

*An Anova Customer Success Story*

# How A Private Equity Firm Diagnosed Churn Drivers in a Portfolio Company

## The Situation

A private equity firm had recently acquired an ownership stake in a portfolio company that provided a software solution for HR, payroll, and benefits management. Upon acquisition, the portfolio company's founders remained in senior leadership roles and retained substantial equity ownership, while the investors took on advisory roles as members of the board.

## The Challenge

To improve the portfolio company's performance, a key objective of the private equity company was to reduce customer churn. Over the course of the first year of ownership, the portfolio company had lost accounts representing 17% of their annual revenue.

# 17%

*Decrease*



*Annual Revenue*

The founders of the portfolio company had five major hypotheses as to why customers were leaving, but the board needed empirical data to make informed decisions.

### Customer Departure Hypotheses:

- ▶ Increased competition
- ▶ Previous service model did not scale and lacked personal touch
- ▶ Indirect-sold clients had relationships with channel partners, not the portfolio company
- ▶ Customers outside of “sweet spot” verticals were not strong match
- ▶ The product was not meeting customer demands

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Without reliable **Voice of the Customer** data, the question remained:

*Why were customers really leaving?*

# Outsourced Churn Analysis

## Churn Analysis

The PE company needed to validate the hypotheses for churn before they could confidently craft a strategy for improving retention. They hired Anova Consulting Group to implement a churn analysis program.

- ▶ Independent, third-party telephone interviews with decision makers at recently departed customers
- ▶ Used to determine the factors driving customer turnover, in order to improve customer retention, earnings and growth

## Anova's Approach & Results



### Define Project Goals

Anova met with the leadership teams of both firms, learned about the five hypotheses for churn, and designed a custom interview guide.



### Interview Departed Clients

Anova conducted 30 in-depth telephone interviews with the decision makers of churned customers, gathering valuable insights and voice of the customer ("VOC") feedback about reasons why the customer left the portfolio company.



### Uncover Insights

Anova's independent research uncovered that the product's lack of basic functionality was severely underestimated as the main churn driver, while other areas were not as impactful in client departures.

Churn Hypothesis	Outcome
Product not meeting customer demands	<b>Underestimated:</b> Gaps in product functionality cited as departure reason by 92% of respondents
Increased competition	<b>Overestimated:</b> Less than 10% of departures were initiated by competitor outreach
Legacy service model issues	<b>Overestimated:</b> Client service was actually cited more as a strength than area for improvement
Negative influence of indirect sales	<b>No Impact:</b> No noticeable difference in feedback from partner-sold customers
Churn was from non-"sweet spot" verticals	<b>No Impact:</b> No noticeable difference in feedback from different verticals

# Outcome

## The Value of Independent, 3<sup>rd</sup> Party Research

The Private Equity Company found value in using the unbiased data Anova was able to collect to challenge pre-existing hypotheses.

*“The research gave us unvarnished insight into our customer base. There was little of what was said by management that proved to be true. It helped us in our planning going forward. When a firm conducts their own client satisfaction survey, win/loss analysis or departed client interviews, too often these clients will say whatever is necessary so as to not hurt feelings. We needed Anova's objective approach to truly understand what is going on.”*

-Private Equity Associate, Client Company Board Member

## Anova Consulting Group

Experts in Sophisticated B2B Markets

*We work with market-leading companies that build and maintain their businesses through complex and multi-layered sales and servicing processes*



## Market Leading Client Programs

### Completed

300+  
Win / Loss  
Studies

100+  
Client Satisfaction  
Studies

### Clients

#### 12 Fortune 100 Companies

2 of the 4  
Largest  
Software  
Companies

7 of the 10  
Largest  
Financial  
Service  
Providers

1 of the 2  
Largest  
Healthcare  
Companies

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