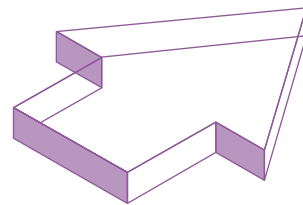




Minimize Churn and Maximize Revenue

A Recurly Guide





Introduction

Churn is one of the key metrics in subscription commerce, tracked closely in niche start-ups and industry juggernauts alike. It is one of the most sensitive indicators for subscription businesses as slight differences in churn rates can have significant impact on revenue growth and the overall health of the business.

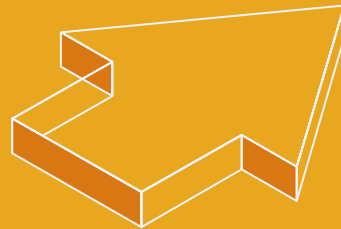
In essence, churn is a measure of lost subscribers. When subscribers leave, your business loses not just current revenue but that subscriber's future recurring revenue, their goodwill, and their ability to share positive word-of-mouth. In general, churn can be examined from two perspectives, voluntary and involuntary.

Voluntary churn occurs when a subscriber actively cancels their subscription, whether due to dissatisfaction or changed circumstances. By contrast, involuntary churn occurs as a result of a failed recurring payment rather than a deliberate action by the subscriber.

Addressing these payment failures systematically results in improved billing continuity and significant improvements in customer retention and revenue growth—key to maximizing revenue in subscription commerce.



The Value Proposition and Voluntary Churn





The Value Proposition and Voluntary Churn

In the world of subscription commerce, the value proposition is related less to a single purchase decision and far more to the ‘promise’ of a value proposition which holds up across the TIME continuum.

Time is critical; it sits in the center of the most critical business metric every subscription company cares about: LTV (lifetime value). If your business retains active subscribers for an extraordinarily long period of time, you gain tremendous degrees of freedom from a business perspective.

For example, you have more flexibility in **subscriber acquisition** costs and the freedom to cast a broad net in testing many different acquisition channels to find the right mix of customer acquisition cost (CAC) to lifetime value, another critical business metric.



+ **Recurly Research** Subscriber Acquisition Benchmarks

Fine-tune your subscriber acquisition efforts with the latest benchmarks.

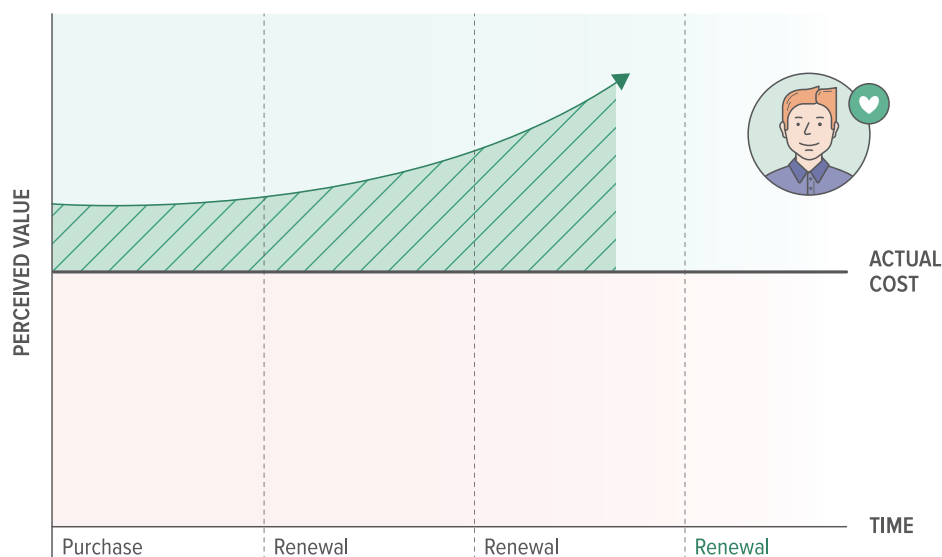
[EXPLORE THE DATA](#)



The 'Subscriber Mindset'

Subscription success happens when perceived marginal value exceeds marginal cost for the period. Typically, this is a monthly 'evaluation,' an evaluation that takes place at every billing period.

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



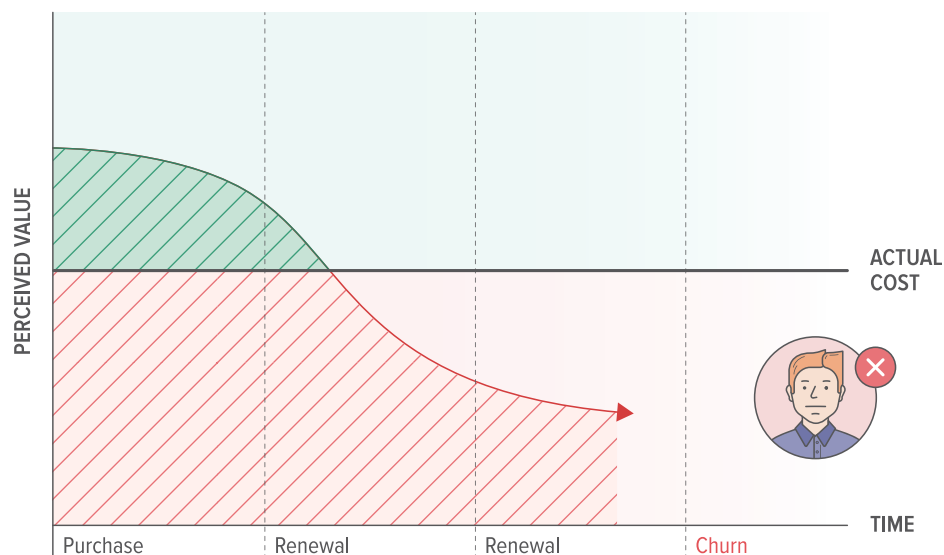
Most subscription businesses realize that 'pre-sale' marketing and positioning is vastly different than 'post-sale' retention marketing, which includes the responsibility of delivering a product or service which continually exceeds the initial promise.

While purchase conversions are critical, the brand promise HAS to live up to the subscriber's perceived value over time. In fact, this evaluation takes place in perpetuity, which means that the entire Product, Operations, Support, Billing, Marketing, and other teams need to work in concert 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.



Maintaining a positive subscriber perception is not an easy feat. Any number of things could derail a continued positive impression—bad service, limited choices, problems with delivery, incorrect billing—and lead to voluntary churn. Subscription commerce businesses succeed when multiple disciplines work in concert to meet or exceed the brand promise and deliver a great subscriber experience, time after time.

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



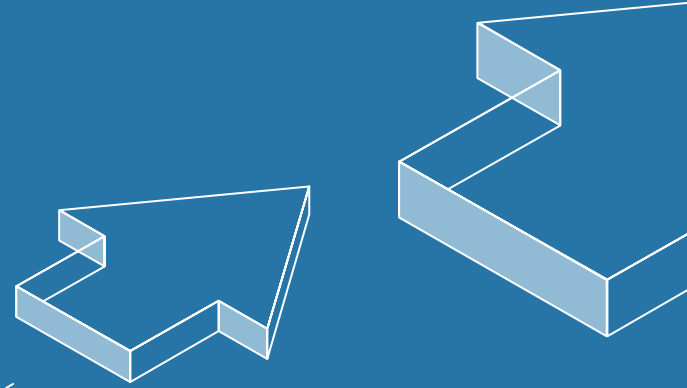
Pause Subscriptions to Keep Subscribers

Demonstrating value can also depend on how well you accommodate subscribers' needs. For example, a subscriber may enjoy the service, find it useful, and believe it's of value but experience a change in circumstances or some other temporary

condition. Because many types of subscriptions can have seasonal or other kinds of cyclical usage, in those cases, letting subscribers pause their subscription, rather than cancelling, is a great way to reduce voluntary churn and improve retention.



Decline Management and Involuntary Churn



Decline Management and Involuntary Churn

Involuntary churn is a problem that every subscription commerce business faces and, if not managed correctly, will result in lost revenue. In general, **involuntary churn** results from failures in processing recurring payments; in particular, payment declines are a major contributor to these failures.

Why Recurring Transactions Fail

In one-time e-commerce, payments are straightforward: Payment information is captured and authorized, with a high likelihood of transaction success. If there is a problem with the transaction, an error message provides information to the buyer who can then use another payment method to complete the transaction.

But subscription commerce is more complex. The payment information that is captured during the initial sign-up transaction is held over the life of the subscription and used automatically in every billing period. This means that each new billing event, or renewal, presents a chance for the payment to be declined.



There are a variety of reasons for payment declines and these reasons can vary based upon whether a **credit or debit card** is used. In general, payment information, especially credit cards, can become outdated over time. The more time that elapses since the initial transaction, the greater the likelihood that the payment for the recurring charge or renewal will return an error.

And, of course, banks may decline transactions for other reasons even if the information is not out of date.

According to **industry sources**, an **average of 13%** of recurring transactions are declined each month. Repairing these transaction failures is critical to reducing involuntary churn.

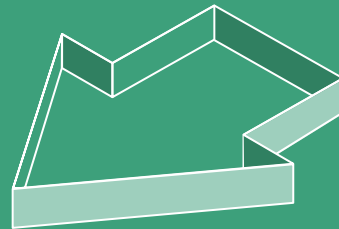


+ Top Payment Decline Reasons

1. Declined (Generic)
2. Insufficient Funds
3. Temporary Hold
4. Restricted Card
5. Invalid Card Number



Minimize Declines and Increase Transaction Success





Minimize Declines and Increase Transaction Success

There are a variety of automated methods to improve transaction success rates and reduce involuntary churn.

Automatic Updates Through Account Updater

One method to address a common source of transaction declines is with Account Updater services provided by your payment gateway. Some subscription management platforms provide a similar service.

This type of service works by monitoring subscribers' credit and debit cards for changes. If any aspect of the payment information has changed, the service updates the subscriber's record automatically, improving the likelihood that the payment will go through. If the

update can't be made automatically, the Account Updater provides an alert so the business can address it with the customer directly.

Some subscription management platforms, like Recurly, take Account Updater services a step further and check a card's status a few days before a subscription is set to renew. If changes are needed and can be made automatically, the service makes them, which helps to ensure that the renewal transaction goes through smoothly.

“Recurly makes it easy to measure and track customer payments, and whether there are indicators of potential future churn based on payment patterns.”

Jin Sha, SVP of Strategy & Operations, JW Player

Automatic Transaction Retries

When a transaction fails, the payment gateway returns an error code which can shed light on the reason for the failure. Some gateways only provide a handful of different error messages, while others list more than 200.

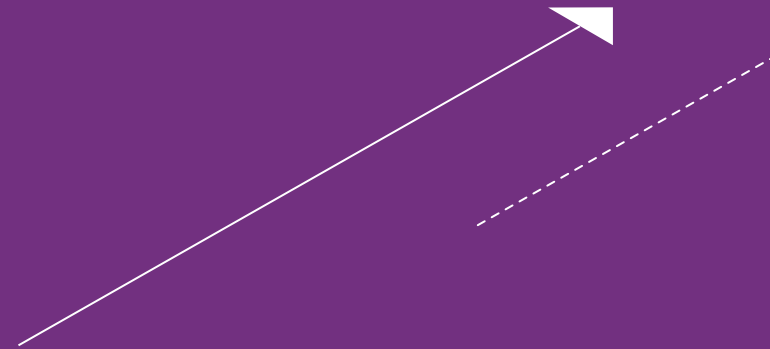
Errors are categorized as hard declines or soft declines. Hard declines include items like “card stolen” or “account closed.” In these cases, additional retries are not likely to be successful and will only result in additional transaction processing costs. For these situations, the best option is to contact the subscriber directly during the dunning process to obtain new payment information.

Retrying a transaction due to a soft decline, however, can result in a successful payment. For example, if a debit card is declined for having insufficient funds—a common soft decline reason—it makes sense to wait a few days and try the card again as it’s possible that the subscriber will have added funds to their account to cover recent purchases.

This kind of smart retry logic can reduce involuntary churn and increase subscriber retention. Not all subscription billing products have this capability, however, so it’s important to work with a subscription management platform that provides intelligent retries if you want to maximize revenue.



Machine Learning for Dynamic Retries





Machine Learning for Dynamic Retries

At Recurly, we go beyond simple, static retry logic. Our Revenue Optimization Engine utilizes advanced statistical models and machine learning to create a dynamic retry schedule that examines more variables and combinations of variables to increase transaction success rates. This exclusive technology is the key to our decline management capabilities, which can increase monthly revenue by an average of 12%.

Traditional retry logic for an 'insufficient funds' decline may indicate a retry six days after the initial payment failure. Should that be applied uniformly for a business-to-consumer (B2C) company like a streaming video service as well as for a business-to-business (B2B) company in the Software as a Service (SaaS) category? Does it make a difference if the card on file is a debit card or a credit card? What about the time of day, the transaction amount,

or the day of the week -- or even the month; do these factors have an effect on the success of the retry attempt?

These are just a few examples of the many attributes that accompany any transaction. Over the years, Recurly has processed hundreds of millions of transactions for many different subscription commerce companies in multiple industries.



Increase monthly revenue
by an average of

12%

+ Revenue Optimization Engine

Reduce churn and boost revenues with machine learning.

LEARN MORE

As a result, we have built a database of successful transactions with billions of attributes, one of the largest repositories of subscription-focused transaction history in the industry.

With this data, **Recurly uses machine learning** to craft a dynamic retry schedule that is *tailored to each individual invoice*. Rather than a static “one size fits all” schedule or a complicated system that you have to set up and track yourself, the Recurly Revenue Optimization Engine compares each potential transaction to the hundreds of millions of

transactions that we've already seen and applies the ideal retry schedule, using the power of machine learning to give each invoice the best chance of success.

This dynamic approach results in one of the highest recovery rates in the industry. With our Revenue Optimization Engine, decline management strategies can *recover an average of 70% of failed subscription renewals*—reducing involuntary churn and making sure you retain more subscribers and capture more revenue.



Another benefit of an optimized retry schedule is a reduction in the interval between the initial transaction failure and the subsequent successful payment, or "time to collect." This is important because many subscription businesses choose to keep past-due subscribers "active" and continue to provide products or services during the collections period.

The longer those delinquent accounts remain active, the higher the cost of goods sold (COGS). Minimizing time to collect improves cash flow and reduces costs, important operational metrics for a healthy business.

Billing continuity is a key operational focus in successful subscription commerce. Reducing failed subscription renewals results in lower rates of involuntary churn and increases subscriber retention. Improvements in each billing cycle have a compounding effect over time, leading to greater revenue growth.

Taking advantage of the most sophisticated technology for revenue optimization makes billing a true competitive advantage.



Effective Dunning Strategies



Effective Dunning Strategies

Dunning is the process of communicating systematically with subscribers, usually by email, to collect on overdue payments. An effective dunning process will vary based on a variety of factors and, when implemented strategically, can greatly impact revenue.

With Recurly, for example, the dunning process differs depending on the payment type. For 'automatic' (credit card) invoices, the due date is essentially the date the invoice is issued. For manual invoices (for example, those paid by check, wire, ACH, etc.) the due date can be a set number of days after the invoice is issued. If the invoice is not paid by the due date, the dunning process begins.

Many subscription management platforms conduct dunning in tandem with their static retry processes. But to achieve the best results, the dunning process needs to function independently from the retry process. Decoupling these processes improves transaction success rates and provides control of the amount and cadence of subscriber communications, an especially sensitive topic when discussing unsuccessful payments.

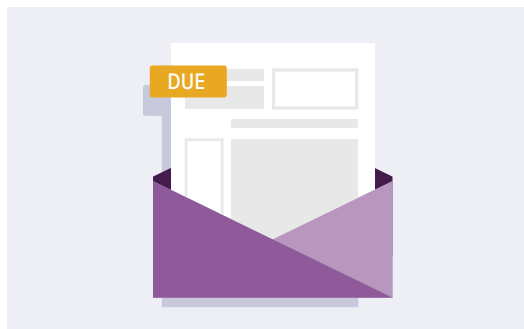


Best Practices for Dunning

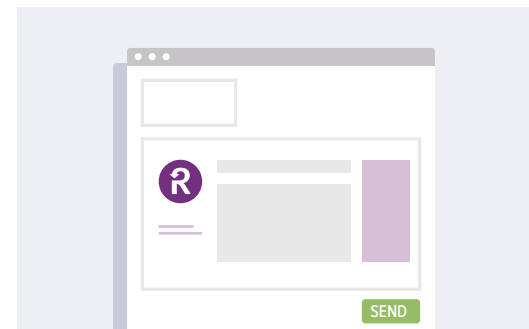
Customize subscriber communications.



Set up a return email address that accepts replies. This lets you acquire subscribers' email addresses so you can update information on file and has the added benefit of making the email feel less anonymous.



Customize and revise the message in each email to maximize the impact of each communication. For example, you may want to make the tone of each email increasingly urgent to reflect the approaching payment deadline.

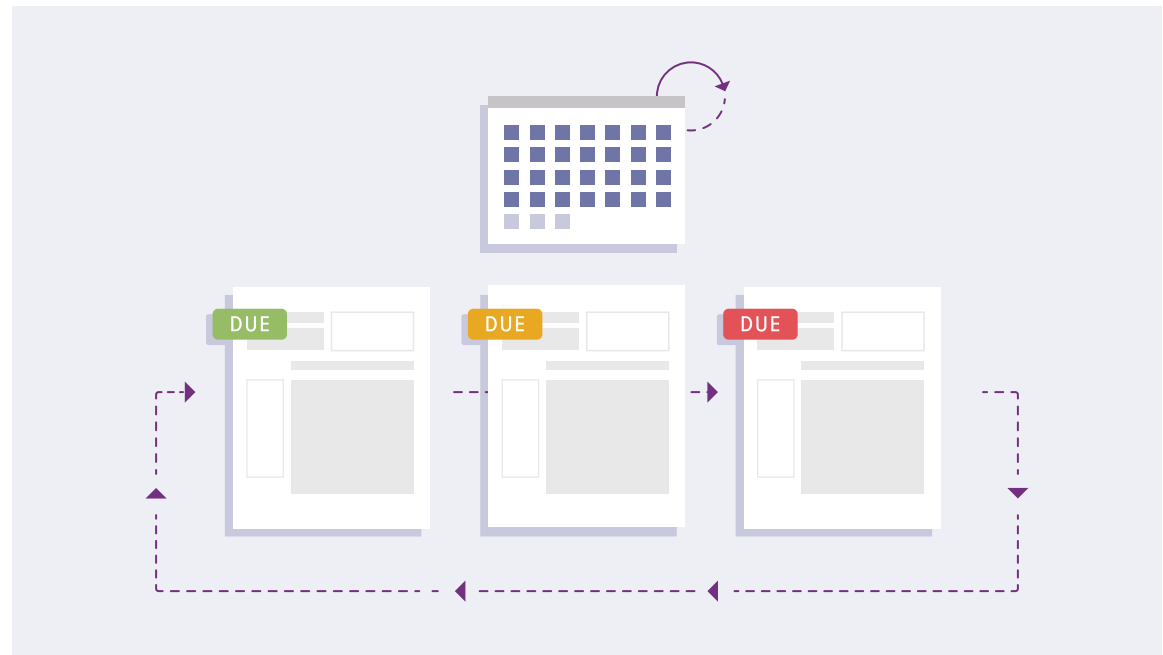


Customize your emails to match your branding and the voice of your marketing team to improve open and click-through rates.

+ And, of course, have a clear call to action for your subscribers.



Set up your ideal dunning settings.



For a monthly billing cycle, dunning cycles should not exceed **28 days**. Cycles in excess of this limit cause invoices to get into a “loop” state where a new invoice is issued even though the prior invoice was not collected.

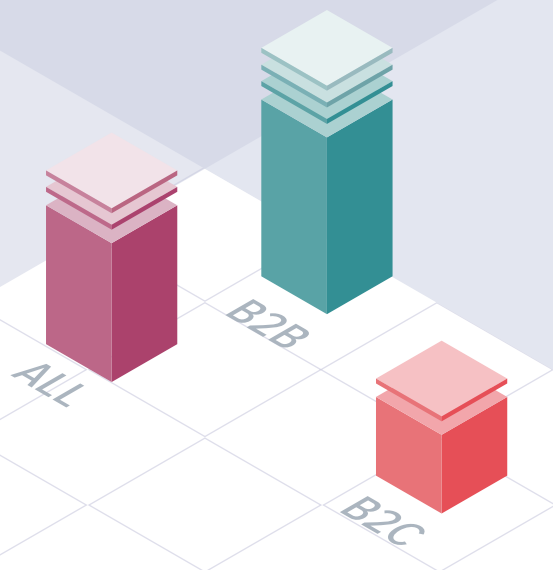
Send multiple emails during the dunning process as this gives subscribers multiple reminders to update their payment information.



+ Recurly Research Churn Rate Benchmarks

Is your churn rate within
a healthy range?

SEE HOW YOU COMPARE



Using Metrics to Fight Churn

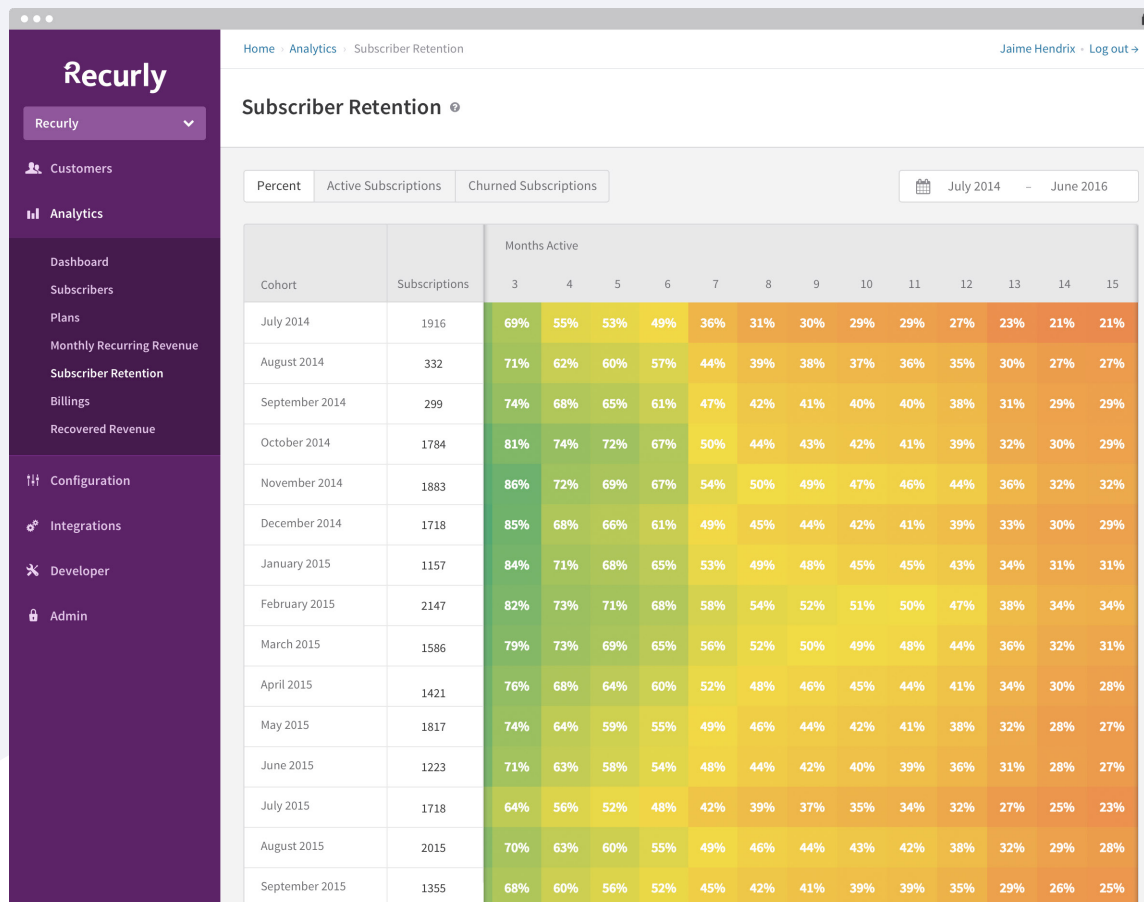
Analyzing your subscriber churn rate can surface actionable insights to further improve revenue recovery.

As an initial step, examine [industry benchmarks](#) to understand your churn rate relative to other companies in your business category and the overall market. Comparative data by industry, audience, and price point is useful to establish targets and gauge the health of your business.

It's important, too, to understand which subscribers are churning. Are you churning high-value subscribers? If so, this will have a greater effect on your revenue compared to churn from average or low-value subscribers. It is also important to understand if a particular subscription plan

experiences more churn than other plans or if a particular price point experiences more churn.

Churn that results from users of a free trial of your product or service is another aspect of understanding subscriber churn. A subscriber who is not paying you is not yet fully committed to using your product or service, and they are not creating subscriber lifetime value. Think of non-paid churn, then, as a problem of acquisition or conversion strategy than of retention strategy.



The Recurly Subscriber Retention Report can be filtered by subscription plan to investigate churn trends further.

A cohort analysis is another useful method in analyzing churn particularly in uncovering insights into timing of churn, or when subscribers are churning in their lifecycle. A cohort analysis also allows you to continually test different strategies

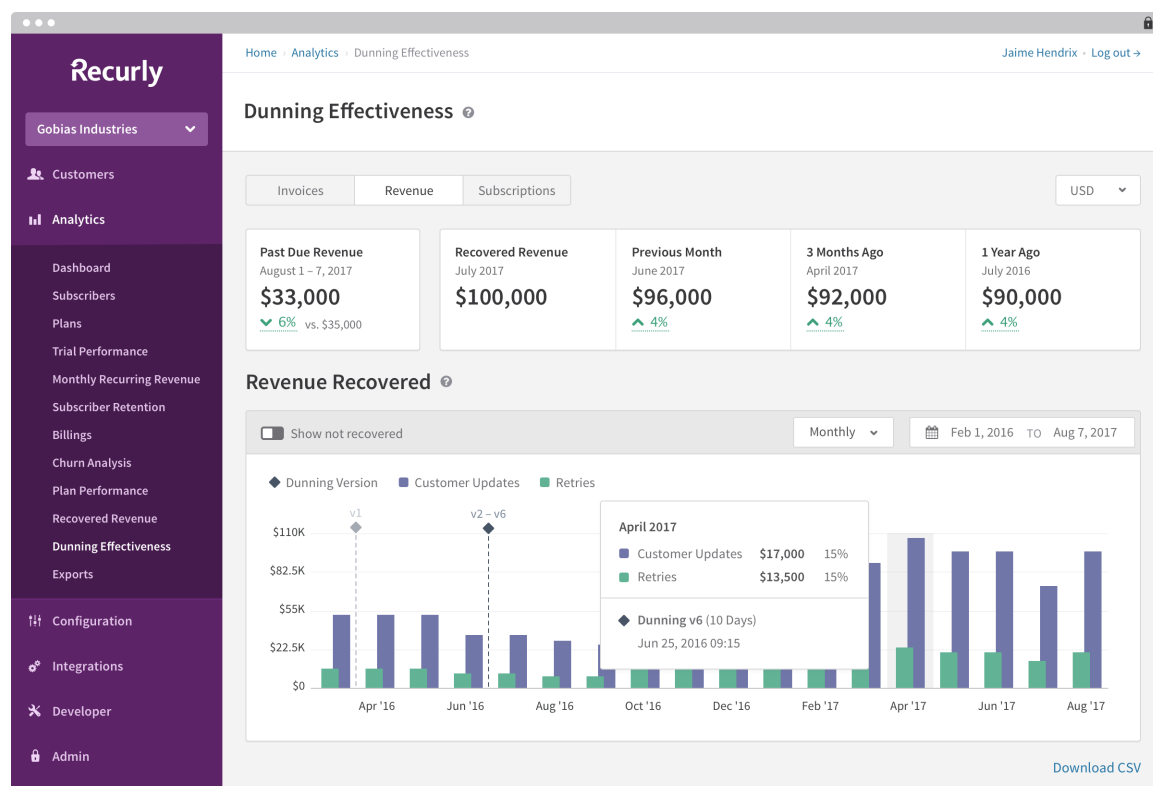
to manage churn and quickly evaluate the impact to each cohort. This will help you use your resources more efficiently by strategically targeting a certain time frame—i.e. a particular cohort—in the subscriber lifecycle.

In subscription commerce, success is predicated on long-term subscriber relationships and understanding voluntary and involuntary churn rates is key. However, to fight churn effectively, you also need to **analyze additional factors** to understand who churns, why they churn, and when they churn. This kind of systematic examination changes a key performance indicator into a truly actionable insight.



Recurly's Dunning Effectiveness Report

Gauge the results of your dunning strategy and understand the performance of current and previous dunning settings.



Monitor your dunning recovery over time and identify how changing various settings impact recovery rates.

Understand the effectiveness of your current or past dunning settings and make corresponding changes to the length of the dunning cycle, the cadence of email communications, and the number of emails sent to optimize recovery during dunning.



Summary

The subscription model is unique and uniquely powerful. Subscribers get convenient access to great products and services and the subscription business gains predictable recurring revenue and enduring subscriber relationships. Loyalty leads to high subscriber retention rates and lifetime value, the foundation of a healthy subscription business.

Managing churn, or subscriber loss, is a key focus for successful subscription commerce. Involuntary churn, which results from failed renewal transactions, threatens retention of otherwise-satisfied subscribers and unsuccessful payments, especially payment declines, need to be managed proactively in order to reduce involuntary churn rates.

“We’ve really benefited in significant, measurable ways from Recurly’s expertise in different ways to recover revenue.”

Mark Row, VP of Product, SitterCity



With our investments in cutting-edge technology such as our new Revenue Optimization Engine and our years of experience in reducing churn, Recurly is able to improve billing continuity and recover more revenue for our customers—up to nine percent on average per month. Transforming transaction failures into successful payments—that’s the key to maximizing revenue.

Learn how Recurly can help you improve customer retention and increase revenue growth by visiting **Recurly.com** or calling us at 1.844.732.8759.



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



+1.844.732.8759



sales@recurly.com

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