

IDENTIFYING POCKETS OF PROFITABILITY

WITH A VALUE-BASED APPROACH TO CUSTOMERS



It's a tough world for telecoms operators. Competition from new market entrants – many of whom are focused on growth and new customer acquisition, as opposed to profitability – is forcing mobile and fixed line operators to drop prices and offer cash incentives to tempt new customers.

This is reducing margins, which are being further eroded by the rising cost of acquisition. Whether it's a broadband provider offering free installation and additional home routers, or a mobile provider drawing people in with subsidised handsets, customers today expect to be wined and dined before signing on the dotted line. If a customer takes up these offers, then switches as soon as their contract ends, the operator often loses money – potentially hundreds of pounds in the case of technical installations. If replicated across multiple customers, this can carve a substantial dent in profits.

Now, with Ofcom making it easier to jump ship through its proposed 'one touch' switching process, many operators are having to make bets on which customers will cost them money, versus those that will make them money. It's therefore imperative providers not only attract, but retain their most valuable customers.

So, what makes a customer valuable - or not valuable?

Customer value can be assessed through several lenses. A customer may be of high value because of their long tenure, meaning they have 'paid back' their acquisition costs. Or, they may rarely call the contact centre, so have a low cost to serve. Perhaps they upgrade on a regular basis and purchase numerous add-ons, meaning their contract value is high, or they onboard via online channels and have a very low cost of acquisition. These are the kinds of customers an operator should look to keep.

Similarly, there are the loss makers: those individuals with no brand loyalty, who are always switching to get the lowest deal, contact the call centre frequently, and are late with payments. These are the kinds of customers telecoms operators want to avoid. Ultimately, customer retention should be about quality versus quantity, and in the longer-term, working out which customers bring in the most returns and attracting more of that type of business.

Often, a customer is unprofitable due to a range of factors – it's a 'death by a thousand cuts' situation, with no single obvious thing that must change to move the needle. Some of these factors may be fixed while others can be changed, so the key is knowing which you can influence and which you can't.

The only way to identify which factors make a customer unprofitable is by analysing data to gain a single view of the customer. However, most operators struggle here due to organisational and data siloes. Telcos have vast operations based on extremely complex infrastructures. Each department – be that sales, network operations, customer service or billing – looks only at their part of the puzzle, making it impossible to join the dots across different systems, teams and processes. As a result, many cannot identify which customers are or aren't profitable, let alone understand why, leading to significant revenue leakage.

A platform approach to profitability

Layering an analytics platform on top of the technology stack can help to tackle this visibility issue and gain a single customer view. By drilling down into data, right through to the subscriber level, operators can identify pockets of profitability, revealing small changes they can make to create a swift RoI, while using the data to inform strategic long-term plans. An analytics platform can also interrogate data, applying machine learning to pull out trends over time. Importantly, by seeing the value of a customer as a metric, operators can develop strategies to help attract the right sort of customers, devote resources to the right channels and conduct the right campaigns – supporting long-term growth and success.

There are many use cases for taking a value-based approach, but here are two examples:

Identifying 'high cost to serve' customers

The more a customer draws on services, the less profitable they are – yet the cost of this can remain hidden. For example, we helped one operator save £1 million by revealing that their cost to serve was high. Drilling down, we realised that customers with a particular handset were regularly calling the technical call centre for long periods of time seeking set up help. This influx of enquiries not only blocked access to the technical call centre, but was of high cost given the time required to solve the problem. We fixed this by creating and adding a set up explainer sheet to go with the handset as well as providing technical training to call centre operatives.

Underpinning pricing strategies with data

With price wars raging, operators may be tempted to follow the crowd in the race to the bottom. Yet, by taking a value-based approach, we were able to help one operator to

secure millions of pounds by using data to decide whether to fix their price or drop it like their competitors. After analysing the data, we found that while holding the price would mean sacrificing some new leads, the contract value was greater, meaning they'd make more money long-term than if they'd dropped the price.

Data-led decision-making is crucial

Perhaps the most important task for any service provider is making decisions based on hard data and facts, rather than emotion. In an increasingly crowded industry, it can be easy to react hastily to competitors' advances and implement actions that would, on paper, drive revenue. The reality is much harder to foresee.

That's why more telecoms providers are realising they must go beyond the averages and really get a granular view of their customers and their intentions. And thanks to a value-based management approach, extracting the necessary value from their customer data is no longer a complex and costly thing to do.

About Sagacity

We pride ourselves on delivering high quality products and services that minimise risk and maximise rewards for our clients. From customer data solutions to revenue assurance and consulting, we successfully address complex business challenges across multiple industry sectors producing significant change and extensive financial improvements.

We are dedicated to delivering the highest quality business solutions for our clients and partners alike and are proud to work with some of the best-known and challenger brands.

Get in touch to find out how we can help your business address its current challenges.

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