

FUNDAÇÃO GETULIO VARGAS  
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

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**FIGHTING CUSTOMER CHURN RATE: AN EXPLORATION OF CUSTOMER  
DEFECTION IN FINANCIAL SERVICES**

SÃO PAULO

2019

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Thesis presented to Escola de Administração  
de Empresas de São Paulo of Fundação  
Getulio Vargas, as a requirement to obtain  
the title of Master in International  
Management (MPGI).

Knowledge Field: Gestão e  
Competitividade em Empresas Globais

Adviser: Prof. Dr. Carlos Eduardo Lourenço

SÃO PAULO

2019

Ferreira, Fernando Lamounier.

Fighting customer churn rate : an exploration of customer defection in financial services / Fernando Lamounier Ferreira. - 2019.

78 f.

Orientador: Carlos Eduardo Lourenço.

Dissertação (mestrado profissional MPGI) – Fundação Getulio Vargas, Escola de Administração de Empresas de São Paulo.

1. Clientes - Fidelização. 2. Clientes - Contatos. 3. Comportamento do consumidor. 4. Consórcios - Brasil. 5. Educação financeira. I. Lourenço, Carlos Eduardo. II. Dissertação (mestrado profissional MPGI) – Escola de Administração de Empresas de São Paulo. III. Fundação Getulio Vargas. IV. Título.

CDU 658.818(81)

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Approval Date

20/05/2019

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## ABSTRACT

Several papers have related customer churn with customer relationship management (CRM) in a wide range of industries. Few empirical studies have analyzed the Brazilian Consortium segment deeply in order to evaluate customer churn regarding financial literacy level, which is defined by “the ability to make informed judgments and to take effective decisions regarding the use of management of money” (ANZ Banking Group, 2015, p. 02). Thereby, this paper first examines the relationship between customer financial literacy and customer churn to then investigate the reasons why customers churn in a Brazilian Consortium company. To explain this question holistically, a mixed-method was chosen. In the quantitative part, a survey was conducted to measure the financial literacy of 2,004 customers of that Consortium company. These consumers were tracked for three months after signing the contract and were then segmented in two different groups: churners and non-churners. Eventually, the author could compare the financial literacy level between both groups to verify any meaningful difference. In the qualitative part, a semi-structured interview was carried out with 12 churners to identify the reasons why they have defected. The results prove that churners have a lower financial literacy level, but it has no practical relevance since there is a minimum difference between both means. Ultimately, the findings suggest three main reasons for customer defection: 1) Misleading Negotiation, 2) Financial Restraints, and 3) Customer Withdraw. In the end, managerial implications are discussed and proposed.

**Key Words:** customer churn, defection, Consortium, Brazil, customer loyalty

## RESUMO

Diversos trabalhos relacionam a *customer churn* com o *customer relationship management* (CRM) em uma ampla gama de setores. Poucos estudos empíricos analisaram profundamente o segmento do Consórcio Brasileiro para avaliar o customer churn em relação ao nível de alfabetização financeira (Financial Literacy), que é definido pela “capacidade de fazer julgamentos informados e tomar decisões efetivas sobre o uso da gestão do dinheiro” (ANZ Banking Group, 2015, p. 02). Assim, este artigo examina primeiro a relação entre o Financial Literacy do cliente e *customer churn* para, então, investigar as razões pelas quais os clientes desistem do contrato em uma empresa do consórcio brasileiro. Para explicar essa questão holisticamente, um mixed-method foi escolhido. Na parte quantitativa, foi realizada uma pesquisa para medir o Financial Literacy de 2.004 clientes dessa empresa do Consórcio. Esses consumidores foram rastreados por três meses após a assinatura do contrato e, em seguida, foram segmentados em dois grupos diferentes: “*churners*” e “*non-churners*”. No final, o autor comparou o nível de alfabetização financeira entre os dois grupos para verificar qualquer diferença significativa. Na parte qualitativa, foi realizada uma entrevista semiestruturada com 12 rotarianos para identificar os motivos pelos quais eles desistiram. Os resultados provam que os “*churners*” têm um nível de alfabetização financeira mais baixo, mas não tem relevância prática, uma vez que há uma diferença mínima entre as duas médias. Por fim, os resultados sugerem três razões principais para a deserção do cliente: 1) Negociação Enganosa, 2) Restrições Financeiras e 3) Desistência do Cliente. No final, implicações gerenciais são discutidas e propostas.

**PALAVRAS CHAVE:** customer churn, defection, Consórcio, Brasil, customer loyalty.

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## 5 Introduction

### 5.1 Financial services context

Since globalization, deregulation and technological improvements have emerged in most countries in the world, the competitiveness instituted a new business environment where fighting to maintain current customers is as important as fighting for new ones. This is especially true in mature and established segments where new customers are rare and already used to their current suppliers (Glady, Baesens, & Croux, 2009). Recent improvements have developed the performance of IT platforms and, more importantly, have reduced the costs involved and allowed the democratization to different sizes and industries to the benefit of this digital transformation. Thus, it might be a way out to a relevant “management dilemma” (Cooper & Schindler, 2014, p. 77) in relationship management: customer churn causes and retention management strategies.

CRM suppliers have been expanding their products and services to a wholly new market due to a digital transformation that most SMEs (small and medium-sized enterprises) have been dealing with in the last few years. Hence, differently from the last decades when a CRM software would be possible just in huge corporations with reasonable financial power and mature process and structure to fit a software, nowadays there is a diversity of products, prices and functionalities available in the market that enable the digital transformation cliché and allow the SMEs a similar level of management, through new APPs, customized promotions and, mainly, marketing analytics.

CRM is one of the most important activities of a company (Payne & Frow, 2005) and the innate focus of SMEs on workable applications need to be economical and effective (Harrigan, Ramsey, & Ibbotson, 2012). It is possible to assume that there is a new path to CRM implementations in SMEs that can contribute to a flexible and customized process, to a customer centricity view and a data-driven decision-making. For that reason, apart from banks and automakers branches, which are mostly big corporations, the traditional Consortium companies in Brazil are essentially SMEs and family business facing the same challenges in the past years.

Additionally, churn (or defection, or attrition) management has been seen as one of the most important roles of a C-level manager. Churn is the percentage of customers who discontinue their contracts, subscriptions or services within a certain time period for any reason. These consumers have churned a company. If companies are able to identify those churners beforehand, supported

by a Business Intelligence tool, they can translate it in real profits through customized incentives to encourage customers to stay (Botelho & Tostes, 2019). Thereby, the recent digital transformation and CRM improvements enable better control and anticipate actions to avoid customers leaving and searching for new companies (Larivière & Van Den Poel, 2004). In short, customer retention is a valuable strategy to achieve long-term profitability (Buckinx & Van Den Poel, 2005), especially in mature and competitive industries where acquiring new customers might be too costly and time-consuming (Glady et al., 2009). Churn management is based on the CLV (customer lifetime value) premise that a customer provides higher profits in future periods according to its CLV value (Venkatesan & Kumar, 2004) and should be selected and retained based on this projected value. Beyond, firms should only target retention incentives into customers that would have a relevant susceptibility to decrease churn in response to the intervention. In other words, it is time and money consuming to focus on every single customer (Ascarza, 2018).

Specifically, in the Brazilian Consortium Segment, the industry background of this research (better explained on the appendix<sup>1</sup>), churn management has been treated as the main challenge for managers and academics to identify the leading causes and to bring forward tangible solutions. It represents a threat to the profitability and might lead to natural negative word-of-mouth that could put in risk the sustainable development of this sector. Furthermore, a common sense in this industry is that the supposedly low level of Financial Literacy of the customers makes it harder to Consortium companies to deal with them during their contract period. Financial Literacy, in turn, is defined by “the ability to make informed judgments and to take effective decisions regarding the use of management of money” (ANZ Banking Group, 2015, p. 02) and will be one of the variables of this research in the following sections.

## 5.2 Purpose of the study

The historically high rate of customer churn led the research in the next pages. Therefore, the “management question” (Cooper & Schindler, 2014, p. 77) is understanding why consortium managers fail to keep their current customers in one benchmark company (hereafter referred to as “Company A”), consequently increasing their churn rate, despite being efficient in attracting new ones. At the end of this work, it was possible to distinguish the attributes of satisfaction and

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<sup>1</sup> In the appendix is given more details about the industry and its regulations, dynamics and characteristics, assuming that this is a totally new market especially outside Brazil.

dissatisfaction of a customer, having in mind CRM background, through a mixed-methods approach applied to recent churn customers. The philosophical worldview that influenced our research is the Postpositivist since this is an empirical study where it is intended to analyze the “causes that probably determine effects or outcomes” (2009, p. 07).

Moreover, it is an attempt at a reductionistic approach that measures the reality in the real business world (J. W. Creswell, 2009). Hence, the scientific method is used to test theories with highly structured and measured data (Saunders & Tosey, 2013). In short, the observations of cause and consequences and the relationships among variables of customer churn influenced the form of research for this study.

Thus, if the studies of CRM (Buckinx & Van Den Poel, 2005; Chen & Popovich, 2003; Harrigan et al., 2012; H. Kim & Kim, 2009; H. W. Kim, 2004; S. Y. Kim, Jung, Suh, & Hwang, 2006; Larivière & Van Den Poel, 2004; Maleki, 2008; Payne, 2006; Payne & Frow, 2005; Xu, Yen, Lin, & Chou, 2002) and Churn (Ahn, Han, & Lee, 2006; Gladly et al., 2009; Hwang, Jung, & Suh, 2004; Jain & Surana, 2017; Lemmens & Gupta, 2013; McDonald, 2010; Neslin, Gupta, Kamakura, Lu, & Mason, 2006; Springer, Kim, Debruyne, Azzarello, & Melton, 2014; Wong, 2010) are traditional in the academic field with relevant articles in the past decade, it remains to be studied how these topics can be applied in the Brazilian Consortium segment. Hence, this study is important mainly because (1) it is one of the most important segments in the national financial industry; (2) due to its consistent growth in the last decades and consequently more relevance in Brazilian media and; finally, (3) in consequence of the persistent ineffectiveness to manage and improve the retention of the current customers by Consortium managers. In other words, this study aims to analyze and understand the reasons for this outcome and the extent to which organizations can endeavor new techniques and models to control this situation.

### 5.3 Company A

Company A was chosen as the case study of this research based on its (1) ease of access, (2) overall representativeness and the (3) long-term battle against churn.

Firstly, the researcher has a familial bond with Company A with most of the relatives working there for a long time. Indeed, it has helped to access information since most of the data could be required in a pre-designed way. Beyond, it allowed the researcher to interpret data that could have different causes and, consequently, distinct outcomes.

Secondly, Company A is a specialized Consortium company ranked among the biggest in its sector, which means that it might share the same challenges that other important companies do. Moreover, its operation is allowed by the Central Bank of Brazil, and it is audited and supervised consistently along the years, guaranteeing that its process and financial statements are being run accordingly.

Finally, among Company A's managers is very well known that churn rate is one of the most important battles that the company has faced in the last years, without showing a relevant solution and tangible results yet. Thus, the research could be useful not just for the academic environment, but also for a pragmatical daily job of the managers involved in this business. Based on those insights it is possible to affirm that Company A is representative of the sector and their results could infer an industry-wide problem and solution.

#### 5.4 Research question

This work aims to fix some of the deficiencies in the Consortium system that are not studied deeply in the academic environment, despite their elevated importance to the Brazilian economy. Supporting a Postpositivist worldview, this mixed-methods research was structured through a survey questionnaire “with the intent of generalizing from a sample to a population” (J. W. Creswell, 2009, p. 12). This questionnaire was applied to customers by telephone calls as a result of an after-sales process, which a marketing team is responsible for calling every recent client a few days after a contract is signed. Thus, some closed-end questions were introduced in the current checklist that needs to be followed to generate raw data for further analysis. Finally, the research design elected is an explanatory sequential mixed method (known as *mixed-method complex design* (Saunders & Tosey, 2013)), which means that we “first conducted a quantitative research, analyzed the results and then built on the results to explain them in more detail with qualitative research” (J. Creswell, 2009). In this regard, current and past customers and specialists and managers of companies were interviewed in order to distinguish the information compiled and draw a conclusion based on a holistic view.

##### 5.4.1 Quantitative Research

The after-sale questionnaire applied to new customers is the first step to relate variables in the study. During the following three months (three installment payments) the customers were tracked to identify defections among them and then, finally, statistical procedures could validate the

hypothesis. The independent variables are the financial literacy of each customer (and age, gender, income bracket), while the dependent variable is the churn rate, which is the number of current customers that gave up the formal contract. With that, it provided some answers and insights to managers that have been struggling with these problems and seeking a data-driven approach to start to decode it.

On that account, the first specific objective of this dissertation intends to answer the following research question:

**Are financial illiterate people more susceptible to churn in a Consortium?**

In other words, the hypothesis was motivated by a commonly accepted idea that less financially experienced and savvy people would be more inclined to give up the consortium share and, finally, churn. Thereby, the Null Hypothesis (H0) is that the financial literacy level has nothing to do with the churn likelihood, and the Alternative Hypothesis (HA) is that illiterate people are more susceptible to churn in a Consortium.

Thereby, taking advantage of established survey methodologies to measure financial literacy among people, this paper conducted the research with real Consortium customers to validate or refute this hypothesis. Namely, this study is an attempt to compare two groups of customers, churners vs. non-churners, and find out the defection determinants in a Brazilian Consortium company.

#### 5.4.2 Qualitative Research

In the second moment, the specific objective of this dissertation expects to understand the Consortium client qualitatively: their drivers of choice and their perception of the Consortium business model and why they eventually churned. For this reason, a semi-structured interview was conducted to observe and develop a deep understanding about customer's perceptions on Consortium industry. Twelve churners were invited to this interview that intended to give insights about the following research question:

**What are the customer churn determinants in the Consortium industry?**

There are plenty of reasons ordinary people decide to buy a share of a Consortium, and it can vary by some independent variables such as region, age and social class. Some of them can buy it as an

investment, some as a patrimony or heritage building, some as a specific objective such as a car, house, education service. Clarifying the possibilities was the first step in this research.

Next, the idea was portraying the different kinds of clients and figuring out the rationale for the constant withdrawal of shares of a Consortium within a few months of purchase. The investigation of churn-triggers such as customer complaints, customer misunderstanding, salesman misleading techniques, customer shortage of money to keep paying, may support managers in the rational data-driven and fact-based decisions, specifically developing customer churn programs to reduce this KPI.

Taking advantage of both quantitative and qualitative methods allow this research a broader view of the problem. Moreover, the direct contact with churners enabled a close connection with customer's dissatisfaction factors and attributes that, eventually, made possible drawing some strategies to fight them and enhance customer loyalty and retention in the long-term.

## 5.5 Justification

The present topic was chosen since the Consortium market has been increasing its market share and importance in Brazil since 2009, the year the specific Law (11,795) was approved, as a secure and cheaper way for people to acquire their credit lines. Moreover, the last few years demonstrated that a few companies are successfully operating in Latin American countries such as Argentina, Peru, and Chile. However, despite its increasing economic relevance, there is little research specifically on Consortium dilemmas, which makes it essential to enable sustainable growth during the coming years.

According to most of the managers and leaders of the segment, the churn rates are the most significant problem that consortium companies have been facing in the past years. It is present in managers and C-Level discussions yearly in sector Congresses over the past years. Despite not having a formal industry average rate released, according to a company that is a reference for this research, the general number can achieve 70% of the clients, which means that just 30% of the clients are willing to remain until the last of the installments. This fact would represent a loss of profitability, legal liabilities and company insolvency since the money would stop coming and the managers must find a way to maintain the process and the raffles.

The rise in the general numbers of the segment in the past years (ABAC, 2018) can hide a long-term problem where the clients opt for a Consortium but practically all give up in the first months, asking for their money back. Apart from all the legal aspects, it can become an unsustainable vicious cycle, affecting all of the market, the Brazilian economy and the future of the sector.



## 6 Literature Review

In favor of collecting the major references and scholarships available to break down the research question, this dissertation describes first **Financial Literacy** where it is possible to verify what affects customer churn rates in organizations. Next, in the second chapter, **Churn** is examined considering researches in proxy industries, due to the lack of academic studies in Consortium segments. Finally, the dissertation goes through the **CRM** (customer relationship management) literature – the supportive framework - in light of traditional researches conducted in the last decades that would be the basis for our analysis. To have a more intuitive structure, the investigation is fragmented into three different aspects: people, process, and technology.

A graphical design of this research can be seen below in figure 1, demonstrating the relations between Customer Relationship Management, Financial Planning and Customer Churn.

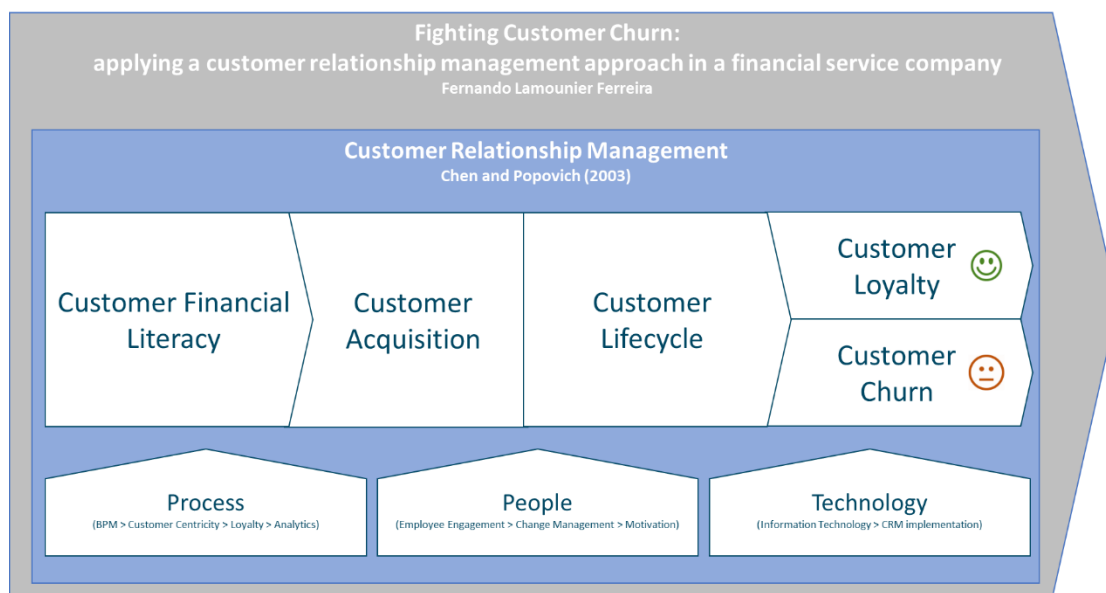


Figure 1 Research Structure

### 6.1 Financial Literacy

The Organization for Economic Co-Operation and Development (OECD) states that financial education has always been important for consumers to establish a standard to budget, manage, save and invest their resources efficiently, enduring a comfortable financial long-term life. It states twenty-six principles and good practices that should conduct consumer/investor's behavior and financial literacy. Moreover, it defines financial education as "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and,

through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being” (OECD, 2005, p. 04).

The last three decades in Brazil presented a group of neo-liberal policies and reforms that brought new challenges for the Brazilian population and a new role for the government. Globalization, technological improvements, currency stabilization, the Real Plan in 1994 were promoted in order to begin a sequence of changes in the economic field. As a result, financing decisions such as purchase methods, investments, the social and private pension should be defined and selected by the population, who had not been educated to manage these financial products (Savoia, Saito, & Santana, 2007).

These social and economic aspects are the basis for the emergence of Consortium in Brazil in the 1960s and its popularization in the 1990s. It is a unique format, genuinely Brazilian, oriented to consumption (Meirelles & Thomaz, 2016), which means that customers have a different opportunity to have access to a line of credit, regulated and audited by the Central Bank of Brazil. According to Visa (2012), the Brazilian population topped out in international financial literacy research conducted in 28 countries and involving more than 25,000 participants (Visa, 2012). Similar researches point out that complex financial knowledge would be hardly grasped by Millennials (PWC, 2012), students (Haiyang & Volpe, 1998; Volpe, Chen, & Pavlicko, 1996), Portuguese (Roquette, Laureano, & Botelho, 2014), Australians (ANZ Banking Group, 2015), and Americans (Council for Economic Education, 2018; Moore, 2003).

There is an accepted idea that the more experience and education, the more sophisticated and competent an individual might be to manage his/her financial aspects (Edmiston & Gillett-Fisher, 2006; Moore, 2003). Then, literate consumers usually increase the economic security and well-being of all their families (Hogarth & Hilgert, 2002) and become less vulnerable (Roquette et al., 2014). Hence, the opposite is also true, and people usually fail to make the correct decisions because they did not have a personal finance education (Haiyang & Volpe, 1998), which, in turn, make these people seek professional assistance from financial planners when realizing they cannot handle properly this aspects (Volpe et al., 1996). In other words, seemingly, people are financially

irresponsible because they do not know how to make good decisions (Edmiston & Gillett-Fisher, 2006)

Financial literacy has been defined in slightly different ways by all these scholars, despite being used as a synonym of financial education (Huston, 2010). For simplicity's sake, this dissertation adopts the following: "the ability to make informed judgments and to take effective decisions regarding the use of management of money" (ANZ Banking Group, 2015, p. 02). Complementarily, Moore (2003) agrees with Huston (2010) that there is not a standard instrument capable of measuring financial literacy and, because of this, an alternative is using some proxy to estimate the level of financial education of the people. With that, financial literacy has been broken down into three different segments: (1) financial knowledge, (2) financial experiences/behaviors and (3) financial attitudes/opinions (Moore, 2003).

## 6.2 Churn

As part of a marketing and customer relationship management strategy, managers of any industry are worried about customer churn and the reasons a customer decides to switch the suppliers (Larivière & Van Den Poel, 2004). Additionally, they are aware that a long-term "cradle-to-grave strategy" might result in profitability gains (Garland, 2002). It is a challenging issue for several firms (Neslin et al., 2006) such as financial services (Glady et al., 2009; Larivière & Van Den Poel, 2004), banking (Garland, 2002), internet (Wong, 2010), telephone (Ahn et al., 2006; Lee, Lee, & Feick, 2001), sports industries (McDonald, 2010), retailers (Buckinx & Van Den Poel, 2005) and B2B (Lam, Shankar, Erramilli, & Murthy, 2004) .

Churn rates can vary from industry to industry, but a few researches have reported 17% in sports organizations (McDonald, 2010), from 20% to 40% in global telecommunications (Ahn et al., 2006), from 23.4% to 46% in the cellular phone industry (Neslin et al., 2006) and 20% in American credit card companies (Lemmens & Gupta, 2013).

Reichheld and Sasser (1990) stated that it impacts the company's profits directly, where retaining 5% more customers would boost by almost 85% the profits in a bank, 50% in an insurance brokerage and 30% in an auto service chain. Further, the importance of the churn rate is based on the fact that a manager can track what the customer values that are not matched by organizational strategies (F. F. Reichheld & Sasser, 1990).

Therefore, defection management would be defined as the control and administration, in a coordinated way, to avoid and analyze customer churn through its lifecycle in any organization (F. F. Reichheld & Sasser, 1990). To be successful, it should implement retention programs to increase switching costs and extend the length of time that a customer stays to allow them to spend more at the company (Buckinx & Van Den Poel, 2005). That is especially important in cost-cutting, competitive and mature industries where customer acquisition costs are elevated and, hence, customer retention would impact significantly the long-term profits margin (Glady et al., 2009; Lee et al., 2001).

Historically, companies implemented a few programs and strategies to improve customer retention. **Customer satisfaction programs** are used as a benchmark to determine product and service performance, and its consistently and long-run accomplishment is commonly linked to retention (Anderson & Sullivan, 1993), to economic returns (Anderson, Fornell, & Lehmann, 1994) and, finally, to a market-share increasing (Rust & Zaborik, 1993). Even though customer surveys are important in attesting business health, it should be just one method to keep in touch with customer's needs (Jones & Sasser, 1995).

Second, **complaint management** is usually employed in line with defensive marketing – the sense of reducing customer defection – to resolve customers dissatisfaction and then retain them (Fornell & Wernerfelt, 1988). Those customers are linked to more repurchase intentions and long-term relationships (Robert Johnston & Mehra, 2002), and their returns outweigh the costs involved in the process and structure necessary to enable this strategy (Fornell & Wernerfelt, 1987). Companies, however, usually ignore potential operational improvements necessary to avoid the problems reoccurring and focus just on mollifying customers (R Johnston, 2001).

Third, **switching costs** are tools such as learning costs, transaction costs, and artificial or contractual costs (Klemperer, 1987) that discourage customers from changing the provider and are used more often when there are some similar alternatives available in the market (Lam et al., 2004). It can generate false loyal customers that are retained just because of the high costs involved in leaving the company, not because they are truly satisfied (Lee et al., 2001).

Finally, **loyalty program strategies** are held by corporations that build it as a company's core strategy, not as an add-on tool (Frederick F. Reichheld & Teal, 1996). Moreover, they expect a win-win arrangement, where customers are more loyal, and companies offer them a better

experience. It would avoid a “polygamous loyalty” and, consequently, maintaining a steady sales level. The reality, however, is that many frequent-flyers reviewed in business media might be flawed due to a lack of planning and customer value coherence (Dowling & Uncles, 1997).

Furthermore, customer defections are commonly divided into two different types: *contractual* and *non-contractual* setting. While with the former the customer is usually linked to a formal contract - which means an exit barrier that would increase the switching costs and a possibility to determine the exact moment when customers defect – in the latter the customer has the “opportunity to change their purchase behavior without informing the company about it” (Buckinx & Van Den Poel, 2005, p. 253). Thus, the customer attrition can be *total*, when people discontinue their contact with the company or a more frequent *partial* when customers defect continuously, bringing their money to the competition gradually. In short, “in the long run, partial defection may lead to total defection” (Buckinx & Van Den Poel, 2005, p. 255).

Indeed, there is an intense work to discover why customers defect, especially if there is a huge customer base, typical of B2C segments. However, companies confronted with relevant churn rates should consider it carefully. A prior step might be determining what the most profitable customer's concern is. Otherwise, a possible decrease in the churn rate would not necessarily mean an increase in profitability, which is the final objective of this subject. Second, as stated by McDonald (2010) in his research to break down the problem, churn could be divided into controllable and uncontrollable elements. Uncontrollable is typically related to individual aspects such as having children, moving to a new house, change of personal or professional responsibilities. Meanwhile, controllable is linked to dissatisfaction with some aspect of the organization (McDonald, 2010).

Therefore, in order to accomplish the churn analysis, customer lifetime value (CLV) can be used to select and retain the “best” customers in customer relationship management (CRM). According to Venkatesan and Kumar (2004), “customers selected on the basis of CLV provide higher profits than do customers selected on the basis of other widely used CRM metrics.” In short, this indicator should be the most relevant and reliable for managers who select and allocate the resources available in the organization (Venkatesan & Kumar, 2004). In accordance, CLV is defined as “the dollar value of a customer relationship based on the present value of the projected future cash flows from the customer relationship” (Farris, Bendle, & Pfeifer, 2010, p. 171). In other words, it represents the maximum of spending to obtain new customers (Farris et al., 2010). Hence, a

(partial) churning can be described as a customer who decreased its customer lifetime value over time (Venkatesan & Kumar, 2004).

In the end, the insights given by a churn rate analysis and management are related to customer retention. As described in the CRM literature review, a customer relationship management strategy can support and improve customer retention rates. Hence, loyalty-based management (Frederick F. Reichheld & Teal, 1996) should be the spirit of defection management (F. F. Reichheld & Sasser, 1990) in terms of avoiding one of the most relevant units of failure in business. In short, customer attrition should be treated as an opportunity to learn the root causes of its problems, uncovering practices, processes, and strategies that need fixing (Frederick F. Reichheld & Teal, 1996) as churn is usually a consequence of the cumulative experience of many unsuccessful episodes (Springer et al., 2014). Since every churning is the consequence of inadequate value, this analysis can amplify a manager's view of every aspect of the organization: from marketing to finance, operations, logistics.

Reichheld and Teal (1996) state that it is hard to identify and learn from defecting customers, "so, unless it is clear to managers that their annual bonuses are tied to reducing attrition, supplying them with world-class failure analysis systems will not improve their decision making" (1996, p. 198). Briefly, it is clear that they need to learn. Nonetheless, they need to want to learn, observing how relevant it is to their own and company success (Frederick F. Reichheld & Teal, 1996). In recent consulting researches, it was found that building a strong analytic-based foundation can lead to a reduction of 15% in churn rates (Jain & Surana, 2017), a loyalty-based program can generate as much as 20% of a company's profit (Shaukat & Auerbach, 2011) and a 2.5% churn rate per month might represent an annual \$2 billion in revenue loss in a 5 million customer wireline company (Springer et al., 2014).

Finally, an integrated customer relationship approach, as it has been shown before, would impact the churn rates directly. CRM-focused leaders outperform their competitors because it is an escape route to shrinking revenues, growing commoditization and new regulations. Moreover, it represents the best alternative to manage the traditional customer high churn rates throughout several industries and segments that raises costs in operations and customer acquisitions and reduce revenues and profits (Eistert, Plettenberg, & Kaucic, n.d.).

### 6.3 Customer Relationship Management – CRM

In the last few decades, there has been a proliferation of articles expressing and demonstrating the use of Customer Relationship Management in the marketing field, from the technological approach to the strategical view. Although not being new, the term has evolved during the time, having its definition expanded in parallel with academic and market development. The CRM term has emerged in the 1980s from the information technology (IT) vendor community, willing to describe a technology-based solution that would become known as a sales force automation (SFA) (Payne & Frow, 2005). However, as an SFA tool, it was more interested in routine tasks automatization to enable sales forces to concentrate more on selling than on administrative assignments (Chen & Popovich, 2003). That would be proven to be a small piece of the whole CRM context.

In the mid-1980s the term relationship management has come up in the industrial marketing defining it as “attracting, maintaining and enhancing customer relationships” (2002, p. 69). The year 1983 was the very first time when this expression appeared in the marketing literature, although it had been discussed before as a concept (Berry, 2002). There would be five different strategies to develop a relationship marketing plan: (1) Core Service Strategy (2) Relationship Customization (3) Service Augmentation (4) Relationship Pricing and (5) Internal Marketing. Those are not independent and can be used simultaneously and are the reasons for which, at the end of the day, the customer decides not to change suppliers (Berry, 2002). Therefore, those steps are related to the marketing activities focused on “establishing, developing and maintaining successful relational exchanges” (Morgan & Hunt, 1994, p. 34).

However, there is a systematic difference in customer relationship among a group of customers. Low relational customers, those with a transactional orientation, are driven by overall satisfaction, while trust and commitment drive high relational ones (Garbarion & Jhonson, 2016). In agreement, Fournier, Dobscha, and Mick (1998) states that “relationship marketing is powerful in theory but troubled in practice” (1998, p. 44). Complementarily, Jackson (1985) points out that a company should pursue both transactional and relational practices to fit differing customers orientation in its customer base. In short, managers want to do “relationship management,” but their customers think more regarding “transactional management” (Jackson, 1985, p. 121).

Later on, in the 1990s, the perception of one-to-one initiatives was possible through technology improvements, competitive environment and internet popularity (Chen & Popovich, 2003). One

to one marketing could be described as a learning relationship that is improved along the customer lifecycle. (Peppers, Rogers, & Dorf, 1999). In other words, “the customer tells you of some need, and you customize your product or service to meet it. Every interaction and modification improve your ability to fit your product to this particular customer” (Peppers et al., 1999, p. 152). Lastly, there would be four steps to developing a one-to-one program: (1) identifying your customers, (2) differentiating among them, (3) interacting with them, and (4) customizing your product or service to fit each customer’s needs.

Within the academic professionals, relationship marketing, CRM, and one-to-one marketing are often used correspondingly (Payne & Frow, 2005; Peppers et al., 1999), although CRM is more discussed regarding tech solution. It is possible to consider CRM a recent management discipline with its roots in relationship marketing and can be described as an evolution of marketing concepts integrated into newly available data and technologies (Payne, 2006).

The development of CRM and relationship marketing in both academic and professional fields has allowed different frameworks that endeavor to summarize the most important ideas of this discipline. Indeed, there are different approaches, since a few of them are more concerned with process, others with implementation, others with strategy, others with technology. In the following paragraphs, different views are encapsulated to condense the body of knowledge so far.

First of all, based on the fact that CRM is widely misinterpreted by marketers and distorted by software houses, companies have to re-formulate their structures and process. Therefore, Buttle (2000) proposed a “**CRM Value Chain**” portraying the most important process that should be worked on in any implementation project. In the end, the main focus would be on customer profitability, and new metrics should be analyzed such as customer acquisition costs, customer retention rates and share-of-customer (Buttle, 2001).

Second, Payne and Frow (2005) first developed “**A Conceptual Framework for a CRM Strategy**” where it identified five CRM generic processes that would compose a theoretical model: “(1) the strategy development process, (2) the value creation process, (3) the multichannel integration process, (4) the information management process, and (5) the performance assessment process” (Payne & Frow, 2005, p. 170). In the following year, Payne (2006) established another structure that would add four implementation elements to the old five core CRM process (Payne & Frow, 2005), resulting in the “**CRM Strategy and Implementation Model**.” This last model



was proposed in order to create a new path for executives to follow, since this lack of agreement, the broader strategic focus and a wide range of views about CRM was appointed as the main cause of unsuccessful CRM initiatives (Payne & Frow, 2005)

Finally, Chen and Popovich (2003) came up with another framework that is the basis of our literature review. Being defined as “CRM is a more complex and sophisticated application that mines customer data that has been pulled from all customer touch points, creating a single and comprehensive view of a customer while uncovering profiles of key customers and predicting their purchasing patterns” (Chen & Popovich, 2003, p. 676), they proposed a different and simple model based on the combination of process, people and technology, called “**A CRM Implementation Model**”, according to figure 2. Besides, it considers the context of a customer-centric business process, cross-functional integration, enterprise-wide strategy, and technology-driven process.

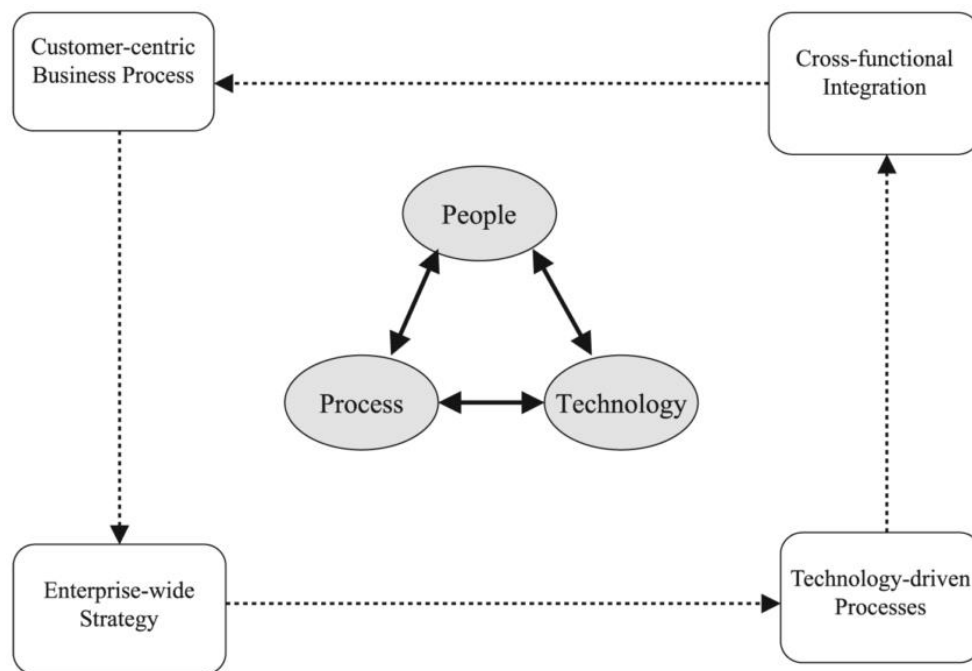


Figure 2 A CRM Implementation Model (Chen & Popovich, 2003)

The vital roles of these three elements are better discussed in the following sections of this paper, deepening in the body of knowledge available in the academic environment.

### 6.3.1 Process

The first element of the entire framework composition is Process.

A few decades ago, efficient facilities would be a competitive advantage since they could allow standardization, resulting in productivity gains and lower costs (Chen & Popovich, 2003). However, the popularization of these production techniques and process knowledge shifted a company's focus, and now the marketing department would have the possibility to attract more and different customers with unique needs. Hence, this "commoditization" era was the trigger to a process-oriented approach emergence that would ultimately focus on the customer's needs and desires.

That is to say that it would be the end of the product-centricity generation, which had been present since the early years of marketing, replaced by a customer-centric approach that emerged in the mid-1950s with the consolidation of new marketing researches (Shah, Rust, Parasuraman, Staelin, & Day, 2006). Those companies that adopt a customer-centric approach are named customer-oriented, market-oriented or market driven. According to Day (1994), they have specific capabilities that enable them to create this view. Those capabilities are "complex bundles of skills and collective learning, exercised through organizational processes, that ensure superior coordination of functional activities" (Day, 1994, p. 38).

Furthermore, business process management (BPM) discipline arose as a consequence of total quality management (TQM) in the 1980s and business process reengineering (BPR) in the 1990s (Brocke & Sinnl, 2012). Likewise the market concept, those process disciplines seek superior performance through customer satisfaction enabled by an internal focus on operational excellence (Day, 1994). Hence, BPM is concerned with the identification, evaluation, and improvement of organizational process and flows, avoiding the traditional segmentation by functional silos and implementing an end-to-end view that is opposed to hierarchies (Trkman, Mertens, Viaene, & Gemmel, 2015). Even though its origins are based on the technical and IT-related features, marketing and process departments began to adopt some of its references to re-design internal processes (back-office) and tailor new customer-oriented processes (front-office) that would interact with customer touch points during its life cycle as a client. (Brocke & Sinnl, 2012)

The mix of these two different disciplines - process management and marketing - has allowed the emergence of a Customer Centricity strategy. In accordance with Shivastava et al. (1999), due to its nature of disseminating a market perspective into organizations, marketing needs to affect the business processes that are directly linked to generating and sustaining customer value. Thereby,

there are typically three core macro processes in every company: process development management (PDM), supply chain management (SCM) and customer relationship management (CRM). To create a Customer Centricity view, marketing should be infused in those processes, impacting how they are designed, integrated and executed (Srivastava, Shervani, & Fahey, 1999).

By that, according to Deshpandé (2014), Customer Centricity would fit an organization in three different approaches: (1) understanding the customer, where the customer wants to have the greatest benefit and the lowest cost; (2) building a customer-centric culture, where the company develops a systematic and deep understanding of the customer; and (3) serving the customer, where the company develops a value proposition and competitive positioning based on customer needs (Deshpandé, 2014). In other words, it is intrinsically related to organizational culture, structure, process and financial metrics and, once successfully implemented, it would be hard for competitors to understand or even copy (Shah et al., 2006).

Day (1994) agrees that a market-orientation depends on the capabilities that a company needs to develop to support this approach. According to him, two capabilities can help the company to bring external insights to its focus: (1) market sensing and (2) customer-linking. While the former is related to the capacity that a company has to understand and foresee changes in the market, the latter referred to the skills and processes that enable a quick response to customer needs (Day, 1994). Finally, the more developed and mature capabilities a company has, the more oriented to the market and customers they can be. Moreover, a customer-centric approach is an important step to customer loyalty.

In the professional environment, consumer loyalty and satisfaction are hardly differentiable and often are used as synonymous. However, some researches have identified that the defection rates in satisfied customers reach 90%, which force us to reinterpret both topics: consumer satisfaction is related to a pleasurable fulfillment, when the perceived value of a product or service is bigger than the initial expectation; on the other hand, consumer loyalty is defined as a commitment to buy and rebuy a product or service now and in the future, when the customer becomes a frequent or cumulative consumer (Oliver, 1999). The relation between these two topics is that satisfaction is a seed that needs to be nurtured consistently during the time so that it became loyalty. Moreover, of course, a client could be extremely satisfied but still not loyal. On the other hand, he could be occasionally unsatisfied, but still decidedly loyal.

Hence, a satisfied customer may not come back again. A better way to transform them into loyal customers is “marrying them,” establishing mutually beneficial long-term partnerships that contribute to both sides of the relationship (Stewart, 1997). Moreover, a company should bear in mind that there are two different kinds of loyal customers: the true long-term loyalty and false loyalty. A customer can have a false loyalty when there are government regulations that limit competition, high switching costs, patents, efficient loyalty promotion, and campaign. In most of these cases, whenever the customer has the possibility, they find other companies to fulfill their desires and needs. On the other hand, long-term loyalty is tested when there is an intense and competitive market, where the customer has different choices (Jones & Sasser, 1995).

In short, Reichheld (1996) summarizes all the principles of loyalty as a business strategy called loyalty-based management. According to him, that is not supposed to be a tactical issue; it should not be done as an add-on. Instead, it is a strategic system that should be managed by the CEO and not relegated to the marketing department. Hence, the best performers are the ones that design their business into the service of loyalty including indicators, incentives, suppliers selection, training, career paths, advertising, pricing, service levels (Frederick F. Reichheld & Teal, 1996).

Finally, all these topics considered above - business process management (BPM), customer centricity and loyalty – should be analyzed in light of an analytical approach. If in the past, marketing was considered more as an art than a science (Farris et al., 2010), C-level executives and middle management have been changing this common belief into an effective hard and logical body of knowledge. In other words, the main advantage of this approach is adopting a concrete concept, rather than an abstract one, that “provides an operational definition and a precise specification in numerical terms of what exactly we mean” (Farris et al., 2010, p. 04) and then establishing a management of metrics to ensure the high standards of any organization.

### 6.3.2 People

The second element of the whole composition of the framework is People.

It might be the most sensitive aspect of the framework as the individual employees are the building blocks of customer relationships. The development and the operations of customer-driven IT systems are highly dependent on motivated and skilled employees (Payne, 2006). Chen and Popovich (2003) agree and add that the manager should assure a fair system of evaluation, compensation, and rewards to frame employee behavior and facilitate the implementation.

According to Payne (2006), the final element of his implementation model is employee engagement. That is supposed to be the first step of any CRM initiative. Employees are essential to implementing processes that include customer service. They can combine their efforts with IT systems to work effectively with customers that are exposed to them. Srivastava et al. (1999) state that “processes are meaningless when viewed in isolation of those people charged with implementing them” (Srivastava et al., 1999, p. 170). That is the reason that just a strong commitment from the company’s personnel can implement successful software (Payne, 2006).

To ensure that, top management involvement is crucial to sponsor the project and set the alignment of business goals. The main difficulty is that a diverse project team is necessary to keep the multidisciplinary and cross-functional aspect of a CRM system (Chen & Popovich, 2003). Srivastava et al. (1999) include that technology-driven cultures drive software implementations, and marketing people often are reduced to a secondary role (Srivastava et al., 1999). However, a customer-centric view is usually brought by the marketing and sales departments, and because of that, they should be involved in the early stages. Hence, the aim of top management should be to establish a unique view of the project by all members.

To make it successful, a substantial change in the mindset of the people involved in this project to contribute with a multidisciplinary agenda of implementation it is necessary (Payne, 2006). Although the employees can come from different expertise, they must be infused with marketing capability to bring its perspective to every part of the subprocess “as a means to learn about customer’s needs and wants and how best to create, satisfy and sustain them” (Srivastava et al., 1999, p. 172).

Apart from employee engagement, there is a need for change management to support this initiative. CRM projects require the full attention of the implementation team (Chen & Popovich, 2003, p. 684) and some cultural and organizational changes might be inevitable at this point. To avoid any misunderstanding, Payne (2006) differentiates change management, “which is a concern with strategic organizational change,” from employee management, “which was seen as a more operationally-oriented set of activities” (Payne, 2006, p. 152).

According to By (2005), “change is a normal and natural response to internal and environmental conditions” (2005, p. 371). Furthermore, the pace of change has never been greater, and these changes come in all shapes, forms, and sizes. As a result, it affects every organization. Also, By

(2005) agrees with Peters (1984) that it is a highly required skill, due to the importance of organizational change, and they should chase it (By, 2005).

Besides, Payne (2006) articulates that the `McKinsey Seven S` framework could be a useful tool to guide organizations to find relevant aspects of their business and then, execute the change management. The `Seven S` stand for: strategy, structure, systems, style, shared values, staff (people) and skills. In favor of reducing the strategy-execution gap, this framework aims to have a better diagnosis and to analyze organizational deficiencies concerning a “package of distinctive skills” (Peters, 1984, p. 113) that an organization should pursue to have a better performance.

Alternatively, Aladwani (2011) claims that software or new strategy implementation commonly involve a change in the routine of the employees. One of the main reasons is worker’s resistance, and that can be identified through multiple sources: employee-raised facts, beliefs, and values. In other words, the employees can affirm that computer illiteracy is a current issue, or they have spent the whole life doing without a system or even automatization fear. However, there are a few marketing and implementation strategies that soften these effects. He suggests a process-oriented conceptual framework with three phases to support change management: (1) knowledge formulation, (2) strategy implementation and (3) status evaluation (Aladwani, 2011).

Finally, with another perspective, motivation is an important aspect to be managed by the organizations. It is commonly measured by four indicators: engagement, satisfaction, commitment, and intention to quit. In turn, these indicators are supported by four different drivers that affect human emotions and behavior: (1) acquire, related to the desire to acquire scarce goods; (2) bond, related to the necessity to connect with some kind of groups or collectives; (3) comprehend, the appetite to understand the world around us, and (4) defend, the need to protect and keep the *status quo* (Nohria, Groysberg, & Lee, 2018).

Hence, a CRM implementation project would underlie mainly “the drive to comprehend” since it could enable a “desire for a meaningful contribution” (Nohria et al., 2018, p. 03) that might challenge and stimulate employees to grow and learn. In short, talented people from multidisciplinary areas will be intrigued and pleased to contribute to such a strategic project that might return in better performance and productivity to the company, which would boost their motivation levels.

### 6.3.3 Technology

Ultimately, the final element of the “CRM Implementation Model” is Technology (Chen & Popovich, 2003).

Information Technology (IT) is typically an enabler that allows radical improvements in the business process. Recent advances in this area have become possible for small and medium-sized companies to buy systems that can collect and analyze data and respond timely and efficiently the manager’s wishes and challenges. Particularly about CRM solutions, it “delivers repositories of customer data at a fraction of the cost of older network technologies. CRM systems accumulate, store, maintain, and distribute customer knowledge throughout the organization” (Chen & Popovich, 2003, p. 677).

Maleki (2008) agrees and completes stating that CRM uses databases, data warehouses, data mining, one-to-one marketing, automated call centers, and sales force automation to improve business performance (Maleki, 2008). He also mentions that CRM systems combine marketing and information systems (IS) in their foundations and should be understood through these two elements.

Focusing this chapter on the IS aspect, Kim (2004) articulates that there are five factors generally involved in the CRM implementation. The Organizational Commitment presents that the company needs to be committed to the project, especially the executive level which is responsible for encouraging the people and allocating talented professionals to the project. The Project Management should enable a variety of skills and high-level people to contribute to the project, respecting the deadlines and accomplishing the goals and final deliveries. The Strategy and Process demand that the organization has a clear strategy and that the structure and process be coherent and follow this long-term vision. The Technology attempts to guarantee that the system design and integration, channel integration and the integration between new and legacy systems are well arranged and executed. Finally, the Consequences is related to the fact that the information is more friendly captured by the final user in terms of “quality, responsiveness, assurance and empathy” (H. W. Kim, 2004, p. 24).

In the same approach, Xu et al. (2002) clarify four common technology-related components in a CRM implementation. Firstly, Data Warehouse is a major item of CRM systems because it supports the process and data of customer data integration, analysis, and personalization. Next, the

authors cite *Wireless* as a tool that can enhance CRM, devices, and services, making business more proactive. Then, they articulate that *Supplier Relationship Management (SCM)* would be a plan to integrate the supply chain and increase its responsiveness. In short, frontline salesforce could be directly linked to the right data in the supply chain. Finally, integrating the *Enterprise Resource Planning (ERP)* with CRM would mean that most aspects of the business such as planning, manufacturing, finance, logistics, HR, sales, and marketing would be connected and able to deliver the best experience to the customer (Xu et al., 2002).

Lastly, Chou et al. (2005) agree with Xu et al. (2002) and Kim (2004) about the importance of highly integrated databases to establish better business performance. The authors add, in the end, figure 3, a conceptual framework of how the different kind of systems should work together to support the management decision making (Chou, Bindu Tripuramallu, & Chou, 2005).

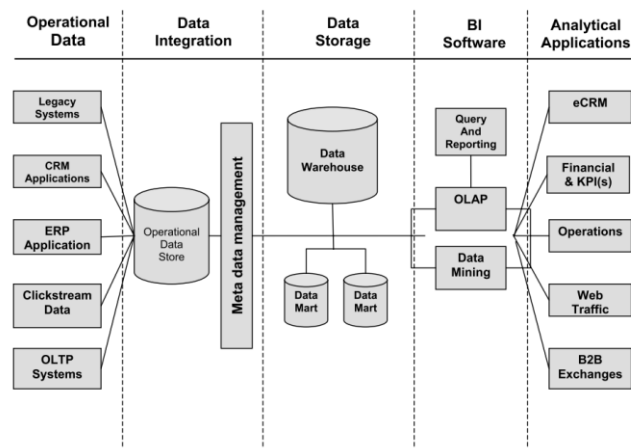


Figure 3 BI and ERP Integrated Framework (Chou et al. 2005, p.346)

Thereby, it is possible to observe the presence of CRM Applications in *Operational Data*, which means that it is possible to record daily business transactions between customer and company in this system. On the other hand, eCRM is contained in *Analytical Applications*, where the organization can understand business issues through a data-driven and analytical approach, relying on financial, operations and sales KPIs.



## 7 Methodology

Methodology is the set of procedures that enable research to be elaborated upon, concerning mainly the Philosophical Worldview and Research Design, Strategies of Inquiry and Research Methods (J. W. Creswell, 2009). In other words, the methodology is the preliminary plans to design a strategy for a study. Hence, the decisions taken at this time work as the basis to understand a problem and to propose a solution at the end of this endeavor.

The metaphor of the “Research Onion” (see figure 4) is also used to illustrate how the researcher should evolve in deciding the core elements to use in his/her research. The metaphor helps to clarify the steps since the research should peel away the outer layers until getting to the inner core and begin the research effectively (Saunders & Tosey, 2013).

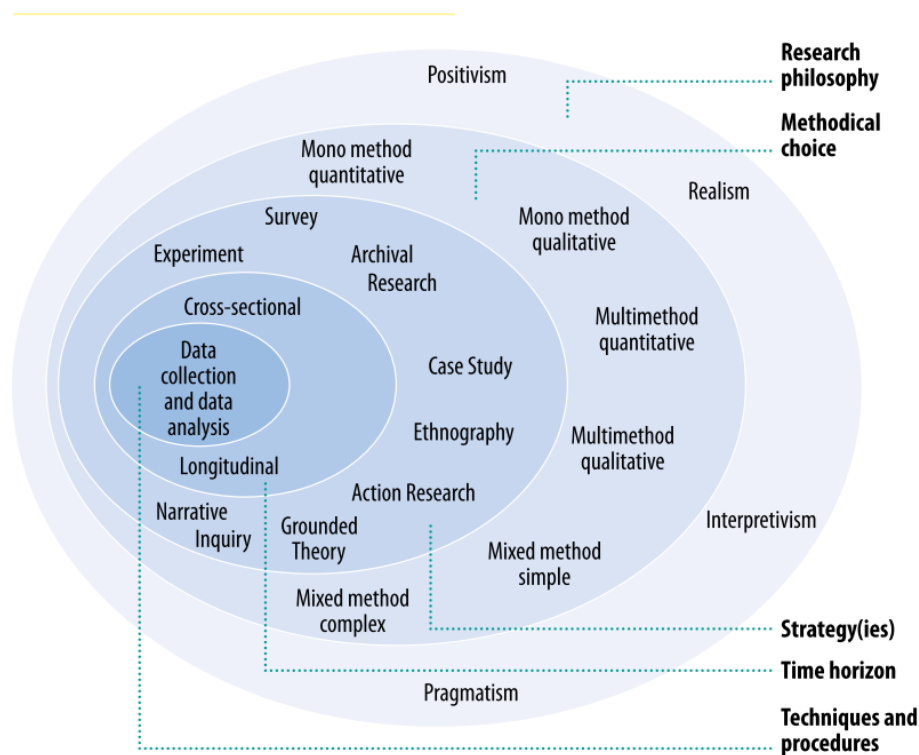


Figure 4 Research Onion (Saunders & Tosey, 2013)

The central premise of this study is that the churn rate is one of the most relevant problems in the Consortium sector, and the causes are still hypotheses not tested through real data. This idea has some support inside the marketing and sales departments of the companies, and it is shared in

niche congresses to managers and decision-makers, but it still requires some further validation. Thus, this study aims to empirically observe and measure the causes of a potential high churn rate.

### 7.1 Philosophical Worldview and Research Philosophy

The philosophical worldview chosen for this work is Postpositivism. This worldview, also known as *paradigms* and *ontologies*, can be described as a “basic set of beliefs that guide action” (J. W. Creswell, 2009, p. 06). It is also described as how the research views the world (Saunders & Tosey, 2013). In other words, it is the general orientation that a researcher holds and how it affects the way he/she perceives the world around him. Indeed, it has a great amount of influence in the decision of the type of methodology used in this work.

The Postpositivism worldview dates from the 19<sup>th</sup> century and was recently mentioned by some authors in the last decade. The main focus of this philosophy is to “reduce ideas into a small, discrete set of ideas to test” (J. W. Creswell, 2009, p. 07) and then have some insights of the causes that influenced specific outcomes. In a general way, this scientific method has a standard that comprises a beginning with a theory followed by a collection of data that might support or refute the theory, and then final and additional tests can be made to revise the research (J. W. Creswell, 2009). Hence, it usually involves large samples of data and statistical testing (Saunders & Tosey, 2013).

During the last century, two main strategies of inquiry were associated with Postpositivism: surveys and experiments. The survey provides “a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population” (J. W. Creswell, 2009, p. 12). On the other hand, the experimental research investigates if a specific variable in one group might influence an outcome when compared with the other.

This decision to follow a Postpositivism worldview is based on the fact that relevant CRM and Churn studies have been conducted during the last decades, which enable a researcher to analyze possible causes and test the theory in a new business environment and geographical region. Furthermore, the strategies of inquiry are “types of study qualitative, quantitative and mixed methods design or model that provide specific direction for procedures in a research design” (J. W. Creswell, 2009, p. 11). In other words, it provides a route to quantitative research to easily communicate their basic procedures during the study.

## 7.2 Research Methods and Methodical Choice

In a continuum where the extremities are the Quantitative and Qualitative types, the Mixed Methods are in between both and involves the assumption that it is possible to use them sequentially.

The decision to use Mixed Methods assumes that working with that Quantitative and Qualitative approach would provide a holistic understanding of the research problem and enable the researcher to propose actions to solve it better. The former because little research has been done on it, considering the Brazilian and Consortium background, while the latter because of the problem calls for an understanding of the best predictors of an outcome (J. Creswell, 2009). According to (Harrigan et al., 2012), “this research design enables exploration and the explanation (...), thus giving both breadth and depth to the research”.

Moreover, an explanatory sequential mixed method was elected as a methodical choice, also known as mixed-method complex design (Saunders & Tosey, 2013). In other words, it means that we first conducted quantitative research that allowed us to analyze the results from a sizeable number of customers, and then it supported further explanations through qualitative research with selected churners.

## 7.3 Strategies

Researches can typically use more than one strategy to answer or address the research question stated (Saunders & Tosey, 2013). In this paper, a survey was initially used to attest the financial literacy of each customer quantitatively. Following, a semi-structured interview was conducted to bring more insights into the whole customer journey.

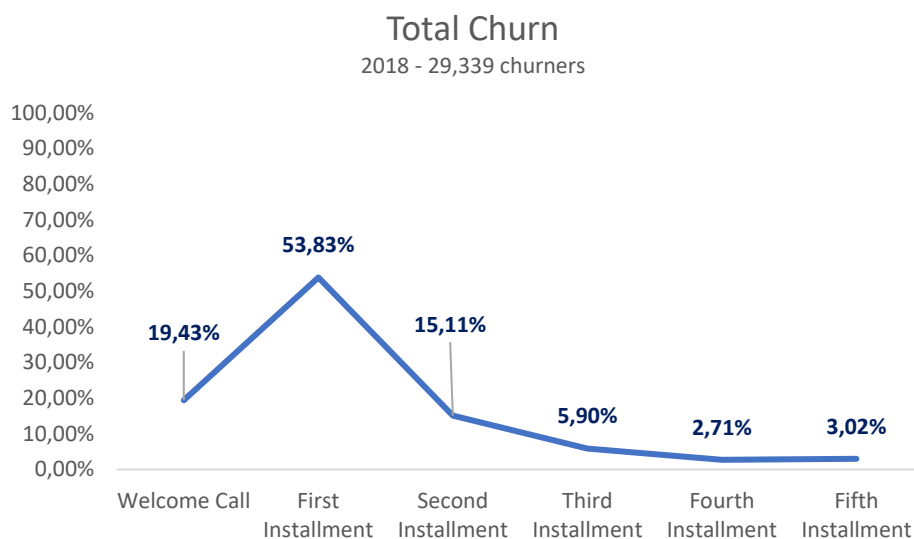
### 7.3.1 Quantitative Research

Firstly, a quantitative questionnaire was applied to recent clients to understand the level of financial literacy they have.

At the end of each survey with individual clients, the marketing team was trained to apply those questions and record them in proper software (Minitab™) to guarantee a reliable statistical analysis. Given the geographical spread of Consortium companies around Brazil and, moreover, the difficulties to present the study and convince the managers to apply it on their customer base, a “representative” company (Company A) was chosen based on familial bonds and networking with the researcher. It is based in the southeast of Brazil with operations in dozens of states, and,

according to the recent ranking, it is one of the biggest specialized (neither Bank nor Automakers) Consortium companies in the country.

Company A has approximately 4,000 shares sold monthly, and a monthly revenue estimated at USD 50 million (BRL 200 million). In 2018, only 7,815 (15.15%) customers out of 29,339 paid their installments on time during 2018, resulting in a churn rate of approximately 58.23% (26.26% were at default). Graph 1 shows that among the 29,339 churners (58.23%), 19.43% churned in the “welcome call,” 53.83% in the first installment, 15.11% in the second, 5.90% in the third, 2.71% in the fourth and 3.02% in the fifth. Typically, the three first months are more susceptible to churners since the customers could not have the line of credit upfront and usually give up waiting any longer.



*Graph 1 Churn per Milestone in Company A*

**Sample:** The sample consisted of 2,004 clients interviewed in an after-call process. The sample frame was segmented between Churners and Non-Churners during the three first installments, considering the contract signed. Afterward, ten randomly selected customers participated in individual interview sessions through a semi-structured approach.

**Techniques:** The survey consisted of a Likert scale and was administered by a marketing team in one Consortium company, in a regular and existent after-sales process. In other words, this is a standard process in the company, so just a few questions were included in the existing script.

**Field Dates:** October 15 to November 21, 2018

**Data Collection:** Calls were conducted during weekdays. Trained interviewers adapted its procedure to add the financial literacy questionnaire. All interviews were recorded by security purposes. All customers were asked if they would be able to participate in the interview.

**Survey Questions:** Seven survey interview questions were adapted from Moore (2003) in a close-end text format. Then, interviewers had to select the chosen answer and record the final results. The answers were categorized and analyzed to be presented in this report.

The questionnaire is presented below.

	(Moore, 2003, Survey of Financial Literacy in Washington State: Knowledge, behavior, Attitudes, and Experiences)	Answer
1	Do you currently have a checking or savings account?	1, 2, 3, 4, 5, 6
2	Do you currently have a credit card?	1, 2, 3, 4, 5, 6
3	Have you ever bought a house?	1, 2, 3, 4, 5, 6
4	Do you save for long-term goals such as education, a car, a house, or a vacation?	1, 2, 3, 4, 5, 6
5	Do you currently have money spread across more than one type of investment?	1, 2, 3, 4, 5, 6
6	Have you ever taken out a loan to pay for home improvements?	1, 2, 3, 4, 5, 6
7	Do you invest in the stock market outside of employer-sponsored retirement accounts?	1, 2, 3, 4, 5, 6
1 = No, I do not know it and I have never ____ (had/bought/saved/taken/invested) it. 2 = No, I have never ____ (had/bought/saved/taken/invested) it, but I have some knowledge about it; 3 = No, I do know it, but I have never ____ (had/bought/saved/taken/invested) it; 4 = I do know it, but I have never ____ (had/bought/saved/taken/invested) it; 5 = Yes, I have ____ (had/bought/saved/taken/invested) it once; 6 = Yes, I have always ____ (had/bought/saved/taken/invested) it		

Table 1 Financial Literacy Questionnaire

These answers were coded in accordance with their grades. In other words, the first answer “No, I do not know it and I have never \_\_\_\_ (had/bought/saved/taken/invested) it” scores one (1), the second “No, I have never \_\_\_\_ (had/bought/saved/taken/invested) it, but I have some knowledge about it” scores two (2), until the last one “Yes, I have always \_\_\_\_ (had/bought/saved/taken/invested) it” that scores six (6). Eventually, the total score of the seven questions were added, and the range of each client would go from zero (7) seven forty-two (42) points, being seven the least financial literate and forty-two the most.

### 7.3.2 Qualitative Research

Secondly, a semi-structure interview was conducted with twelve selected churners, among the 2,004 samples researched previously.

Interview questions were general and open-ended. The main goal was to listen to the customer and understand his/her customer journey, challenges and complaints qualitatively. The main findings were summarized into categories to facilitate the analysis.

In order to avoid significant costs, since customers are spread throughout Brazil, and to avoid any possible harassment, since customers are usually very nervous about this situation, the interviews were conducted by telephone and recorded automatically.

**Sample:** Twelve (12) churners were selected among the total surveyed. The recruiting process was designed to reach six (6) churners with lower financial literacy (scoring 21 at most) and (6) churners with higher financial literacy (scoring 22 at least). Besides, it was an attempt to select people from all over Brazil in order to avoid any culture or specific issue.

**Techniques:** A semi-structured interview was conducted to create a relaxed environment to allow a proper conversation. The researcher was introduced as a third-party management consultant that would conduct a consulting work in the company willing to improve some sales and marketing process. This was necessary to create an atmosphere of trust that would motivate the interviewee to speak freely.

In some situations, it was necessary to de-escalate the problem since some customers were too nervous about the process that they experienced in the past. Moreover, this technique allows the researcher to avoid leading the interview and imposing some points or meanings directly. In other words, it enabled the interviewer to get more in-depth data and information that can help answer some quantitative issues. Most interviews lasted ten (10) to fifteen (15) minutes on average and involved a simple framework:

- Brief introduction
- Icebreaker questions
- Background questions
- Open-end questions about the customer journey.
- Open-end final questions

**Field Dates:** December 27 to January 15, 2019

**Data Collection:** Calls were conducted during weekdays. All interviews were recorded by security purposes. All customers were asked if they would be able to participate in the interview.

**Interview Questions:** A script was formulated and eventually validated by some company managers in accordance with the research necessities and considering possible legal issues with churners.

### INTERVIEW SCRIPT

<b>#1</b>	<b>What was the main reason for buying a Consortium share?</b>
A	What was expected? What was the main goal?
B	What was the feeling during the purchase process? What were the dreams, difficulties, and perceptions?
<b>#2</b>	<b>How was the process to choose the Consortium system?</b>
A	Did you know the system before?
B	Did anyone influence you?
C	Where did you look for information?
<b>#3</b>	<b>How was the process to choose this Consortium company?</b>
A	Did you know the salesman?
B	Did you have any referral?
C	Did you know the company before?
D	What kind of information did you look for?
<b>#4</b>	<b>How was the sales process?</b>
A	How was the customer-salesman relationship?
B	How was the salesman performance?
C	What did you like most during the sales process?
D	What did you like least during the sales process?
E	How long does it take to finish this process?
<b>#5</b>	<b>How do you evaluate your capacity to make a dream come true?</b>
A	Do you save money?
B	Do you set long-term goals for you and your family?
<b>#6</b>	<b>How do you evaluate your financial planning capability?</b>
A	Do you have financial investments?
<b>#7</b>	<b>How was the withdrawal process?</b>
A	When did you realize you wanted to withdraw from the Consortium?
B	Why did your decided to withdraw?
C	What did you have to do to withdraw?
<b>#8</b>	<b>Are you still interested in acquiring the credit?</b>
A	If so, how would you do it now?
B	Which other financial products would you be willing to acquire?
<b>#9</b>	<b>In which situations would you consider buying a Consortium again?</b>
A	Would you do it with the same company?

*Table 2 Qualitative Interview Script*

#### 7.4 Time Horizon

This research was conducted considering a particular research question in a definite period of time. In other words, it is a “snapshot” that a researcher can capture to analyze the available data, which makes it a cross-sectional approach (Saunders & Tosey, 2013).



## 8 Data Analysis

### 8.1.1 Qualitative Research

The quantitative research (first part) was a Logistic Regression carried out to analyze the quantitative data. More specifically, a binary logistic regression was conducted to underline the correlation between financial literacy and the churn rate. This tool is often used when a study wants to understand how a set of predictors X is related to a response variable Y. It tends to be a reliable model to predict behavior and segment the observations accordingly to see similar attitudes towards a specific parameter and, consequently, to facilitate the data analysis and decision making.

This research was intended to prove the hypothesis if “Are financial illiterate people more susceptible to churn in a Consortium?”. Thereby, “churners” were defined as 1 and “non-churners” were defined as 0. Also, other variables that were collected in the survey were also analyzed as independent variables such as gender, age and income bracket. The 2,004 observations collected were gathered in the Minitab™ to conduct the statistical analysis.

In order to test the methodology and prepare for any kind of issue that could come up during the actual analysis, this study generated some fake data in a first moment, using all the same steps that would be used after the official data collections. Afterward, those steps and the fake results were validated by the advisor and a related statistics professor. Minor adjusts were then conducted, and the database and the steps were considered approved by the researcher.

After the data collection, the Logistic Regression was implemented in the data through five main steps:

1. The 2,004 observations were segmented in two different groups: (1) Estimation and (2) Validation Sample. The data were firstly randomized, and 1,504 observations were designed for Estimation, while 500 were designed for Validation Sample.
2. In a sequence, the variables financial literacy, gender, age and income bracket variables were chosen as independent variables used to explain the response variable churn rate.
3. Then, both the logistic regression analysis and the prediction analysis were conducted in the Minitab™, and a “Hits Ratio” result was measured in order to calculate the predictive accuracy in the analysis. In other words, it gauges the percentage of cases correctly classified by the model.

4. Next, the classification accuracy calculating the “Hit Ratio” of the analysis was assessed using the estimation sample (2,004 observations). The result was 0.6607. A “Hit Ratio” of 50% is expected by chance; then this result is considered fairly reasonable.
5. Finally, the validity of the predictive model was assessed using a holdout sample (500 observations). The result was 0.6240.
6. R-Sq is 52%. Since it indicates the percentage of variance in the dependent variable that the independent variable explains collectively, this result is considered decent considering the nature and specificities of this research.
7. VIF is about 1 (Financial Literacy = 1.00; Income Bracket = 1.04; Age = 1.04) and it is possible to consider that the predictor is not correlated with other variables. In other words, there is no multicollinearity in this model.

The statistical results were demonstrated in table 3. Considering Financial Literacy, Income Bracket, Age, and Gender as independent variables, only Financial Literacy achieved a reasonable p-value (0.076), but none of them are statistically significant under a traditional cut-off of 0.05 to reject the null hypothesis.

Coefficients

Term	Coef	SE Coef	T-Value	P-Value	VIF
Constant	0.388	0.184	2.10	0.036	
Financial Literacy	-0.00388	0.00218	-1.78	0.076	1.00
Income Bracket	-0.00002	0.00694	-0.00	0.998	1.04
Age	-0.00174	0.00122	-1.43	0.154	1.04
Gender					
F	0.208	0.167	1.25	0.213	28.79
M	0.161	0.165	0.98	0.329	28.77

*Table 3 Official P-value of Financial Literacy 0.076 after 90 days<sup>2</sup>*

However, a relevant trend can be identified. Sixty days after the conclusion of the research with the 2,004 clients, a first statistical analysis was conducted to check the structure of the data and the initial results. The Financial Literacy variable achieved a P-value of 0.116 (after sixty days), seen on table 4, consistently higher than the final and official P-value (after ninety days) of 0.076, seen of table 3.

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<sup>2</sup> Gender, Age and Income Bracket were not considered statistically significant under any time-frame. Thereby, they were all disregarded since there was no possible inferences or conclusions in this situation.

Term	Coef	SE Coef	T-Value	P-Value	VIF
Constant	0.358	0.178	2.02	0.044	
Financial Literacy	-0.00333	0.00212	-1.57	0.116	1.00
Income Bracket	-0.00243	0.00670	-0.36	0.717	1.03
Age	-0.001837	0.000950	-1.93	0.053	1.04
Gender					
F	0.181	0.164	1.11	0.269	29.55
M	0.144	0.162	0.89	0.373	29.51

*Table 4 Non-official P-value of Financial Literacy 0.117 after 60 days*

Thus, there is a tendency that the churn rate would increase in the next months which, in turn, would have the potential to reduce the P-value of Financial Literacy to a statistically significant level in a period of six months (180 days) that is considered the best time-frame to draw reliable conclusions about churn management. It happens for two important reasons:

1. According to the data provided by Company A in graph 1, most part of the clients usually churns until the sixth month (180 days), which means that the 90-day period might be a limitation of this research, not reflecting the real values.
2. Company A pays variable compensation to salesforce segmented in four months after the signed contract. It means that salespeople would put some effort into after-sales in this period since, in case of a churn situation, he/she would not receive his/her compensation for that sale. After these 120 days, he/she would focus only on new deals, which means that the client is without any support from the fourth month and could churn the company easily after this.

Ultimately, this paper is an exploratory research. In other words, this is a research question, and an industry that has not been studied clearly and deeply together and some definitive conclusions would not be recommended to be drawn since it is the very first steps of scientific analysis in this field. Moreover, this paper adopted some proxies to estimate the financial literacy level based on the literature available so far that was applied in a different industry and in a different country. As a clear limitation of the research, it demands some carefulness to interpret the results.

Hence, following a transparent approach to justify and evaluate the alpha and the design choices (Adolfi, Albers, & Anwari, 2018), this paper accepts a significance level of 0.10 ( $\alpha = 0.10$ ) considering the trailblazing approach that this research can bring to Consortium industry in Brazil, even though it means an extreme care to draw conclusions and infer outcomes at the end of the paper. Thereby, a p-value of 0.076 is statistically significant considering all arguments mentioned

above, and it is possible to reject the null hypothesis in this case and conclude that there is difference in the Financial Literacy level of churner and non-churners.

### 8.1.2 Quantitative Research

Subsequently, the qualitative data (second part) were conducted through a content analysis, and the researcher was aware of the emphasis of qualitative research on the process and meanings. In other words, the sample was not meant to be largely representative. On the contrary, it should be small but purposeful samples of respondents that would allow a democratic understanding of the whole picture, providing relevant insights to develop an action plan to improve this situation (Sale, Lohfeld, & Brazil, 2002).

The analytical tools used in this research included (1) audio-textual, (2) cutting and sorting key words, phrases and expressions, and (3) cases comparisons between interviewees. Firstly, the audio-textual was applied to allow the research to listen to each interview again and to reinterpret the conversations without ruining the dynamics of the call. In turn, this could allow a reinterpretation or confirmation of the meanings and of the context that the churner had experienced, enabling the researcher to eventually determine the problem and solution approach. Secondly, the Consortium system is filled with its own expressions and definitions that could suggest a common approach by salesforce. In other words, with salesforce exchanging information, techniques, and benchmarks (the positive and the negative ones), it is likely that similar approaches would be used throughout the country and it could be identified through the identifications of similar approaches and procedures in different teams and regions. Finally, most situations would be very related, no matter the credit, the region or the salesforce. Hence, comparing different customers would bring some relevant insights if the problem is systemic or specific (Harrigan et al., 2012).

The last part was to cluster quotes and expressions regarding similarity and affinity. This would be the main deliverable of the qualitative part: grouping the entire disconnected information from a bunch of customers into an organized and simple framework that would help managers to tackle the problem. The validity and reliability were ensured through a broad selection of churners regarding age, financial literacy, region, and legal aspects. Thereby, the persistent observations of the samples allowed the identification of evidence, feedback, and stories that were common to the whole universe of churners in the company.

Finally, this is a cross-sectional work which means that the researcher “took a picture” of that moment, not considering the whole process and engagement during the time that the customer was formally related to the company. In other words, it assumes that the last customer’s opinion about that company is the one that is going to last and cause consequences of which managers should be aware of. (Saunders & Tosey, 2013)

## 9 Survey Findings and Discussion

### 9.1.1 Quantitative Research

For the present study, it was hypothesized that customer financial literacy plays an important role in the churning decision in a Consortium contract. To test this hypothesis, quantitative research approached 2,004 respondents. Their data was segmented into different clusters to compare the potential differences around them. Presented in table 5 is a descriptive and demographic profile of the 2,004 respondents for the survey from October to November of 2018. The response rate was 90% (the other 10% are not usually reached by phone by the marketing team). Three different arrangements were conducted to meet the purpose of this paper:

**Overall:** It is the total sample base of this research. It represents the 2,004 respondents regardless of any status or profile difference.

**Churner:** Total of respondents that became Churners among the first three installments. In other words, for any reason, they stop paying the installments and gave up their contract.

**Non-Churner:** Total of respondents that kept paying their installments regularly and still have an active status in the Consortium.

Independent Variable	Sub Set	Overall	Churner	% Churner	Non-Churner	% Non-Churner
		<b>2,004</b>	<b>795</b>	<b>39.7%</b>	<b>1209</b>	<b>60.3%</b>
Gender	Male	1,601	629	39.3%	972	60.7%
	Female	393	164	41.7%	229	58.3%
	No Answer	10	2	20.0%	8	80.0%
Age	18 to 29	791	328	41.5%	463	58.5%
	30 to 39	694	273	39.3%	421	60.7%
	40 to 49	332	120	36.1%	212	63.9%
	50 to 59	137	52	38.0%	85	62.0%
	60 to 69	39	17	43.6%	22	56.4%
	70+	11	5	45.5%	6	54.5%
Income	R\$ 500 to R\$ 700	4	2	50.0%	2	50.0%
	R\$ 701 to R\$ 999	54	23	42.6%	31	57.4%
	R\$ 1000 to R\$ 2000	649	245	37.8%	404	62.2%
	R\$ 2001 to R\$ 3000	519	218	42.0%	301	58.0%
	R\$ 3001 to R\$ 5000	240	91	37.9%	149	62.1%
	R\$ 5001 to R\$ 7000	102	45	44.1%	57	55.9%
	R\$ 7001 to R\$ 10000	63	21	33.3%	42	66.7%
	R\$ 10000 +	27	11	40.7%	16	59.3%

	No Answer	346	139	40.2%	207	59.8%
Brazilian State	AC	1	0	0.0%	1	100.0%
	AL	43	16	37.2%	27	62.8%
	AM	25	15	60.0%	10	40.0%
	AP	6	3	50.0%	3	50.0%
	BA	355	117	33.0%	238	67.0%
	CE	82	44	53.7%	38	46.3%
	DF	77	31	40.3%	46	59.7%
	ES	67	30	44.8%	37	55.2%
	GO	182	77	42.3%	105	57.7%
	MA	94	35	37.2%	59	62.8%
	MG	138	49	35.5%	89	64.5%
	MS	60	20	33.3%	40	66.7%
	MT	106	43	40.6%	63	59.4%
	PA	59	25	42.4%	34	57.6%
	PB	22	6	27.3%	16	72.7%
	PE	176	61	34.7%	115	65.3%
	PI	84	43	51.2%	41	48.8%
	PR	109	46	42.2%	63	57.8%
	RJ	51	21	41.2%	30	58.8%
	RN	45	17	37.8%	28	62.2%
	RO	51	34	66.7%	17	33.3%
	RS	57	28	49.1%	29	50.9%
	SC	22	14	63.6%	8	36.4%
	SE	34	7	20.6%	27	79.4%
	SP	34	7	20.6%	27	79.4%
	TO	24	6	25.0%	18	75.0%

Table 5 Descriptive and Demographic Profile

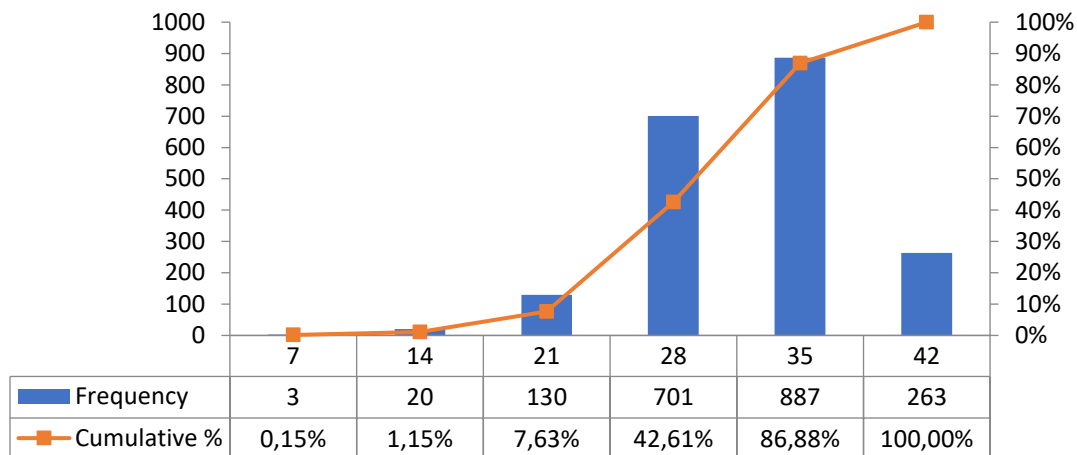
Among these respondents, table 5 shows that 795 (39.7%) decided to withdrawal the purchase during a three-month period. Other 1209 (60.3%) were still paying the installments. Breaking down the data into a brief analysis, it is possible to notice a few insights:

- **Gender:** male and female have a similar percentage of churners when compared with the overall number (Male = 39.3% and Female = 41.7% against Overall = 39.7%, respectively);
- **Age:** among the older ones the percentage of churner is bigger (60 to 69 years old = 43.6% and 70+ years old = 45.5%);

- **Income:** customers with a R\$5001 to R\$7000 average income are the biggest percentage of churners (44,1%);
- **Brazilian State:** Amazonas (AM = 60%), Amapá (AP = 50%), Ceará (CE = 53.7%), Piauí (PI = 51.2%), Rondônia (RO = 66.7%), and Santa Catarina (SC = 63.6%).

The Histogram in graph 2 shows the distribution of the Financial Literacy Data across the different bins (from 7 to 42). It is clearly identified that most of the population in the sample are between 28 to 35 points in the scale adopted. Moreover, it is possible to see that the distribution has a negative skew and the tail on the left side of the distribution is a little bit longer than the one on the right side. According to the results in table 6, skewness is -0.4911 which means it is a moderate data skewed.

### Histogram - Overall



Graph 2 Histogram of Respondents

Table 6 describes the overall descriptive results of the research. In a sense, it is relevant to show that the overall mean was 29.11 (in a 7 to 42 scale), with a standard deviation of 5.68 and median 30, compared to a churner mean of 28.96, with a standard deviation of 5.72 and median 29 and a non-churner mean of 29.21, with a standard deviation of 5.65 and median 30.

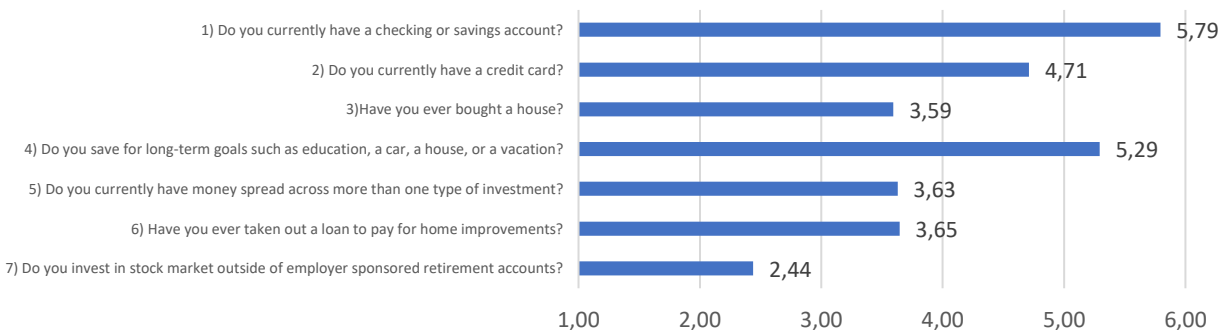


	<i>Overall (N = 2,004)</i>	<i>Churner (N = 795)</i>	<i>Non-Churner (N = 1,209)</i>
<b>Mean</b>	29.11726547	28.9672956	29.21588089
<b>Standard Error</b>	0.126938628	0.203174705	0.162557013
<b>Median</b>	30	29	30
<b>Mode</b>	22	22	22
<b>Standard Deviation</b>	5.68254207	5.728662049	5.652217455
<b>Sample Variance</b>	32.29128438	32.81756887	31.94756216
<b>Kurtosis</b>	-0.08560848	-0.034236528	-0.114069832
<b>Skewness</b>	-0.491169937	-0.452335422	-0.517453019
<b>Range</b>	35	35	35
<b>Minimum</b>	7	7	7
<b>Maximum</b>	42	42	42
<b>Sum</b>	58351	23029	35322
<b>Count</b>	2,004	795	1,209
<b>Confidence Level (95.0%)</b>	0.24894557	0.39882305	0.318925436

Table 6 Descriptive Statistics

Next, graph 3 considers the average per question considering that the first answer “No, and I have never heard about it” value one (1), the second “No, but I have some questions about it” value two (2), until the last one “Yes” that value six (6). Then, question one was the most basic one and, consequently had the largest average (5,79), in contrast with question seven that measured a more complex financial level and had a lower average (2,44).

### Average grade by question



Graph 03 Average grade by question

Observing table 7, it is possible to notice the data related to the hypothesis of this paper, statistically significantly under an  $\alpha = 0.10$ .

### Are financial illiterate people more susceptible to churn in Consortium?

- **Null Hypothesis (H0)** is that the financial literacy level has nothing to do with the churn likelihood;
- **Alternative Hypothesis (HA)** is that illiterate people are more susceptible to churn in Consortium.

In accordance with the assumption above regarding of the  $\alpha = 0.10$ , we can reject the null hypothesis (H0) and accept the alternative hypothesis (HA), which means that illiterate people are more susceptible to churn in Consortium. It can be proved by verifying the means of Financial Literacy in Non-Churners (0) and Churners (1). The mean of Non-Churner is 29.216, while in Churner is 28.967. In other words, Churners have on average a lower financial literacy level than Non-Churners.

Status	Quantity (N)	Mean Financial Literacy
Non-Churner (0)	1,209	29.216
Churner (1)	795	28.967
Total	2,004	29.117

*Table 7 Difference in the Means*

Even though this is statistically significantly under an  $\alpha = 0.10$ , the difference in the means is noticeably low, only 0.249. It means that although it is possible to infer that Non-Churners have on average a higher level of Financial Literacy than Churners, the result is not practically relevant since the difference is too small.

This has a pragmatic managerial implication to managers and decision makers. Possibly, focusing on targeting consumers with a high financial literacy level would not be cost-effective since the difference is not meaningful. Contrarily from what some industry common sense could suggest, it seems that people with different Financial Literacy level has approximately the same likelihood to churn Consortium contracts and it should not be an attribute to segment and target consumers.

Ultimately, it is also relevant to analyze the effect sizes (ESs) of this paper, following the recommendation to always provide ESs since it is essential to good research (Durlak, 2009). In a

sense, it provides “information about the magnitude and direction of the difference between two groups or the relationship between two variables” (2009, p. 917) and should always be presented irrespective of the p-value (Volker, 2006).

Thereby, it was conducted first a Two-Sample t-Test (table 8) to verify if there is a statistically significant difference between the means from the two unrelated groups: Churners and Non-Churners. Assuming an  $\alpha = 0.10$ , it is not possible to reject the null hypothesis since the p-value (one tail) is 0.1690. In other words, the result does not provide us enough evidence to conclude if the difference in the mean is significant or if it just by chance.

<i>t-Test: Two-Sample Assuming Equal Variances</i>		
	<i>Churner</i>	<i>Non-Churner</i>
<b>Mean</b>	28.9673	29.2158809
<b>Variance</b>	32.81757	31.9475622
<b>Observations</b>	795	1209
<b>Pooled Variance</b>	32.29261	
<b>Hypothesized Mean Difference</b>	0	
<b>df</b>	2002	
<b>t Stat</b>	-0.95801	
<b>P(T&lt;=t) one-tail</b>	<b>0.169086</b>	
<b>t Critical one-tail</b>	1.645615	
<b>P(T&lt;=t) two-tail</b>	0.338172	
<b>t Critical two-tail</b>	1.96115	

Table 8 t-Test: Two-Sample

Second, an effect size analysis was conducted (table 9). Although ESs are more meaningful when compared to previous research, there is an absence of data available to contrast it in the Consortium segment and, by that, this paper used the standard proxy commented by Cohen’s (1988) that 0.2 are small in magnitude, 0.5 are medium, and 0.8 are large. For this analysis, one of the most common SMD (standardized mean difference), Hedges’ d, were used to calculate the statistics since these are unequal sample sizes (Durlak, 2009).

	<i>Churner</i>	<i>Non-Churner</i>
<b>Mean</b>	28.9673	29.2159
<b>SD</b>	5.728662	5.65222
<b>N</b>	795	1209
<b>Hedge's g*</b>	0.0437282	

Table 9 Effect Size

The final result, using Excel™ to run the math, Hedges'  $d = 0.0437282$  which is way below the small magnitude proposed in Cohen's article. In other words, according to the ESs test, the two means from both groups (churners x non-churners) are quite small and, consequently, it has a lower practical significance.

### 9.1.2 Qualitative Research

As the second part of this study, qualitative research was conducted in order to investigate the leading causes of customer churn. This research focused on churner using the customer's journey to identify points of improvement in the whole process of negotiation, payment, raffles, withdrawal and attempted to cover different ages, income brackets, and states to have a broader view of the company's situation. Being a semi-structured interview, some conversations tackled different touch points, in accordance with the issues handled by churners.

Table 10 shows the gender, state, level of financial literacy, age, income brackets and contract period until withdrawal. In a sense, this research has tried to interview different profiles to obtain broader feedback from customers.

ID	CUSTOMER CODE	GENDER	STATE	FINANCIAL LITERACY	AGE (YEARS)	INCOME (R\$)	TOTAL PERIOD OF CONTRACT (DAYS)
#1	390603	M	RO	14	23	1000,00 to 2000,00	43
#2	383114	F	GO	20	22	1000,00 to 2000,00	18
#3	431054	M	RN	27	39	N/A	22
#4	416073	M	BA	38	19	2001,00 to 3000,00	58
#5	423797	M	PE	12	23	1000,00 to 2000,00	9
#6	425257	M	MT	14	28	5001,00 to 7000,00	35
#7	427272	M	RS	39	42	1000,00 to 2000,00	22
#8	427660	M	PI	12	26	3001,00 to 5000,00	42
#9	433295	M	MG	33	32	2001,00 to 3000,00	20
#10	433593	M	PA	38	39	2001,00 to 3000,00	4
#11	435874	F	RO	39	28	2001,00 to 3000,00	16
#12	435904	M	RO	15	59	3001,00 to 5000,00	14

*Table 10 Customer Interview Summary*

Customer churn is the biggest problem in the Consortium system. This is not different in Company A, and a massive quantity of customers defect every month in this sector, thus interrupting their dreams of buying important goods. Even worse, a relevant part of them did so because they were not satisfied with the Company's processes and mechanisms. Consequently, their level of

dissatisfaction causes them to be labeled as detractors, which can be a vicious cycle in the long term. According to the latest numbers, in 2018 Company A sold 50,388 shares, of which only 15.51% (7,815) were paid on time during the whole of 2018 (58.23% were canceled, and 26.26% were at default).

Therefore, a closer look would be necessary to segment the churners and eventually work on a plan to reach out to each one of them. In a nutshell, the qualitative research has allowed clustering the insights collected in the interview in three main topics to be considered by the company as it improves its practices: (1) misleading negotiation; (2) financial restraints; and (3) customer withdrawal. These are the findings identified in the qualitative research phase that allow us to draw some conclusions and strategies ultimately.

- **Factor 1: Misleading Negotiation**

The main and most worrisome topic identified is the fact that the salesforce occasionally misleads customers during the initial negotiations on purpose. In total, six (#2, #4, #6, #7, #9, #11) out of the twelve interviewees mentioned that they were misled in the negotiations. Churner #9 illustrated his disappointment clearly:

*The salesman had guaranteed me that I would have my credit in the first month. He sold me a financing plan, and I was expecting my car because I need it to work. But the time was going by, and I did not have any news about my credit (...). I decided to look closer and talked to the salesman again. Then, I found out about the scam and decided to cancel it immediately. (Churner; #9)*

In short, as discussed in the introduction, customers might be the very first or the very last to be chosen in the raffles. In other words, it is a matter of luck. However, willing to persuade customers to buy a consortium share easily, the salesman might purposely mislead the customer saying that if he/she buys under a certain condition (price, timeframe, last sale opportunity), he/she will be chosen in the first months. This is clearly a fake promise since and it is impossible to foresee a raffle. Moreover, it is against the logic of the Consortium system. Churner #7 was also really upset about this situation:

*They promised me one thing, but it was another one totally different. I needed my car immediately, and they promised me that I would have it as soon as paid the first installment. It would have taken fifteen days, you know? But it did not happen. I believed in the salesman. I messed up everything. (Churner; #7)*

In turn, the company has mechanisms to advise and publicize the customer about how Consortium works. There is a formal contract that should be signed that explicitly says that there is no guarantee of nomination. Moreover, the company developed a “welcome call” process that double-checks each part of the negotiation and of the contract clauses in a more tangible approach. Even so, since the negotiation involves a personal and friendly approach, customers usually tend to believe more in the salesman talk than in the formal contract. Even worse, the salesman is able to “prepare” the customer to receive the “welcome call” and explicitly deny any promise that he/she would have received from the salesman. In other words, the salesman has understood the whole process and is capable of misleading customers to deceive the administrative team. Churner #11 exposed this situation:

*I did not read the contract. First, it is massive. Second, I am not a lawyer. Of course, I believed in the salesman (...) Yes, I received the welcome call. However, the salesman had told me before to follow a script that he suggested to talk to the customer service. So, when the customer service asked me about the sales process, I answered what the salesman had told me. (Churner; #11)*

Similarly, churner #4 embodies how the relationship established with the salesman is powerful, perhaps stronger than the formal contract:

*I did not read the contract because the salesman told me that I would receive a call and that I would just need to confirm and say “yes” to everything that the customer service would ask. Otherwise, they would cancel it, and I would not have my car (Churner; #4)*

It is important to say that Company A does not actually sell the consortium shares. There are third-party companies responsible for this commercialization, and Company A is only in charge of managing the bureaucratic and administrative issues, raffles and credit supply. Churner #6 explained the challenges of this relationship between different companies briefly:

*I was buying a truck to work (...) But, the communications within the salesforce representatives and Company A is really bad. I received different information, and it should have been clearer. (Churner; #6)*

Therefore, there is limited control that Company A can endeavor to avoid this kind of situation. However, the brand image, the legal responsibility, and the accountability still rely on Company A, which means that they should be very aware of this situation and, most importantly, work with its sales partners to regulate this process. In a sense, the customer does not know the company that he is buying the Consortium share from, he/she is just aware of Company A brand. Churner #2 portrays that the damage is bigger to Company A:

*For God's sake. I would never buy a Consortium share with Company A again. I want my money back (...) I am going to report this to the police station. (Churner; #2.)*

- **Factor 2: Financial Restraints**

Typically, the purchase barrier in the Consortium system is usually lower than other mechanisms, especially the ones offered by banks such as Financing and Loans. In turn, it means that Consortium companies would attract customers with a more unstable situation that could be severely impacted by the economic crisis, financial problems and recessions. A few interviews were highlighted by the fact that customers churned because of an unexpected economic downturn or a different financial focus. Specifically, unemployment was one of the biggest issues, and one (#10) in the twelve interviewees who defected mentioned this reason. Churner #10 revealed this situation:

*I needed the credit to buy a car because I would work as a driver to an APP. But I got unemployed, and I could not keep up the installments. (Churner; #10)*

Customer target in this segment is typically middle and lower classes; the ones that do not always have a relevant financial back up to help them during long downturns. In an emerging country such as Brazil, it is even more complicated. In most situations, customers were the only source of revenue in the family and responsible for keeping the level and quality of life. Therefore, an unexpected event of unemployment caused a re-prioritization of the family budget and, eventually, the incapacity to keeping paying the bills.

It is important to mention one last aspect. First of all, in those cases, customers were usually aware of the system and the rules for the formal nomination. Thereby, they were making the payments on time and following the monthly raffles accordingly. However, due to an unexpected event, the customer had to decide to churn since there were more important payments that they should not fail to make. In the interviews, it was clear that they would buy a Consortium share again and, probably with Company A. In other words, an externality caused this situation but did not induce a dissatisfaction with the company.

- **Factor 3: Customer Withdrawal**

Finally, the topic that best demonstrates the importance of financial literacy in buying a Consortium share is the withdrawal reasons for a customer churn in this system. Typically, if the main reason is not related to a misleading negotiation or to customer unemployment, it involves a great amount of risk-taking by the customer. In other words, five out of twelve interviewees (1#, 3#, 5#, 8#, 12#) mentioned that they were neither misled by the salesman nor had lost their jobs; however, they truly believed that they could have been chosen in the first months of the Consortium group against all the odds. Then, as soon as they received the news that they were not eventually chosen, they decided to withdraw from the contract. Churner #12 illustrates this situation:

*I am unemployed, and I needed a car to work as an Uber driver. I did not know the Consortium system before, but I found a salesman on the internet, and I contacted him. However, I had the illusion that I would be chosen in the first installment. And it did not happen, so I decided to withdraw (...) I knew that I could be either the first or the last one, but I took my chances. It did not work (Churner; #12).*

This situation has some commercial and managerial aspects related. Firstly, they typically do not involve a level of stress or dissatisfaction with the company. The customer understood the system and knew the chances that he/she had. Once the customer had the news, there were no hard feelings, and he/she would be open to buying a new Consortium share in the future with the same company. That is an extremely important insight because nowadays the managers analyze the consolidated data, mixing the furious and the calm churners. Hence, there is now a way to identify the ones that could be attracted again in the future and the ones that the company should avoid having any contact with. Churner #1 and #3 embody this aspect:

*I would buy a Consortium share with Company A again. There are some relatives in my house that might need to buy it in the future. However, for now, we do not have money to afford it. The company is actually good; they have 40 years of operations. (Churner, #1)*

*I had to withdraw. I did not want to. Indeed, I would buy a Consortium share with Company A again (Churner; #3)*

Secondly, these customers might not have calculated the risks and the probability to be nominated in the first months. Based on the assumption that Consortium relies on a fair raffle, every customer has the same probability of being nominated.



Moreover, just a few of them would have the chance to be nominated in the first three or six months. Most of them would need to wait through the group period contract<sup>3</sup>. In other words, some instructions and information about the system - and a reasonable level of financial literacy - would be enough to clarify to the customers that that risks would be too high due to the reduced chances of being nominated in the first months. Churner #5 exemplifies this situation that may be explained by low financial literacy:

*I was buying a motorcycle, and I had to have a credit to offer the seller. So, I needed it as soon as possible. Everything was fast because I was in a hurry. The customer service was great (...) I knew I could not be nominated in the first month, but I took my chances. Hence, after the first month, I just withdrew from it. (Churner, #5)*

Finally, this topic highlights a mistake in the customer target elected by the company. In essence, Consortium is a planned purchase<sup>4</sup> intended to supply credit throughout the group period, which might take years. Therefore, if there are customers that churn just because they were not nominated in the first months, it means necessarily that they were expecting immediate access to the credit, which is not how Consortium works at all. Consequently, it seemed the salesforce targeted the wrong customer and managed to sell the Consortium share nonetheless, even knowing that his/her profile would suggest a different kind of customer than the company usually demands, which would eventually turn them into a churning customer.

*It was clear to me that I could be the last one to have my credit. However, I needed the credit and did not have a good credit score. So, I bought it. But it did not happen. And I withdrew (...) But I would buy a Consortium share again in the future; I think this is a reliable company. (Churner; #8)*

To sum up all the interviews, table 11 highlights the main information about each churner. In this representation, churners were organized according to their financial literacy level, from the smallest to the largest. Then, the table demonstrates the three findings responsible for defection in Company A, by quantitative research. Finally, the main quotation cited during the interview that could best represent his/her feeling about the company, the process, and the Consortium segment was selected.

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<sup>3</sup> The period contract depends on the total value of credit and the installments payment per month. However, for the sake of clarity, most Consortium groups might have between 36 and 60 months.

<sup>4</sup> As a marketing strategy, Consortium is also sold by companies as an investment, not a financial product.

Clearly, it is possible to identify a relevant connection between “customer withdrawal” and a low level of financial literacy (#5, #8, #1, #12). Those are customers that took risks to be nominated in the first months and, as soon as they realized that it did not happen, they withdrew. However, it did not cause them a dissatisfaction against the company nor the segment afterward. They all seemed to be resigned about this situation. Moreover, a low level of financial literacy tends to explain this context since just a reasonable proficiency in finance would be enough to avoid them from taking such high risks.

Lastly, it is unequivocal that a high level of financial literacy did not help the customers to endeavor in a misleading negotiation (#4, #10, #7, #11). Apparently, their knowledge about financial issues was not sufficient to adopt a skepticism about sales, and they ended up relying just on the personal relationship with the salesman, not in the formal contract and information available to them.

ID	Customer Code	Financial Literacy	Misleading Negotiation	Financial Restraints	Customer Withdrawal	Main Quotation
#5	423797	12			x	"I needed it as soon as possible."
#8	427660	12			x	"I needed the credit, and I did not have a good credit score."
#1	390603	14			x	"I would buy a Consortium share with Company A again."
#6	425257	14	x			"I received different information from the company and the salesforce representative."
#12	435904	15			x	"I took my chances. It did not work. It is fine."
#2	383114	20	x			"I am going to report this to the police station."
#3	431054	27			x	"I had to withdraw. I did not want to."
#9	433295	33	x			"He sold me a financial plan."
#4	416073	38	x			"The salesman told me just to confirm everything in the welcome call."
#10	433593	38		x		"I got unemployed, I couldn't keep up the installments."
#7	427272	39	x			"I needed the car immediately."
#11	435874	39	x			"Of course, I believed in the salesman."

Table 11 Qualitative Research Summary

## 10 Implications

There are several theoretical and managerial implications derived from this paper. This study correlates previous (1) Financial Literacy body of knowledge with (2) Churn Management – with a background of (3) Customer Relationship Management - in a Consortium segment. Eventually, it attempts to contribute to the literature focused on this typical Brazilian financial system.

First of all, it demonstrates how financial literacy is defined in the world and what the situation is in Brazil according to some studies. In a sense, it is a method (Moore, 2003) to measure financial literacy in a fast and simple way, that was modified and adapted in the survey to better capture the Brazilian reality. In particular, churn management is presented as the most relevant and costly challenge that Consortium companies have been facing in the past years, highlighting particularly the opportunities with loyalty programs, complaint management and increasing switching costs. Subsequently, CRM appears to be a relevant strategy for Consortium companies, most of them small and medium enterprises or family business, with a simple framework and a tangible step-by-step to enable customer service, customization, and quick data analysis

Furthermore, the study demonstrates the reasons why the company struggles to keep its customers. Three major challenges were identified:

- (1) **Misleading Negotiation;** First and foremost, it was noticed that a relevant share of the churners complained about a fake or misleading negotiation between customer and salesman. For example, some salesman promised a quick nomination to customers if they close the deal immediately, which is impossible in the Consortium segment. In other situations, the salesman induced and prepared the customer to answer properly the questions that the “welcome call” team would ask in the following week to avoid a possible sales cancellation. When the customer finally realizes that there is no guarantee of nomination, he/she exhibits a high level of dissatisfaction with the company and immediately looks for a lawyer, engages in a negative word of mouth and reveals his/her frustration on social media. It seems to be reasonable to employ some defensive marketing approach to retain customers (Fornell & Wernerfelt, 1988) or, at least, to not leave them as detractors.

- ❖ Company A has a very challenging problem here caused by its business model. Since the salesforce is a third-party representative, they do not have complete

control of training, monitoring, and the evaluation process. The only way to control them is by KPIs that could measure their performance and set goals to be achieved. A more extreme solution is to cancel the contract and the partnership in order to change the third-party representative in that specific state.

(2) **Financial Restraints;** Secondly, Consortium companies usually focus on lower economic classes as their customer target. They are typically more susceptible to struggle in economic crisis and downturns since they have a lower financial backup to support them in these moments. Apart from that, the credit score analysis in Consortium companies, especially in Company A, is purposely weaker than in banks and other financial institutions in Brazil. It is a way to reach out to more customers and increase its customer base. However, it pays the price. In some situations, customers might be unexpectedly unemployed or would need to re-prioritize his/her investments and expenditures for any reason. Thereby, either defaulting or churning the contract is a natural path followed by the customer.

- ❖ Company A faces an innate problem when salesforce representatives target any kind of customer, even the ones that are not able to buy a Consortium share. As a natural consequence, they are much more likely to withdraw when they realize the procedures and the probability to be nominated in the first months. Raising the bar in the sales moment - demanding a higher credit score or targeting higher social classes for example - in order to restrict the kind of customers that could buy the Consortium does not seem to be reasonable because it would create a relevant conflict with the salesforce. It is a clear uncontrollable element that leads to customer to churn (McDonald, 2010) and, by that, Company A could either naturally accept some churn rates based on that fact or create some financial incentives to salesforce to target individuals with relevant creditworthiness.

(3) **Customer Withdrawal.** Ultimately, as observed in the research, customers apparently took their risks in an unlikely attempt to be chosen in the first months and get their respective credit. Thereby, eventually, they are not either dissatisfied with the company nor feel deluded by the salesman. They understood the mechanisms and bet they could be lucky enough to be nominated. And when they realize that they were not, they simply

withdraw. It is a decent indication of low financial literacy since this decision is not financially savvy at all. The qualitative data in table 11 seems to express this.

- ❖ Company A does not do a lot to retain the customer. Apart from the “welcome call,” there is a follow-up every month to remind the customer that he/she must pay the next installment. However, it is a rather pragmatical approach than a relationship attempting to build a strong connection with the customer. Moreover, some of them complained about the difficulty to get in touch with the company, and there is just a few and traditional (phone and e-mail) channels of communication available between the company and customer. Apps, chatbots or instant messaging are not used. Thereby, applying some loyalty program strategies (Frederick F. Reichheld & Teal, 1996) and increasing switching costs (Klemperer, 1987) to discourage customers from withdrawing from the contract seems to be a practical solution.

Ultimately, this paper was able to find a p-value statistically significantly under an  $\alpha = 0.10$ . However, it was clear that the difference in the means is significantly low (Non-Churner 29.216 – Churner 28.967 = 0.246), which means that it has no practical significance to the body of knowledge and Consortium managers. In other words, managers should not worry too much about how literate a potential customer is because there are other reasons that explain the high customer churn rate in this industry, as shown above.

In addition to the theoretical contributions, the study pursued to make a pragmatical contribution to Consortium companies based on the research conducted with Company A. These can be found in table 12.

**CHURN CHALLENGE – CONSORTIUM COMPANIES SHOULD FOLLOW “FIVE COMMANDMENTS”**

1)	Define clear sales and churn goals to salesforce representatives
2)	Include loyal customer attraction bonuses in the salesforce compensation
3)	Implement a CRM strategy and hire an After-Sales team
4)	Identify a customer target and encourage its attraction
5)	Invest in communication with the customer to avoid misunderstandings about Consortium

*Table 12 Five Commandments for Churn Management*

The five commandments are an endeavor to consolidate all the body of knowledge visited during this research with the main takeaways from the findings, considering the unique Consortium segment context.

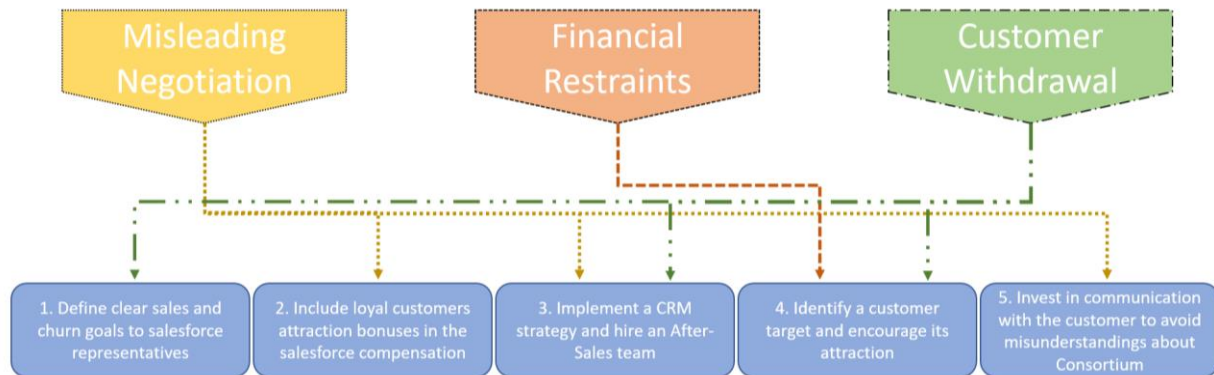


Figure 5 The Building Blocks that support the Commandments

Figure 5 below is a graphical representation of how the commandments suggested were developed considering the building blocks identified in the qualitative research. In a nutshell, Misleading Negotiation impacts “2”, “3” and “5”, Financial Restraints impacts “4,” and Customer Withdrawal impacts “1”, “3” and “4”. Following, each of them is defined and explained.

### 1. Define clear sales and churn goals to salesforce representatives

Firstly, in the Consortium company, its employees and all third parties involved in the customer journey should be aware of the current situation and the goals set by the C-level team. It is normal that sometimes the focus is based on increasing the customer base by acquiring new customers. Especially if the competition with big banks and automakers is particularly intense, it is fair that managers emphasize the necessity to drive sales more than to retain customers. Here, the hard sell approach conducted by the salesforce is very useful since it focuses on the short-term and is able to close more deals and consequently increase relative market share. However, it is not sustainable and might generate a dangerous and negative word of mouth in the long run.

Due to that, managers should set balanced sales and churn KPIs to have a decent indicator of both. That’s because it is assumed to be opposite forces, which means that if the company stresses sales, a normal decrease in churn rate may happen since salesforce might want to close deals with any kind of customers. On the contrary, a priority in customer churn rate means that salesforce should be very cautious with their target customers since they would not want to sell to just any individual. All in all, a correct balance between sales and churn should be mathematically identified to allow the company to capture some market share, grow sustainably and avoid a systematical customer withdrawal.

## **2. Include loyal customers attraction bonuses in the salesforce compensation**

Secondly, Company A did not have a variable compensation regarding churn rate, just to sales. It means that they would put a great effort into selling, not considering if that specific customer would be likely to defect in the future. Besides, the performance recognition and the hierarchical promotion were extremely linked to sales KPIs and not to churn rate ones.

Thereby, it seems reasonable to Consortium companies adopt a methodology that considers both indicators in a way to benefit not just the best salesman, but also the one that attracts more loyal customers. This strategy agrees with Reichheld and Teal (1996) when they state that “unless it is clear to managers that their annual bonuses are tied to reducing attrition, supplying them with world-class failure analysis systems will not improve their decision making” (1996, p. 198).

## **3. Implement a CRM strategy and hire an After-Sales team**

Third, in accordance with the academic literature and professional benchmarks, a CRM strategy is fundamental to creating a stronger connection with customers and avoid churn. As mentioned before, it is possible to synthesize CRM in (1) process, (2) people and (3) technology (Chen & Popovich, 2003).

In other words, it requires the company to (re) design their business process, to hire and train new people and to set up new technology tools that would enable the project. Thereby, an after-sales team would be necessary to carry out the strategies along with the contract and, eventually, to analyze the data, understand customer needs and wants and develop a pragmatic plan to deter customer defection.

## **4. Identify a customer target and encourage its attraction**

Fourth, Company A did not have a customer target at all. In other words, they simply use mass media, sponsorships, and social media to promote their financial products and sell to any customer. With a genuinely data-driven approach, it is possible to develop an algorithm that could predict the likelihood of the customer churning the contract, depending on personal characteristics, credit score and the product purchased.

Considering new technologies such as machine learning and statistical analysis the scenario is even more promising. It means that salesforce would have a clear target to focus its promotional actions and could have a variable compensation in accordance with the target customers.

#### **5. Invest in communications with the customer to avoid misunderstandings about Consortium**

Lastly, Company A relies heavily on the salesforce representative to attract, negotiate and close the deals with the customers. Then, it pays them a bonus after each sale is made. It means that the third-party has entire control of the customer journey and can manipulate the communications with the customer. To illustrate, it clearly happens when the salesforce misleads the customer, purposely or not, giving inaccurate information about the procedures and not encouraging him/her to read the formal contract.

In a sense, Consortium companies must take the actions and assume a proactive attitude regarding the relationship between salesforce and customer. It is important to notice that all the emotional and gambling aspect of the Consortium system and the trustworthy relationship created by the salesman contributes to the lack of caution during the formalization of the contract. In other words, customers seem to trust more in the salesman than in the contract. Once the decision to churn is made after a non-immediate nomination, the salesman has already been paid, and the Consortium company must deal with a dissatisfied customer alone. Due to that, there must be a marketing effort to promote the right rules of the system and avoid deceiving customers.



## 11 Conclusion

The Consortium system in Brazil has improved and increased substantially in the last few years. In the 1990s a few companies went bankrupt, and thousands of customers lost their money and dreams. The system was consistently on the police pages of any newspaper and working in this segment was dealing with suspicious and mistrust by customers, regulatory agencies and authorities. Since the law (11,795), established in 2009, and the stricter regulation from the Central Bank of Brazil, the system dropped out of the police pages and jumped into the economic ones.

Despite all the advances in managerial tools, risk analysis, software, regulatory control against dubious companies, there is still a long path to walk. Customer churn is the main problem in most Consortium companies, and apparently, there was no scientific effort to explain, detail, breakdown and solve this challenge. It is the main risk to the sustainable future of the segment since the current model makes companies making money in the short-term but with no relevant prospects in the long-run.

The Consortium system is a quintessential Brazilian auto-financing model. There is no formal industry such as this one in Brazil to compare the results, processes, and companies. A few foreign benchmarks possible to find in Latin America are not comparable at all because the customer culture is different, there is no regulatory control, and it is not even the main core business of the companies. Even in Brazil, although it is a relevant industry according to the numbers, it is not among the main mechanisms to buy credit in the country. Thereby, the industry lacks scientific and data-driven research to examine its primary challenges and to come up with an academic body of knowledge that could be applied directly by the companies to achieve a superior system that could benefit customers, companies and the entire Brazilian society.

As in any research project, there are limitations. First of all, this research has not examined other Consortium companies in Brazil, and it assumes that it is an industry-wide problem based on conferences, meetings and informal chats with managers that approach this issue as the most challenging one in their respective companies. It might be a relevant difference between the big players (Banks and Automakers) and specialized companies, but it is a mainstream topic in any Consortium discussion. Secondly, in order to meet all deadlines, this research follows the customers until loyalty or defection for three months. To have a broader view, it would be recommended to follow them for six months since, in accordance with the numbers of Company

A, which is the period when the customers are statistically more likely to churn. After six months, it happens only for very extreme or particular situations. Third, the scale to measure financial literacy was adapted to better fit the Brazilian reality. Thereby, some inconsistencies such as the very similar mean between Churner and Non-Churner happened because of this, which means that a different scale would be necessary to better gauge the financial literacy level in this context.

Future studies could have a broader view of different Consortium companies and utilize a more sophisticated statistical model to actually predict churning in this industry, not just explaining why it happens. If possible, developing a Brazilian financial literacy that measures the knowledge and the experience with financial tools and products would allow a more reliable and consistent outcome by the national reality.

## 12 Appendix

### 12.1 The Brazilian Consortium Segment

In parallel to those marketing scholarships, one of the most important credit purchasing modalities in Brazil, Consortium (free translation to *Consórcio* in Portuguese) is a quintessential financial service available in some countries of South America since the 1960s, being a formal industry in Brazil. Having developed initially through big banks, the Consortium system has been spread in countless specialized companies around Brazil that endeavor to challenge these huge players and to differentiate themselves from the intense competition (ABAC, 2015, 2017).

Officially constituted in 1962, this typical Brazilian service was born with a group of employees that worked at *Banco do Brasil*, aiming to buy cars. According to a specific law (11.795) approved by National Congress of Brazil in 2009 (ABAC, 2015), Consortium is a gathering of different people, under the management of one company, that have the same consumption purpose, to raise funds to acquire a credit line in order to buy assets (cars or real estate) or services (trips, surgery, academic courses), via self-funding (ABAC, 2015).

Under the responsibility of ABAC (Brazilian Association of Consortium Companies - *Associação Brasileira das Administradoras de Consórcio*), about 120 companies are represented by this association in Brazil, and they are accountable for about 250 thousand direct and indirect jobs, 4 million clients and a market valued at R\$ 20 billion in the entire country (ABAC, 2018). After years with a constant presence in the police and criminal pages of newspapers and magazines due to scandals and frauds, the last ten years has been very successful to the entire system, ensuring constant coverage and publicity in the economics pages. Nowadays, beyond the management of ABAC and the regulations of the Law, the Central Bank of Brazil is responsible for auditing and supervising all the authorized Consortium companies in the country.

In table 13, it is possible to see the most important players and respective revenues (in R\$ and \$) during November 2018. Notably, the top five company have approximately 50% of the market share. Most importantly, four companies are huge Brazilian Banks, and one is an Automaker, which demonstrates the industry dynamics and complexity to specialized companies.

## RANKING (NOVEMBER 2018)

#	Consortium Company		Value (R\$)	Value (\$)	Market Share
1	BRABESCO ADM. CONS. LTDA	R\$	824,826,788.53	\$ 206,206,697.13	19.9%
2	BB CONSÓRCIOS	R\$	423,523,732.33	\$ 105,880,933.08	10.2%
3	ADM CONS NAC HONDA LTDA	R\$	358,295,941.89	\$ 89,573,985.47	8.6%
4	ITAÚ ADM DE CONSÓRCIOS LTDA	R\$	301,022,583.48	\$ 75,255,645.87	7.3%
5	CAIXA CONSÓRCIOS	R\$	175,957,559.49	\$ 43,989,389.87	4.2%
6	EMBRACON ADM CONS LTDA	R\$	175,788,161.85	\$ 43,947,040.46	4.2%
7	RODOBENS ADM CONSORCIOS LTDA	R\$	129,513,356.89	\$ 32,378,339.22	3.1%
8	PORTO SEGURO ADM. CONS. LTDA	R\$	126,362,845.29	\$ 31,590,711.32	3.0%
9	SANTANDER BRASIL ADM CONS LTDA	R\$	121,552,346.70	\$ 30,388,086.68	2.9%
10	DISAL ADM CONS LTDA	R\$	112,347,698.85	\$ 28,086,924.71	2.7%
11	ADM CONS SICREDI LTDA	R\$	89,479,242.78	\$ 22,369,810.70	2.2%
12	VOLKSWAGEN ADM. CONS. LTDA	R\$	88,649,837.27	\$ 22,162,459.32	2.1%
13	SCANIA ADM CONS LTDA.	R\$	81,109,042.09	\$ 20,277,260.52	2.0%
14	GMAC ADM CONS LTDA	R\$	70,135,648.90	\$ 17,533,912.23	1.7%
15	RANDON ADM CONS LTDA	R\$	67,913,812.29	\$ 16,978,453.07	1.6%
16	MULTIMARCAS ADM.CONS.LTDA.	R\$	58,819,939.64	\$ 14,704,984.91	1.4%
17	ADEMILAR ADM CONS S.A.	R\$	55,098,904.92	\$ 13,774,726.23	1.3%
18	PONTA ADM CONS	R\$	53,423,139.55	\$ 13,355,784.89	1.3%
19	HS ADM CONS LTDA	R\$	48,444,803.94	\$ 12,111,200.99	1.2%
20	CANOPUS ADM CONSÓRCIOS	R\$	41,656,707.19	\$ 10,414,176.80	1.0%

Table 13 Top 20 Consortium Companies in Brazil

The core operation of a Consortium is relatively simple. In general, the administrative company is in charge of attracting and selling the credit shares, let's say a car to simplify, to customers. The price paid is a large number of installments that represent the sum of the car plus an administration fee, which is the actual company's revenue. Figure 6 presents it graphically.

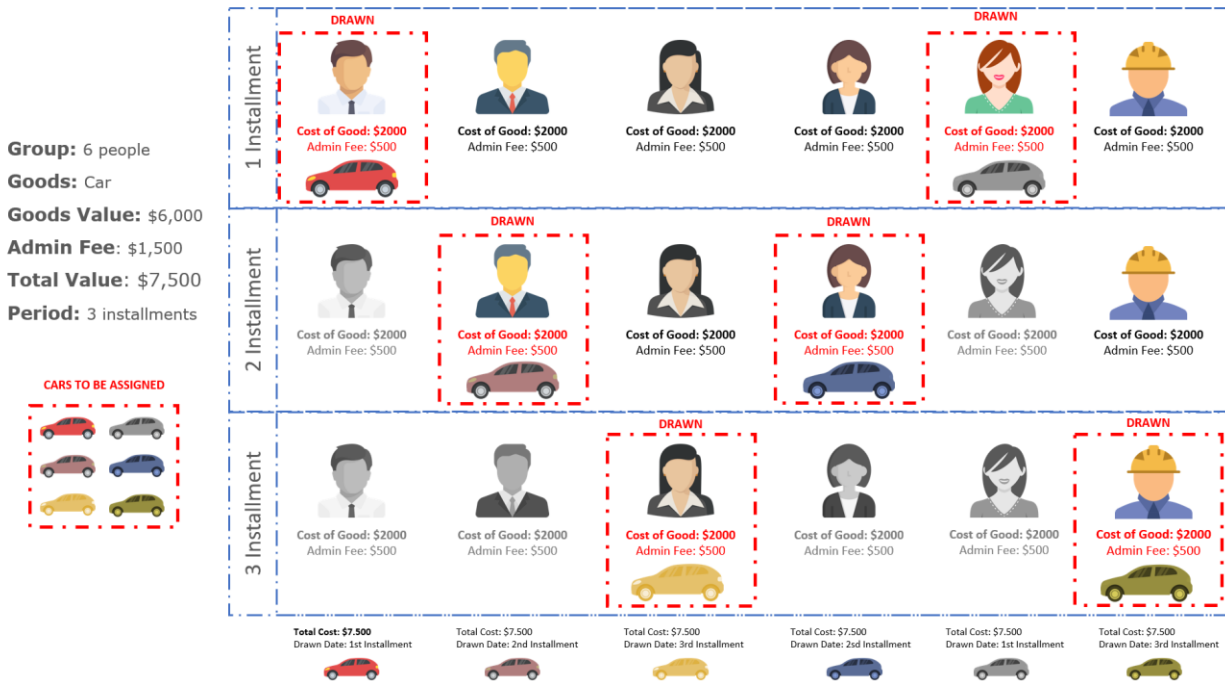


Figure 6 Consortium Logic Representation

According to the representation above, six people were gathered in the same group to buy a similar car that cost \$7,500 (goods value of \$6,000 plus an administrative fee of \$1,500). In the first installment, all the six participants pay \$2,500, and the whole group has \$15,000 at the end of the month<sup>5</sup>. This money represents \$12,000 to buy the car and \$3,000 to pay the administrative fee to the Consortium company. The company, in turn, is responsible for drawing the two cars randomly among the six participants and nominate two of them. Hence, two people (in this example the first and the fifth) are the luckiest ones and receive the credit to buy a car. Following, in the second installment, this whole process is repeated, and participants two, and four are randomly assigned to receive the credit. Finally, in the third and last assignment, the third and sixth participants are nominated to receive the credit.

All in all, some characteristics are clear in the Consortium industry:

- Every participant pays the exact same amount of money.
- Every participant must keep paying from the first to the last installment, regardless of the drawn results.

<sup>5</sup> In the real world, there are a few more fees to be paid such as Membership Fee, Insurance Fee, Reserve Fund. For simplicity's sake, we consider just the Goods Value and the Admin Fee.

- A participant might be either the first or the last one to receive the credit. It is all about luck<sup>6</sup>.

In a different graphic representation, figure 3, it is possible to notice the customer journey that any person must follow. Clearly, there are other plans and methods to buy a consortium share faster, but the main point here is the decision of who will receive the letter of credit is made by drawing lots and, hence, there is no guarantee of receiving in the first months of the group. One can either be the first to get the letter of credit or, in the worst-case scenario, the last.

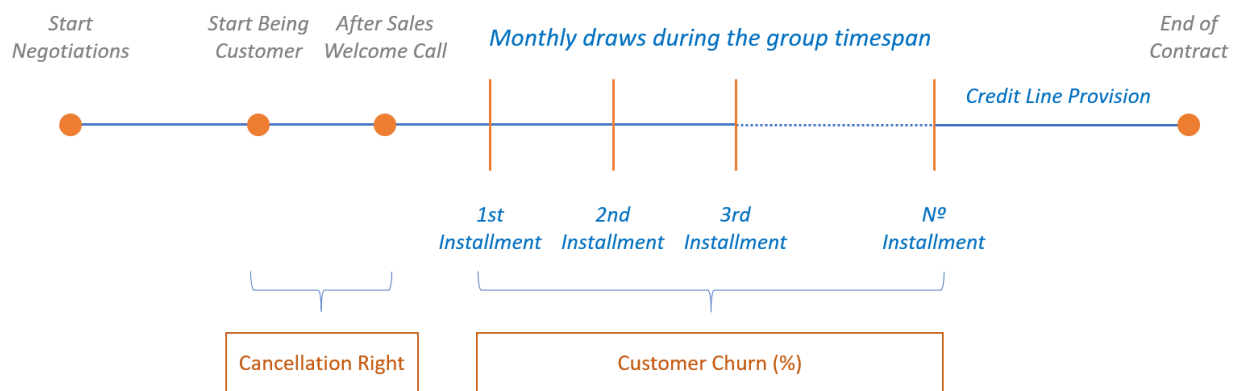


Figure 7 Customer Journey

In other words, this is the main difference from other plans, most notably the financing one. Although it is way more expensive, a financing plan allows one to enjoy the purchased goods from the moment he/she signs the contract, which is usually the desire of any client. Thereby, clients expecting to have their goods immediately and the salesman conveniently omitting this part to the client are two important issues that affect the whole sector.

<sup>6</sup> In the real world, customers might pay an Upfront Fee to increase their chances to be assigned in a specific month. For simplicity's sake, we did not consider it.

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