.

There's a lot companies can learn from the customer service prowess of the

average waiting staff. Businesses wine and dine new customers, but then don't do the extra footwork to make them stay.

Often, companies focus solely on acquisitions as the only means for growing their bottom line. While there's no question that attracting new customers is a driver of growth, one of the biggest mistakes a company can make is not holding retention to a higher standard.

Nurturing the relationships you have with your existing customers and addressing their concerns is just as vital as acquiring new customers. For starters:

It's 10x cheaper to sell to your existing customer base. You are more likely

◆ *to achieve up-sell and cross-sell opportunities with customers who know your brand.*

◆ *When retention grows by 5%, profits grow by 25%-85%.*

Many companies fail to properly address their churn issues before it's too late. Before we dive deep into the financial implications of churn and using NPS as a safeguard against it, let's take a closer look at the concept of "retention" and "churn".

Improve Retention Through SaaS

Discover how to track and improve retention in real-time.

Schedule Demo

Customer Churn vs. Revenue Churn

Churn is the number of customers leaving you and retention is the "opposite", or, the number of customers who stay. Churn and retention are measured as rates between 0% and 100% over a specific period.

When discussing churn, it is important to distinguish between "customer churn" and "revenue churn".

Both are important to discern as customer churn measures how many customers defect, whereas revenue churn measures how much revenue these customers contributed with.

Let's take a closer look at both of these types of churn.

To calculate your churn rate:
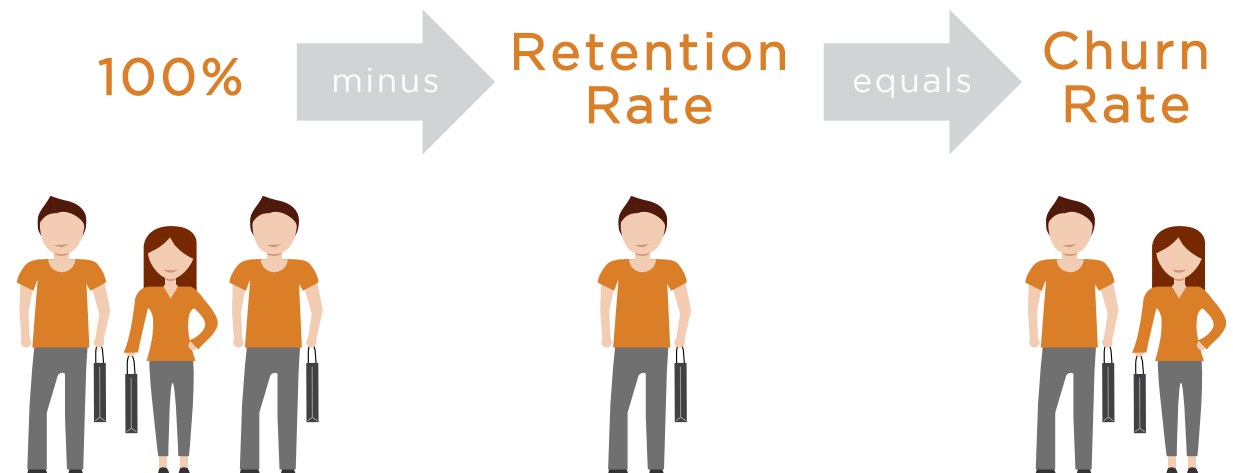
100% → minus → Retention Rate → equals → Churn Rate

Customer Churn

Customer churn (or Customer Retention Rate) is the rate customers leave you.

The formula for determining Customer Retention Rate (CRR) is:

$$CRR = \frac{C_E}{C_S}$$

where CS is the number of customers at the start of the period and CE is the number of those customers that are left by the end of the period.

VS

Revenue Churn

Revenue churn (or Revenue Retention Rate) is the rate at which revenue is lost.

The formula for determining the Revenue Retention Rate (RRR) is:

$$RRR = \frac{R_E}{R_S}$$

where RS is the sum of revenues at the start of the period and RE is the sum of revenues at the start of the period for customers left at the end of the period.

Practical Example

To demonstrate how these two differ in their results, let's dive into an example.

Let's say that at the beginning of a period you have 10 customers and at the end of the period you have 5 customers. Your 10 customers are worth $100, $200, $300, $400, $500, $600, $700, $800, $900, and $1000. The 5 customers that left were worth $100, $200, $300, $400, and $500. In other words, at the beginning of the period the total was equal to $5500 and at the end of the period the total was $4000. Shown below are the two formulas calculated with the above numbers:

5/10 or 50%
Customer Retention Rate

4000/5500 or ~72.7%
Revenue Retention Rate

A CRR of 50% means that you have retained 50% of your customers and a RRR of 72.7% means that the 50% of the customers remaining have retained 72.7% of your revenue. This reflects the loss of less valuable customers. If all customers were worth the same, both numbers would be equal; however, the retention rate of revenue remains higher due to retaining the more valuable customers.

"

Customer churn measures how many customers defect, whereas revenue churn measures how much revenue these customers contributed with.

The Financial Implications of a Revolving Door

"

Churn is like a bad break-up: heart-breaking and financially devastating.

On average, B2B companies lose 23% of customers a year and B2C companies lose 32% of customers a year. With a revenue of $1bn this means that B2C/B2B companies lose a potential $320m/$230m every year!

However, since not all customers generate the same value, it's important to look at your retention rate using CRR and RRR.

Both CRR and RRR are critical numbers to track to understand the number of customers not retained during a given period and the financial impact of losing those customers.

Because not all customers generate the same value, the financial loss is likely to be even higher due to missed up- and "cross sell" opportunities and referrals that reduce cost of acquisition.

To combat churn, it's important to have a system in place. Cue the next section!

An easy way to understand and fight churn is to use the Net Promoter Score®. Based on very short and automated surveys, businesses can determine what customers think of them, their overall customer experiences, and understand the "why" behind "why customers churn".

A Net Promoter survey asks customers one question: On a scale from 0 to 10 how likely is it that you would recommend our company/product/service to a friend or colleague?

Customers are then placed into three groups: detractors, passives and promoters.

Detractors — Passives — Promoters

Least Likely to Promote

Most Likely to Promote

0 1 2 3 4 5 6 7 8 9 10
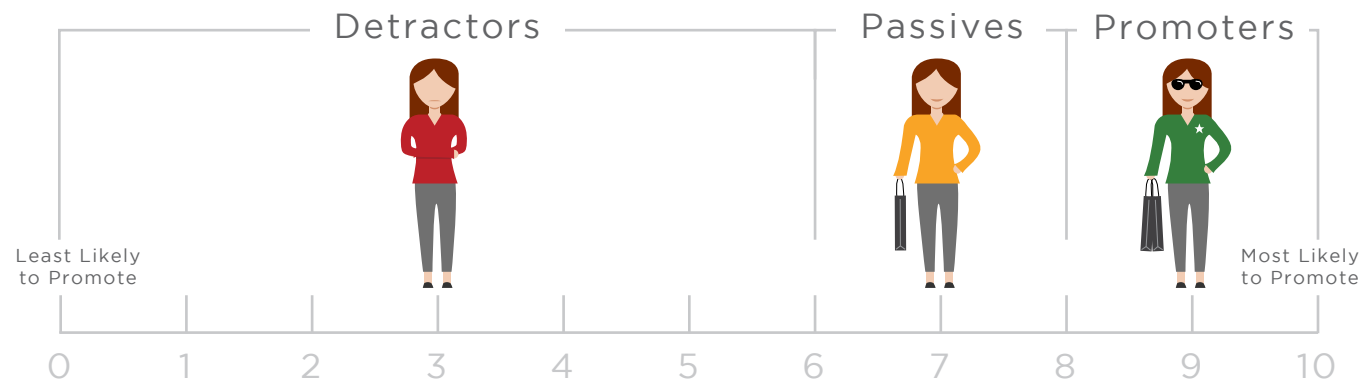
Detractors
(0-6)

Least satisfied customers. May not purchase again and could spread negative word of mouth if something isn't done to improve their experience.

Passives
(7-8)

Are typically satisfied, but not to the extent that they become loyal. Susceptible to competitors' offers, but will spread neither negative nor positive word of mouth.

Promoters
(9-10)

Loyal and enthusiastic customers. They will spread good word of mouth about your company and can be brand advocates.

> **Detractors are the customers likely to churn, while your promoters are the customers who are more likely to stay.**

Detractors are the customers likely to churn, while your promoters are the customers who are more likely to stay.

A Net Promoter System is the next step to understanding not only why customers churn, but the methods for combating it as well. An advanced Net Promoter System enables you to capture the churn likelihood of your detractor customers. Using a Net Promoter System, companies can rescue detractors to reduce churn by a minimum of 7%. For companies using NPS best practices, this % is even higher!

A Net Promoter System helps identify the reasons customers churn, such as poor customer service and follow-up, or lack of perceived value. NPS also helps you tackle these issues. For example, a Net Promoter System allows you to:

◆ *Employ effective close loop practices to follow-up with detractors quickly.*

◆ *Discuss the customer's health with them in business reviews to agree areas of improvement to optimize the customer's ROI.*

These are just a couple of ways to battle churn using a Net Promoter System. For more details, check out the chapter, "Stopping the Revolving Door: Rescuing High Risk Customers", where we elaborate further. Or, if you're a visual learner, hop on over to our infographic on NPS leadership.

Once you combine Net Promoter with churn analytics, you will get greater insight into the "why" and "when" customers churn as well as indications of future churn trends.

Stop Churn Before it Happens

Learn how to couple revenue and customer data to predict revenue churn before it happens.

Schedule Demo

Lesson 2
Digging Deep Into Churn
Using Churn Analytics

> **Basic churn analytics allows you to understand:**
>
> *When customers churn*
>
> *Which customers churn*
>
> *What initiatives impact churn*

What's the best way to analyze your churn? How can you learn from the mistakes of the past? What can you do to reduce churn and increase retention in the future? Two words: *churn analytics*.

To understand why customers churn and what can be done to retain them, start by looking at the mistakes of the past. Using basic churn analytics, you can get a historic overview of churn data to determine who's churning and what's been done in the past, if anything, to reduce churn and increase retention.

Using basic churn analytics allows you to:

◆ *Understand when customers churn*

◆ *Understand which customers churn*

◆ *Understand how customer experience, or any other initiatives, have impacted churn*

When analyzing churn, you can tackle the data from a number of angles, including churn stats per market, accumulated per quarter, etc.

Looking at historical churn data from a region, department, quarter, or role level provides an understanding of how customers churn over time and in which segments the biggest churn issues are. Use hierarchical reporting to keep an eye on the performance of your global organization.
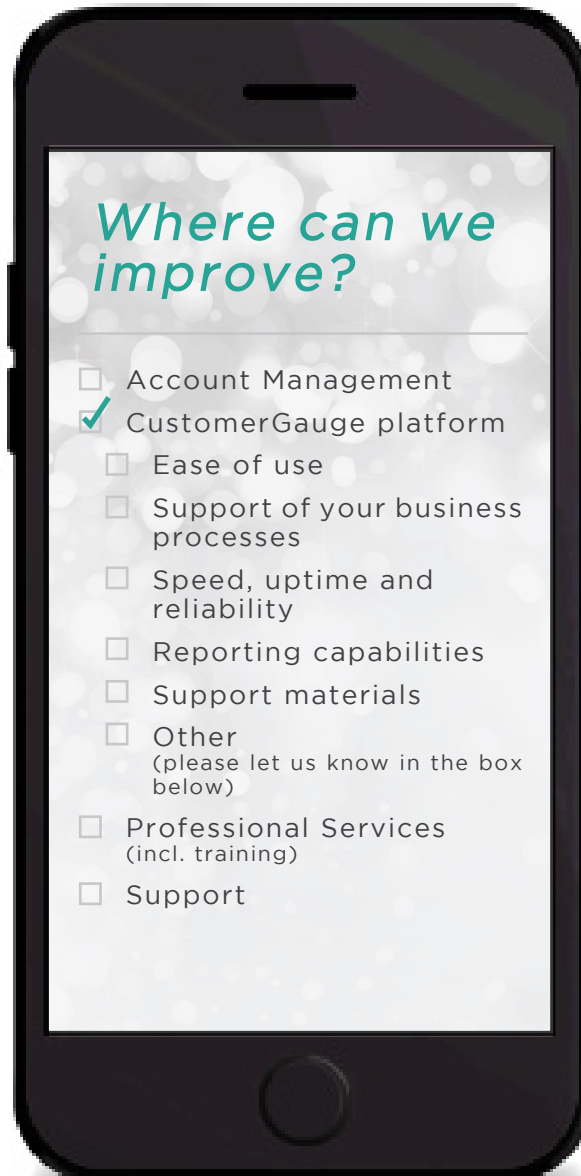
Churn per Market

Legend:
— US
— Canada
— UK
— Australia
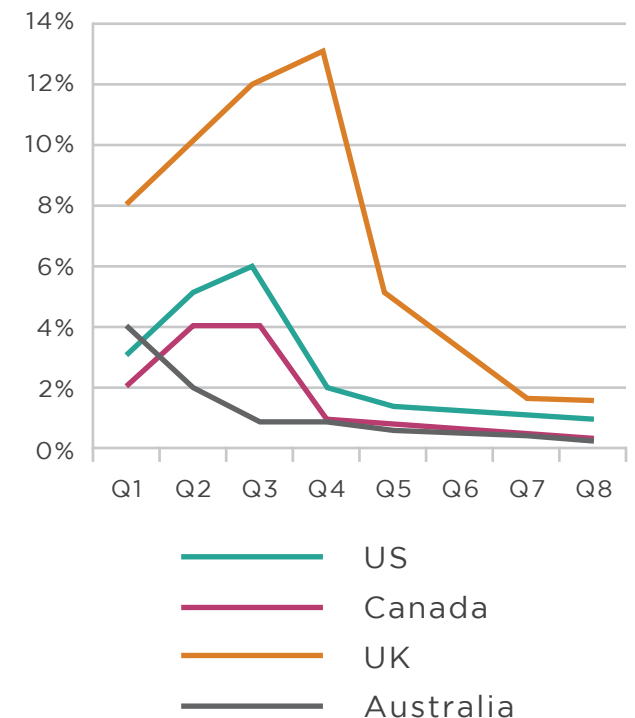
» Churn Drivers

Once you know your retention rate and churn percentage, it's time to look at what is contributing to that churn. Understanding the "what" behind your churn can often seem like finding a needle in a haystack (if said haystack was a sea of feedback and data).

By combining historic churn data with NPS surveys you can identify the primary drivers of churn. This offers a more accurate picture of your drivers, allowing you to turn feedback into actionable change.
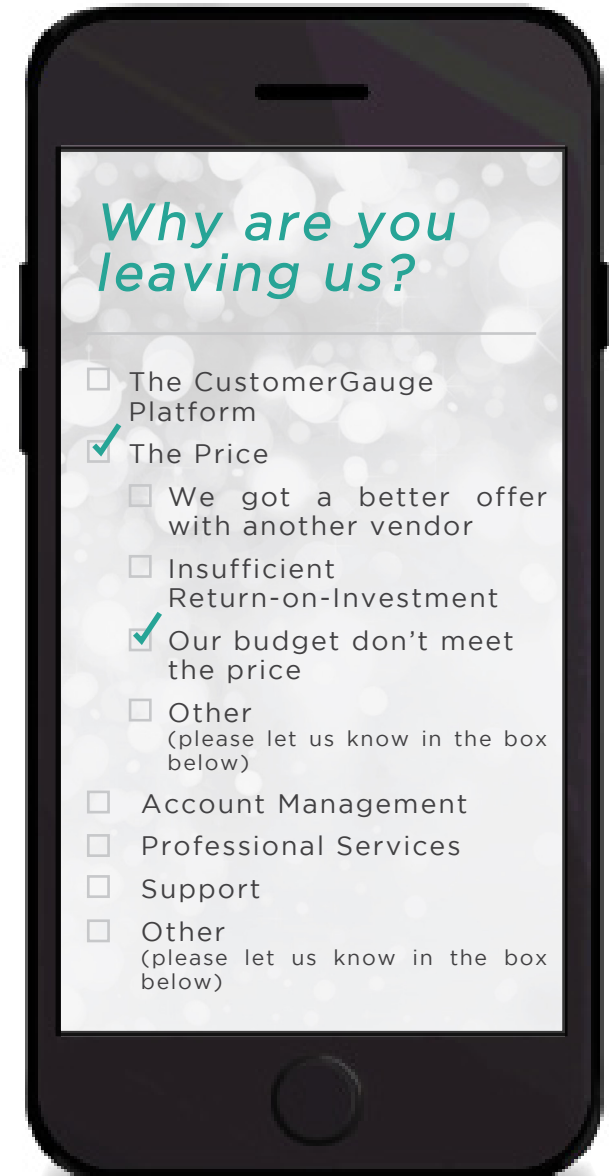
In his eBook, Root Cause Analysis: The NPS Handbook® to Analyze the Drivers of Loyalty, author Jørgen Christensen discusses using simple driver analysis to identify the drivers of detractors, passives and promoters from NPS surveys.

Using NPS surveys, you can also identify the drivers of churn. Gathering this type of data isn't always easy. If a company want to use up-to-date information, churn surveys are a good add-on.

Where can we improve?

- ☐ Account Management
- ☑ CustomerGauge platform
  - ☐ Ease of use
  - ☐ Support of your business processes
  - ☐ Speed, uptime and reliability
  - ☐ Reporting capabilities
  - ☐ Support materials
  - ☐ Other
    (please let us know in the box below)
- ☐ Professional Services
  (incl. training)
- ☐ Support

Why are you leaving us?

- ☐ The CustomerGauge Platform
- ☑ The Price
  - ☐ We got a better offer with another vendor
  - ☐ Insufficient Return-on-Investment
  - ☑ Our budget don't meet the price
  - ☐ Other
    (please let us know in the box below)
- ☐ Account Management
- ☐ Professional Services
- ☐ Support
- ☐ Other
 (please let us know in the box below)

Churn surveys enable companies to better understand why a customer is ending a relationship. Using NPS results in combination with churn surveys offer a more accurate picture of your drivers. Here, for example we have a churn survey that a detractor may receive before canceling a service.

Once you've gathered data on the drivers of churn you can begin to analyze:

◆ *Churn drivers and their relative share of customer churn. For example, 35% of customers who churned said that they left because of poor customer service.*

◆ *Churn drivers and their monetary-value corresponding to revenue churn*

Combining historic churn data with driver analytics shows you why some customer segments have higher churn than other segments. We'll take a look at segmentation a bit more in the next section.

Primary Customer Churn Drivers
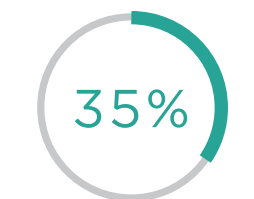
35%
Gone with Another Vendor
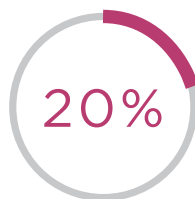
20%
No Longer Using Product
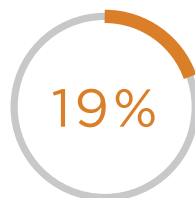
19%
Product Not Sufficient

Top 5 Churn Drivers: Revenue Loss
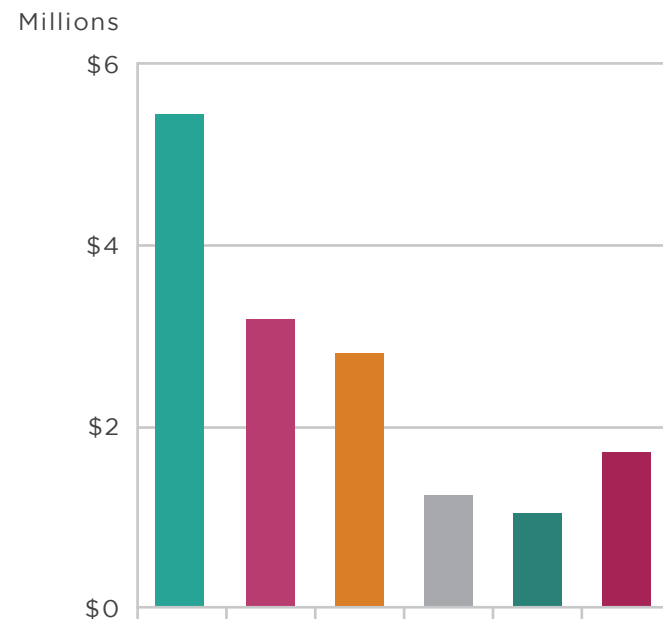
Millions

$5.67 Million	■ Competition Offer
$3.40 Million	■ Business Process Support
$3.12 Million	■ Support: Service Level
$1.29 Million	■ Reporting Capabilities
$1.18 Million	■ Return-on-Investment
$1.96 Million	■ Other Reasons

Once you've identified hiccups of the past and what drivers are leading to the revolving door, the next step is to use your NPS and historic churn figures to identify patterns within your data to calculate and predict the likelihood of future churn.

At the end of the previous section, we discussed *segmentation.* When trying to predict future churn, it helps to segment your customers based on:

◆ *Likelihood of a customer churning*

◆ *Revenue value of the customer*

Churn Likelihood

For business reviews, you can then define three buckets of customers.

1

Safe Customers

Customers with a small likelihood of churning.

2

Grey-Zone Customers

Customers where you lack enough information to determine if safe or at-risk.

3

At-Risk Customers

Customers with a high likelihood of churning.

## Segment your customers based on:

**Likelihood of customer churn**

&

Revenue value of the customer

Using this type of report allows you to see not only what part of your programs are causing your customers to churn, but how much certain programs are vampire-ing your revenue.

Performing predictive churn analytics in this way is the best proof of concept for creating actionable change. Learn from your customer, revenue churn and NPS results to take corrective action on pain points in your services or products.

> "
> **This is the best proof of concept for creating actionable change.**
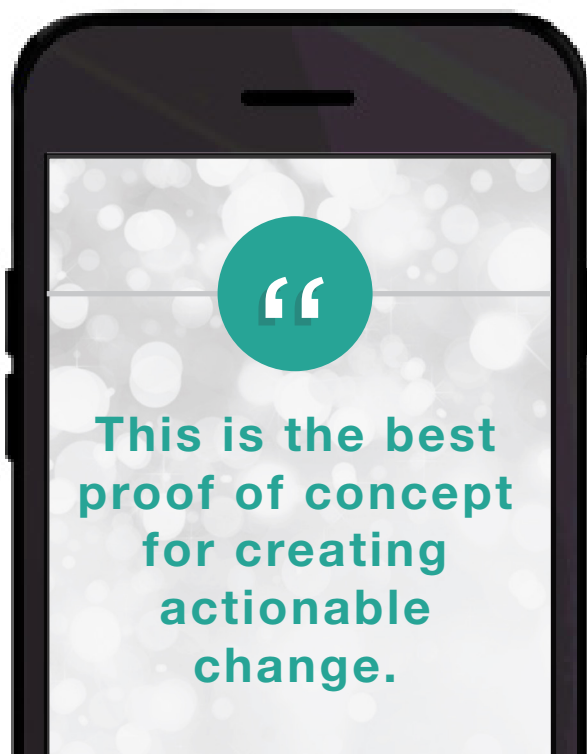
Account Summary
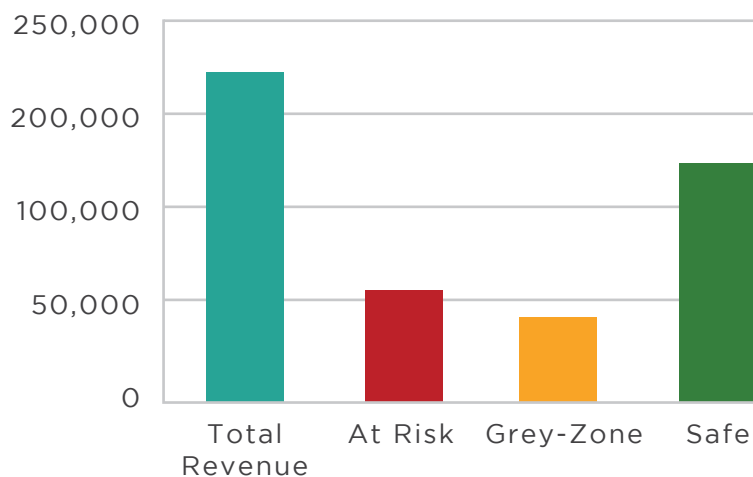
NPS	48
CRM Score	50
Open Issues	125
Responses	424
Total Accounts	89
Total Revenue	$2.2M
ARPC	$29.1K

Bar chart values (y-axis: 0 to 250,000):
- Total Revenue
- At Risk
- Grey-Zone
- Safe

At-Risk
$528.9K
5 Companies

ARPC $105.8K	NPS -47

See all companies at risk

Grey-Zone
$468.1K
16 Companies

ARPC $29.3K	NPS -3

See all grey-zone companies

Safe
$1.2M
68 Companies

ARPC $18.2K	NPS 60

See all safe companies

*ARCP: Average Revenue Per Customer

Lesson 3

Stopping the Revolving Door
Rescuing High Risk Customers

» Work to Improve

It's time to put your foot in the door and stop the churn cycle before it snowballs. Frequent surveying is necessary to keep on top of churn trends.

In this section, we'll look at three NPS best practices for rescuing at-risk customers and bringing them back to the fold.

No one likes an ugly break-up. So, it's important you take every step to rescue at-risk customers (detractors).

What can we do to make you stay?

This is the question you should always be asking if an impending break-up is on the horizon.
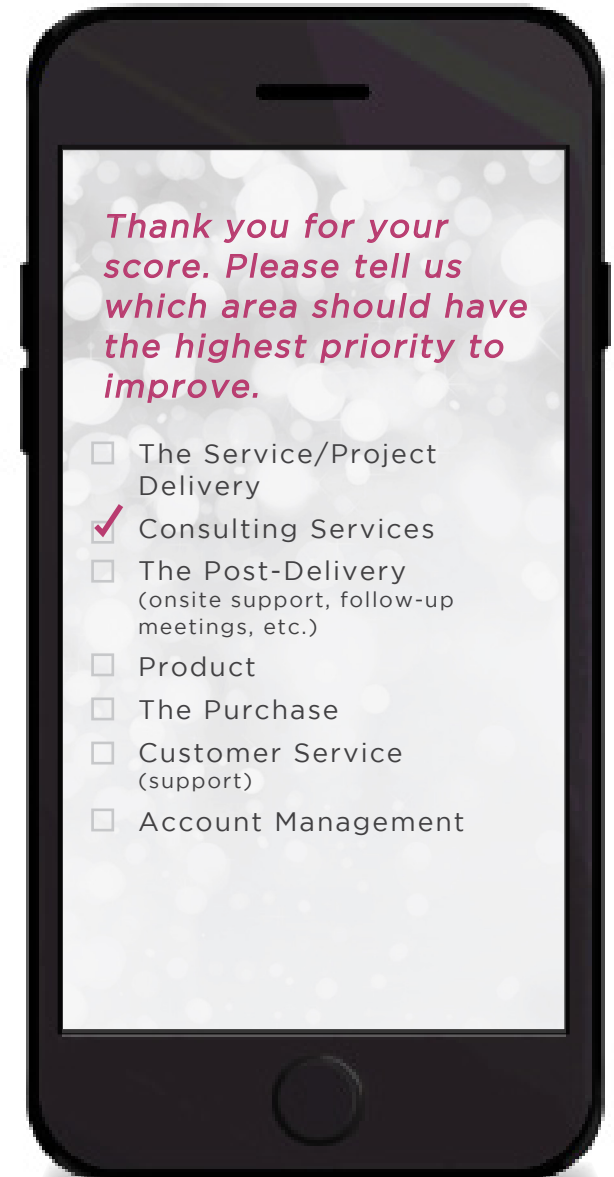
Make sure the door is always open to discuss what initiatives can be taken to solve any churn drivers with relevant customers. Send surveys for follow-up on customer experiences concerning your different services and products. Make it easy for customers to reach out to you by implementing assessable surveys by email or QR codes on your products. Send follow-up with dissatisfied customers to learn what you can do to improve.

Transactional surveys that capture poor customer experiences and frequent relationship surveys that capture overall brand loyalty allows companies to constantly take the temperature of their customer base.

Use comments and tools such as text analytics to decipher more detailed feedback. Once a customer has completed a survey, make sure to send a follow-up email that tells them exactly how you are addressing their feedback in future developments.

> " **Make sure the door is always open to discuss what initiatives can be taken to solve any churn drivers with relevant customers.**

Thank you for your score. Please tell us which area should have the highest priority to improve.

☐ The Service/Project Delivery
☑ Consulting Services
☐ The Post-Delivery (onsite support, follow-up meetings, etc.)
☐ Product
☐ The Purchase
☐ Customer Service (support)
☐ Account Management

» Close the Loop Quickly

Remember:

When it comes to increasing retention, there's no time to waste.

If there is a problem, solve it quickly. We recommend you have the following in place in your NPS program:

◆ *Implement workflows*
Implement workflows to assign cases to the relevant employees for follow up. Track the progress of open cases to ensure customers don't fall through the cracks.

◆ *Automated closed loop features*
Bring disgruntled customers back to the flock. Use "fire-fighting techniques" to close the loop quickly with detractors using alerts triggered automatically by email. Let customers know what steps you are taking to address their concerns.

Companies who close the loop fast experience a 10% bump in retention. For your big-ticket customers, this can mean retaining a large portion of revenue that would otherwise be snuggling up with your competitors.

Remember: When it comes to increasing retention, there's no time to waste.

If you're a B2B company, conduct quarterly business reviews of your most valuable customers to dig deep into surveyed companies. Have a tool in place to break feedback down by level—from c-suite to frontline.

Schedule a review meeting with your customer, and tell them in advance that you will be discussing their survey responses during that meeting. That will give your customer a direct reason to complete the survey when they subsequently receive the invitation.

Let management know the overall health (NPS) of your client to get their buy-in for mitigating actions. Communicate progress and results and improve relationships on all organizational levels.

Client #107 **Retention Masters Inc.** *$159,534*

CEO
When conducting a QBR, it's important to establish a view from the top-down. This allows for transparency across the company about how they view your services. It may not be clear, for example, to a CEO, not on the frontline, to understand how your business services are being used.

VP of Marketing; VP of Sales
As you work your way down, you will then get to the senior management. It's important to get responses from more than one senior management personnel, as the impact your business services have may affect departments differently.

Frontline Employees
Employees on the frontline have the best perspective to gauge what their own customers are experiencing. Some of what a frontline employee may have to say could contradict that of the CEO.

Safe	60	424
Risk Level	NPS	Responses

≫ Recommendations for Improvement

Remember: Ensuring customer loyalty is a continuous process. Think back to our example in the first chapter, and take notes from some of the hardest working customer service people in the business: waiters/waitresses. Check-in frequently enough for customers to feel comfortable saying "well, actually…", but not to the point of being intrusive.

"

Best Practices:

Bring the wow factor every time

Always know your churn and retention

Be the one to reach out first

Follow-up with what you're doing to improve

Whether you're in the food industry or any other business, to combat churn it pays to play the role of your waiter and waitress:

1

Make a good first impression—every time.
Don't leave the "wow" factor for your new customers. Make sure you are nurturing your existing client base with discounts, campaigns and follow-up. Build a following of promoters who will provide good word of mouth and referrals in return. Be a company your customers are proud to recommend.

2

Treat every interaction like your salary depends on it.
Whether they're your big-ticket customers or not, churn adds up. Always be aware of your churn and retention rate. Use the formulas we've provided to get an estimate on what those numbers are, and then use a Net Promoter System to find the why behind the churn.

3

Don't wait for customers to reach out to you. Check in with them.
While it's important not to weigh your customers down with a flurry of surveys, make sure any major experience or transaction are followed-up with a survey to monitor how their experience was.

4

Tell customers what you're doing to improve.
Once a customer has taken a survey, follow-up by not only thanking them (these will go straight in the trash bin) but also what actions are being taken to improve their future experience based on their specific feedback. Show you are listening and acting.

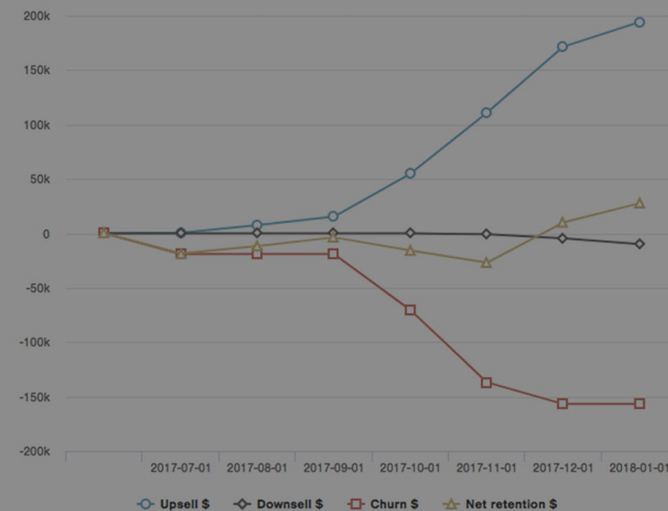# CustomerGauge

Don't Let Customers Slip Through the Cracks

1 out of 3 companies don't know their retention rate. Don't be another statistic— CustomerGauge's advanced retention tool set allows companies to track retention performance, predict churn, and identify growth opportunities.

Request a Demo

CustomerGauge
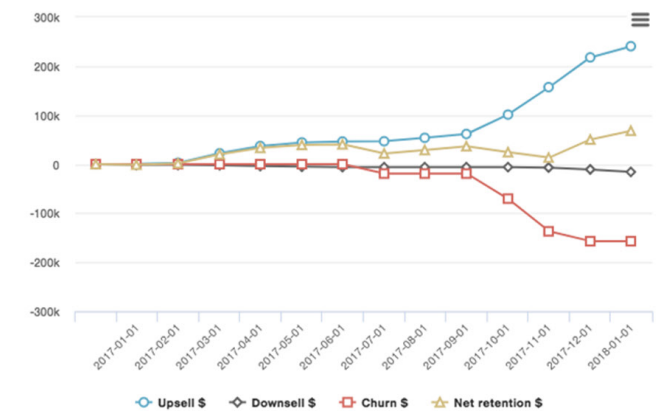
About the Author

Sarah Frazier is a customer experience enthusiast and writer. As the Digital Content Manager and resident wordsmith at Customer Gauge, she works to educate the market on the importance of employing a customer-first focus using metrics like the Net Promoter Score® to drive higher retention and growth. When Sarah isn't typing madly away on her keyboard, you can find her spending time with her family, hiking, traveling, making bad jokes, or firmly glued to the television.

About CustomerGauge

CustomerGauge is a software-as-a-service platform that helps clients improve customer experiences. The system automatically measures and analyzes feedback, reduces churn through close-loop tools, and helps retain customers using the industry-standard metric Net Promoter System. Results are published and analyzed in real-time using a highly customizable reporting tool, making it ideal for global enterprises.

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