Effectively Managing Subscription Consumption

Defining, measuring, and increasing customer subscriptions
BEST-IN-CLASS STRATEGY SOLUTIONS

Subscription-based businesses, especially in software, are taking the world by storm. According to The Software Report, software-as-a-service (SaaS) businesses make up an industry with revenues in the tens of billions of dollars.

In the SaaS world, aggressive growth is not just desirable, but expected. According to forentrepreneurs. com, median revenue growth in the SaaS world is 44 percent. Even SaaS companies with growth rates of 20% — a huge accomplishment in most industries — have a 92 percent chance of going out of business in the next few years.

In most of these businesses, subscribers pay a flat rate. Maybe their cost varies depending on how many licenses they use or how many features their account incorporates, but their bill is generally the same month-to-month or year-to-year.

So why does subscription consumption really matter? If you're making the same amount of money from your SaaS customers whether they use the software or not, why should you be concerned about what they're actually doing with it?

The answer is in renewal rates. By now, it's common knowledge that customer retention is king — depending on which study you trust and which industry you work in, acquiring a new customer is anywhere from five to 25 times more expensive than keeping a customer you already have.

In a classic retail model, there's a direct and obvious connection between usage and revenue — if you're buying five reams of printer paper a month from your supplier and suddenly drop your order to two, they can safely assume you're using less paper and, therefore, that your value as a customer is falling.

With subscription models, you don't have the luxury of simply paying attention to how much money your customers are spending. It's much harder to keep track of how much they're utilizing and how much value they're getting out of your product until renewal time, at which point you can be blindsided by churn from customers who lost interest in what you offer.

So, how do you keep consumption numbers up, encouraging your customers to renew when the time comes? And how do you monitor consumption and intervene when you can see that it's getting low? These crucial steps help to anticipate and ward off unexpected churn.

Chapter One: What Does a Successful Subscription Model Look Like?

Let's talk about two of the juggernauts of the subscription business world: Spotify and Amazon Prime. Amazon Prime hit 100 million subscribers at the end of 2018. Spotify followed soon after, hitting its first 100 million in April of 2019. So how are they keeping their subscribers interested and coming back for more?

Keeping Content Fresh

Creating new content to draw in new subscribers is an important approach to growing a subscription-based business, but it's also a crucial step to keeping your existing customers happy.

Customers churn when they stop seeing the value in their subscription relative to what they're paying. They'll want to see new features, new content, new educational materials, and other indications that their money is going somewhere worthwhile.

Importantly, the perception of increased value is just as important as an actual increase in value. Consider Amazon Prime — when it was launched in 2005, Amazon Prime was simply a service that entitled users to free two-day shipping on a huge variety of items.

Today, Amazon Prime subscribers still enjoy two-day shipping, plus movie and TV streaming on Prime Video, music streaming, photo storage, Prime Pantry, Prime Family, and discounts at Whole Foods.

Does every subscriber take advantage of all of these features? Of course not — some of them are still only interested in free shipping. But the variety of offerings that Amazon has added to Prime memberships makes that membership seem more valuable, which makes customers more tempted to renew.

Of course, some SaaS businesses are based almost exclusively on content, not features. While Amazon is constantly adding and adapting new features, a company like Netflix does the opposite. The list of features that Netflix boasts is very short — play, search, and browse pretty much sums it up.

As a result, Netflix almost certainly doesn't measure consumption by whether people use it to watch videos — that's all you can do. Instead, they'll measure what people are watching. Are they watching new content? Are they browsing new releases? Are they watching a variety of genres?

Showing Off Existing Content

All that new content doesn't do you any good if your customers don't know it's there. Netflix features their original content front and center when you log in. Spotify sends emails and push notifications to users about new music from their favorite artists, and builds playlists from similar music that users may not have heard before.

Promoting your existing offerings is at least as important as creating new content, whether it's upselling customers on features they didn't know about or merely reminding them how useful your product can be.

All of these strategies boil down to one thing: keeping your customers happy and satisfied with the money they're spending on your product. To ensure that your customers are successful, your job is to make sure that their needs are being met.

Sometimes, customers' needs are extremely straightforward — Dropbox customers want to store and sync large amounts of data between multiple machines. Sometimes, those needs are more ephemeral — Netflix users want easy access to a wide variety of entertainment options, but exactly which options is much harder to predict. If your Customer Success efforts are working, your customers will see the value of what you do and happily continue to renew their subscriptions.

Data Analytics are Vital to Your Success

In order to know whether your customers' needs are being met, you need to know how and to what extent customers are making use of their subscriptions. At the back end of your operations, you should be able to see extremely detailed information on how your customers are interacting with your product, both on a system-wide basis and as individuals.

Are your customers taking advantage of your educational materials when they first sign up? If not, is it because they don't understand them or because they're not finding them in the first place? Remember, onboarding and education are the crucial first steps in Customer Success — customers who don't know how to use a product aren't likely to keep paying for it.

Once they're finished with initial onboarding and education, which features of your product are they using? You should be able to draw correlations based on past customers between specific features and high renewal rates, so keep an eye on those features.

Let's take Dropbox as an example. One of Dropbox's core features is the ability to sync files between multiple machines. It stands to reason, then, that users who don't install Dropbox on more than one computer or use it to share files with colleagues aren't seeing the full value of their subscription and are at high risk of churn. Your business will likely have something similar — a core feature or set of features that's a good predictor of whether a customer is adopting your product or not.

Remember, feature utilization isn't always the best indicator of product adoption. It may be that your SaaS business is more focused on providing a constant supply of content — educational businesses, for example, might make their living by uploading new videos, courses, and classes on a regular basis. In that case, your best indication of consumption might be the amount of content consumed in a given month.

Finally, consider the time factor. Every subscription service is different — Dropbox runs in the background, while something like Gainsight needs users to spend time in the dashboard to fully realize its value — but you should be paying attention to how much time your users are spending in your portal.

How often are they logging in? How much time are they spending there once they do log in? Are they just looking at high-level dashboards or are they diving into specific features?

Always Look For More Opportunities

Remember, you don't just want your customers to stay where they are. You want them to become power users, relying on your product in their day-to-day lives and recommending your services to anyone who'll listen.

That's why you need to have an eye out for adoption. Adoption looks different to every company and every product — even within a given company, there will be different levels of adoption. Some Amazon Prime subscribers really only care about the free shipping and will jump ship if the price rises too much to be worth it, while some are using every feature on a weekly basis and will stick around almost no matter what.

What you're looking for are opportunities to upsell and cross-sell, making your subscription even more valuable to people who are adopting. Gmail customers could pretty easily transition to another email service if they wanted to, but those who use Calendar for planning, Drive for work, Maps for navigation, Photos for storage, Android on their phones, and so on are much less likely to jump ship.

Dig into your analytics and find features or service tiers that go together — in other words, heavy users of Feature A also tend to be heavy users of Feature B. With that data in hand, you can seek out users of Feature A and show them the benefits of Feature B. If you're convincing, you'll make yourself more indispensable to them and increase the value of their subscription in the process.

Chapter Two: How Do You Measure Consumption?

We've talked a bit about the importance of acting on your analytics data, but how do you get that data to begin with? And once you have it, what do you do with it? Every business' approach will be different, but the good news is that there are a few best practices you can start with.

Build Data Analytics Into The Product

If you're offering a SaaS product, you had better be able to track it — your most valuable insight as a company is what your customers are doing with your technology.

Err on the side of too much data — you can decide what to track later, and you never know what might be useful information. Here are a few of the things you should be able to track (among many others):

- How many people are logging in
- When and how often they're logging in
- Which features they're using and how often
- How many machines they've installed your product on
- How many files they're uploading or how much data they're importing and what the nature of those files or data is
- How and when has their interaction with your product changed over time

Once you start gathering data, you'll need to figure out which data points are the most important and which ones are the best predictors of renewal and churn for your business. If you're starting from scratch, this will be a bit of a guessing game at first. Focus on your most important features — in the Dropbox example, this would be installing the software on multiple machines — and gather data on how they're being used.

Again, don't forget about content-based businesses. There are plenty of very successful SaaS businesses who don't have very many features. Companies like Netflix and Hulu, or software training & education departments make their living by uploading new, fresh content on a regular basis. For those businesses, time on site or number of videos watched are typically better indicators of consumption.

Once you have some data to work with, you'll be able to look for patterns. You'll find that people who renew their subscriptions have things in common — logging in frequently, using specific features, building certain workflows, and so on.

You'll also find that people who don't renew have behaviors in common. Maybe they didn't finish the educational materials, or they didn't use a specific core feature. Maybe they never logged into the dashboard after signing up. Whatever those indicators are, you'll be able to identify warning signs of churn and focus your Customer Success team's attention on those users in a proactive manner.

We can't tell you what the most important indicators of adoption and churn are in every circumstance — it's different for every company and sometimes even for different sets of customers within the same company. What matters is that you're identifying the most important KPIs for you. Compare your existing customers with your past customers to predict how they'll behave next.

What to Do With Your Data Once You Have It

The SaaS world is defined by change — new products enter the market, old ones are phased out, and existing ones evolve and adapt to meet new needs. Your data will directly inform the way your product evolves over time.

Use your data to customize and improve your services and your content. If you find that customers who use a certain feature are likely to renew, but most customers aren't using that feature, shift your focus to put that feature front and center. If, on the other hand, you have a feature that's widely known but doesn't seem to get much use, you might want to consider retiring it.

Customer Success tools are a great way to compile and visualize this data. With the right tools, you can track customers through the entirety of their lifecycle, from when they first discover your product through onboarding, adoption, usage, value realization, advocacy, and eventually renewal. You'll be able to track the reasons they found you in the first place, the features they find the most useful, and the degree to which they've come to rely on your product. Even better, you'll be able to generate detailed reports so you can make informed decisions about what to do next.

Chapter Three: How Do You Increase Consumption When It's Low?

If your customers don't see the value in the subscriptions they pay for, they'll end up churning. Your job is to keep that from happening. In order to determine why your customers aren't consuming, you'll need to fall back on your data again. So what should you be looking for?

Customers Who Don't Know How To Use The Product

One major reason that consumption might be low is a lack of education. If your customers don't know how to use your product, they won't get any use out of it. If they're not getting any use out of it, why should they keep paying for it?

Take a hard look at your onboarding processes and educational offerings to see if there's room for improvement. Remember, the more effort you put into educating your customers, the less help they'll need in the future.

- Are there certain features of the product that you're not explaining well during onboarding, or that aren't as intuitive as others?
- Do you have a training plan laid out for new customers? How about for new users that join an existing customer company?
- Do you have a system for determining whether customers are completing the training plan you've laid out?
- What questions does your support team hear again and again from customers?
- If you have an FAQ page or other self-serve educational resources, do your customers know where to find them?

Often, it's helpful to send an email directing customers to those resources before you do any one-on-one onboarding — they'll learn about features and think of questions to ask you that may not have occurred to them otherwise.

Customers Who Don't Know All Your Features

Is it possible that customers aren't consuming because they're simply not aware of everything your product can do? If your analytics indicate that certain features aren't getting used, it may be a problem of awareness. Implement an email cadence to show people products or features that they might be missing out on, but remember to segment your list and ask your marketing team for help if you get stuck — no one likes getting emails advertising a product that they already use.

Customers Who Are Looking For Something You Don't Offer

Maybe your customers aren't consuming because your product simply doesn't have a feature they're looking for. If that's the case, you might have a communication problem with your sales and marketing teams. You don't want to spend the time and energy to close sales to people if you can't meet their needs. Integrating your sales and marketing teams with your Customer Success efforts can help to ensure that your business doesn't make promises you can't keep.

Customers Whose Goals Aren't Being Met

Sometimes, your customer has a need that your product can help them achieve — but the customer doesn't know how. That's exactly what a Customer Success team is for. If you're integrating sales and marketing properly, your CSMs should have a pretty good idea what the customer was looking for when they signed up. With that knowledge in hand, they should be able to point the customer to the proper educational resources or help them set up their system to allow them to reach their goals.

Chapter Four: Where Does Consumption Fall in the Customer Lifecycle?

It seems like everyone has their own definition of the customer lifecycle, but at ESG, our version is all about turning strangers into customers, customers into repeat customers, and repeat customers into advocates. You can read a detailed breakdown of the lifecycle on our blog. So how does consumption factor into the customer lifecycle for subscription-based businesses? As it happens, it's integral to every step of the process.

The onboarding stage is your chance to direct your customers to the content you think they're most likely to consume, based on the conversations your sales teams had with them. Carry the momentum from closing the sale — everyone's excited to get started, and your customers are at their most receptive to everything you have to offer

In the adoption phase, customers' consumption should be increasing — if it's not, this is your first warning sign that they may not be getting everything out of your product that they want. If they're consuming the content and features they were hoping for, they'll start to realize how helpful your product is to their work or personal lives.

In the usage stage, consumption and adoption should be high, since customers have now learned how to use your product and what it's capable of. If your customers are consuming at a high level, that's a good sign that they're finding value in the product and are more likely to renew.

The value realization stage is all about meeting the specific needs of the customer. Think back to why they signed up in the first place — to save money, to save time, to grow their company, or whatever their goals might be. This is your chance to introduce your customers to new features — features they may not even have known about, which will help them meet all of their needs.

The final stage is advocacy. If your customers have been consuming your product and have adopted it into their day-to-day lives, building it into their workflows, and opening themselves up to cross-sells and upsells, then you have an opportunity to leverage their enthusiasm to gain even more customers.

People are more receptive to advice from their friends and colleagues than marketing language from brands, which means a recommendation from an existing customer is more powerful (and cheaper) than any marketing materials you can put out.

If your consumption data indicates that your customer is a consistent user of your product, reach out to them. Solicit reviews, feedback, and referrals. You'll get valuable insight into your product and hopefully some new customers, and you'll make them feel listened to and happier in the process.

The Business Model of the Future

Empowered by the rise of cloud storage and ubiquitous high-speed internet, the SaaS business model is rapidly overtaking older enterprise software companies. Some of the best-known, like Adobe and Microsoft, have switched from single licenses to monthly subscriptions in just the last few years. According to some estimates, the SaaS market is projected to hit $164 billion by 2022.

The advantages of subscription models are obvious — features can be added on the fly, and companies can control the version of the software that their customers use, thus preventing fragmenting. Even better, the lifetime value of a customer paying $1000 a month has the potential to be far higher than that of a customer paying $5000 for a single license.

But subscriptions come with challenges, too. No longer can a business wash their hands of a customer once they've made the sale. If you want to sustain long-term growth and retain customers, you'll need to put in the effort to keep them satisfied and successful on a continuous basis.

Luckily, it's never been easier to keep track of the way your customers interact with your product. With a wealth of data at your fingertips, you can examine every detail of who uses your product, how they use it, and whether they're getting everything they can out of it. What you do with that data is up to you.

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