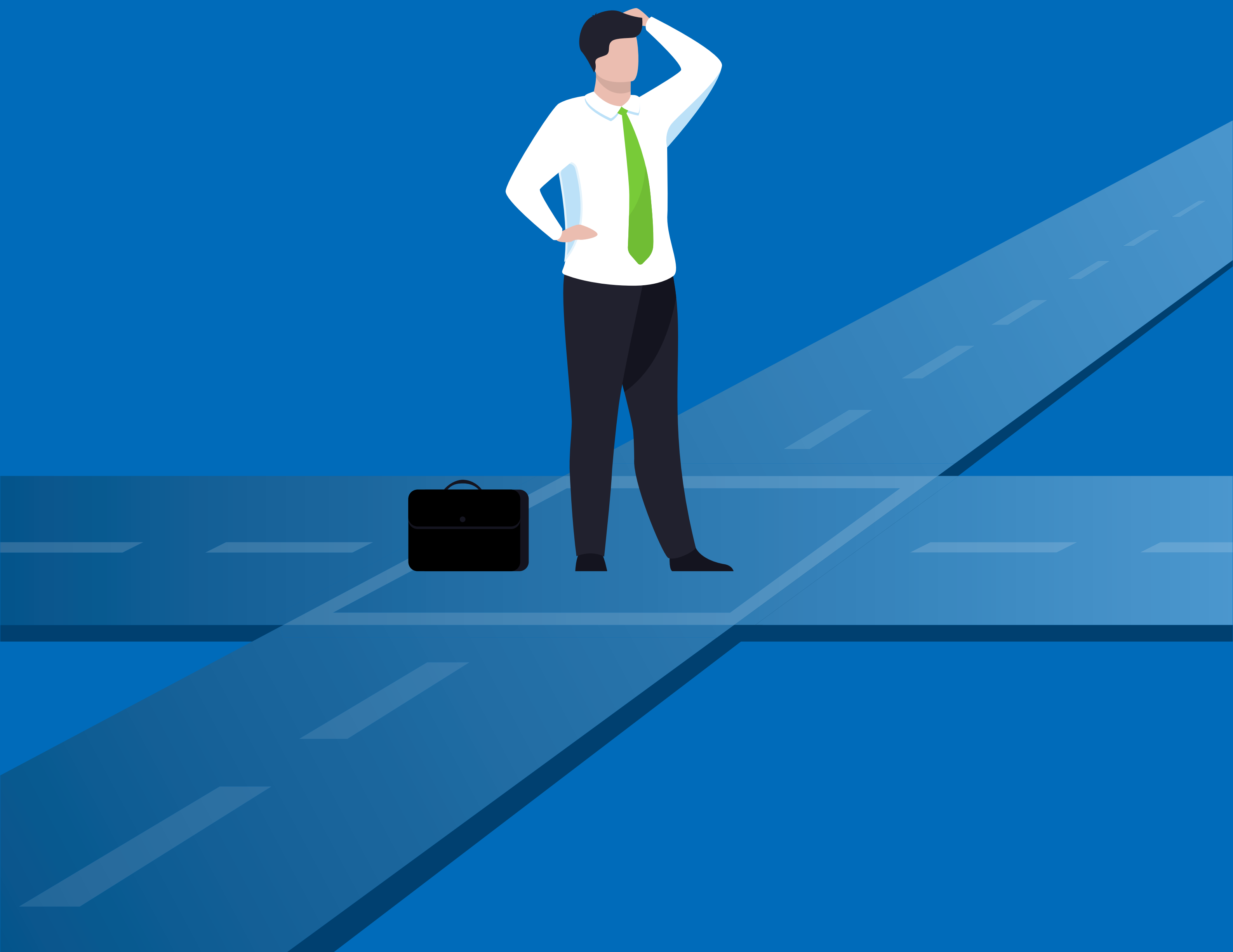
Custify

Churn Reduction 101

Everything you need to know about
reducing churn



Churn is the killer of businesses—especially those that rely on monthly recurring revenue.

As your business grows, it gets harder to rely on new customer acquisition to increase your revenue. You might find yourself in a situation where you'll spend most of your earnings on user acquisition just to stay afloat.

Here's why reducing churn should be a priority from day one:

- Statistics show that **businesses making more than $10 million in revenue have an average churn rate of 8.5%,**[1] while those that make less than $10 million are likely to have a churn rate of 20% or higher.
- Low-growth companies are more likely to experience high churn rates.
- Avoidable customer churn costs businesses $136 billion a year.[2]

This guide is for all SaaS businesses that want to reduce their churn and start becoming profitable. Here, you'll find out **everything you need to know about every type of churn** you can expect to encounter as a SaaS business. By reading this guide, you'll also get access to strategies that you can use today to combat each type of churn.

We'll talk about how you can track and measure your churn, what KPIs to track, and why not all churn is bad. Last but not least, we'll teach you how you can use churn to improve your product/service and show you how customer success solutions like Custify can help.

By the end, you'll have a clearer idea of the measures you need to take to increase your business's retention rate.

1 "SaaS Statistics," www.99firms.com.
2 "The US CallMiner Churn Index 2020," learn.callminer.com.

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1 What is churn?

Simply put, churn is when an existing customer stops doing business with you. It's usually expressed as the percentage of subscribers who discontinue their subscriptions within a given time frame.

For example, if you start the quarter with 500 customers and you end it with 450, your churn for that quarter is 10%.

Why is churn critical for subscription-based businesses?

There's no business in this world with 0% churn—that's simply unrealistic. And it's why knowing how many of your customers leave you is critical. If you know, **you can determine whether your business is growing, stagnating, or declining.**

- 92% of SaaS companies that grow less than 20% annually fail[3].
- The probability of selling to an existing customer is 60-70%. The probability of selling to a new prospect is only 5-20%[4].
- 80% of a company's revenue comes from just 20% of its existing customers[5].
- It costs 6x more to acquire new customers than it does to keep the current ones[6].
- Reducing customer churn by 5% can increase profits by 25-95%[7].

Where businesses go wrong

As a new business, you're bound to make some mistakes. What we notice most often in newer subscription-based companies is that they don't perform in-depth analyses to find out where they're heading. Instead, they make decisions blindly without covering all of their bases.

They don't collect proper data that can help them make the right decisions and they don't see the value of investing in a customer success solution. They waste time and money on Excel sheets and a dozen different tools that give them contradictory data.

3 Kutcher, Eric, Olivia Nottebohm, and Kara Sprague. "Grow fast or die slow,", www.mckinsey.com.
4 Saleh, Khalid. "Customer Acquisition Vs. Retention Costs – Statistics And Trends," www.invespcro.com.
5 Lawrence, Alex. "Five Customer Retention Tips for Entrepreneurs," www.forbes.com.
6 Morris, Tricia. "It is 6 Times More Expensive to Win a New Customer than to Retain an Existing One," www.business2community.com.
7 Gallo, Amy. "The Value of Keeping the Right Customers", www.hbr.org.

Instead of sticking to a well-thought-out strategy, they implement a generic one like drip campaigns or discounts. They try out every solution they find on the internet to see if it works, regardless of whether it's suitable for their business or not. This inconsistency makes companies seem aggressive or even desperate (remember LinkedIn spam?) and it doesn't help.

Often, businesses' lack of success is also due to being reactive instead of proactive. They rely on their customer support department to solve problems instead of trying to anticipate and prevent them.

And probably the biggest mistake of all is that **they don't ask their lost customers why they left.** They rely on guesses. But guesses aren't enough to assess what you're dealing with, nor they can offer you viable solutions.

> *"Businesses need to understand what causes their customers to churn, as well as what type of churn they're dealing with. Is it voluntary or involuntary churn? Is it logo churn or revenue churn? How much of that churn is product-related, and how much is natural churn? There are many reasons customers leave you and just as many solutions to stop them from doing that."*
>
> Philipp Wolf, Custify CEO

2 Analyzing churn

Now that you know what churn is and why it's critical to SaaS businesses, you're probably wondering how you can figure out your churn rates. The answer is simple: by performing a churn analysis.

A churn analysis is a calculation of a business' customer loss rate. The number of churned customers is the most important metric for SaaS businesses. Even small month-on-month increases in churn percentage can be disastrous.

> *Reducing customer churn by 5% can increase profits by 25-125%.*
>
> Frederick Reichheld, Bain & Company

Because many factors determine churn, it’s crucial that companies understand what causes their customers to leave. There are several types of analyses you can perform. Let’s take a look at each of them.

1. Analyzing churn by cohort report

A cohort analysis is a type of behavioral analytics where customers are grouped based on their shared characteristics in order to better track and understand their actions. By doing cohort analyses, you can ask more specific, targeted questions and make informed decisions that will help you reduce churn.

Because each business is unique, there are many ways you can group your customers to extract valuable insights. Here are a few examples of the most common cohort analyses.

By month of purchase

If you have different acquisition channels, run marketing campaigns, or experience spikes due to seasonal changes, this type of analysis can be very useful. Let’s look at an example.

Months since purchase

Cohort	0	1	2	3	4
Jan	100%	81%	74%	68%	61%
Feb	100%	83%	76%	71%	
Mar	100%	87%	80%		
Apr	100%	95%			
May	100%				

Take a look at this chart, which is an example of a cohort report.

We can see that customers who bought in a cohort, like January, had a 100% renewal rate in month 0 (they bought the product that month, so it's impossible to churn). 81% of them were retained in month 1, 74% of the original number were retained in month 2, 68% in month 3, and so on.

If you layer a heat map on top of this chart, you'll see that the closer you are to 100%, the greener the boxes, and the further you go, the closer they get to red. By looking at the colors, you can see that customers who bought in April have a significantly lower churn rate than the rest.

Now that you know all this, you can further investigate what caused April customers to stay with you and replicate that for future customers.

By acquisition source

If you have multiple acquisition sources (organic, paid, affiliate, etc.), you can create a report for each channel and see what the monthly graph looks like. This way, you'll be able to determine which acquisition source has the highest retention rate.

Acquisition source

Cohort/ Months	0	1	2	3	4	5
Organic	100%	65%	58%	51%	48%	39%
Social	100%	34%	29%	27%	26%	22%
Paid Search	100%	71%	55%	51%	49%	46%
Affiliate	100%	91%	87%	84%	78%	73%
Email Campaign	100%	78%	71%	67%	60%	54%

This is especially helpful if you want to see specific differences between channels and determine if you need to focus more on onboarding, or if you should readjust the budgets for each source.

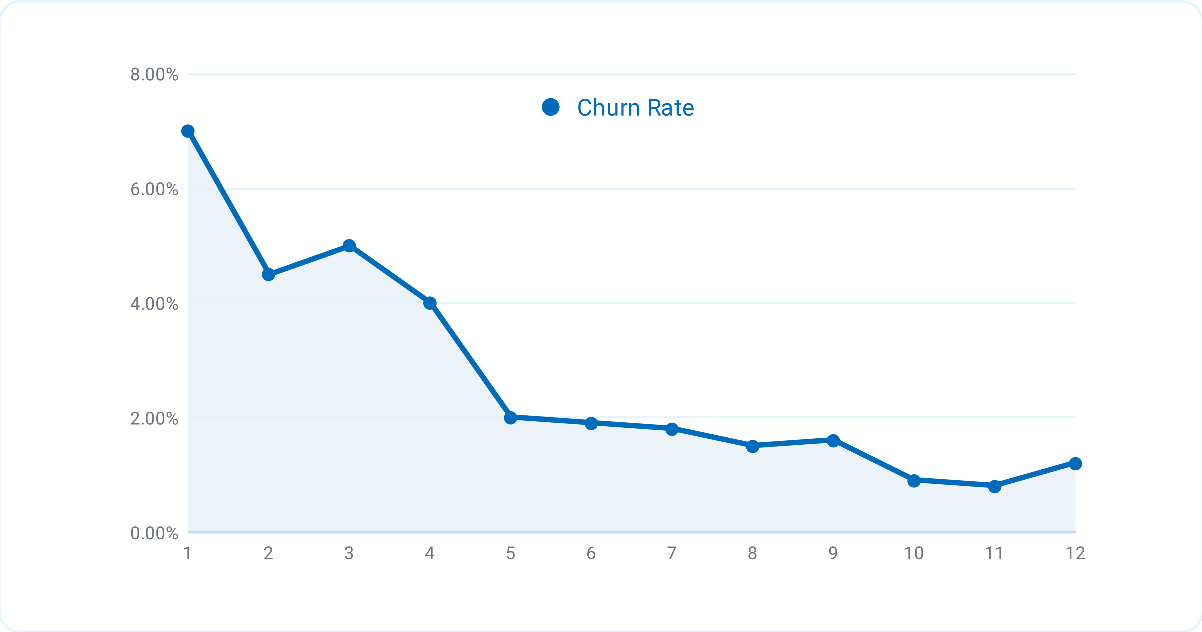
By customer age

Another way to analyze churn is by grouping customers based on how long they've been with you, otherwise known as their "age."

If you've been in business for a long time, you could have tens or even hundreds of cohorts. It can be next to impossible to interpret data from so many reports.

But if you group your customers by age, regardless of cohorts, identifying patterns becomes much easier. You only need to analyze one chart.

Let's say you're measuring the churn rate of all your customers during each month of service. It would look something like this:



In this chart, we can see that ~7% of customers churn during their first month of service, ~4.5% during their second, and by the 10th month, churn stabilizes at ~1% or lower.

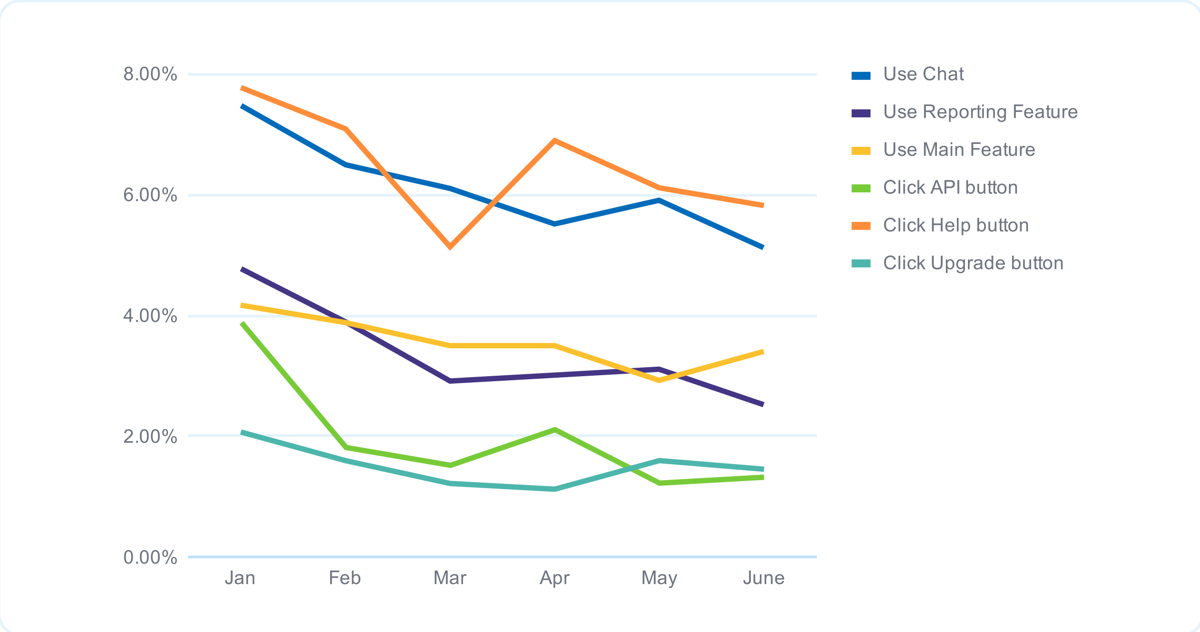
When you look at churn this way, you can really understand what triggers it as customers use your product over time. For example, you can see that churn is high for the first 30 days. In this time, you can focus on improving your onboarding process or cleaning up documentation.

2. Analyzing churn by customer behavior

By features used

You can also analyze churn by product features. This way, you can find out which features are crucial to retaining customers and which aren't used at all.

Once you decide what features you want to test, the next step is figuring out which of them impact churn. Take the following example:



Each line represents customers who've accessed a feature or completed an action in the feature (like clicking a button) over the course of 6 months and what their churn rate was during each of those months.

For example, we see a higher churn rate in users that access the Chat function or click on the Help button, compared to users that just use the core features of the app. This indicates that either these users aren't a good fit or the product has onboarding issues for certain cases and the help section or chat support does not solve them.

In March there was a drop there was a significant drop in churned customers. In this period the company launched an improved knowledge base and FAQ section coupled with an auto reply bot. This result could be seen as a direct impact.

Last but not least, we see that users who click on API or Upgrade are the least likely to churn. This indicates they need new features or scaling options and would only churn if these were missing.

By in-app actions

Using a certain feature doesn't always have an impact on churn. To avoid false assumptions, you can go even more in-depth and perform an in-app actions analysis to see if there are any differences between churned customers and active users.

As you can see in the example above, the use of the Upgrade button has a relatively constant churn rate over time. In this case, it's hard to draw any conclusions, and this is where customer success software like Custify can help you with behavior analysis.

Here's how it works with our software.

Your app sends event data to Custify using a Javascript code just like Google Analytics. That way, you can track feature and action usage inside the product.
In the Javascript code, you can set the events that are most relevant to your application. This can include login, file upload, page view, download, and other kinds of actions.

You can also send data via API for events that are triggered in the backend of your application (such as an error).

By health scores / KPIs

Note: In customer success terminology, we use health scores instead of KPIs. But both terms are used to refer to the same notion.

Analyzing feature usage and in-app actions lets you accurately determine which user behavior leads to a reduction in churn. However, you shouldn't stop at analyzing simple behavior. You should also consider analyzing health scores.

You can monitor them globally or segment customers by pricing plan if they have different health scores (this is usually used when one plan offers more features than the other). You can even go as granular as attributing health scores per each customer if that makes sense for your business.

If you've always wanted to become the customer success manager with a sixth sense for customer problems, then attributing health scores can help you. When a group or customer's score is low, they're likely to churn and you can intervene before they even think of leaving you.

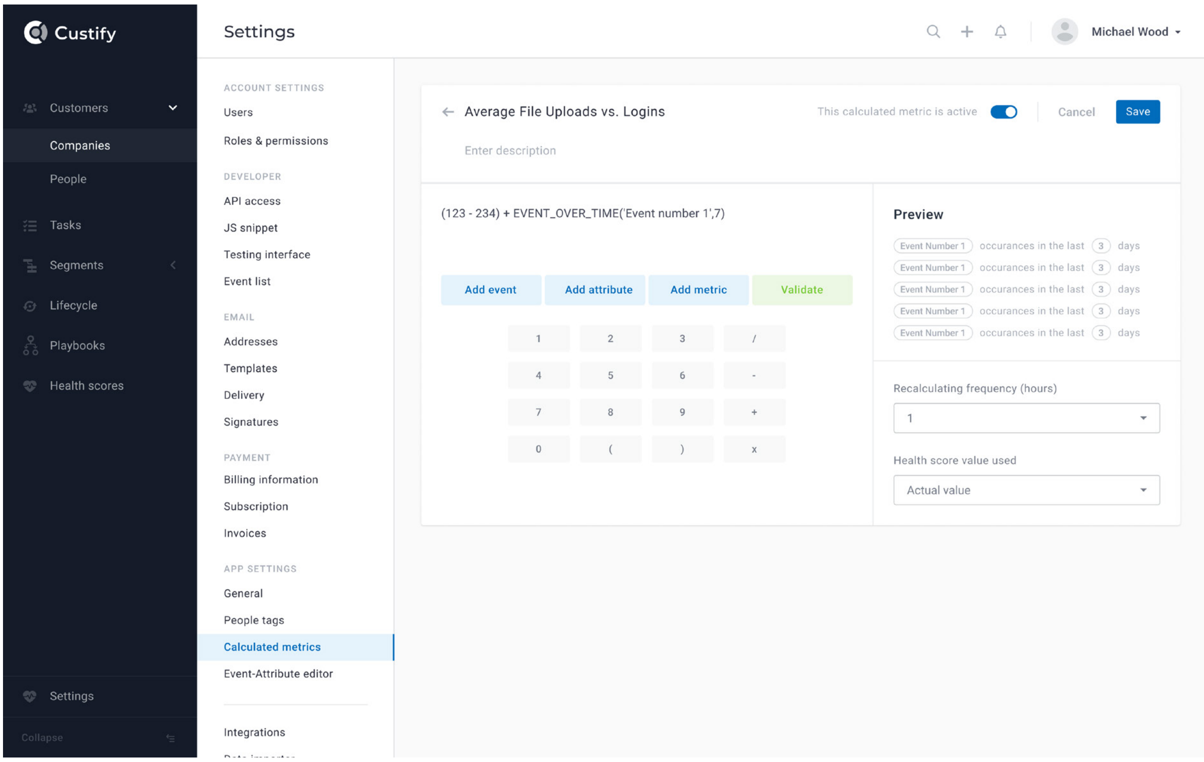
> *Many of our new customers have a good idea of what their health scores should be and how to track them. Nevertheless, in the Custify concierge onboarding, we take into account where they are now and where they want to be in the next 3, 6, and 12 months. Together we define and implement health scores in the best possible manner.*
>
> Philipp Wolf, Custify CEO

Want to know more? **Reach out** and we'll send you a personalized offer.

By engagement score

Also consider how engaged your customers are. Customer success platforms like Custify use Calculated Metrics to determine this.

By adding up app events that are related to engagement like logins or page views, you can generate an activity or engagement score for each customer.



You choose the events you'd like to track and over what period of time, then group them together. Then the customer success software will determine an average of the chosen events for each user. That average represents how many of the chosen actions they take over a specific period of time.

By patterns

Finally, you can also analyze patterns of usage to find out what reduces churn.

For example, do customers who use both Feature A and Feature B have a lower churn rate than those who only use one feature? What about users who completed at least 30 actions or used more than five different features in a month?

Real-world examples of analyzing customer churn

When setting and analyzing KPIs, one of the most important lessons you can learn is that logins aren't your primary indicators.

Many founders make this mistake, thinking that the only and most important event to track is the number of times someone logs in or uses their app.

Instead, your primary KPIs should be tied to the pain or problem that your product or service solves. And a good way to look for these is usually your pricing page, with your feature list.

Let's take a look at two successful SaaS businesses and how they could define their KPIs differently for each subscription plan.

HelpScout

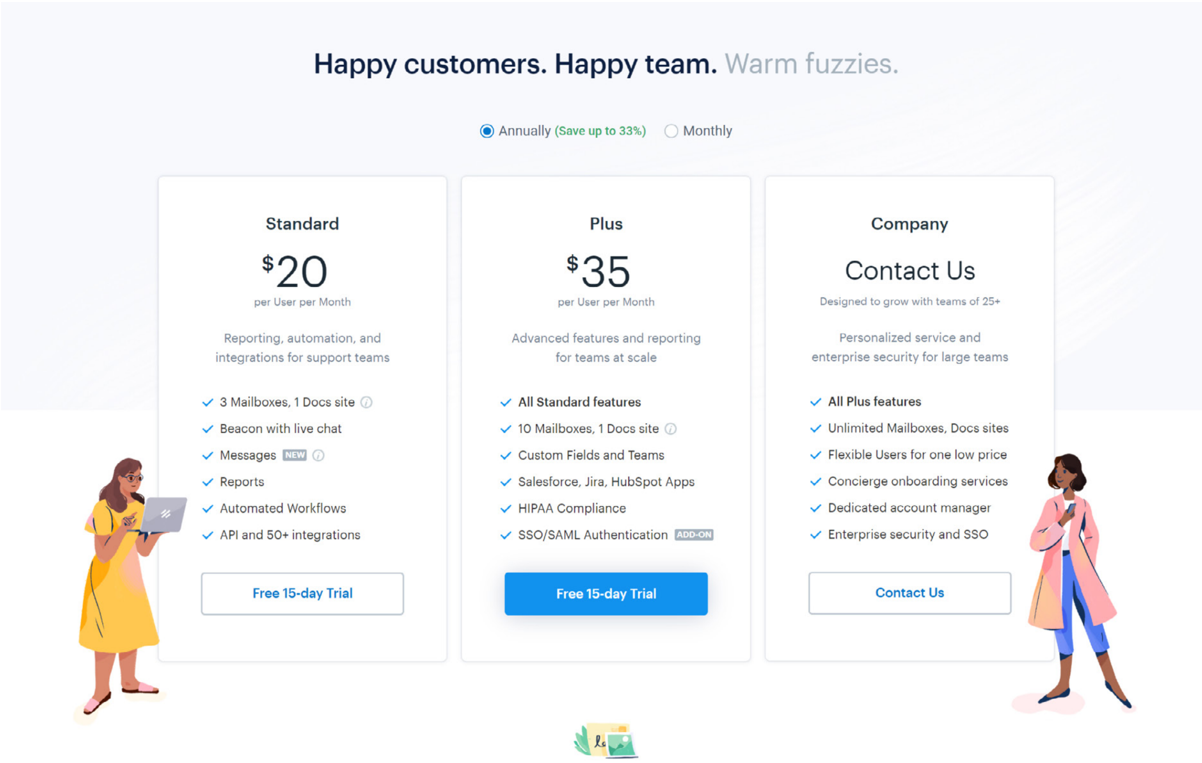
First up is HelpScout, a help desk software provider. Right now, they have a pricing model with 3 types of subscriptions, each with a list of features.

HelpScout would be able to set KPIs for their customers based on these features, either for each plan, or at a company level.

To set KPIs for the Standard subscription, they could ask themselves:

- how many mailboxes are used each month?
- how many messages are sent?
- how often are the reports accessed?
- do they use workflows, or not?
- how many integrations are active?

Every one of these features could act and be measured as aHealth Score in Custify. HelpScout could define these Health Scores according to limits that are relevant for the Standard plan.



For example, the maximum a Standard user could use is 3 mailboxes. So the worst value would be 0 and the best would be 3.

However, for someone using the Plus subscription, those limits would be different, since the plan includes more mailboxes. Following our example, the best value for the Plus subscription would be 10.

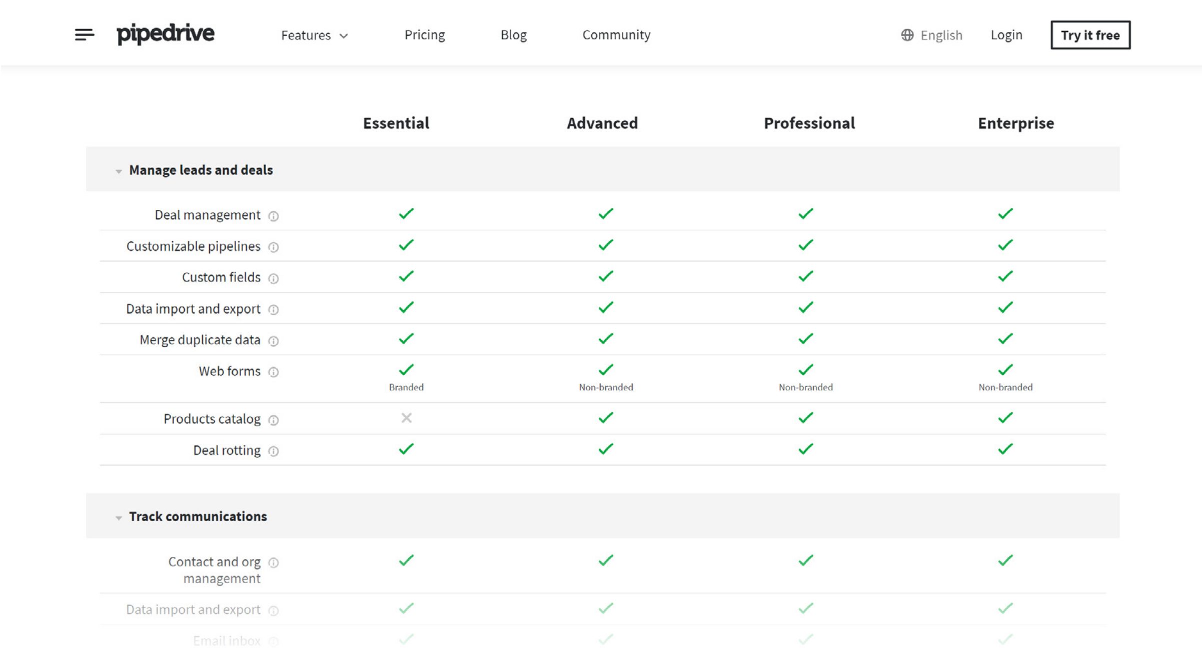
This is a great way of analyzing health scores for each plan individually. But you can also set company-wide KPIs.

In HelpScout's case, some of the company-wide KPIs they're most likely tracking are number of users, mailboxes, live chat, messages, workflows, reporting, and automation.

Pipedrive

Next, let’s look at how Pipedrive, a sales CRM and pipeline management software company, could track their KPIs.

Just like HelpScout, Pipedrive has various types of subscriptions, each with different features.



	Essential	Advanced	Professional	Enterprise
Manage leads and deals				
Deal management	✓	✓	✓	✓
Customizable pipelines	✓	✓	✓	✓
Custom fields	✓	✓	✓	✓
Data import and export	✓	✓	✓	✓
Merge duplicate data	✓	✓	✓	✓
Web forms	✓ Branded	✓ Non-branded	✓ Non-branded	✓ Non-branded
Products catalog	✕	✓	✓	✓
Deal rotting	✓	✓	✓	✓
Track communications				
Contact and org management	✓	✓	✓	✓
Data import and export	✓	✓	✓	✓
Email inbox	✓	✓	✓	✓

Let’s take the Essential plan as an example. Some of the Health Scores they could set for their customers include:

- Does the customer have custom pipelines? How many?
- How often do they use custom pipelines?
- Do they use Custom fields? How often?
- How many users have implemented Sales Assist?
- How often have they used Sales Assist?

Some features, like Products Catalog and Workflow Automation, aren’t available for this plan, so those KPIs don’t apply here. They would, however, be necessary for the other subscription types. Customer success software like Custify can help you set up these KPIs for each plan.

So far, we've established that the only way you can reduce churn is through a well-thought-out churn analysis.

In the next chapter, we'll look more closely at the different churn types you can expect. Understanding why churn happens in the first place is an opportunity to improve your business and strengthen customer relationships.

3

Types of churn defined and calculated

In the previous chapter, we discussed how customer success software can help you analyze churn. But if you want to eliminate it, you need to understand where it's coming from and how it impacts your business.

Here, we've detailed the four types of churn you'll encounter during your product or service's life cycle and how to calculate each.

Customer churn and Revenue churn

These types of churn are defined according to the impact they have on your business. They can affect either your customers or your revenue.

What is customer churn?

Customer churn, also known as Subscriber or Logo churn, represents the rate at which your customers cancel their subscriptions. Here's how you can calculate it:

$$\text{SUBSCRIPTION CHURN} = \frac{\text{CANCELLATIONS in period}}{\text{SUBSCRIBERS at beginning of the period}}$$

For example, if you had 100 subscribers on January 1st and you lost 5 during the month, your customer churn rate for January is 5%.

Keep in mind that you shouldn't take into consideration new signups when you calculate your churn rate. So if you've lost 5 customers, but you also have 5 new signups, your churn rate is still 5%, not 0%.

Just because customer churn is easy to calculate doesn't mean it's not important. In fact, for startups, it's the only type of churn you should focus on. That's because it's more expensive to acquire a new customer than it is to keep a current one.

What is revenue churn?

Revenue churn, also known as MRR churn, is a measure of lost revenue. It's most often expressed as a whole number rather than a ratio and can mean the actual lost revenue or, more commonly, a normalized value, such as MRR (Monthly Recurring Revenue).

Revenue churn is closely connected to customer churn. Let's say you lose one customer. What does this mean for you in terms of revenue? Did you lose $100 or $1,000?

Let's look at an example. Say you have 10 customers and your MRR is $10,000. You lose three customers in a month, each with a $100 subscription. Your customer churn is pretty high, since you lost 30% of your customers. But your revenue churn is only $300 (3%). Not such a big deal.

On the other hand, let's say you lost one of your biggest customers who was paying you $5,000 per month. Your customer churn is only 10%, but your revenue churn is huge: $5,000 (50%). To determine the percentage of revenue that has churned, use this formula:

$$\frac{\text{MRR at the beginning of the month} - \text{MRR at the end of the month} - \text{ANY UPGRADE or additional revenue from existing customers}}{\text{MRR at the beginning of the month}}$$

For example, let's say you had $100,000 MRR at the beginning of January, but only $80,000 at the end, and that you made $10,000 in upgrades. Your revenue churn for January is 10%.

However, revenue churn isn't always bonded to customer churn. If a customer downgrades their subscription, you don't see it if you only look at customer churn—because they didn't leave you. That's why it's important to track both subscriber and MRR churn.

Achieving negative churn

Unlike the types previously discussed, negative churn is good for your business. It means the revenue you generate through upsells and cross-sells is more than the losses due to cancellations.

It's important to note that MRR Churn Rate is the only churn rate metric that can be negative. Continuing the previous example, let's say you made $30,000 in upgrades.

This negative revenue churn rate means you actually had increased revenue that

$$\frac{\$100{,}000 - \$80{,}000 - \$30{,}000}{\$100{,}000} = -10\%$$

month. Achieving consistent negative churn rate is what every SaaS company should aim for.

> *Negative monthly revenue churn signals a SaaS company has mastered making customers happy and ultimately selling them on new products and services*
>
> Nathan Latka, CEO of The Top Inbox

Voluntary and Involuntary churn

In the previous points, we discussed churn based on its impact on your business. But you can also look at churn from your customers' perspective.

Taking this into consideration, we can define two types of churn: voluntary and involuntary.

What is voluntary churn?

Voluntary churn is when a customer decides to cancel their subscription. This can be caused by many reasons, like:

- the customer goes out of business or can't pay;
- your product quality is bad;
- the customer support is bad or non-existent;
- you have a missing feature;
- your competitors are stealing your customers;
- onboarding is too difficult and so on.

What is involuntary churn?

Businesses usually store a customer's payment information at signup and then use it for recurring payments. But over time, cards can expire, get stolen or misplaced, get maxed out, or run into other problems. If a payment fails because of these reasons, you get **involuntary churn.**

> *Involuntary churn is mostly avoidable - typically the result of card payment failures. Smart retries and account updaters help, but tackling the root of the problem by reducing your reliance on cards and introducing bank-to-bank payment methods like Direct Debit can dramatically cut involuntary churn."*
>
> Nicola Anderson, CMO at MyTutor.co.uk

One important note we want to make is that customer and revenue churn and voluntary and involuntary churn aren't different types of churn. They only represent different characteristics of churn.

Your churn can have both characteristics. You can have voluntary customer churn, or you can have involuntary revenue churn, depending on what causes your customers to churn.

Now that you know all the types of churn you can expect, let's discuss how you can address them.

4 Fighting voluntary churn

Some businesses are like a leaking bucket—no matter how much water you pour in, it will never be full as long as it's leaking.

That's why addressing churn is so important for SaaS businesses. No matter how many new customers you acquire, as long as they continue to leave, you'll never achieve and surpass your profit targets.

There are many reasons why customers might want to leave you. Here are all 11 reasons we've faced so far, along with some solutions.

1. Onboarding problems

For subscription-based businesses, most **customer churn happens between two decisive milestones:**

- When the customer signs up for the product
- When he or she realizes the value of the product/service (the “aha moment”)

Examples of “a-ha moments” from known SaaS businesses

Netflix - the “aha moment” happens when a user finds something they want to watch within 60 to 90 seconds.[8]

Dropbox - the “aha moment” happens when a user saves one file in a folder on one device.[9]

Slack - the “aha moment” happens when 2,000 messages are sent between members of a team.

What you need to do is bridge the gap between the signup and the “aha moment.” First, find out what your customers want to achieve. Then help them succeed as soon as possible.

8 Gomez-Uribe, Carlos A and Neil, Hunt. “The Netflix Recommender System: Algorithms, Business Value, and Innovation”, dl.acm.org.
9 Saljoughian, Parsa. “How to Discover Your App’s ‘Aha Moment’”, www.medium.com.

The most common reasons why customers don't achieve their goals are

- The onboarding steps don't guide the user well enough
- The product is very difficult to set up and start using.

To avoid this, **track every step** in your onboarding process and **define goals** that your customers should achieve to complete the onboarding successfully. Goals like

- filling in their profile data,
- selecting a pricing plan,
- using a specific feature for the first time,
- downloading a report, or
- inviting other team members.

If you see a customer getting stuck or not completing one or more of these steps, you can **reach out to them** and offer your help.

Or you could put an onboarding guide in place (like a tutorial or in-app guide) that your customers can use to help themselves out of the situation.

You can also **monitor the steps you laid out** to see where your funnel breaks and where your customers get stuck the most. Then adjust the onboarding process accordingly.

If your product or service is still in beta or you can still tweak it, you can **do design sprints.** Put your product in front of new users, record them while they're going through the onboarding process, and refine your UI and UX until it's simple enough to understand.

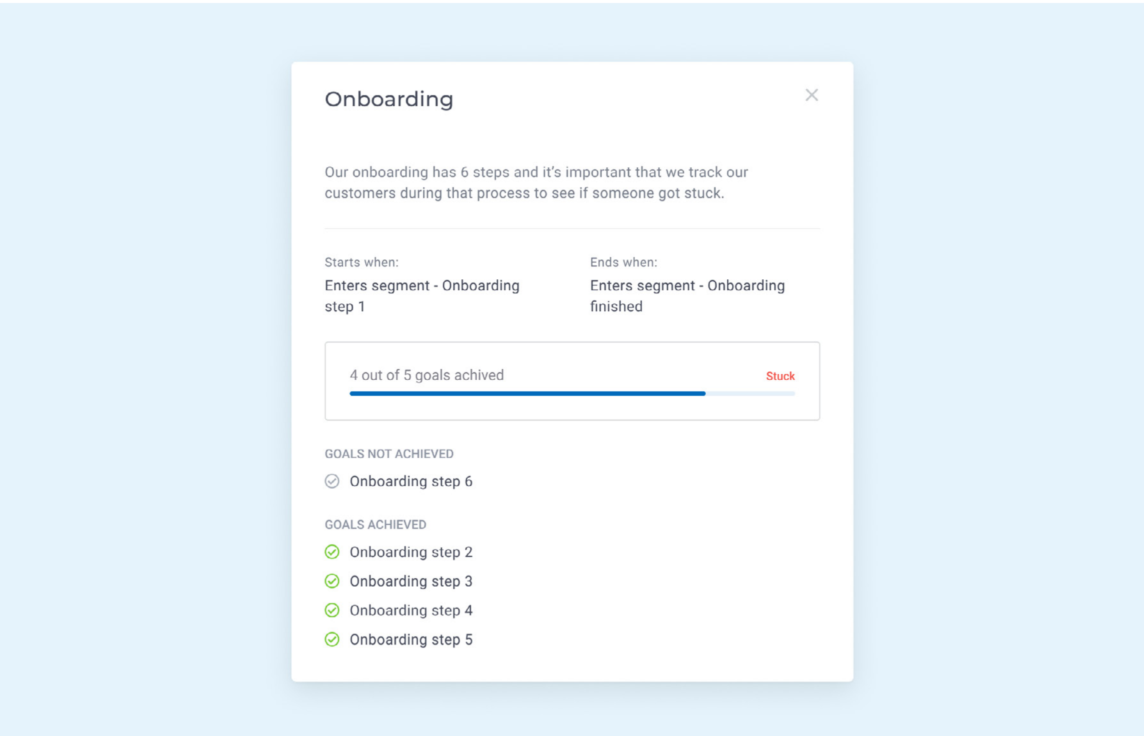
For high-touch businesses, or if your Lifetime Value (LTV) allows for it, you can also **assign customer success managers** to your customers for a hand-held onboarding process.

In Custify, for example, you can define and monitor these goals and automatically reach out to customers if you detect issues in their onboarding flow. Alternatively, in a high-touch environment, you can create tasks for your customer success reps to reach out to these clients personally.

How to use Life Cycles to reduce churn

The Life Cycle feature in Custify features a two-step process. The first step is **defining customer goals** like installation, first login, filling in profile data, and so on. You'll also set a specific time frame when these actions should be completed.

This way, you can track your customers' progress to see where they are in the onboarding process, whether they're behind schedule, and what they need help with.



> The second step is assigning tasks to your customer success managers. Tasks like calling customers on their first day (the welcome call) or sending them different resources or case-studies meant to help them get the most out of your product.
>
> Using Custify, you can also monitor this process to see if your reps have accomplished each of their tasks and what results they've generated.

2. You sold to the wrong customer

Not all of your customers are a good fit for your business. Sometimes churn is the result of the **inconsistency between what you offer and what your customers are looking for.** This can happen for a couple of reasons, such as

- your product positioning is wrong,
- your sales team oversold and set the wrong expectations, or
- you're too expensive compared to your competitors.

You can find out why customers are leaving you by using an exit interview (which can be an exit survey or a one-on-one interview).

Exit interviews help you improve both the service and the experience you offer. You might not always be able to keep customers from leaving, but the more information you gather, the better you can address your product's shortcomings.

In turn, a better product and a better customer experience help you reduce churn and increase your retention rate.

For example, you can ask your customers about their background and how they use your service to better outline your user persona. Knowing why a customer chose you and then decided to leave will help you avoid attracting the wrong customers.

Exit interviews also help you identify whether user expectations are aligned with what you offer and if users use your service in the intended way.

Once you find the cause, you can work with your sales team to get the right customers and work on your website to communicate the right promises.

3. You don't deliver constant value

Another common roadblock on your way to reducing churn could be the fact that you're not constantly bringing value to your customers.

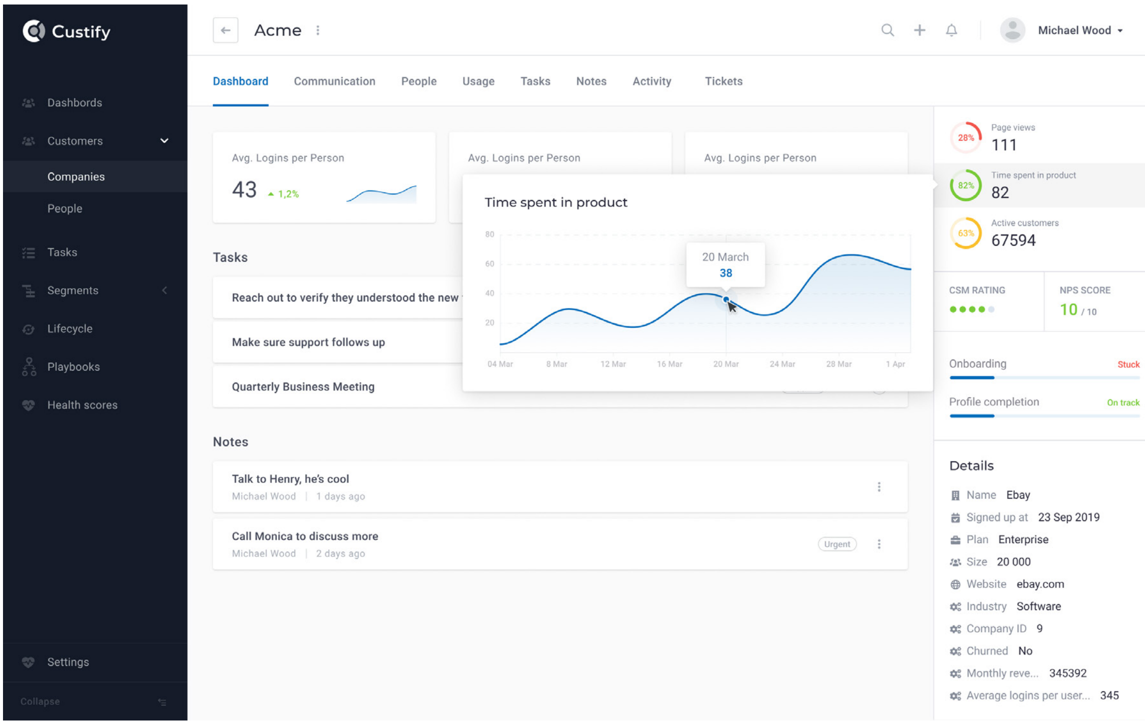
If your **customers signed up with a specific goal in mind** and accomplished it early in their journey, you need to make sure they also succeed during the following days, weeks, and months.

Here's how you can fix this:

- **Identify the right KPIs.** They should be centered around the problem your product or service solves;
- **Monitor them closely.** You can set up an alert system to get notified when values drop.
- **Create an action plan.** Come up with possible solutions for each scenario. A few possible solutions are engaging with customers, offering upgrades, suggesting other features, and offering training.

Custify can also help you with this.

You can set up and monitor different KPIs for each customer, get alerts, assign tasks, and automatically reach out to customers.



4. Your product quality is bad

There's no such thing as a perfect product. Downtime, unexpected bugs, and hacks are inevitable parts of running a SaaS business. But if they're so bad that they cause your customers to leave you, you should address them immediately.

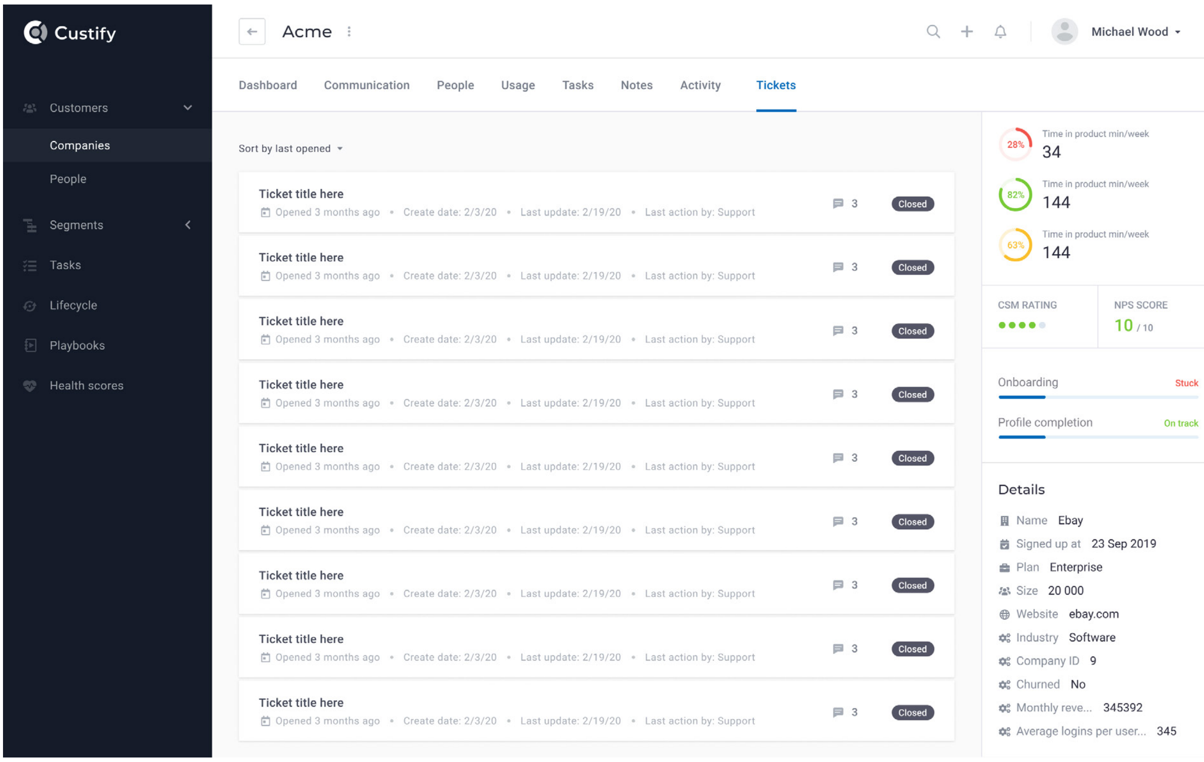
The key in this situation is to **act fast.** Respond quickly, mention your plan, and outline the measures you'll take to fix the issue. You can even compensate your customers by offering discounts or free months if they continue using your product.

Custify can help you here, as well. If you integrate your ticketing system with our platform, you can receive alerts whenever there are more than one or two open tickets marked as high severity.

Although Custify doesn't replace your ticketing system, it's a great way to monitor the number of support tickets you receive and keep a close eye on your customer satisfaction levels.

Another way Custify can help you monitor how satisfied your customers are with your service is through **Net Promoter Score (NPS).** NPS quantifies satisfaction through a simple question: “On a scale of 1 to 10, how likely are you to recommend our service to a friend?”

As simple as it sounds, NPS is a powerful tool that can help you identify upsell opportunities and anticipate churn.



5. Your support is bad or non-existent

It’s not the little mishaps that bother customers, but how you treat them. No product is problem-free. Things like mislabelled invoices or confusion over in-app settings can happen.

Once you find a problem, you need to offer fast, responsive customer support. Otherwise, a small issue could turn into a deal-breaker for your customers.

Make customer support a priority and be there when your customers need you. You can set up multiple communication channels (like phone, email, and live chat) to make sure your customers can reach you in a way that’s easy for them.

Analyze each communication with your customers and make sure your support representatives know how to handle each situation. You can even organize weekly meetings where you discuss different issues so your representatives can learn from each other's experiences.

6. You lost your "champion"

Software adoption is often led by a handful of key people. Product evangelists, the people who use your product or service first and then recommend it to their peers, are your biggest allies inside the client company.

So what happens when these people leave? The fate of your product is left in the hands of less involved people, which creates a serious churn risk.

To avoid this, you should **onboard as many team members as possible.** They will gradually become your new champions. Trello, Slack, and Evernote are just a few of the products that understand how important this strategy is to avoid churn.

In a more high-touch environment, you can actively monitor your champion if they left or if they're inactive. By setting an alert for such an event, you can be prepared to find a new one in time.

7. Your product evolved, but not in a way all your customers love

You'll rarely find people who have been your customers from day one still with you 10 years down the line. Sometimes, evolution means a part of your customers aren't a good fit anymore. And that's okay.

You can't control this, but you can control how people leave you. If they leave on good terms and are happy to recommend you to others who are a better fit, that's a win.

8. Your competitors steal your customers

Even if you manage to help your customers achieve their goals, they'll still leave you if they find someone who does a better job.

During the trial, strive to **make your customers reach their "aha moment" as soon as possible.** Once they do, the chances of them leaving you for a competitor are really low.

If this happens after a set period of time, it could be related to the fact that you don't provide constant value or some of the other reasons from above. To analyze and review this, please refer to point 3.

Also, whenever you have the chance, probe to see if they need other features or if the subscription plan is within their budget.

9. You didn't build a personal relationship

Whenever people are involved, there's the possibility of a personality clash. Sometimes the customer and your team just don't click. And the more time customers spend in contact with your team, the greater this problem can become, even contributing to churn.

To avoid this, you should constantly measure support scores (through customer satisfaction surveys) and switch reps for clients that assigned a lower rating. You can also use tools that measure the tone of voice in chat conversations to see if that's a problem (like the IBM Watson Tone Analyzer or Intercom's PREACH).

High-touch businesses that have assigned customer success managers for each customer can also use the "four-eyes principle." This means that a second representative listens in every now and then, joins calls and meetings and, if necessary, chips in for the other manager.

Non-enterprise customers, on the other hand, usually use the round robin method. They don't have a designated customer success manager. Instead, each team member takes on that role from time to time. As customers interact with more than one person in your company, the chances of them leaving because of a personality clash are diminished.

The key here is to educate your customer success managers to be open. Whenever they feel they can't build a personal relationship with a customer, it's best to step back and switch to another.

10. You have a missing feature

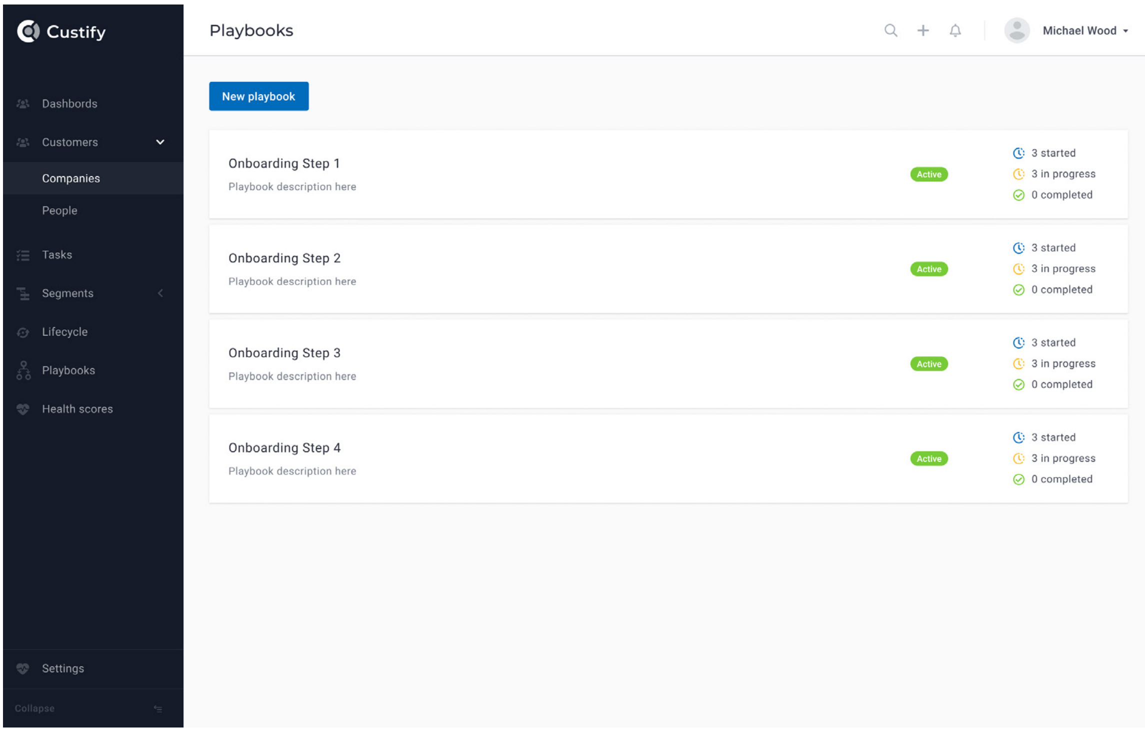
Products and services are always evolving, so you should always consider adding new functionalities.

This is when **product roadmaps** are useful, especially when you're just starting and you can't build everything at once. Check out user requests to find out what you should prioritize and train your sales and customer success representatives on expectation management.

11. Your customers go out of business

This one's t**otally beyond your control.** You can count this type of churn separately as there's nothing you can do to avoid it.

> ### The win-back period
>
> One unique trait of voluntary churn is that there's typically a gap of time between when a customer cancels their subscription and when it actually runs out. For example, if they cancel their subscription on the 1st, you still have 29 more days to convince them to stay with you.
>
> To win your customers back, you can **set up a playbook of actions.** Custify lets you send automatic emails, schedule calls, and personalize outreach from your customer success managers.


Custify
Playbooks
Michael Wood
Dashbords
Customers
Companies
People
Tasks
Segments
Lifecycle
Playbooks
Health scores
Settings
Collapse
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Onboarding Step 1
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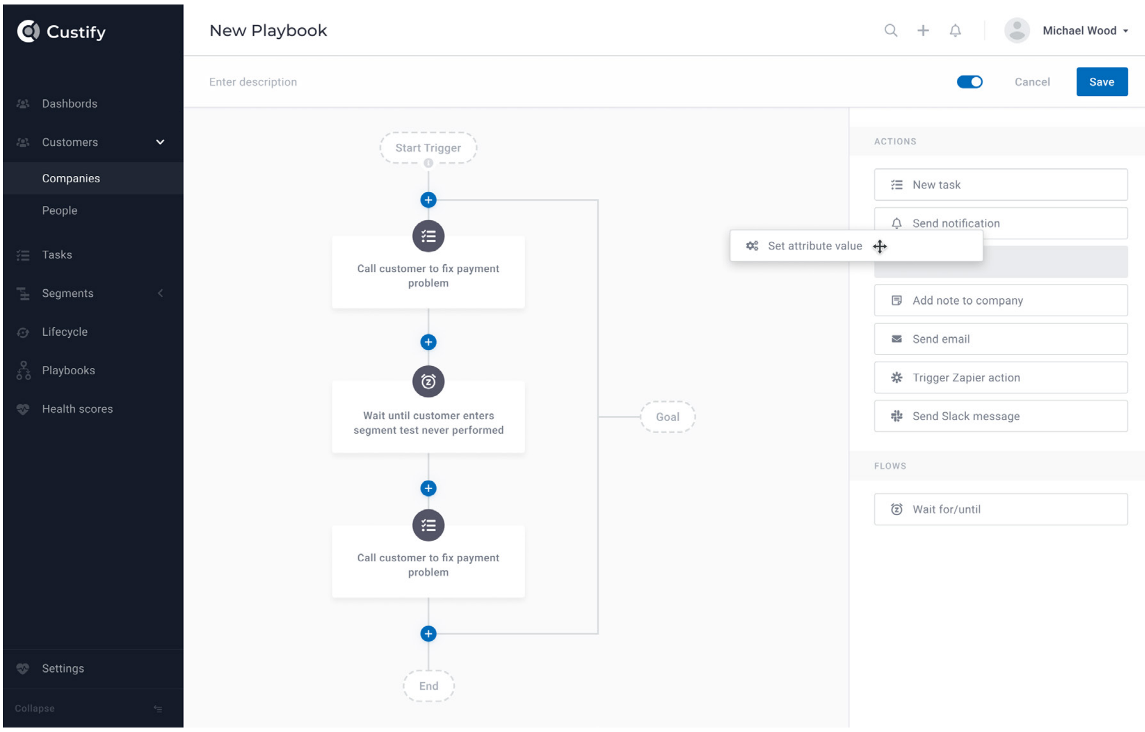
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Start Trigger
Call customer to fix payment problem
Wait until customer enters segment test never performed
Call customer to fix payment problem
Goal
End
ACTIONS
New task
Send notification
Set attribute value
Add note to company
Send email
Trigger Zapier action
Send Slack message
FLOWS
Wait for/until

5 Fighting involuntary churn

Most SaaS businesses focus on voluntary churn. It's hard not to when you keep getting customer complaints and cancelations.

But that doesn't mean involuntary churn isn't as important. In fact, businesses should focus their efforts towards eliminating it first, because involuntary churn is completely avoidable.

> *20-40% of your churn is actually absolutely needless, stemming from failed, expired, and delinquent credit cards. Let me put that data in perspective for you. If your churn rate is currently 5%, then one to two percentage points of that churn exists for an absolutely needless reason."*
>
> Patrick Campbell, Co-Founder & CEO of ProfitWell

Many things can lead to involuntary churn:

- Expired cards (this is the most common).
- Hard declines after fraud attempts (if the card details have been stolen before).
- Soft declines after credit limit maxes.
- Out-of-date billing information.
- Charges not flagged as recurring.

Involuntary churn doesn't just prevent you from growing your revenue. It can also **damage existing customer relationships**.

Imagine that a customer is in the middle of promoting their project through your advertising platform, but, because their credit card expired, the latest payment couldn't get through and their ads were taken down without a notification being first. It could take days or weeks before they notice, and by the time they do, the promotion period might be over.

This could cost them thousands or hundreds of thousands of dollars. We wouldn't be surprised if, after an incident like this, a customer would immediately switch to one of your competitors and give you a bad review.

This is completely avoidable. In fact, involuntary churn is quite easy to fix. Here's how.

1. Dunning

Dunning is the process of communicating with customers to collect payments that are past due, prior to account cancellation.

There are two strategies you can use for your dunning process:

a. Pre-dunning in-app messages and emails

All SaaS businesses collect their customers' payment details, so they know when their card expires. Still, not all businesses use this information to prevent churn caused by expired cards.

By using a customer success platform like Custify, you can **set up a playbook of emails for users with expired cards.** This way, they have a chance to update their payment details and you avoid failed payment attempts.

b. Post-dunning in-app message and emails

Other things can lead to failed payments, like soft denials after a card has been maxed out. You won't always be able to prevent them from happening.

Still, there's no need to block your customer's access to your app just yet. You can reach out to them first, let them know about the problem, and give them a chance to solve it.
Create a drip email campaign that lets them know you've tried to charge their card unsuccessfully. Include at least three or four emails over one or two weeks.

Remember that post-dunning messages should get more serious at each step. An increased sense of urgency will help you get better results.

You should also consider sending messages via different channels (in-app messages, emails, SMS, social media messages, letters) and from different senders (customer success manager, account manager, and ultimately the CEO).

A post-dunning best practice is to mention the value you're providing and what your customer could miss out on. For example, a post-dunning message could sound something like *"Hey, I've just prevented you from getting locked out of our app. If you still want to reach out to thousands of people, please update your payment information"*.

2. Account updaters

An account updater is a service that automatically checks customers' card details with issuing banks before each renewal.

On average, SaaS businesses that use an account updater service

- recover 38x what they pay for service;
- see 2–5x improvement in recovery rate as opposed to using the default features of their payment processor.

> *The industry average is to recover 35% of failed charges, although this varies drastically based on type of business, billing interval, and subscription amount. For best results, we always recommend having a combination of three tools: automated emails + dedicated credit card capture page + in-app reminder."*
>
> Corey Haines, Head of Growth Baremetrics

Account updaters can save you thousands of dollars each month, but there are a few things you should consider. For example, if you use both an account updater and expired card notifications you may end up spamming your users. Or worse, you may end up charging users that actually wanted to cancel their subscription.

Some SaaS businesses will notify customers several times that their cards will expire soon. But this type of aggressive strategy often backfires by leading to a poor customer experience with negative long-term effects.

3. In-app lockouts

In the SaaS space, some companies might be too quick to notify customers about billing issues that ultimately don't become real problems.

> *They email customers instantly when a payment fails, ignoring the fact that many failures these days are temporary and simply need a retry on the existing card at the right time."*
>
> Matt Goldman, CEO of Churn Buster.

Most often, these companies turn to in-app lockouts that can "misleadingly appear to be quite successful (i.e. 15% of customers recovered via an in-app lockout screen), though that doesn't mean those customers wouldn't have been recovered via a retry on their existing card, or via a card update after receiving an email", Goldman continued.

It's never a good idea to lock someone out of your app immediately after their payment fails. Instead, you should allow them a grace period to sort things out. But if the situation isn't fixed by the time the grace period ends, you might need to consider a lockout.

Keep their data safe for a set period of time, in case they decide to return.

4. Using Direct Debit as a payment alternative

Another way to prevent failed card payments is to avoid cards entirely. By using Direct Debit as a payment method, customers can pre-authorize partners to collect payments directly from their bank account.

Unless their bank account is empty, payments should go through without any problems.

5. Using a backup card

Last but not least, you can encourage your customers to provide a secondary card's details. This way, if the payment fails for the first card, you still have a backup payment option you can use.

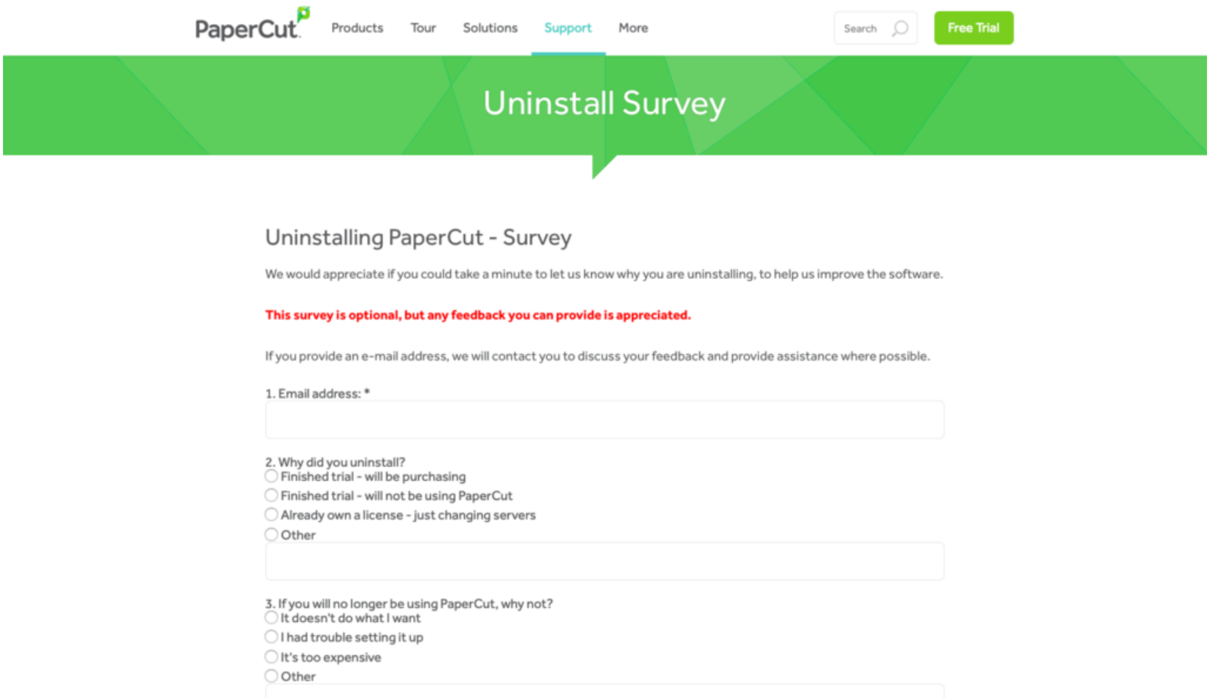
6 Learning from churn

Nothing makes customer success managers happier than seeing people enjoy their products and services. But sometimes, no matter how good a product is or how great a customer experience you offer (or think you do), customers may still choose to leave you.

That's hard to accept, but sometimes there just isn't anything more you can do. However, you can control what you do after customers churn. This means finding out why they chose to leave you and doing everything you can to prevent other customers from doing the same.

Here's how you can achieve this:

1. Exit surveys



Source: https://foundkit.com/wp-content/uploads/2019/05/Papercut-1024x594.png

Have you ever been asked about your experience as you exited a store or restaurant? That's an exit survey. They were first implemented by offline business, but are nowadays successfully used by many online companies.

SaaS businesses usually show an exit survey after a customer chooses to cancel their subscription. It helps you **gather valuable insights about why your customers left,** where your service fell short, how good (or bad) the user experience was, and how you can improve your service.

The **most effective** way to use an exit survey is to show it to users **as they're canceling their subscription.** If you let your customers do this themselves, you can ask them a series of questions before they officially cancel. The more time you let pass, the less they might remember why they left.

If customers need to email or call you to cancel their subscription, you can train your staff to ask them why before proceeding with the cancelation.

What questions to ask in an exit survey

There are multiple formats you can choose from. For example, you could choose to ask your customers a few open-ended questions:

- What do you like about our service?
- What do you dislike about our service?
- How can we improve?
- What could we have done better?
- What could we have done to prevent you from leaving?
- Would you still recommend us to a friend?

However, this requires more effort from your customers and they might not be inclined to answer. Instead, you can simply ask them “Why are you canceling?” and let them choose from a list of predefined answers:

- This is not what I was expecting;
- I don’t know how to use your service;
- I found something better;
- You’re missing a feature;
- You’re too expensive;
- It’s not my decision.

Once you gather more responses, it's easy to identify patterns and learn more about why your customers are leaving and what you could have done to prevent that.

However, to truly make sense of your data, you need to segment it using key criteria, like

- subscription plan;
- persona;
- product engagement;
- subscription length;
- features used, etc.

2. Exit interviews

Exit interviews are more in-depth than exit surveys. Most companies use closed-ended exit surveys to gather quantifiable data. They're okay, but they don't gather the actual reason behind the customer churn.

If possible, it's better to use exit interviews to gather as much information about the reason your customer jumped ship. They can be done over the phone or via online questionnaires and you can have open-ended questions or ask customers to choose from a list of predefined answers.

The key is to keep them simple. Here are a few sample questions:

- What was the greatest benefit you got from our service?
- What would you like to see more of in the future?
- Is there anything you want us to stop doing?
- What can we do to improve?

- Is there something you're looking for but didn't find in our product?
- Is our billing clear?
- What is doing business with us like?
- Did we meet your expectations?
- Did you communicate effectively with our team?

In GrooveHQ's experience,[10] open-ended exit interviews worked better. Not only did the response rate skyrocket, but they also unlocked loads of valuable and actionable data. Another best practice is to ask for feedback in person or over the phone. This way, people can't avoid answering.

Exit interviews are your last chance to impress your customers before they leave you for good, so make sure you identify possible issues and keep churn from happening in the future

3. Feedback loops

Unlike exit surveys and interviews, feedback loops help SaaS businesses prevent churn.

Feedback loops are about asking for feedback and implementing it regularly. They're especially helpful if your product or service isn't mature yet because they help you make sure you're building something your customers love (because they're actively involved in the development process).

The feedback loop can be divided into three stages:

- **Gathering information:** This is the most crucial part and you can do it through customer interviews, feedback forms, social media, or email. You can also ask your support or sales team to share what they notice

10 Turnbull, Alex. "How We Grew Our Customer Exit Survey Responses by 785%," www.groovehq.com.

during interactions with customers. But the most efficient method is through surveys,[11] especially because you can target them to specific users and gather more detailed feedback.

- **Analyzing data:** Once you have your data, it's time to see what you can learn from it. Find recurring issues and try to identify what causes them. After you've identified possible problems, come up with solutions to solve them and enhance the customer experience.
- **Applying conclusions:** If you think you've covered all possible scenarios, it's time to implement your solutions. Start with your most critical problem and move to small changes and improvements (these can also be done simultaneously). Make sure you inform your customers about upcoming changes and bug fixes.

Once you've reached the end, it's time to start again—after all it's not called a loop for nothing.

Let Custify counsel you

Customer success software like Custify can help you implement and measure customer feedback step by step.

We can help you:

- analyze voluntary and involuntary churn,
- identify the issues your customers are having,
- address these issues and prevent churn from happening,
- learn from your churned customers and
- improve your service and customer experience.

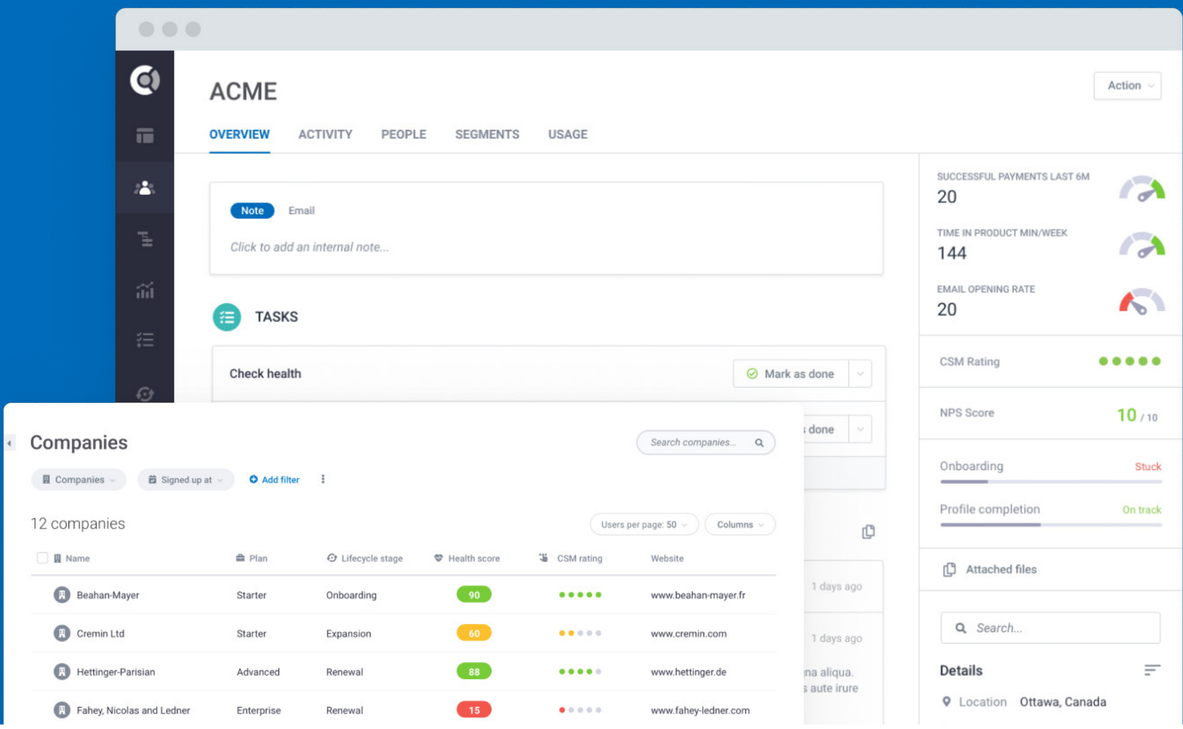
11 Rekhi, Sachin. "Designing Your Product's Continuous Feedback Loop," www.medium.com.

In the end, you have to take the initiative, but we're here to offer you support. We also offer SaaS businesses concierge onboarding—a service where we use our years of experience to help you get the most out of your product or service.

Every business is different and has different types of churn. We make sure you always see the full picture, whether that means problems with the product, during onboarding, or with your team.

At Custify, we focus on helping SaaS businesses achieve

- a 360° view of customers;
- a churn rate under 2%;
- renewal, growth and upsell opportunities;
- proactive customer issue resolution; and
- automated outreach.



Do you want to understand why your customers are leaving?
See if Custify is right for you. You'll be set up in minutes.

Schedule a quick call

Free trial and 90-day money-back guarantee—try it without risk.