Chapter 2
Setting (Realistic) Business Aims

ABSTRACT

This chapter explains different perspective of churn analysis and points out the importance of understanding what really can or cannot be done. In addition, it is important to understand common errors analysts (readers) have, so that one can be aware of them when planning and conducting churn analyses. It is advisable for the reader to move back to the introduction and Chapter 1 after finishing reading in order to once again understand the full potential and restrictions of the proposed methods and techniques. Although this chapter covers churn topics on a conceptual level, it is very important for the reader to be able to understand and express key points on this level. By using industry-related cases and by combining churn with early warning systems, the complete scope is covered, and the reader can move to the next level, techniques, explained in next chapter.

2.1 INTRODUCTION

Often while exploring all powers of analytical methods ideas what else we may analyze just pop on one after another. Being able to control obviously large potential we need to be able to manage business aims in realistic way, both in time and resources. Looking from the churn perspective, churn is important because lost customers have to be replaced with new ones, and new ones are expensive to acquire and generally generate less revenue in the near term than established customers (Berry, Linhoff,
2004). This is more present in mature industries where the market is saturated, anyone likely to want the product or service probably already has it from somewhere so the main source of new customers is people leaving a competitor (Figure 1).

Market saturation leads to decrease in response rate from acquisition campaigns while cost for acquiring new customer goes up. Looking for efficient business balance, company has to be always faced to choice is it more efficient to invest into retaining current customers of focus on acquiring new ones.

Retention campaigns can be very effective but also very expensive. A mobile phone company might offer an expensive new phone to customers who renew a contract. A credit card company might lower the interest rate. The problem with these offers is that any customer who is made the offer will accept it. Who wouldn’t want a free phone or a lower interest rate? That means that many of the people accepting the offer would have remained customers even without it. The motivation for building churn models is to figure out who is most at risk for attrition so as to make the retention offers to high-value customers who might leave without the extra incentive (Berry, Linhoff, 2004) (see Table 1).

**2.2 WHEN CHURN BECAME OBVIOUS IT IS TOO LATE FOR DATA MINING**

As we define, churn can be voluntary or involuntary. However there is a third choice, expected churn (Berry, Linhoff, 2004). Involuntary churn, also known as forced attrition, occurs when the company, terminates the relationship most commonly
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