How to Improve

Subscription Renewal Rates

This white paper shows how to increase renewals cost-effectively using targeted “lifecycle marketing” promotions and how to fine-tune your offers for maximum profitability.
Hyper-targeted ‘lifecycle marketing’ promotions are well worth the effort

Monitoring your subscriber churn rate is a basic requirement for any subscription business. Managing the “flip side” of churn – your subscription renewal rate – is the next tactical function for any subscription business operator.

Subscription renewal rates are extremely sensitive variables. With some relatively simple efforts, you can dramatically improve the renewal economics of your subscription business.

There’s an important point about your existing subscribers that’s often lost in the hustle to bring in leads, prospects, and new customers: Retaining existing subscribers is typically three to five times more cost-effective than acquiring new subscribers.
For the purpose of our example, let's focus on annual subscriptions, where renewal rates tend to present more significant reductions in your expected annual revenue in Year 2, Year 3, and beyond. (See the chart below.)

**THE GOAL**

In this example, the goal is to improve the annual renewal rate from the current 60%.

**THE TACTIC**

Hyper-targeted promotional offers – presenting a discount for renewing early.

**THE ART & SCIENCE**

Hyper-target your promotional offer only to subscribers that are most likely to churn out, without fielding the offer to customers that are likely to renew at full price.
Tip #1

Don’t carpet-bomb offers to your entire audience

Coupons and promotional discounts hit your income statement as contra-revenue. Think of it as real money, and then you’ll appreciate why you don’t want to send out discounts to your customers who are likely to renew at full price.

Cable TV providers are notorious for aggressively marketing discounts and promotional offers to subscribers of competing services. You have likely received a promotional offer for a service like cable TV which you are already paying full price for. This is always a good reminder for you to call your provider and ask for a more competitive offer. Your customers will do the same with you. So restrict your offer to those customers for whom it’s most likely to make a difference.
Tip #2

Identify likely churn candidates for targeted renewal offers

Most businesses on the web tend to have a great deal of data about their own users. There are several measurements available to most companies that can greatly improve the targeting and effectiveness of renewal offers:

- **Engagement Metrics:** Identify users that have not logged into your service in the past 60-90 days. For multi-user accounts, score for engagement, and identify your lowest-engagement multi-user accounts. Low engagement is highly correlated to high likelihood to churn.

- **Satisfaction Surveys:** Customer support tickets can be a strong proxy for predicting positive or negative sentiment. However, the existence of support tickets is not in and of itself negative. Satisfaction surveys provided as a follow-up to support interactions provide great insight into sentiment.

- **Replies per Support Ticket Opened:** While support tickets are not in and of themselves a bad sign, a high number of replies per support ticket might show that this particular customer is struggling and could benefit from an extra effort to support them in renewing an annual subscription.
Tip #3

Use incremental promotions

When your magazine subscriptions expire, you typically receive a series of offers – often getting stronger as time goes on. This is tried and true methodology which should not be ignored in the world of SaaS and digital goods businesses, for example:

**OFFER 1**
15 days before expiration

“This is your last issue! Renew now for a 15% discount!”

The benefit of this kind of a promotional offer is that you can pre-empt churn from a particular segment of your customer base without giving away the farm. There will typically be a subset of your churning customers who will respond positively to the appeal of a discount.

**OFFER 2**
15 days after expiration

“We miss you! Renew today for a 20% discount”

After a customer has canceled or lapsed, they’re likely gone for good. Increasing a follow-up offer is a way to potentially re-engage subscribers that had elected to move on at their prior price point. You’re still better off treating these customers as a highly qualified lead and offering them a more aggressive discount than letting them go altogether. Your upfront customer acquisition costs have likely been covered in the first year, so even at a reduced rate, this customer is purely profitable to renew.

**OFFER 3**
Offer 45 days after expiration

“We want you back! Renew today for a 30% discount”

This is likely your last opportunity. It’s usually worth digging deep to save this kind of customer, but only the economics of your specific business will determine the extent to which you want to ‘chase’ lapsed customers. There is a point at which you run the risk of polluting your brand by circulating too many aggressive discount offers. Understanding this trade off and making decisions according to your own economics is important.
Marginal Benefit:

Measure Contra Revenue ‘Hit’ against Incremental Revenue

More important than the specifics of these example offers is the notion of determining the elasticity of your own pricing for your product or service. With three offers at three distinct points along the time continuum, you can easily measure the contra-revenue ‘hit’ you take by offering increasingly aggressive promotions and compare it to the effectiveness of each offer. Isolate your offers and evaluate the following results from each offer:

- Offer conversion rate
- Contra-revenue impact
- Incremental revenue lift

Compare these numbers to understand the cost and benefits of each offer. By doing so, you will quickly be able to answer the key question: “What is the most effective set of offers to profitably improve the subscription renewal rate of my business?”

This powerful methodology has been used by publishing companies for decades as a cornerstone of lifecycle marketing practices. Put it to work for yourself in your subscription business, particularly if you have annual plans available. You’ll surely find ways to deliver incremental revenue, and it’s very likely to require less cost and effort than it would to find new customers.
Recurly provides enterprise-class recurring billing management for thousands of subscription-based businesses worldwide.