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Who is (not) convinced to withdraw a contract termination announcement?

A discriminant analysis of mobile communication customers in Germany

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Abstract

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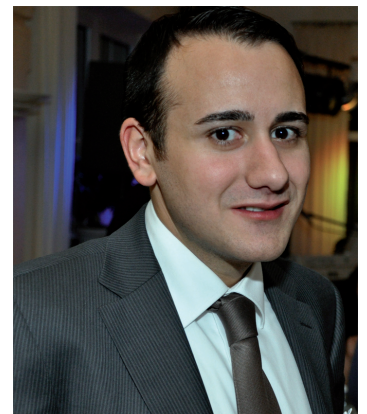
Convincing subscribers of mobile network operators (MNO) who announce to terminate their contract at the next legally possible occasion to revoke their notice is a critical challenge in the maturing MNO service industry. Using data for 607948 postpaid customers of the German subsidiary of a multinational MNO, this study profiles termination withdrawers against churners. More specifically, we explore differences in contract-related, socio-demographic and service use behavior characteristics as well as in the stated primary cancellation reason between the following three subscriber groups: (1) Customers withdrawing their termination and accepting a follow-up contract in the course of a revival call made by their MNO (full restoration group; $n = 276488$); (2) customers not revoking the cancellation of their postpaid contract in the call, but accepting a prepaid offer of their MNO (partial restoration group; $n = 40500$); (3) customers sticking to their cancellation in spite of the revitalization dialogue and churning (loss group; $n = 290960$). Uni- and multivariate analysis suggest that compared to defecting customers, subscribers in the full restoration group were more likely (a) to try to cancel their agreement as a precautionary measure to keep options open once they

would approach its formal expiration, (b) to be already in a tariff bundling mobile Internet and voice calling service provisioning, (c) to have a shorter overall length of contract relationship with their MNO and (d) to generate higher monthly revenues in the three months preceding their termination notice. A highly significant distinguishing characteristic of lost subscribers was that they were much less inclined to name any reason at all for their defection notice in the MNO's restoration call than the two remaining groups. The share of subjects stating that a mismatch between their personal communication needs and their postpaid arrangement was the main driver to cancel their contract was significantly higher in the partially restored customer group than in the rest of the sample. Overall, the characteristics of partially restored accounts were more similar to lost than to fully restored subscribers. Implications of the findings are discussed for reactive customer restoration efforts and future research targeting MNO customers who announce to cancel their contract at its next expiration date.



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1. Introduction

To date, in many countries the number of subscriptions to radio-based mobile communication networks per inhabitant exceeds one and mobile network operators (MNO) serve more customers than their fixed-line competitors. Consequently, quite frequently MNO face a stagnating demand for many of their services. In order to acquire new accounts MNO deliberately tailor offers to the customer base of rival firms. At the same time, portability of mobile phone numbers and market-wide technology standardization make it easier for consumers to switch between MNO. Therefore, strategies for keeping existing customers from terminating their contract with an MNO, or, in other words, the avoidance of “*churn*”, receives considerable attention from both MNO executives and management scholars.

Extant investigations on customer contract termination in the mobile communications industry have overwhelmingly treated defection as an “exogeneous event”, which needs to be predicted by identifying characteristics which distinguish churners from the remaining customer base (for tabular research summaries see Lima, Mues, & Baesens, 2009, p. 1097; Verbeke, Martens, Mues, & Baesens, 2011, p. 2356). The logic behind this search is that once these discriminating variables are known, an MNO can proactively contact subscribers with the highest cancellation probabilities to better address their needs and unmet expectations as a prerequisite for retaining them as consumers of their services (cf. Mozer, Wolniewicz, Grimes, Johnson, & Kaushansky, 2000, pp. 690-691; Neslin, Gupta, Kamakura, Lu, & Mason, 2006, p. 204; Verbeke, Dejaeger, Martens, Hur, & Baesens, 2012, p. 211).

Unfortunately, *preventive* customer retention measures of MNO typically do not

discourage all customers from announcing that they want to end their contract with their MNO at the next possible date. There is generally a minimum period of notice between the date at which an MNO receives a customer’s termination letter or call and the date at which the cancellation becomes effective. In Germany, for instance, this period lasts three months for most postpaid MNO customers. Consequently, it is standard practice that MNO call customers who indicate that they are about to defect in order to explore reasons for the contract cancellation and to find out if and by what means subscribers may be convinced to withdraw their notice to quit (Florl, 2000, pp. 84-91; Griffin & Lowenstein, 2001, p. 66; Lopes, Brito, & Alves, 2013, p. 12; Pick & Kannler, 2009, pp. 57-59; Rauchut, 2009, p. 276; Richter, Yom-Tov, & Slonim, 2010, p. 732; Schöler, 2011, pp. 505-506, 511; Thomas, Blattberg, & Fox, 2004, p. 32).

Given that MNO devote considerable resources to such *reactive* contract restoration efforts it is surprising that there is a scarcity of research which explores how customers who respond positively to revival calls (i.e., who withdraw their termination notice and stay with the provider) differ from their counterparts who stick to their original cancellation announcement and eventually end the business relationship with their MNO. Knowledge concerning differences in contract, socio-demographic and service use characteristics as well as in stated reasons for quitting between “termination withdrawers” and “termination stickers” is valuable because it allows a better allocation of the limited resources for customer win-back measures and an improved design of guidelines provided to MNO call center staff as a foundation for their revival talks. Therefore, the present paper contributes to the literature by

conceptually linking previously isolated work on churn of service provider customers on the one hand and on subscriber win-back on the other hand. Additionally, it extends previous work by empirically studying distinctions between cancellation withdrawers and stickers in a sample of about 0.6 million contract subscribers of the German subsidiary of a large multinational MNO who had notified their supplier that they wanted to terminate their contract at the next possible date.

The remainder of this article is organized in four sections. The next section briefly reviews earlier work on customer churn and revitalization of departing MNO subscribers to generate research questions. Then, in section 3 we describe the data set obtained from an collaborating MNO. Section 4 presents the results of the empirical analysis. The final section 5 contains the paper’s conclusions and highlights promising directions for future work.