Price Intelligently

The Comprehensive Guide to

CHURN

Churn is the silent killer of your company. If you don't tackle churn early, you'll be working extremely just to stand still.

– Patrick Campbell

Co-Founder & CEO, Price Intelligently

Contents

Churn is, inevitably, the kryptonite to your successful and scalable SaaS business. This makes it imperative that you find a way to reduce churn as much as possible.

This ebook is the definitive guide to tackling the threat of churn. Throughout this guide you will learn the following:

- *Why churn is the silent killer of your company*
- *How to calculate your retention/churn*
- *How to build a bulletproof retention process*

The golden key to beating churn is retention, retention, retention. You want to be building a solid retention process to keep your customers locked in with your product.

Click to tweet *"Beast Mode SaaS = Kill Churn + Retain Customers + Grow Revenue"*

GOOD CHURN vs BAD CHURN

If you have '**bad churn**', you're losing customers from any given cohort continually. The retention line continues to slope down to zero, and at some point everyone who joined at a specific point is going to churn out of your service.

If you have good churn, then you might lose customers initially, but eventually the customers that stay are happy with your product and the retention line plateaus when you stop losing customers.

CHAPTER ONE

HOW TO OPTIMIZE THE 3 STAGES OF SAAS CHURN

Having a net churn rate below 5% seems like a win if you're a SaaS company, right? After all, you're keeping 95% of your customers.

Not exactly.

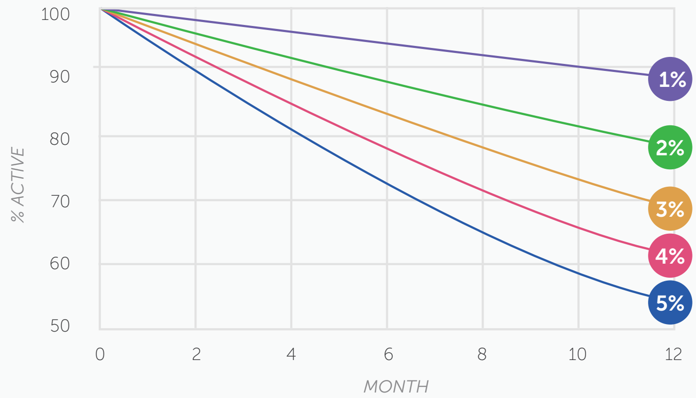
In reality, a 5% churn rate means you're losing half your customers each year and all that work acquiring and converting them goes down the drain. The result of this loss means that if you want to grow at all, you actually have to work four times as hard. Twice as hard just to replace those customers, and then some to add to your overall customer and MRR count.

You shouldn't want to work four times as hard on anything.

To put it simply: Churn is the silent killer of your company, and if you don't tackle churn early, you'll end up working considerably too much just to stand still. Let's walk through this by first illustrating the true impact of the different stages of churn (short, mid, and long term) before illuminating the triumph of improving churn at each stage.

The Impact of Churn

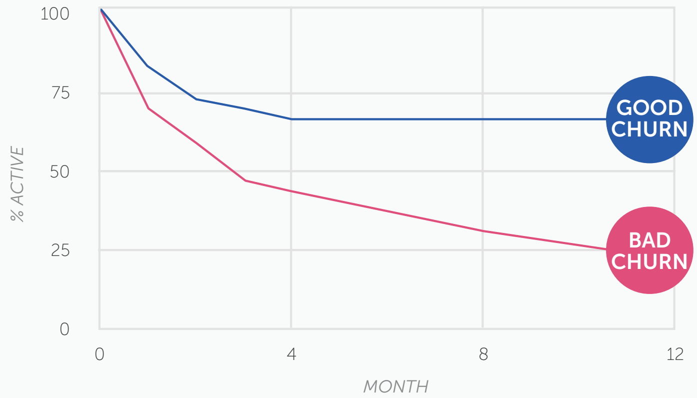
No SaaS company realistically ignores churn, but far too many consider theirs to be 'good' positive churn rates. Here's what's happening to your active subscriptions with those good churn rates: ⟶



Even with a so-called 'good' churn rate of 3%, you're losing over a quarter of your customers, and a 'really good' churn rate of 1% costs you over 10% of customers per year. ⟶

CHURN RATE	ORIGINAL CUSTOMERS	YEAR END CUSTOMERS
5%	100	54
4%	100	61
3%	100	69
2%	100	78
1%	100	89
.5%	100	94

The best way to track churn is by cohort. It is easiest to visualize churn (or it's inverse, retention) through a retention cohort curve. ⟶



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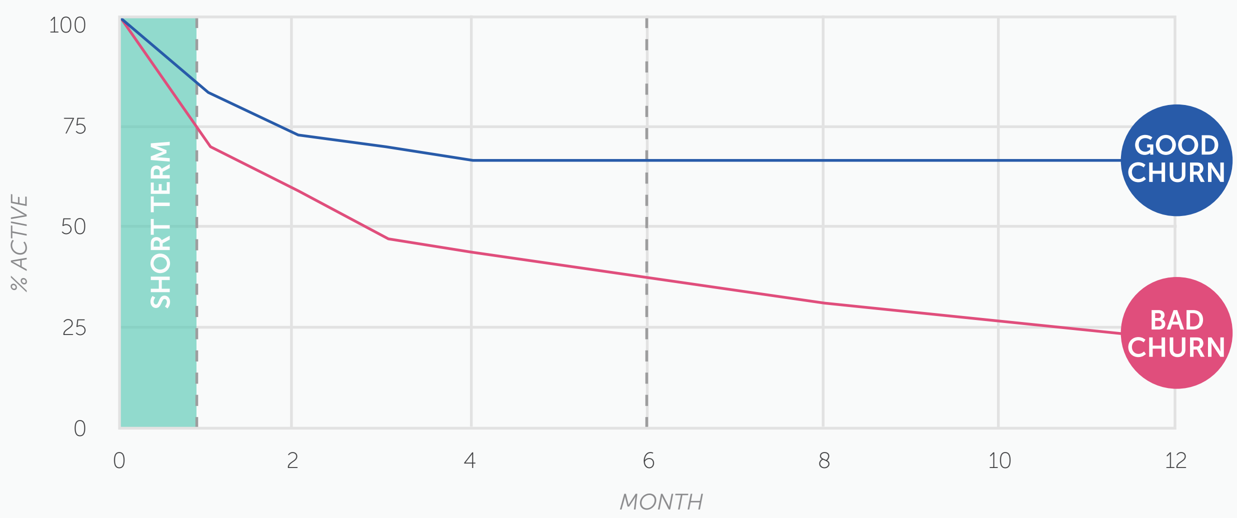
Short Term Churn



Curious about your own short-term churn?

See yours on ProfitWell.

ProfitWell.com

The short term period for your product is the first few months a customer has signed up, the initial point where they get their first experiences of the product.

Churn rates are higher in this first, short-term period as people sign up for services to test them and find their core value. They are testing it out, finding out what they like or don't like and deciding whether it's something they want to continue to use.

This is the activation or 'a-ha' moment — the point at which a customer will figure out if they see value in your product. If your product or service can't offer that core value then they'll churn out quickly.

Improving short-term churn

Improving churn during this period can have a massive impact on your churn rates throughout your customer lifetime. If you get your customers to experience the activation point here, and prove a core value, then this cascades further along as they integrate with the service and continue to use it.

At HubSpot, they had a problem with short-term retention with their product, Sidekick. When they looked closely at the data, they saw that people were signing up for the product, a service that lets you track emails easily, but using it once; and then almost never using the service again.

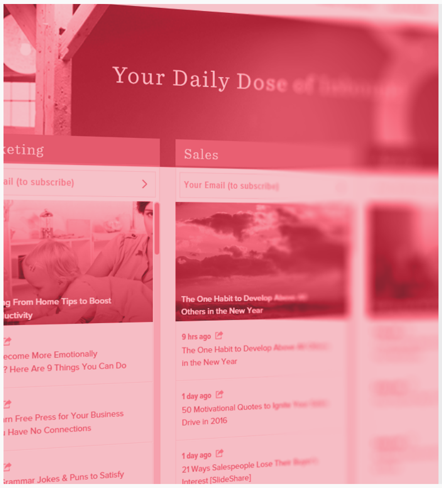
For SaaS companies, this comes down to finding the right people to use your product, and then demonstrating to them the core value as quickly as possible.

Using their data,

HubSpot found two ways they could improve their targeting to get the right customers, and help them be successful:

Segment customers based on need:

As the product had a number of different features — email tracking, social information for contacts — they segmented depending on customers' roles within the company. A marketer got a different onboarding experience from a sales person as they were likely to see core value in different features of the product.



Continually help them be successful:

They realized customers that were also subscribed to their blog were less likely to churn. HubSpot decided to auto-subscribe customers to the blog to keep the product and company always fresh in their minds.

Early stage churn is a sign you need to look at your sales funnel to see if you're selling to the right customers.

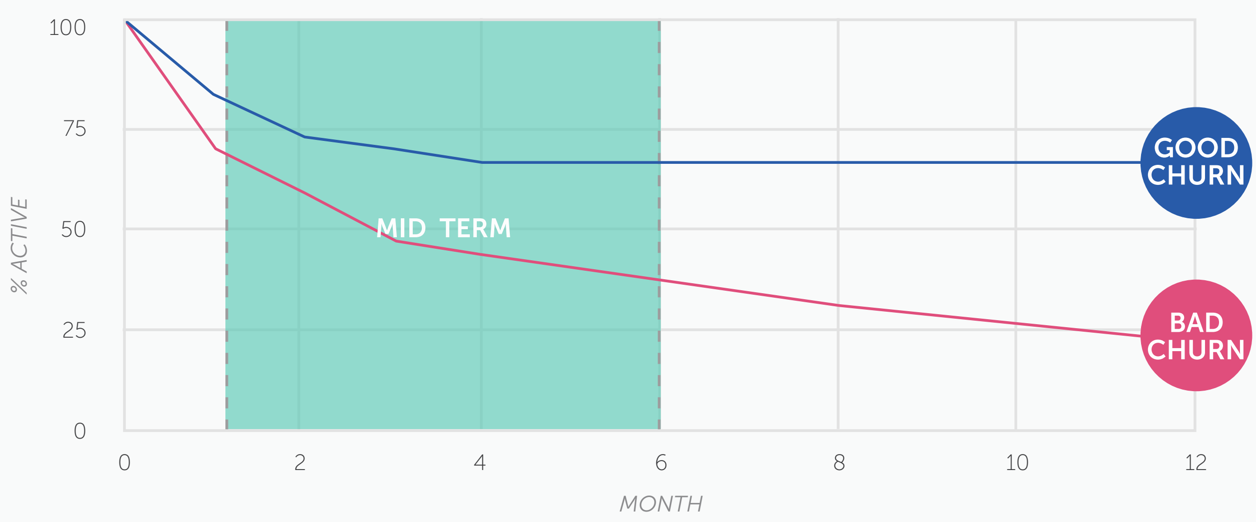
You could be over promising or selling to customers that simply aren't a good fit for your product. These customers churn out and have a negative experience, leading to less referrals and the problems outlined so far.

HubSpot improved their product, and proved to customers the core value of the product.

- **Drill down on customer experience:** *Customers that had never seen Sidekick before weren't shown its value, so immediately stopped using the product. They changed this to have a specific onboarding experience for new users.*
- **Hone product around most valuable use case:** *One of the reasons that people were churning out of the service was that customers were using it for personal email, whereas the core value was with work emails. They forced users to switch context to their work email during onboarding to show the core value.*
- **Educate them on your product:** *They used videos, tool tips and images based on segmented audiences to teach new customers about the product.*

You can improve your customer service to make sure that users that have signed up find the right value in your product.

Mid-Term Churn



The mid-term of churn is after the first few months the customer spends evaluating your product or service. Once people have moved on to the mid-term phase, they are likely to be enjoying the product on some level and have experienced the core value.

At this point, to keep customers interacting and engaged your service or product, you have to create habits around the core value, and make the service or product an important part of their life.

You are looking to slow the rate of churn down so it doesn't approach zero too quickly, and ideally to flatten off the churn rate, which indicates customers are continuing to use the service or product.

Improving mid-term churn

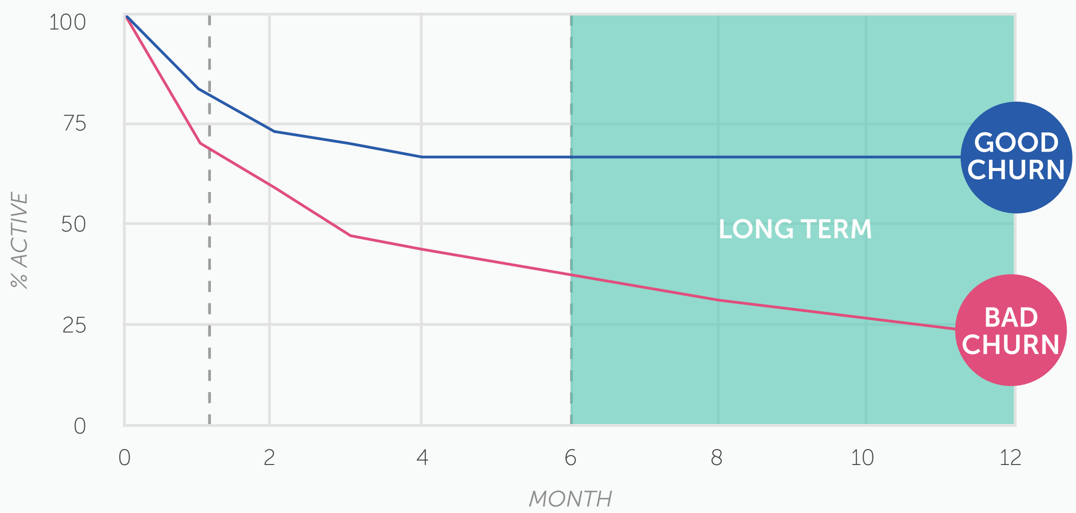
The best way to do this is to improve the overall quality of your service or product. You can refine current features, such as adding small changes or making current features easier to understand. This means that customers will continue to find the core value. You can add extra features, too, but everything should revolve around the value you originally offered to your customer and boosting that.

Buffer, a social media management tool, makes sure that the service is kept in the forefront of customers' minds through emails telling them that their Buffer queue is running low and that they should add more to the site. This keeps users coming back to the site and continuing to use the service.

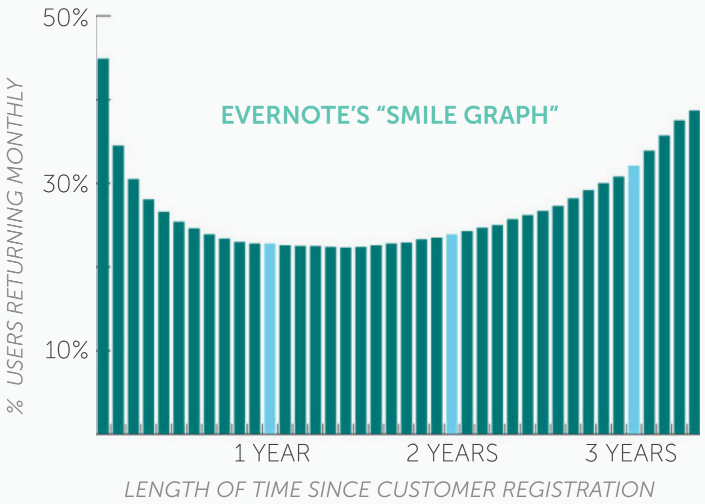
Finally, the classic ways are still some of the best. Fixing bugs and improving your customer service make your product easier to use. A better product means your customers are even more inclined to continue to use your service.

Long-Term Churn

Long-term churn is when the customer has an established history with your product. If you master long-term retention with your service or product, you'll be providing a real core value to your product to users for extended periods of time.



Review **your** real time retention curve for free on Profitwell



A good example of this is Evernote. At Evernote, their version of a retention curve looks like a smile.

In the long term, customers not only come back but also stay with Evernote. That's because they make an effort to get their core value in front of their customers over and over again.

Improving long-term churn

The main way to improve your long-term churn is to upgrade accounts. When customers upgrade, they're investing further in your product or service, and looking to get more core value from the service.

You can also reactivate dormant accounts, re-introducing them to the core value. This works well if you have taken the time to improve your service around the core value, and you can show them improvements that will get them interested and involved in the product again. This is what Evernote has done, slowly building up their product around a focused service until they have become the top product available.

You need to get people to experience the core value of your product time and time again, every day. This is something that only happens for services and products that have a true core value. By demonstrating this core value and becoming embedded in people's lives, you can improve your long-term retention.

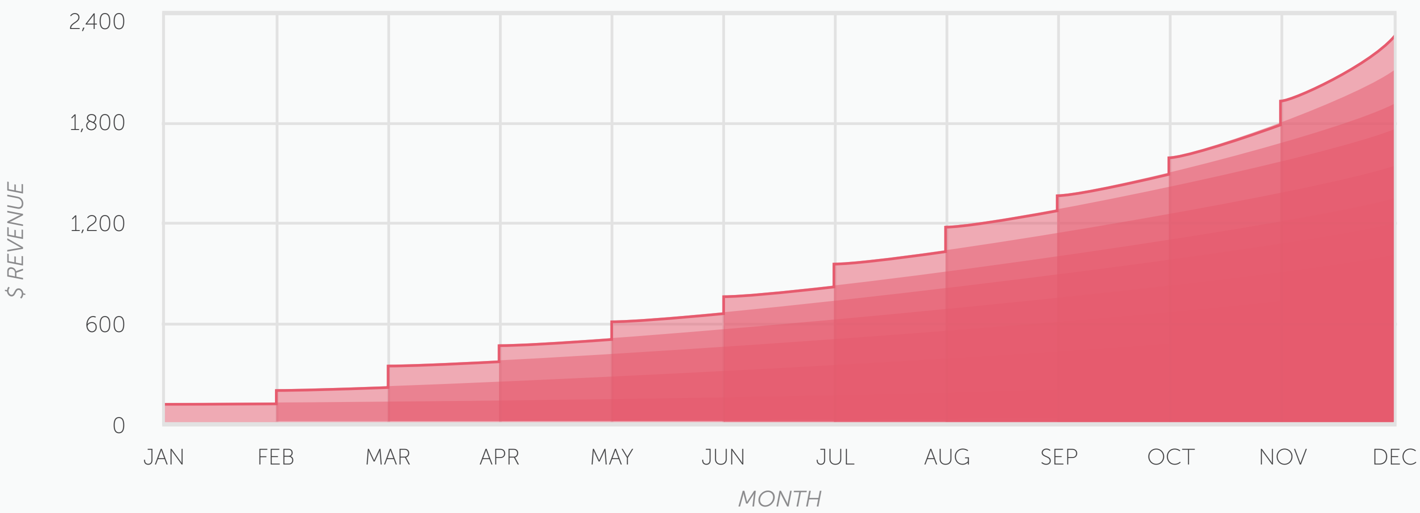
The job is never done.

If you make the improvements to short, mid, and long-term churn and start to upsell existing accounts you will get negative churn. This is where you start to see increases in revenue from your existing customer base, as well as growth from new acquisitions.

The Holy Grail: Negative Churn

Here's Evernote, again, but with a 10% negative churn rate:

Revenue by Cohort with Negative Churn



Now the foundation is not only solid but pushing up revenue each and every month. This is what you should be aiming for with your SaaS company:using negative churn to propel your growth into the stratosphere.

If you're happy with '**good churn**', eventually you'll no longer be able to refill your leaky bucket, and you'll realize your company was built on sinking foundations. Your growth will plateau and, as customer acquisition becomes more expensive, you'll eventually start losing money.

But by fighting churn at every point, you help your customers see the true value of your service and therefore, they are willing to pay more for more of it, moving to the only good churn— **negative churn**.

CHAPTER TWO

43 WAYS TO CALCULATE SAAS CHURN

(AND WHY YOU SHOULD JUST KEEP IT SIMPLE)

To reach negative churn, you must know how to calculate your churn.

At its core, churn is a super simple concept: Your churn rate is the percentage of your customers that leave your service over a given period of time.

Yet, in looking at hundreds of different SaaS companies, we've discovered that there's a wealth of complexity behind this seemingly simple calculation. Some is necessary - breaking down your churn into segments, cohorts, etc. Some is invented - counting trailers in your churn, not properly counting episodic/seasonal customers, etc. In fact, retention rates have become so complicated, at last count there were 43 different ways public SaaS companies were accounting for the metric.

Unfortunately, all of this complexity ends up putting us down a rabbit hole of wasted time and hidden opportunity, because you end up spending more time trying to understand and qualify the metric, rather than actually using the metric to build your business.

Click to tweet *"Churn is simple. People make it complicated"*

Above all else, you need to understand the foundation of your churn rate and the axes through which you and your team can impact that number. To do this, you shouldn't make your churn calculations overly complicated or they'll lose their impact. Let's explore this concept by first walking through the elements of churn, including what churn is specifically used for; then walking through a number of ways to calculate churn; and finally, why you should fundamentally just keep it simple.

What are the Issues that Make Churn So Hard to Understand?

On a high level, the churn rate calculation looks like the following:

$$\frac{\textit{Number of churned customers}}{\textit{Total number of customers}}$$

The number of churned customers is how many people have left your service or product over the period divided by the total number of customers you had during the period.

That looks pretty straightforward, but (1) how exactly we define those two numbers can greatly affect the output and (2) business-dependent external factors may wreak havoc on our understanding of the final number.

How to count customers

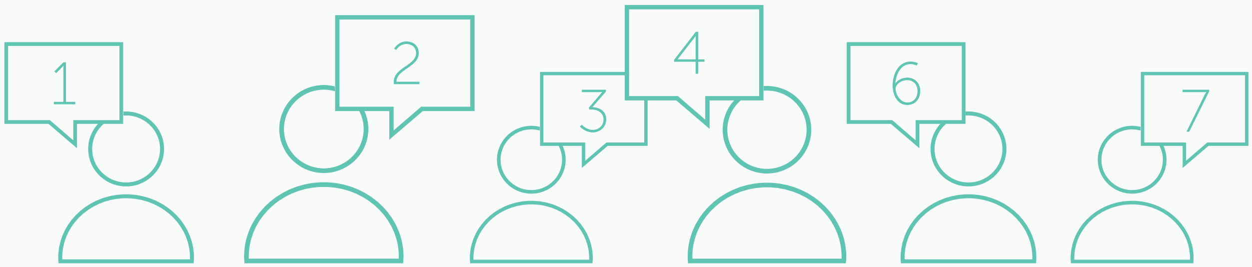
The total number of customers for a period, isn't a well-defined concept because that number will change during the month due to new sign ups and cancellations.

For any given month, you have three kinds of customers:

1. *Those that signed up prior to the month. These customers will come up for renewal in the current month.*
2. *New customers during the month.*
3. *Newly churned customers during the month.*

If, for instance, your group of new signups is large in proportion to the existing customer base, that can distort your churn rate calculation in a number of ways:

- *The number you use for the "total number of customers" in the denominator will be much different on day 1 than it is on the last day of the month. This will mean that no matter what number you use for the "total number of customers", it will either be pretty distant from the day 1 number, the day 30 number, or both.*
- *New customers typically churn at a higher rate than customers that have stuck around for a bit. That means that if your company is growing, your churn rate will skew higher than it really is.*



The moment of churn

People define the moment of churn in two ways:

The moment the subscription ends and renewal doesn't happen

or

At the moment of the cancellation.

We've written about how when a customer cancels, they haven't churned yet. Customers don't churn until the end of their subscription period arrives and they don't renew, because they've already paid up until the end of their subscription period. If they've only canceled, you still have a chance to win them back before their subscription ends.

By that definition, it's not possible for new signups to churn in their first month, and this does away with the issue of how new customer growth can distort the churn calculation. New signups wouldn't be included in churn or the total number of customers during their first month.

Some include the moment of cancellation as churn so that they can have the most current churn number as possible. The issue is that churn is fundamentally a lagging indicator and it shouldn't necessarily be looked at in real-time.

Sample size

When we look at a churn rate of, say, 10%, we're implying that a churn rate of 1/10 is equivalent to a churn of 1,000/10,000.

Early on and under conditions of hyper growth, our calculated churn rate is just as much a product of our small sample size as it is a number that's representative or predictive of how well our service retains customers. We don't have much data in terms of number of cohorts and how the cohorts behave over time.

This alone can cause wild fluctuations that make it difficult to compare churn rates on a monthly basis. Under these conditions, it's important to recognize the limitations of the inferences you can draw from your churn rate.

Customer Segments

You may have a prosumer plan and then an enterprise plan. They're going to have wildly different churn rates, perhaps with a difference as great as 15% churn monthly vs. 0%.

An aggregated number dissolves the differences between your customers, and that can lead you to a misunderstanding of your churn number if you just take it at face value. For instance, growth in a higher churn customer segment could be mistaken for increased churn overall, and that could lead you down the wrong path of trying to fix a non-existent churn problem.

Time Frame

You may be looking at churn over the period of a week, month, quarter, or year. Be

Also, you want your calculation to be robust with respect to the timeframe chosen. You don't want your calculation to go from generally correct to wildly incorrect when you move from a monthly frame to a quarterly frame.

Seasonality

If your business varies based on the season, your churn may show changes that correspond with the seasonality of your business that might be hard to understand until you've gone through several cycles.

And more

There are a number of other external factors that are likely to be business-specific. What's important for how you calculate churn is that you apply the calculation consistently so that you accurately compare not only from month to month but year to year as you grow.

How You Use Churn

as a measure of the company's health and long-term prospects	understanding whether we're improving customer retention on a month-to-month basis
identifying changes that had an adverse effect on customer retention	calculating customer lifetime value
figuring out which customers are most successful with your product	forecasting your company's performance

and more...

Cramming all of those different use cases into one number is impossible. That's why your churn rate is a starting point, not an end-point, for your analysis.

Know what problem you're trying to solve, take a deep-dive into your data, and analyze your churn by cohort and customer segment as needed.

The how, why, and who of churn that your headline number leads you to is what's important about your overall churn rate. When calculating churn you're doing so in order to achieve a greater understanding of your customers, and why they leave your product. Improve that, and you'll strengthen your business to last.

How to
Calculate Your Churn Rate

Steve Noble, a data specialist at Shopify, outlined 4 basic ways to calculate churn:

1. **Simple**
2. **Adjusted**
3. **Predictive**
4. **And the method he ultimately settled on**.

We'll walk you through these increasingly complex calculations.

You'll see the same constants throughout these examples:

- *Churned Customers is the number of customers that churned within the time window.*
- *n is the number of days in your chosen time frame. When calculating over a month, n = 28, 29, 30 or 31.*
- *Customers is a list of the number of customers on any given day, 1 through n. For example, $Customers_1$ is the total number of customers you had on the first day of the window.*

The Simple Way

The simplest way to calculate your churn rate is:

$$\frac{\textit{Churned customers}}{\textit{Customers}_1}$$

You're dividing the total number of churned customers over the period by the number of customers you had on the first day of the period.

The Good & The Bad

The main pro of the simple version of calculating churn is its simplicity. The formula is easily understandable and quickly calculable. You only need to know 2 quick numbers to figure out your churn rate for the month; then, subsequently, you can compare month to month churn.

The problem with this simple calculation, though, is that it has a hard time dealing with significant growth. When you have a lot of growth, both your churned customers and total customers can go up. If your total customers goes up more, your churn rate will go down, even though you may have more customers churning out of your product than the previous month.

If you're an established company with a significant customer base and stable growth month on month, this isn't an issue. But if you're a new company with a substantial number of new customers each month, this can lead to a inaccurate interpretation where you lose more customers per month, but your churn rate seemingly gets better.

Example

Here is an example from the Shopify post illustrating the shortcomings of the Simple Way:

	AUGUST	SEPTEMBER
EXISTING CUSTOMERS	10,000	14,375
EXISTING CHURN	-500	-719
NEW CUSTOMERS	5,000	5,000
NEW CHURN	-125	-125
TOTAL CUSTOMERS	14,375	18,531
CHURN RATE	6.25%	5.87%

Your business has 10,000 customers at the beginning of August. You lose 500 (5%) of these customers, but pick up 5,000 throughout the month, of which 125 (2.5%) churn out. This gives you a churn rate of 6.25% for August.

625 / 10,000 = 0.0625

You're then starting September with 14,375 customers. You see exactly the same behavior this month, with 5% (719) of existing users churning; and 5,000 new customers joining, of which 2.5% (125) of those customers churning. Your simple churn rate for September comes in as 5.87%.

844 / 14,375 = 0.0587

Wait, what happened? You've seen the same behavior, 5% of existing customers and 2.5% of new customers churning, in both months, but the outcome is two completely different churn rates. It looks like your churn rate has gone down, but the underlying behavior still exists.

Your high growth has distorted your calculation. In August, 125 churned customers are added to the numerator, but the 5,000 new customers that join in August didn't get added to the denominator—which means that the churn rate is artificially high. In the following months, the growth is proportionally less than the existing customer count, so the effect is lessened.

The Adjusted Way

To account for significant monthly growth, we can take the midpoint of the customer count for the month, rather than using the value on the 1st of the month.

$$\frac{\textit{Churned Customers}}{(\textit{Customers}_1 + \textit{Customers}_n) / 2}$$

Here, we're dividing the number of churned customers by an adjusted average of the number of customers throughout the window.

The Good & The Bad

This approach manages to deal with the growth issue by normalizing changes in total customers over the time window. Now you have a more stable platform to base your churn rate on, with the time window for your total customers the same as your time window for churn.

Though this approach to churn rate calculation does deal with the growth issue, it fails to scale with different time windows. Using the same calculation and the same data, you'd get very different answers for daily, weekly, monthly, and quarterly churn.

Example

Using the above data again, now with added October:

	AUGUST	SEPTEMBER	OCTOBER
EXISTING CUSTOMERS	10,000	14,375	18,531
EXISTING CHURN	-500	-719	-927
NEW CUSTOMERS	5,000	5,000	5,000
NEW CHURN	-125	-125	-125
TOTAL CUSTOMERS	14,375	18,531	22,479
ADJUSTED CHURN RATE	5.13%	5.13%	5.13%
QUARTERLY CHURN RATE	5.17%	5.17%	5.13%

Now we see the churn rate as the same, even with a different number of customers at the start of the month.

August:
625 / 12,187.5 = 0.0513

September:
844 / 16,453 = 0.0513

October:
1052 / 20,505 = 0.0513

Quarter:
2521 / 16,239.5 = 0.1552

Bingo! Problem solved. We can all go home for tea and medals.

Not quite so fast. The main problem with this approach is that it makes assumptions about the data. If you calculate this over the course of 3 months you come out with a churn rate of 15.52%. Divide this across the 3 months and you get 5.17%, very close to the individual monthly churn rates. So far so good.

But what if you don't have exactly the same numbers across each month? Let's make August a bad month for our imaginary SaaS. This time, it only gets 100 new customers, 2 of which churn out.

	AUGUST	SEPTEMBER	OCTOBER
EXISTING CUSTOMERS	10,000	9,598	13,993
EXISTING CHURN	-500	-480	-700
NEW CUSTOMERS	100	5,000	5,000
NEW CHURN	-2	-125	-125
TOTAL CUSTOMERS	9,598	13,993	18,168
ADJUSTED CHURN RATE	5.12%	5.13%	5.13%
QUARTERLY CHURN RATE	4.57%	4.57%	4.57%

The behavior is the same in terms of churn (5% of existing customers and ~2.5% of new customers), and when calculated individually each month shows the same churn rate of 5.13%.

But when calculated as a quarter, you get a 3-month churn rate of 13.72%, which divided across each month is 4.57%.

August:
502 / 9799 = 0.0513

September:
605 / 11,795.5 = 0.0513

October:
825 / 16,080.5 = 0.0513

Quarter:
1932 / 14,084 = 0.1371

Now our monthly churn rates no longer tally with our quarterly churn rate, even though they use the exact same data. This is because we've changed the time window we're calculating. This approach assumes that churn is spread evenly within the time window, with a linear distribution. But churn is never this helpful. A good churn rate ratio should be able to expand or contract well with the length of time it measures, and still deliver comparable results.

The Predictive Way

Any good churn rate calculation should give some actionable advice. In this example, Shopify has tried to incorporate a predictive element into the equation. They're trying to determine a weighted average churn rate, so that **rate * customers** *will predict the likely churn rate on any given day.*

$$\frac{\sum_{i=1}^{n} Inactive_i}{\sum_{i=1}^{n} Customers_i}$$

Inactive Customers *is an array of how many customers active on day i are inactive on day* **i+n**, *i.e. one month later. If you have 1000 customers on September 1, you then look forward in time to see how many of those 1000 have churned on October 1. You sum that up, then divide by the sum of total customers in September.*

The Good & The Bad

It seems awesome to be able to predict churn. Having a weight that you can multiply with customers to get predicted churn would be great for planning your finances. Who doesn't want to do that?

You have probably noticed a critical problem with this approach: "...you then look forward in time..."

This requires two months of data to run one month's calculation. In order to determine your churn rate for this month, you have to wait until the end of next month. That isn't good for a metric that is supposed to keep you up-to-date on your company's success. If you have a number of accounts cancel in September, this isn't reflected until October in your churn rate.

Then, when you do get to the end of October and have a churn rate, it's now from a month ago. It's not current. You can no longer report churn rates to your employees for the month, as you are instead telling them what happened a month ago.

This approach has all the same problems as rolling metrics, and you know already to stay away from those.

Calculations in SaaS metrics are supposed to take all your data and transform it into easily understandable, actionable numbers. This calculation makes your numbers more complicated and less actionable.

The Shopify Way

Instead of roughly taking the average of the first day and last day of the month as we do with the Adjusted Way, we take the average of every day in the month to get a more accurate calculation.

$$\frac{\text{Churned Customers}}{\sum_{i=1}^{n} \text{Customers}_i / n}$$

*You divide your number of churned customers by the average of your customer count between days **1** and **n**.*

The Good & The Bad

This formula deals with the issues that plague the other variations. You can use it in periods of high growth and it scales nicely across different time windows. You can also use it in a timely manner, getting an up-to-date churn rate.

However, there are always going to be variations in your numbers for which a single calculation can't account: newer customers churning at a higher rate than older customers; differences in cohorts, in plans, in size of account. None of these are captured in this formula, and by using it, companies could have a false sense of security that the number they get each day, week, month, or quarter is the whole story of their churn.

Why You Should Make it Easy for Yourself

As Noah Lorang at Basecamp points out, SaaS analytics shouldn't be rocket science. One of his **"three secrets"** *is to* **"make it easy."**

When you reduce complexity on your churn calculation, you get the following benefits:

- *It's easily understandable — anyone in your organization should understand the number. This is absolutely critical for a key metric. If no one understands your number, they can't act on it.*
- *It's easily comparable — the more complexity you add and the more cases you attempt to account for, the harder it will be to compare your churn calculation across different periods of time. Create consistency by taking the simple and straightforward path.*
- *It serves as a starting point for deeper analysis — you're able to easily comprehend what your number accounts for, what it doesn't, and where you need to dig in to learn more. With more complex calculations, your first step will be reminding yourself how to calculate it.*

$$\frac{\textit{Churned Customers}}{\textit{Customers}_1}$$

That's why, at **ProfitWell**, *we use the* **Simple Way** *with a monthly time window.*

We keep it simple so that you can spend your time taking a deeper dive on the number--analyzing churn by cohort, and so on— and not spending it trying to calculate how we arrived at our number.

All of your top-line metrics are just headlines. They're not the story. The story is buried deep within the numbers. You need to be looking in depth at the how and why of your churn rather than trying to account for every variable within your churn rate calculation.

Your deep-dive into the numbers is where you'll actually find out about the strength of your business, so that you'll be able to make actionable decisions.

CHAPTER THREE

THE COMPLETE GUIDE TO CALCULATING AND OPTIMIZING SAAS **MRR CHURN**

MRR Churn threatens your Monthly Recurring Revenue by losing users and dollars through cancellations and delinquent charges.

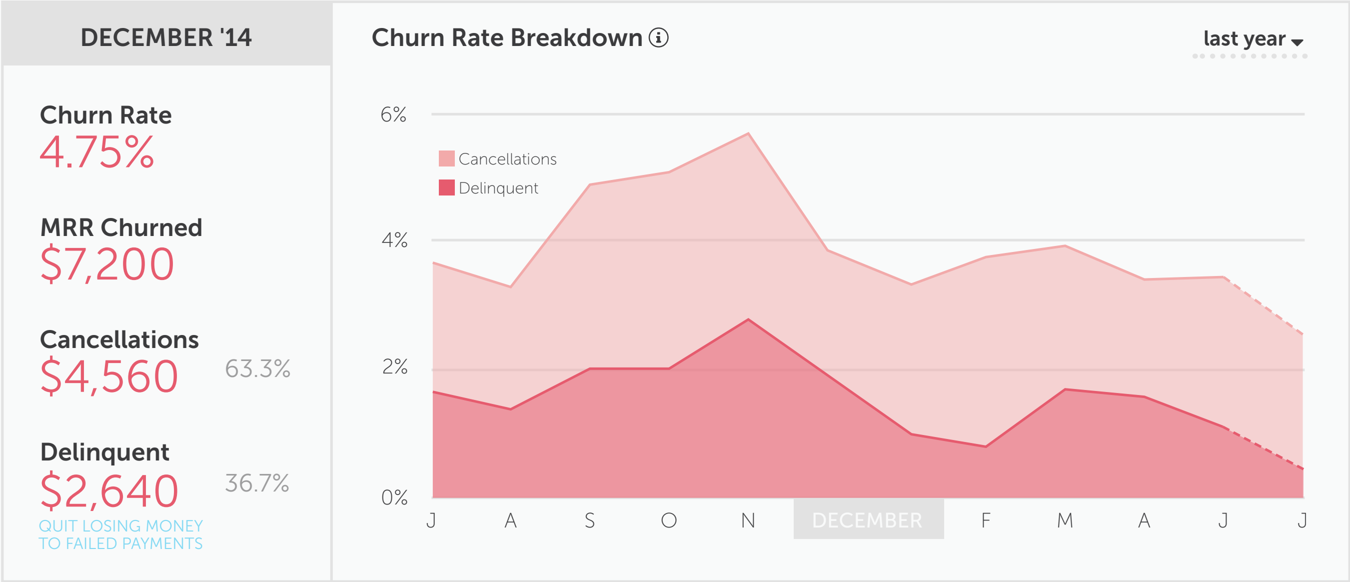
Correctly tracking your MRR Churn will allow your team to create a better product, market it more effectively, and gain momentum through compounding growth.

Successful SaaS businesses understand and calculate MRR Churn properly and ultimately use that information to reduce churn and increase their revenue.

To help you join the ranks of the successful, let's walk through why MRR Churn is so important, how to calculate it, and ways you can optimize MRR Churn for growth.

Click to tweet *" Not tracking MRR Churn is like flying a plane with your fuel tank on fire"*

What Is MRR Churn and Why You Should Care



Click here to track your MRR churn with spot on precision

ProfitWell.com

*To sum up MRR Churn in one sentence - MRR Churn is the monthly erosion of your SaaS monthly recurring revenue. You can define the metric as an absolute dollar amount (**-$40,256** MRR) or as a percentage (**-6.34**%), which is more useful and much more actionable to track over time.*

Why understanding your MRR Churn is so important:

MRR Churn's importance exists in two main areas - product and finance.

1. *The product team should focus on reducing the MRR Churn Rate every single month. Churn is a key indicator about the value of the product and its features. If product does their job well, the rate of active cancellations should get to $0 monthly.*
2. *The finance and operations teams need to know MRR Churn in order to see how much MRR is being lost. This allows them to model and predict financially including your Profit and Loss statement and burn rate. Tracking MRR Churn overtime will give them insight into how to hire and scale when customer acquisition grows rapidly.*

What do you include in MRR Churn? Only the MRR leaving your business

More specifically (and digging deeper), MRR churn is the sum of all of the MRR that was lost in a given period. You lose accounts in two main ways:

1. **Active cancellations:** *These are the customers who actively choose to cancel their accounts for any reason (didn't like the product, can't afford it anymore, etc.).*
2. **Delinquent cancellations:** *These are customers who churn after you are unable to bill their credit cards. Typically, you don't count them as officially churned until your billing system has attempted to complete the charge multiple times over a number of days.*

What should you not include in MRR Churn? Upgrades, Downgrades, and Refunds

There's a debate in the SaaS community whether you should include expansionary and contractionary MRR (upgrades and downgrades) in this calculation. The problem with doing this is you begin to mask the gross MRR that's leaving your business and the momentum at which it's leaving.

This is why you should not include these aspects of MRR in this calculation, and instead look to your Retention MRR as the "God" metric for retention revenue. As a result, MRR churn then allows you to know exactly the amount and rate at which cash is actively leaving your business to optimize accordingly.

Ok, so how do I calculate MRR Churn?

Calculating MRR Churn and your MRR Churn Rate is actually fairly straightforward. Here are some formulas to help:

MRR Churn:

Here we simply add up all of the MRR lost from cancelled accounts and delinquent accounts in a given time period. This gives us the MRR Churn for that given period.

EQUATION:

$$\text{MRR Churn} = \Sigma\, \text{MRR Cancellation} + \Sigma\, \text{MRR Delinquent}$$

EXPANDED EQUATION:

$$\text{MRR Churn} = \left(\text{MRR}_{\text{CANCELLATION 1}} + \text{MRR}_{\text{CANCELLATION 2}} \cdots \text{MRR}_{\text{CANCELLATION } N}\right) + \left(\text{MRR}_{\text{CANCELLATION 1}} + \text{MRR}_{\text{CANCELLATION 2}} \cdots \text{MRR}_{\text{CANCELLATION } N}\right)$$

EXAMPLE:

$1,000 *(MRR Churn)* = **$800** *(MRR Cancellations)* + **$200** *(MRR Delinquent)*

MRR Churn Rate:

Here we're simply taking the MRR Churn over a given period and comparing it over a previous period. As such, if we lost $1000 in MRR in June and brought in $10000 in MRR in May, then our MRR Churn Rate would be 10%.

EQUATION:

$$\text{MRR Churn Rate} = \left(-\text{ MRR Churn Month 1}\right) / \left(\text{MRR Month 0}\right)$$

EXAMPLE:

$$10\% \text{ (June Churn Rate)} = \left(\underset{\text{(MRR Churn from June)}}{\$1{,}000}\right) / \left(\underset{\text{(End of Month MRR from May)}}{\$10{,}000}\right)$$

What Are Four Ways You Can Reduce MRR Churn?

MRR Churn and its respective rate are designed to help you optimize and strengthen the areas that are causing customers to churn. In that realm, here are a number of the main axes to focus on to reduce this number as much as possible.

1. **Implement a delinquent credit card dunning system:**
Roughly 20-40% of MRR churn is because of failed credit cards. Putting a system in place to recover these customers is immensely valuable. Shameless plug that ProfitWell has a system for this that you can set up with one click.

2. **Increase your active users:**
A lot of active cancellations come from individuals who don't get hooked into habitually using your product. When they see an invoice for something they aren't using, they'll have a higher propensity to cancel.

3. **Fix your pricing:**
Improper pricing heavily influences why folks churn out. After all, if you're aligning your product to the value that a persona sees in the product, you shouldn't be losing those customers.

4. **Run Churn Loss Surveys and Conversations:**
Churn surveys work well for many SaaS companies. These surveys ask customers to choose the biggest reason they're churning and the smallest reason they're churning. These are exceptionally powerful because they end up allowing you to pinpoint your biggest areas of opportunity.

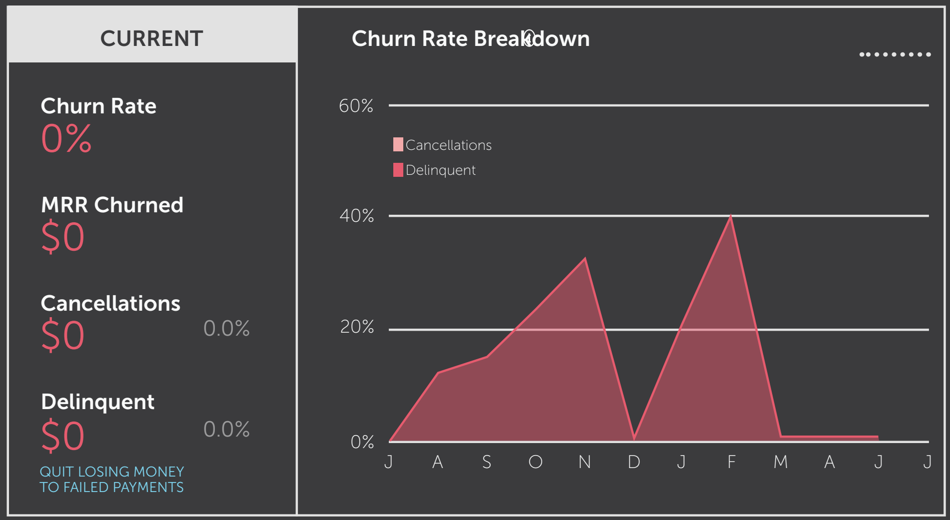
CHAPTER FOUR

THE COMPLETE GUIDE TO CALCULATING AND OPTIMIZING SAAS **USER CHURN**

Specifically, User Churn threatens your ability to generate Monthly Recurring Revenue. Tracking and deciphering User Churn allows your team to understand where value lives within your product, which ultimately leads to increased users and revenue growth.

To help you join the league of the successful in SaaS, let's walk through why User Churn is so important, how to calculate it, and ways you can optimize User Churn to grow your SaaS business.

Get your churn to zero
with a free Profitwell account



Why You Should Care About User Churn

To sum up User Churn in one sentence: **User Churn is the occurrence of a customer no longer using your product/service and/or the subscription running out.**

To eliminate any blurred lines or confusion - churn is not to be mistaken for cancellations. Just because your customer has cancelled does not mean that they have churned yet. In fact, the time between a user cancelling and officially churning out is an extraordinary area for opportunity. Officially, a churned customer is no longer able to use your product which means you have lost a stream of revenue.

Clearly this means that understanding and optimizing this metric to be as low as possible is extremely advantageous to your business.

Why understanding your User Churn is so important

User Churn's importance exists on the following levels:

- *Product should constantly be optimizing to reduce User Churn rate. The product team should focus on reducing User Churn every month, quarter, and year. Churn is a direct reflection of the value of the product and features. When the product is great and aligned with a value metric the rate of cancellations should get to $0 monthly.*

- *User Churn directly affects your financial metrics (MRR/LTV/CAC). If users are disappearing, then so is revenue. These are critical metrics for your finance team to monitor to ensure that recurring revenue, lifetime value, and acquisition costs are all where they should be in accordance to your company goals.*

What do you include in User Churn?

Only the users leaving your business

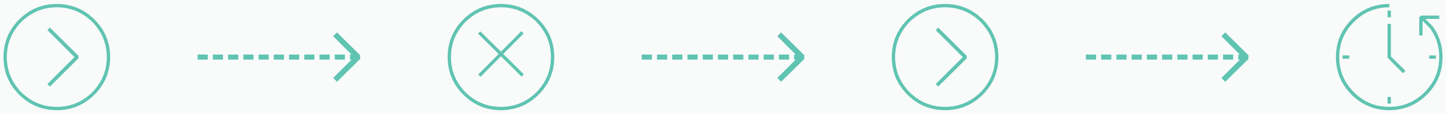
Specifically, User Churn is the sum of all the users that no longer have access to use your service. You can lose a user in one of two ways.

Actively cancelled + churned:

This is a user who not only cancelled your service but did not renew within the grace period. The reason for this act may be that they didn't like the product, too expensive, or even worse - a competitor offered something better.

Expired subscription:

These are users who have let the subscription run its course and have chosen not to renew their service agreement. This is a very important segmentation because it tells you that something is lacking from your offering and so they don't notice the pain of your product being no longer available. If a user lets their account expire then they could have just lost interest (and so you should have remarketed) or they didn't see any reason to keep using your product.



What should you not include in User Churn? Cancelled and Delinquent users.

There is really no debate here when it comes to calculating User Churn. A cancelled customer has not churned until the final day of service. There is still an opportunity there to retrieve the user and get them back to being active with your product. The same thing goes for delinquent users. These users have not churned and may just be having some credit card or other payment issues that can be resolved.

So, you definitely do not want to include any of these aspects when you are tabulating your User Churn metric. Simply stick to the users who no longer have access to log in with your service. Knowing the difference between these users will allow you to identify trends within each cohort so that you can optimize to keep others from following suit. Hey, maybe you'll even be able to get a churned customer back on board. Anything is possible when you accurately know who's going in and out of your business.

What are three ways you can reduce User Churn?

User Churn and User Churn rate are constructed to help you optimize areas that are causing customers to leave your business. With that being said, here are a few of the main axes to hone in on that can help you reduce this number as much as possible.

1. *Fix your pricing: As we've found through our pricing strategy research at Price Intelligently, improper pricing heavily influences why folks churn out. After all, if you're aligning your product to the value that each persona sees in the product, you shouldn't be losing those customers.*

2. *Run Churn Loss Surveys and Conversations: There are probably plenty of reasons people are churning from missing features to bad support experiences. You should have a product development process in place for identifying these reasons. These surveys ask customers to choose the biggest reason they're churning and the smallest reason they're churning. These are powerful because they allow for you to pinpoint your biggest areas of opportunity.*

3. *Increase your active users: This is not, by any stretch of the imagination, easy to do. However if you can manage to keep users active more consistently you will see a direct decrease in your churn numbers.*

Ok, so how do I calculate User Churn?

Calculating User Churn is very simple and straightforward. Here is an easy to remember breakdown of the metric:

EQUATION

Total Churned users (via cancellations) for the month

Total Expired Subscriptions for the month

Simply take the SUM of the total churned users (who cancelled) + the total expired subscriptions in a given month.

CHAPTER FIVE

HOW TO REDUCE CHURN BY BUILDING A BULLETPROOF RETENTION PROCESS

Burbn was a foursquare knock-off. A location-based app that let you check-into places, earn points for hanging out, and post pictures.

It wasn't a success. It had a massive churn problem, as no-one wanted to use a bloated app with no singular purpose.

It was too complicated. The developers started to use analytics to find out how users were using the app. They found that people didn't bother using the check-in features at all. They only used the app to post pictures.

With that data, the decided to drastically reduce the app's scope, and in one fell swoop drastically reduced their churn.

Burbn died, and in its place Instagram was born.

Everyone in Silicon Valley is looking for that magic bullet, a single change they can make that will crush churn, and make all their customers stay content and happy with their service.

That one tip, trick, tactic? It doesn't exist. Even if you hit the jackpot and find a single change that can kill your churn, as Instagram did, it still requires a lot of work and a lot of data.

Reducing your churn

is an ongoing struggle, and will continue to be for however long your company exists. That doesn't mean that you should give up the fight. The key to fighting churn is to develop a systematic, defined retention process, that allows you to find all the small ways--the thousand tiny little tips, tricks, and tactics--you can reduce your churn.

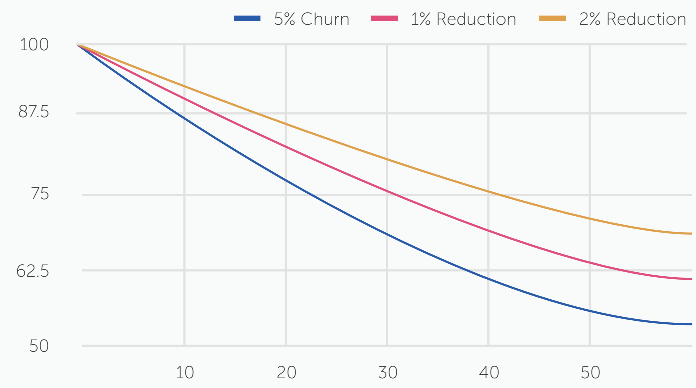
Finding all these marginal gains will do much more for your retention than relying on one single gimmick, and if you develop the right process, you can repeat this success constantly, continually fighting churn and growing your business.

Here are the steps you have to take to build a systematic retention process, from generating ideas, to prioritizing, testing and analyzing. Following these steps can help you chip away at your churn rate every single day.

Why Small Gains Are The Key To Growth

A great retention rate is the sum of all the small gains you can make. You're not going to get a 50% decrease in churn in one fell swoop, but you will find small changes you can make all over your product, service and company that will each decrease your churn. This won't reduce your churn rate overnight, but it will chip away at your churn rate and slowly help build your company towards growth.

Here's what 3 retention curves look like — one with a continuous 5% monthly churn, one where that churn rate is reduced by 1% every week, and one where it's reduced by 2% each week →



Even the tiniest changes in churn rate will have an effect. The blue line will always continue down to 0, whereas even 1% or 2% changes in the churn rate mean that red and yellow lines will eventually level off, and start to curve upward into net negative churn.

Building A Bulletproof Retention Process

Most companies try to reduce their churn in an ad-hoc manner. They try a bunch of random tactics that they've heard worked at other companies, jumping from one to the other. All they're hoping to do is get lucky and win the retention lottery.

Churn is a multifarious, beguiling problem. There are tons of reasons why your customers could be churning. In order to strike at the root causes of churn, you have to break it down into smaller, manageable pieces.

In SaaS in particular, your business will be constantly evolving and changing, and new avenues for churn will continually appear.

That's why you need to build a process that reduces churn at many stages, not just to try and reduce churn one issue at a time.

Click to tweet

"Theres no one tip, trick, or tactic to stop churn, but a bullet proof retention process will slow it down "

The following are the 5 steps of a retention process that will chip away at your churn rate in every area of your business. You need to set the goals for your experiment, then drill down into the specific questions you have; analyze the results to see how they fit with your objective, and then refine and repeat the process to turn your churn rate negative.

Define Your Goals

Before you go charging into your product and changing things, you need to define a goal for the process. In terms of retention, your overall goal is to reduce churn, but to make this actionable you need to both quantify this goal and break it down further into smaller goals, corresponding to the 3 stages of churn. For instance:

Main Goal	Stage Goals
1. Reduce Churn by 50%	*a. Reduce short-term churn by 20%* *b. Reduce mid-term churn by 20%* *c. Reduce long-term churn by 10%*

Setting goals allows you to measure your progress through your retention process as you loop back from individual experiments, as well as set an end-point for the process. You set the goal at the start so everyone on the team knows what they are aiming for, and what you want to accomplish.

Once you've set these goals, you can start the process of looking over your existing data and feedback and defining the questions you want to ask and designing the right experiments to answer them.

mention

Goals In Action: Mention

Mention allows people to track what is said about them online. As the service grew from a few hundred to a few hundred thousand, the company found that their current communication strategy was failing, and customers were churning as a result.

The company set a specific goal of reducing churn by 20% in 3 months.

They actually surpassed their goal in just one month, reducing churn by 22%.

They did this through optimizing their support strategy, prioritizing trial and paid customers over free customers, as well as hosting webinars and developing an automated 'nurturing' program to activate and convert trial users.

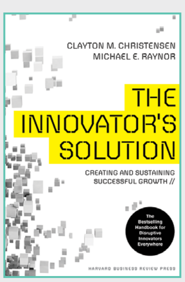
Setting a goal and hitting it so early meant that Mention could use what it learned to go further, using the time freed up from optimizing their customer support on learning more about how their customers used the product.

Ask The Right Questions

When deciding what questions you're going to ask, you want to drill down to specifics as much as possible. You want to brainstorm ideas for reducing churn in the short term, during the first few months of use, then brainstorm separate ideas for reducing mid-term churn, then long-term churn. You can also segment customers by how they use your product and target specific experiments towards them.

???

The further you narrow the scope and the more specific you get, the easier it will be to come up with actionable questions and concrete ideas you can test.



In his book ***The Innovator's Solution: Creating and Sustaining Successful Growth,*** *Clayton Christensen sets out 4 ways you can generate the best ideas for growing your business.*

For your process to work

you need to generate the right questions. You'll have a good idea of what areas of your company are causing churn problems from user feedback and internal data. However, relying on just that might mean that you are missing the bigger picture.

1. Observe

You closely observe both what your own customers are doing, and what other companies are doing:

a. *You can use customer feedback — surveys, user testing, customer calls — to find out what their issues with the product are. In particular, exit surveys for customers that have already churned are a great basis for generating ideas for experiments. They will tell you exactly what is wrong with your product.*

b. *It's also perfectly valid to look at other SaaS companies and see what they might be doing to reduce churn. If you are brainstorming ideas for reducing short-term churn, then you can look at their onboarding flow and sales processes to find ideas for how your competitors are keeping people in those first few months.*

2. Question

To find the exact questions you want to ask, Christensen suggests going through all the questions that come to mind when discussing the topic. All of the whys, whats, wheres, whens, and hows that you can possibly think of that are related to the different stages of retention. This is the start of your question pipeline as these questions will lead to answers, which will lead to more questions, until you have the exact questions you need to answer.

3. Associate

Try connecting unrelated ideas to synthesize completely new ideas. If your SaaS product is directed towards a specific market, can you use ideas within that market to increase retention? If you're building CRM software for sales teams, can you look at how ideas from the sales process can help with the retention process? Maybe this idea from left field lead you exactly where you need to go.

4. Network

Don't be afraid to ask others about their experiments. You're not asking them for their hacks, or tactics to reduce churn, rather what they think are the right questions to ask to formulate your tests. You need to be constantly exchanging ideas with other SaaS founders to refine your process.

Though you can ask for help (and should), every company is different, and every product is different, with different customers and a different audience. What works for ProfitWell won't work for the video marketing service Wistia, and vice versa. This is why silver bullets don't work, and why setting out a structure to reduce churn is the better answer.

Bidsketch

Questions In Action: Bidsketch

When Bidsketch, a SaaS company that provides professional proposals as a service, was fighting churn, they chose to break down their headline churn rate into different categories of their business. They realized that they had different retention issues in their product, pricing, and marketing, with different questions that needed answering:

How do different on-boarding flows help customers discover the product?

Are we targeting the right customers?

Could going up-market help reduce churn?

They experimented with new user flows for onboarding customers, different pricing plans for different types of users, and found that significant churn was coming from failed transactions. If they hadn't broken down their churn into its component parts and experimented with each one, then they wouldn't have been able to attack it on multiple fronts, and zero in on the real problem.

Develop Your Hypothesis

Once you know the questions you want to ask, you need to build them into workable hypotheses. The point of developing a hypothesis is that it forces you to think about the questions you're asking in more detail. In particular, you have to think about the impact any experiment is going to have on churn.

Hypothesizing the impact any experiment is going to have on your churn is going to help you with your decision making, turning the multitude of questions you have assembled into specific ideas you can test. This is a way to understand your choices and how you can progress with your process.

By developing hypotheses, you can also prioritize ideas, through defining the probability of success of the experiment, and resources needed for the experiment in your designated timeframe.

- **Probability of Success** - *You're not going to set a definite probability for your experimental success, simply assign each test as low, medium, or high.*

- **Resources Needed** - *Each type of experiment you run will require different resources. They might need 1 day of engineers working, or 1 week of marketing. You need to make a rough estimate of how much time and effort each idea you have generated is going to require to get the results you need.*

This is crucial to the retention process, and the hardest part, especially if you're a small SaaS company, or just starting to develop a retention process. When you first run through this process and start developing questions, it will be difficult to gauge the impact of an idea or correctly define your resources. People often overestimate the probability of success of an idea and underestimate the resources needed for that success.

But the more times you run through this process, the better you'll get at estimating the time and resources that an experiment will take, and the more data you'll have to back up your probabilities and impact. This means that on each iteration you'll get better at your process and make larger retention gains.

The ideas and questions you have are going to fall into multiple categories. For instance:

- **High Impact, Low Probability, High Resource:** *These are the seemingly 'magic bullet' hacks. They might reduce your churn drastically, but are unlikely to work and will take up a lot of time and talent. They should be low down your list of priorities.*

- **Low Impact, High Probability, Low Resource:** *These are the ideas that should be high on your list. You can run through them quickly with little effort, and will yield results. Though those results might be small, you can get a number of them to all add up.*

Questions In Action:
Bingo Card Creator

Patrick McKenzie, creator of Bingo Card Creator, a language aid for elementary teachers, noticed that there were significant drop offs in usage at every stage of the funnel from creating, customizing, and downloading the cards.

He hypothesized that users weren't aware that the cards would only take a few seconds to create, and believed instead that the process would take a long time. They churned. He created an experiment to test this hypothesis, adding in a progress indicator so the teachers knew where they were in the workflow.

This small change increased completion rates from 82% to 90%.

Test & Analyze Your Ideas

Here, every company is going to be different, and every experiment will be different, but what is important is to get the minimum viable test up and running as quickly as possible. Don't overthink the experimental design or over-engineer a solution. You are looking for quick results, so you can learn from them and move forward, either refining that experiment, or moving on to the next.

It's vital here that you invest in analytics that'll actually help you measure and analyze what happened. A common issue is for people to tweak their products and services, but not to do the grunt work of wiring these changes up to any analytics to measure how their customers are now interacting with the service.

Instead they decide to just eyeball it, because they "know what's gonna happen." This is the exact opposite of what needs to happen. If you are building a process, you need the analytics in place to measure every single action your customers make so that you have the data to justify your hypothesis.

With the data from your experiments,

you can deep-dive into the numbers and see exactly where you've managed to make customers happy, breaking down the analysis into two questions:

Impact

What were the results of the experiment?

Accuracy

How close were they to the original hypothesis?

If a specific experiment increased retention, by how much? Was it close to your original hypothesis, or did the idea not have quite the impact expected?

If the experiment didn't reduce churn, what assumptions did you make in the hypothesis that led you to think it would, and how can those be fed back into the process to improve future experiments?

This is the most important part of the whole process — it's where you actually learn from the tests you ran and find the answers to the questions you asked. Ultimately, you'll be looking for some reduction in your churn rate, but even if that didn't happen at this point, you have still learned from the experiment about what you can do better next time.

Testing In Action: Groove

SaaS help desk service Groove had a churn rate of 4.5%. Even though the company was attracting new users, this churn rate meant growth was unsustainable.

To combat their churn rate, they started analyzing the differences between customers who churned and those that remained active, calling these differences "red flag metrics". By analyzing the data, they realized that it took customers who later churned considerably longer to perform certain tasks on the site. They then used this data to target users that were obviously struggling, sending them emails and offering to walk them through setup processes.

Through looking at their data carefully, they reduced churn by 71%.

Refine, Reject, Repeat

Your experiments will provide actionable insight that you can use to move your service forward. If you saw a decrease in churn, but think the same idea can do better with some tweaks, then refine your process and repeat your experiments, reducing churn incrementally with each new idea.

Once your experimental phase of the process is over:

Review
your objectives

Systemize
your learnings

Optimize
your process

Review

Before you complete your retention process, you want to perform a post-mortem on your techniques so that you can optimize the process for future iterations. Were you improving over time? Did you improve your accuracy? Did you run enough experiments?

It's a process, constantly ongoing, and as long as you've made improvements to your churn rate and learned how to do even more, then you can re-adjust your goals for the next round.

Systemize

For the success you had in your retention process, you can:

- **Productize** - *If the reduction in churn came through something that can be changed in technology, this is how you should do it. If you've experimented with a new pricing structure, then you can now bake it in fully to your site. Anything that can be done in engineering or automated in some way should be at this point.*

- **Checklists** - *Some things can't be automated. If you've found that a new content distribution and promotion strategy has reduced your churn, that is hard to code into software. Instead produce playbooks and workflows so that the exact steps you took to reduce churn can be reproduced each time. Workflow management tools can simplify these procedures.*

Optimize

Then you can ask the big questions. Did you hit your goals? If not, why not? If so, what can you do better next time?

Once you have run through you process one time, you'll learn so much about your service, customers, company and team that you'll have even greater goals and more refined questions the second time round. You can zoom back in to attack different areas of churn with different ideas and constantly and continually fight churn until it goes negative, and then fight some more.

Refinement In Action: Sidekick

When HubSpot launched their email tracking product, Sidekick, they noticed that a significant amount of users were churning out almost immediately, tracking just one email using the service. To find out why users weren't continuing with the product, they ran a number of experiments:

- **They reduced the number of CTAs on product landing page to simplify the process: Failed**
- **They added example notifications for use cases to show how the product would look: Failed**
- **They added tooltips to help explain key features: Failed**
- **They added videos explaining the product: Failed**

During their retention process for Sidekick, HubSpot ran 11 different experiments trying to reduce churn. They all failed.

But on each one they learned more and more about their product and their customers. Eventually they found that one answer was to send people back to their inboxes and away from the product once they had installed the app. This meant that they just started sending emails straight away instead of playing with the settings and not seeing the value of the service.

They weren't reducing churn during this time, but were still moving towards that goal, and by analyzing the data at each step, were able to narrow their questions and experimentation down to ideas that did eventually reduce churn on Sidekick.

Customer.io

The Whole Retention Process In Action: Customer.io

When Customer.io, a service for sending targeted emails, was looking for ways to reduce churn, they realized that one issue was they weren't converting high quality customers. Instead, they had more low quality customers, who weren't a good fit and churned more frequently. To combat this, they experimented with concierge onboarding to convert higher quality leads.

They defined an experimental group and a control group of 200 leads each. Both experimental and control groups received emails about converting to a paid account, but when leads replied, only the experimental group received 'concierge calls', helping them to onboard into the product, iron out any reservations that they had, and allowing the sales team to discover more about the lead and their fit with the product.

Conversion rates were almost double in the experimental group (4.2%) compared to the control group (2.2%).

They then analyzed the data further, finding that concierge onboarding shortens the time to conversion, and found where this service is most effective (when people have example emails they share) and least effective (when the tool is not a great fit.)

This is a great example of the retention process in full swing:

1. **Goal:** Customer.io wanted to keep churn low as they knew it was key to increasing their ARR to $1 million.

2. **Question:** They brainstormed lots of ideas, using data and feedback to identify their main sources of churn, one being that they had a number of low-quality customers that churned.

3. **Hypothesis:** They speculated that offering to walk certain customers through the product would lead to: a) more customers converting, and b) offer Customer.io a way to find out about the lead and their business.

4. **Experiment:** They used experimental and control groups to evaluate the difference that concierge onboarding would make. They then analyzed the different groups to find out how and why this onboarding technique works.

5. **Refinement:** They tried offering concierge onboarding at different times after the lead signed up, to optimize the conversions. They also continued to run the experiment, seeing how leads converted over time and where different types of customers churned out.

Reducing churn will be a never-ending battle for your company.

But if you construct a process that bakes retention directly into the core of your company, then it is a battle that you will win time and time again.

The secret to fighting churn is that there is no secret. No tricks, no tactics — just good ol' hard work. By using this process you can find every single small detail in your company that is causing people to churn, be it 1 customer or 1000 customers. You can use this process to continually fight churn every single day, building it into the core of your service.

The more you set goals, the more you ask questions, and the more you analyze data, the closer you get to offering true value to your customers, and the closer your churn rate will get to 0.

Great gains can come from those low resource, small impact ideas.

These are the ideas and experiments that you can move through your process rapidly, generating data and learning quickly. Though you might have some high impact ideas as well, if you are going to move forward with them, then they need to have a high probability of success for you to prioritize them ahead of other experiments.

When you have a list of ideas to reduce your churn, you have to think about ways to implement them so that you can collect the data needed, assess the results, and see if they have the impact that you hypothesized.

CHAPTER SIX

3 NEFARIOUS TACTICS SAAS COMPANIES ARE USING TO REDUCE CHURN

Churn is the most painful element of the SaaS game. All of that effort and investment put into getting that customer to sign up and start paying you for your product goes completely down the drain. Worse yet, tackling your churn problem can be a Sisyphean battle with no end in sight.

Since wrangling MRR Churn and User Churn takes so much effort and they both can have such disastrous impacts on your bottom line, companies are often tempted to use nefarious efforts to curb churn. These tactics, although probably not illegal, create awful experiences and are simply putting off the inevitable ticking time bomb.

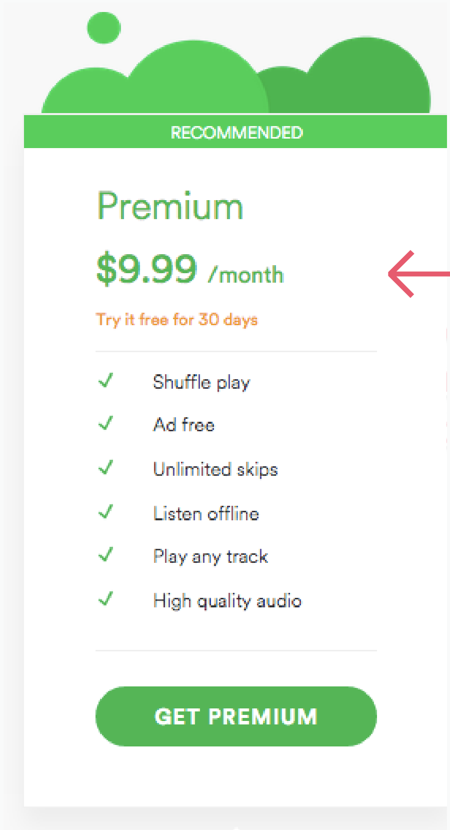
Let's walk through three big nefarious tactics we've seen and catalog why these "solutions" are simply band-aids for a weak product.

Click to tweet *" Deceptive retention tactics won't fix a sucky product"*

Crappy Tactic #1: Not Sending Invoices Every Time a Credit Card is Charged

Culprits: *Care.com, Spotify*

One of the most powerful aspects of the SaaS game is the concept of auto-renewal, allowing you to automatically charge customers every single month or year without having to go through the sales process again. While some folks debate whether the auto-renew is nefarious in and of itself, most individuals understand the concept of a subscription. That being said, there's a difference between auto-renewal and auto-renewing on the sly without sending a receipt. Care.com and Spotify appear to be using this tactic as to not remind customers of a charge and their subscription.



Renews on the sly!

This very likely works practically, where some customers are none the wiser that they're being charged because the dollar amounts are relatively small ($10 - $200). Yet, this short term gain results in some potentially bad PR. For instance, we found out about both these companies' tactics through word of mouth by friends complaining and vowing to never use the services again (here's some forum posts about these companies, too)

Further, this tactic creates some **pissed off customers** looking for refunds after discovering the charge on their credit card.

Sure, there's a good amount that probably just take the charge and then cancel without contacting support, but that's not a great branding experience. Do you really want the last experience a customer has with to be out of frustration or aggravatingly asking for a refund? Probably not. You also very likely don't want your refund rate to continue to climb, as it kills the predictability in your growth.

A better solution:

We'd say default to transparency in your pricing and billing strategy by sending out receipts every time a transaction occurs. If your product is worth what you're charging and you're targeting the right buyer personas, a reminder that a customer is paying shouldn't cause people to run. After all, human beings *get* that stuff costs money more so than you'd think.

Tactically, you could offer an option for customers to opt out of receipts, which may actually be a better experience if you're a higher transaction volume type business. Just be super careful you're not putting a band-aid over the real problem of poor product marketing or not communicating your value properly.

Crappy Tactic #2: Eliminating Your Cancellation Button

Culprits: *Handy, Comcast*

As we mentioned, auto-renewal is awesome for the subscription economy. That's what gives us amazing growth. Yet, if someone wants to cancel their subscription, you shouldn't put exorbitant amounts of effort between them and their cancellation. Collect reasons why or try to save the sale, sure, but know when the writing's on the wall. Handy and Comcast are notoriously awful at this, to the point where it's easier to keep scheduling Handy's service than canceling.

Similar to not sending receipts, this works practically. You're putting enough friction between the customer and canceling that inevitably the decision gets put off or your customer retention team is able to keep that customer around. The problem though is in most instances you're essentially holding your customer hostage which violates the original intent of your auto-renew agreement. This results in horrible PR, such as Handy's yelp reviews that mention the inability to cancel many times or Comcast's nightmare recording from Ryan Block that went viral.

> *I urge you to choose a cleaning company that has a phone number for starters, makes it easy for customers to receive an actual refund, do not charge you twice ... Jesus. What a joke"*
>
> *- Angela J. | Toronto | Yelp*

A better solution:

You need a streamlined cancellation process that:

1. *Collects information on why that customer is leaving*
2. *Tries to win them back if they're winnable*

Collecting information allows you to gain enough insight to start categorizing why customers are leaving, which therein allows you to properly build systems to keep those customers around. Maybe you just need to add a feature or remind them of the value.

Further, with this information you may be able to win these customers back quite easily. For instance, if they say the price is too expensive for the product, you can offer a targeted, expiring discount to try and keep them around for a bit longer to get hooked. Alternatively, you may have found that they just couldn't find a feature or answer to a question that you can easily answer and keep them around.

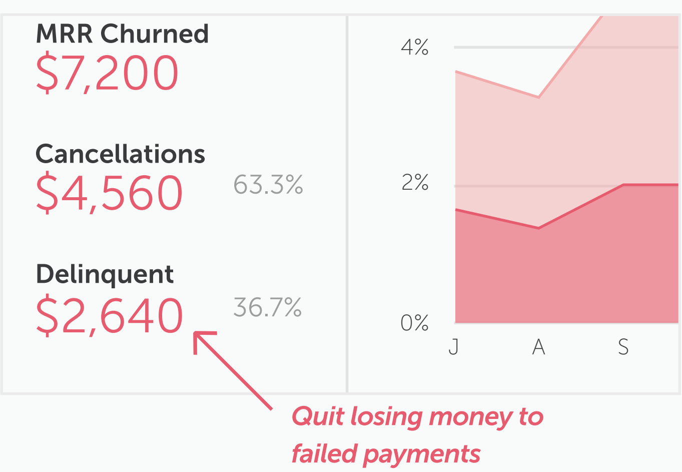
The point is that the cancellation process should be an opportunity, not something to try and bury and hide from your customers. If you've done all you can and they still want to leave, you have to let them go, so you might as well make that last experience with you as positive as possible.

Crappy Tactic #3: Continuing to Charge Clearly Inactive Customers

Culprits: *Most enterprise companies*

While the first two tactics are a bit more straightforward, continuing to charge customers who are clearly inactive is a bit grayer. These "zombie" accounts are clearly not getting value from your product, but the customer technically hasn't cancelled the account and presumably is still getting a receipt that they're paying for an account. Should you feel bad about charging them?

From our perspective, continuing to charge for these inactive licenses flies in the face of everything we believe with value based pricing. These users and customers are clearly not getting value from the product. The problem is that in a lot of large companies, zombie customers can accounts for millions of dollars in MRR. The MRR churn rate of these individuals is typically much higher as people discover the credit card charges and call in to cancel (normally frustrated, because they forgot they were getting charged). Yet, these accounts represent a ticking time bomb of potential issues both from a financial perspective and from a security perspective as clearly these customers aren't the most diligent folks within your product.



A better solution:

This isn't the easiest solution, but convert to a value metric based pricing strategy where you're charging for an actual volume of usage in some manner (seats, page views, etc.). This allows you to avoid the problem of dead accounts, but you'll also find that expanded usage reaps huge dividends with actually charging on value. You'll no longer charge that Fortune 500 company the same price as a startup, which will raise overall ARPU substantially.

Another step down this path follows the lead of companies like Slack who only charge for active users. This puts the onus for creating value on the side of the product team who have to work to create as much active usage as humanly possible. By aligning the value in the product with their pricing and expanded usage, you also get the benefits of a value metric and team alignment around one compass metric.

slack

Slack only charges active users

Churn can't be reduced with tactics; only process.

Overall, tactics can reduce your churn in the short term, but they're inevitably just putting a band-aid over a problem that will need to be addressed eventually.

Sure, you can run away from the churn problem with enough funding and customer acquisition, but the buck will stop somewhere. You might as well invest into your churn process. Inevitably, the dividends will pay off in multiple ways with achieving better churn reduction, knowing your customer better than you ever have before, and growing at a faster rate.

RETENTION IS FOREVER

There is no one tip, trick or tactic to eliminate churn. It just doesn't exist.

Understanding how to calculate and optimize the different variants of churn is the only way to begin to reduce this metric.

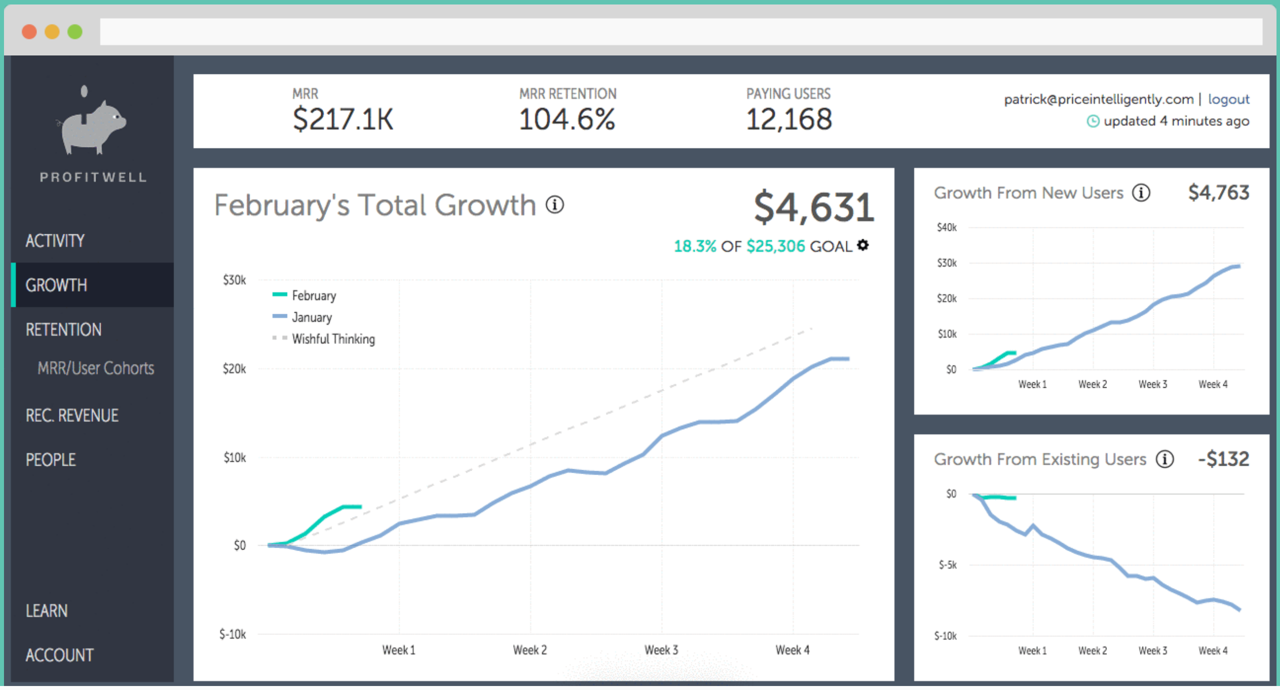
Retention is the full 360 degree cycle that translates into success for your business and a great product to your customers.

You can get in front of churn by building a titanium-tight retention process to keep hold of those valued customers for the long haul. Even before that you need to become a master of the metric. Learn to calculate and optimize SaaS Churn correctly so that you can plug up the leaky holes in your revenue buckets.

Churn and retention are the yin and yang of your SaaS business and they require balance. In order to reach your retention goals, your churn must be at its lowest optimal point.

Retention is forever, and optimizing it is the journey.

Want to increase Retention and stop Churn in its tracks?



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