

THE ANATOMY OF CHURN

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CHURN IS THE RATE AT WHICH CUSTOMERS STOP DOING BUSINESS WITH YOU.

This causes a negative impact on both the former customers and the businesses they leave. To give you some perspective on the financial implications of the issue:



COMPANIES LOSE \$1.6 TRILLION PER YEAR DUE TO CUSTOMER CHURN

And according to the [Forrester](#), it costs **5 times more** to acquire new customers than it does to keep an existing one.¹



REDUCING CHURN BY 5% CAN INCREASE PROFITS BY 25-125%

In business, everything is about the bottom line, and reducing your churn rate will substantially increase your profit margin.²



THE PROBABILITY OF SELLING TO AN EXISTING CUSTOMER IS 60-70%

The probability of selling to a new prospect is 5-20%. Existing customers already know, are satisfied, and trust your brand. With a new prospect, you need to convince them that you are the brand for them. The odds are in your favor to sell to an existing customer!³

CHURN IS A MAJOR FINANCIAL AND OPERATIONAL PROBLEM FOR MANY COMPANIES, DIMINISHING REVENUE, PROFIT, MISSED OPPORTUNITIES AND COMPANY VALUATIONS.

This is a special concern for businesses with a recurring revenue model and/or additional products or services to sell to existing customers.

The purpose of this paper is to lay out a map for how churn happens. It will do so by demonstrating how the high cost of churn is an organization-wide issue

that is affected throughout the customer journey. This paper will sketch out the problem broadly and holistically but not provide any solutions. Our reason for producing this paper is to share our market experience in a way that gives you perspective in tackling churn in your business.

THIS PAPER WAS DRAFTED ON TWO KEY ASSUMPTIONS:

01

THIS PAPER IS MEANT TO DISCUSS CHURN AS IT RELATES TO B2B COMPANIES. ALL DISCUSSION POINTS, CITATIONS AND ASSUMPTIONS ARE BASED ON A B2B SUBJECT.

02

BUSINESSES WHO HAVE A RECURRING REVENUE MODEL (SAAS) OR MORE INFORMAL MONTH-TO-MONTH RECURRING REVENUE (PROFESSIONAL SERVICES) ARE ONES WHO ARE MOST CONCERNED WITH CHURN.



01 CHURN IS A MARKETING PROBLEM.

**KOLSKY CONCLUDED
THAT CUSTOMER CHURN
CAN BE REDUCED BY 67%
IF COMPANIES SUCCEED
IN SOLVING CUSTOMER
ISSUES DURING THE FIRST
INTERACTION ⁴**

Marketing is the beginning of any new customer relationship. It's where **opinions begin to form about your business, where expectations begin and where promises are made.**

OVERPROMISING

This is probably the most common consideration when thinking about promises made and unmet in the market. It means that businesses can often overstate what their services or products can do for their customers. At the solution level. At the brand level. It is likely an overstatement of things such as customer experience, service, brand ethos, global impact, purpose and meaning of the business. What you promise at the beginning of a relationship will begin to sow the seeds of unhappiness in future customers. It is against this baseline that they will compare the impact feeling or benefits of working with you or using your products.

UNDERPROMISING

The less obvious attribute of failed promises is underpromising. This is where the clarity of your message comes into play. Failure to truly articulate the benefit, value, and impact of your services and/or products or your brand message, has the same effect as overpromising. Only in this case, rather than set up future disappointment, it is more likely to either deter good customers from engaging or engaged people to buy from you for the wrong reasons. This is how underpromising or unclearly promising drives future churn in your customer base.

WRONG CUSTOMERS

Yes, there is such a thing. Especially when your organization values a low churn metric. The idea here is to only market to people who are likely buyers and likely to continue working with your organization for a long time. The idea of marketing leading to transactions only or a client who is unlikely to stay for very long is the problem here. Taking your message to too broad of an audience is the driver. In the context of businesses where churn matters, this is the benefit of a targeted and/or account-based marketing approach. In the context of churn, the merits of these approaches are geared towards only talking to people who are highly likely, not just to convert, but also to stay with you for a long time. Of course, there are also benefits to conversion efficiency and cost of acquisition, which are outside the scope of this white paper. Furthermore, internal teams who conduct the product demonstrations, for example. Their performance objectives may be getting demonstrations of your product without regard for them being the right customer.





02

CHURN IS A SALES PROBLEM.

IF YOU BOOK 10% MORE NEW BUSINESS THIS MONTH BUT HAVE A 20% HIGHER CHURN RATE, YOU'RE ESSENTIALLY TAKING ONE STEP FORWARD AND TWO STEPS BACK ⁵

Sales teams build rapport, relationships and trust with the target audience. It's the continuation of the marketing phase, where more specific conversations begin. The business activity here is to take a marketing qualified lead and make it a sales qualified lead. Sales is where a prospect's specific needs are understood and solutions are crafted. Sales should qualify two things:

1. That prospect needs can be met by the selling firm's offerings. The seller has the right product or service, and the right solution put together and presented to the customer.
2. The problems are worth solving. Sometimes the cost to solve outweighs the benefits and it's the onus of sales to point this out.

RIGHT BUYER

I can hear some of you saying now, "Anyone that says yes is the right buyer." This attitude will certainly drive your churn up. The right buyer is someone who your brand and product or services were designed to help AND who has a known problem that it solves. This will drive your churn down.

PROBLEM WORTH SOLVING

Before any proper solution can be crafted, recommendations made, or service offerings created, a good salesperson will first determine if the client has a problem worth solving. Is it worth putting money into? If so, is it worth putting the resources required to do so

in regard to the expected impact? Perhaps it's the type of problem that can be solved through internal change without external investment. Perhaps the problem is something that's not an economical solution. It's something that the business in question either learns to live with or properly classify as a nuisance. Not all problems can be solved, or rather, not all business problems ARE worth solving relative to the cost failure. A salesperson must ask this question and in doing so best serves the prospective customer and drives down his company's churn.

RIGHT SOLUTION

This is where good salespeople add the most value to any scenario. Through careful conversation, modeling, assessing, and, in some cases, data or deeper technical review, salespeople craft the appropriate solution that will help the customer with their problem(s). Failure here can be either over or under solutioning. Solutioning simply means selling someone more than what they need to solve their problems. Under-solutioning is the opposite. It is when the proposed product or service meets some, or part of, the customer's needs, but not all. In my experience, this is driven through a predetermined expectation of a fixed budget on behalf of the buyer or a budget number that was thrown out without qualification during the sales process to "over" or "under- solution" your customer during the sales and proposal process, will almost assuredly result in that customer leaving and increasing your churn.



03

CHURN IS AN ONBOARDING PROBLEM.

TOP-PERFORMING COMPANIES ARE 50% MORE LIKELY THAN THEIR PEERS TO HAVE WELL-DESIGNED USER JOURNEYS THAT FACILITATE CLEAR COMMUNICATION AND A SEAMLESS TRANSACTION ⁶

Onboarding is the next phase in the buyer experience after agreeing to a sale. There are generally several steps that occur over a specified period of time that address things like delivery, access, training, teaching, adoption and habitually engaging with the product or service.

SALES DISAPPEARING

Most companies see onboarding as a purely operational issue. They have teams and processes that have nothing to do with the sales team. This is a problem. From the perspective of the customer, the salesperson is ultimately who they bought from. For that person to abruptly be removed, the continuous experience is lost. This is an inversion of trust in an organization. In addition, much-accumulated knowledge and relational trust is immediately off of the table. This prevents internal teams from fulfilling promises made during sales, from having the knowledge of the business problems during sales, and sets the stage for failure much faster than it needs to be.

INDOCTRINATION

The critical achievement here is for the buyer's expectations met. This is where usage of the same vocabulary, demonstration of the same product benefit and features, and same future reality become critical. Again, this is not completely separated from the sales process but is a continuation of the sales effort. Indoctrination is essential as it reinforces what the buyer learned during the buying process, as well

as enables other team members to begin learning about the product or service in question. More often than not there are bigger teams who engage in the purchased product/service than were part of the buying process. When this is the case, it is critical to get the new participants up to speed with the language, process and expectations of the seller as quickly as possible. When this is not done, the new players are left with their own expectations of how things should work and what results will follow. User expectation gaps drive churn.

ADOPTION

Adoption is simply using the product or service that was purchased. As obvious as this may seem, as business people, we all have things that we have or pay for that we either never use or have not used to their fullest. Adoption comes when proper business systems and relational engagements reinforce for all users what was agreed to during sales. The customers cannot be left to their own devices here. It is in your business' best interest to make sure that your buyers adapt to your product or services, your business systems, and your expected communication structures. Any shortfalls here will lead to inevitable P&L reviews and lesser value in your product or service in the eyes of the buyers. When these expense reviews occur, things that people think are not critical or valuable will be subject to elimination or replacement, driving up the seller churn.



04

CHURN IS AN OPERATIONS PROBLEM.

PROVIDING CUSTOMERS WITH SHORT TUTORIALS ON PRODUCT FEATURES BEFORE HANGING UP CAN REDUCE CHURN BY 6%⁷

Operations is where your core product or service is delivered. It's what your customers bought from you and where promises made in marketing and sales are kept.

INADEQUATE PRODUCT

Overpromising during marketing and sales is the down payment on this issue. In this case, inadequate can mean both inferior and simply not up to the standards of what was promised earlier in the relationship. This can be simply not doing what it said it would do at all to not performing to the level or impact that was promised or expected. This is where things like downtime, missed deadlines, unavailability of service providers, etc. lives.

INAPPROPRIATE PRODUCT

When sales doesn't do a good job at properly qualifying the needs and solutions of their customers, they can end up with the wrong product or service. This one doesn't usually take long for customers to figure out and is essential for businesses to understand when this does happen, and quickly adopt their customers to the right product or service. Every day under the wrong agreement with your customers is one day closer to the relationship ending before it needs to.



WE SEE OUR CUSTOMERS AS INVITED GUESTS TO A PARTY, AND WE ARE THE HOSTS. IT'S OUR JOB EVERY DAY TO MAKE EVERY IMPORTANT ASPECT OF THE CUSTOMER EXPERIENCE A LITTLE BETTER.

- JEFF BEZOS, FOUNDER AND CEO AT AMAZON⁸



05

CHURN AS A CUSTOMER SERVICE PROBLEM.

ALMOST 70% OF THE IDENTIFIABLE REASONS WHY CUSTOMERS LEFT TYPICAL COMPANIES HAD NOTHING TO DO WITH THE PRODUCT. THE PREVAILING REASON FOR SWITCHING WAS POOR QUALITY OF SERVICE⁹

Customer service has both a proactive and reactive component - both are critical to long-term client retention. Proactive customer service includes structured outreach, asking questions and being prepared to bring value to customer needs. Reactive service is how you deal with customer problems arising from unmet expectations, product/service failures, and shortcomings or inadequate results. A strong service philosophy is critical here as no policies or processes will be able to address all client needs. A service philosophy and values help customer service teams operate effectively in the unexpected areas of service.

“THE PROCESS”

How many of you have ever experienced an answer from a customer service rep, “That’s just not our process” (or something to that effect)? How does that sit in your gut? What does your opinion of that seller now look like? The core of this issue is being internally focused vs customer focused. Business processes must exist for a business to exist. However, they can never be so rigid that they fail to meet the market’s needs. That is not to say you can do all things for everybody all the time, but, when your response to a customer issue is, “That’s not our process” your churn will increase.

FAILURE TO EVALUATE THE ISSUES

When customers reach out with a service issue, they often frame it from within their own understanding of the issue. Failure to properly deep-dive through

questions and assessments on the part of customer service will lead to a shortfall and proper solutions. When a customer reaches out, customer service must assume that there is, in fact, a problem, and that it is their job to determine the core issue (or issues). Once that’s done, getting proper buy-in from your customers before moving ahead with a sale is essential to maintaining integrity in the relationship.

GREAT CUSTOMER EXPERIENCE IS A MAJOR COMPETITIVE ADVANTAGE THAT DRIVES NEW SALES— AND IT’S PREDICTED TO OVERTAKE PRICE AND PRODUCT AS THE PRIMARY BRAND DIFFERENTIATOR FOR B2B SALES BY 2020.¹⁰



06

CHURN IS A RESULT OF NOT GROWING YOUR RELATIONSHIPS.

LOYAL CUSTOMERS ARE 5X AS LIKELY TO REPURCHASE, 5X AS LIKELY TO FORGIVE, 4X AS LIKELY TO REFER, AND 7X AS LIKELY TO TRY A NEW OFFERING¹¹

Growing your relationships with your customers helps solve more of their problems in more, and often deeper, ways than the initial sale. As this is often a revenue-generating activity, it can be misconstrued as benefitting the seller only. This is a critical mistake. Growing existing customer relationships, if done well, is primarily to their benefit as someone they're already working with/paying/have evaluated can take on more of their issues.

INCREASING ENGAGEMENT

At its most technical level, this means having your customers renew engagements with you. This means buying additional products or services from you or buying products or services from other areas of your business that might be a benefit. Proper philosophy here is not one of how much can I get for my existing customers, but rather how well do I know them and their issues? What ways can I continue to bring additional value to them, big or small? It is very rare that the scale and scope of the original agreement is an answer. Grow and adapt your services and products to your existing customer base. It is best to view this as creating more valuable services and impacting your customer base over time, with them being the primary benefactor. If your focus is on that, you more than benefit from increased customer lifetime value.

BECOMING MORE VALUABLE OVER TIME

This is a mutual benefit. You see an increase in the

lifetime value of your customers, becoming more valuable to your business. They see an increase in the value you bring to their business and needs. As they grow, you grow with them. As time goes on, you grow together, providing more, and deeper, value to each other.





07

CHURN IS A “NOT KNOWING HOW YOU’RE DOING” PROBLEM.

A 10% INCREASE IN A COMPANY’S CUSTOMER SATISFACTION SCORE LEADS TO A 12% INCREASE IN TRUST FROM CUSTOMERS¹²

Understanding how you’re doing as a company - physically asking your customers - is vital to the success of your business. Companies who fail to take this step are like a rodeo bull rider just white-knuckling the ropes hoping to hold on to customers. Hear no evil is their mantra. You must be willing to initiate these conversations regardless of how you think the relationship is going. Failure to take this step will prohibit you from enabling proactive and individual customer engagements, as well as getting better as a business.

CUSTOMER OPINIONS

Knowing your customers’ opinions of your products and/or services and overall experience in working with you is essential to being able to do the right things to maintain and grow the relationship. When you don’t know or don’t ask, you’re guessing or making decisions out of proper context. If someone has decided to work with you to begin with, they have an expectation that the relationship will last a reasonable length at a minimum. This bridges the gap between that expectation and your desire to work together long term. It surfaces real, addressable issues in a way that something can be done rather than just sitting around and waiting for your customer to leave.

CUSTOMER PERFORMANCE

In the case of some products or services, they actually provide measurable impact on their customer’s business. Things such as growing top-line revenue, controlling or reducing a cost, or increasing and

efficiency in a certain area are all common types. If your business provides this kind of impact to your customers, it is critical that you and everyone who serves that customer knows how the customer’s performance is doing. Are you driving the expected results for your customers? Are you exceeding them? If you are exceeding them, that’s a prime opportunity to grow the relationship. If you’re underperforming, that’s the opportunity to make adjustments to your product/service offering for the customer in question and potentially to your broader product/operations.



“THE SHORTCUT THAT I USE IS TO RUN A SURVEY: ‘HOW WOULD YOU FEEL IF YOU COULD NO LONGER USE THIS PRODUCT?’ I AM LOOKING FOR THE PEOPLE THAT ANSWER ‘VERY DISAPPOINTED.’ THEY HAVE THE ANSWERS TO WHERE THE VALUE IS IN THE PRODUCT.

- SEAN ELLIS, AUTHOR AND FORMER VP OF MARKETING AT LOGMELN¹³

CHURN IS A BUSINESS PROBLEM.

CHURN IS A BUSINESS PROBLEM—ONE THAT'S WORTH SOLVING.

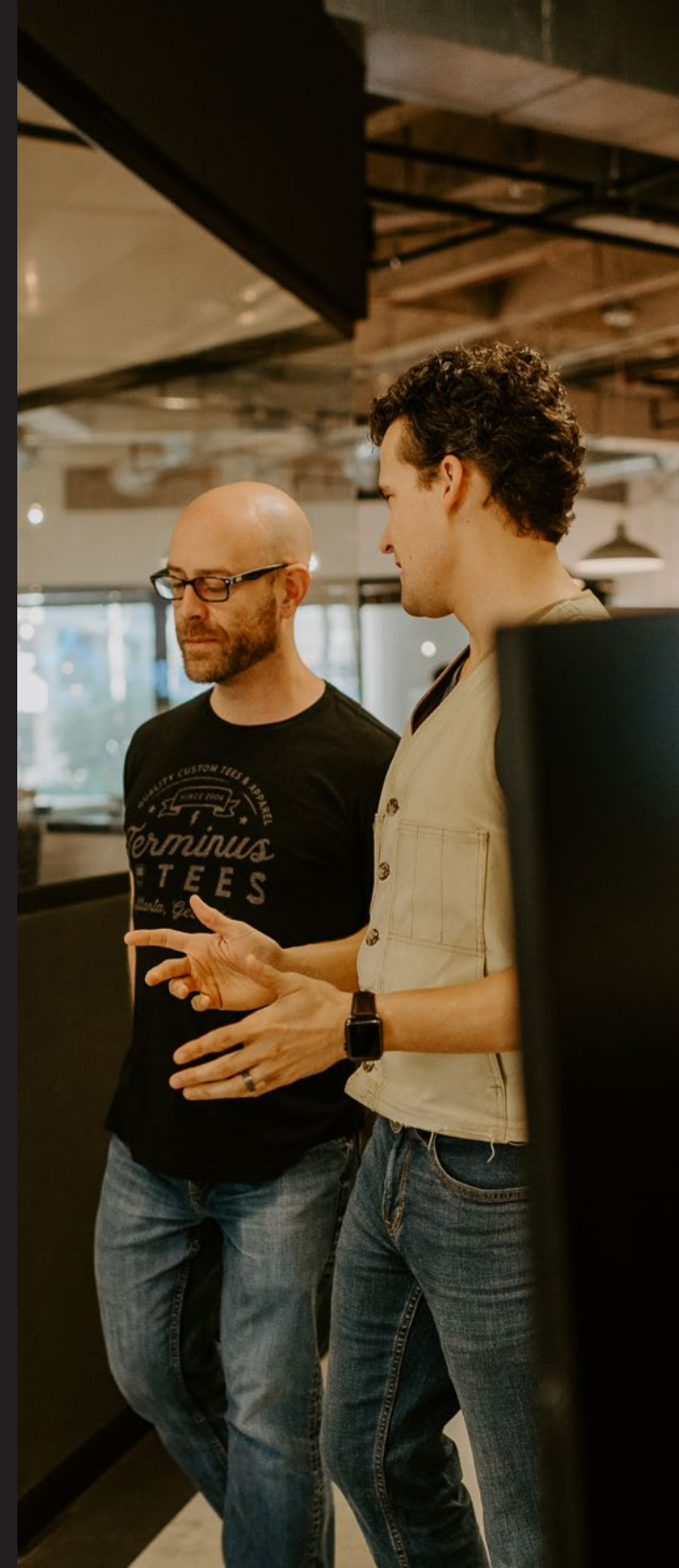
Companies lose profits, revenue, growth and business value as a result of churn. Instead of growing with existing customers, the most cost-efficient type of sale, they are spending time, energy and dollars replacing lost customers. The cycle of top line/bottom line cannibalization goes on until it is dealt with.

CUSTOMER CHURN HAS MULTIPLE CAUSES, SPANNING THE ENTIRE CUSTOMER EXPERIENCE.

The wrong messages set the wrong expectations. The wrong solutions don't actually fit the market's needs. Poor onboarding starts the process of new customers leaving rather than establishing the basis for a long-lasting relationship. Failure to continue to solve more customer problems in new and different ways opens the doors for them to look elsewhere. Not knowing how your product/service is performing for your customers and their perceptive thereof prevents you from being able to do something about it before it's too late.

CHURN IS A COMPLEX ISSUE CAUSED BY NUMEROUS CROSS-ORGANIZATIONAL FACTORS.

There are no shortcuts to solving it. No one person or team has a broad enough reach to fully impact the causes of customers leaving. No business systems or tools can either, much for the same reason. Failure to take a customer centric and holistic view of the causes of churn will invite it to be an ongoing, negative drag on your business - possibly a critical one. In addition to a proper perspective, businesses require will, attention, resources and time to tame churn.



SOURCES

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