

amdocs

WHITE PAPER

DON'T REACT – ACT!

HOW PROACTIVE REVENUE MANAGEMENT CAN PAY OFF BIG
IN TODAY'S MARKETS

CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	2
REACTING TO A POOR CUSTOMER EXPERIENCE IS TOO LATE AND LEADS TO CHURN	3
OVERCOMING THE BARRIERS WITH CUSTOMER LIFETIME VALUE	4
WHAT IS CUSTOMER LIFETIME VALUE?	4
PROACTIVE REVENUE MANAGEMENT INCREASES CUSTOMER LIFETIME VALUE	5
PRICE PLAN OPTIMIZATION	5
PROMOTION AND TOP-UP OPTIMIZATION	6
COLLECTION OPTIMIZATION	7
BILLING SYSTEM REQUIREMENTS FOR PROACTIVE REVENUE MANAGEMENT	8
CONCLUSION	8

EXECUTIVE SUMMARY

Service providers can overcome barriers to revenue growth by improving their customers' lifetime value. And they can achieve this with proactive revenue management.

By fully utilizing customer data that resides in their systems, including billing information, consumption behavior and usage patterns, providers can analyze and shape it into personalized offerings that specifically fit each individual customer's needs and interests. Applications designed and tailored to the revenue management world that have the capability to analyze and recommend next steps include:

- > Price plan optimization – enabling service providers to tailor the best price plan to each individual customer
- > Promotion and top-up optimization – enhancing the effectiveness of prepaid top-up offers
- > Collection optimization – reducing bad debt

By using existing information at the outset and specifically tailoring product and service offerings through revenue management systems, service providers can proactively offer their customers a personalized, relevant experience, and in so doing, improve customer lifetime value, and build loyalty while growing revenues.

INTRODUCTION

At the heart of every service provider's business strategy is the underlying principal of lowering the costs to serve its customers and growing revenues. In the communications, media and entertainment industry, service providers face many challenges when aiming to grow revenues, a challenging task taking into consideration the following barriers:

- > Market stagnation in developed markets leads to fierce competition to attract, retain and maximize revenues from a fixed number of users.
- > Commoditization of services lowers potential income as customers expect a wider baseline of services without paying a premium fee for them.
- > Declining average revenue per user (ARPU) and growing churn rates increase pressure on service providers to develop long term revenue growth strategies and offer innovative services that will enable them to retain and even grow their subscriber base.
- > The financial downturn increased the demand for greater freedom of choice with customers seeking no contract/no commitment service plans and flexible payment methods. This in turn presents challenges to service providers as they need to come up with ways to sustain and grow revenues with customers who are shifting to prepaid consumption patterns.

Increasingly, service providers are recognizing that the way to drive more revenues and protect their home turf is through innovative, highly targeted voice, content and data services that reflect the interests of a diverse user base. Providers are seeking ways to differentiate their services and enhance the customer experience as a means to grow revenues and attract new customers while retaining their existing customers.

But, the growing homogeneity of services offered, the speed of technology innovations and the proliferation of price/service plan options have intensified competition. And customer expectations of value for the price are also on the rise.

To improve the customer experience, service providers must have an in-depth knowledge of their subscriber base and be able to offer their customers a personalized, custom tailored package that matches their needs and desires from the outset. Although the relevant information about customers may reside in their various systems, service providers don't yet have the ability to gather all this information into clear and actionable insights that will enable the intentional customer experience™ and assist them in retaining customers.

This white paper will discuss different ways to *proactively* engage customers based on actionable insights harnessed from data that resides within the billing systems and will demonstrate possible processes and workflows to enable such an engagement.

no contracts. no credit checks. no hidden fees.

MONTHLY unlimited

\$50
/month

- > Unlimited talk
- > Unlimited text
- > Unlimited web
- > Unlimited walkie-talkie

[Learn more](#)

DAILY chat & text

\$1
/day

- > Unlimited text messaging
- > Unlimited nights, weekends, mobile-to-mobile
- > \$1/day nationwide walkie-talkie
- > 10¢/daytime minutes

[Learn more](#)

MINUTE pay as you go

10¢
/minute

- > 10¢/minute talk
- > 10¢/text (to send or receive)
- > \$1/day unlimited nationwide walkie-talkie

[Learn more](#)

REACTING TO A POOR CUSTOMER EXPERIENCE IS TOO LATE AND LEADS TO CHURN

Customers are not a homogenous crowd. They have different interests, different requirements from their service providers, and expect to be offered a package or a service that fits their specific consumption behavior. Offering several generic packages might be easier for the service provider but in the long run will contribute to a bad customer experience that might very well lead to churn.

A good example is recent research by Booz Allen & Hamilton Analysis that examined the reasons for customer churn and indicated that one of the main reasons for churn revolves around the cost and relevancy of the subscriber's price plan. Price plans that don't fit customers' requirements to begin with affect the customer experience and can lead them to churn. Furthermore, changing customers' price plans is done reactively based on the customer's initiation and creates a retention challenge for service providers as they need to quickly identify a suitable plan during the short time period of the call.

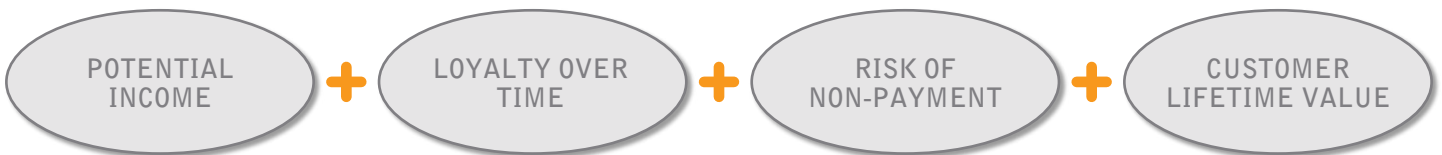
Figures show that approximately five percent of a service provider's customer base initiates a change in price plans every month and more than 50 percent of customers reported difficulty in understanding whether the plans and options they have were the best fit for them. An astounding figure of over 60 percent of this total called into the call center to engage a service representative in detailed discussions regarding plan options. With this in mind, let's examine how a service provider can overcome these challenges by focusing on the customer lifetime value.

OVERCOMING THE BARRIERS WITH CUSTOMER LIFETIME VALUE

Service providers can overcome these barriers to revenue growth by increasing and optimizing the **lifetime value** of their existing customers. By better utilizing existing information on customers' billing data, consumption behavior and usage patterns to analyze and understand their customers over the course of their lifetime, service providers can *proactively* offer customers a personalized, relevant experience and grow revenues while building loyalty.

WHAT IS CUSTOMER LIFETIME VALUE?

In short, customer lifetime value calculates the value of potential cash flows of a specific customer – the higher the lifetime value of a customer, the higher the long term profits a service provider can expect from this subscriber. It's made up of various elements that contribute to its bottom line – elements such as potential profit over time, loyalty over time, risk of the subscriber not paying, etc. The various customer lifetime value components look like this:



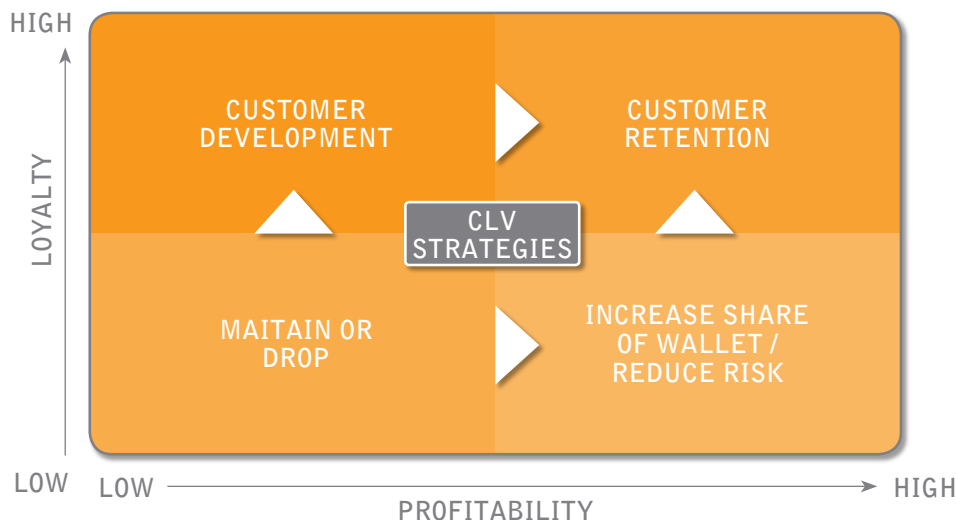
PROACTIVE REVENUE MANAGEMENT INCREASES CUSTOMER LIFETIME VALUE

A proactive approach to revenue management involves creating and deploying applications geared to enhancing both customer loyalty and profitability. From price plan optimization (enabling service providers to tailor the best price plan to each individual customer), to promotion optimization applications (that enhance the effectiveness of prepaid top-up offers), to collection optimization applications (that reduce the bad debt factor), proactive revenue management applications play a major part in increasing revenue streams.

Here's an example: 28 percent of customers churn due to the wrong type of price plan for them (Booze & Hamilton). But with proactive revenue management, the service provider can now **ACT RATHER THAN REACT** – the system reviews the entire subscriber base,

analyzing billing data, consumption behavior and usage patterns to identify the best plans to offer each individual customer, even if they're prepaid. And by proactively contacting the customer with these personalized offers before the prepaid credit runs out, service providers impact both loyalty and revenues.

Once the lifetime value is calculated for each and every customer, service providers can develop different lifetime value strategies that aim at increasing loyalty and profitability. Based on the location of a customer in the matrix below, providers can employ those strategies to move the customer to a more suitable section.



So the question is how can service providers better utilize their revenue management systems to increase their customers' lifetime value? The answer lies in their ability to fully use the billing information residing in the system, analyze it and shape it into personalized offerings that fit the customers' needs and requirements. This in turn enhances both customer loyalty and profitability in the long term and hence increases the customer's lifetime value. One of the strongest approaches to such an effort is to use analytic applications designed and tailored to the revenue management world and that have the capabilities of analyzing and recommending the next steps based on that information. Although there are many possible applications, the three main applications are price plan optimization; promotion and top-up optimization; and collection optimization.

Price Plan Optimization:

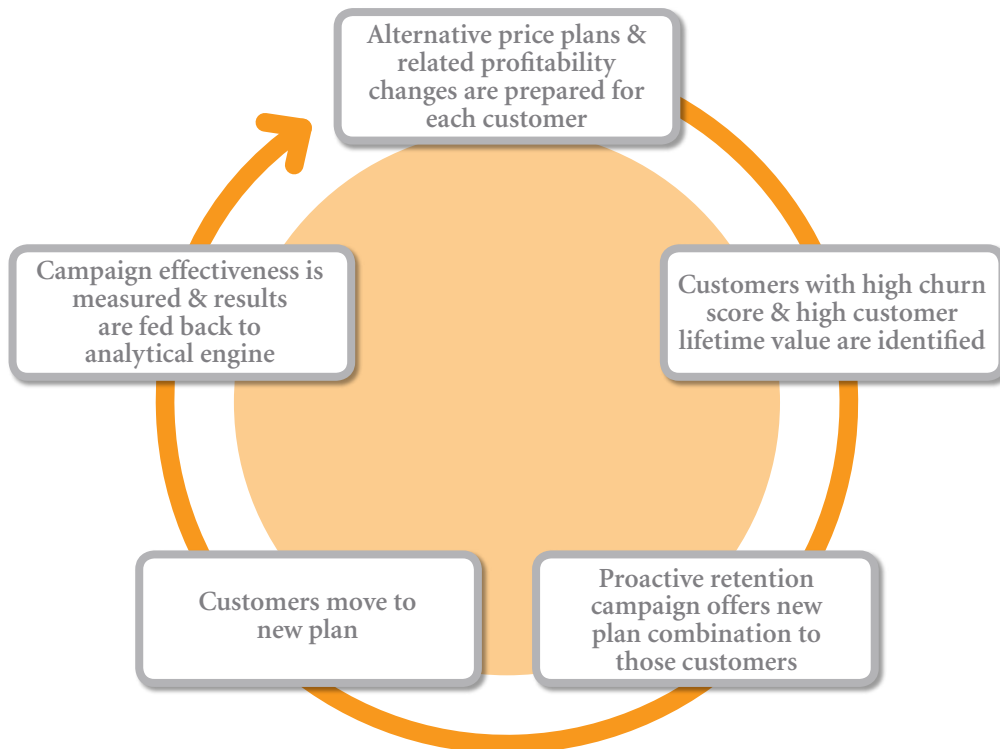
Price plan optimization enables service providers to harness the customer information that resides in the various systems, identify the most suitable price plans for each customer and move from traditional reactive retention strategies into a proactive engagement of the customer. It supports multiple lines of business; dynamic, near real-time needs; and empowers business users to manage the analytic process with less reliance on IT as the information is readily available to them.

The price plan optimization application performs an in-depth analysis that generates insight into the most suitable price plans for a specific customer based on usage patterns, demographics, eligibility rules, lifestyle interests and any other information that resides in the service provider's systems.

STRATEGY	USE IT TO INCREASE	RM SOLUTION
Customer Development Customer Retention	Loyalty Profitability	Price Plan Optimization
Increase share of wallet	Loyalty Profitability	Promotion Optimization
Reduce risk of non-payment	Loyalty Profitability	Collection Optimization

Providers harness this information to develop proactive campaigns that reach out to customers and improve the customer experience. By offering personalized plans that are tailored to each customer in advance, providers circumvent calls into the contact center asking for price plan changes and impact churn.

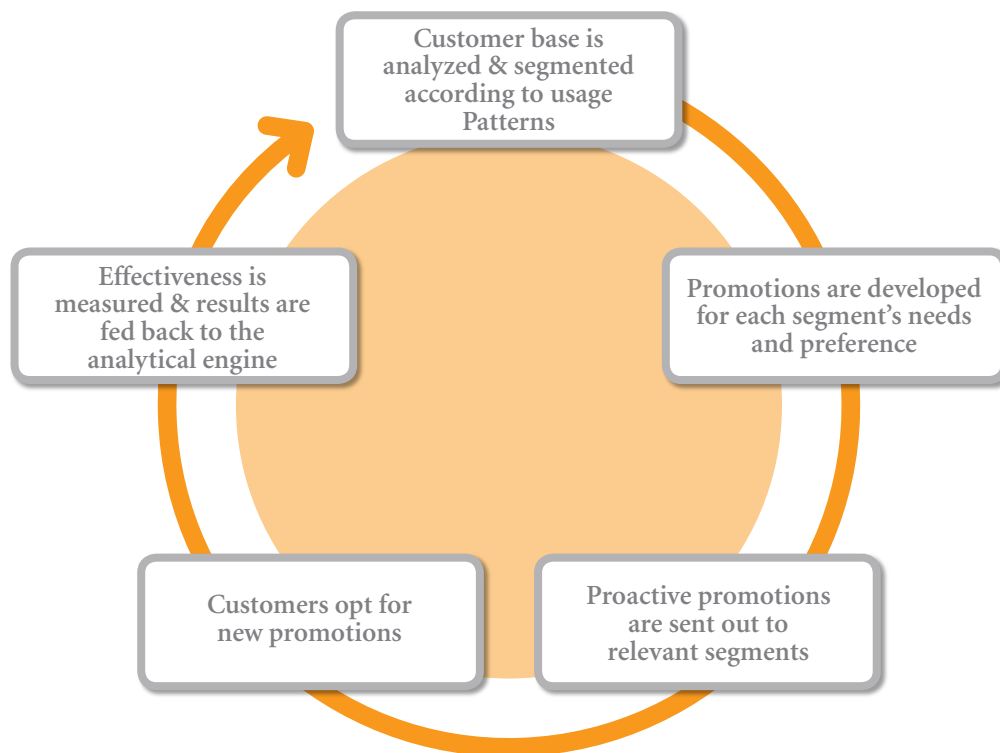
Price plan optimization enhances the customer experience by proactively offering the right products in advance to the right customers; reduces churn that generates greater customer lifetime value and revenues; and increases the productivity of customer touch points with better precision and accuracy of service offers that save valuable call center time.



Promotion and Top-Up Optimization:

Customers have different needs and willingness to pay for different services and so the ability to proactively offer tailored promotions to targeted customer segments such as gamers, video users, professionals, etc. becomes crucial in the effort to increase revenues. Service providers try to avoid blanket promotions at all costs as the effectiveness of these promotions is limited and sometimes even contributes to lowering the profitability from a specific campaign. This challenge intensifies when dealing with the prepaid subscriber population as the general assumption is that it's difficult to get to know your prepaid customers' consumption behavior. In fact, prepaid usage data resides in the rating and billing systems and service providers can leverage this data to analyze prepaid customer behavior and interests and then proactively target customers with personalized top-up promotions. This improves the lifetime value of prepaid customers. Moving to a more personalized promotion strategy shortens the time between top-ups (as the customer consumes more services) and increases the top-up amount that customers are adding.

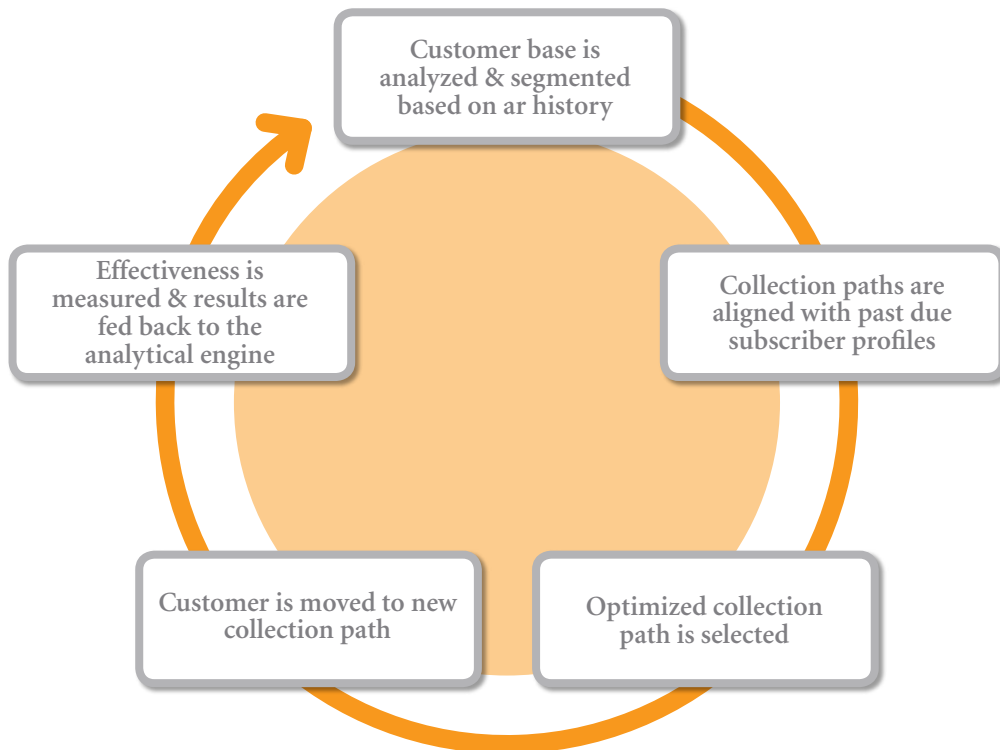
A top-up process based on proactive revenue management is described in the diagram below:



Collection Optimization:

According to various research, collection processes still present a challenge to service providers. Bad debt varies from one to five percent of revenues (B/OSS research), 50-70 percent of fraud is hidden as “bad debt” (Gartner) and annual losses total over \$55-60 billion worldwide (CFCA). This calls for a re-examination of the collections strategies that service providers employ today. The logic of tailoring a personalized price plan or a promotion to a customer can be applied in this case as well. Service providers fit collection strategies to specific customer profiles and avoid generic collection strategies of “one size fits all” where applicable. They optimize collection strategies to better fit customer behavior and align with their paying habits. For example, if a customer always pays two days after notice has expired, the provider starts the collection process two days earlier. Or if a customer pays only after a customer service representative calls, the provider starts with a phone call and skips the first stages of mail notices. This in turn helps to improve collection ratios and contributes to improving the bottom line as fewer cases are declared as lost revenues.

The proactive revenue management collection process is detailed in the diagram below:



BILLING SYSTEM REQUIREMENTS FOR PROACTIVE REVENUE MANAGEMENT

So what billing capabilities do proactive revenue management applications need? Several important capabilities need to be in place for these applications to be effective and bring real value to service providers.

Real-time charging and rating capabilities handle immediate responses to predefined thresholds for real-time promotions, top-up notifications, usage limits, etc. The billing system should also support real-time usage accumulators across postpaid and prepaid and across any type of network and service.

Embedded predictive analytics in the billing system enable a true closed loop where information comes from the relevant application and returns to the application for further analysis, enabling service providers to work with actionable analytics and not reporting analytics.

Furthermore, service providers benefit from analytics and data models that were built for the communications, media and entertainment industry and are optimized for analyzing billing and usage data. Convergence is another important capability the billing system should support. A convergent billing system serves as a single point of customer and product definition and as a centralized usage and data repository. It also enables management across all lines of business.

CONCLUSION

Revenue growth can be achieved through optimizing and increasing customer lifetime value, and proactive revenue management applications enable service providers to increase lifetime value by targeting specific segments and customers and offering them a more personalized experience that is tailored to their needs, consumption behavior and usage data.

Amdocs' set of proactive revenue management applications targets different aspects of the service provider environment from price plan optimization to promotion and top-up optimization and collection optimization – and enables service providers to better deal with business challenges such as churn, loyalty and bad debt.

ABOUT AMDOCS

Amdocs is the market leader in customer experience systems innovation, enabling world-leading service providers to deliver an integrated, innovative and *intentional customer experience*[™] at every point of service. Amdocs provides solutions that deliver customer experience excellence, combining the software, services and expertise to help its customers execute their strategies and achieve service, operational and financial excellence.

A global company with revenue of \$3.16 billion in fiscal 2008, Amdocs serves customers in more than 50 countries around the world.

For more information, visit Amdocs at www.amdocs.com.

For the most up-to-date contact information for all Amdocs offices worldwide, please visit our website at www.amdocs.com/corporate.asp

Amdocs has offices, development and support centers worldwide, including sites in:

THE AMERICAS:

BRAZIL
CANADA
MEXICO
UNITED STATES

ASIA PACIFIC:

AUSTRALIA
CHINA
INDIA
JAPAN
THAILAND

EUROPE, MIDDLE EAST & AFRICA:

CYPRUS
CZECH REPUBLIC
FRANCE
GERMANY
HUNGARY
IRELAND
ISRAEL
ITALY
NETHERLANDS
POLAND
RUSSIA

SOUTH AFRICA
SPAIN
SWEDEN
TURKEY
UNITED KINGDOM

