



Customer Retention:

Improve Profitability by Reducing Churn

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AUTHORED BY:

Shashi Kedilaya

Vice President, Product Management

sales@evergent.com

Introduction

Today's proactive enterprises invest significant time and effort to acquire customers only to lose out on the full, diverse revenue potential of those hard-earned patrons if they leave.

As expressed by countless industry experts, subscription businesses with a foundational client trust are more likely to grow faster. Customer loyalty is the hidden superpower to counter the revenue headwinds caused by churn.

Hence, customer retention is what separates the top performers from everyone else.

Why Retain Customers?

Sometimes, it's simply a numbers game.

Consider the following:

According to a study in the Harvard Business Review¹ and depending on your industry, it can cost anywhere from 5 to 25 times more to acquire a new customer than to retain an existing customer.

An increase of just 5% in customer retention efforts can result in up to 25% to 95% increase in profits.

These numbers are very important in highlighting how a focus on improving customer retention rate can be a substantial game changer for any business.

Though this can be more critical in the media and entertainment space where churn rates are much higher due to hyper-competitiveness, subscription fatigue and more, such a scenario is applicable to any subscription business.

Given the critical nature of this situation, let's now consider the types of churn and what we can do about it.



5X

The cost of acquiring a new customer compared to retaining an existing one



25-95%

Increase in profits with 5% customers retained

“If your retention is poor then nothing else matters.”

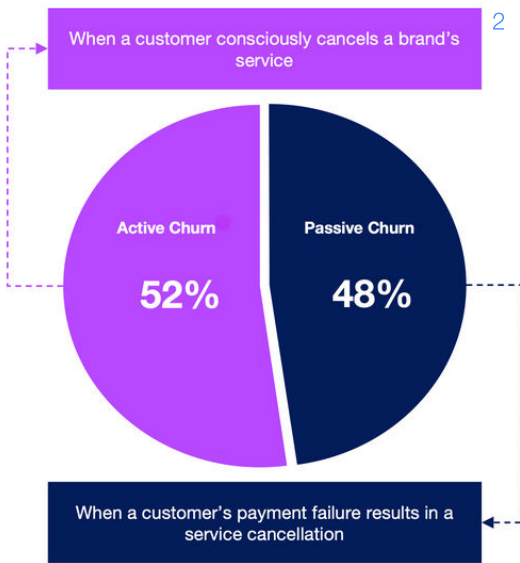
– Brian Balfour,
Founder & CEO of Reforge, former
VP of Growth at HubSpot

Customer Retention Strategies

There are two types of churn:

Active, or voluntary, churn is caused when a subscriber consciously decides to cancel the service due to any number of reasons including poor content, lousy customer service, too expensive, too many subscriptions and more.

Involuntary, or passive, churn (also called accidental churn) is caused when a payment fails, and the system cancels the customer's service.



Top reasons for canceling SVOD services (within the U.S. and Canada)³

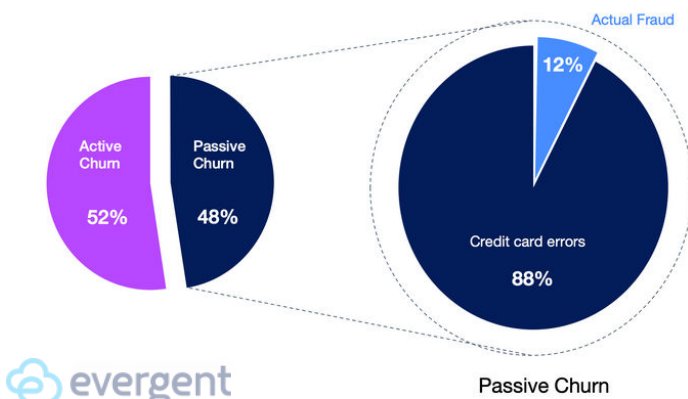
- The service raised its prices
- The service wasn't being used enough
- A specific show within the service ended
- A need to tighten the budget
- The service wasn't worth the money

Both voluntary and involuntary churn can be reduced by implementing certain strategies. A single strategy is not sufficient to substantially reduce churn. A multi-pronged approach is required to make a substantial change in retention rates, and attack churn from all angles.

Retention strategies include the following:

- Intelligent retries
- Step-down charging
- Churn deflection
- AI-based churn prediction

Intelligent Retries



Top reasons for credit card failures⁴

1. Processing errors
2. False declines
3. Account/card information changes
4. Insufficient funds
5. Fraud

As the study suggests, only about 12% of typical card failures are due to genuine reasons such as fraud. This means the rest of the failures are fully recoverable. Using AI/ML technology, these payments can be retried in an optimal way to maximize recovery. Such AI-based models use multiple data points including past history, time of day, day of the month/week, card provider, gateway and more to find the best way to successfully collect the payments.

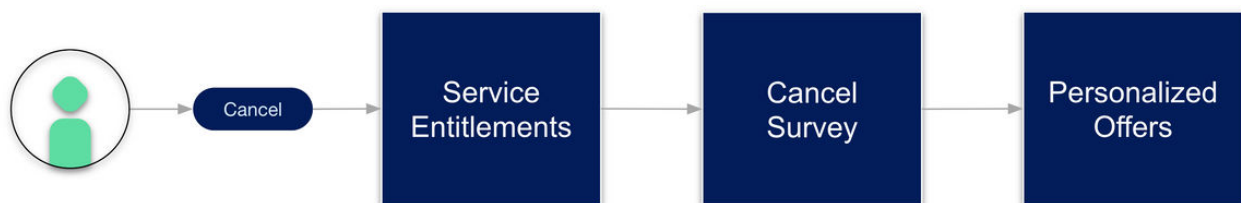
Step-down Charging



This method can extend the life of a service by trying to capture partial payments when the full payment collection fails.

When a partial payment succeeds, service is extended by a prorated period. This gives more time for the service provider to resolve collection issues. This process is usually done outside of the subscriber's visibility, thereby avoiding an active churn due to contact.

Churn Deflection



Churn deflection is a technique to reduce voluntary churn. The idea is to provide a compelling reason for a customer to consider staying with the service, rather than canceling the service.

Here is a three-step process:

1. First, allow the customer to understand what they'll be missing if they went ahead with the cancellation. This may include access to several channels of content or a list of free offerings, such as cloud storage, free DVRs, access to archived content, etc.

2. Next, work to better understand why the customer is considering canceling the service. This is important in order to craft the right offer. Is there dissatisfaction with the service or dissatisfaction on the pricing side? Each of these examples represents two distinct offer categories as a response.
3. Lastly, apply these response options in conjunction with knowledge of the customer standing, as represented within internal systems. Look within to learn whether the customer in question is a long-term customer, short-term, someone on a high-value plan, a free trial use customer or somewhere in between. Use this information when presenting offers. The goal is to provide a customer with offers they're most likely to accept. These offers could include, say, a 15% discounted subscription fee, free content, free months of service or other options. For example, if a subscriber wants to cancel due to a 3-month travel overseas they are more likely to accept an offer that pauses the billing for 3 months and resumes after that. Similarly, a pause-and-resume offer may be suitable for the subscriber of a sports streaming service who cancels at the end of a season. In all cases, consider layering the offers to help increase the odds of subscriber acceptance. The idea is to make them stay with you.

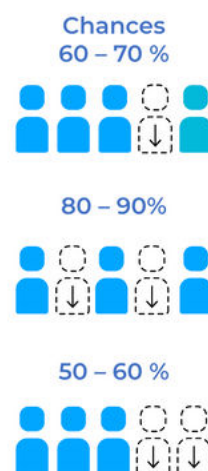
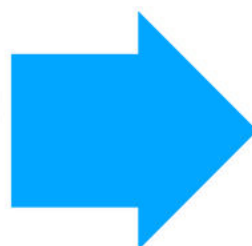
“ Growth marketing and retention have moved beyond being buzzwords. Digital brands do need to invest in rapidly scaling their user base, but helping customers fall in love with your product and building loyalty through non-intrusive and value-adding engagement is a whole different ball game ”

– **Rahul Mirchandani,**

SVP of Product & Revenue at Dream11

AI-based Churn Prediction

Advanced **AI/ML** Model
Can Predict Churn



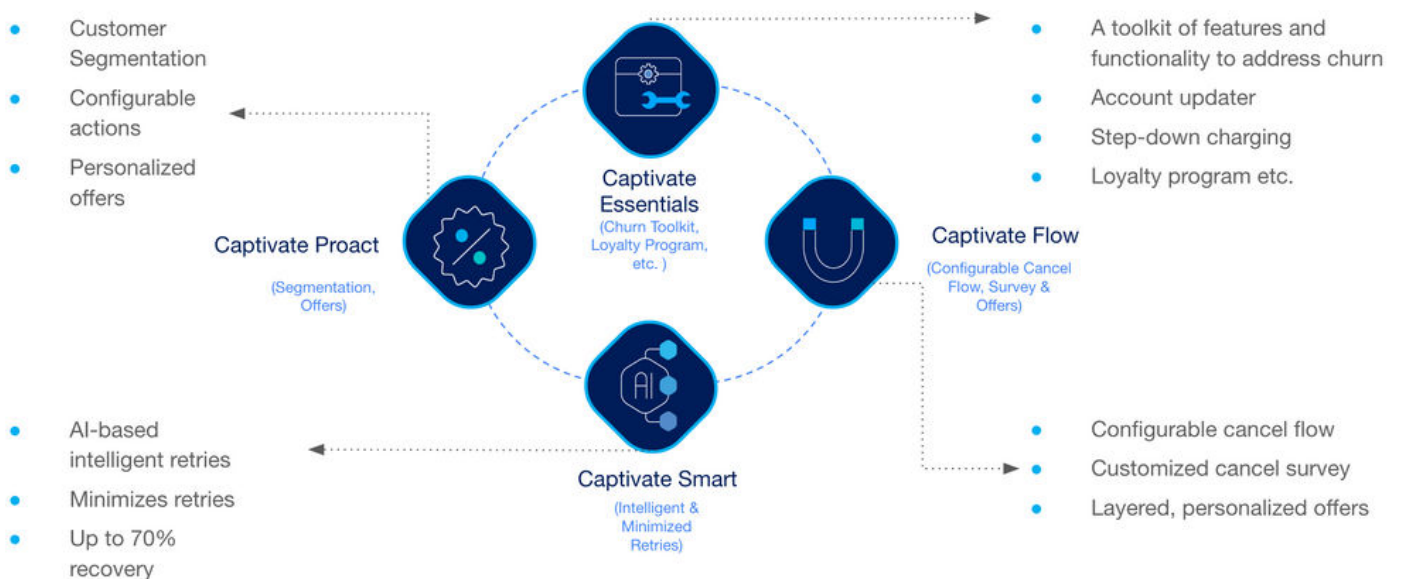
BSS systems have subscriber data that could be of immense value in predicting the behavior of the subscriber. Information such as viewing history, the number of times the user logs in, their payment history, the payment methods used and other details can be applied to predict the likelihood of a subscriber churning. Advanced AI/ML models can be used to learn from this data and predict the next actions the subscriber may take.

These predictions can be used to segment the subscribers and craft hyper-personalized offers. Subscribers that have a very high propensity to churn can be offered more attractive discounts.

For example, a long-term subscriber may be retained with an additional 10% discount for a year. A newer customer may be retained by a free sports package for a limited time or something of similar value, based on knowledge of that customer through well-analyzed subscriber data.

The Evergent Captivate Product Suite

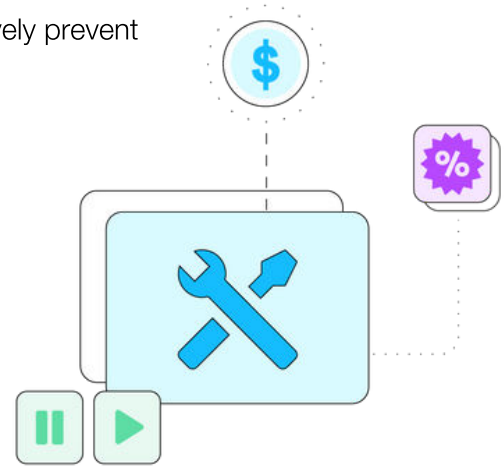
It is possible to tackle the challenge of customer churn from every conceivable angle for subscription businesses with the Evergent Captivate Product Suite, a multi-pronged collection of churn-centric solutions. Be equipped with the following set of specialized tools to reduce voluntary and involuntary churn, analyze and enact the right proactive measures.



Captivate Essentials

A multifaceted toolkit of features and functionality to proactively prevent both voluntary and involuntary customer churn.

- Account updater
- Advanced dunning rules
- Step-down charging
- Pause and resume
- Segmented offers
- Loyalty program
- Alternate payment methods & gateways



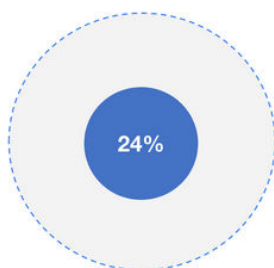
Captivate Flow

Deflect cancellations and reduce voluntary churn through the configurable delivery of personalized offers.



- Configurable cancel flow
- Customized cancel survey
- Layered, personalized offers
- Performance analytics

Captivate Smart



Average number of failed subscription payments



Of failed payments can be recovered

Depending on the region, demography and other factors, typically about 24% of recurring payment collection attempts fail⁵. Out of the failed payments, about 88% are recoverable. This product has been proven to recover up to 70% of these failed payments. This recovery rate, which is already best-in-class, can improve with time as the AI/ML-based intelligent retry logic is trained more and more on the data.

By using intelligent retries, Captivate Smart can recover the payments much faster with minimal retries, thereby improving the cash flow as well as customer lifetime value. Captivate Smart is invisible to the customer, thereby avoiding any additional churn due to unnecessary customer interaction.

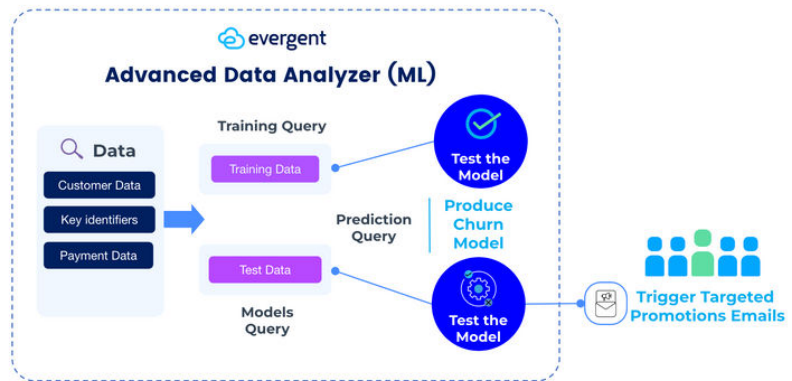
- AI-based payment recovery engine that optimizes the customer experience and retention
- Minimizes retry attempts
- Best-in-class recovery rates
- Customer unaware of the retry attempts – reduces additional churn
- Improves customer LTV (lifetime value)

Captivate Proact

Put technology to work for you to analyze customer data and avert churn before it happens.

This AI/ML-based churn prediction and analysis tool equips service providers with a strategy to deliver personalized offers or dunning treatment to their subscribers likely to churn, often averting an actual churn before it occurs.

- Customer segmentation
- Configurable actions
- Personalized offers
- Performance analytics



The Importance of Business Insights at your Fingertips

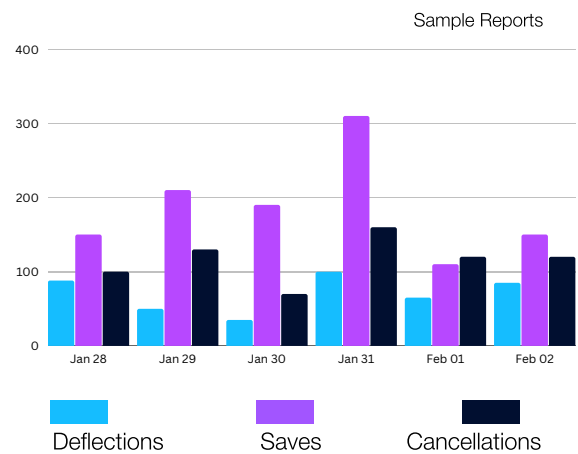
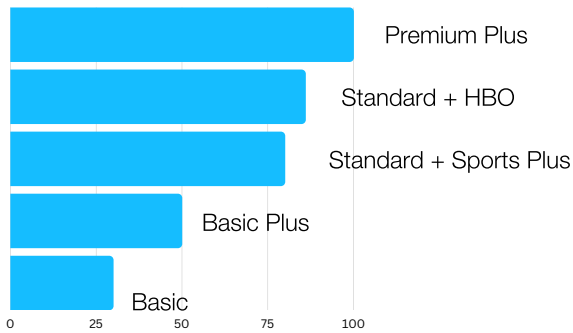
Today's forward-thinking service providers leverage all available business insight data toward an improved subscriber experience, enhancing the satisfaction of the user base and overall profitability of a business. Subscriber analytics, the study of subscriber preference data or more simply put, using data to understand customer choices better, plays a vital role in the growth of any subscription entity.

There's no question the availability of business insights is a true game-changer for several facets of any subscription business.

Jan 01 - Jan 07 Churn Deflection Performance



Top 5 Offers accepted



Consider the following:

- Equipped with the ability to understand the effectiveness of in-motion retention strategies critically informs strategy investments going forward. Put more simply, knowing what works and what doesn't is the best way to continue with what has been working.
- Subscriber data helps improve customer engagement significantly, with individual platforms communicating more effectively than ever before. Businesses gain the insight needed to tap into new geographical markets.
- Subscriber analytics elevate the platform experience and enable OTT platforms, telecom providers and other delivery systems to better envision, plan and execute every customer touchpoint based on customer-data-infused insights.

Your Next Steps

Implement strategies to reduce payment failure and optimize the customer experience to improve your customer lifetime value (LTV).

To discover more about each of the individual offerings within the Evergent Captivate Product Suite, and the possibilities this pioneering suite offers, please contact our team at www.evergent.com.

Reference

1 Harvard Business Review, "[The Value of Keeping the Right Customers](#)"

2 PYMNTS.com, "[The State of Subscription Business: Best Practices and Business Performance Drivers](#)"

3 [Statista](#), 2023

4 PYMNTS.com, "[The State of Subscription Business: Best Practices and Business Performance Drivers](#)"

5 PYMNTS.com, "[The State of Subscription Business: Best Practices and Business Performance Drivers](#)"