A Study of Customer Retention

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Abstract:
This thesis focuses on the customer retention and is conducted as a case study. The aim of the case study is to determine the most common causes that trigger customers to leave the company. The theoretical framework of the research bases on the pre-existing literature around the customer retention, customer satisfaction, churn management and customer relationship management. Empirical data is collected through a semi-structured focus group interview and a semi-structured in-depth interview. The participants of the focus group represent the core group of customer retention at the case company. The in-depth interviewee is a high-level executive. The choice of the respondents is made carefully in order to choose the most talented persons who possess the widest knowledge of customer retention at the case company. A content analysis is conducted to the primary data and is afterwards combined with the secondary data aiming to form a general understanding of the main causes that make customers to change their provider. The needed practices of churn prevention are established utilizing the findings from the literature review and the interviews. The results show that customer satisfaction and customer retention possess a positive correlation. The research motivates why customer retention is a needed practice for companies to maintain their customer base and increase the value of it. The results endorse the theoretical framework by justifying the usage of customer retention management within the company. The confidentiality of the thesis and its one-company focus limit the research. The thesis is classified and will not be published.

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Tiivistelmä:
Tässä opinnäytetyössä tutkitaan asiakaspysyvyyttä esimerkkiyrityksen kautta. Opinnäytetyön tavoitteena on määrittää pääasialliset syyt, jotka johtavat asiakaspoistumaan. Opinnäytetyön tutkimusosuus on toteutettu laadullisena eli kvalitatiivisena tutkimuksena perustuen niin primääri- kuin sekundääritietoon. Teoriaosuus pohjaa olemassa olevaan kirjallisuuteen seuraavien aiheiden ympäriltä: asiakaspysyvyys (customer retention), asiakastyytyväisyys (customer satisfaction), poistumanesto (churn prevention) ja asiakkuudenhallinta (customer relationship management, CRM). Empiirinen tutkimustieto on peräisin puolistrukturoidusta fokusryhmähaastattelusta ja teemahaastattelusta. Fokusryhmähaastattelun osallistujat edustavat esimerkkiyrityksen ydinosaamista asiakaspysyvyyden osalta. Teemahaastattelu taasen suoritetaan yrityksen korkeatasoiselle johtohenkilölle. Kerätty primääri tutkimustieto analysoidaan sisällönanalyysimenetelmää hyödyntäen. Primäärin ja sekundäärin tutkimustiedon pohjalta muodostetaan yleinen olettamus siitä, miksi asiakkaat vaihtavat palveluntarjoajaa. Tutkimuksen pohjalta selvisi, että asiakastyytyväisyydellä on suuri vaikutus asiakaspysyvyyteen. Opinnäytetyön tulokset puhuvat asiakaspysyvyyden puolesta perustellen sen tärkeyttä osana asiakkuudenhallintaa. Osana opinnäytetyötä on käytetty luottamuksellista materiaalia esimerkkiyrityksestä. Tämän vuoksi opinnäytetyö tullaan salaamaan, eikä sitä julkaista verkossa. Huomioitavaa on myös se, että asiakaspysyvyyttä on tutkittu esimerkkiyrityksen kautta rajaten tutkimuksen perspektiivin yleistä otantaa kapeammaksi.

Avainsanat:	Asiakaspysyvyys, asiakastyytyväisyys, asiakkuudenhallinta, poistumanesto, poistumaneston ennaltaehkäiseminen ja hallinnointi
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FOREWORD

This thesis is a case study of customer retention and examines customer retention activities from the case company's point of view. The case study of customer retention utilizes the primary data collected from the focus group interview and the in-depth interview hereby containing confidential information of the case company's business strategy. The market where the case company acts have a limited number of actors. Thus, the thesis will be sealed and not be published.

Helsinki, 2019

Veera Valtola

INTRODUCTION

The introduction encompasses confidential material. The confidential material is deleted in this version.

1.1 Background

A successful business strategy today is not only developing cost-effective and highly targeted ways to reach out the new customers, it is more about keeping the existing customers engaged in the company. It has been acknowledged that bringing in new customers is expensive (Ang & Buttle, 2006). Investment in the acquisition of new customers is six times higher than investing in existing customers (Raab et al., 2010). Increased performance in customer retention practices, on the other hand, has been found to create five times more impact than a similar amount of discount or cost of the capital, leading into the more profitable customer relationship. (Ang & Buttle, 2006.)

The situation in the market has changed, and the competition has become tougher. Customers have the luxury to choose between many providers. The increasing number of actors in the market has caused a rise in the significance and relevance of customer retention (Raab et al., 2010). Ang and Buttle (2006) have stated that the planning of a customer retention process is essential in order to achieve the desired level of outcome which is determined in the modern management literature. Although, the development of the customer retention process still is a rather unknown concept due to the lack of research in this specific field. The limited research around the metrics and segments of the customer retention processes has turned out to be the root cause for the problematic implementation of customer retention on companies' business strategies. (Ang & Buttle, 2006.)

Overall, customer retention has been recognized to be an effective way to lower the maintenance costs per se and yield economic benefits (Ang & Buttle, 2006). Progress in retention activities enables the growth in revenue more cost-efficiently than in the acquisition of new customers (Artun & Levin, 2015).

1.2 Research aim & questions

The aim of the thesis and the case company is to determine the most common causes that trigger customers to leave the company.

A qualitative research method is chosen for the thesis. It utilizes a focus group and an in-depth interview as the methods for the primary data collection. Both the focus group interview technique and in-depth interview technique represent the exploratory research design. The data received from the literature review is combined with the empirical data collected from the focus group and in-depth interviews.

The thesis focuses on determining the main factors that trigger the lust for leaving the company in its customer base. There will be both positive and negative challenges identified in the thesis and thus, leading to the research questions:

RQ1. What makes customers to leave the case company or to change the provider?
RQ2. How to prevent customer churn in the case company?

1.3 Limitations

The thesis is conducted as a case study by basing its findings and results on a specific area where the case company operates. For the competitive advantage reason, parts that include confidential information are hidden from another version of the thesis.

Empirical data received from the interview and the focus group is not suitable for generalized usage due to its focused, one company orientation.

A customer retention specific angle has been chosen for this thesis and it was decided to look at the concept from a certain company's point of view. Due to the specific company focus with the research aim, the results and the final discussion around the topic have classified as confidential. There will be two versions of the thesis made: an original one and censored one, this representing the censored one.

1.4 Structure

The thesis follows the IMRD structure; **Introduction**, **Literature Review**, **Methods**, **Results**, and **Discussion**.

The introduction motivates the chosen topic by deep diving into previous literature around the topic, its relevance and historical point of view. It presents the stated research problem and awakens the interest of the reader by presenting the research aim and questions together with the agenda of the thesis.

The methodical chapter addresses the adopted methods of the thesis. It dives into aspects of customer retention by combining the theory and empirical findings.

Results are presented in the results chapter. Answers to the research questions are provided in the result chapter as well. The identified key factors are determined by analyzing the insights collected from the focus group interview and the in-depth interview.

Discussion of the results and the insights received from the qualitative research is conducted in the last chapter. The reached satisfaction level of success is evaluated in the discussion chapter.

2 LITERATURE REVIEW

Customer acquisition, customer retention and customer development are the three elements that form a customer lifecycle. A customer is acquired into the company as a part of reaching the ambition to grow the business. Acquired customers form the base of customer retention – without any customers, there is no churn to prevent or value to enhance. (Buttle, 2009.)

2.1 Customer retention

Customer retention refers to the actions that are done in order to keep the customer relationship alive and retain the profitability of the customer (Peppers & Rogers, 2011). Buttle (2009) determines customer retention as "[…] the maintenance of continuous trading relationships with customers over a long-term."

Customer retention locates itself between customer satisfaction and customer value (Figure 1.). Company eagers to keep satisfied customers and grow their value (Raab et al., 2010).

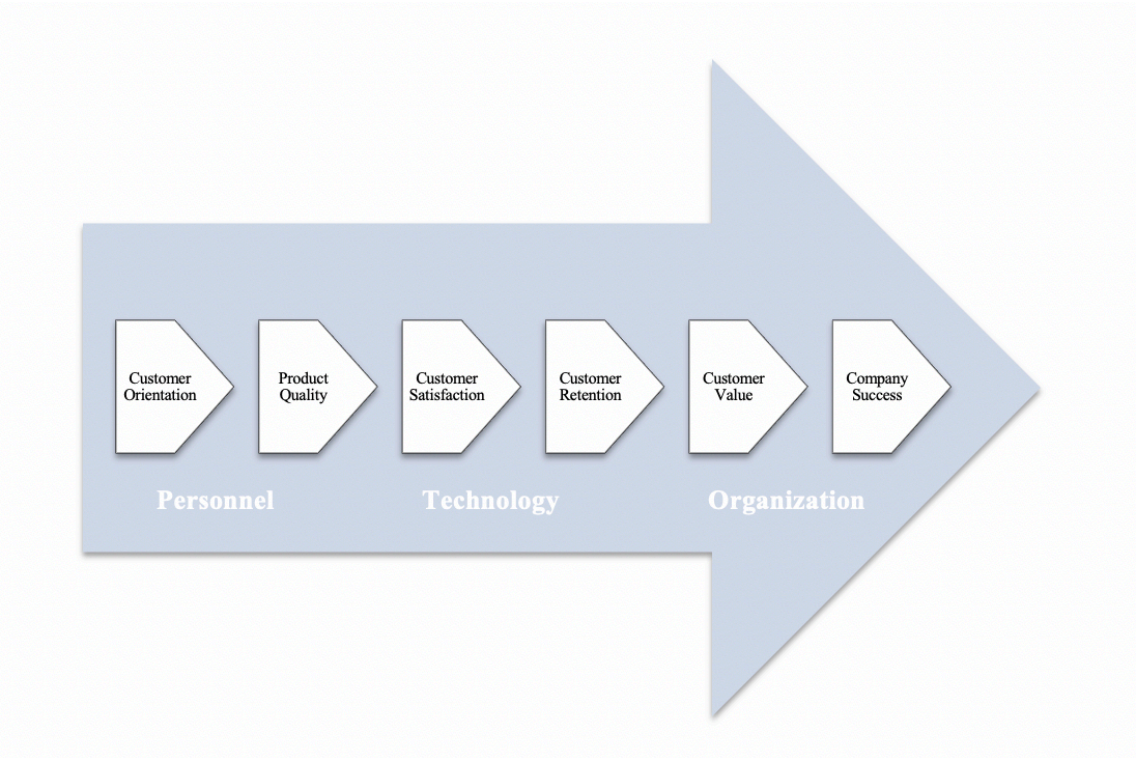

Figure 1. Origination of the concept and relevance of customer retention, author's elaboration, (Raab et al., 2010, p. 79).

A customer lifecycle is divided into three elements where the customer retention forms the body of it (Buttle, 2009). There are three segments stated in figure 2, as presented by Peppers and Rogers (2011): retaining profitability, winning-backs and diminishing unprofitability. These are the actions towards a valuable customer base. The valuable customer base is correlating with the success of the company (Peppers & Rogers, 2011).

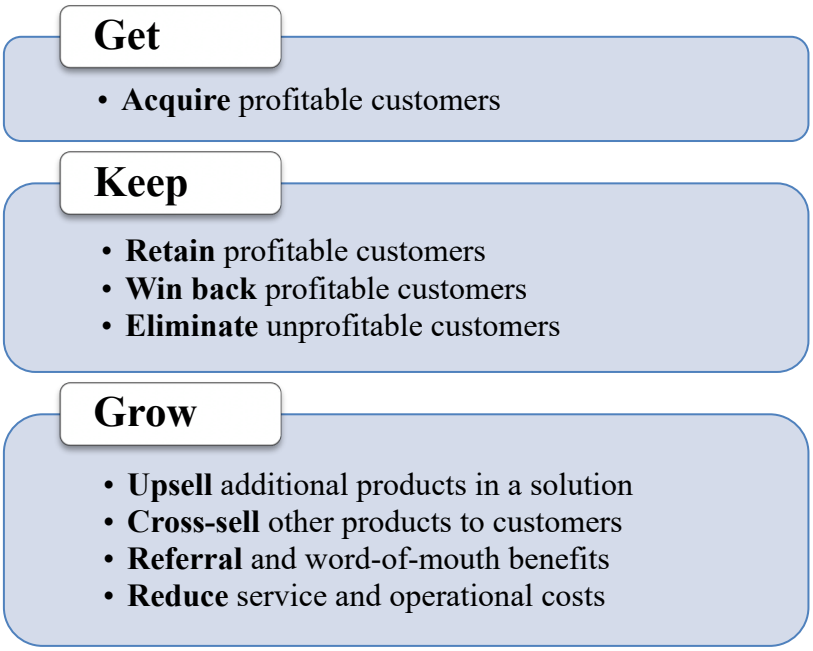

Figure 2. Origination of the figure of Increasing the Value of the Customer Base, author's own elaboration, (Peppers & Rogers, 2011, p. 5).

Managing customer retention is divided into three parts: retained customers, at-risk customers and lost customers. The protocol of how to handle and the management plan for each of these customer groups differ. (Griffin & Lowenstein, 2001.)

Retained customers keep on re-purchasing, acquiring the new services and referring the services to their inner circle compared to the other customers (Griffin & Lowenstein, 2001; Peppers & Rogers, 2011). However, once retained customers tend to, at some point, show indicators of churning. The activity of the retained customers is monitored and nurtured to lengthen the customer relationship. At-risk customers are red-flagged as a separate group where the re-activation programs are executed in order to stabilize the endangered relationship. (Griffin & Lowenstein, 2001.)

The lost customer has either silently churned without notifying the company or terminated their customership with the company. These lost customers are evaluated based on their future value to the company. The unprofitable ones are left to churn, and the potential ones are moved to the win-back program. (Griffin & Lowenstein, 2001.)

The methods of managing the different customer groups within the customer retention are looked closely at in chapters 2.5 and 2.6.

2.1.1 Profitability

The profitability of the company reflects its success in the customer relationship matters. Even though a longer customer relationship is more desirable and, in most cases, more beneficial to the stakeholders, the profitability of the customer should be evaluated. (Peppers & Rogers, 2011.) Losing the right customers, the profit the stakeholders make will be increased (Buttle, 2009).

Being able to identify the customers that cost more to the company than they generate answers to the question of why customer retention practices are considered and executed in companies. Creating a relationship that is long-lasting and generates profit to the company, the costs of marketing reduces, and the stakeholders receive better customer insights and lifetime value is created between the company and its customer. (Buttle, 2009.)

	Year 1	Year 2	Year 3
Revenue			
Orders per year	3	5	7
× Average order value	$576	$625	$650
= Total revenue	$1,728	$3,125	$4,550
Costs			
Direct cost	$1,209	$2,031	$3,185
	(70%)	(65%)	(70%)
+ Acquisition cost	$864		
	(50%)		
+ Retention cost		$312	$455
		(10%)	(10%)
= Total costs	$2,073	$2,343	$3,640
Profit			
Gross profit	$(345)	$782	$910
Cumulative lifetime value	$0	$437*	$1,347*

*These figures do not reflect net present value.
Source: Adapted from A. M. Hughes, "Lifetime Value in Business-to-Business Marketing," *CRM Journal,* n.d., *1*(1), 16.

Table 1. Customer lifetime value calculation (Griffin & Lowenstein, 2001, p. 45).

By calculating the customer lifetime value, the company can estimate the profitability of each customer. In bigger companies, this is more complex than in smaller companies. Table 1 is a demonstration of an example company's calculation of its customer profitability. The calculation of the lifetime value of the customer can be calculated using the model from the table 1.

Figure 3 on the other hand, illustrates the effect customer retention has on the customer base and the lower churn rate on the profitability. Company A successes to engage the customers and hold the churn rate at five percent. Company B has a double as much customers churning as Company A has. Both companies invest equally in the acquisition of new customers. After the period of five years, Company A has managed to increase its customer base while Company B has actually had a decrease in their customer base. Company A has thus succeeded to increase the profitability *per se.*

Year	Company A (5% churn)			Company B (10% churn)		
	Existing customers	New customers	Total customer base	Existing customers	New customers	Total customer base
2001	1000	100	1100	1000	100	1100
2002	1045	100	1145	990	100	1090
2003	1088	100	1188	981	100	1081
2004	1129	100	1229	973	100	1073
2005	1168	100	1268	966	100	1066

Figure 3. The effect of customer retention on customer numbers (Buttle, 2009, p. 31).

Peppers and Rogers (2011) refer to research conducted by Fred Reichheld and W. Earl Sasser (1990) by listing four factors that have an influence on profit growth among customers:

- **Increased purchases.** Customers' businesses are developing and growing. The need for a larger amount of purchases has raised.
- **Reduced operational costs.** Customers learn the way interaction between supplier and purchaser works which leads to fewer demands and fewer unordinary requests.
- **Customer referrals.** Positive word-of-mouth increases by which the costs spent on marketing and advertising are reduced.
- **Premium price.** No discount desired by the long-term customers, more likely to pay the list price. (Peppers & Rogers, 2011.)

All in all, the increase in profitability per customer is a sum of various factors. The way the customers' business is doing has a straight impact on the rise of profitability. The measurement that calculates whether the investment put into the customer relationship is being worth is the **return on investment** (ROI). (Bolton, 2016; Peppers & Rogers, 2011.) Managing the cause-and-effect relationship in the acquisition and retention activities and the win-back campaign in order to re-acquire the lost high-value customers, the maximum return on investment is reached (Griffin & Lowenstein, 2001).

Peppers and Rogers (2011) remove the customer attrition from the return on investment by resulting to **return on customer** (ROC). Return on customer measures the level of success in managing customer value – and increasing it. Peppers & Rogers (2011) argue that the total shareholder return equals a return on the customer;

> " Return on Customer (ROC) equals a company's current-period cash flow, plus the change in its discounted cash flow value during the period, expressed as a percentage of its beginning discounted cash flow value." (Peppers & Rogers, 2011.)

2.2 Customer churn

Peppers and Rogers (2011) define customer churn as "[…] The rate at which customers leave and enter the franchise.". It is essential to understand the reasons and triggers that make customers leave the company in order to be able to develop strategies against it (Kumar & Petersen, 2012).

Causes for customer churn should be looked through the requirements of customers' satisfaction and commitment in order to know why customers stay committed to the company. Customer satisfaction comprises the understanding of expectations, wants, needs and desires that customers possess. The level of standard that the customer is expecting to receive as a customer at a company is defined by a should factor. The affecting components that underlie behind the should factor are:

- **Personal needs.** An individual level of standard has an influence on one's expectations.
- **Extent of experience.** One's previous experiences effect on the level of expectation.
- **Direct communication regarding the customer service of the company.** One visualizes the level of provided service as a result of expectations that are formed in direct communication.
- **Indirect communication regarding the customer service of the company.** One's expected level of service obtained via indirect communication such as word-of-mouth or competitor service. (Raab et al., 2010.)

The **is factor** illustrates the perceived experiences – a decision whether the expectations are or are not fulfilled. Figure 4 illustrates the relationship between the **should** and **is factor**. Customer satisfaction is on the desired level when the customer's individual expectations are exceeded by the company. When expectations are not met, the customer is found to be disappointed and the ambition of the company is not reached. If the company ends up in a situation where the **should factor** equals the **is factor**, the level of commitment is most likely the decisive element. (Raab et al., 2010.)

Should < Is	⇒	Convinced Customer
Should = Is	⇒	Ostensibly Satisfied Customer
Should > Is	⇒	Dissapointed Customer

Figure 4. Origination of customer satisfaction, enhanced by author, (Raab et al., 2010, p. 61).

Causes of commitment are categorized into five sections:

- **Situational.** The geographical reason such as the location of the service provider influence on the level of commitment.
- **Contractual.** Legal obligations effect on commitment.

- **Economical.** A financial matter has a strong connection to commitment.
- **Technical or functional.** The technical and functional aspects have a strong connection to the level of commitment.
- **Psychological.** An emotional relationship is developed under time and has an effect on the level of commitment (Raab et al., 2010).

The relationship between the company and the customer starts to break when the actual selection of the company begins to mismatch with the wants, desires and needs of the customer (figure 4.). Figure 4 pulls together the relation that customer satisfaction and customer churn have. By investigating the reasons behind customer satisfaction and commitment the triggers leading to churn can be determined.

2.2.1 Causes of customer churn

Satisfying level of customer retention is achieved in many ways (Raab et al., 2010). Customers are also lost in many ways (Buttle, 2009). Too often the root causes of customer churn are not clear enough which lead to insufficient retention strategies (Payne, 2005).

Raab et al. (2010) divide the tools for keeping the customer in four: product, price, communication and distribution. The lack of commitment leads to high risk of churning. Thus, the reason for churning base on the root causes of commitment. (Raab et al., 2010.) Buttle (2009) on the other hand, defines the causes for leaving the company using Keaveney's (1995) eight factors: price, inconvenience, core service failures, customer service failure, ethical problems, involuntary factors, competitive issues and general service problems.

- **Product quality.** The quality of the product makes customers commit, the lack of it makes customers quit. Figure 5 describes the requirements of productional level through which customers are committed to the company. Errors in core services (Buttle, 2009) and lack of value-added services or to be unable to fulfill individual technical or functional aspects represent some of the main reasons for customers to consider leaving the company (Raab et al., 2010).

- **Pricing.** The price of the product or service is one of the most common churning reasons (Raab et al., 2010). The lack of loyalty and investment into the relationship with the supply company, the price increase turns to a reason for churn (Payne, 2005).

- **Communication.** Lack of personalized communication from company's side isolates customer from the company. This causes dissatisfaction among customers and leads to a higher risk of churning. (Raab et al., 2010.) The wrong type or unordered communication (Peppers & Rogers, 2011), as well as service errors (Buttle, 2009), lowers the level of customer satisfaction by pulling company and its customer widely apart leading to exit.

- **Distribution.** Lack of convenience (Buttle, 2009) and easiness in delivery and repurchasing should be considered as a cause of churn (Raab et al., 2010).

Figure 5 illustrates the tools of higher commitment. Naturally, the lack or strong mismatch in some or many of the sections lead to a higher risk of churning.

Primary Effect / Tool Category	Focus Interaction	Focus Satisfaction	Focus Barriers to Change
Product Policy	• Joint Product Development • Internalization/ Externalization	• Individual Offers • Quality Standards • Service Standards • Additional Services • Special Product Design	• Individual Technical Standards • Value Added Service
Price Policy	• Customer Cards (Raising Level of Information)	• Price Guarantees • Satisfaction-Dependent Pricing Systems	• Discount and Bonus Systems • Price Differentiation • Price Bundling • Financial Incentives • Customer Cards (Granting Discounts)
Communication Policy	• Direct Mail • Event Marketing • Online Marketing • Proactive Customer Contacts • Service Numbers • Customer Forums/Advisors	• Customer Clubs • Customer Magazines • Telemarketing • Complaint Management • Personal Communication	• Individualized Mailings (High Value for the Customer) • Establishment of Customer Specific Channels of Communication
Distribution Policy	• Internet/Lotteries • Product Sampling • Visits to the Workshop	• Online Ordering • Catalogue Sales • Direct Delivery	• Subscriptions • Customer-Oriented Choice of Location

Figure 5. Tools of customer commitment (Raab et al., 2010, p. 86).

Separating customer retention and customer attrition is essential when identifying the causes of customer churn. The identification of the churn reasons is vital for the regulation of funds targeted on the re-activation of the customers. (Peppers & Rogers, 2011.)

In order to fully understand the causes of churn, customer's segment needs to be looked. The churn rate for new customers is almost exceptionally higher that more the churn rate of committed customers. (Artun & Levin, 2015.) At the end of the customer lifecycle, the customer attrition forms the larger part of the churn rate. Customer attrition refers to the outside circumstances that cause the loss. Peppers and Rogers (2011) define the natural loss causes as following:

- **Bankruptcy.** A loss is caused by bankruptcy.
- **Retirement.** A loss is caused by retirement.
- **Location change.** A loss is caused by locational change.

Value migration, as Artun and Levin (2015) describe it, is a cause of churn as well. Customer simply starts to use less money to the service, the company provides. The decline in money used on the purchases reflects with directly with the descending of the total revenue. The value migration might occur through the churn rate has been still. (Artun & Levin, 2015.)

2.2.2 Switching

Switching is one of the churn reasons that companies can proactively influence.

Strategic switching is a form of switching where customers change the provider hoping to get a better deal. This segment of customers might be acquired several times as new customers to the same company. (Buttle, 2009.)

Conversion model is a battery of questions that are designed by John Hofmeyr. The purpose of the conversion model is to identify the likelihood of switching. Level of commitment is divided in two: committed and uncommitted customers. (Buttle, 2009.)

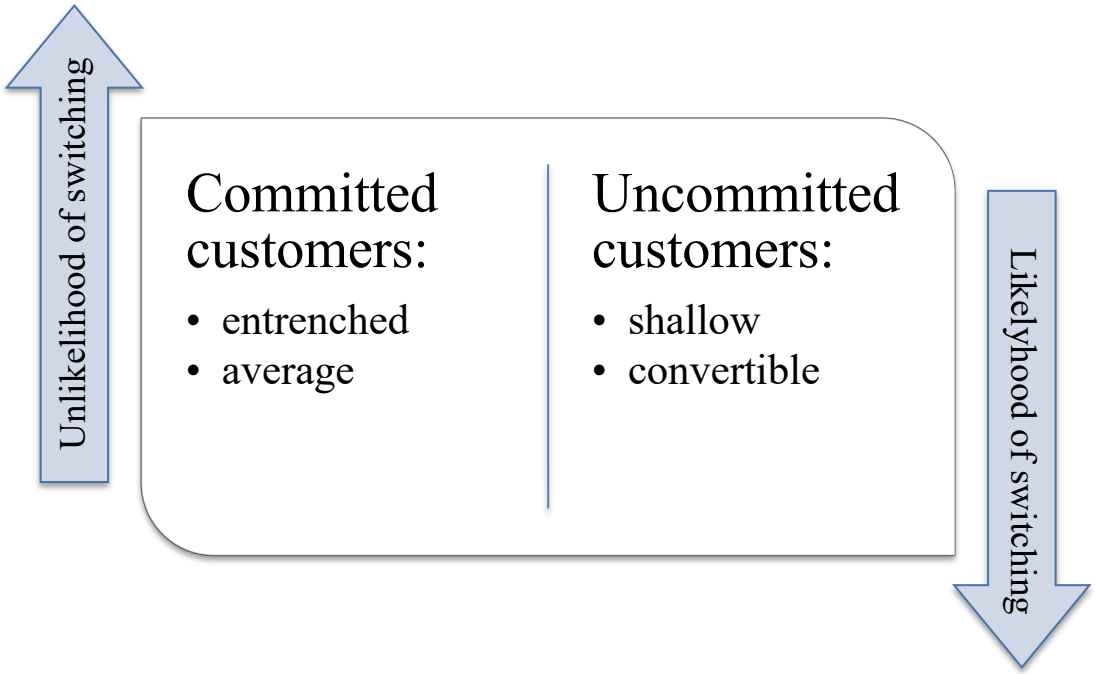

Figure 6. Illustration of the conversion models, (author's own elaboration, 2019).

Figure 6 illustrates the likelihood of switching according to the Hofmeyr's conversion model. Customers whose roots are grounded fully in the company are unlike to switch to another provider. For entrenched customers, the future relationship with the company is anticipatable, for average customers, the short-term relationship is secure and the tendency to change the provider might occur in a longer run. Shallow customers are probably considering other alternatives already and hardly committed to the existing service provider. Convertible customers are as good as defected customers. (Buttle, 2009.)

2.3 Churn prediction

Churn prediction refers to detecting warning signs at the early stage. Hofmeyr's conversion model is an excellent tool to divide the customers by their segments and analyze the possibility of leaving the company. A tendency for strategic switching is a common warning sign among price-conscious customers. (Buttle, 2009.)

Griffin and Lowenstein (2001) list the stages in the path to customer loss in three:

- **Breakdown in value.** An unfulfillment of expectations exceeds which lead to a breakdown in value. The tolerance customers possess is individual. The should and is factors presented by Raab et al. (2010) describe the level where the customer satisfaction lies compared to the expectations set by the customer. A value breakdown that leads to a higher probability of customer loss has exceeded the individual tolerance of the customer (Griffin & Lowenstein, 2001).
- **Dissatisfaction phase.** After experiencing the unfulfillment in value, the customer starts silently fade further from the company. The relationship weakens which is seen as a descending in the customer's base activity.
- **Termination.** The loss is inevitable. The customer is moved to the win-back list after complete termination of the relationship.

Predicting the churn in advance helps out with the prevention tasks. Predicting the churn bases on the gathered information of the customer base. By evaluating the changes that happen in the customer base, the company can assess the likelihood of churning customer by customer. The measures besides, the revenue the customer is producing, including following up the frequencies of purchases, spending levels, problem or billing related customer service contacts and contractual matters such as binding time. When the measures relevant to the industry are followed and analyzed within the company, the churn indicators are distinguished. Churn prevention is enabled after the right measurements are specified. (Griffin & Lowenstein, 2001.)

2.4 Churn prevention

Churn prevention is essential to companies in order to keep their customers from switching to another provider. To figure out how to prevent churn from happening, the point of view is being pointed to the direction of the reasons where the churn originates. In this chapter, we look the ways of churn prevention from four different angles: lifetime value, price, product and communication.

2.4.1 Lifetime value

One of the ways of churn prevention is to focus more on customer lifetime value (LTV), and through that, targeted strategies. Peppers and Rogers (2011) define the customer lifetime value as;

> "[…] the net present value of the expected future stream of financial contributions from the customer.".

Buttle (2009) on the other hand summarizes customer lifetime value as;

> ” Lifetime value is the present day value of all net margins earned from a relationship with a customer, customer segment or cohort.”.

Customer value matrix divides customers into four segments based on the actual value and potential, also called hidden value. Having a functional retention strategy to the **most valuable customers** is essential. These most valuable customers are already the most profitable ones but still possess a lot of unrealized potential. (Peppers & Rogers, 2011.)

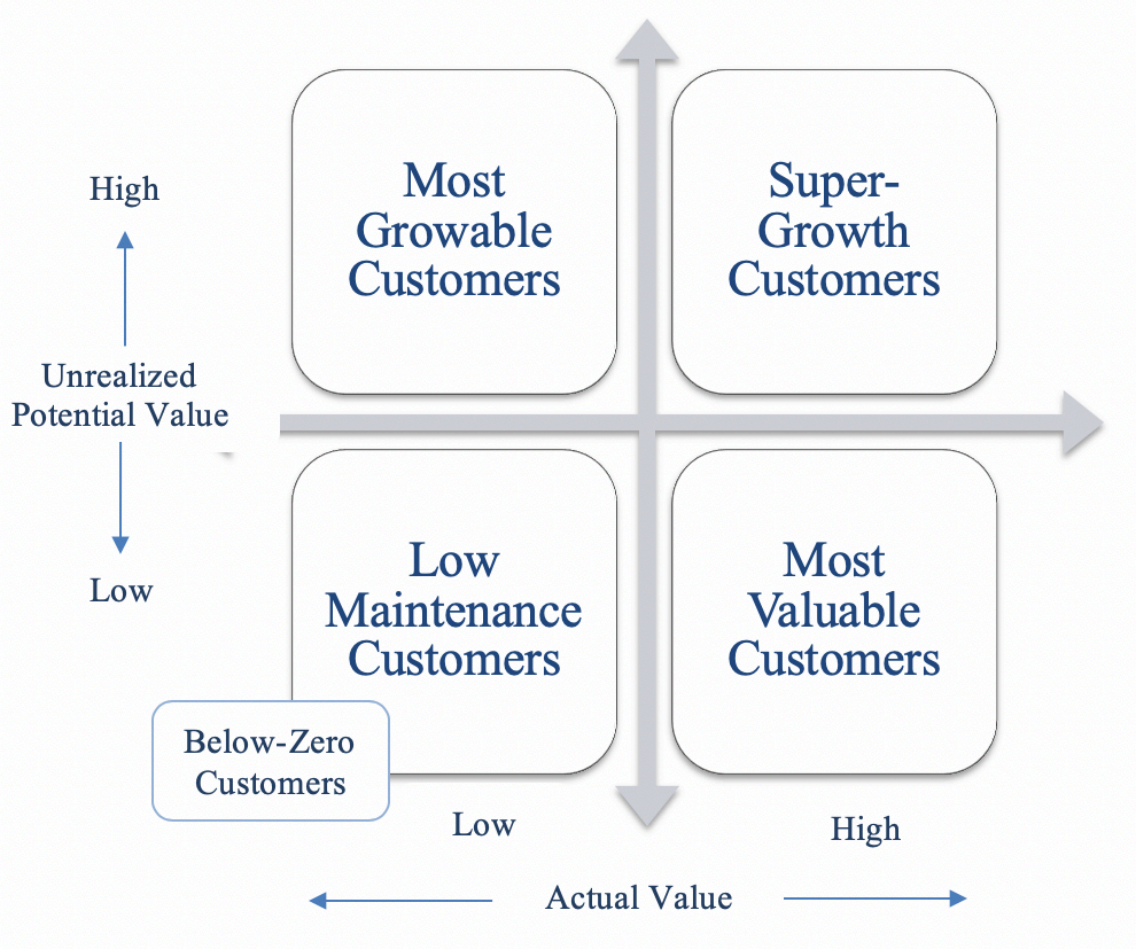

Figure 7. Origination of the customer value matrix, author’s own elaboration, (Peppers & Rogers, 2011, p. 139).

Most growable customers, located high in the potential value axis, are the customers whose value has not yet been realized which is seen as the low actual value in figure 8. These are often customers who do business partially with you, but the larger potential lies at competitors. A financial target for the company would be to acquire the most growable customers to itself fully through which, moving them to the group of the most valuable customers. (Peppers & Rogers, 2011.)

Low maintenance customers are profitable for the company even though the actual value they produce is significantly smaller compared to the most valuable customers. In order to retain the low maintenance customers, the company should focus its energy to optimize the channels and probably even automatize them. (Peppers & Rogers, 2011.)

Super-growth customers are customers that possess such a value that they are wanted everywhere, and they know it. Often, they are the super-growers who purchase with an increasing pace but are unwilling to pay the full price. Instead of paying the asked price,

they push the margins down and expect that from the provider. Using lots of effort in retaining the super-growers should not be the case. Prioritizing instead to capitalize the super-grower completely. (Peppers & Rogers, 2011.)

There are unprofitable customers found in the customer base of each and every company. Peppers and Rogers (2011) categorize them as **below-zero customers**. The expenses they generate are either higher or equal than the revenue. Hereby, no retention policy is lucrative to target these customers unless they are turned to be profitable. If not, the below-zero customers should be guided gently to another provider in order to increase the revenue. (Peppers & Rogers, 2011.)

Retaining all of the customers is desirable but unfortunately rather impossible. Focusing the churn prevention actions to the most valuable customers is a smart move – these customers profit the most and hereby, create the foundation of the company's finance. (Peppers & Rogers, 2011.) Determining customer value is a result of several factors within the cost-to-serve. These include sales costs, marketing costs, it costs and the competitive response. (Griffin & Lowenstein, 2001.) By categorizing and determining the customers according to the potential and earning capacity they possess and other influential factors, churn prevention can be targeted on the right customer segment. By knowing your customers, keeping them becomes easier and more cost-efficient.

2.4.2 Price

Price is an important part of customer satisfaction and has an enormous effect on customers. Basically, all of the customers favor the lower prices when the product or service is otherwise similar. The price of the product or the service is linked to its quality. The higher the price, the more qualitative the product or the service is. (Bolton, 2016.)

The customer considers the fairness of the price and what the price holds within. The quality of the product and the price are compared with the subjective idea of the volume of the effort, such as manufacturing or designing, that have used when making the product. In other words, the premium price is accepted when the service itself includes value-additional elements and the price is seen as a fair compensation of the usage of the product or the service. Discounts in price are considered as appropriate and suitable when the purchase is seen as a notable expression of trust to purchase in such a high volume or to pre-pay the purchase. (Bolton, 2016.)

Unsatisfied customers are more price sensitive than satisfied customers. If the customer feels that the product or the service does not match the price he pays, becomes the price an issue. Hereby, it can be summarized that in order not to end up discussing the price with the customer, the price needs to match with the service or product on the subjective level of company's customers. (Raab et al., 2010.) For the satisfied customer, the satisfaction works as an insulator against the price-competitive competitors (Bolton, 2016).

2.4.3 Product

Product quality has an effect on the fact of whether the customers are retained or not. The Kano model models the relationship between customer satisfaction and product quality. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

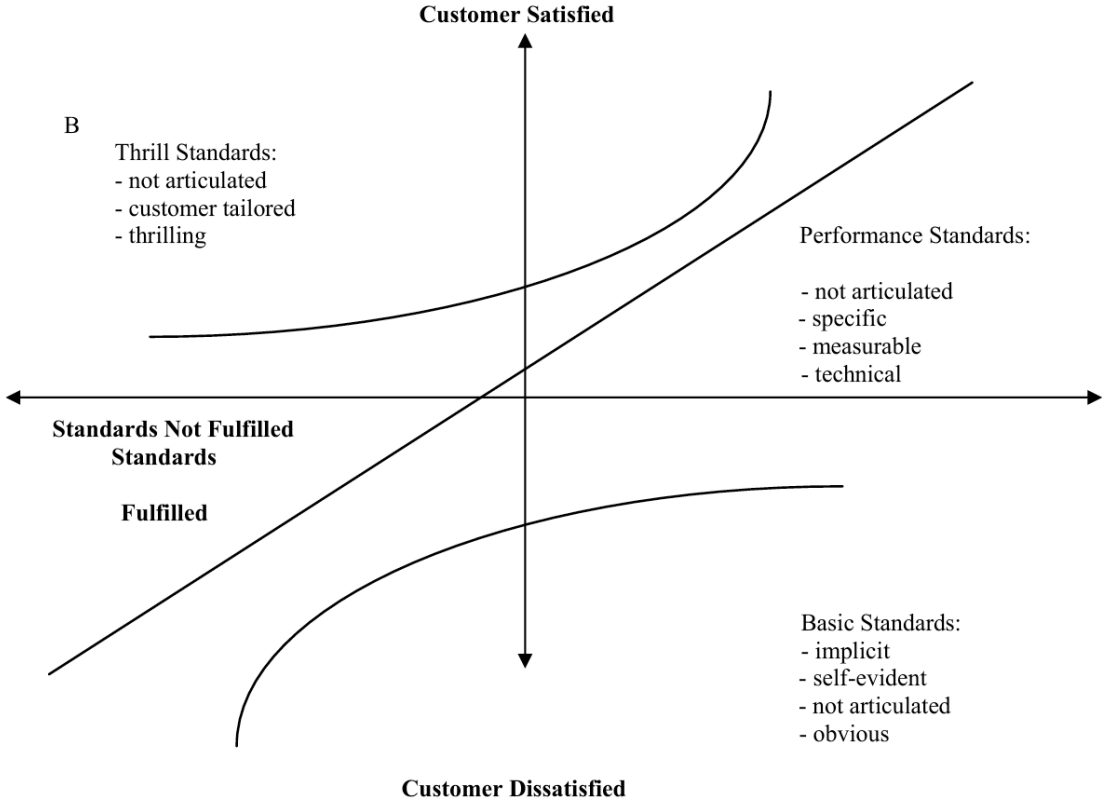

Figure 8. The Kano model of customer satisfaction (Raab et al., 2010, p. 44).

Figure 8 illustrates the three levels of performance the Kano model possesses. **Basic** level points at the must-have requirements. These requirements form the standard which a customer has set to the product. When customer's expectations are not met at the basic level, the customer's level of disappointment is found to be high. When standards are fulfilled, the level of customer's satisfaction is found on a level zero – not dissatisfied nor satisfied. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

Performance level covers the one-dimensional expectations set by the customer. When the customer standards are met, the level of satisfaction is expected to rise. On the other hand, the level of satisfaction is lowered by the customer, if requirements are not met. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

When succeeding in the **thrill** level, the level of customer satisfaction is only ascending. The rising level of customer satisfaction strengthens customer loyalty. The aspects that are included in the thrill level are not expected by the customer. They are, on the contrary, produced by the provider. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

Succeeding in product quality is essential to churn prevention. Surpassing the customers' standards, competitive advantage is received, and the possibility of defection is diminished. By identifying the features or the factors that increase the level of customer satisfaction, the product development can be designed more precisely which lead to strengthening customer permanence. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

Through the implementation of the Kano model for customer churn prevention purposes, the expertise of the company's products among its employees increases. It allows the company to develop their product portfolio to the direction customers are craving for and through that, deepen the customer relationship and reduce the customer churn. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

2.4.4 Communication

Customer churn can be diminished by the development of communication ways. Griffin and Lowenstein (2001) count on two general processes which help the company to identify the customers that are at the risk of churning.

- **Terms and conditions enable discussion.** As a part of the successful churn prediction in companies, the terms and conditions are formulated in the way that a customer notification is required if the will to leave the company is actual. (Griffin & Lowenstein, 2001.) As an example, when the notification of termination is asked to proceed through telephone, the discussion between the retention agent and the churning customer happens through the channel required which supports the retention work.
- **Countable processes.** General processes that track the customer activity in the company should be reliable and utilized in the churn prevention activities. The purpose of tracking the customer activity is to enable to identify the at-risk customers. As Griffin and Lowenstein (2001) say, *"Effective save programs are only as good as the firm's ability to identify at-risk customers."*.

2.5 Churn management

Tackling the churn can be made using a proactive or reactive approach to churn management. The proactive approach refers to actions that are done beforehand and usually originates from the company's side. The reactive approach, on the other hand, is actual when the will to churn comes from the customer's side. (Griffin & Lowenstein, 2001.)

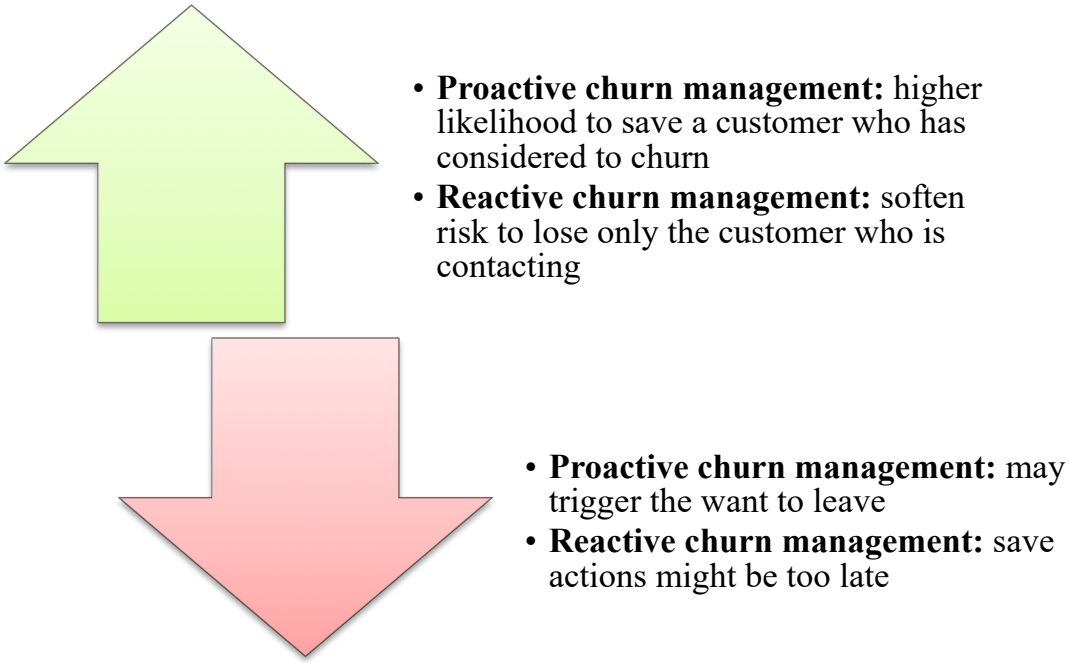

Figure 9. Advantages and disadvantages of proactive and reactive churn managements (author's own elaboration, 2019).

2.5.1 Proactive churn management

Companies focus mostly on patching up the gap the churned customers leave with the acquisition of new customers even though by increasing the value of the existing customers, the increase in revenue may multiply. The definition for the value that is produced from the existing customers through up-selling in comparison with the hole in revenue the churning customers leave is called a **negative churn**. The purpose of the **proactive churn management** is to gain revenue from the existing customers to increase the total revenue and to patch the loss the leaving customers cause. (Artun & Levin, 2015.)

Proactive churn management detects the warning signs, such as drop-in activity, and interfere with retaining activities in order to strengthen the relationship and preempt the churn. The warning signs are industry-specific and should be identified before starting the proactive churn prevention program. Hypothesis and a/b testing are examples of ways to determine the warning signs. (Artun & Levin, 2015.)

Besides the pre-definition of the target group, the at-risk customers, the amount of the incentive needs to be calculated. The proactive churn management aims to be profitable and through the calculation formed by Artun and Levin (2015), the maximum cost *per se* can be figured out:

$$X = Y\ (\%) * LTV$$

Y representing the percentage of customers the proactive campaign may save and LTV the customer lifetime value. (Artun & Levin, 2015.)

Part of the proactive churn management is to develop customer value. Figure 2 lists up-selling, cross-selling and customer referrals as the ways to enhance the customer value (Peppers & Rogers, 2011). The up-selling stands for the selling technique that aims to sell an item with an add-on or an upgrade. With the cross-sell, on the other hand, selling a product or a service that compliments the main item is meant. The up-sells and cross-sells are typically used in the purchase phase – a new customer is purchasing the product at the first time (Artun & Levin, 2015) but can be used as a retention tool during the customer relationship. For example, the products or the services that are used for a longer period of time can be upgraded or widened with additional services when the customer's need changes.

In making a recommendation of a product or a service as a part of proactive churn management, the company needs to have access to earlier information about the customer in order to be able to target the right customers with the right recommendation. A recommendation gone wrong might defuse the unwanted, opposite reaction. (Artun & Levin, 2015.)

2.5.2 Reactive churn management

Griffin and Lowenstein (2001) describe the **reactive churn management** as CPR, cardiopulmonary resuscitation that is given to humans in the case of an emergency. Understanding the customer's current and future value to the company is always the first step of the reactive save protocol (Griffin & Lowenstein, 2001). Customer value matrix is an example of how to divide the customers by their value and utilize this in the assessment of customer's lifecycle value. The below-zero customers are better to relinquish. (Peppers & Rogers, 2011.) The length of the customer relationship shares the company important knowledge of the customer and whether to invest in saving the customer or not (Griffin & Lowenstein, 2001).

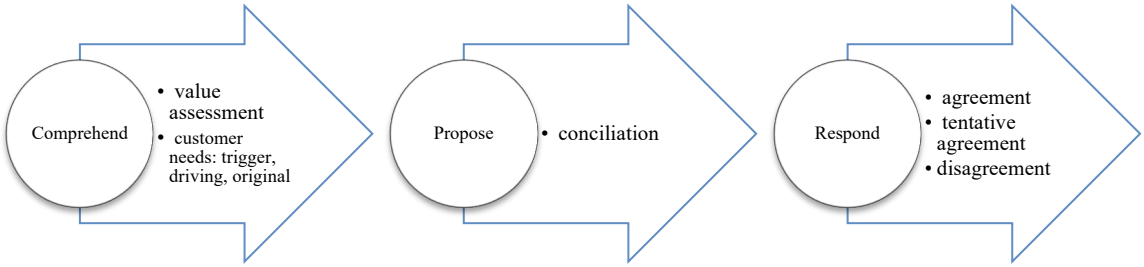

Figure 10. The stages of reactive approach leading to save or loss (author's own elaboration, 2019).

The downside of the reactive approach is usually the unpleasant behavior of the churning customer. The role of the company at this stage, despite of the unpleasant behavior, is to apologize and simultaneously try to separate the customer needs from the anger. Identification of three needs; **trigger**, **driving**, and **original** is necessary for the saving process to continue successfully. (Griffin & Lowenstein, 2001.)

- **Trigger need.** The trigger need is the ultimate trigger that activates the churning process. First line respondents are in the most cases the representatives of the company that face the customer. The urge to cancel the service can be caused by a series of unfulfilled expectations or several technical problems as an example. Worth noticing is that the trigger need rarely is the root cause. Hereby, the trigger cause should be handled quickly and efficiently by the first line respondents. (Griffin & Lowenstein, 2001.)
- **Driving need.** Customers invest in their service provider and expect at least a service that matches their needs. A continues unfulfillment of meeting the customer's expectations lead to dissatisfaction. (Raab et al., 2010.) Unhappiness smolders longer times inside of the customer, invisible to the company. The driving need is needed to be sorted out from the trigger needs in order to be able to rebuild the value to the churning customer. (Griffin & Lowenstein, 2001.)
- **Original need.** The original needs are the reasons why customer, in the beginning, chose the company instead of its competitors. In the moments of disbelief and churning a gentle and friendly reminder of the positive reasons is allowed to rebuild the grounds why customer in the first place chose the company. (Griffin & Lowenstein, 2001.)

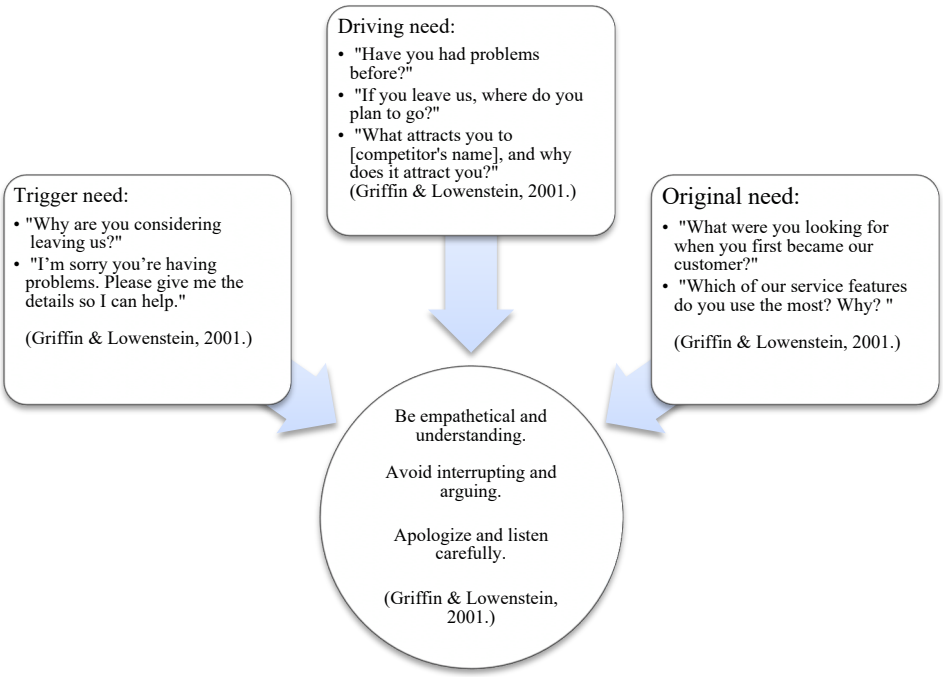

Table 2. . Origination of the questions for identification of the needs, enhanced by the author, (Griffin & Lowenstein, 2001, p. 94-95).

It is time to move to the second stage, the proposal of the CPR strategy after the root cause through the evaluation of the customer needs is accomplished. Table 3 illustrates the steps of proposal proposition. Estimating the needed compensation is necessary to the company. Compensation is a fair outcome that consists of or even combine several tools such as *refunds, crediting, correction* or *replacement.* Retaining a churning customer cannot happen only through high-cost solutions. Otherwise, the company loses money more

than it saves. Therefore, successful compensation is in some way anticipated by the customer and cost-efficient for the company. (Griffin & Lowenstein, 2001.)

The value the product or service is giving for the customer should exceed or at least match with the expectations the customer possesses (Raab et al., 2010) making it one of the indicators whether to stay or leave in the company. Hence, the **value solution** is the natural compensation to start with. By offering added value or value that has not yet been recognized by the customer, the retention process becomes remarkably cost-efficient to the company that compensating the problem with a **low-cost solution**. (Griffin & Lowenstein, 2001.)

Higher compensation is now and then needed in order to retain the customer. The compensation should be put into perspective in order to understand whom to give higher compensations. (Griffin & Lowenstein, 2001.) The most valuable customers presented in the customer value matrix (Peppers & Rogers, 2011) are the customers who should be retained with the big guns in case of a relationship-damaging incident.

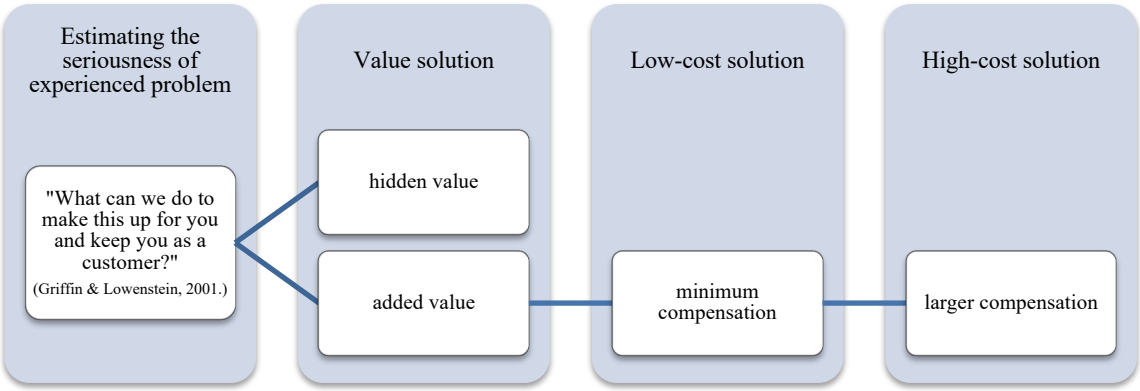

Table 3. Origination of the proposal pipeline, author's own elaboration, (Griffin & Lowenstein, 2001, p. 96-98).

Company's retaining try ends either to acceptance, consideration or refusal:

- **Agreement.** Executing the agreed plan positively and without distractions, the foundations of the customer relationship are re-strengthened.
- **Tentative agreement.** The customer might want time to figure out whether to stay or leave the company. Follow-upping the customer should be meticulous in order to maintain trust. Griffin and Lowenstein (2001) recommend a free trial of a new offer as a good tool for closing the churning gate.
- **Disagreement.** The defection of the customer should be handled politely in order to prevent the opposite word-of-mouth, the ill will from happening. By emphasizing the valued customer has given the company and restating the final offer once more works as a neutralizer balancing the defection. A lost customer is moved to the win-back campaigns which are presented closely in chapter *2.6 Win-back.* (Griffin & Lowenstein, 2001.)

2.6 Win-back

Letting go of the company's unprofitable customers and winning back the profitable ones, is a good way to nurture the customer base and increase its value. Win-back campaigns are designed to re-acquire the lost customers back to the company. One of the key learnings company has learned the hard way when it has lost the profitable customer is to notice the indicators that reflect the tendency to leave the company at the early stage. On the other hand, lost customers educate the company to understand the customer segment that is more vulnerable to churn and utilize the knowledge in customer acquisition activities. (Griffin & Lowenstein, 2001.)

When designing a win-back plan for the company both the reason for original defection and the expected second-lifetime value are estimated. The second-lifetime value differs from the customer lifetime value due to the fact customer has been already a customer in a company he has decided to churn from. (Griffin & Lowenstein, 2001.)

- **Familiar portfolio.** A customer has familiarized himself to the product and service portfolio company provides. (Griffin & Lowenstein, 2001.)
- **Better knowledge of preferences.** The previous relationship with the customer has allowed the company to familiarize itself with the preferences that the customer possesses. (Griffin & Lowenstein, 2001.)
- **Previously build relationship.** The relationship the company has with the customer helps winning back the customer. Previously collected data is utilized in recalling the relationship. (Griffin & Lowenstein, 2001.)
- **Speeded process.** Familiar portfolio, better knowledge of the preferences and the previously nourished relationship speeds up the decision-making process. (Griffin & Lowenstein, 2001.)

The customers who fill in the requirements that company sets are included in the win-back campaign. The optimal timeline when to contact the defected customer is between immediately to 6 months after they have defected depending on the prevalent win-back opportunities. (Griffin & Lowenstein, 2001.)

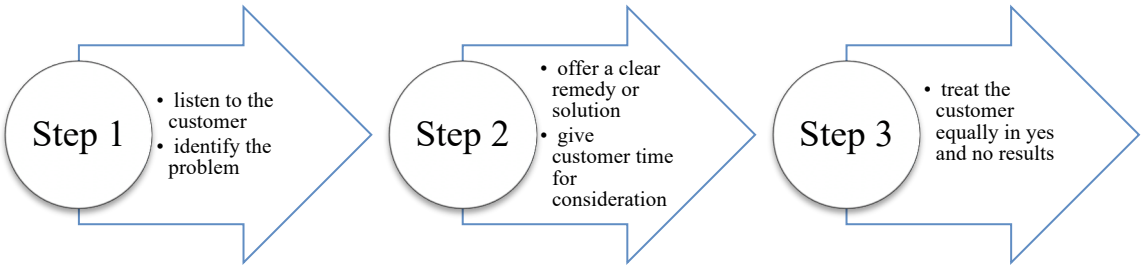

Figure 11. The steps to short-term win-back (author's own elaboration, 2019).

In figure 11 the steps of short-term win-back are seen. Quickness and effectiveness are the key success factors of short-term win-back. By understanding and addressing the

problem efficiently without spending too much time, the compensatory solution can be given to the customer. The time for consideration should be given to the customer by showing flexibility from the company's side:

> "[…] I'll hold your resignation in my drawer here in my office during that time. If you still want to resign at the end of next month or if you feel we have not corrected the problem to your liking, we'll process your resignation at that time. I'll just make a note to call you in about six weeks.". (Griffin & Lowenstein, 2001.)

In the citation by Griffin and Lowenstein (2001) extra time is given for the company to try to convince the customer to stay instead of leaving. The purpose is to relight the trust towards the company for the customer through an act of trust. In case the customer decides to continue as a customer, the transition to the group of retained customers should be made. In the case of leaving the company, the second-lifetime value should be conducted to the customer. Depending on the result, the customer is moved, through a preparative treatment (figure 12), to the list of customers on a long-term win-back group or lost in its entirety. (Griffin & Lowenstein, 2001.)

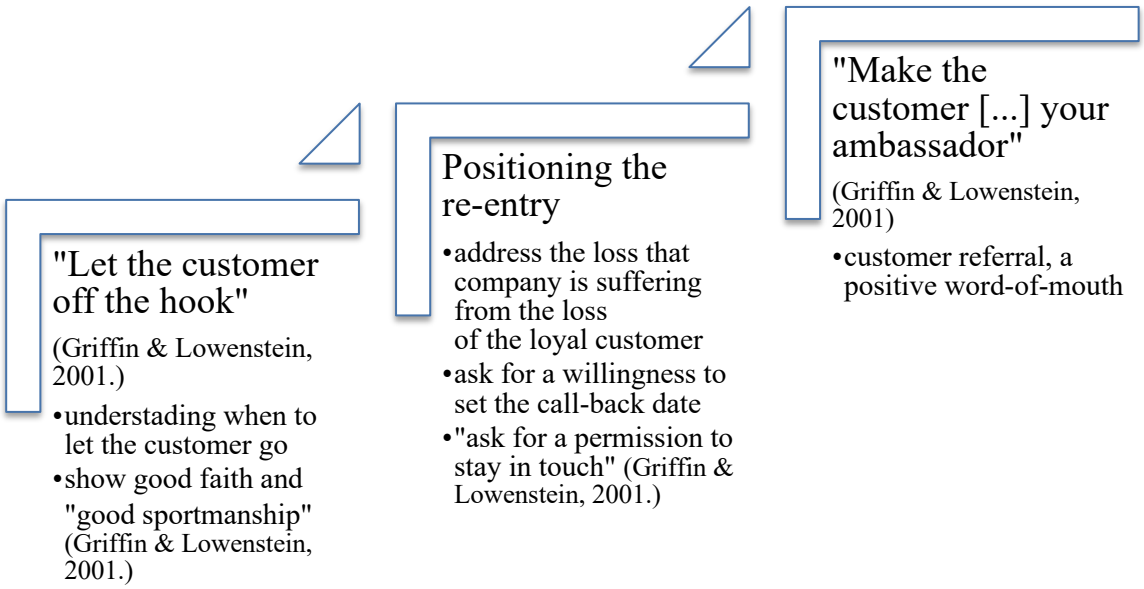

Figure 12. The three steps towards the long-term win-back (author's own elaboration, 2019).

The long-term win-back camping targets on the customers that have already been apart from the company for a longer time. Implementing the long-term win-back campaign is more usual than implementing the shorter one. (Griffin & Lowenstein, 2001.)

In figure 13, the following steps of the long-term win-back are clarified. Since the customer has been apart from the company a longer time, the assessment of the wants and needs is done again. The constantly changing market surroundings give ground for the re-assessment. (Griffin & Lowenstein, 2001.)

The trust fades away as time passes. Hereby a re-evaluation for the methods to gain trust among customers is accurate. The final evaluation of the long-term win-back campaign

is conducted after successful planning and executing. Adjustments should be made according to for example the occurring changing market changes. (Griffin & Lowenstein, 2001.)

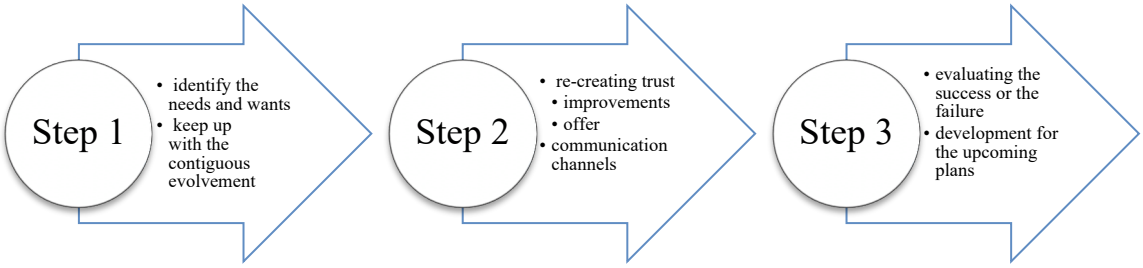

Figure 13. The steps to long-term win-back (author's own elaboration, 2019).

2.7 Summary

To summarize the theoretical chapter, it can be stated that the customer retention, the second step in the customer lifecycle (Buttle, 2009), is essential for managing efficiently the customer base company has and the value it possesses. Having functional processes to tackle the churning tendency at every part of the customer lifecycle of retention, forms the key to success – proactively managing the churn by increasing the satisfaction and loyalty, converting at-risk customers back to retained customers and winning back the lost, high-profitable customers. (Griffin & Lowenstein, 2001.) Table 4 summarizes the most common churn reasons and the ways to prevent the churn from happening.

Type	Customer defection				Customer attrition			
Churn reason	Product	Price	Communication & distribution	Switching	Bankruptcy	Retirement	Location change	Value migration; down-sizing the business
Churn prevention	Development of product quality & correspondence with the needs and wants	Mirroring to satisfaction levels & re-evaluation of the correspondence with the level of fairness	Countable processes & enabling the discussion	Using conversion model & customer value matrix	Harness the customer to be an ambassador for the company			

Table 4. Summary of the churn reasons and the key churn prevention activities (author's own elaboration, 2019).

3 METHODOLOGY

Qualitative research was chosen for the method of the thesis. The usage of qualitative research method allowed focusing on the insights and experiences that the core group of employees working in the actual department of customer retention possesses.

The methodology chapter is modified in order to prevent the spread of classified material of the case company.

3.1 Research design

The design of the research consisted of two elements. A semi-structured interview which was conducted for the pre-defined focus group and an in-depth interview which was conducted for the director of the retention department within the case company.

The pre-defined questions for the focus group and the in-depth interview were formed to be open questions in order to obtain rich insights throughout an open dialogue between the participants. The semi-structured interview followed the funnel framework. The interview questions based on the literature review that was discussed in chapter two.

3.1.1 Focus group

Focus group was held traditionally by collecting qualitative data through an informal group discussion with a small number of persons. Focus groups are found to be more neutral situations to many respondents reducing away the unnecessary tension and negatively effective nervousness of the respondents. Co-respondents create the more relaxed surrounding to the discussion and thus allows the conversation to be more open, and deep dive more into the thoughts and insights of the respondent. (Onwuegbuzie et al., 2009).

Table 5 illustrates the framework used for the interview guide in appendix 1. The group of respondents was chosen in order to be able to form insights, feelings and experiences around customer retention by reflecting into their own working history in the case company. The aim of the focus group interview was to closely understand customer retention in the case company. The researcher operated as a moderator of the focus group interview by leading the interviewees through the interview.

1	Defining the problem/issue/topic
2	Establishing the groups and plan of sessions
2.1	– determine the number of groups
2.2	– determine number of participants in each group
2.3	– decide on the length of a session
2.4	– select the site
2.5	– decide on the timing of sessions
2.6	– recruit the participants
3	Selecting the moderator and assistant moderator
4	Conducting focus group discussions
4.1	– determine the level of moderator involvement
4.2	– decide on the number of topics in a session
4.3	– word/identify questions/topics for discussion
4.4	– pre-testing the moderators' guide
4.5	– run the beginning, middle and end of sessions
5	Analysing the information

Source: based on Stewart and Shamdasani 1990 and Keown 1983

Table 5. Framework for focus group research, (Carson et al., 2001, p. 116).

3.1.2 In-depth interview

An in-depth interview was chosen for the face-to-face interview. It allowed focusing on the manager's point of view, experiences, perspectives and overall feelings through open questions and quality dialogue. The aim of the in-depth interview was to closely understand customer retention in the case company.

The in-depth interview was planned carefully by following the three main steps; overall objective, interview guide and specifications (Carson et al., 2001).

3.1.3 Data collection

The primary data was collected through the two interviews – the focus group interview and in-depth interview. The questions that were addressed to the focus group respondents were pre-defined and based on the literature review discussed in chapter two and the framework for the focus group in table 5.

All of the respondents were pre-informed about the upcoming interview with a short agenda. The focus group and the in-depth interviews were recorded and monitored by the researcher.

The respondents in the focus group filled out a basic questionnaire that collected their genders, ages and relevant years of experience for further demographical data analysis.

3.1.4 Data analysis & interpratation

The recorded data from the focus group and in-depth interview was transcribed afterwards. The transcription from audio to text was done by using a voice typing tool for Google Chrome. A modified, two-step style of (Carson et al., 2001) Morgan's three element coding system (Onwuegbuzie et al., 2009) was used in the coding process of the transcription. The responses were categorized first into bigger "chunks" and secondly combined by the correlating phrases (Carson et al., 2001). A classical content analysis was conducted for the collected data in order to interpret the data correctly and comprehensively.

3.1.5 Validity & scope limitations

The research conducted for the thesis formed a view of one company in a specific business. The content of the thesis was designed for internal use and thus concealed in the general version.

There was one focus group interview held for the qualitative data collection which can be considered not to be enough in order to reach the limit of data saturation (Onwuegbuzie et al., 2009). Although a smaller group of participants allowed the conversation to be richer by giving more time per person. The pre-defined group that consisted of professional colleagues who all were interested in the topic, were expected to produce an interesting and rich data set. (Morgan, 1997.)

Nevertheless, researcher bias should always be considered as a possible risk for the validity of the research. The negative or leading involvement of the researcher is an example of the possible researcher bias that was considered and tackled in this research. (Carson et al., 2001.)

4 RESULTS

The content of results chapter is concealed due to confidentiality reasons. In the full version of the thesis the results from the interviews were presented in this chapter. Although, to be able to understand the level and the quality of the results obtained in the research a narrow general overview is formed.

4.1 Customer retention

Customer retention was determined as the way to keep the customers in house, maintain the customer relationship and the improvement of the level of customer service. The improvement of the level of customer service was seen as the end result of the activities the customer dissatisfaction causes.

Overall, being part of the customer retention was experienced to be hard. Coping with the anger customer might have when being in contact with the company was experienced either harder to manage or easier to manage depending on the root cause.

4.2 Identified reasons to leave the case company (RQ1)

The results obtained from the focus group and in-depth interview identified the churn reasons of the case company. For the competitive advantage reason, the identified reasons cannot be shared and thus are fully concealed.

4.3 Prevention of churn (RQ2)

The churn prevention activities were found to be effective in the case company. The prevention tactics of the case company were identified as a part of the business strategy. That is why they are classified as confidential and not shown in this chapter.

Overall, the churn reasons that originated from the company were experienced harder cases to handle.

5 DISCUSSION

The aim of the thesis and the case company was to determine the most common causes that trigger customers to leave the company through following research questions:

RQ1. What makes customers to leave the case company or to change the provider?
RQ2. How to prevent customer churn in the case company?

The results were discussed according to the research questions in the sealed thesis. Because of the discussion reflects and refers to the business strategy of the company, the discussion is classified as confidential. Although, to be able to understand the level and the quality of the results obtained in the research a narrow general overview is formed.

5.1 What makes customers to change? (RQ1)

Customers change when the product failures to fulfill their needs or expectations which is shown through the dissatisfaction towards the price, product or company in general (Buttle, 2009; Griffin; Lowenstein, 2001; Peppers & Rogers, 2011; Raab et al., 2010). A breakdown in value originates from the unfulfillment of the customer's needs and expectations which lead to a longer phase of dissatisfaction and in the worst cases, to termination (Griffin & Lowenstein, 2001). The theory argues for the importance of success to satisfy the customers' needs in order to maintain the customer longer and avoid the churn.

Customers begin to possess an interest towards the competitors' product portfolios when the level of satisfaction does not meet with the needs or expectations customer has set for the product. Customer satisfaction is an insulator against the churn related to dissatisfaction towards the price. (Bolton, 2016.) Raab et al. (2010) argue for the importance of the communication in order to maintain the customer relationship and increase the value of it.

The discussion around the research question one, what makes customers to changes, is concealed due to confidentiality reasons.

5.2 How to prevent customer churn? (RQ2)

Preventing customer churn is essential in order to hinder the loss of customers. By determination of the churn causes, the right preventive activities can be implemented. Theory speaks strongly for the enhancement of the product and the features of it. The Kano model verifies the positive correlation between the product quality and lowered customer churn. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

Price has an enormous effect on customers. The fairness in price and the level the price equates with the received product. Looking from the perception of the customer whether the price is in an expected level or it is too high the probability leading to the increased risk of churning can be identified. In order to prevent the churn from happening due to the mismatch in price, the prevention activities must be targeted on the product side. (Bolton, 2016.) The Kano model can thus be modelled to evaluate the level of customer

satisfaction through which, the decision of the actions taken to tackle the price-churners is made. (Barone & Franco, 2012; Griffin & Lowenstein, 2001; Raab et al., 2010.)

Functional churn management strategies lie behind the successful churn prevention. Proactively predicting and identifying the at-risk customers and increasing the customer value through the cross-sells and up-sells can the prevention of the churn be estimated, and the needed procurement activities be done. Unsuccessfully predicted churns are tried to tackle through the reactive churn management. The lost customers are evaluated through the customer value matrix (Peppers & Rogers, 2011) and won back through an effective win-back program. (Griffin & Lowenstein, 2001.)

5.3 Conclusions

The conclusions of the research are hidden due to confidentiality reasons.

5.3.1 Further research

The thesis conducted can be utilized in the further study purposes of the case company. The literature review creates solid grounds for the future research. The next step could be to analyze the results of the customer retention department and find the ways how to enhance the performance even more.

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APPENDIX 1 FOCUS GROUP INTERVIEW GUIDE

The content of appendix 1 is concealed due to confidentiality reasons.

APPENDIX 2 TRANSCRIPTION OF THE FOCUS GROUP INTERVIEW

The content of appendix 2 is concealed due to confidentiality reasons.

APPENDIX 3 IN-DEPTH INTERVIEW GUIDE

The content of appendix 3 is concealed due to confidentiality reasons.

APPENDIX 4 TRANSCRIPTION OF THE IN-DEPTH INTERVIEW

The content of appendix 4 is concealed due to confidentiality reasons.

APPENDIX 5 BACKGROUND QUESTIONNAIRE

The content of appendix 5 is concealed due to confidentiality reasons.