Concession Analysis

Analyzing the key drives behind service concessions

Cory McAboy

Topics

- **Background Information**

- **Project Overview**

- **Concession Overview**

- **Top Root Causes for Concessions**

- **So What?**

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Background information

Client Profile

The client is a large service call center (500+ EE's) that serves a human resources software company (Payroll, Time, HR, etc) whose primary differentiation strategy centers around superior service.

Problem

The company spends ~60M year over year on "concessions." Concessions are free handouts that are given to the client to help build goodwill and thus prevent churn. Examples include 1 month free payroll, free bundled upgrades, and discounts on future purchases.

Goal

Find the root cause behind concessions and provide a recommended action to lower concessions and increase client satisfaction.

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- **So What?**

This project was launched to reduce client concessions and churn

Project Goal

- Reduce Client Churn
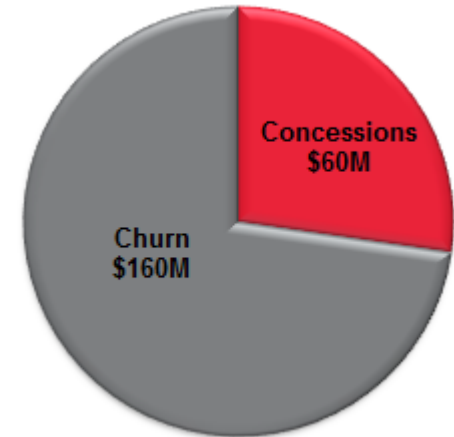- Reduce Client Concessions
- Proactive Model

Key Facts

- Total Concession Opportunity: **~$60M YoY**
- Total Churn Opportunity: **~$160M YoY**
- ~46M rows of data

Challenges

- Data is only 28 Months old
- 32 Different Sources of Data
- CRM data issues

Strategy

- Gather hypotheses from interviews with key players
- Use data to find valid hypotheses
- Build business cases around root causes

Pie chart: Concessions $60M; Churn $160M

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Concessions can be broken down into six different categories with Goodwill and Error payrolls being the most significant.

Concession Types

- **Goodwill Payroll** – Free payroll given due to client initiated error.
- **Error Payroll** – Free payroll given due to company initiated error.
- **Service Credits –** Refunds
- **Discount rate changes** - % Discount given on customer's monthly bill.

Revenue Leakages

- **Frequency changes** – Customers pay based on payroll frequency. Customers can lower cost by choosing a decreasing payroll frequency.
- **Bundle downgrades** – Downgrade to a smaller bundle

Total ~$60M YoY

Frequency Changes $7M

Bundle Downgrades $7M

Goodwill Payroll $19M

Discount Changes $8M

Service Credits $4M

Error Payroll $19M
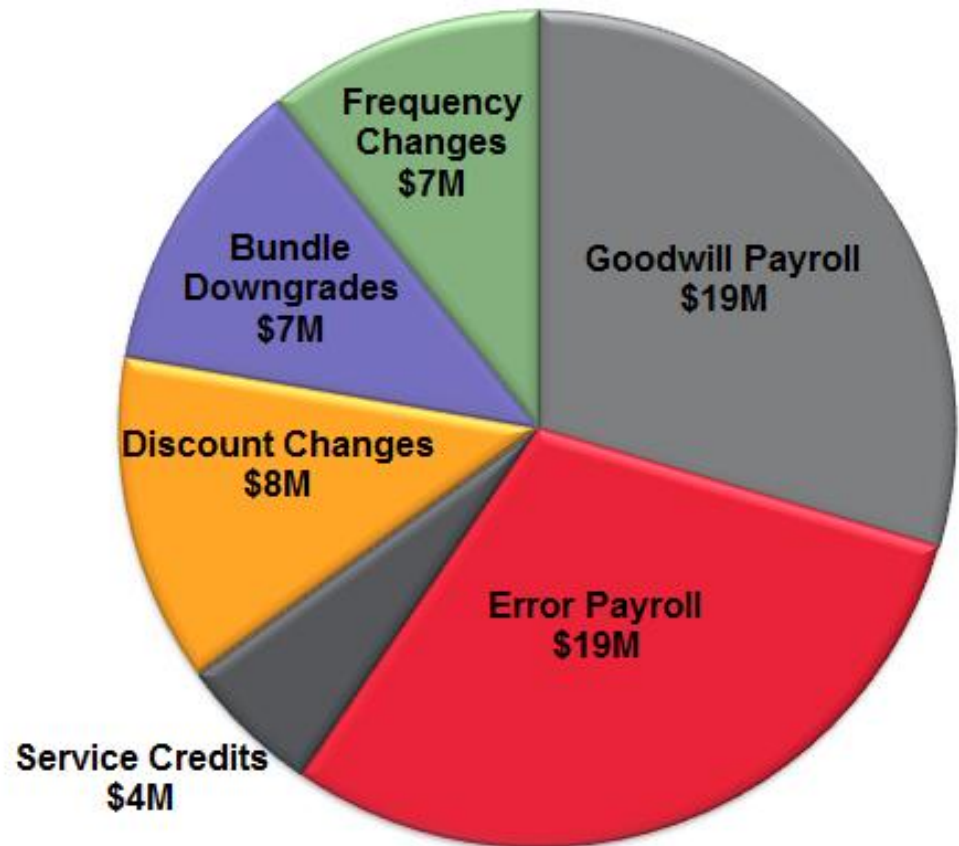
Over 50 Interviews with stakeholders led to 38 Hypotheses that could be tested

| Client Attribute	Sales	Client Start	Implementation	Service
Client Zip	**Sales Associate Tenure/Office/Division**	**Hot Starts**	# of & Types of Earnings	TLB
Client States	HR Bundle w/ <5 Pay Size	**Last week of Month**	State Applied-For	Price Increase
Client Tenure	**Competitiveness**	Jan & Feb Starts	State Jurisdiction	MMB
Clergy & Restaurant vs others	Direct vs Indirect	**Last 2 Days of Month**	Implementation Associate Tenure/Division/Office	
Newly Formed business vs Wins from Competition	PC vs Tele		Local Jurisdiction	
	Referral Channel		30-Day NPS Score	

***Bolded** items were most popular hypotheses*

Surprisingly, competitive locations and client start dates were not significant drives in concessions.

- Competition is not a factor for concessions

% of Clients Claiming Concessions
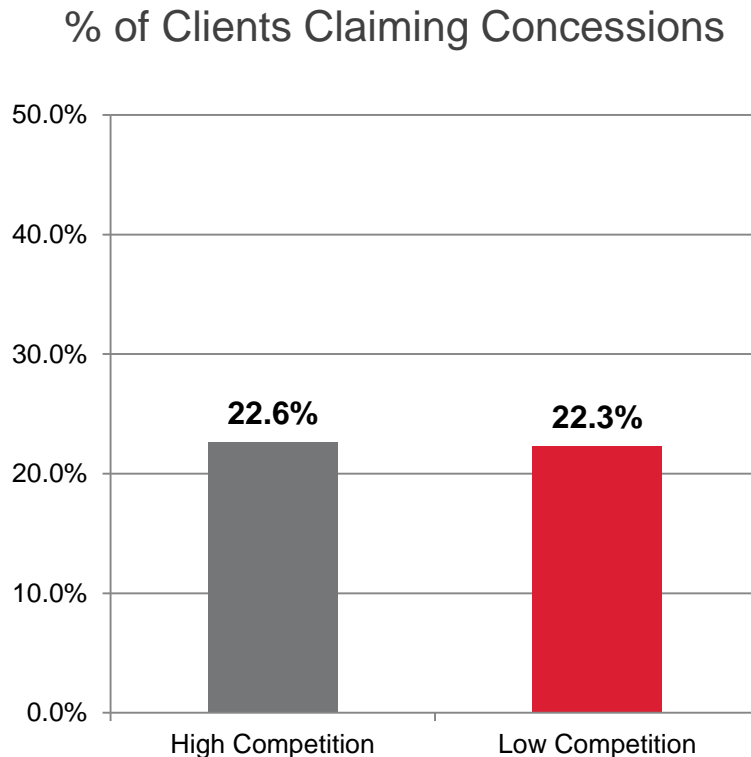
- Client Start date is not a factor
  - Hot Starts
  - Last week of Fiscal Month
 - Last 2 days of Fiscal Month
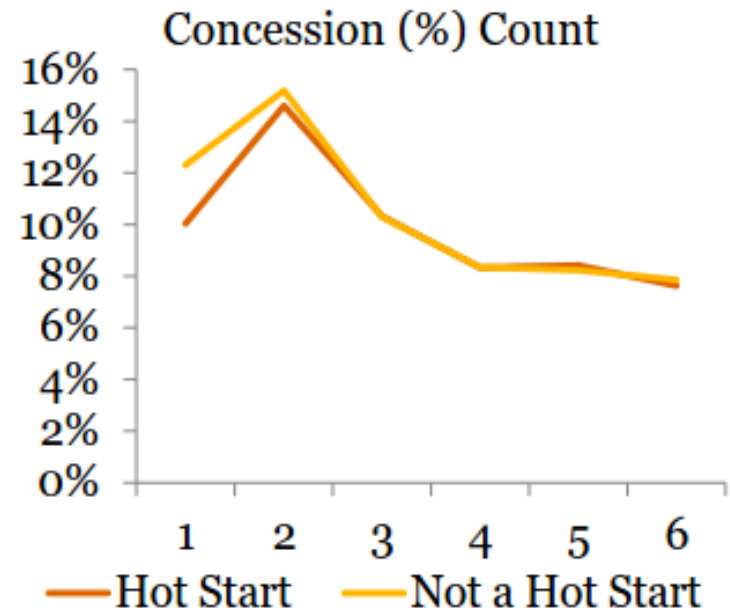
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Concessions are mostly caused by the number of payroll jurisdictions (Fed, State, Local) customers were responsible for

	Possible Explanation	Concession Impact	Revenue Leakage
State Jurisdiction	**Adds complexity to the implementation process**	**$12.8M**	**$4.8M**
Client State	**Complex jurisdictions**	**$6.6M**	**$5.2M**
Client Zip	**Complex jurisdictions**	**$8.3M**	**$2.8M**
Client Tenure	**Client learning curve**	**$2.3M**	**$4.2M**
Sales Division	**Culture, complexity**	**$6.1M**	**-**
Type of Deduction	**Individual Associate Behavior**	**$2.9M**	**$1.2M**

Telesales has the highest concession rate out of all sales divisions

Sales Division
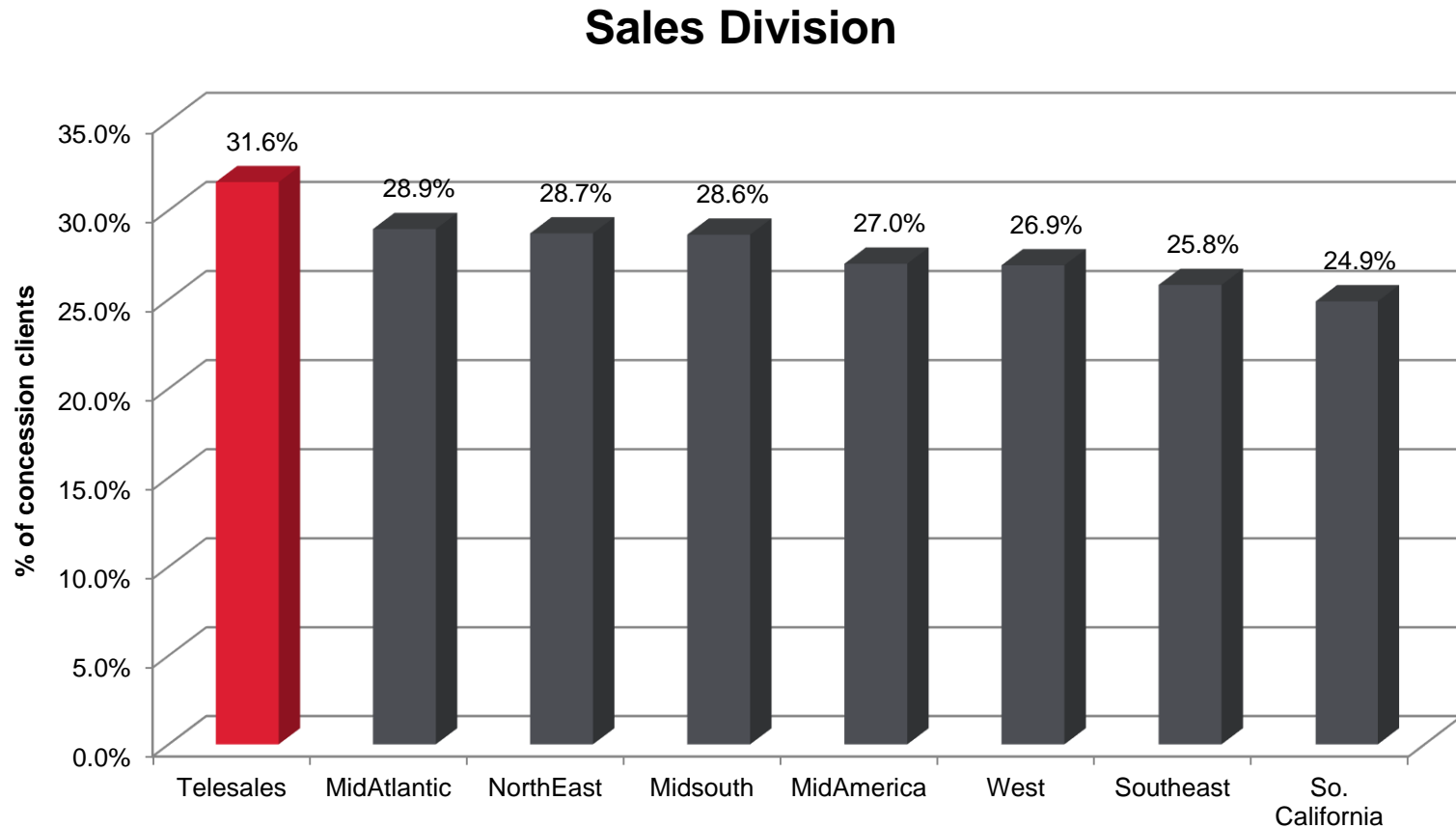
Telesales makes up ~$2.5M of concessions over 28 months or ~$1M YoY

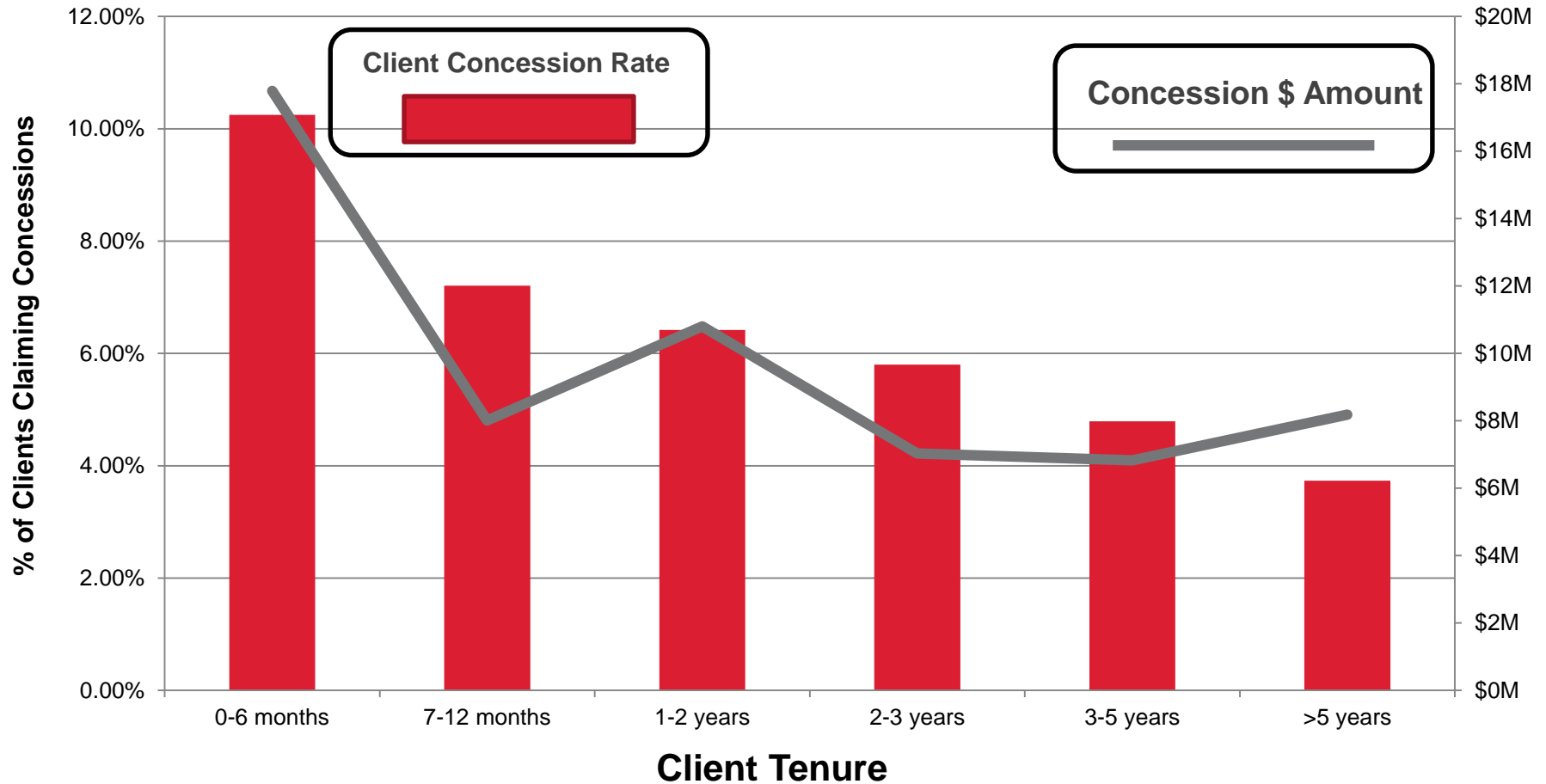# The more payroll deductions a client has, the more concessions they receive
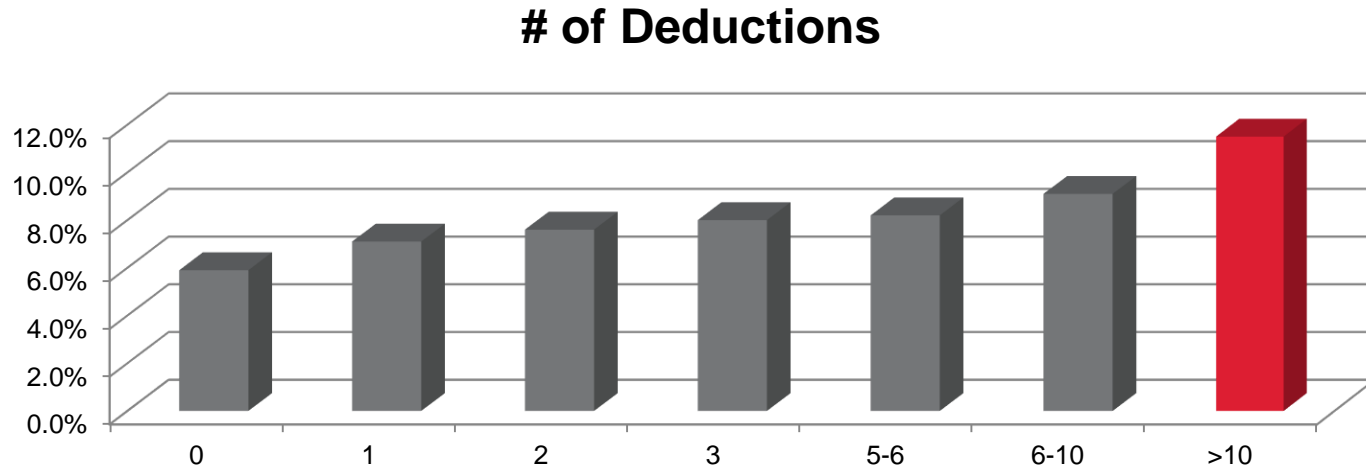
# of Deductions

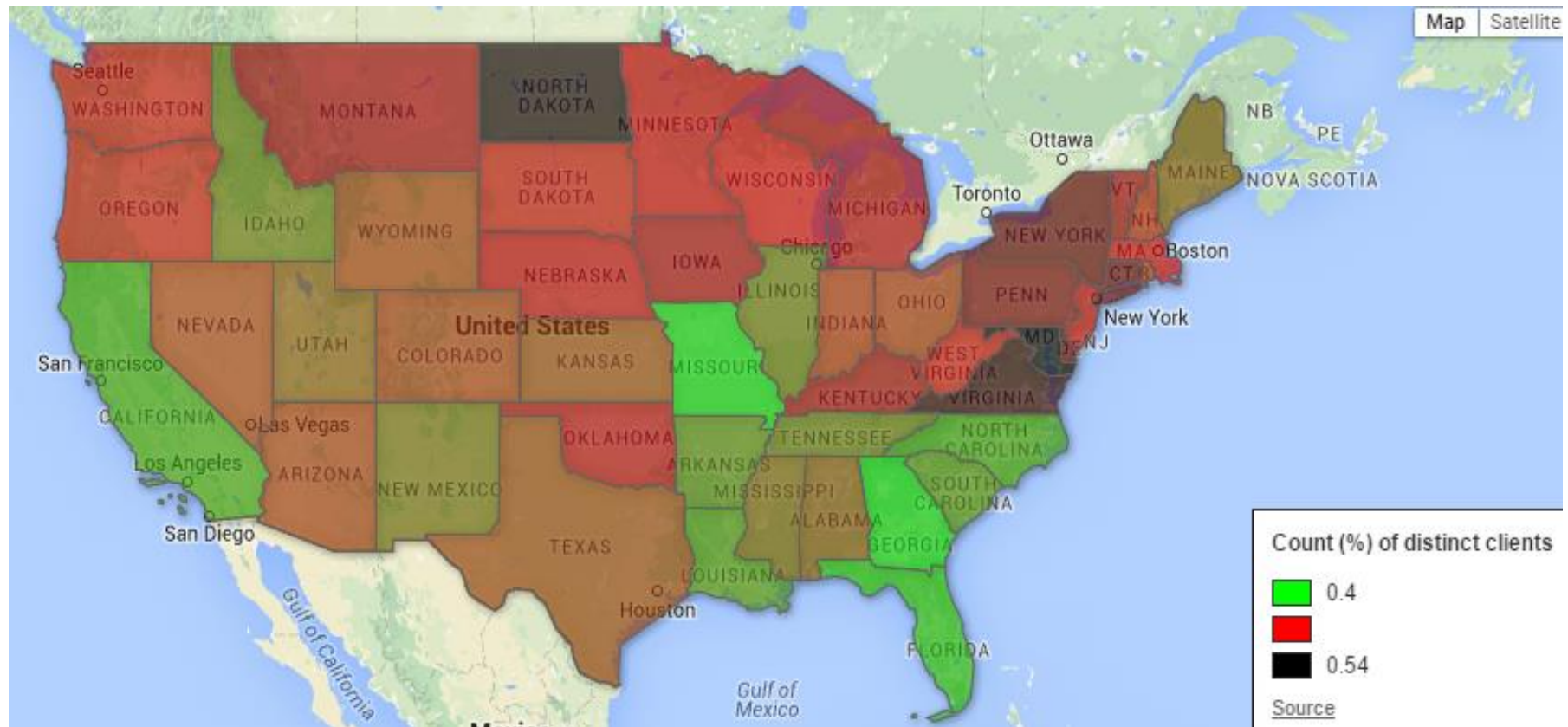**Top "Concession Causing" Deductions**

Clients appear to claim less concessions as they age, but survivorship bias could also play a role.

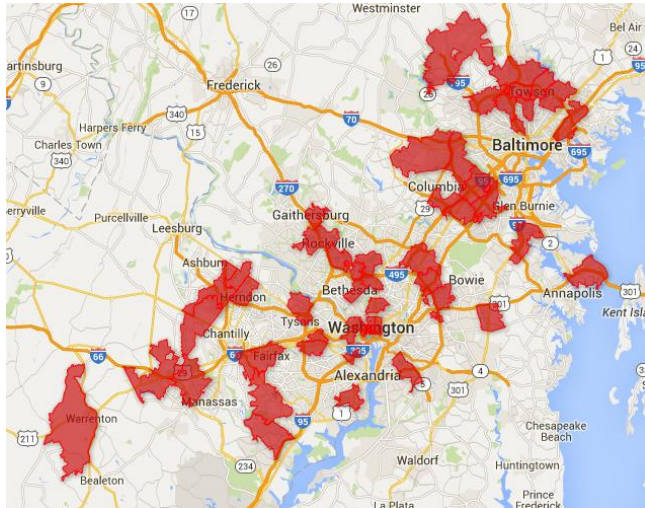**% of Clients Claiming Concessions** &**Total $ Concessions**

Concessions are very popular for northeastern states

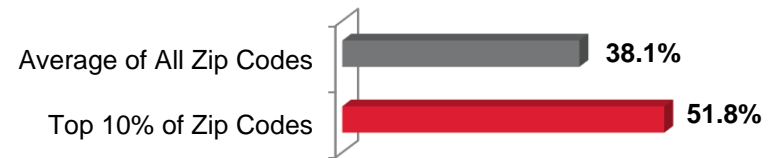Colors represent the % of clients claiming concessions

Top 10% of zip codes receive much higher concessions than the average

Greater DC Area

Greater NYC Area

% of Distinct Clients Receiving Concessions

Average of All Zip Codes	38.1%
Top 10% of Zip Codes	51.8%

Average # of Clients

Average of All Zip Codes	122
Top 10% of Zip Codes	125

Average $ of Concessions

Average of All Zip Codes	$15,649
Top 10% of Zip Codes	$25,240
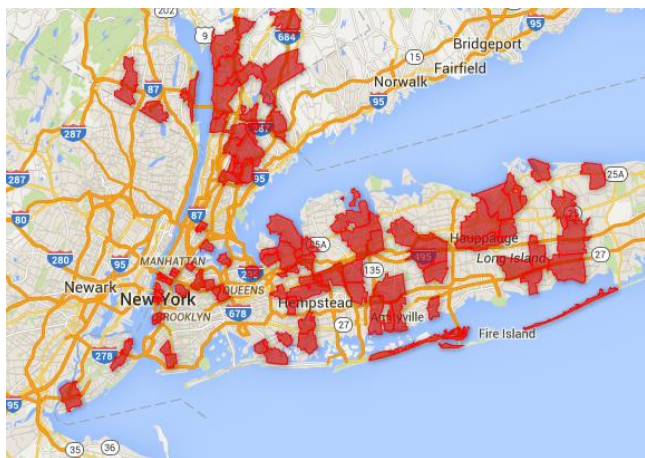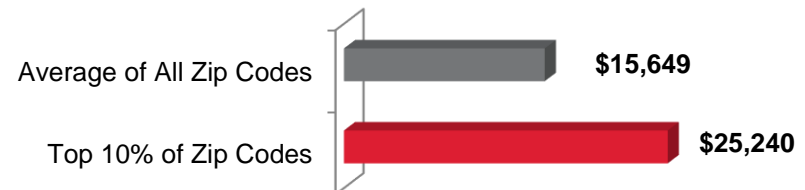
Minimum 50 clients in zip code

The more jurisdictions a customer is responsible for, the more concessions he or she is likely to claim.
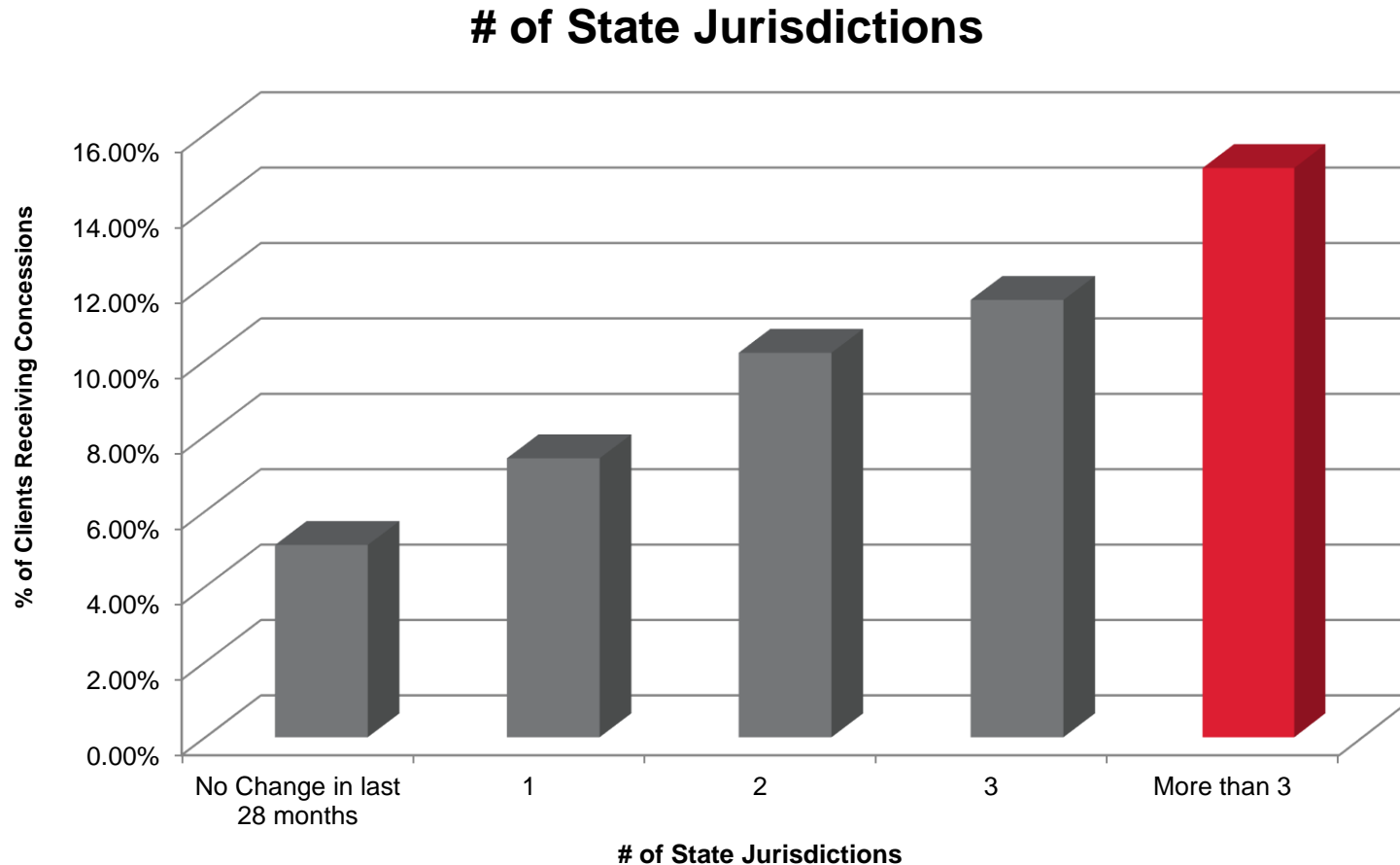

# of State Jurisdictions

% of Clients Receiving Concessions
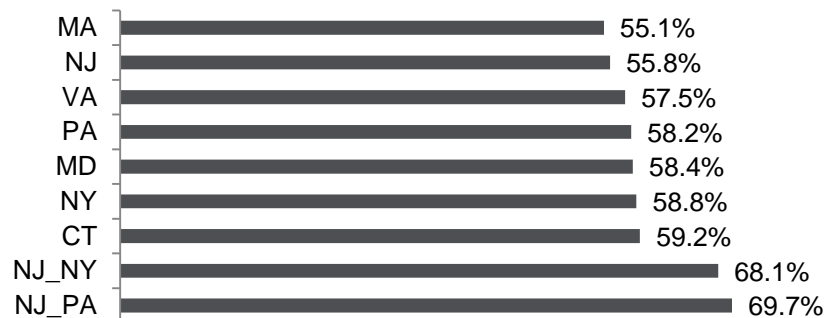
# of State Jurisdictions

Customers doing business in both NY/NJ and NJ/PA exhibit a very high percent in concessions relative to its peers

Jurisdictions by % of clients receiving concessions

West

Jurisdiction	%
CA	48.6%
CO	50.8%
UT	50.9%
OR	51.1%
NV	51.9%
WA	52.9%
AZ	53.4%

East

Jurisdiction	%
MA	55.1%
NJ	55.8%
VA	57.5%
PA	58.2%
MD	58.4%
NY	58.8%
CT	59.2%
NJ_NY	68.1%
NJ_PA	69.7%

Midwest

Jurisdiction	%
IN	49.4%
IL	51.4%
TX	52.4%
OH	53.3%
MN	54.2%
MI	55.3%
WI	55.7%
MO	56.7%

South

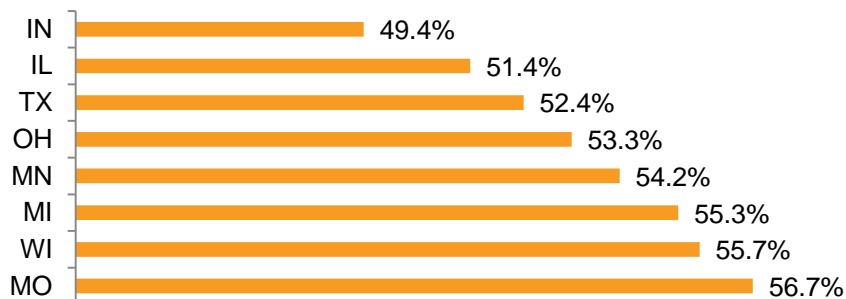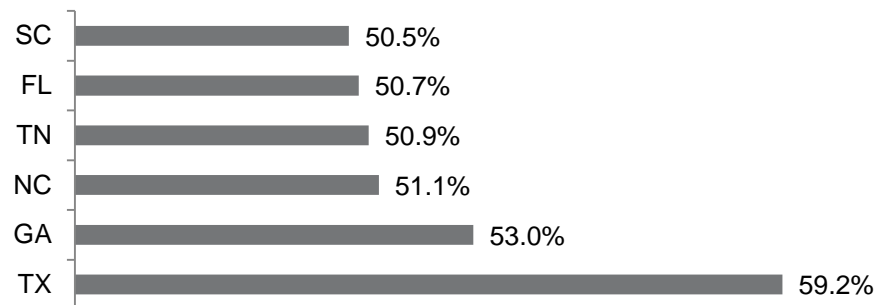| Jurisdiction	%
SC	50.5%
FL	50.7%
TN	50.9%
NC	51.1%
GA	53.0%
TX	59.2%
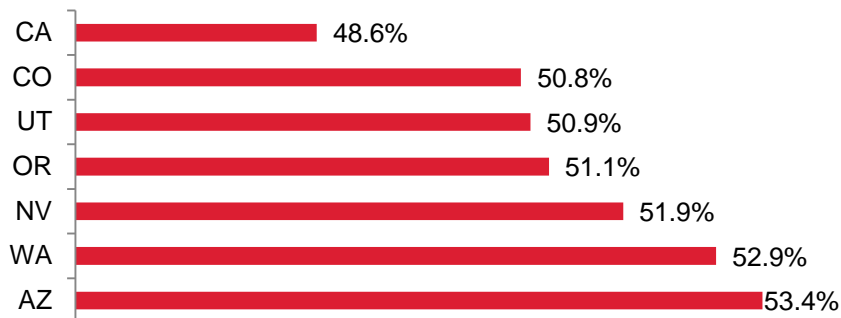
Minimum 500 clients in Jurisdiction

Minimum $500,000 Concession $ amount in Jurisdiction

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Going forward, the first plan of action should be geared towards improving the state and local jurisdiction process.

There is potential for improvement, but how?

Potential Business Campaign	Cost	Level of Effort	Benefit
Intelligent Implementation Routing	Med	High	High
Knowledge Management Upgrade	Med	High	Med
State & Local Jurisdiction Audit	Lost	Low	Med
State & Local Jurisdiction Automation	Med	Med	High
Increased Sales Education	Low	Med	Med
Intelligent Service Call Routing	High	Low	?^
Implementation Automation	High	High	High
Concession Safety for Low Competition	Low	Med	Med

^Can not know benefit until CRM data is analyzed

By automating the jurisdiction process, the client can save an estimated 2M just in the first year.

Example

Investment in Jurisdiction Automation

Benefits

Lower Concession Rates

Lower Implementation/Support time

Concessions caused by Jurisdictions	$7,654,469	YoY
Current Concession Rate	49.43%	
Target Concession Rate	35.00%	
Potential Improvement	29.2%	
Potential Savings	$2,234,145	
Upfront Automation Investment	$150,000	
YoY Maintenance and upkeep	$50,000	
Total Year 1 Cost	$200,000	
Net Savings Year 1	**$2,084,145**	

Sensitivity Analysis – Year 1

	Low Concession Rate							High Concession Rate	
	$2,084,145.06	20%	25%	30%	35%	40%	45%	50%
	0	$4.6M	$3.8M	$3.0M	$2.2M	$1.5M	$0.7M	-$0.1M
Small Investment	50,000	$4.5M	$3.7M	$3.0M	$2.2M	$1.4M	$0.6M	-$0.1M
	100,000	$4.5M	$3.7M	$2.9M	$2.1M	$1.4M	$0.6M	-$0.2M
	200,000	$4.4M	$3.6M	$2.8M	$2.0M	$1.3M	$0.5M	-$0.3M
	500,000	$4.1M	$3.3M	$2.5M	$1.7M	$1.0M	$0.2M	-$0.6M
	1,000,000	$3.6M	$2.8M	$2.0M	$1.2M	$0.5M	-$0.3M	-$1.1M
Strong Investment	3,000,000	$1.6M	$0.8M	$0.0M	-$0.8M	-$1.5M	-$2.3M	-$3.1M

Ok great, How do I get started?

Next Steps

- Appoint Project Champions

  - RUN Dev Lead

  - Julia Sobieski or Jurisdiction SME

  - Tech Arch Representative

- Define Feature Requirements

- Build Project Timeline

Risks

- Errors in Automation

- Learning Curve

Q&A