Reducing Your Subscriber Churn

How to save thousands on this single metric

Authors
Tolu Babalola
Jesse Richardson
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Jesse Richardson
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Section 1: What is Churn and why does it matter?

Churn is one of the most discussed metrics in modern day subscription services, and it’s for a good reason.

Churn ultimately determines if your subscription business will succeed or fail.

Churn is viewed in different ways depending on your business model. Regardless of what type of business you’re into, though, churn will always be a measure of loss or attrition. It’s the rate at which you lose a valuable part of your business. For our purposes, we will be focusing on monthly subscriber churn, or the portion of your subscribers you lose on a monthly basis.

✓ Churn Rate: Rate at which customers cancel or end their subscription with your business, over a period of time.
Section 1 – What is Churn and why does it matter?

Why does your Churn Rate matter?

Losing subscribers is never a good thing. In fact, it’s a terrible thing, and it can impact your business in many significant ways.

First, there are immediate effects: a loss of potential revenue and fewer potential subscribers acting as brand evangelists (subscribers who refer, share, and market on your behalf). The lifetime monetary value of those subscribers, and the value they bring your business in intangible ways, is diminished.

But losing existing subscribers has further reaching effects as well. For instance, you’ll have to spend time and/or money to find replacements for these subscribers, so as to maintain your Monthly Recurring Revenue, or MRR. When you churn a certain number of subscribers, in order to equal last month’s revenue or growth, you’ll need to find that number of customers. If you intend to grow past last month’s revenue, you’ll need that number of subscribers + additional subscribers for growth.

**Bottom Line:** When you churn subscribers, there’s a ripple effect across your entire subscription business.

**But there is good news.** While you may never be able to completely get rid of churn, you can take steps to influence it. To help you do just that, we’ll share some of our favorite techniques for reducing the churn of your subscription business, covering everything from analyzing cancellation reasons to creating measurable win-back campaigns.
Remember: The higher your churn rate, the more you’ll have to spend acquiring new users just to maintain your monthly recurring revenue (MRR). It’s best to take all necessary steps to fight churn first, before scaling your customer acquisition campaigns.

Churn affects the lifetime profit you make from each subscriber, as well as your average lifetime value.

How much will each subscriber pay you before they leave?

$LTV$ refers to $\text{Lifetime Value}$ of your subscriber. You can calculate it using the following formula:

$$\text{LTV} = \frac{\text{AVG. RECURRING (MONTHLY) PAYMENT} \times \text{GROSS MARGIN \%}}{\text{CHURN RATE}}$$

How many months will each subscriber spend on your service?

Calculate the $\text{Lifetime of each subscriber}$ using:

$$\text{LIFE TIME OF EACH SUBSCRIBER} = \frac{1}{\text{CHURN RATE}}$$

Assuming your box costs $39.99 per month with a gross margin of 30%, lowering your churn from 20% to 10% will make you $5,000 more over the course of the year!
Beyond the individual value of each subscriber, churn also affects overall monthly profit (and how it can change over a number of months).

Take this scenario for example:

Joe sells lifestyle subscription boxes at $30/month on average, and his net profit margin is 30%. Assume Joe’s marketing brings him a constant flow of 25 new subscribers per month, and he launched with 100 subscribers in his first month.

Take a look at how much profit he makes per month when his churn rate is 20%, 10% and 5%.
In terms of total dollars, the difference in MRR is hugely significant:

- With **5% churn**, in month 12 Joe’s MRR is at **$10,896.47**
- With **10% churn**, in month 12 Joe’s MRR is at **$8,115.11**
- With **20% churn**, in month 12 Joe’s MRR is at **$4,912.87**

And that impacts your own profit margins:

- At **5% churn**, you’ll be making **$2,500** in profit and climbing every 30 days
- Whereas at **20% churn**, you’ll be making **$1,100** flat

*In the 12th month, Joe could have made a profit of almost 2x what he made at 20% churn, if his churn was down to just 10%.*
What is good Churn?

You are doing great if your churn is \(< 7\%\)
You are doing good if your churn is between \(8 - 15\%\)
You are slightly under the norm if your churn is between \(15 - 20\%\)
Anything over \(20\%\) churn is considered \textit{unsustainable} and you must take steps to fight it immediately.

What is the churn rate of a few popular & successful subscriptions?

✓ Birchbox: We've estimated that Birchbox's churn rate is roughly \(10\%\).
✓ BarkBox: Barkbox reported churn as low as \(5\%\) for their first year.
Section 2: Calculating your Churn Rate

Calculating your churn rate is quite easy.

First, determine:

\[ A = \text{The number of people who have cancelled their subscription in the last 30 days} \]
\[ B = \text{Number of people who were signed up 30 days ago} \]

\[ \text{Churn rate} = \frac{A}{B} \times 100 \]

**Note:** Take some time to consider when to have your 30 day period start. Generally, we like to use shipping dates/cutoff for markers on churn (rather than an arbitrary date, like the 1st or 15th), because you can then calculate churn for periods related to specific monthly mailings. This helps position churn as a success-oriented metric when it comes to some of your operations, like product sourcing or packaging.
Section 3: Managing your Subscriber Churn

With your churn rate determined, you can provide yourself with goals and begin to test methods for lowering it.

Reasons why Subscribers Churn: (sampled from all merchants on the Cratejoy platform)

There are two primary ways to reduce churn: a preventative and proactive churn reduction strategy, and a reactive churn reduction strategy (which involves using churned subscribers as a source of customer acquisition).
Preventative Churn Strategies

We’ll look at these four ways to lower churn:

1. Analyzing/understanding your customer’s journey
2. Customer Service optimization
3. Product development/product optimization
4. Keeping members engaged

Before We Start: Covering the Basics

• Rebilling Mistakes/Subscription Management: Whether you’re running a prelaunch campaign or are just a few days behind this month, forgetting to change billing dates can create a HUGE customer service issue by charging people twice. Be sure to read our doc on changing re bill dates and our educational piece on Rebilling/Shipping Best Practices!

• Shipping Costs: We often hear from our merchants that customer cancel due to high shipping costs or customs. This mainly deals with pricing. Use Cratejoy’s pricing calculator to learn how to embed the cost of shipping into your monthly fee, allowing you to market “Free Shipping” and a small extra charge to international customers to cover customs.
Strategy 1: Analyze your Customer’s Journey

When thinking about churn, you first need to understand the journey of your customer. Customer journey is another way of talking about the customer’s ongoing experience with your business.

Here’s a basic diagram of a customer journey for subscription businesses.

This journey is made up of a few key touch points, as follows:
Initial Engagement & Subscribing:

- **Key Questions:** When a customer first engages with your subscription business, what expectations do you set? What are the value propositions, or selling points, of your business? What do they expect from you, and how do you communicate these expectations/promises?

- Understanding the expectations you set is the first part of understanding why customer experience plays out the way it does, and why your churn at this rate. If you aren't fulfilling expectations, this might be the source of your churn.

Receiving the box:

- **Key Questions:** What is the experience behind the delivery of the box?

- Everything from packaging to speed of delivery to quality of packing to the products inside make up the customer experience. This part of the journey is where you reach out and make an impression on your subscriber.

Subscription Renewals:

- **Key Questions:** When do you renew customers? Where does this exist in the monthly journey?

- The process of renewing can be where many customers will decide to cancel. **Because of this, your goal should be to make this part of the journey as seamless as possible:**

  1. *Renewing customers soon after they receive their box helps them think of the recent good experience vs. renewing at a much later date, when the experience is less fresh in their mind.*
  2. *Customers should never be renewed before they’ve received the last box they were charged for.*
3. Renewal dates and amounts should always be clear and explained to your customers. Surprises can cause worry, and worry causes churn.

Canceling & the Journey’s End:

- **Key Questions:** What are the major reasons people cancel my subscription? How do I gather feedback around cancellations? How do customers cancel?

- At the end of the customer experience, you should be focused on gathering data from customers as to why they are canceling. Here, you can directly ask customers who write in, or solicit feedback from customers in monthly emails.

- You should also analyze how people cancel. Self-cancellation is quicker and lighter on your customer service workload, but it also allows customers to cancel without providing feedback. Cratejoy will be releasing a feature soon that shows reasons provided by everyone who canceled. You’ll want to spend some time addressing as many of those as possible, so you can cut down on churn.
Strategy 2: Customer Service Optimization

A big part of churn can involve how customers interact with your company: More often than not, this means communication via Customer Support.

One of the best ways to make customers stick around is to make them feel valued. When someone receives prompt and professional communications, you're setting yourself up to provide that experience.

There are several tools available to help you optimize your customer service for your subscription business. We suggest using a platform called Zendesk, which makes it easy to manage all of your customer communication in one place. Whichever tool you decide to use, the idea stays the same: Minimize your time spent on work, improve customer experience, and get insight into customer data.

Here are some core suggestions (with examples from Zendesk):
Pick a platform that organizes tickets/emails concisely, and gives you a good overview of your workload.

Make sure there are smart features, like Macros, which allow you to answer emails quickly based on predefined prompts you can create, and Ticket Types, which allow you to set tickets to different statuses based on their completion.

Make sure the platform allows you to focus on multiple channels and gather multiple data points. This means you should be able to answer Facebook messages alongside normal emails or chats, and able to apply tags or data points to each ticket.
Strategy 3: Product Development & Optimization

Naturally, the quality of your product is going to do a lot to determine just how “sticky” your customers are. First, take a moment to revisit the first section – remember customer expectations!

Past the normal delivery of your expected product, there’s a lot you can do to optimize the experience:

- **Custom Printed Box**: The cost of a custom printed box is usually around $1,500. It’s an investment, but hands down one of the best ways to improve your product and customer experience.
• **Inserts:** Consider the inserts you’re placing in the box. What purpose do they serve in the customer experience, and how does the customer interact with them? With an insert like a packing list, you can define a theme, talk more about the items, and inform subscribers of what’s happening at your business.

• **Packing and Packing Material:** How are the items packed in your box? Does it feel full? If not, you can consider using a packing material like shredded kraft paper to provide enhanced protection and a more full feeling. There are many types of packing material, so consider what would go best with your brand and product offering.

• **Better Tracking Emails:** Notifying customers about their coming shipment is a form of company communication. Customizing this email as much as possible is encouraged!

• **Contests/Referrals/Add Ons:** You can use your custom box to encourage your subscribers to join in on contests, tell them about your referral program, or invite them to participate in other special “add-on” perks, like being featured in your monthly review roundup or shouted out on social media.

• **Bonus Items:** Occasionally, we suggest including a bonus item in your boxes to enhance the experience and get the chance to say thank you to your members. You can always have potential customers do specific tasks on social media to get the bonus item, too!
Strategy 4: Keeping Members Engaged

Keeping members engaged with your service is part of the ongoing customer journey, and the better you do this, the greater the chance they will stay subscribed. This means:

Staying active on social media:

○ **Instagram**: Post at least 1-2 times a day. Post box photos as well as lifestyle related content. Engage with those who like and follow you – like their photos and follow them back!

○ **Facebook**: Post between once and a handful of times a day, depending on your community and engagement. Facebook is often the first stop for customer service needs, so be prompt over messages and Wall posts.

○ **Pinterest**: Take an afternoon to make several albums and add a good number of photos to each. Make pinning, and liking others pins’, part of your daily schedule.

○ **Twitter**: You can [link Twitter to Facebook](#) to auto-repost your other content, but also be sure to watch messages and mentions on this channel.

Staying active through email marketing and company communications:

○ Executing interesting, unexpected marketing emails on a weekly basis not only converts customers, but also will keep your company on their minds.

○ Download our eBook on the Essentials of Email Marketing.
Providing extra activities for subscribers, outside the box:

◦ This includes contests, giveaways, or referral opportunities mentioned above.
◦ Cratejoy offers a referral program, where you can set prizes like free boxes for members.
◦ Every social network has rules for contests you can run on their platforms. Make note of these and follow the rules!

Example contest on Instagram to get your followers to engage and interact:

WIN A FREE BOX FROM PROSPURLY

STEP 1: LIKE THIS POST
STEP 2: FOLLOW @PROSPURLY
STEP 3: TAG 3 FRIENDS!
BONUS: REPOST AND #PROSPURLY

Note: Review Instagram's content policies!
Section 3: Managing your Subscriber Churn

Reactive Churn Strategies

Losing a subscriber shouldn’t be the end of the story. Always try to understand why subscribers churned, and use that information to improve the box the next time around. There are a few things you can do here:

1. Survey your churned subscribers.

The first step to fighting churn is understanding the factors that lead to people canceling their subscription. To do this, send an email, asking specific questions about the cancellation, within 24 hours. Here’s a template you can use:

Hi {name},

Thanks for subscribing to {name of your subscription} for the past couple of months, we've enjoyed every minute of curating monthly boxes and sending them to you. That said, we are certainly sad to see that you've decided to discontinue your subscription with us. We are always working to be better, and understanding your reasons will help us on our way to doing that.

We would really appreciate if you could take a minute to provide us feedback here: {Link to your survey}

Thanks,

{Your name}
Setting up a Survey:

We recommend SurveyMonkey or Wufoo, if you don’t already have a preferred platform for surveys.

Creating the survey form:

1. From any page in your account, click ‘Create Survey’ in the upper right-hand corner of your screen
2. Choose ‘Create a New Survey,’ enter a title, and pick a category (for your reference only)
3. Click ‘Continue’

Adding questions:

1. From the ‘Design Survey’ tab, click ‘Add Question’
2. A dialog window will open, with ‘Question Type’ and ‘Question Text’ visible.
3. Type your question, and pick the question type.
4. If you’d like to add another question, click ‘Save & Add Next Question’
5. When you have your questions lined up, click ‘Save & Close’
6. Make sure to add a Page Title and Page Description
7. Click ‘Save Page’

1. Win-Back Drip Email Campaign

Set up a short win-back drip campaign -- a sequence of emails sent out automatically -- in Mailchimp, and send it out to all canceled users. The important thing here is to make sure you stay up to date with new subscribers, so that if one of your old subscribers re-subscribes, you can take them off the drip campaign.
The goal with the drip campaign is to try to show them what they are missing out on by not staying subscribed to you. You can also offer special discounts or incentives to anyone who wants to resubscribe in an attempt to bring them back over the line. Here’s a drip email template you can customize and use for your campaign:

E-mail #1 – 6 weeks after canceling

Subject: Always getting better and adding value

Hi {name},

At {name of your subscription}, adding value to our subscribers is a big part of what we are trying to do. We are constantly scouring every online channel, stores, offline shops, forums, etc to find the most exciting items for {name of your niche} fans at this present moment and put them in the box for you. The idea is that you are one of the “first to know” about new trends in the beautiful {niche}.

In addition to giving you an edge over others with this early access, you can be rest assured that we are always taking the feedback we get from subscribers seriously and making the experience even better.

{Image of your box & all the items in it}
You’ve been gone a few weeks, and we want you to try {name of your subscription} again!

{Subscribe Today!}

E-mail #2 – 8 weeks after canceling

Subject: What people are saying about {name of your subscription}!

Hi {name},

Bloggers and subscribers are loving {name of your subscription} more than ever before and we think you will too. See what people are saying:

{Image of blogger} – “Quote from a blogger here on how great they think your subscription is”

{Image of subscriber} – “Quote from a subscriber here on how great they think your subscription is”

{Image of subscriber} – “Quote from a subscriber here on how great they think your subscription is”

{Try _name of your subscription_ again!}
Subject: 50% off {name of your subscription} first month, if you resubscribe today!

Hi {name},

Exciting news! We are offering you a chance to get back on board at a much discounted price for your first month. If you resubscribe today using the link below, you’ll get 50% off!

So what are you waiting for?

{50% off your first month}
Section 4: Assignments & Action-items

1. Calculate your churn in Cratejoy
First, make a point to determine what your churn rate is. Cratejoy now displays this on your dashboard, but if you’ve helped customers with unique use cases (accidentally subscribed when intended to order a single item or gift, or ordered the wrong subscription), remove those from your calculations.

2. Schedule ‘Win-back’ Email
Open Mailchimp, and work through the steps to create a win-back email.
1. Go to ‘Campaigns’ and select ‘Create a Campaign’
2. Choose a ‘Regular Campaign’ and complete the steps of defining your recipients (Cancelled Subscribers) and Setup
   2.1. **Note:** To get a list of cancelled subscribers, Login to your Cratejoy dashboard, click ‘Subscription’, filter by status ‘cancelled’, then download the .csv based on the current filter.
3. Choose a template or create something new
4. Design a message around returning to your service. Reference our earlier examples for ideas and be sure to include links back to your Cratejoy store!
5. Schedule the email for a future send, or send as soon as you’re done!

3. Create ‘Win-back’ Automation Series
Open Mailchimp, and work through the steps to create a win-back automation series.

1. Click ‘Automation’ in the top menu
2. Click ‘Create Automation Workflow’
3. Select your list. This should be the list of emails downloaded from Cratejoy referenced in the previous exercise.
4. Choose the type of Automation you’d like to schedule. A ‘Welcome Series’ can be used for this series.
5. Using the prompts from section 3, create a series of emails.
6. Save and enable all emails and begin sending. When an email is added to the list, it will now receive the series based on the schedule you’ve defined.

You’re on your way to Reducing Churn!

We encourage you to re-read this ebook as often as possible. Even for seasoned subscription box entrepreneurs, it's useful to reflect on how all the ways you can influence churn every month. Remember, this is one of your most important metrics – don't let the simple solutions slip you by!

More questions?

Visit SubscriptionSchool.com for more resources and be sure to visit us on Facebook for up-to-date announcements, releases, and sneak peaks of new features.