

A Forrester Consulting
Thought Leadership Paper
Commissioned By Digital River

April 2017

The Art And Science Of Reducing Involuntary Subscriber Churn

Subscription Payments Expertise And
Customer Communications Strategies Must
Come Together To Reduce Revenue Leakage



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Project Director:

Heather Vallis,
Senior Market Impact Consultant

Contributing Research:

Forrester's eBusiness & Channel
Strategy research group

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Executive Summary

In this era of cloud computing, mobile devices, and internet of things (IoT), more firms are adopting subscription business models. While subscriptions are well suited for building strong, long-term relationships with buyers, many customers are lost to subscription churn. A portion of this, involuntary churn, largely occurs at the moment of subscription renewal, leading to unexpected service disruptions for customers and customer retention and profitability challenges for companies.

In early 2017, Digital River commissioned Forrester Consulting to evaluate the processes and tools used by subscription-based businesses to manage customer churn. To explore this topic, Forrester developed a survey to test the hypothesis that today's organizations are more focused on managing voluntary churn and are missing the impact involuntary churn has on their business growth, profitability, and innovation efforts. The study included a quantitative survey of 204 professionals in North America and Europe responsible for their company's subscription and recurring payment customer retention strategy.

KEY FINDINGS

- › **Subscription churn doesn't only impact the bottom line — it distracts from innovation.** Revenue loss is the most obvious result of churn, but there is a hidden cost as well: stifled innovation. Over a third of those surveyed are reluctant to pursue new, innovative subscription pricing and packaging models due to churn. Payment professionals need the right tools and strategy that afford them the time and appetite to focus on keeping up with the ever-changing demands of digitally empowered customers.
- › **Payment failures are the most common cause of involuntary churn.** Our study revealed that the top culprits behind involuntary churn include recurring payment failures due to insufficient funds, credit card limits, and credit card changes. While voluntary churn is associated with perceived product or service value, involuntary churn is most often the result of technology and communication failures that the right tools and strategy can help minimize.
- › **Firms understand that tackling churn requires a holistic approach, but few use one today.** Our study found that respondents expect their subscription billing management platform to meet both payment and customer life-cycle needs, but very few use a full-service provider. Nearly all agree, however, that a single, integrated solution to manage eCommerce, subscription management, payments, order management, localization, customer care, and marketing support would improve their ability to reduce involuntary churn.



Subscription churn impedes customer retention efforts, but the right tools and strategy can help.

Digitally Empowered Consumers Buy Experiences, Not Products

Customers in the digital age expect brands to offer them a seamless experience across channels, devices, and locations. Forrester's profile of this empowered buyer describes someone who is willing to experiment with new products and experiences, who is empowered with technology and information, who seeks personalized experiences they can control, and whose perception of physical and digital commerce is blurred.¹

Digital products have evolved to meet the needs of these buyers, with business models that offer virtual ownership of vast libraries of content, services, and products.² These models have diversified from the one-time transaction or fixed subscriptions of the past to include more flexible options, such as flexible-term and metered-usage.

Digital products and services are already a lucrative business: 49% of the organizations we surveyed generate \$100 million or more in revenue from their subscription or recurring payment business.³ And, as companies expand their adoption of cloud computing and explore monetizing online services and IoT products, the revenue organizations earn through subscriptions will only increase.

While there is great opportunity, organizations must also carefully manage the challenges. On the one hand, subscriptions are well suited for building strong, long-term relationships with buyers, and they increase the predictability and profitability of revenue.⁴ With the right tools in place, firms can quickly adjust pricing strategies and experiment with new products, as well as collect rich customer insights that can inspire new product innovation. On the other hand, delivering a seamless experience across channels, managing the greater volume of payments securely, and the juggling complex relationships between products, entitlements, promotions, payments, and customer care mean that acquiring new customers while retaining existing ones is no easy feat.



On average, renewals account for **62%** of subscription revenue.



Customer Retention Is Key To Subscription Profitability

It's not enough to just win new customers; to ensure long-term profitability with subscriptions, organizations must maximize renewals. According to the organizations surveyed, renewals account for a considerable portion of subscription revenue — 62%, on average. Respondents reported an average renewal rate of 66%. While this indicates organizations are retaining the majority of their subscribers, it also means they're losing an average of 34% of them to churn (see Figure 1).

WITHOUT PROPER MANAGEMENT, AUTOMATED RENEWAL METHODS CAN CONTRIBUTE TO CHURN

Every organization we surveyed reported that they use an automated renewal process for at least a portion of subscriptions: Auto-renew subscriptions account for an average of 35% of renewals. While convenient, this approach opens the door for churn without sophisticated management. Payment changes and failures increase the likelihood that customers who may have otherwise renewed their subscriptions are lost. Forty-seven percent of respondents encounter difficulties when customers change or close accounts for direct debits, causing rejects and manual work to renew — the No. 1 auto-renewal challenge overall. Still others struggle to manage customer credit cards: 41% feel that expired credit cards require too much manual work to renew, and 40% say that card brand changes cause an increase in declined transactions.

SUBSCRIPTION CHURN HAS SIGNIFICANT REPURCUSSIONS

Losing customers packs a considerable punch to the bottom line. One-third of organizations reported a direct revenue or profitability loss resulting from churn and estimated losing an average of 17% of their annual subscription revenue or profit; over a third (37%) reported losses in excess of 20%. Subscription churn can also lead to an increase in chargeback rates, putting previously forecasted revenue in jeopardy, a problem cited by 48% of those surveyed. Further, 43% said they experienced an increase in customer service contacts, leading to a greater cost to service at-risk customers.

Churn holds back firms in other ways as well. Thirty-six percent of respondents said it makes them reluctant to pursue new, innovative subscription pricing and packaging models. Being gun-shy puts companies at a unique disadvantage, making it harder for them to keep up with the ever-changing demands of digitally empowered customers and to protect against new competitors and market disruptions.

REPLACING LOST CUSTOMERS IS DIFFICULT — AND COSTLY

To remain profitable, organizations must fill the void left by customer attrition. However, replacing lost customers is no easy task: For 68% of respondents, it's a very or extremely challenging endeavor. On top of the effort required to replace these subscribers, organizations are digging deep into their wallets: 91% reported it costs them at least twice as much to acquire a new customer as it does to keep an existing one (Figure 2).

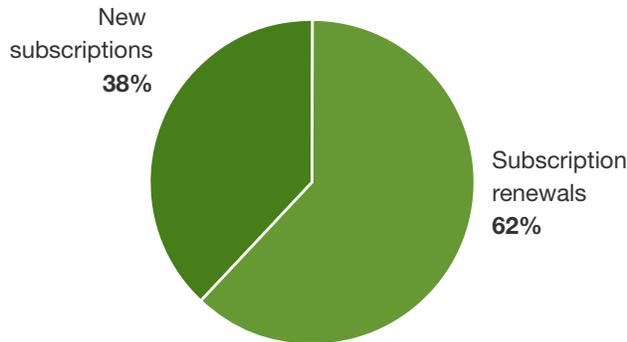
Forty-seven percent of respondents encounter difficulties when customers change or close accounts for direct debits, causing payment rejection and manual work to renew.



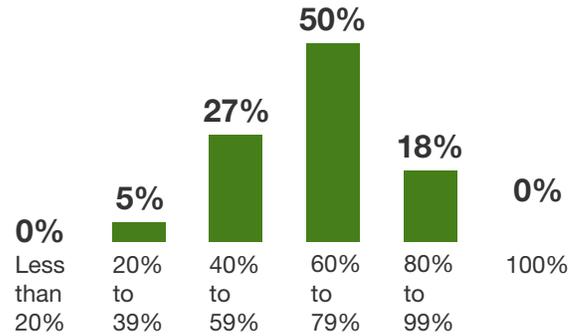
For **68%** of respondents, replacing lost customers is a “very” or “extremely” challenging endeavor.

Figure 1

“Approximately what percent of your annual subscription revenue is currently derived from new subscriptions vs. subscription renewals?”



“To your best estimate, what is your subscription renewal rate?”

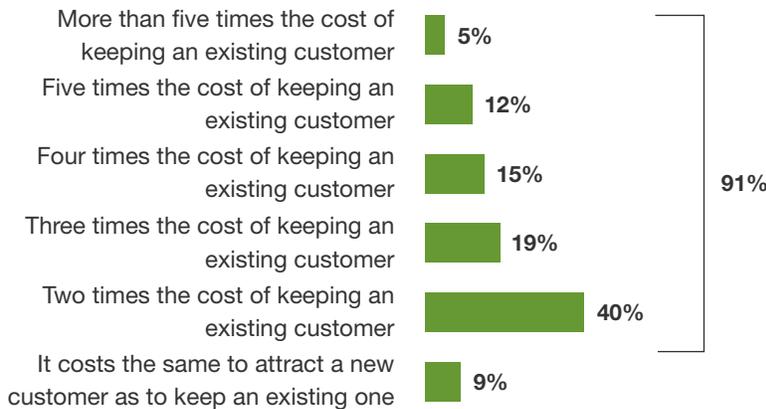


On average, respondents reported renewals rates of **66%**, meaning **34%** of customers are lost to churn.

Base: 204 professionals responsible for their company’s subscription and recurring payment customer retention strategy; percentages equal greater than 100% due to rounding
 Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, February 2017

Figure 2

“Approximately how much more does it cost to attract a new customer versus keeping an existing one?”



Ninety-one percent reported that it **costs them at least twice as much to acquire a new customer as it does to keep an existing one.**

Base: 164 professionals responsible for their company’s subscription and recurring payment customer retention strategy
 Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, February 2017

Most Firms Have An Imbalanced Approach To Managing Customer Acquisition And Retention

Acquisition and retention efforts can be conflicting goals for some organizations, causing resources to be pulled in opposite directions. Forrester's research finds that, historically, firms' approach to customer growth has been imbalanced in favor of new customer acquisition over customer retention.⁵ This trend suggests that firms have the tendency to either overestimate or reward top-line growth and either underestimate, or feel powerless to protect, the customer churn that erodes their bottom-line performance. This can be a risky approach as firms take on new customers without regard to their long-term profitability. It takes some firms years to recover the high acquisition costs incurred before customers turn a profit.⁶

But not all subscription churn is created equal. There are two types of churn:

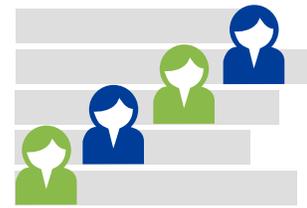
- › **Voluntary churn:** When customers choose to opt out of their subscription, typically due to a perceived lack of value.
- › **Involuntary churn:** When recurring payments fail due to insufficient funds, card limits, card restrictions, technical failures, and other reasons beyond the customer's choosing, resulting in suspension or termination of the subscription.

When managing a subscription model, it's natural to focus on acquiring new customers and managing voluntary churn because it's easier to influence interactions between prospects, customers, and products in the pursuit of more top-line revenue. However, involuntary churn, which is difficult to influence, is a challenging culprit of lost profitability. If involuntary churn isn't managed proactively, it gets harder and harder to replace the volume of lost customers needed to keep growing.

While our study found that organizations have both types of churn on their radar, they are more likely to prioritize voluntary over involuntary churn (see Figure 3). Considering voluntary churn makes up the majority of subscription churn (67%), this is not necessarily surprising.

But marking up involuntary churn as a cost of doing business is a mistake. Involuntary churn is primarily attributed to payment failure — something organizations can better manage with the proper tools and communications. Common causes of involuntary churn include recurrent payment failure due to insufficient funds (53%), credit card limits (42%), and credit card changes (40%) (see Figure 4).

Payment failure is the most common cause of involuntary churn.



If involuntary churn isn't managed proactively, it gets harder and harder to replace the volume of lost customers needed to keep growing.



Figure 3

Percent of your overall subscription churn:

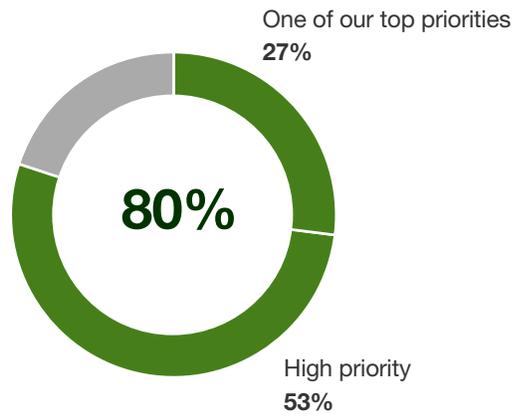
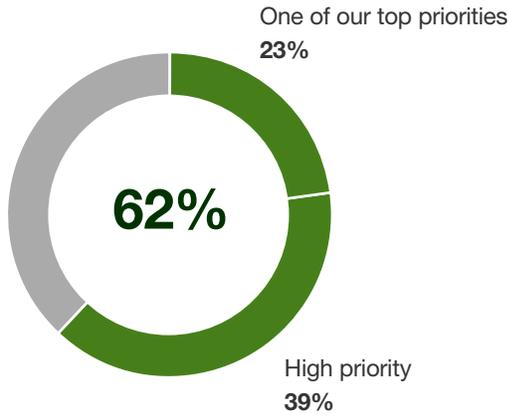
INVOLUNTARY CHURN



VOLUNTARY CHURN



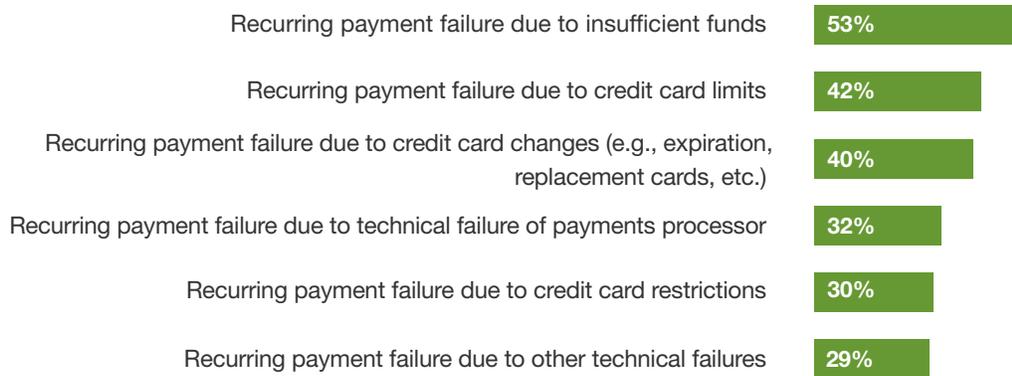
Priority on managing churn:



Base: 204 professionals responsible for their company's subscription and recurring payment customer retention strategy (percentages equal more than 100% due to rounding)
Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, February 2017

Figure 4

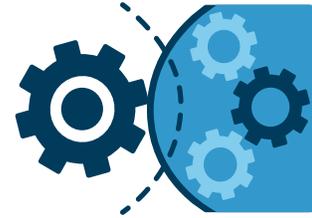
“What are the primary causes of involuntary churn for your organization?” (Select all that apply)



Base: 204 professionals responsible for their company's subscription and recurring payment customer retention strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, February 2017

An Automated, Consolidated Approach Can Reduce Involuntary Churn

To succeed, organizations need to capitalize on the subscription opportunity while mitigating the threats of churn. A holistic approach ensures that customer-focused capabilities are delivered at every touchpoint in the subscriber life cycle — in acquisition as much as during renewals.



Automation can help decision makers manage payment failures, freeing them up to focus on customer communications.

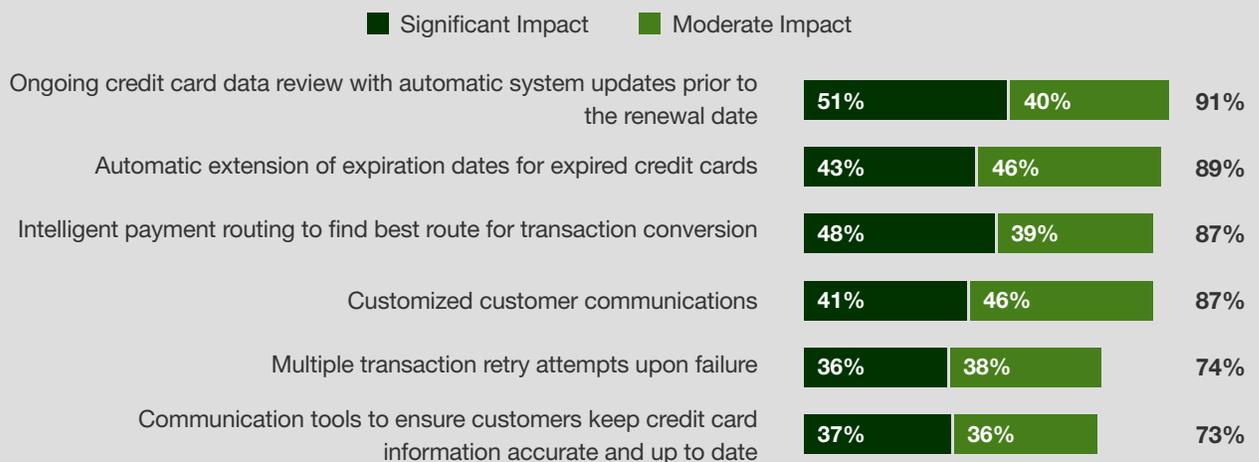
ADVANCED PAYMENT PROCESSING TOOLS REDUCE PAYMENT FAILURES

Minimizing the friction customers may encounter during subscription renewals can help drive down involuntary churn. When respondents were asked which capabilities would have a moderate to significant impact on reducing their involuntary churn rate, the majority identified:

- › **Automated credit card account updates.** An ongoing credit card data review with automatic system updates prior to the subscription renewal date can help prevent monthly declines (see Figure 5).
- › **Automated expired card extensions.** Identification of expired cards and automatic extension of expiration dates can help lift authorization rates for credit card payments that would otherwise fail.
- › **Intelligent payment routing.** Platforms with the right data and extensive acquirer networks can find the best possible route for transaction conversion.
- › **Sophisticated retry logic.** When a temporary issue causes a payment to fail, it can usually be resolved by retrying the transaction attempt.

Figure 5

“What impact would the following have on helping to reduce your involuntary churn rate?”



Base: 204 professionals responsible for their company’s subscription and recurring payment customer retention strategy
 Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, February 2017

Involuntary churn is often driven by customer circumstances that are nuanced, dynamic, and sensitive. With automated features focused on managing more predictable and manageable payment failures that lead to involuntary churn, decision makers are freed up to place a greater focus on customized customer communications delivered at a high scale, something 87% say would have a meaningful impact on reducing involuntary churn. These challenges underscore the importance of a great customer communications strategy that extends beyond the payment moment.

MANAGING SUBSCRIPTIONS REQUIRES MORE THAN PAYMENTS EXPERTISE

Our study found that respondents expect their subscription billing management platform to meet both payment and customer life-cycle needs. Over 70% considered the following features as either “critical” or “important” requirements (see Figure 6):

- › **Payments.** Payment services not only process online sales of physical and digital goods and services, they provide secure, PCI-compliant transactions across a number of payment methods and devices.
- › **Order management.** Order management features support every step of the order process, from order placement, to order orchestration, and order fulfillment.
- › **Subscription management.** Platforms that support subscription management features help users offer a variety of subscription types, and also manage upgrades, downgrades, add-ons, cancellations or reinstatements, renewals, and customer notifications.
- › **Core commerce services.** Commerce services include the delivery of personalized products, pricing rules, promotions, cross-selling and upselling, and content that drives sales across channels.
- › **Merchant of record.** Solutions that act as a merchant of record on the firm’s behalf take on the responsibility of managing chargebacks, refunds, payment-related customer calls, exchange rate conversions, currency hedging, payment settlements, and tax collection and filing. This can be a valuable feature that allows firms to outsource global risk and compliance and affords them the freedom to focus on innovation and product development.⁷
- › **Entitlements/digital rights management (DRM).** Entitlements and DRM help determine if an end user should be granted access to subscribed content or product.
- › **Global localization.** Partners with this expertise allow firms looking to grow into new markets to support multiple localized sites, to accept transactions from different currencies, and manage fraud, tax, and compliance issues.⁸
- › **Marketing.** Marketing capabilities support optimized customer communications, email marketing, SEO/SEM, campaign management, retargeting, affiliate management and new customer outreach.
- › **Experience management.** Experience management features ensure that the process of signing up for and renewing a subscription is seamless and that customer interactions across channels are consistent and personalized through page design and presentment management.



Respondents expect their subscription billing management platform to meet payment and life-cycle needs.

While organizations expect their subscription billing management platform to meet both payment and customer life cycle needs, just 9% of those surveyed use a full-service provider (see Figure 6).

Respondents recognized, however, that the consolidation of these payment and customer life cycle capabilities into a single subscription billing management solution would greatly help reduce involuntary churn: 96% of those surveyed indicated it would somewhat or significantly improve their ability to reduce involuntary churn.

Managing customer acquisition and both voluntary and involuntary churn is critical to subscription success: Firms must either outsource this capability to a technology partner or embark on making this an internal core competency. Firms that succeed in the subscription market will be the ones that balance resources across customer acquisition and retention and that make retention efforts a strategic priority.⁹

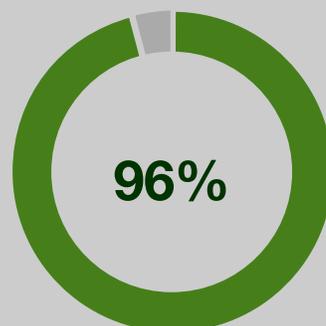
Just **9%** of those surveyed use a full-service subscription billing management provider.

Figure 6

“How important is it that a subscription billing management platform provides the following capabilities?”



Base: 204 professionals responsible for their company’s subscription and recurring payment customer retention strategy
 Source: A commissioned study conducted by Forrester Consulting on behalf of Digital River, February 2017



agree that a single platform with all of these features would “significantly” or “somewhat” improve their ability to reduce involuntary churn.

Key Recommendations

Managing a subscription model requires firms to undergo a fundamental shift of focus: from customer acquisition to retention and from selling products to selling experiences. This includes making the experience of having a subscription easier for consumers by preventing payment disruptions they did not initiate, and by nurturing the relationship beyond the payment moment. Leaders who desire to get the most out of their recurring payment business should:



Challenge assumptions that involuntary churn rates are just a cost of doing business.

Small improvements in involuntary churn over time can translate into meaningful gains to the bottom line. While respondents we surveyed listed the perceived value of and satisfaction with products and services as primary causes of voluntary churn, involuntary churn was most often the result of technology and communication failures that, with the right tools, could have been easily avoided. When your churn rates are beyond your tolerated levels, you'll need to be able to step in with the right prevention tool, whether that is a personalized notification or retry attempt in the case of involuntary churn, or a special offer if voluntary.



Weave your customer and payments data together to make better decisions and improve communications.

To stay on track, measure success with subscriber and future-focused metrics that report on customers (not units), lifetime value, recurring profit margins, and renewal rates.¹⁰ But customer data is incomplete without payments data: Use both for valuable insight into friction points and opportunities for your business. Inform your communications strategy with these insights to deliver the right message at the right time in the right way — especially important around sensitive payments failures.



Consider the value of using a single end-to-end solution.

If managing subscriptions in a secure, scalable way is a core competency, nurturing that capability is a wise choice. If it's not a core competency, however, working with a partner may be necessary. Nearly everyone surveyed agreed that a single, integrated solution to manage eCommerce, subscription management, payments, order management, localization, customer care, and marketing support would improve their ability to reduce involuntary churn. Companies that are looking to launch their eCommerce business for the first time, that need help expanding into new markets, that lack internal resources, that are constrained on time, or that have outdated or incompatible technology stand to benefit the most from a full-service provider.¹¹



Use time gained to focus on product development and innovation.

Revenue leakage is an indisputable result of churn; churn also results in dampened innovation and stalled product development. The feeling business leaders have that they're not in control of their involuntary churn rates or the time spent chasing payment failures with the various partners in the payments processing chain can hinder your company's ability to keep its eye on market opportunities and competitive threats. Doing the work up front to make sure you're minimizing involuntary churn as much as possible will ensure you're not leaving money on the table, and free up time and appetite for you to focus on product development and innovation.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 204 respondents in the US, the UK, France, and Germany to evaluate the approach their organizations take to managing a subscription business model. Survey participants included directors, vice presidents, and C-level executives responsible for their organizations' subscription and recurring payment customer retention strategy. Questions provided to the participants asked about the balance between customer acquisition and retention and the challenges encountered managing churn. Respondents were offered a small incentive as a thank you for time spent on the survey. The study began in January 2017 and was completed in February 2017.

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH

"The Forrester Wave™: Subscription Billing Platforms, Q4 2015," Forrester Research, Inc., November 11, 2015

"Market Overview: Commerce Solutions For Digital Products And Services, 2015" Forrester Research, Inc., June 1, 2015

"Evolve Your Approach To Acquisition And Retention," Forrester Research, Inc., December 12, 2012

Appendix C

ENDNOTES

¹ Source: "The Rise Of The Empowered Customer," Forrester Research, Inc., August 2, 2016.

² Source: "Market Overview: Commerce Solutions For Digital Products And Services, 2015," Forrester Research, Inc., June 1, 2015.

³ To qualify for our study, respondents had to earn at least \$10M in online revenue annually.

⁴ Source: "Market Overview: Subscription And Recurring Billing Solutions 2012," Forrester Research, Inc., December 6, 2012.

⁵ Source: "Evolve Your Approach To Acquisition And Retention," Forrester Research, Inc., December 12, 2012.

⁶ Source: "Customer Retention Should Outweigh Customer Acquisition," Jerry Jao, Retention Science (http://www.cmo.com/features/articles/2013/7/18/customer_retention.html#gs.NUjfs4w)

⁷ Source: "Market Overview: Commerce Solutions For Digital Products And Services, 2015" Forrester Research, Inc., June 1, 2015.

⁸ Source: "Market Overview: Commerce Solutions For Digital Products And Services, 2015" Forrester Research, Inc., June 1, 2015.

⁹ Source: "Evolve Your Approach To Acquisition And Retention," Forrester Research, Inc., December 12, 2012.

¹⁰ Source: "Forrester's "Market Overview: Subscription And Recurring Billing Solutions 2012," Forrester Research, Inc., December 6, 2012.

¹¹ Source: "Forrester's "Market Overview: Full-Service eCommerce Solutions," Forrester Research, Inc., March 10, 2015.