Brightback

2020 State of Industry Report:

Customer retention in subscription businesses

Executive summary

It's here: The retention era for subscription businesses. After years of focusing on growth through acquisition, the saturation of marketing channels has turned companies toward their current customer base to increase revenue.

In Brightback's second annual State of Industry Report, responses from 435 subscription companies reveal dramatic, if not surprising, new indications that the industry attitude toward customer retention is changing—93% of professionals say customer retention is just as or more important than acquisition.

Companies know their customers are slipping through the cracks. And they want to do something about it. An astounding 96% of subscription businesses believe customers cancel for reasons that could be managed or fixed.

While companies are energized to reduce churn, there's still no clear owner within the organization. Four different departments were cited as the owner in more than 80% of respondents, which hampers execution, accountability and impact.

As subscription businesses invest more heavily in online processes, companies will gather a more complete profile of their customers, discover insights as to who is leaving and why and develop a systematic approach to improving retention.

93% of respondents say that **customer retention is just as or more important than acquisition**

80% of respondents have a **company-wide published churn target**

96% of respondents believe their **customers cancel for reasons that could be managed or fixed**

Cancellation channels:

1. Email
2. App/online
3. Phone

Table of contents

1 | Key findings

1. **Subscription leaders are banking on their current customers, not acquisition, to drive the most growth in 2020.** When it comes to subscriber growth priorities, expansion takes the top spot. Companies are then most likely to prioritize retention, followed by acquisition and, finally, onboarding.

2. **A whopping 96% percent of respondents say customers cancel for reasons that could be managed or fixed.** Subscription companies are highly optimistic about the possibility of saving more customers.

3. **No single department or team is in charge of reducing churn.** More than 80% of respondents described churn ownership falling under four departments, which were (in order): customer success, sales, operations and marketing.

4. **Companies are innovating in customer loyalty and retention programs, while looking to learn new insights from customer data.** In 2020, most companies are looking to allocate resources to customer loyalty and membership programs, automated workflows and new engagement channels.

5. **Experienced-oriented companies are differentiating by offering flexibility and choice to their subscribers.** To save customers who plan on canceling, companies are turning to discounts, personalized offerings, bundles or promotions and options to downgrade.

6. **It's not too late to save customers walking out the door: 43% of respondents save 6 to 25% of customers at the point of cancel.** The point of cancel presents a big opportunity for companies to retain subscribers.

7. **In retention efforts, companies struggle the most with engaging customers in the right way, time and place.** Problems with workflow, engagement and timing are major challenges in reducing customer churn.

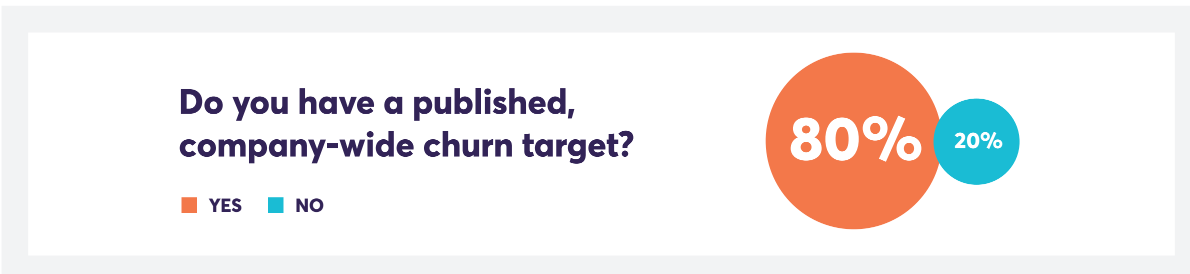
8. **Don't hide the cancel button.** California regulation passed in 2018 means that businesses that offer online signup must also permit cancellation online. This is precursor to more US-based regulation.

2 | Company-wide targets and priorities

Most subscription businesses have set company-wide churn goals

In 2020, customer retention is top of mind with 80% of subscription businesses aligned to a company-wide churn target.

While this survey also reveals multiple owners of customer churn, a company-wide churn target indicates customer retention initiatives are not being siloed within a single department. To drive impact at a company level, multiple teams must coordinate and cooperate throughout the customer journey.

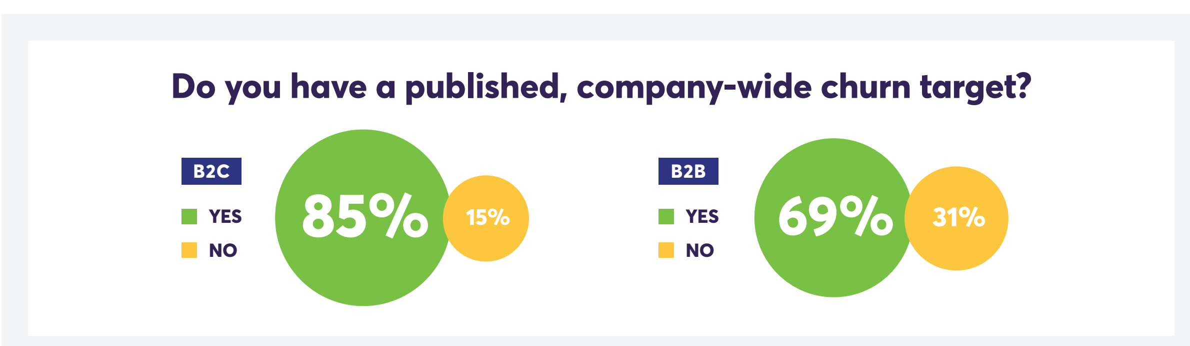


Churn targets: How B2C and B2B companies differ

B2C companies are leading their B2B counterparts in establishing and promoting a company-wide churn target. In a world where B2C companies are considered to have higher churn rates, why might this be?

Because consumers are more fickle and price-sensitive than businesses, retention tends to be far more material to bottom line revenue growth. And for direct-to-consumer and retail businesses, shipping returns eat into razor-thin profit margins. Therefore, churn is more likely to be an executive focus and promoted at the company level.

For B2B companies, churn targets may be assigned departmently, e.g. customer success. And these organizations are more likely to use outsourced or external teams like customer support to retain customers. With more siloed operations, company-wide targets are less likely to be published.



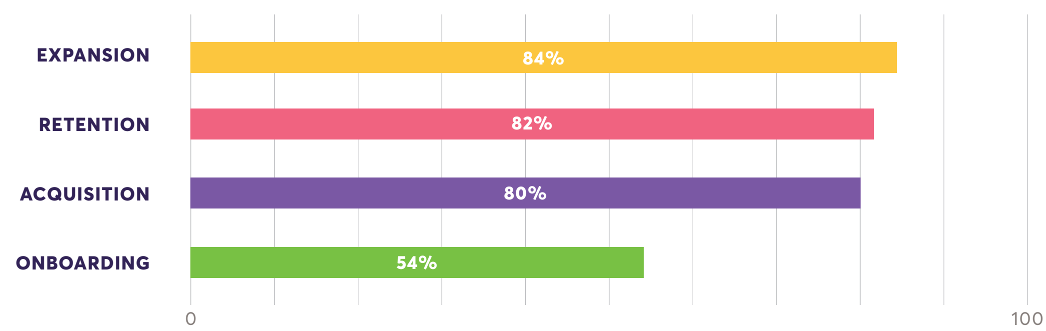
How subscription companies are prioritizing growth

There are multiple growth levers for subscription companies, but today's organizations are focused on the potential of current customers to drive revenue. Expansion is a top three growth priority at 84% of companies with retention at 82%.

Onboarding and acquisition are streamlined channels for subscription companies. These channels have well-established teams and processes, leaving little room for optimization as best practices have settled in. Expansion also has a well-known playbook for sales and success teams with subscription offerings.

Retention presents the greatest opportunity for experimentation. Small improvements to retention programs drive compounding results for companies with recurring revenue models. Retention offers a new lever for subscription companies looking to innovate their way to increased subscriber growth.

Select your top 3 priorities when it comes to subscriber growth for 2020.



Retention is a top growth priority for B2B companies

B2C and B2B companies are aligned in the way they view the priority of expansion and onboarding, but differ in how they prioritize retention and acquisition. Retention is a top 3 growth priority for 90% of B2B companies vs. only 80% for B2C companies.

Because B2B companies generally serve a much smaller set of higher paying customers than direct to consumer businesses, there's less acceptance for customer churn and more investment in resources like customer success. For B2B companies, a single failed customer can do real reputational damage in deep, niche markets. B2C companies should adopt their B2B counterparts' approach to focusing on the full customer lifecycle.

Select your top 3 priorities when it comes to subscriber growth for 2020.

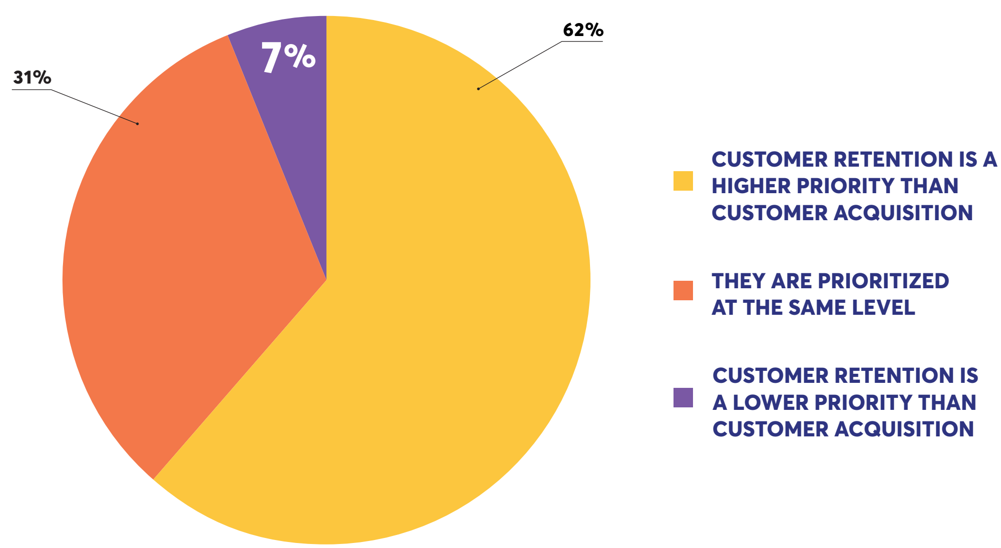
	B2C	B2B
1	EXPANSION (84%)	RETENTION (90%)
2	ACQUISITION (82%)	EXPANSION (83%)
3	RETENTION (80%)	ACQUISITION (72%)
4	ONBOARDING (54%)	ONBOARDING (53%)

3 | Perception and the retention opportunity

Over the past decade, subscription businesses have invested billions into acquiring and converting leads and sign-ups into paying customers. With aggressive growth plans, subscription startups have grown into billion-dollar businesses and entire industries have been transformed. But the acquire-at-all-costs mentality has, at times, done a disservice to the customer experience. High churn rates have been ignored in favor or focusing on the acquisition funnel.

Subscription businesses are smart to recognize that the drag of retention can stop growth entirely if acquisition is not brought into balance with retaining those already onboard. Today, 93% of all companies view customer retention as being just as or more important than acquisition.

Select the statement that most accurately describes your company's attitude toward customer retention and acquisition in 2020



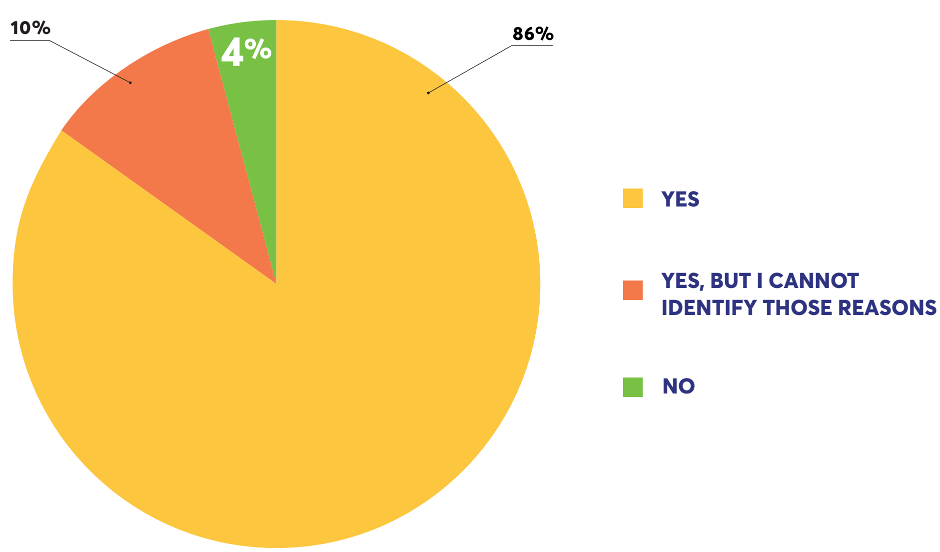
Companies believe they can save customers

Customer retention is a high priority because subscription companies believe they're highly capable of giving their customers what they're looking for. Overall, 96% of respondents say customers cancel for reasons that could be managed or fixed.

This demonstrates a great deal of optimism when it comes to customer retention. Companies have a lower tolerance for customer churn, a greater understanding of their customer needs and the desire to save customers. Perhaps the highly saturated marketing channels and endless online noise have driven companies to want to rely less heavily on acquisition channels and double down on fixing their current customers problems.

Obviously, companies are pained knowing that customers are walking away for preventable reasons. This report explores the challenges companies face when retaining customers in section 8.

Do you believe that customers cancel for reasons that could be managed or fixed?

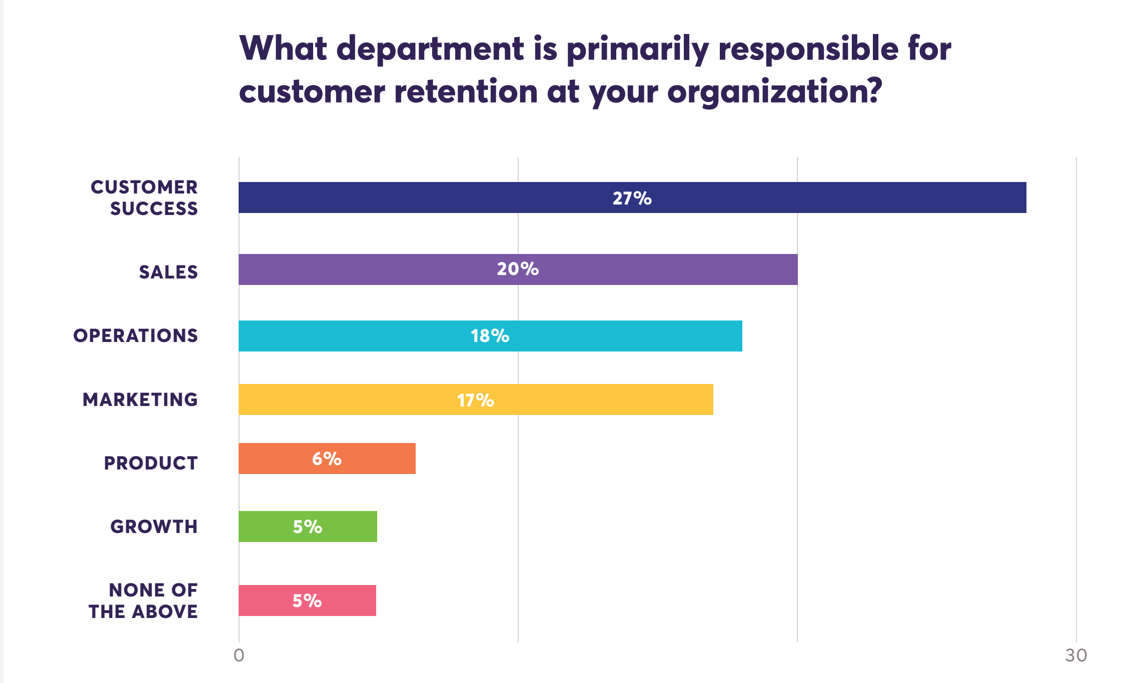


4 | Who owns retention?

Even as subscription companies publish company-wide churn targets, no single department is emerging as the clear owner of customer retention.

Churn ownership is defined as being responsible for executing on and measuring retention programs. And in today's subscription businesses, these programs are spread across teams from customer success to growth.

The most consistent owner of retention is customer success, which is accountable for keeping customers at 1 in every 4 subscription companies. Customer success is generally focused on one part of the customer journey: ensuring that a user gains as much value from a product or service as possible while they're a paying customer. Beyond these boundaries, customer success has less authority, which explains why other departments are emerging to share responsibility for churn.

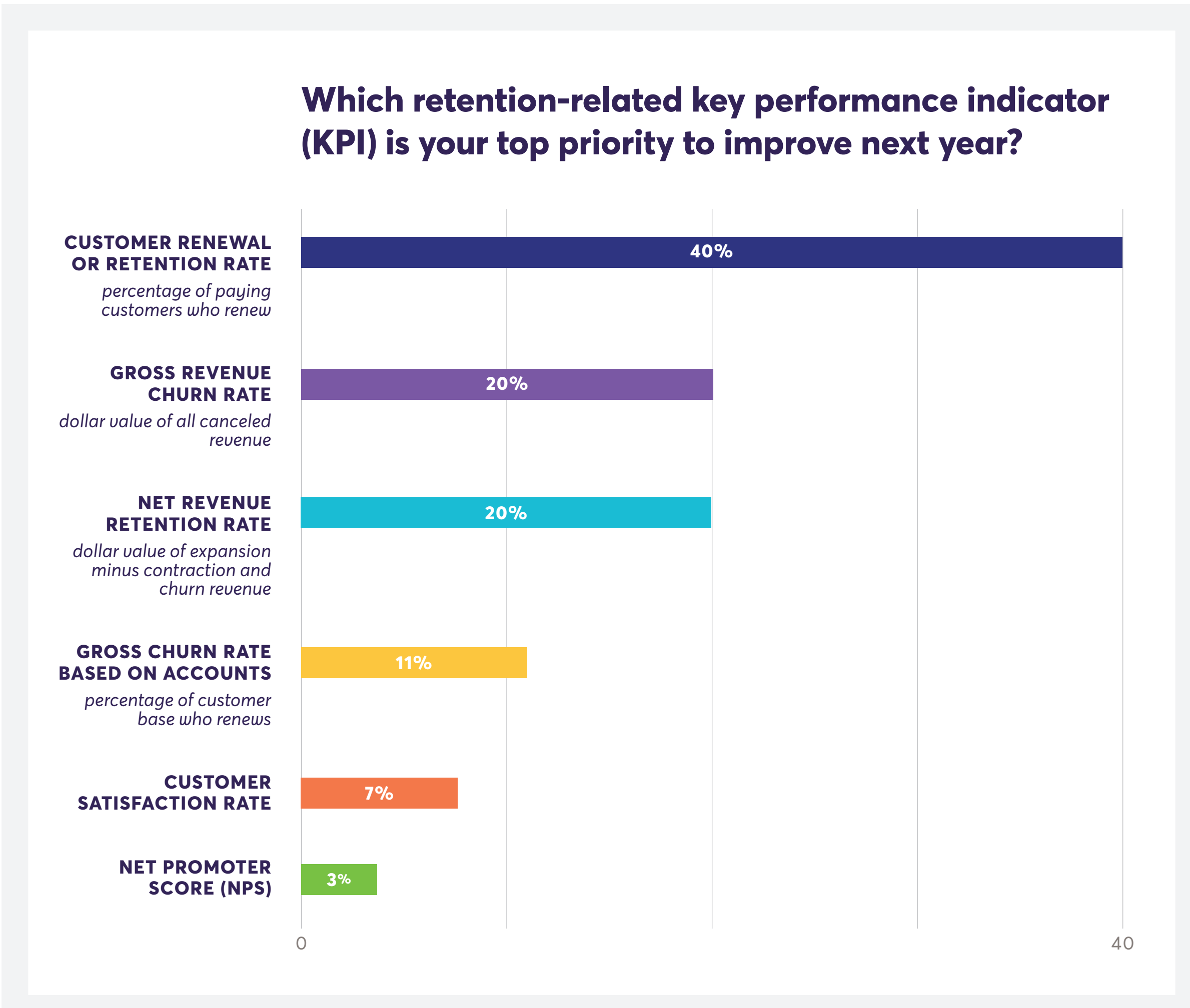


Sales or marketing teams own churn at 37% of subscription companies, which illustrates that go-to-market teams are being held to the full customer lifecycle.

Marketing leadership is increasingly responsible for customer acquisition cost to customer lifetime value (CAC:LTV), not just CAC, which means that they're optimizing their acquisition strategies on the ideal customer profile (ICP) for the business over solely lead conversion.

5 | Measurement and resourcing

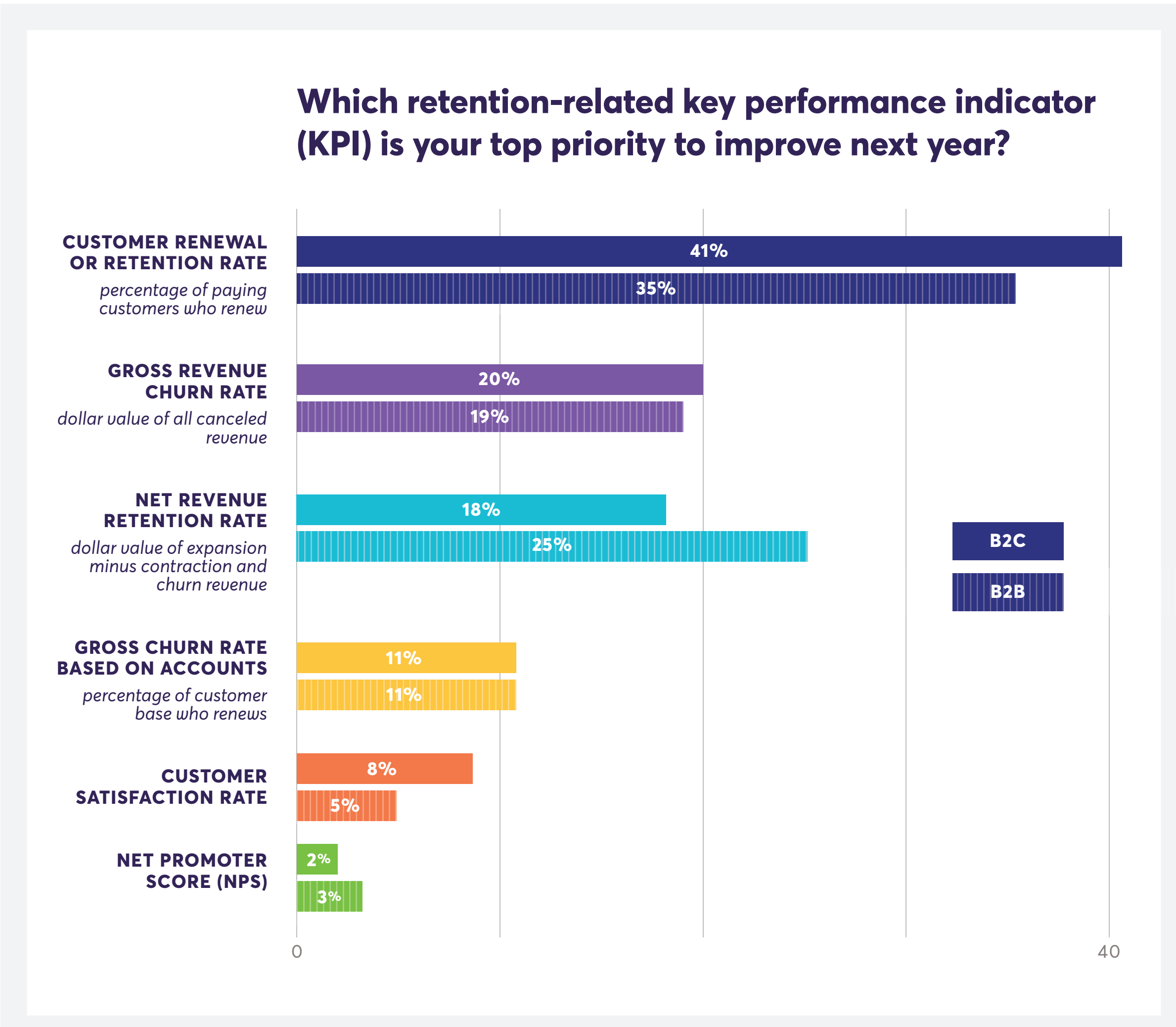
When it comes to tracking success, 40% of companies are looking to improve their customer renewal or retention rate. Most companies are looking to positive customer activity to understand the health of their business and track the impact of their retention efforts.



Retention KPIs differ at B2C and B2B companies

B2B companies are looking to grow net revenue retention, because their revenue numbers speak more to the health of their retention efforts. In their world, a single churning customer can have a large impact on their revenue. To improve this KPI, B2B companies should invest more resources into their customer success teams and focus efforts on upselling.

B2C companies are aligned with the overall trend of focusing on improving customer renewal or retention rate. Because consumer customers tend to have the same needs and pricing plans, B2C companies are focused on retaining as many users as possible.

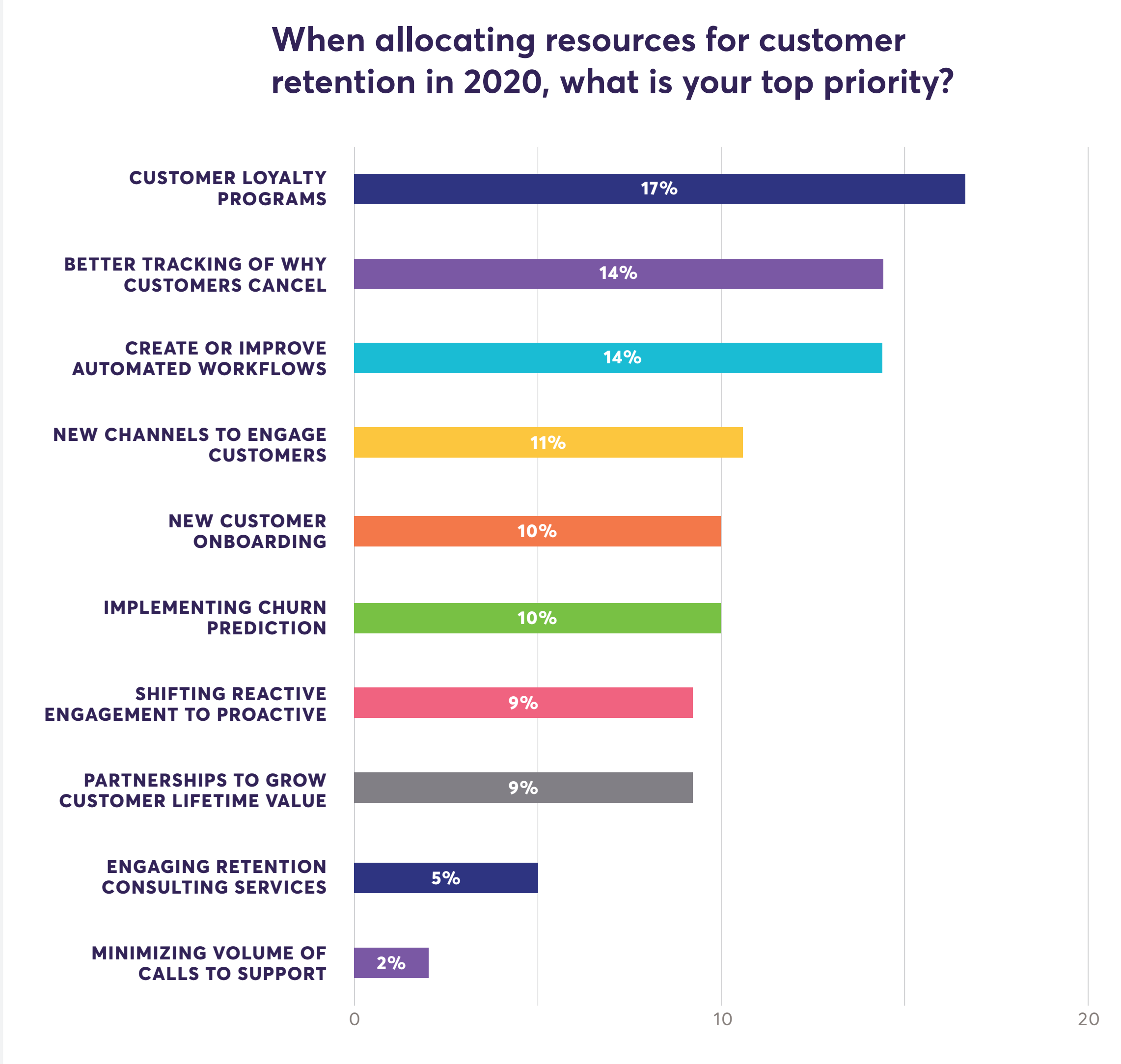


Where companies plan to invest retention resources

With different KPIs, B2C and B2B companies plan on allocating resources in different areas. But where does the industry stand overall?

The responses illustrate that there's no single retention strategy or program rising to the top in 2020.

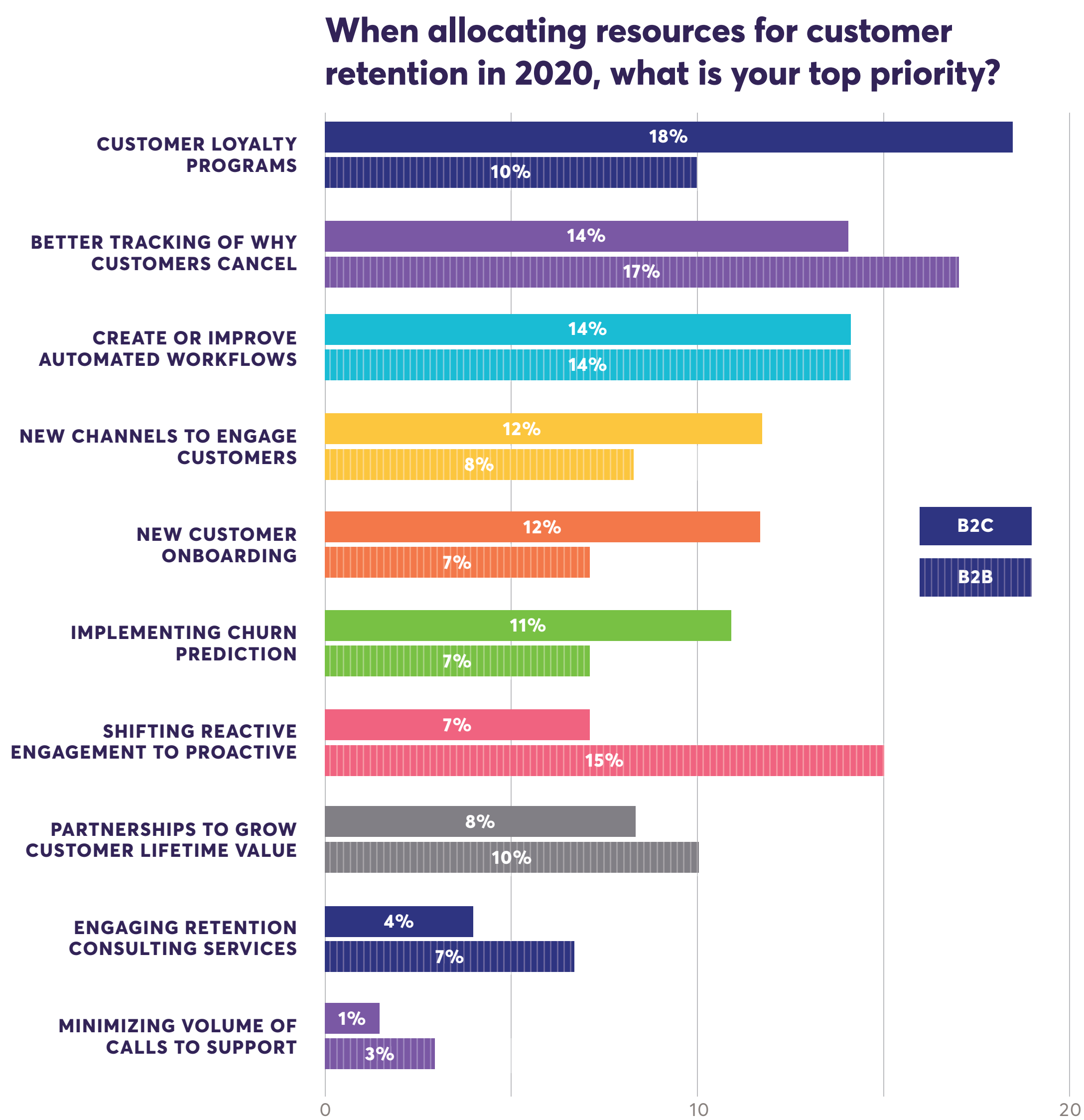
While the second highest priority is better tracking of why customers cancel, taking action on customer data is a key focus this year. Companies are planning on executing on data that's being gathered by developing new customer programs, expanding their ability to engage and investing in automation.



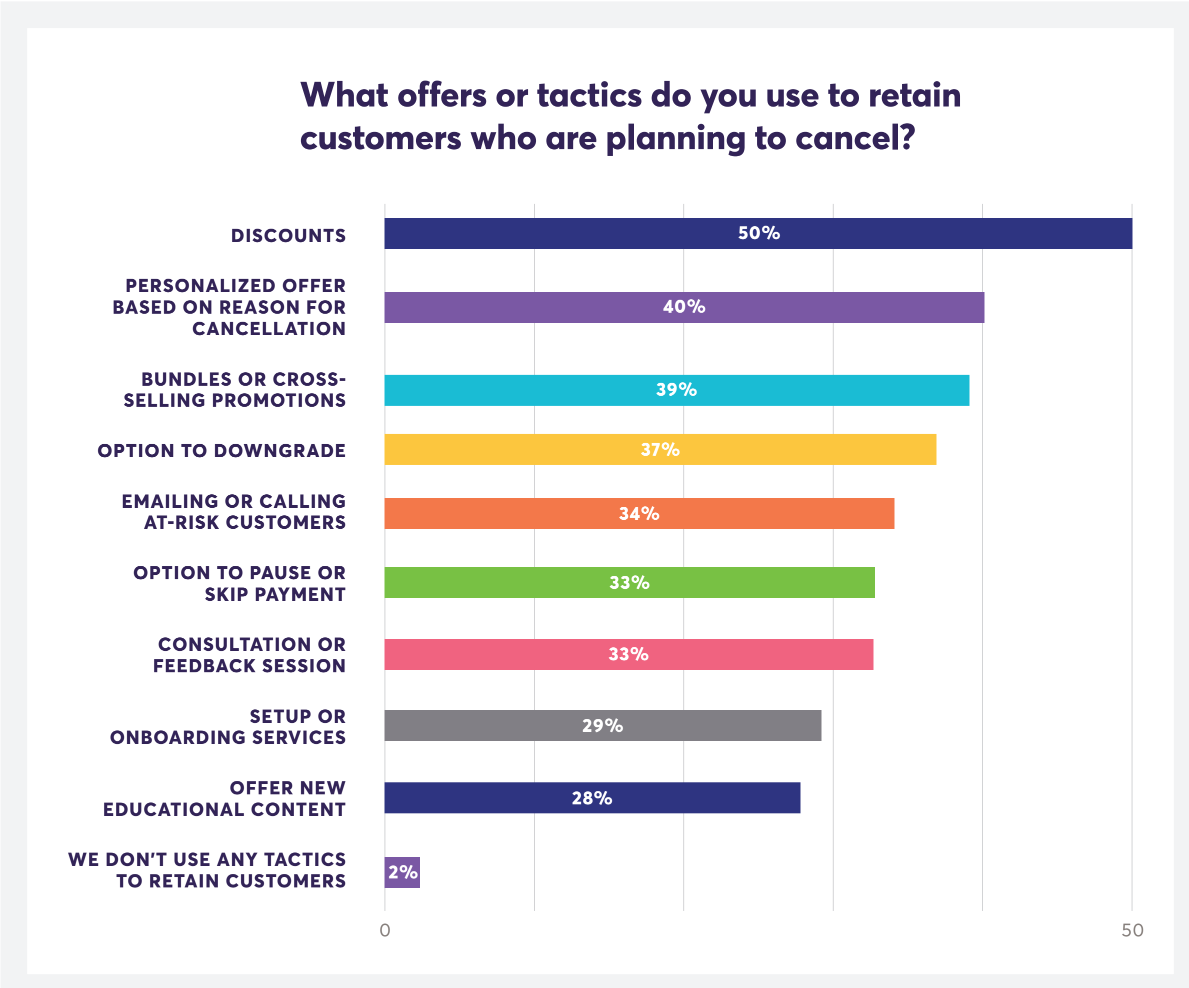
Different priorities for predictive and proactive solutions

B2C companies are more interested in predictive retention solutions than their B2B counterparts, but are overall more focused on customer loyalty programs. B2B companies break with B2C companies in their focus on shifting engagement to be more proactive than reactive, which underscores the relationship-driven outreach typical of B2B companies.

Overall, we're surprised to see predictive solutions low on the priority list. Predictive solutions don't automatically equate to operational churn reduction and subscription companies recognize this. Both B2C and B2B companies are focused on execution with workflows, programs and outreach top of mind while churn prediction remains in research and development (R&D) in 2020.



6 | Retention tactics: What's working



Discounts are used by half of companies to retain customers. While effective, they're not a permanent solution. Discounts should create an opportunity to better serve a customer down the road. The focus should be on long-term results, not sales.

Customers today are looking for more choices. Personalized offers based on the reason for cancellation are used by 40% of companies—this holds the key to retaining customers long term. The effectiveness of cross-selling and options to downgrade or pause shows customers are willing to rethink leaving if a service can adjust to their needs.

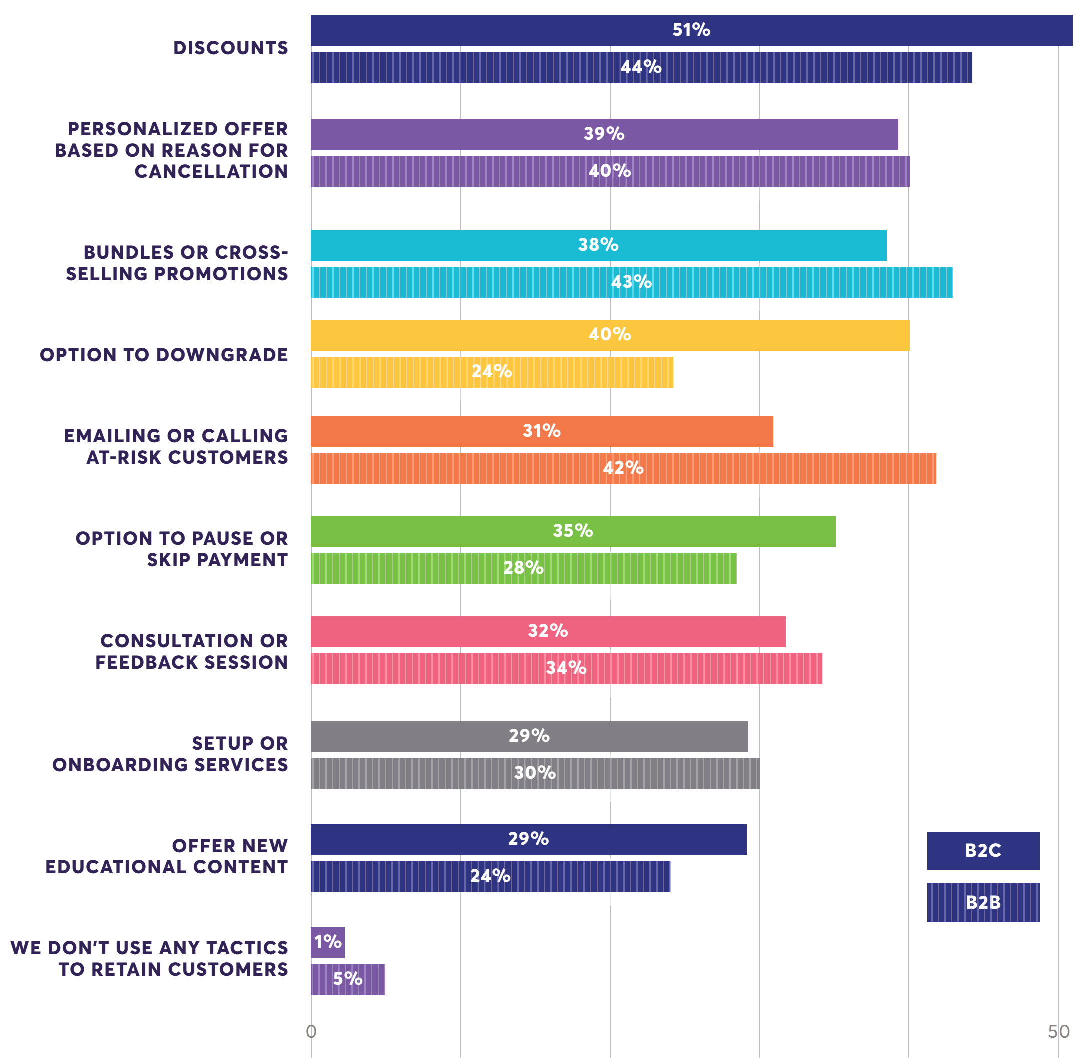
Understanding why customers cancel and being able to flexibly meet their needs is a major point of differentiation. From there, companies need to test and fine-tune offers based on how customers respond. A more customer-centric approach will yield higher retention rates.

B2C companies rely on discounts while B2B companies want to talk it out

With a variety of plans to match any consumer's wallet, B2C companies push the option to downgrade, pause or skip to help reduce churn. They also rely more heavily on discounts to retain customers, which could lead to retention problems down the line.

B2B companies find success employing proactive tactics like engaging via email and cross-selling.

What offers or tactics do you use to retain customers who are planning to cancel?



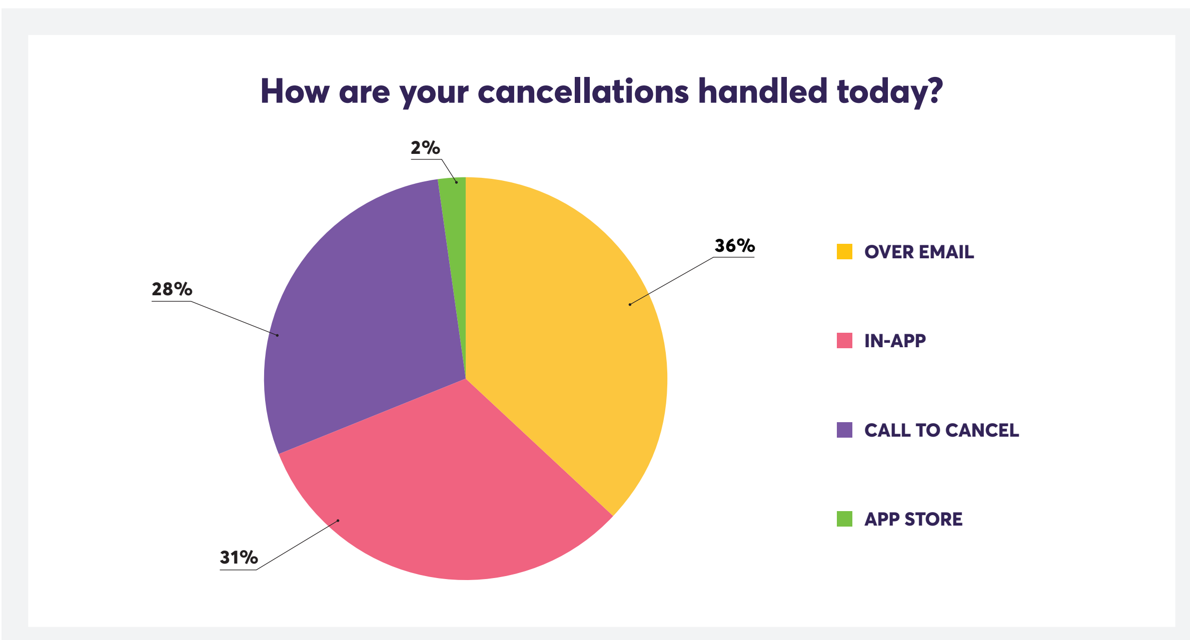
Cancellation: The new opportunity for retention

Even though most subscription businesses today enable online trying and buying, almost two thirds of companies (64%) indicated they require customers to cancel offline via email or phone.

Cancellations processed by email and phone may add friction that deters customers from canceling, but it hurts the seamless experience many customers are looking for today.

Today's online consumer is losing patience with subscription businesses that don't offer the ability to cancel online. Despite the relative ease with which online cancellations allow customers to leave a service, the benefits to company and customer more than outweigh the risks, including:

- Creating a more personal experience using prior purchase and data history
- Improving the experience for the customer, resulting in higher likelihood to refer and purchase in the future
- Ensuring high coverage of exit intent data by survey all customers at the moment of cancel
- Increasing the data quality by eliminating human error or interpretation
- Testing offers to save customers or identifying customers who may be more likely to retain.

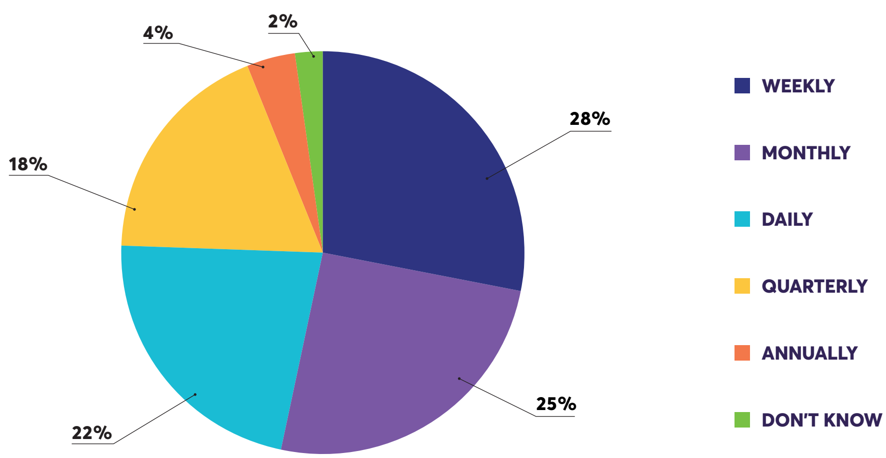


Subscription companies stay informed as to why customers cancel

Whether through exit surveys or anecdotal feedback from sales and success teams, subscription companies are frequently checking in on why customers.

It's encouraging to see nearly 1 in 4 (22%) of companies analyze cancellation reasons everyday. An additional 18% and 25% check in on the reasons they lose customers daily and monthly, respectively.

Approximately how often do you/your company analyze why your customers are canceling?



Companies that stay informed as to why customers are cancelling can see trends, spot opportunities to improve and take action to retain customers before it's too late. Insights from cancellation reasons can reveal changes companies can take to improve the customer experience in areas like product development, onboarding, support and marketing.

Possible changes companies could make based on data from cancellation:

- Change trial length to drive engagement and conversion
- Refine ideal customer profile
- Optimize the onboarding process
- Justify new content for use in retention
- Update policies to drive for proactive outreach and support

7 | What percentage of customers can subscription businesses save?

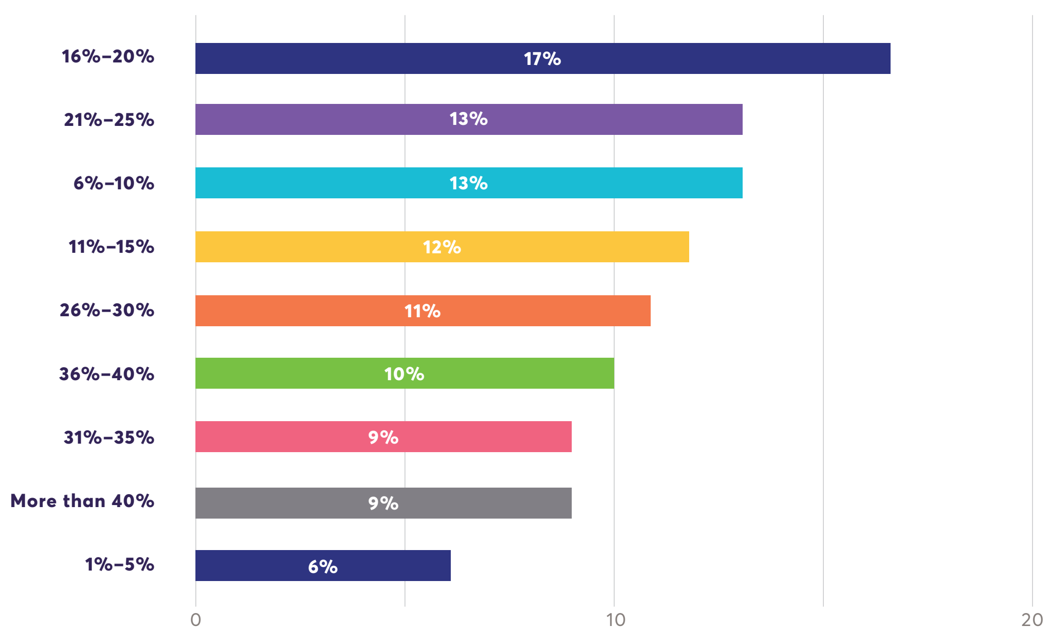
The end isn't in the end when it comes to the customer journey. Subscription companies are making an impact on retention, even when customers are walking out the door.

All subscription businesses should take courage: 43% of companies save between 6-25% of customers at the point of cancel.

This type of success solidifies that cancellation isn't about finality for subscribers. Companies should view a customer's desire to cancel as a signal that expectations aren't being met.

The challenge of retaining customers at the point of cancellation arises when a company must coordinate efforts across teams, gather data from multiple systems and determine the best channel to engage—all while not taking too long.

What percentage of customer cancellations have you been able to save using offers or by engaging customers when they are canceling?



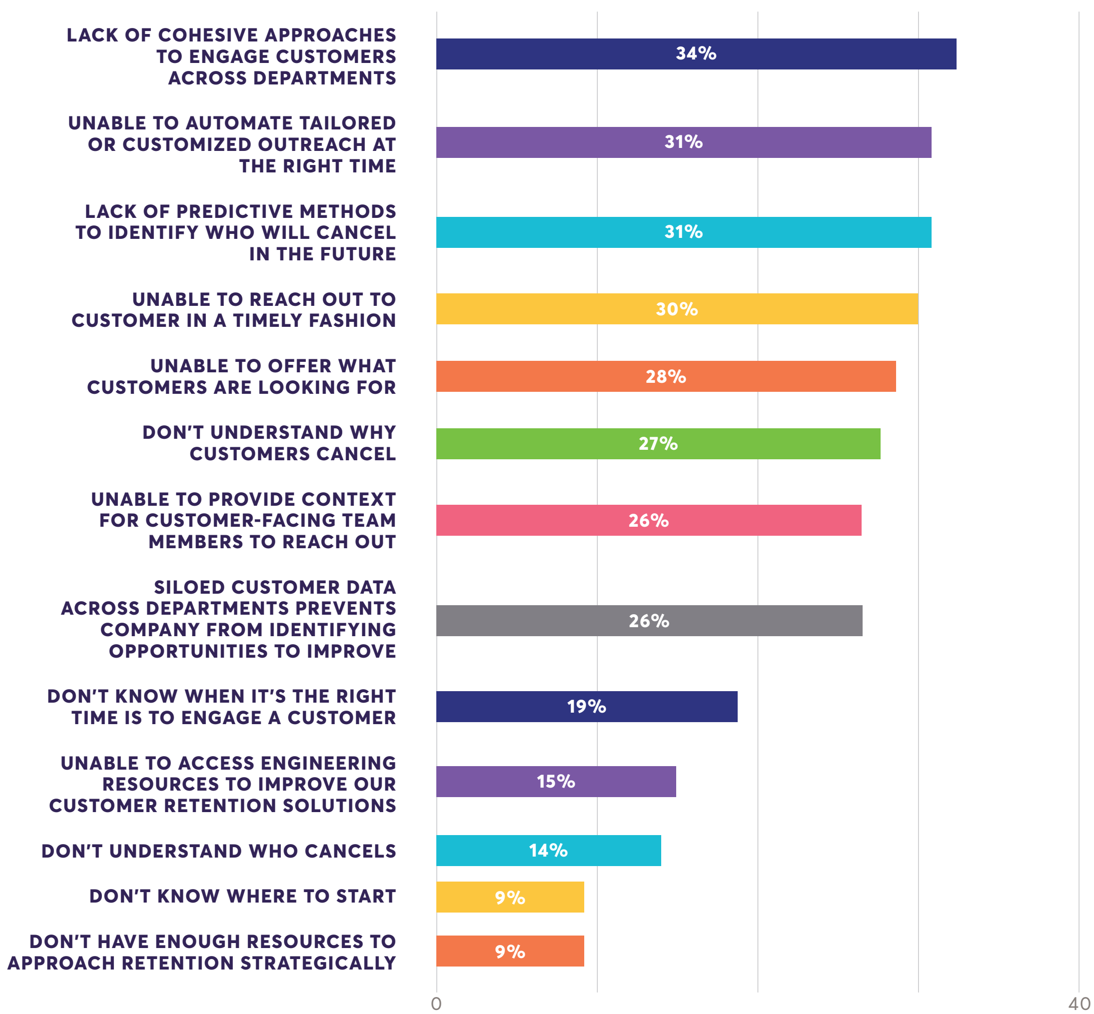
8 | Retention roadblocks

While retention is a growing priority, the subscription industry is far from having a clearly defined playbook to reduce churn at scale. A key challenge for today's growth or retention manager is their lack of ability to design a cohesive customer cancel experience.

Data fragmentation across CRM, billing, support, and product siloes stands in the way. Companies may be able to save customers at the point of cancel, but problems arise when attempting to bridge workflows across departments and engage customers in the right way, time and place.

About 1/3 (34%) of companies lack a cohesive approach to reaching out to customers, 31% don't provide tailored messages at the right time and 27% are enable to engage with the right context, as they don't why customers are canceling.

Select your top 3 challenges to improving customer retention.



9 | 2020 and beyond: Predictions for the subscription industry

This year, retention is set to be a top priority for companies looking to keep customers engaged and driving growth. From niche products to personalization, how companies deliver on and measure the success of their customer experience will separate successful subscription businesses from the next unflattering news story.

These seven trends will emerge to shape the way companies retain customers in 2020.

1. More mainstream brands will embrace the subscription model

We've all seen the articles detailing the financial fall of many brick-and-mortar stores. The "retailpocalypse" predicted years ago is coming to fruition as we've watched household names like Sears, Toys R Us and Barney's consider bankruptcy or go up for sale.

The shifting retail industry presents an opportunity for traditional companies to fully embrace recurring revenue models. We'll see big brands like Nike and Ikea continue to experiment and expand innovative subscription offerings. For struggling brick-and-mortar businesses, subscription services could very well be a lifeline.

2. Niche products will give way to subscription fatigue

Because the proliferation of subscription offerings are so vast, specialized products and services will need to prove their worth. We've reached a point of max fragmentation in our subscriptions, so offerings must be far better than they've been in the past.

Take media and entertainment. Exclusivity is the name of the game for streaming services from Apple and Disney as they go head to head with Netflix and Amazon. Deloitte found that the typical U.S. consumer subscribes to 3 streaming video services. With growing "subscription fatigue," there isn't room for more. Rising customer expectations and increased competition means we'll see consolidation, partnerships and mergers in B2C (clothing, streaming, meal delivery) and B2B companies (project management, martech, ecommerce) alike in 2020.

"The days of spouting fast, easy growth backed up by vanity metrics are over."

3. Customer retention will become the new frontier for marketers

It's impossible to ignore the IPO press around WeWork, Blue Apron, Uber, Peloton and others. If 2020's tech and consumer unicorns have poor unit economics and aren't turning a profit, they need to prepare to be the next ugly headline.

The days of spouting fast, easy growth backed up by vanity metrics are over. And retention will take its place as a top growth strategy for companies with subscription models. Should that have been the case much sooner? Sure. But organizations like Zoom, Datadog and PagerDuty are the new standard for success. These companies each had successful IPOs in 2019 thanks in part to their killer retention metrics. More will follow suit.

4. Metrics will shift to reflect a retention-first mindset

To deliver on sustainable growth, changes must take place at an organizational level. The teams responsible for acquisition efforts will also be held to those acquired customers' LTV more so than in years past. Of course, the acquisition-at-all-costs mentality isn't a problem that originates solely within a marketing organization, but changing the focus of marketing teams to be retention-minded will be a common theme next year.

This shift will also usher in a new partnership between marketers and product teams as they work together to onboard, activate and collect feedback from customers. A public and shared churn goal will help keep these teams aligned on their retention efforts.

5. Personalization will mean more than creepy ads and in an email

Personalization has been a big buzzword this past decade. But it's time to go well beyond personalized variables delivered en masse.

We need to look at interaction with our customers as a 1:1 event. That means taking more of the known factors of customers, segmenting them into groups and personalizing their web and product experiences to the point where it's an entirely custom journey. This approach is going to be essential for success in the very near future.

Salesforce Research found that customers are 2.1x more likely to view personalized offers as important vs. unimportant. And 84% say being treated like a person, not a number, is very important to winning their business. These numbers are only set to rise.

6. Customers will have even more control and companies must pay attention

Some companies are going to rise to the occasion of changing customer expectations. They'll personalize more experiences and offer better support. But are they willing to make it easier to cancel? They may not have a choice.

In California Senate Bill No. 313, California enacted legislation on July 1, 2018, that stipulated subscriptions that were entered into online must able be available to cancel online. That means no customer support call queues. It's a big win for consumers and we may see more legislation like it in other states. So, if you don't have an easy online cancellation process, 2020 is your year to invest.

7. Multi-channel retention will wow customers, predictive won't

Predictive capabilities are a popular topic of discussion thanks to the increasing desire to leverage AI and machine learning, but our research shows predictive solutions are still in R&D.

Let's say you have a predictive model that shows you what accounts will churn. Not many leaders could confidently explain what happens then. When it comes to retention, most companies don't have the systems in place to perform outreach at scale based on predictive data. In 2020, predictive models will remain a growth experiment not quite ready for mainstream adoption.

Appendix

METHODOLOGY

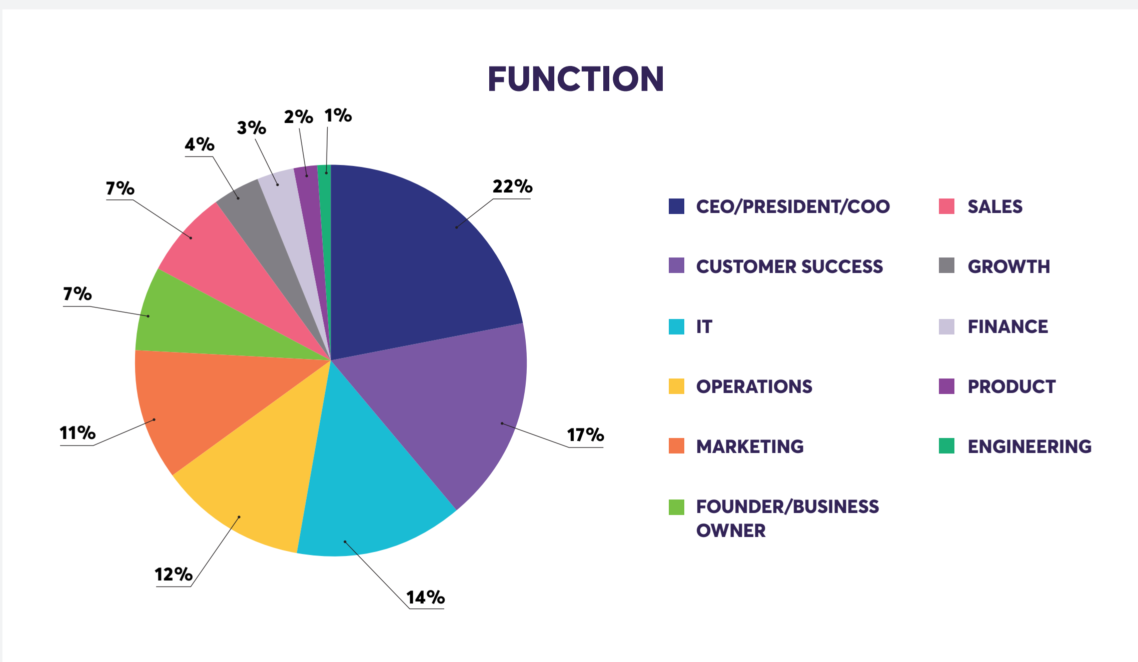
In partnership with consumer research company, Centiment, we conducted an online survey of approximately 435 workers at subscription-model companies that self-identify as having a direct impact on customer retention. Results were completed in Q4 2019.

Respondents work at companies with an employee count of more than 250 and exceeding $10 million in annual recurring revenue.

Titles include: CMO, CEO, Founder, CRO (Chief Revenue Officer), COO, VP Customer Success, VP Product, VP Growth, VP Customer Experience, VP Marketing, VP Retention Marketing, VP Product Marketing, VP Lifecycle Marketing, VP Consumer Marketing, VP Customer Engagement and/or VP Strategy & Retention.

Industries include: technology, manufacturing, finance, retail, healthcare, banking, education, construction, telecommunications, communications, engineering, electronics, insurance, apparel, entertainment, transportation, eneregy, food & beverage, hospitality, utilities, agriculture, government, chemicals, media, recreation, shipping, biotechnology, machinery and not-for-profit organizations.

All respondents live in North America.



ABOUT BRIGHTBACK

Brightback is the first automated customer retention software for subscription businesses. High volume subscription businesses use Brightback to successfully retain customers by reducing up to 20 percent of cancellations. The company is headquartered in San Francisco, and includes a remote-first workforce of mostly Silicon Valley emigrants now living across the globe. Learn more at www.brightback.com.