Mastering Recurring Revenue:

10 Tips for Reducing Churn

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Your speaker today

Shannon MacLeod

Director, Strategic Growth
Verifone

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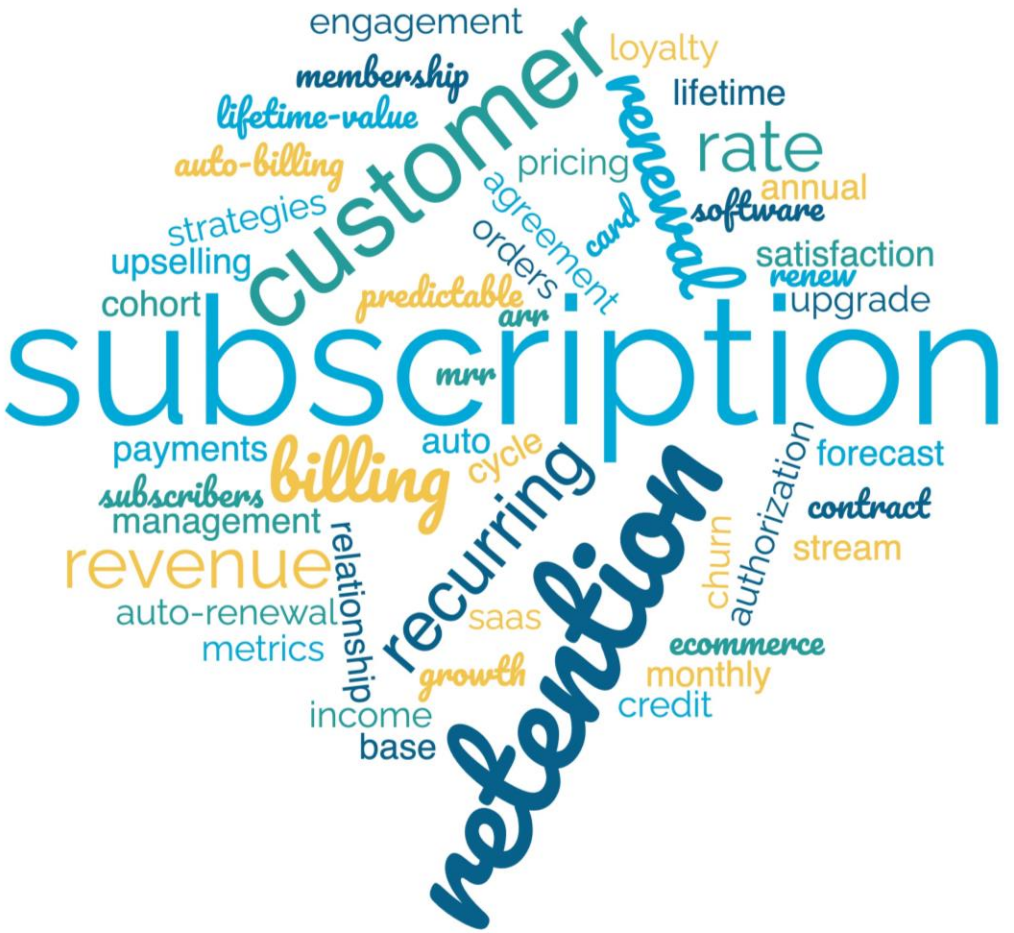
What we'll cover today

- Common terms and definitions
- Key performance metrics
- Ten tips to increase recurring revenue
- Examples and case studies
- Time for Q&A



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Definitions & metrics

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What is Retention Rate?

Definition

A retention rate measures the percentage of customers who continue to maintain their subscription over a specific period of time.

Chargebacks, refunds, cancellations and renewals all affect the retention rate.

Formula

$$\frac{\text{Number of Subscribers at specific time}}{\text{Number of Subscribers that originally purchased the product}} * 100$$

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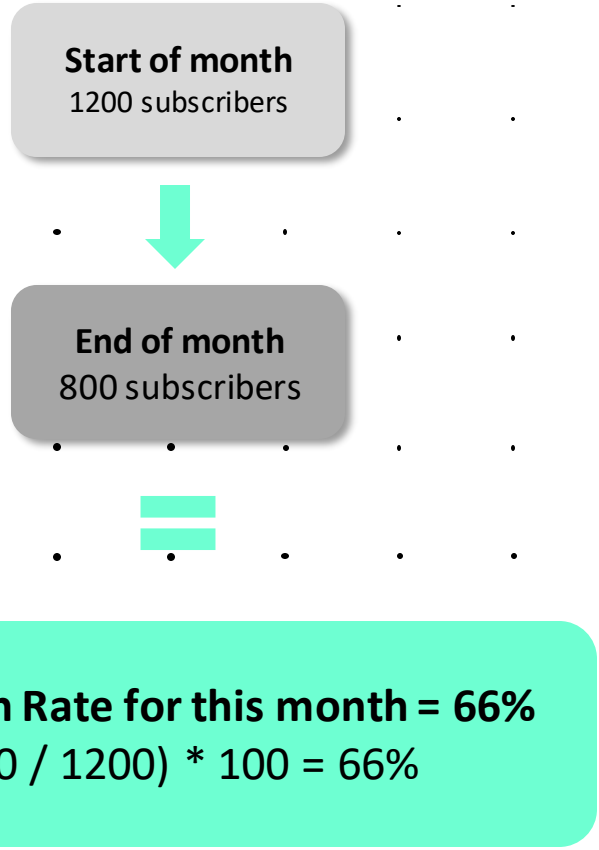
Retention Rate

This measures your ability to retain customers, and includes issues such as product quality and customer loyalty as well as your subscription billing system, payment provider and failure recovery tools.



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What is a Renewal Rate?

Definition

The percentage of subscriptions that renewed at the end of the billing term based on the total number of subscriptions that are *eligible for renewal* at the start of the billing term

Formula

$$\frac{\text{Number of } \textit{Active} \text{ Subscribers at the End of the Period}}{\text{Number of } \textit{Active} \text{ Subscribers at the Start of the Period}} * 100$$

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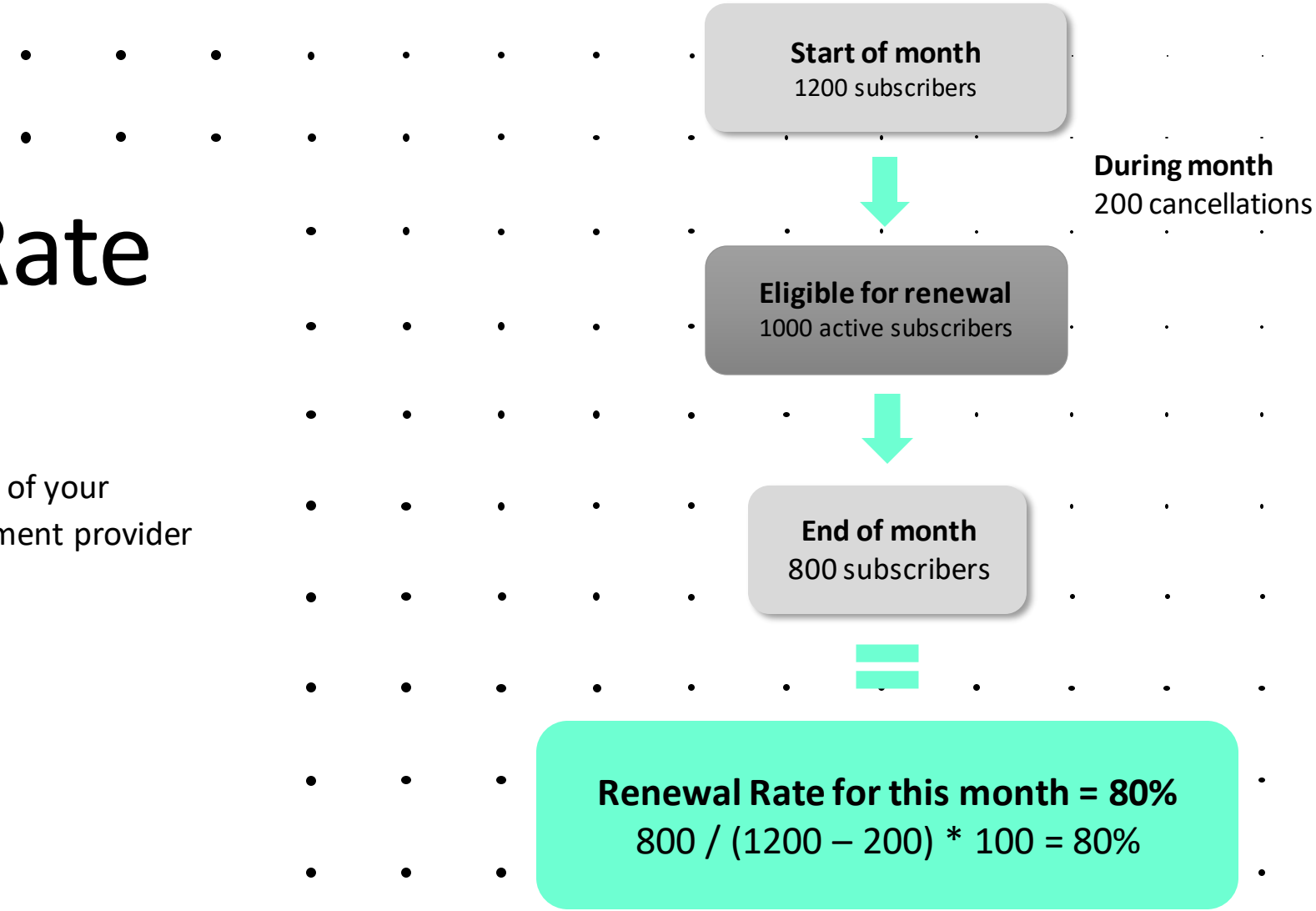
Renewal Rate

This measures the performance of your subscription billing system, payment provider and failure recovery tools.



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Renewal Rates versus Retention Rates

	Renewal Rate	Retention Rate
DEFINITION	The percentage of subscriptions that renewed based on the *total number of active subscriptions that are eligible for renewal*	The percentage of customers who continue to maintain their subscription over a specific period of time.
FORMULA	Number of *Active Subscribers* at the End of the Period / Number of *Active Subscribers* at the Start of the Period * 100	Number of Renewed Subscriptions / Number of Initial Subscribers *100
RESULT	This means that x% of your eligible subscribers renewed their subscriptions at the end of the period.	This means that you have retained x% of your initial subscribers at the end of the period.
WHAT DOES THIS MEASURE?	This measures the performance of your subscription billing system, payment provider and failure recovery tools	This measures your ability to retain customers, and includes issues such as product quality and customer loyalty as well as your subscription billing system, payment provider and failure recovery tools

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Auto-renewal versus manual renewal

AUTO-RENEWAL or AUTO BILLING

The subscriber's payment method is stored and is automatically charged at the end of the billing term in order to automatically renew the subscription.

The end result is that the subscriber does not need to take action to renew their subscription (as long as their payment method is valid).

Auto-renewal rates:

- 90% for monthly term
- 80% for annual term

It is a best practice to allow shoppers to opt-out of auto-renew when they are purchasing the initial subscription.

MANUAL RENEWAL

The subscriber must manually renew their subscription by going through a shopping cart and completing the renewal order.

The end result is that if the customer does not take action, their subscription expires.

Manual renewal rates:
30-60%

It is best practice for companies to notify their subscribers before the subscription expires and remind them to renew.

A subscriber must be able to disable auto-renew or cancel their subscription at any time.

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What is Churn?

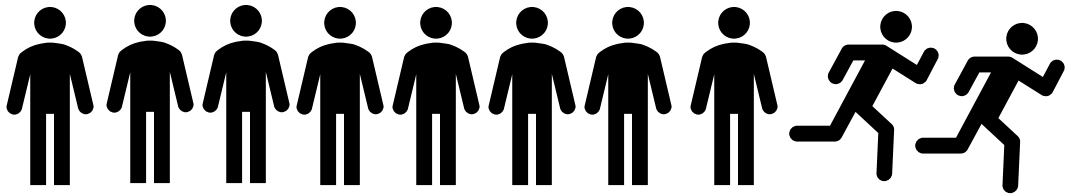
Definition
Churn is the opposite of retention. It is the percentage of subscribers that are not retained at the end of a period.

Formula

1 – x% Retention Rate

Example
100% - 80% = 20% churn rate

Result
This means that you did not retain 20% of the initial subscribers you originally acquired.



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Types of churn

INVOLUNTARY CHURN

Associated with auto-billing

The subscriber intended to renew, but there was an issue and the payment was not processed, so their subscription expired.

Common reasons for involuntary churn:

- Payment account was closed (hard decline)
- Payment failures (Expired credit card, insufficient funds)
- Payment provider has low authorization rate
- Payment provider does not have failure recovery tools

VOLUNTARY CHURN

Associated with manual renewals

The subscriber did not take action to renew their subscription, or cancelled their subscription.

Common reasons for voluntary churn:

- Customer cancelled their subscription
- Customer does not want to renew their subscription
- Customer requested a refund or chargeback
- Customer did not complete the renewal process

It is critical to follow up with subscribers who are churning and attempt to renew their subscription before/after it expires.

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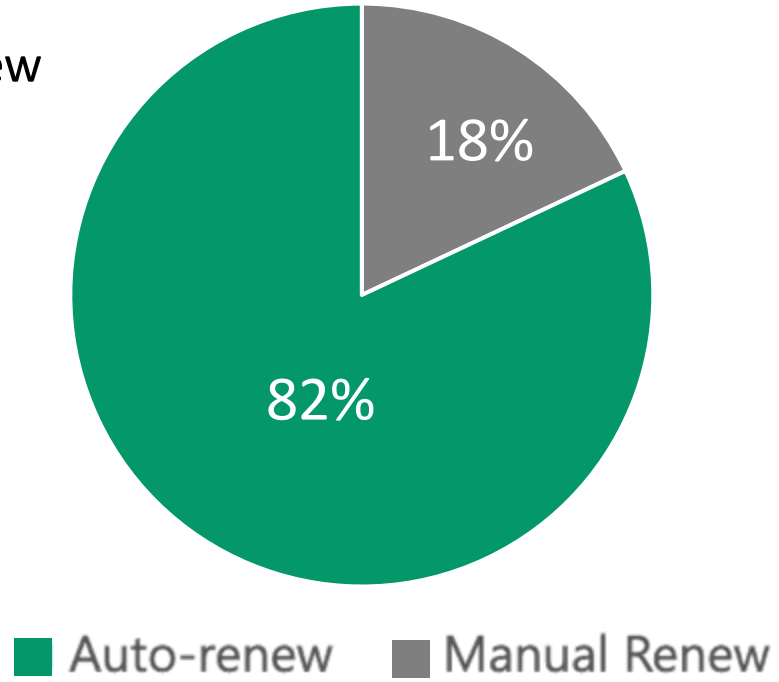
Key metrics to track performance

- Total Renewal rate
  - Auto-renew rate
  - Manual renew rate
- Percentage of subscribers on auto-renew versus manual renew
- Geo-distribution of customers
- Cancellation rate
- Refund rate
- Upgrade rate
- Authorization rates
- Customer lifetime and lifetime value



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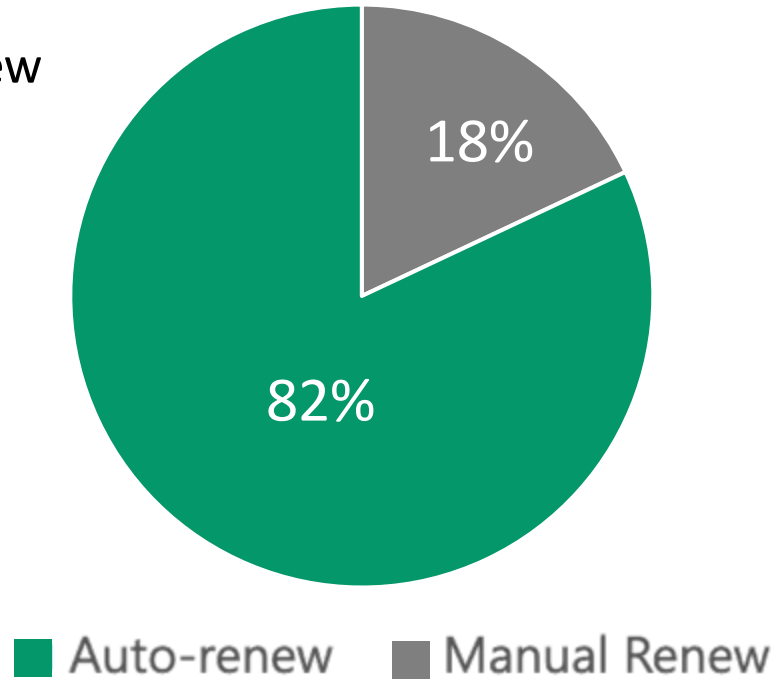

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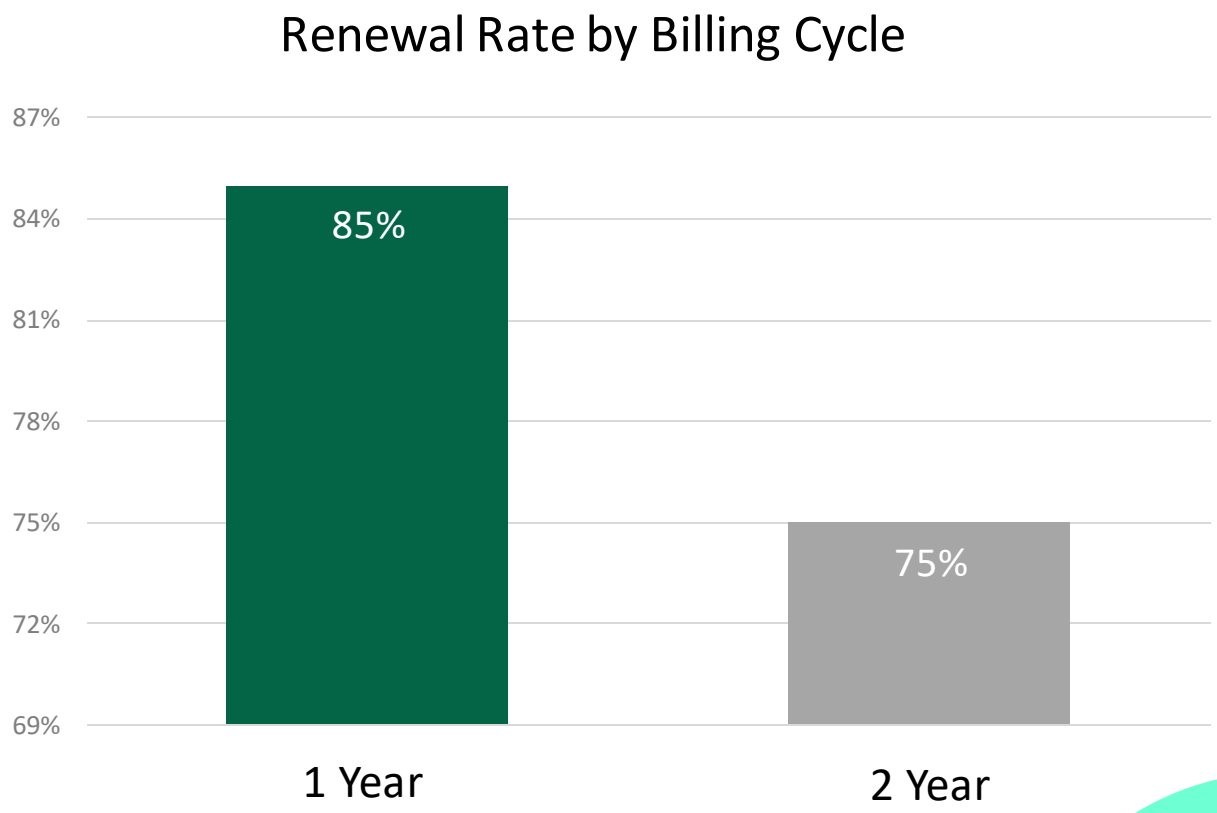
Analyzing renewal rates

- Cohort analysis
  - By product / price point
  - By billing cycle
  - By payment method
  - By country
  - By purchase date



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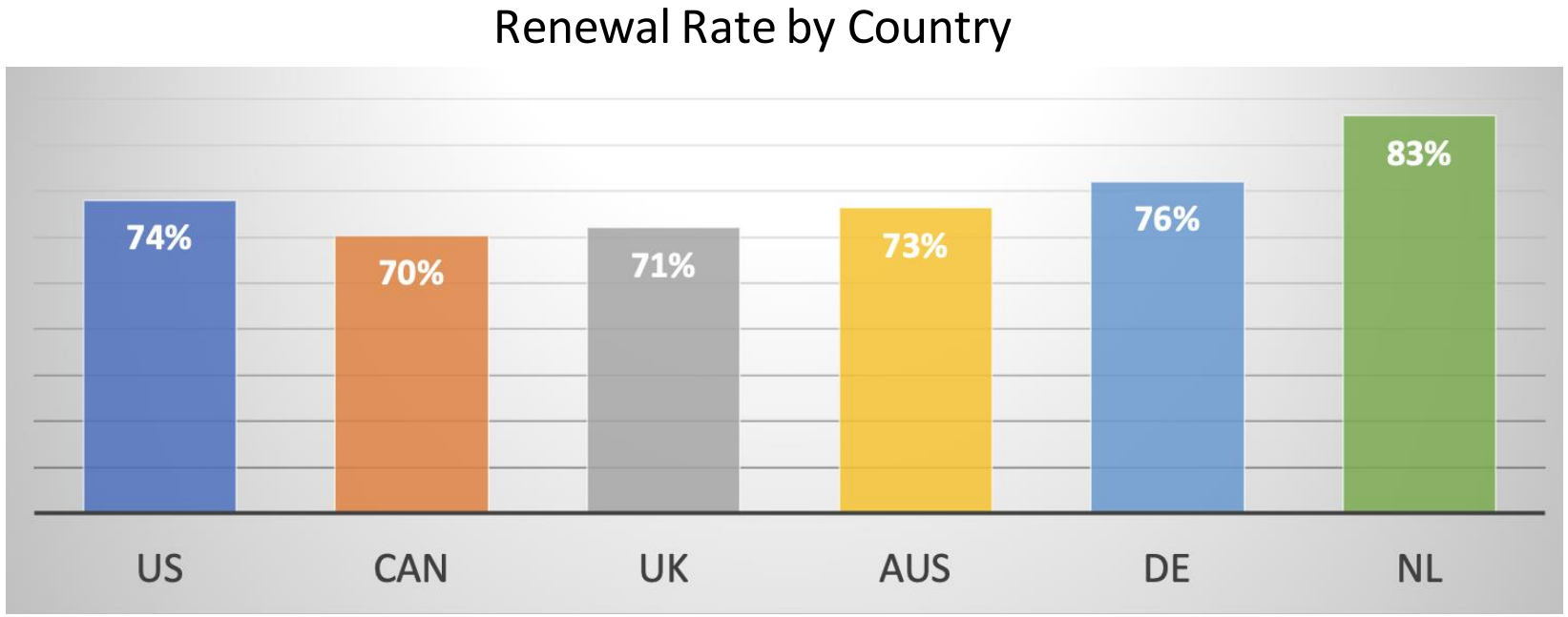

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Analyzing renewal rates

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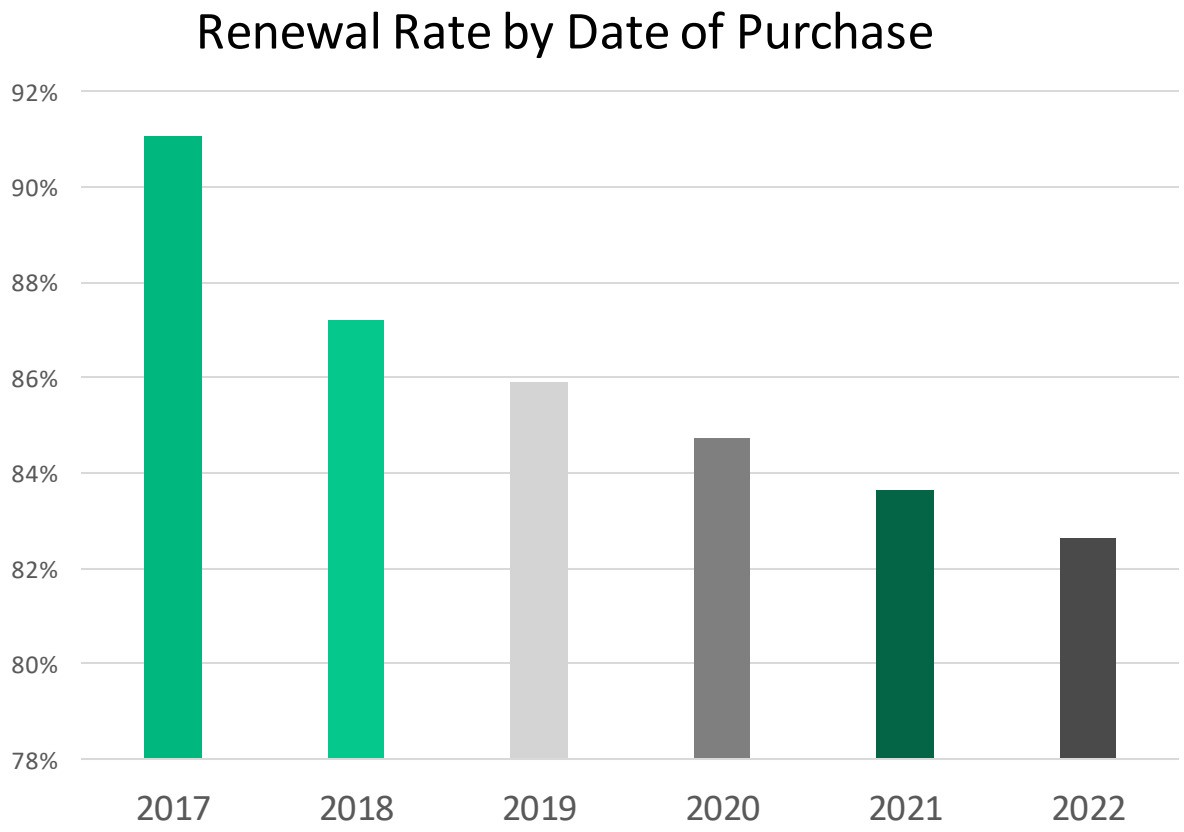

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Strategies to increase recurring revenue

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Tips to increase the number of auto-renew subscribers

- Show the benefits of auto-renewal service.
- Test different styles of auto-renew opt-in options.
- Migration campaigns: Move subscribers from manual renew to auto-renew.
- Offer a discount for auto-renew.
- Churn prevention campaigns when customers disable auto-renew:
  - Offer a discount on future billing cycles
  - Pause subscriptions
  - Upgrades and downgrades.

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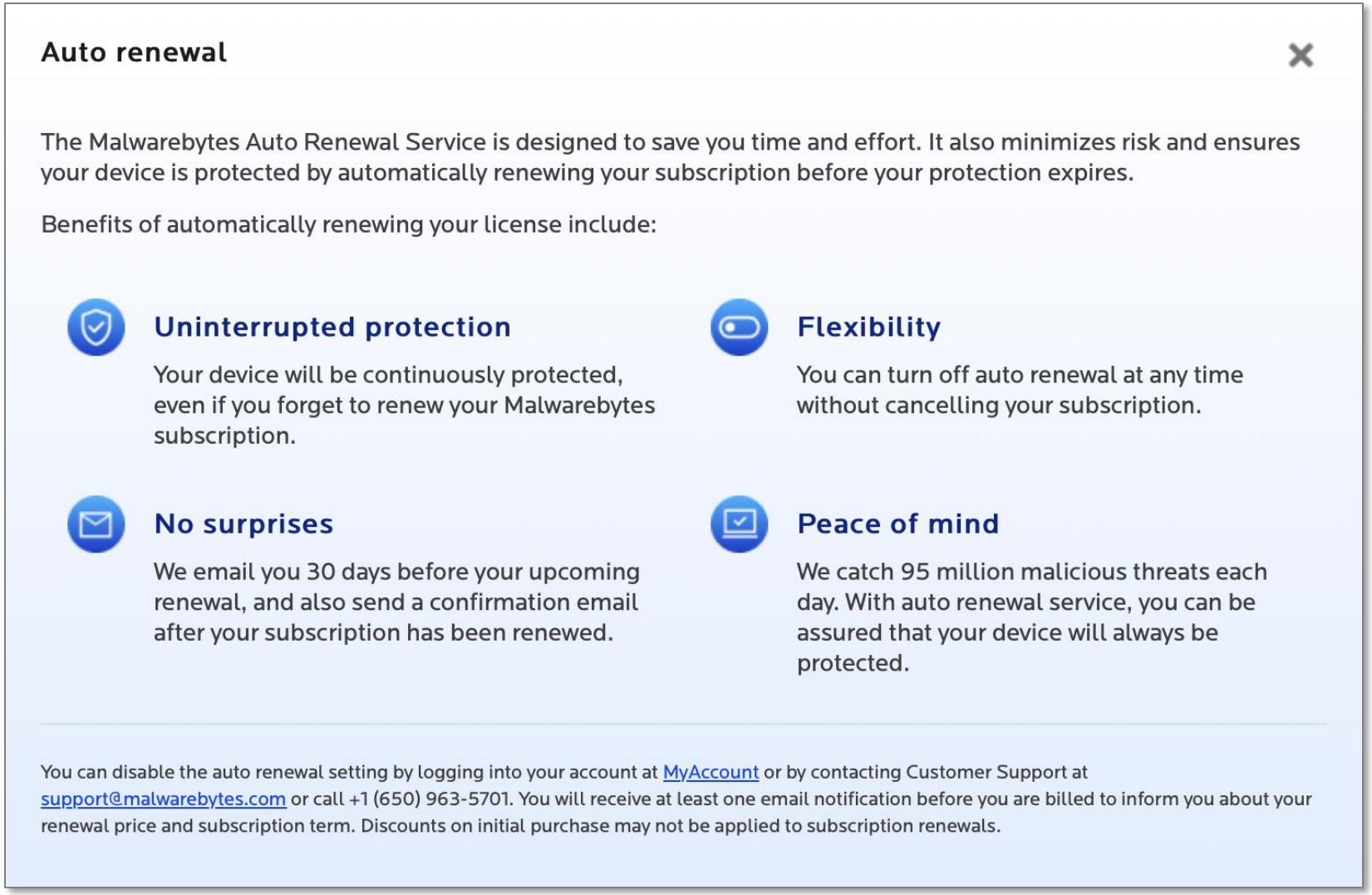
Show the benefits of auto-renew



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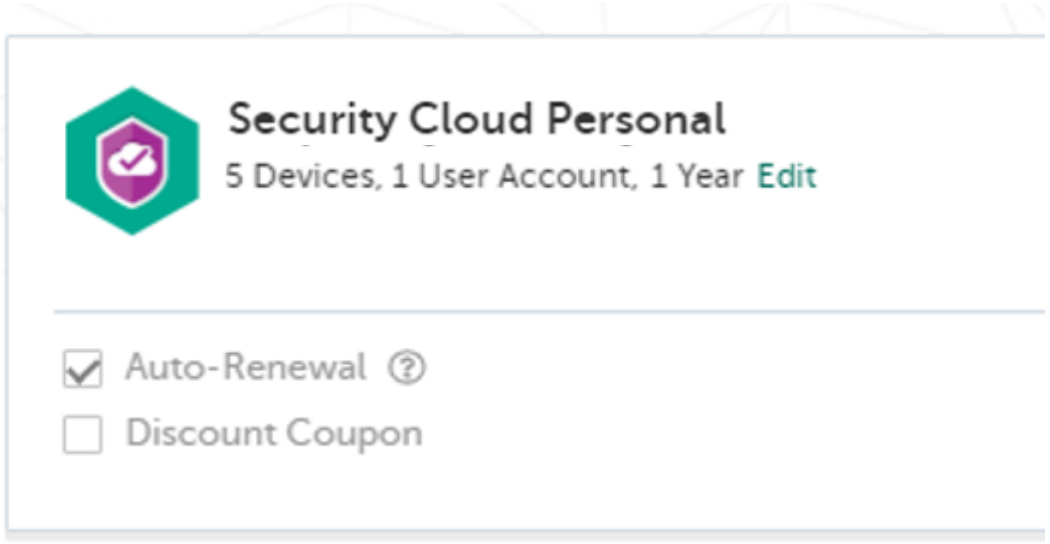
Test different styles of auto-renew opt-in options

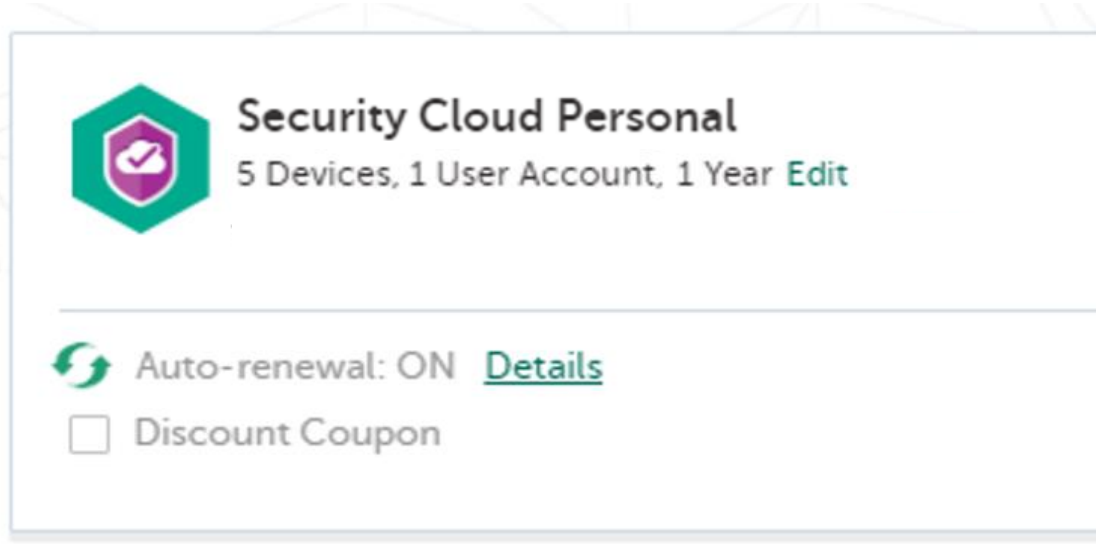
Control

Auto-renew style is a check-box



Variation

Auto-renewal style with circular arrows



The Variation generated a **19.48% decrease** in the auto-renewal opt-out rate.

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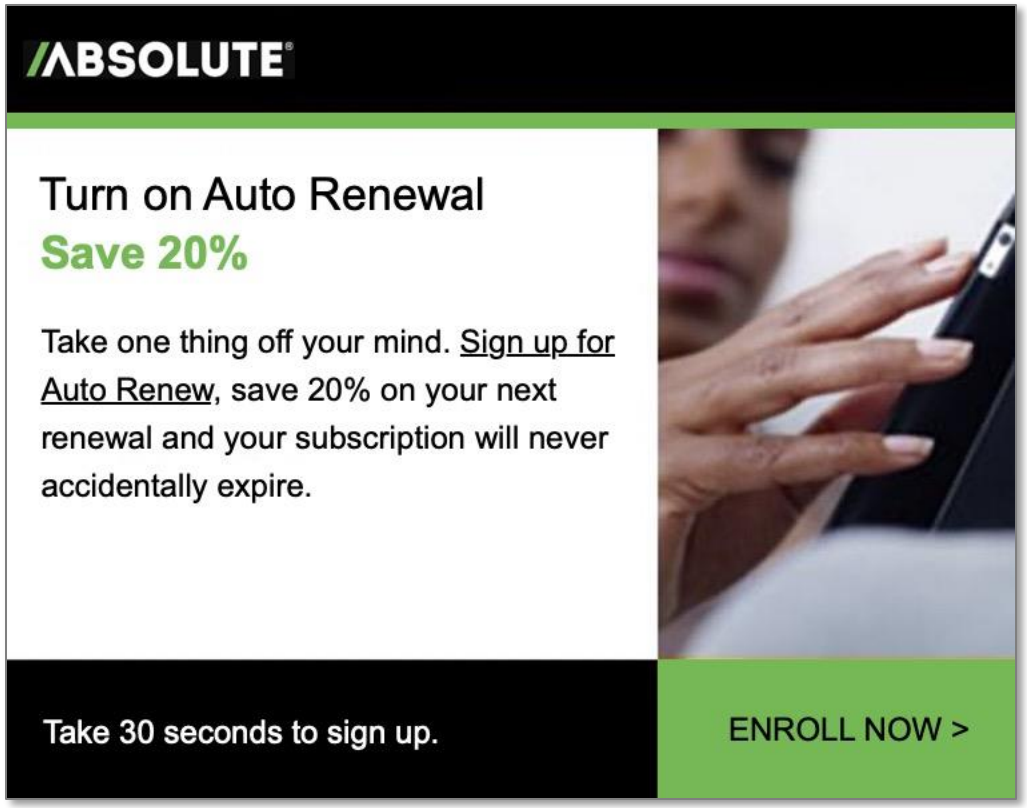
Migration campaigns

- Proactively encourage subscribers to enable auto-renew
- Offer a discount on the next billing cycle
- Communicate through email, in-product messaging, and My Account



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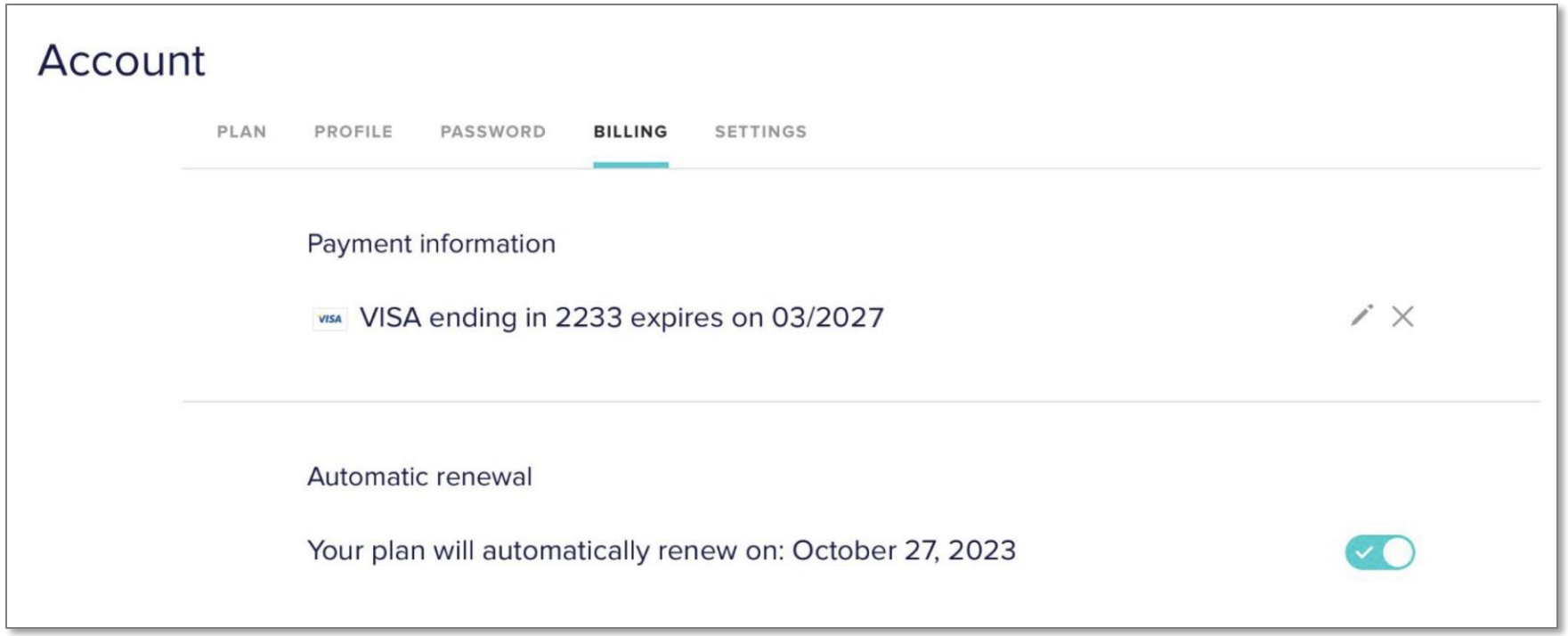
Churn Prevention

When customers are turning off auto-renew in their account, display messaging and offers to make them reconsider and keep auto-renew enabled



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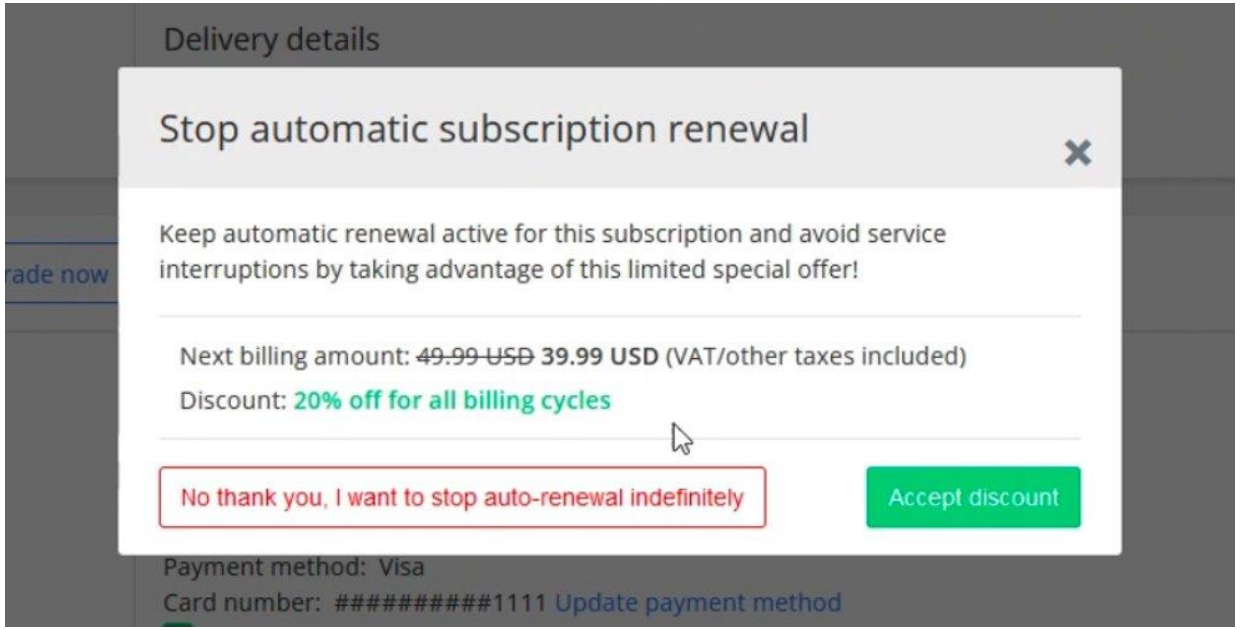
Churn Prevention: Discounts

- Offer a discount:
  - on the next billing cycle
  - on all future billing cycles
  - extend the subscription (get 3 months free)



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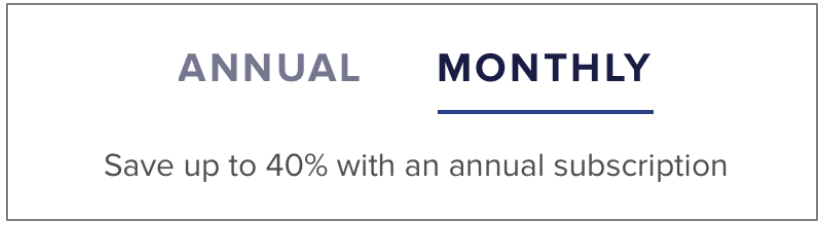
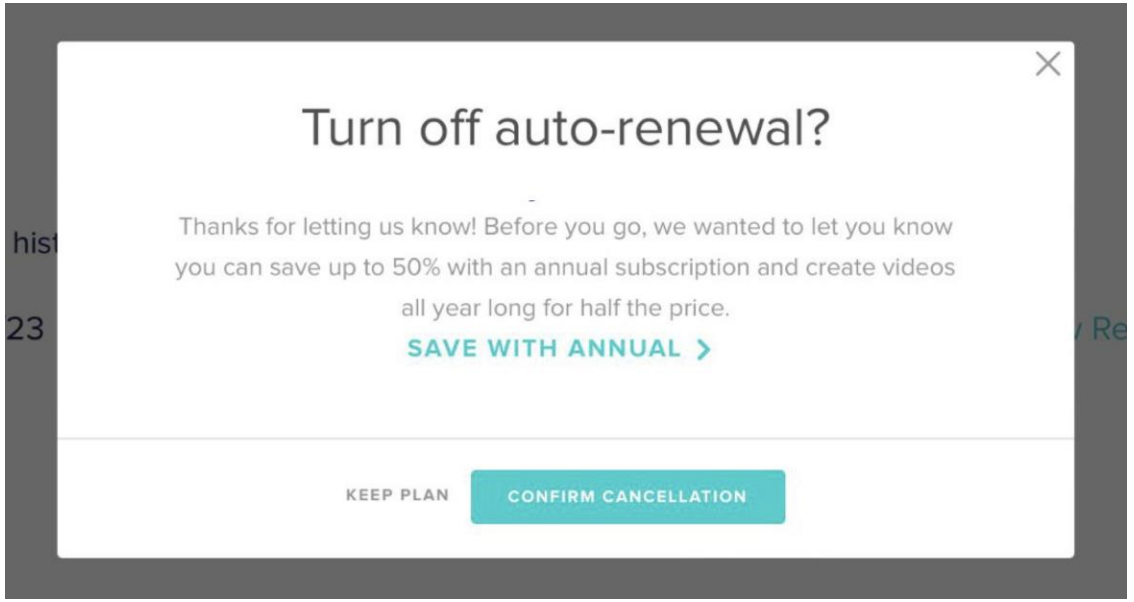
Churn Prevention: Change the billing cycle

- Offer to change the billing cycle
  - move from monthly to annual and save 50%
  - this savings is often built into the pricing strategy, so it is reminding the subscriber rather than stacking another discount





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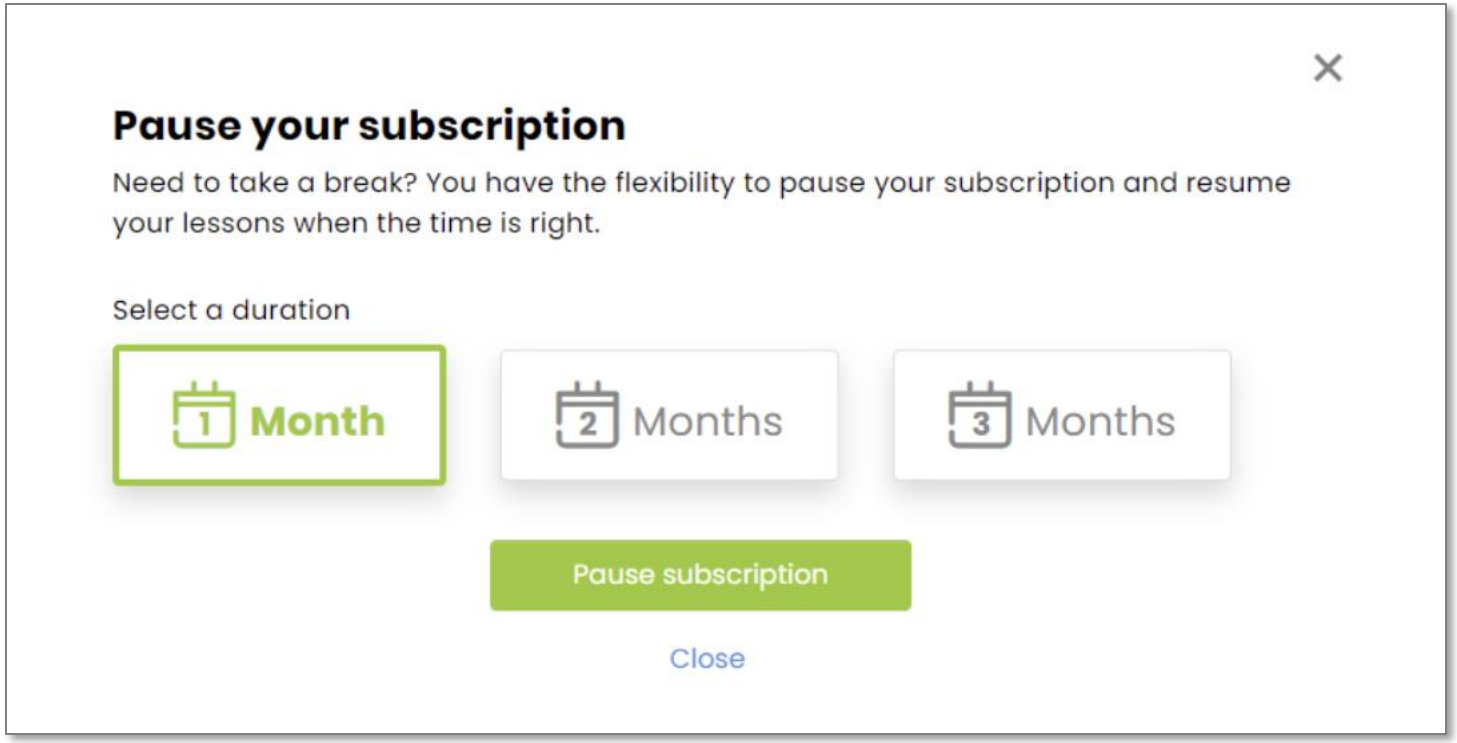
Churn Prevention: Pause subscriptions

- Offer to pause the subscription
  - Resume the billing cycle at a pre-determined date
  - Subscription management tools handle this for you



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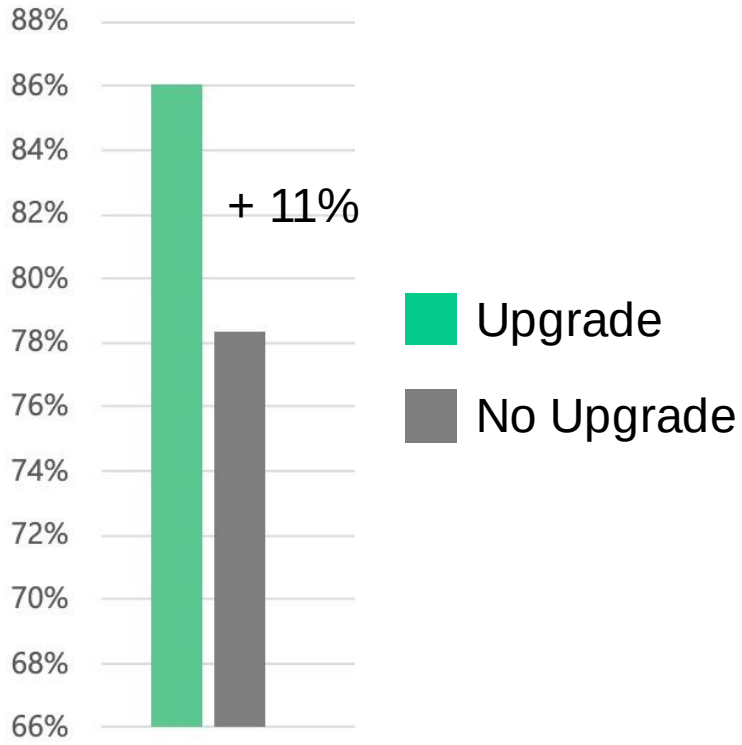
Churn Prevention: Upgrades

- Upgrades can be used as an alternative to discounting
- Customers that upgrade have a higher retention rate
- They renew at a higher price in next billing cycle
- Subscribers with upgrades have highest LTV



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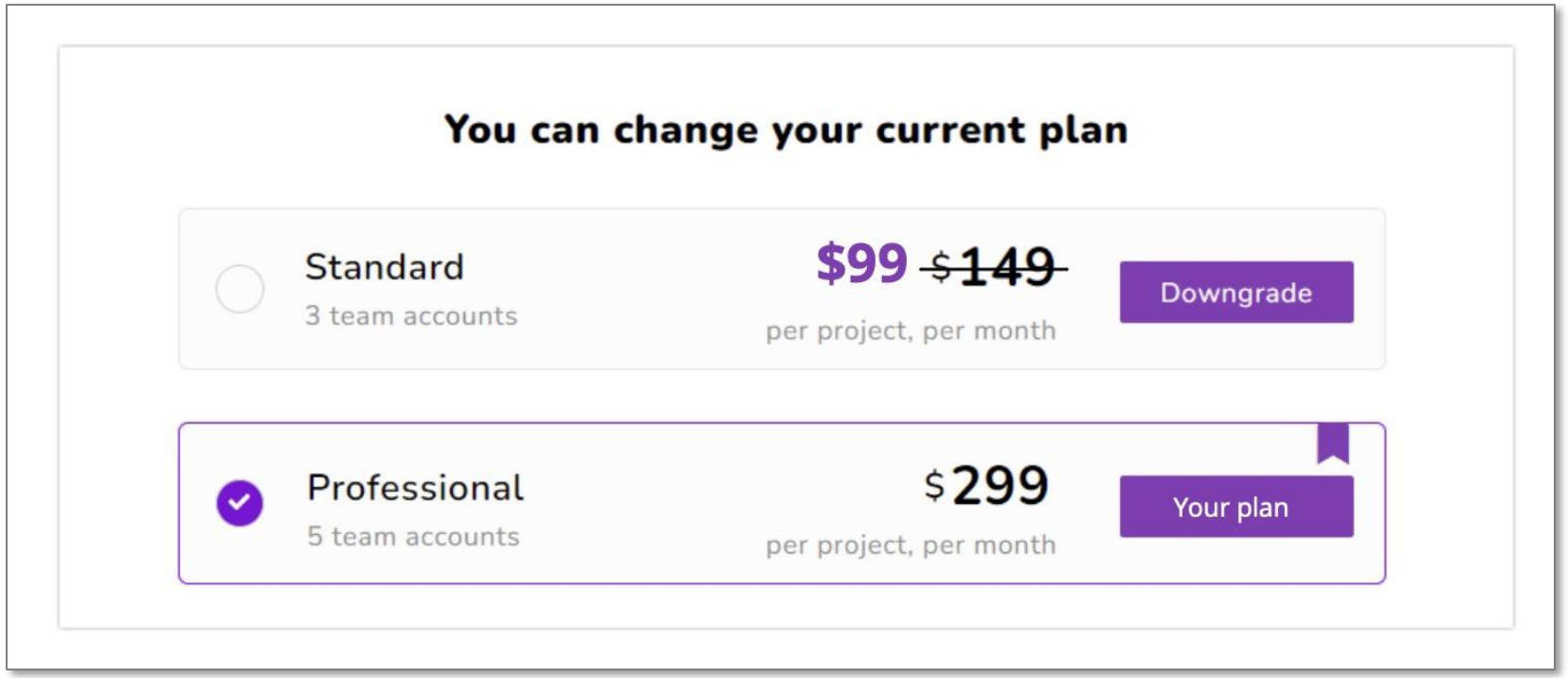
Churn Prevention: Downgrades

- Downgrades can be used as an alternative to cancelling the subscription altogether
- Offering the customer a less expensive option can convince them to stay



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Tips to increase the auto-renewal rate

Reduce involuntary churn

- Contact subscribers with expired cards
- Advanced Retry logic
- Intelligent Payment Routing
- Monitor authorization rates & gateway messages
- Follow-up emails for failed payments

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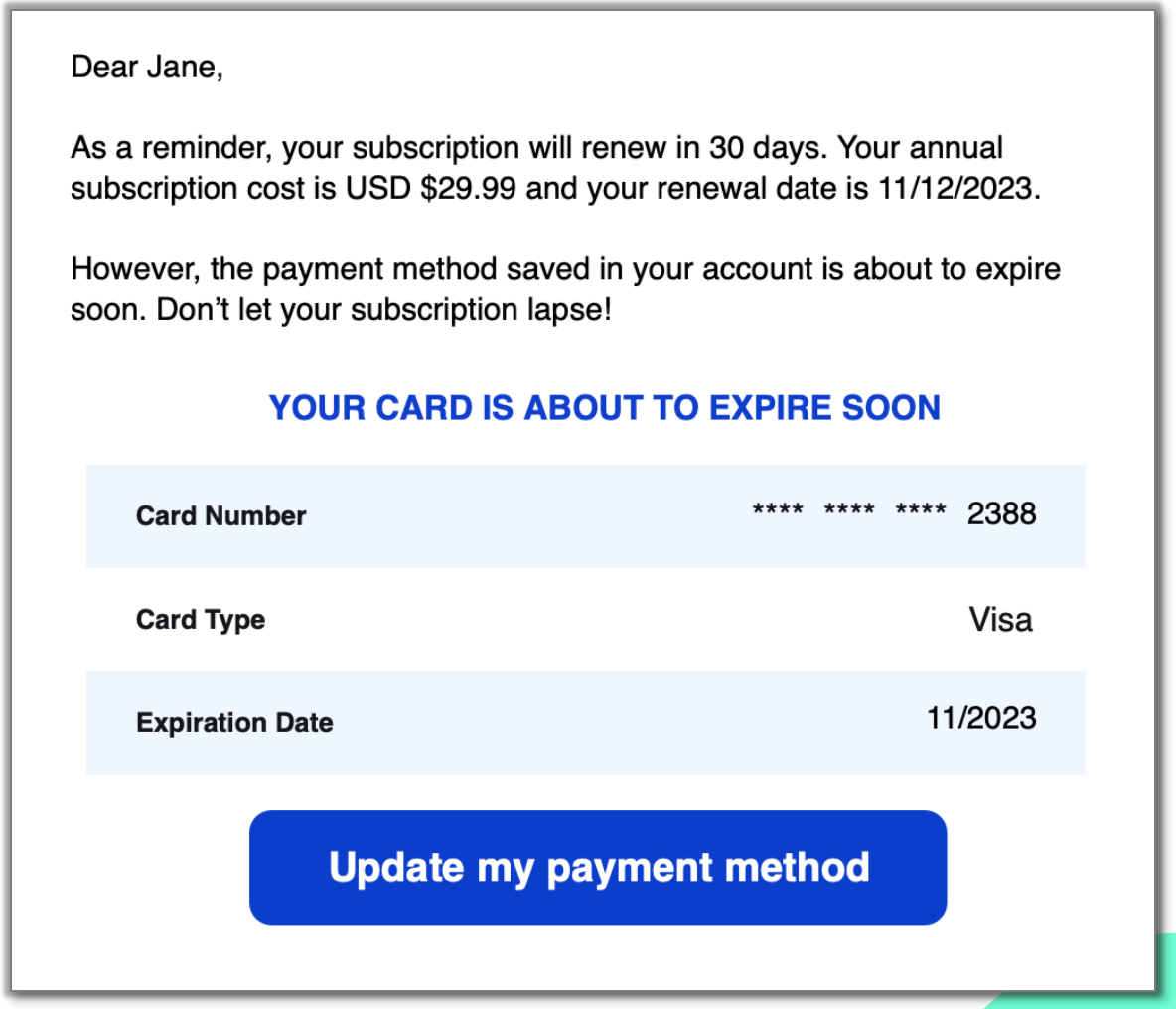
Contact subscribers with expired payment methods

- Expired payment methods are the largest driver of involuntary churn
- Contact the customer if their payment method has expired, or will expire before their subscription renewal date
- Use email, in-product messaging, and My Account to prompt subscribers to update their payment info
- Verifone sends automated emails, and also has an API that provides the subscriber expiry date



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Advanced Retry Logic

- Sophisticated retry logic involves multiple attempts to authorize a credit card at specific intervals and frequencies
- Too many attempts can look like fraud

Credit Card Retry Logic

-1 day	Renewal Date	.92 day	2.9 days	5 days	7.5 days	10 days	12.5 days	15 days	21.6 days
-24 hrs	0 hrs	22 hrs	70 hrs	120 hrs	180 hrs	240 hrs	300 hrs	360 hrs	520 hrs

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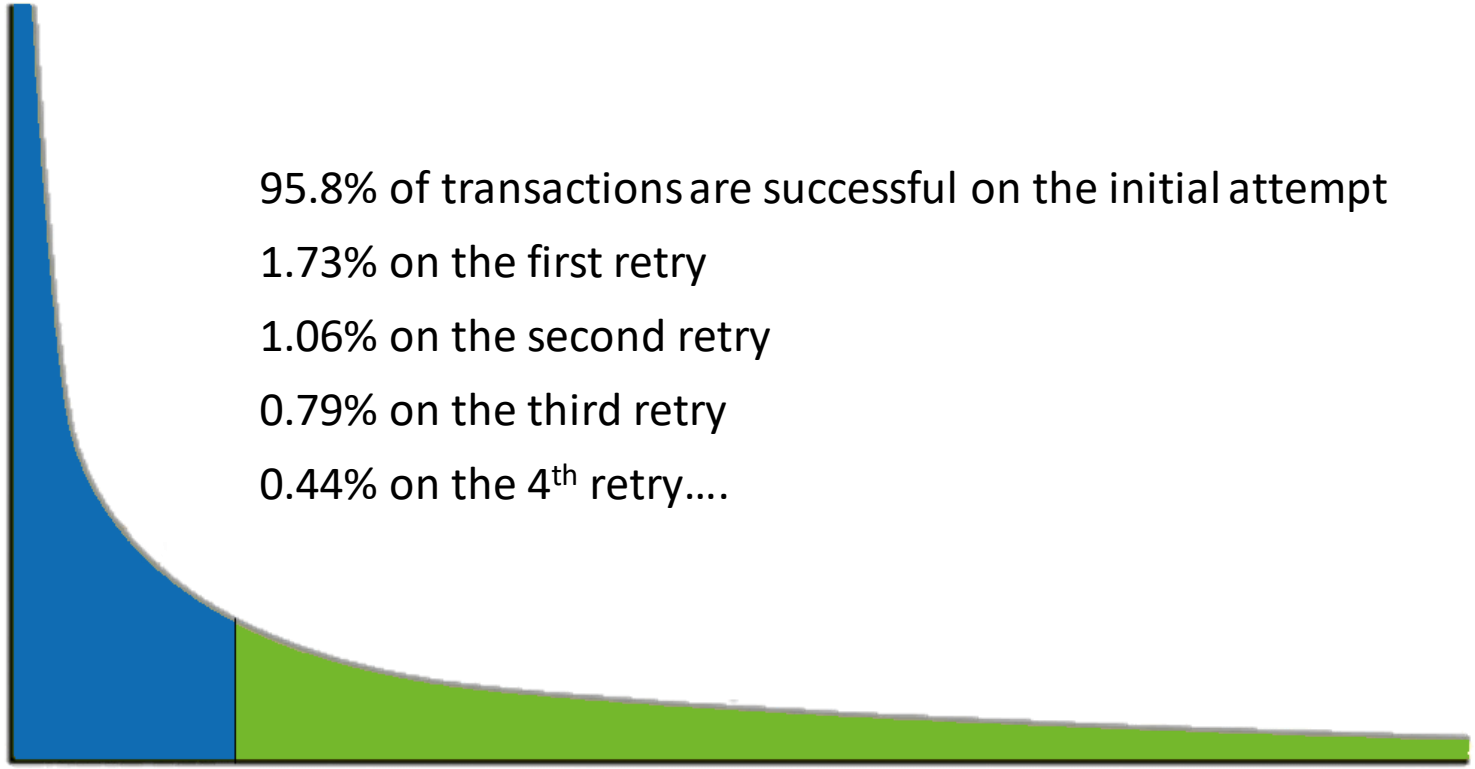
Advanced Retry Logic

- There is a long tail effect with multiple attempts to maximize the authorization rate
- Be mindful of fees from your payment provider



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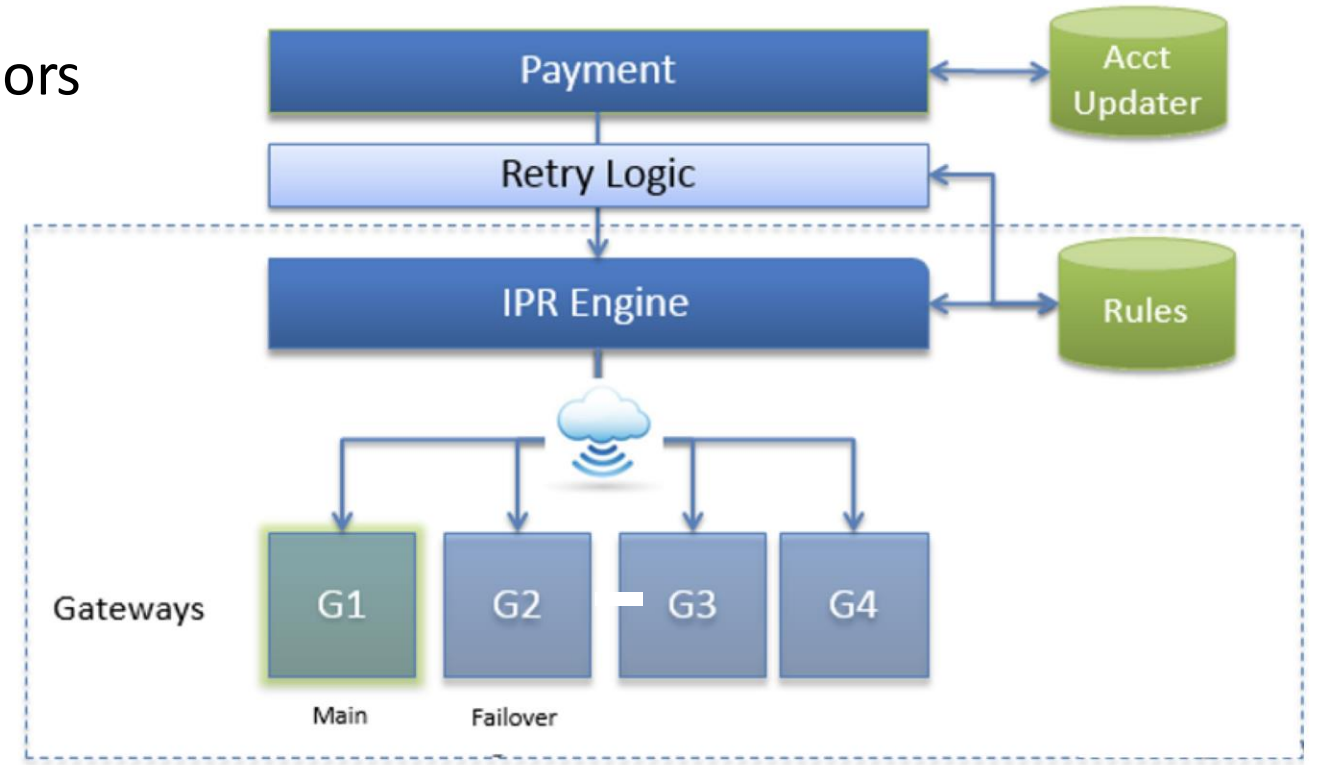
Intelligent Payment Routing

- Account Updater tools for expired cards
- Failover payment processors
- Geo-distribution of payment processors



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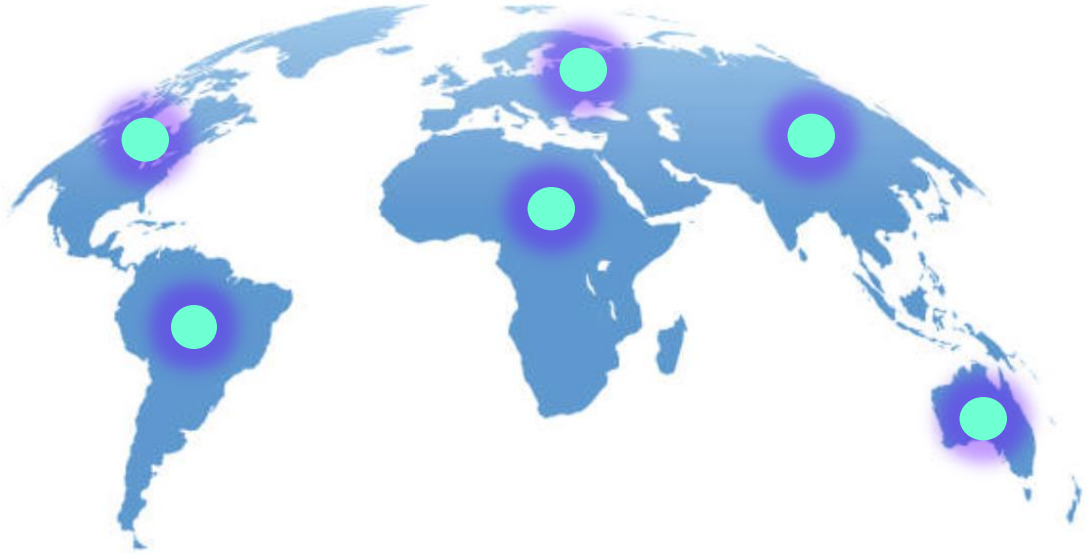

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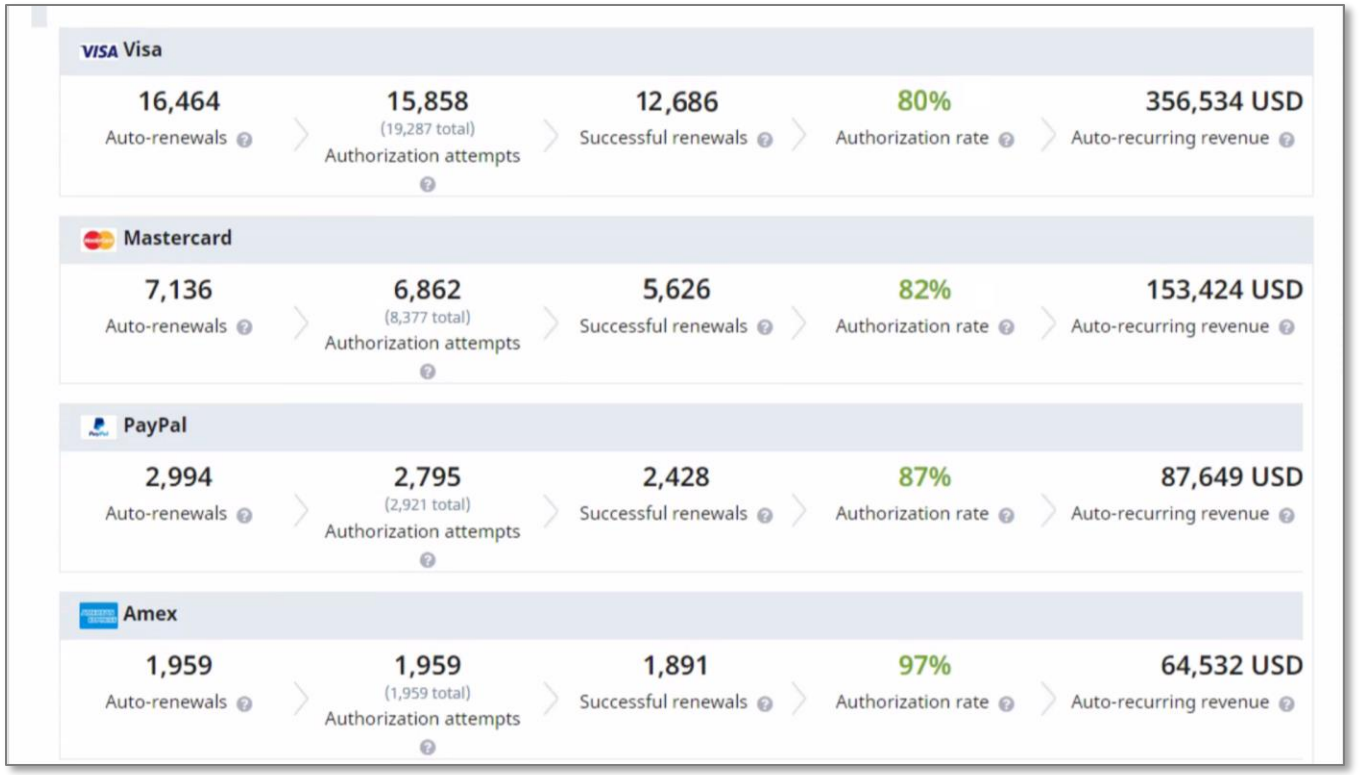
Monitor Authorization Rates & Gateway Messages

- Track trends in authorization rates
- Segment by order type, payment method, country, product



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Monitor Authorization Rates & Gateway Messages

- Track trends in authorization rates
- Segment by order type, payment method, country, product
- Analyze gateway messages and work with your payment provider to investigate reason codes and optimize retry logic

Declined	91.12%
Declined: Not sufficient funds	5.18%
Processor not available	2.53%
Invalid expiration date	0.56%
General error: Please try again.	0.31%
Invalid account number	0.11%

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Follow-up emails for failed payments

- Failed auto-billing payments need different messaging than manual renewals
- Dunning emails should be sent immediately for hard declines
- Follow-up emails can be sent for other payment failures:
  - Send a series of 4-6 emails within 30-day grace period
  - Personalize the email with specific information

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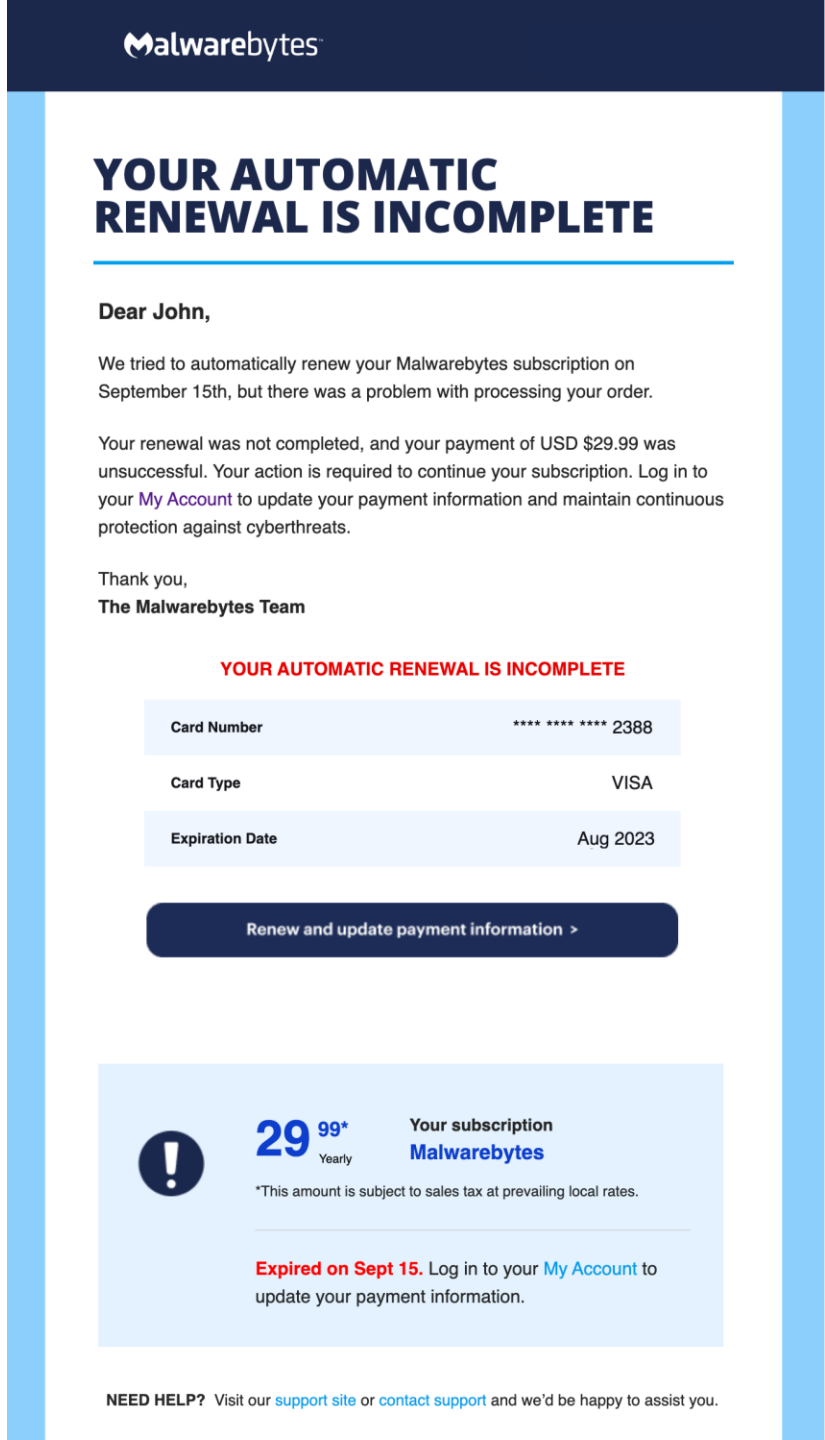

Tips to increase the manual renewal rate

Reduce voluntary churn

- Best practices for renewal reminders
- Discount strategy
- Optimize the renewal cart
- Early renewals
- Extensions

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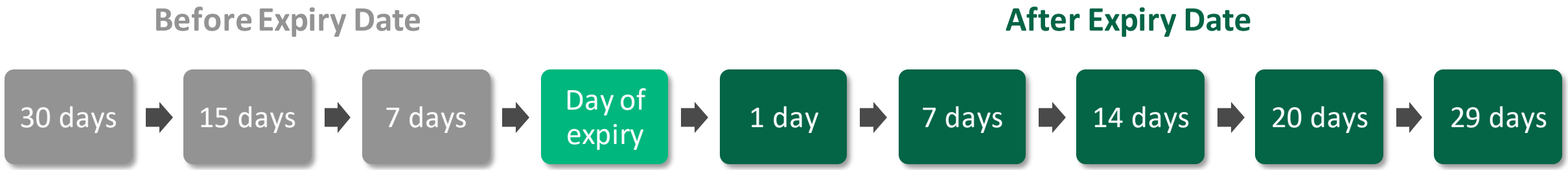
Best practices for renewal reminders

- Start communicating before the expiry date
- Increase frequency of communication after the expiry date
- Test different discount strategies; ”final offer” with steep discount at end of grace period performs well
- Use multiple communication channels; email, in-product, MyAccount
- Use different creative, headlines, and subject lines for each message



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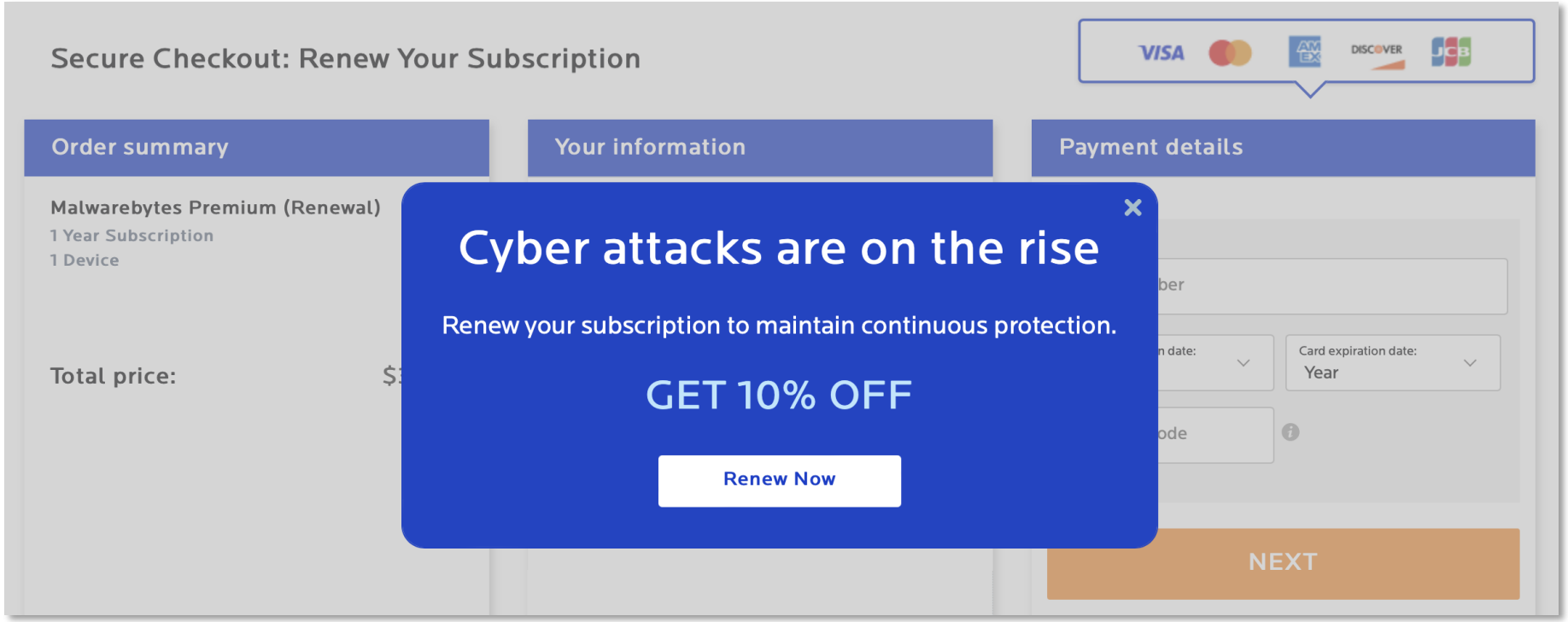
Optimize the renewal cart



- Use a shopping cart with specific messaging for renewal orders
- A/B test different cart layouts and messaging to maximize conversion rate
- Use exit modals when shoppers leave the cart without completing their renewal

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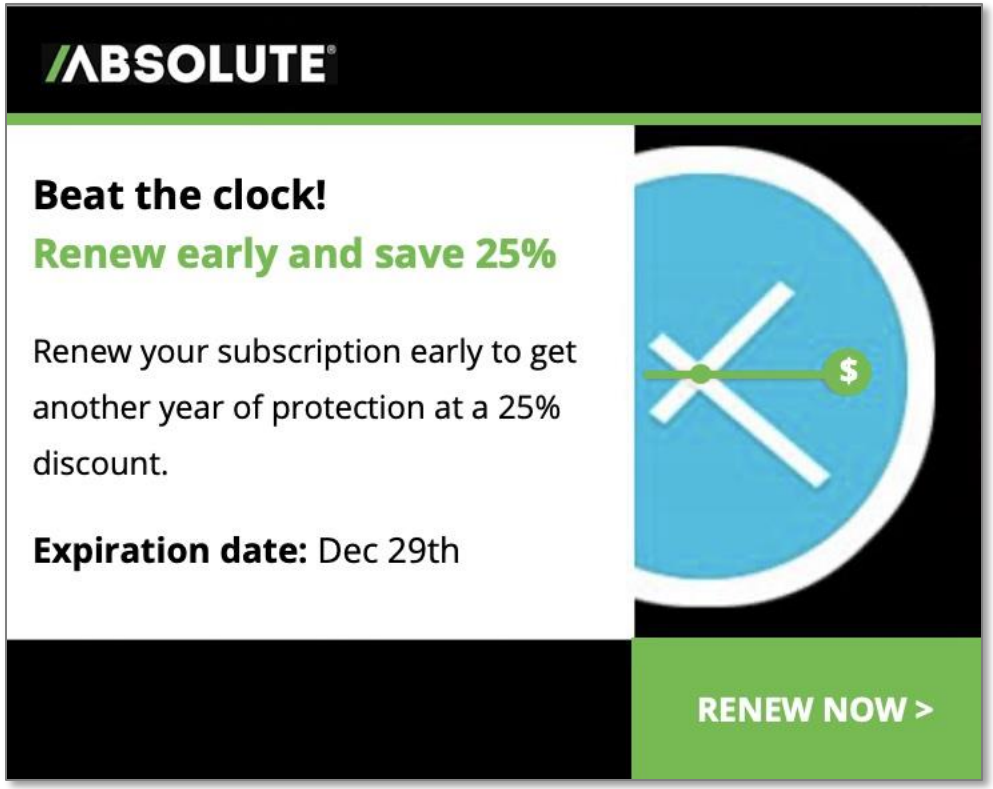
Early renewals

- Encourage customers to renew early (even if they are on auto-renew)
- Use email, in-product, and My Account messaging to prompt customers to renew early
- 12% of auto-renew customers renew manually



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Extensions

- Allow customers to extend their subscription while renewing
- “Add a year and save 50%”
- This renews the subscriber into a 2-year term instead of a 1-year term
- Extensions improve retention rates and customer loyalty

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Bonus tip

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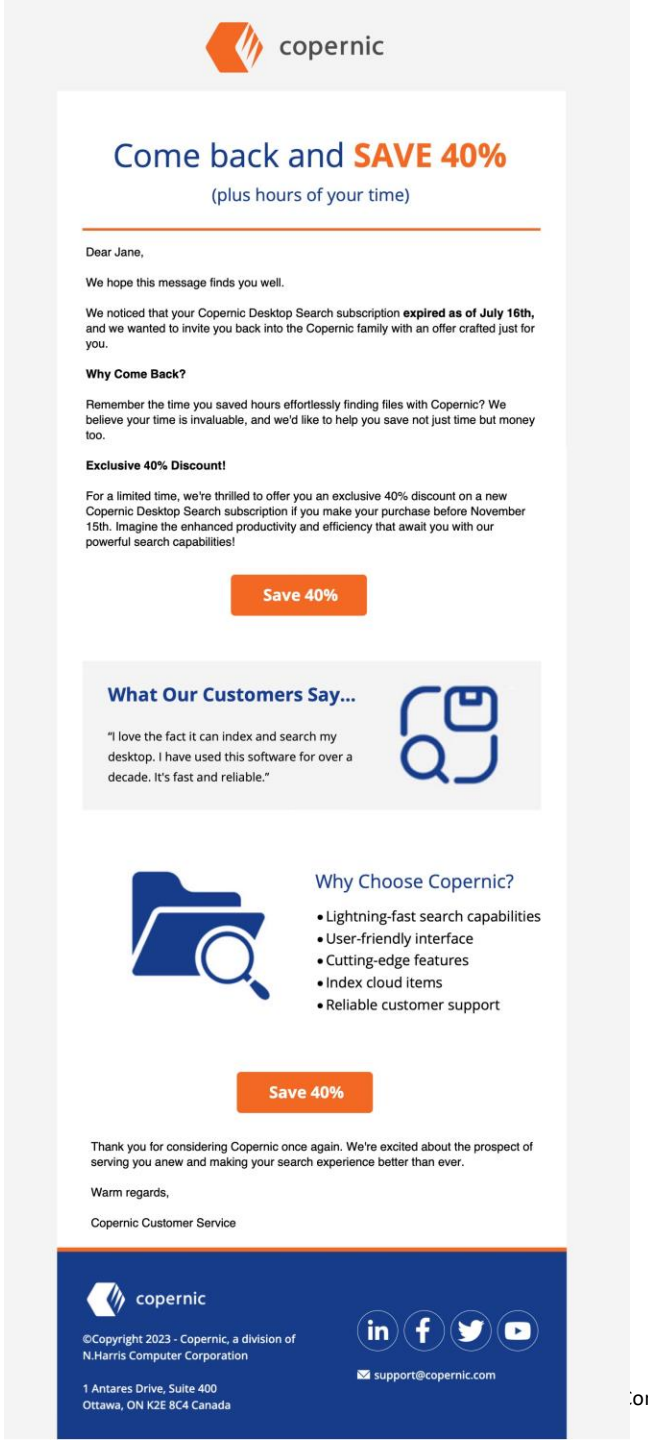
Winback campaigns

- Contact all expired subscribers 60 to 90 days after their subscription expiration date
- Offer a new subscription at a discount
- Include social proof and benefits
- Scrub the list against your active subscribers to avoid sending the email to customers that have already purchased a new subscription



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Summary

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Key take-aways

- Optimize for customer lifetime value versus short-term revenue
- Focus your marketing efforts on products & countries with highest renewal rates
- Grow your recurring revenue through 3 key strategies
- Be patient. Small incremental gains compound over time
- Within the next 30 days, implement 1 idea from the 16 tips presented today

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Questions?

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