

Blueprint for SaaS Success
Subscriber Retention

Recurly

Powering Subscription Success

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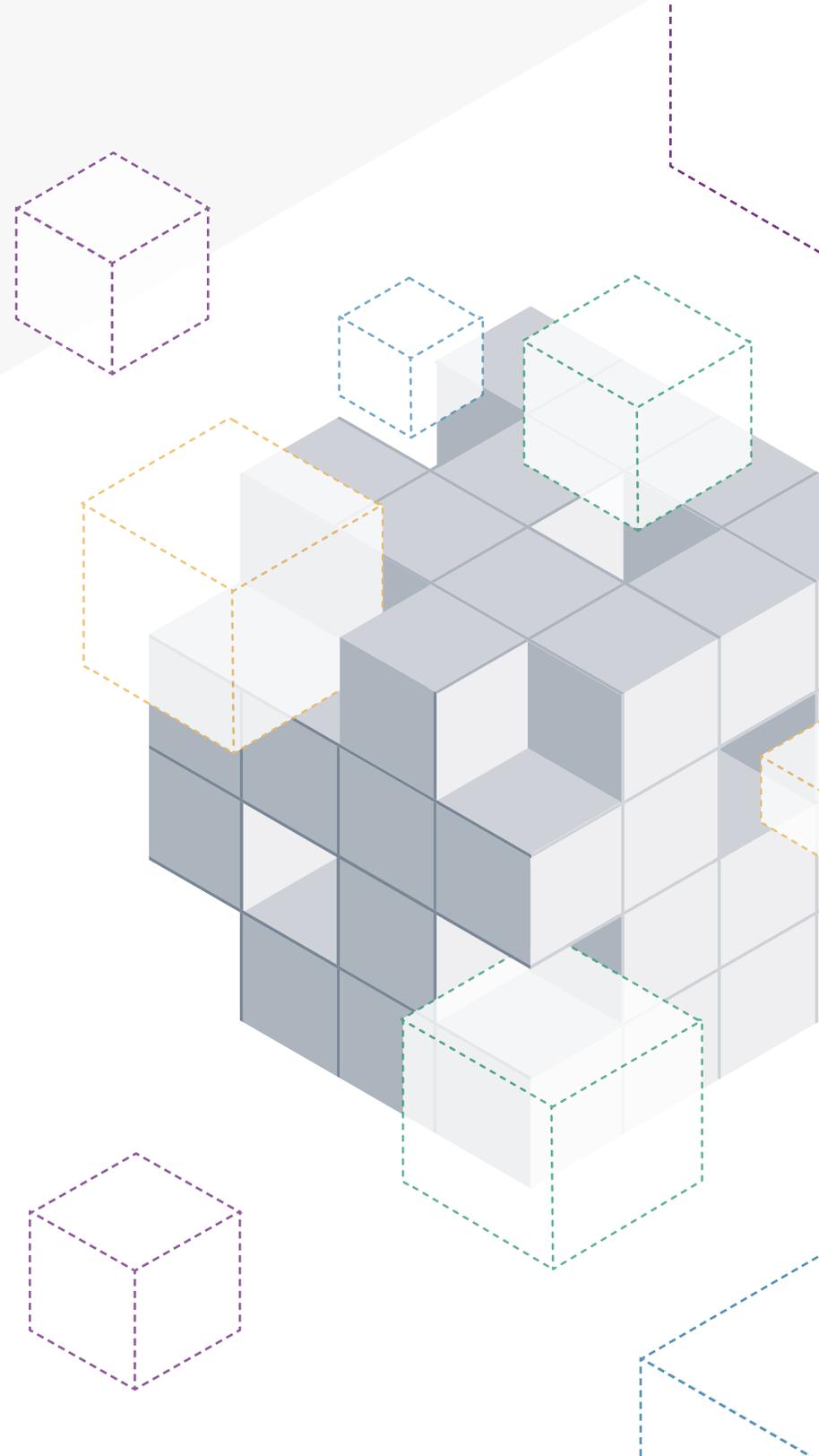
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Subscriber Acquisition, **Retention & Loyalty**

“The key is to set realistic customer expectations, and then not to just meet them, but to exceed them—preferably in unexpected and helpful ways.” - RICHARD BRANSON

As an entrepreneur and one of the most successful businessmen in the world, Richard Branson is known for many things. One area which has been critical to his success is his belief in providing the absolute best customer experience. Why? Because by exceeding customer expectations every single day, a business creates customer loyalty and enduring customer relationships. This principle is especially true in subscription commerce, as increasing subscriber retention is crucial. The blueprint for subscription success focuses on providing subscribers with value which leads to predictable recurring revenue.

What tactics can SaaS businesses utilize to encourage and increase subscriber retention? What kind of initiatives contribute to increased satisfaction and reduce voluntary churn? And how can automated processes mitigate involuntary churn from failed transactions?

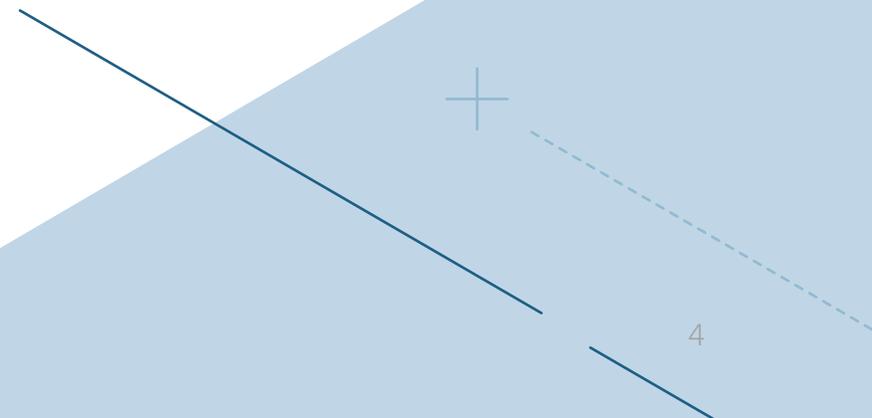
How Do SaaS Businesses Create Value?

“Get closer than ever to your customers. So close that you tell them what they need well before they realize it themselves.” - STEVE JOBS

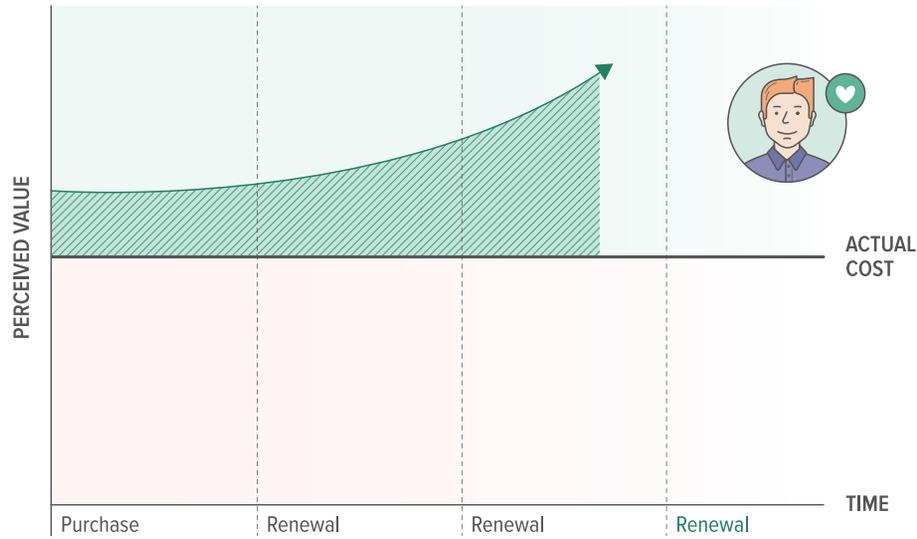
In the world of subscription commerce, purchase conversions are critical—but the brand promise has to live up to the subscriber’s perception of value over time. Focusing on the subscriber and consistently exceeding their expectations ensures that subscribers agree that the value of the subscription product or service surpasses the price.

But while this concept is simple, the execution may not be as straightforward. It takes the orchestrated efforts of multiple disciplines—from product to pricing and from marketing to operations—to consistently deliver value to your subscribers.

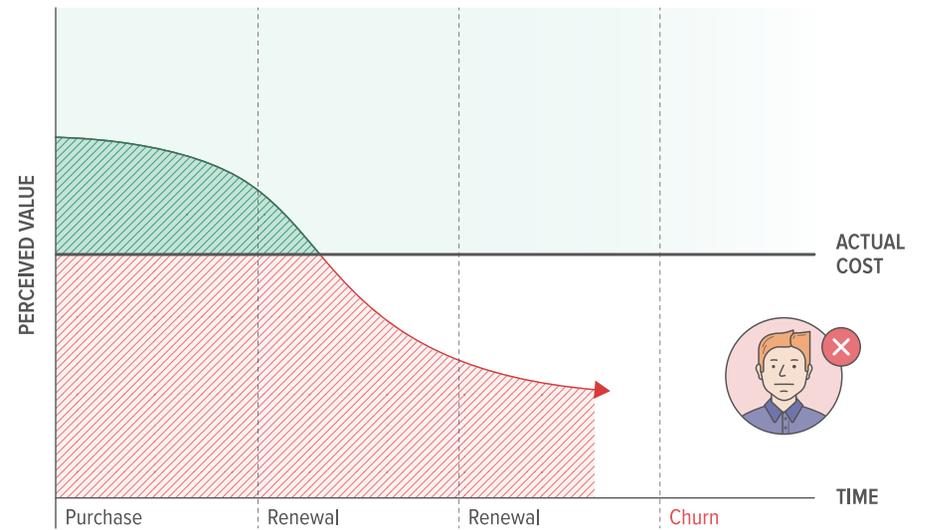
This value-cost dichotomy can be illustrated graphically. The goal is to keep the perceived value of any subscriber base ‘above the line.’ That is, above the perceived line which is defined by the intersection between perceived value and perceived cost.



Customer's Perceived Value is **Greater Than** Actual Cost



Customer's Perceived Value is **Less Than** Actual Cost



Support Retention With Upsells, Cross-sells, and Downgrades

One way to promote subscriber loyalty and retention is via upsells, cross-sells, and even downgrades.

Upselling brings subscribers further into the fold. Once a subscriber has been using a product or service for some time, the business may want to upsell them to a longer-term plan in exchange for a more economical price per unit. Or a longer-term plan may be more convenient since renewals are less frequent. The business thus provides more value to the subscriber, which increases loyalty and retention.

Cross-selling works similarly. When a subscriber purchases something that is complementary to their original purchase, they get more value out of their subscription by pairing it with an additional product or service. Incorporating your product further into how the subscriber uses it makes it more 'sticky,' as well as diversifies your business. This type of '[hybrid billing model](#)' can increase both revenue and subscriber satisfaction.

Even downgrades can have a positive effect on subscriber retention. If the subscriber is not perceiving enough value at the price they are currently paying, a less-expensive option may be preferable. The business demonstrates their willingness to meet the subscriber's needs, which may increase their satisfaction *and* prevent the subscriber from cancelling.

Of course, under any of the above scenarios, it's important to correctly bill the subscriber for the changes to their account, including prorating charges as appropriate. This is one of the more complex aspects of [subscription billing](#) and requires a platform that is designed to handle these changes with ease, ensuring accuracy and ultimately, a satisfied subscriber.

The Challenge of **Voluntary Churn**

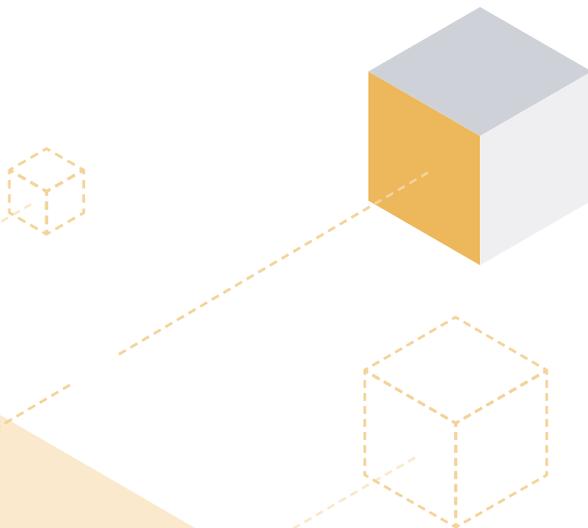
“Your most unhappy customers are your greatest source of learning.” - BILL GATES

Despite your best efforts, some subscribers may still decide that the value of your product or service doesn't exceed the cost. Fortunately, there are effective tactics that you can employ to bolster the positive value vs. cost equation in their minds, which is key to your subscriber retention strategy.

One method is to offer a discount or coupon to a subscriber who's at risk of churning, or who has churned, in order to encourage them to remain (or return).

For example, if a subscriber cancels, send them an email that says “we're sorry to see you go” and include a coupon for some percentage off or some additional unit of time if they re-subscribe. A small discount or other offer may be all that is needed to entice the subscriber to return.

And information can be valuable, too. If a subscriber cancels, send them a short survey to ask them why. With enough feedback, you should be able to identify the issue or issues that cause dissatisfaction. Other feedback sources exist as well. For example, your customer service and tech support teams speak to subscribers every day, giving these staff up-to-the-minute insights into subscribers' problems or issues. Social channels are another source of feedback. And Net Promoter Score (NPS) surveys can be used to ask subscribers directly how they feel about your subscription service and how likely they are to recommend it to others. Armed with this kind of information from various sources, you can make adjustments to better meet your subscribers' needs and expectations and reduce voluntary churn.



Loyalty Programs Increase Retention

“We see our customers as invited guests to a party, and we are the hosts. It’s our job every day to make every important aspect of the customer experience a little bit better.” - JEFF BEZOS

Providing value is critical for ensuring happy, loyal subscribers. From a tactical standpoint, an effective way for a SaaS business to let its subscribers know that they are valued is through a loyalty program which can significantly increase retention and lifetime value.

SaaS businesses use loyalty programs to reward their best customers. For example, refer-a-friend offers can provide some kind of reward to subscribers for every person they refer who ends up becoming a paid subscriber. The referrer might get early access to new products or services, a percentage-off coupon toward a new purchase, or some other ‘gift’ for bringing in new subscribers.

Loyalty can also be engendered in more subtle ways, for example through efforts that promote the value of the subscription and the responsiveness of the business to subscriber feedback.

Many business-to-business (B2B) businesses publish a newsletter which highlights upcoming changes and improvements to the service, or publish case studies to highlight subscribers who are using it in innovative ways.

Mitigating Involuntary Churn

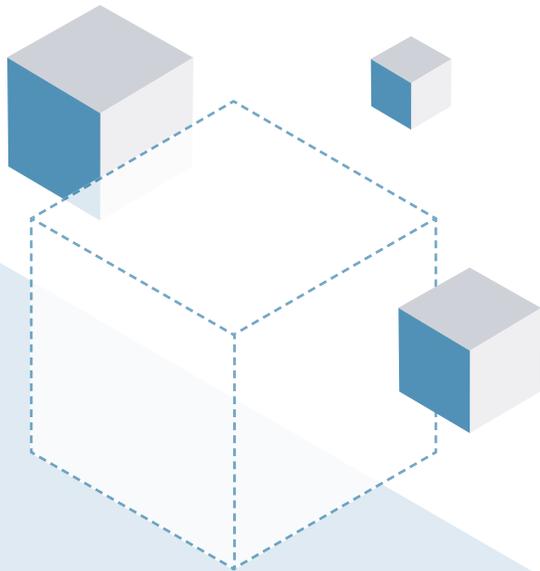
Businesses can also lose otherwise happy subscribers through *involuntary* churn—a form of attrition which happens as a result of card declines and invoice failures. Every SaaS business faces this risk each billing cycle. But there are ways to mitigate it, for example through process improvements, automated tools, and technology that minimizes invoice failures.

The first step is to establish baseline rates to provide context that will inform all other efforts.

Establish Baseline Decline Rates and Compare to Industry Benchmarks

A SaaS business needs to have a sense of its average decline rate over time, to establish a baseline. Any spikes in this rate should be investigated immediately as they may indicate that something is awry in the payments process.

Once a baseline decline rate has been established, compare this rate to industry benchmarks. Many businesses experience decline rates in the range of 5-14% of monthly transactions for B2B and 6-18% for B2C—but these numbers can vary greatly depending on the composition of the user base. There's a wide range of SaaS businesses in different industries, with different audience targets (B2B vs. B2C), price points, preferred payment methods, etc., so comparing decline rates based on the aspects that match your business will provide [the most meaningful benchmark](#).



Once data has been benchmarked, SaaS businesses can better understand their churn rate and, where decline reasons are available, look for trends. For example, some errors like requirements for CVV or AVS, will indicate that the payment gateway needs to be reconfigured. Or, B2B businesses may see errors related to corporate cards having restrictions on recurring transactions.

B2C merchants may see a similar error if subscribers are paying with pre-paid debit or gift cards. Looking at the data month-over-month can reveal some interesting trends such as seasonal ebbs and flows that can be anticipated. Being armed with comprehensive data about decline rates lets you develop more effective mitigation strategies.

Account Updater Automatically Repairs Declines

One very effective way to address transaction declines is through an automated Account Updater service which actively maintains up-to-date credit card information. Prior to subscription renewals or card expirations, an Account Updater service validates credit card information and automatically applies new information, if available. If the credit card is cancelled, the account is automatically updated to note that the billing information is invalid, so that the business can take the appropriate actions.

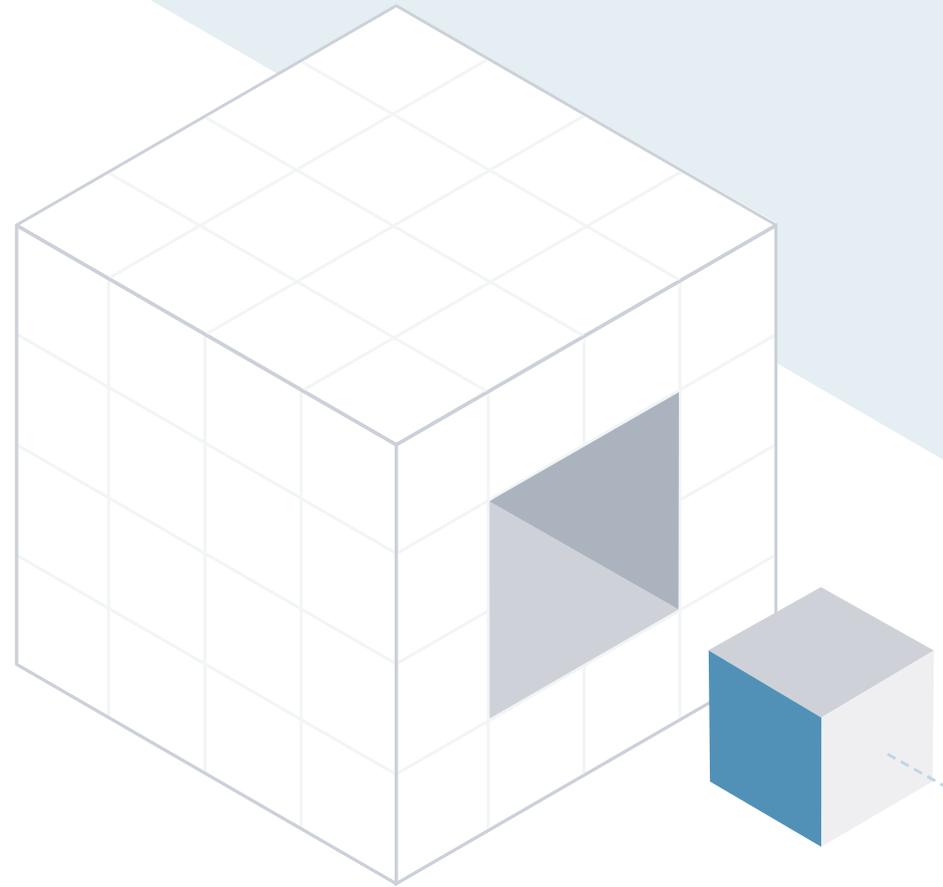
Why is this important? Over time, your subscriber billing information on file may become outdated, for example, if a card is lost or stolen or if the expiration date changes. Unresolved, this can result in payment delays, declines, lost revenue, and ultimately subscriber churn. An Account Updater service is a critical first step in preventing decline and retaining subscribers.

Dunning Supports Successful Transactions

Dunning entails automated emails to a subscriber when their payment fails. The emails direct the subscriber to update their payment information by phone or via the subscriber's account page on the company website. By prompting them to correct the issue, their transaction can eventually go through, and the subscriber remains a customer rather than churning.

Be sure to optimize your dunning settings. Setting the dunning emails to run for a minimum of 14 days allows for both the automatic retries and the dunning process to have a reasonable chance for a response. While setting dunning to run longer improves recovery, a cycle longer than 28 days causes invoices to enter into a 'loop' state where a new invoice is issued even though the prior invoice was not collected.

Also keep in mind that for B2B, it may take a business longer to fix a problem, so providing more time can be helpful. This is also true for invoices where the total amount is large or when your decline rate is higher than normal.



Machine Learning and Customization

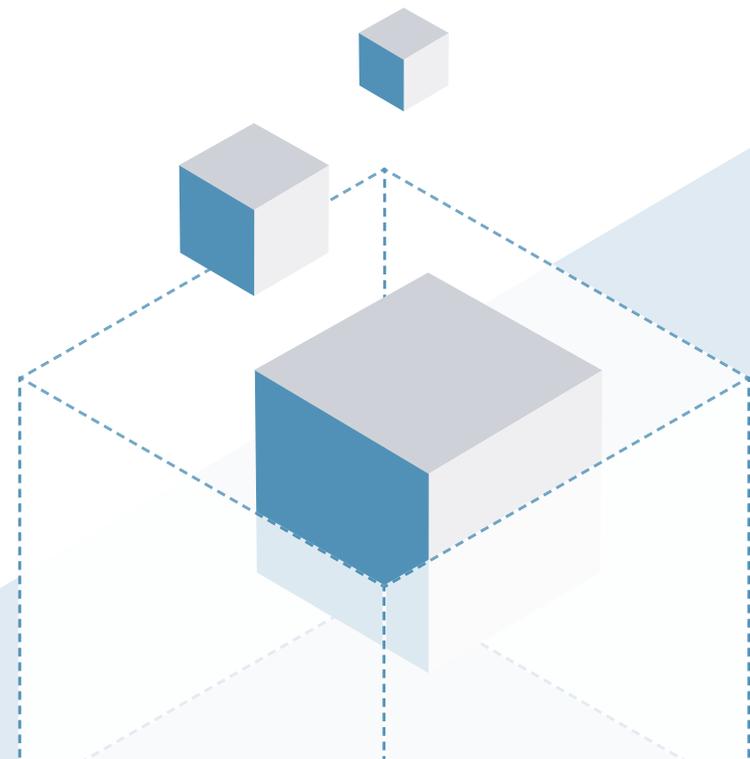
The most sophisticated solutions incorporate machine learning to detect patterns in invoice failures and increase the success rate of failed transactions. Analyzing and ‘learning’ from previous transactions allows for a more intelligent approach which results in improved transaction success rates.

Recurly has taken this approach one step further in the logic which drives our automated retry process. We use machine learning and advanced statistical models that leverage the data we’ve gained from processing recurring transactions (hundreds of millions of them built up over the years from a wide variety of different SaaS businesses) to predict which transactions are likely to succeed. Then, we use these models to craft the ideal retry schedule for *each individual invoice*.

For example, we can look at retries on a Visa debit card transaction that ran at different dates and times. Our model can tell us which potential attempt is more likely to succeed, with a high degree of precision.

Using machine learning and a large dataset that includes so many different types of transactions allows us to make these predictions accurately.

[This exclusive technology](#) replaces a one-size-fits-all approach with a process that’s dynamic, smarter, and more effective. With our Revenue Optimization Engine, decline management can recover an average of 70% of failed subscription renewals.



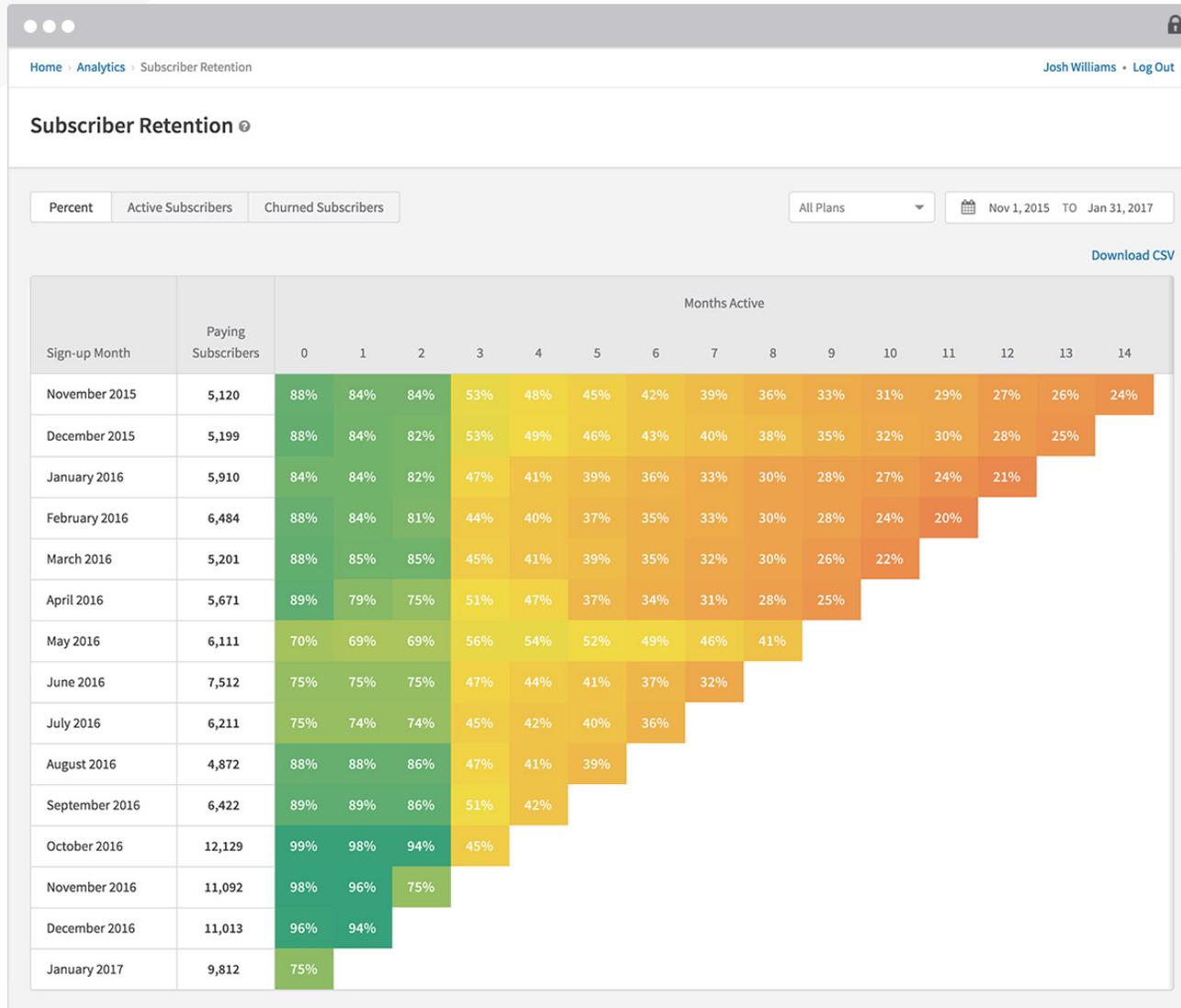
Cohort Analysis to Proactively Address Churn

Cohort analysis is useful for understanding how your subscribers have changed over time and can uncover additional insights about churn behavior, such as *when* in their life cycle subscribers are churning. It can help SaaS businesses determine if they're improving their monthly subscriber retention rate over time, and it can also reveal if there are seasonal trends or other events (for example, coupons or marketing campaigns) that have impacted subscriber retention.

A [cohort analysis](#) also allows a merchant to continually test different strategies to prevent churn and quickly evaluate the impact to each cohort. This allows for more efficient use of resources by strategically targeting a certain time frame—i.e., a particular cohort—in the subscriber lifecycle.

To set up a churn cohort analysis, track the total number of paid sign-ups each month, with each month's sign-ups representing its own cohort. Then, track the retention and churn rates month over month for each cohort. If a pattern emerges of when certain cohorts tend to churn, you can then devise tactics to proactively address these cohorts before churn occurs.

Recurly Analytics' Subscriber Retention Report:

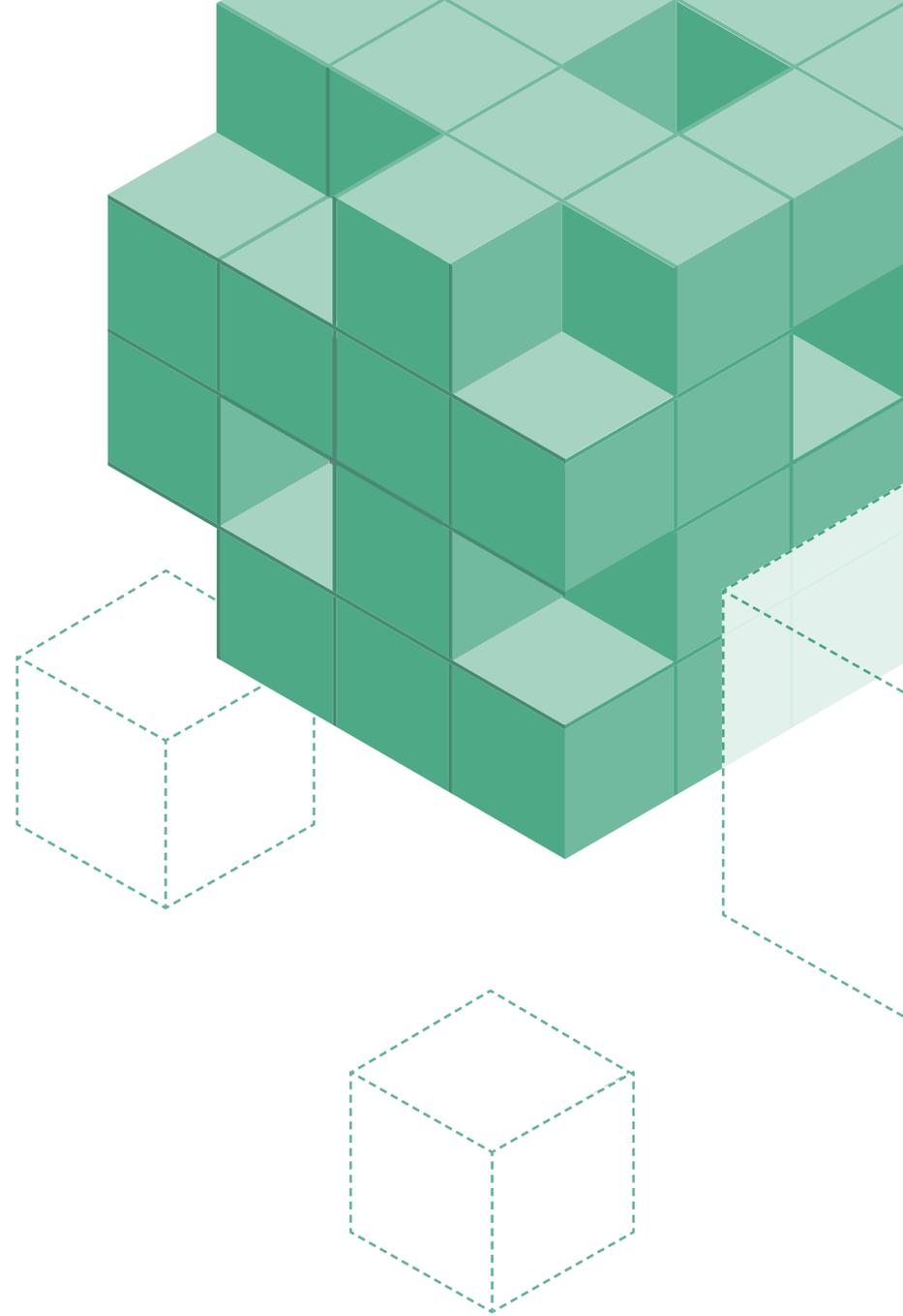


Measuring Results

“The world is now awash in data, and we can see consumers in a lot clearer ways.” - MAX LEVCHIN, PayPal co-founder

The subscription model [provides data on a regular basis](#)—and this data can be used to continually hone your business strategy, optimize processes, and anticipate challenges. The data—which is based on the intersection of marketing events, subscriber behavior, and billing events—is unique, and the insights it provides is the key to growing your business. SaaS businesses can and should leverage these data-driven insights to continually improve and build a business with reliable subscriber loyalty and retention.

Following are some of the [key metrics](#) a business should monitor closely to ensure it’s not just meeting, but exceeding, subscriber expectations.



Key Metrics

Subscription Churn

Total number of subscriptions churned divided by the total number of subscriptions active at the beginning of the month.

Churn is the inverse of retention. By measuring the churn rate, a business knows how well it's retaining subscribers.

Subscription Churn by Plan

Total number of subscriptions that churn in each plan divided by the total number of subscriptions that were active in each plan at the beginning of the month.

By identifying which plans produce high or low churn, businesses can further hone in on the reasons subscribers are retained or the reasons they churn.

Revenue Churn

Total amount of revenue (MRR) lost each month from churned subscriptions.

This indicates how much money a business is losing by NOT retaining subscribers.

Retention Cohort Analysis

Of the users that sign up every month, for how many months past their date of sign up were they retained? This is not necessarily a metric but rather a way of looking at data.

This helps the business identify if there are trends in when retention begins to drop off (e.g. all my subscribers tend to churn after they have been with me for three months).

Returning Subscribers

The total number of subscribers that left a business (churned) and then returned at a later time.

A merchant should focus on these subscribers to ensure they are happy and don't churn again. An analysis of this group of subscribers may provide insights on why they churned and what factors contributed to their return.

In addition to the metrics above, which show how well a business is retaining subscribers today, there are indicators that can provide insights on how likely it is to retain a subscriber in the future. A key metric here is:

Average Revenue Per Subscriber (ARPS) Growth

For each individual subscriber, what is their month-over-month ARPS growth.

Subscribers who continue to spend more money with you are more likely to stay with you. Subscribers who downgrade and have a lower average revenue may be more likely to churn.

Creating Value Ensures Subscriber Satisfaction & LTV

“The single most important thing is to make people happy. If you are making people happy, as a side effect, they will be happy to open up their wallets and pay you.”

- DEREK SIVERS, CD Baby founder

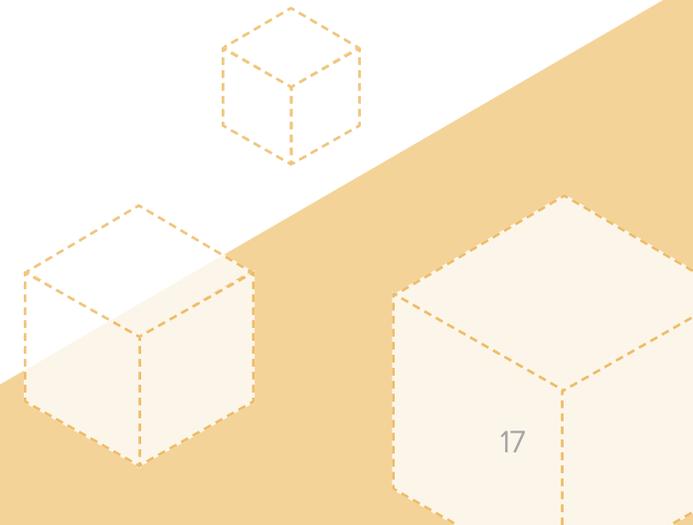
All businesses, whether based on recurring revenue or not, naturally focus on subscriber acquisition. But SaaS businesses have an ongoing relationship with their subscribers, making subscriber retention particularly critical.

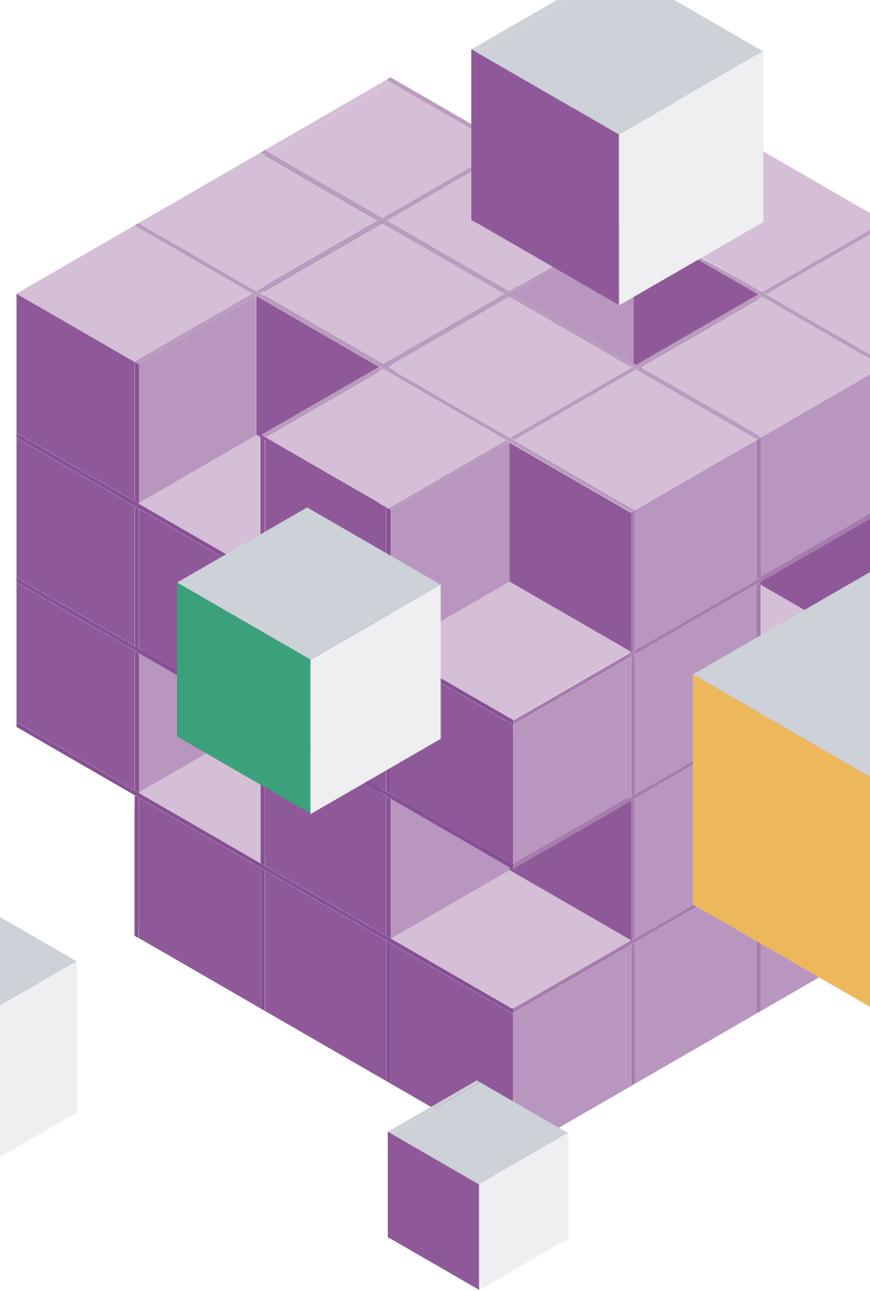
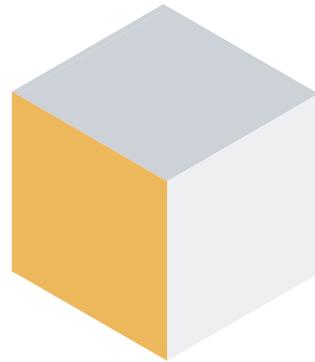
Providing consistent value and promoting subscriber loyalty through loyalty programs, upsells, cross-sells, and even downgrades are effective ways to address voluntary churn. And if subscribers do cancel, thoughtful efforts to win them back or at least understand why they were dissatisfied can be a valuable investment of time and resources.

Effective efforts to repair failed transactions through process improvements, automated tools, and technology can mitigate rates of involuntary churn.

Advanced technology that incorporates machine learning to create a customized approach for minimizing invoice failures improves transaction success rates. Cohort analysis to understand how subscribers change over time can uncover additional insights.

Consistently applying these types of tools, techniques, and technology can mean the difference between retaining or losing a subscriber. And by continually testing, measuring, and iterating on retention efforts, SaaS businesses can ensure their processes are highly effective and optimized.





To learn more about how Recurly can provide the blueprint for your SaaS success, visit [Recurly.com](https://recurly.com) or call us at 1.844.732.8759.

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Recurly

Recurly provides enterprise-class recurring billing management for thousands of subscription-based businesses worldwide.

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