Subscription Product Retention Analysis

Executive Summary

This analysis examines the retention characteristics of the subscription product based on the available customer data. The product demonstrates several distinct retention patterns that vary across cohorts, pricing tiers, payment providers, and geographic regions.

Key observations include a consistent three-month normalization period for retention across most cohorts, a notable retention improvement beginning in January 2022, better retention performance among higher-paying customers, significant provider-based variations with Apple showing superior retention metrics, and geographic differences with US customers demonstrating higher retention rates compared to other regions.

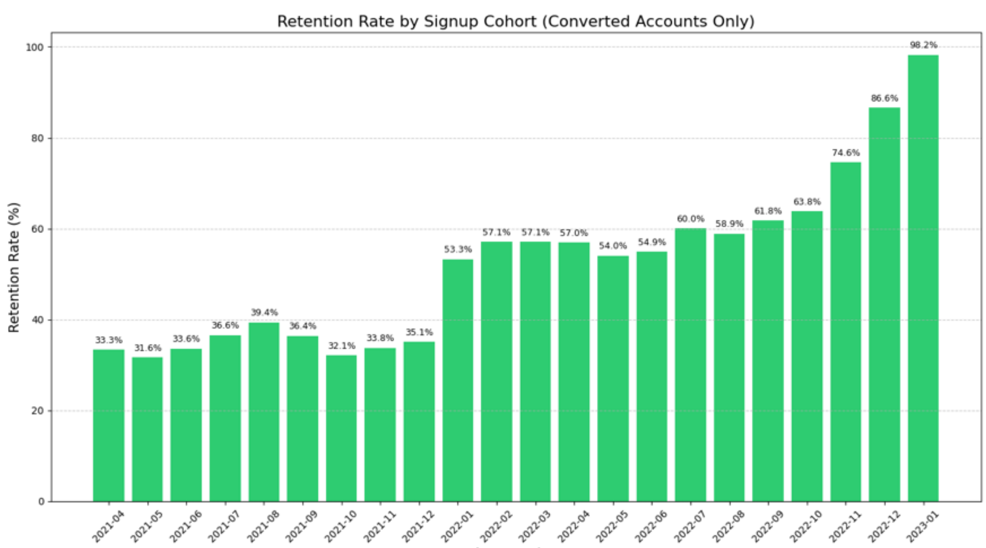
The data snapshot nature limits our ability to track individual customer behavior over time, particularly for analyzing revenue expansion. However, we have identified that approximately 30% of currently active customers show indications of revenue growth at the individual level.

<u>Retention Characteristics by Dimension</u>

Cohort Retention Patterns

The data reveals several important temporal patterns in customer retention:

1. **Initial Drop and Stabilization**: Across most cohorts, retention rates show a significant decline during the first three months after conversion before stabilizing at a relatively steady level. This pattern indicates a critical evaluation period for new customers.
2. **January 2022 Anomaly**: Customers who converted beginning in January 2022 exhibit notably improved retention compared to earlier cohorts. This pattern appears consistently throughout the data and could represent either:
    - A significant product improvement that enhanced the customer experience
    - The introduction of annual subscription plans that artificially extend retention periods
    - Changes in acquisition strategy or target customer segments

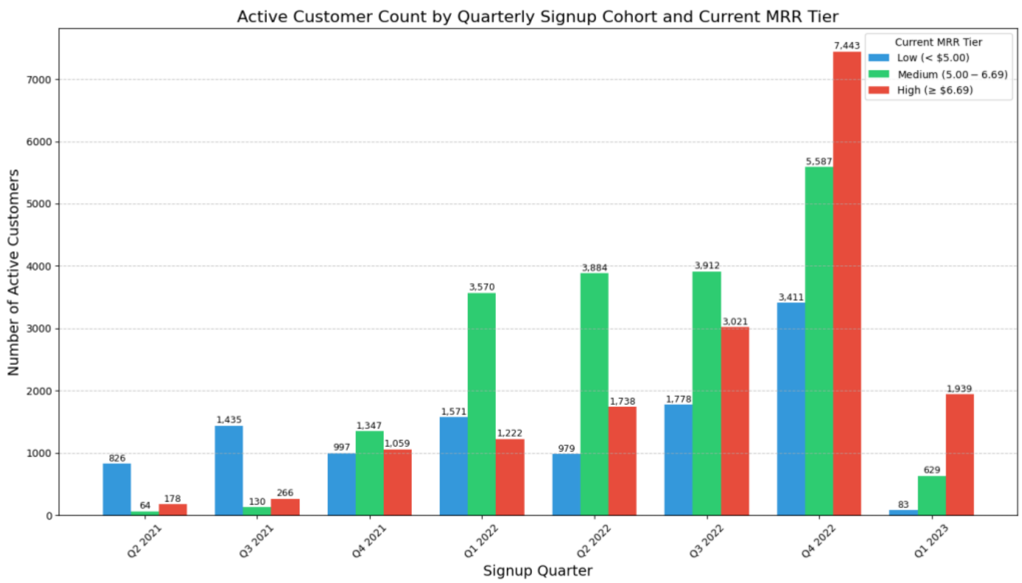


MRR and Pricing Tier Patterns

Analysis of current MRR levels reveals:

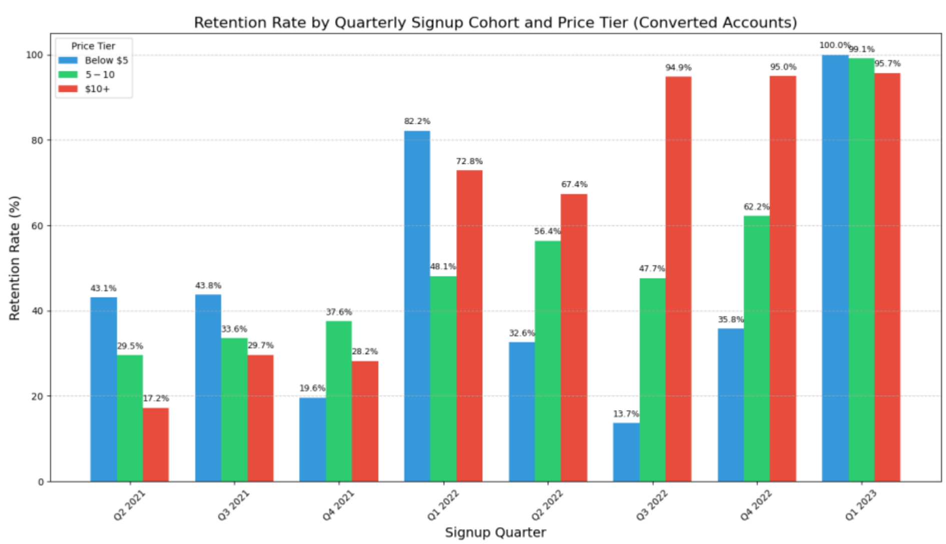
1. **Higher MRR in Recent Cohorts**: Average Current MRR is noticeably higher among active customers from more recent sign-on cohorts. This could indicate either:
    - Improved customer acquisition targeting higher-value segments
    - Progressive downgrading or cancellation by higher-MRR customers over time

   Given high retention rates for higher pricing tiers we can also observe I am inclined to believe the former true, although downgrading trend is still a possibility. This could be explored further with more information on intro MRR rates for customers or a split out of onboarding fees paid by customer.



2. **Pricing Tier Correlation**: Customers with higher average monthly payments (total_charges / payment periods)* demonstrate significantly better long-term retention compared to lower pricing tiers. This correlation suggests that customers who perceive more value (or have more resources to allocate to the service) remain subscribers for longer periods. Said differently, customers that spend more on the product, tend to stick with it longer – a beneficial relationship for a subscription product.

*Note that this calculation will naturally be higher immediately after acquisition in the case that customer incurred onboarding costs for their plan



3. **Temporal Shift in Acquisition**: The data shows a clear shift toward acquiring higher-MRR customers beginning in Q2 2022, with the largest segment of high-MRR customers originating in Q4 2022 and continuing into Q1 2023.

Revenue Structure and Expansion

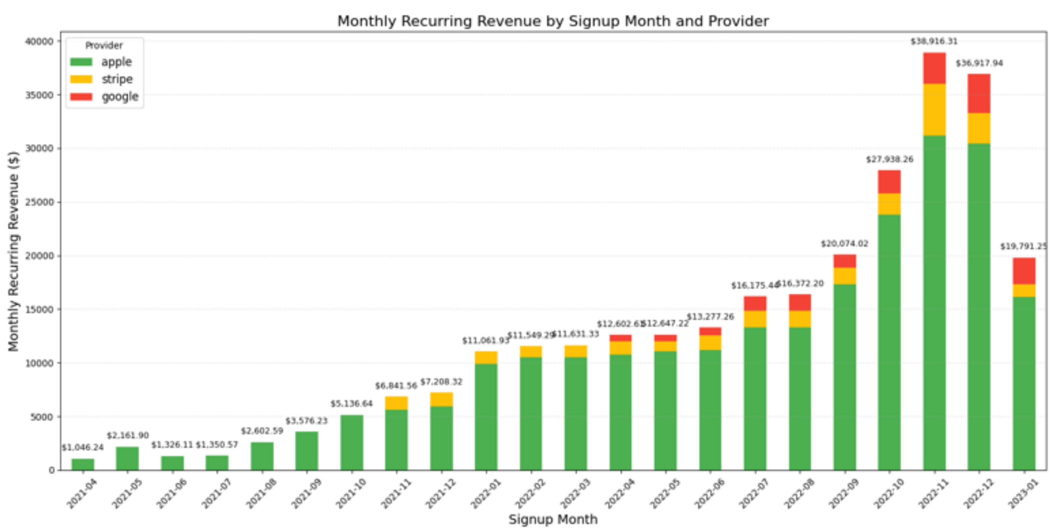
The data provides several insights into revenue dynamics:

1. **Significant Onboarding Costs**: The relationship between total charges and current MRR indicates substantial startup or onboarding costs are applied to new customers. Total charges frequently exceed what would be expected from current MRR multiplied by the payment period.
2. **Revenue Expansion Evidence**: Approximately 20%% of active customers have current MRR multiplied by payment periods greater than their total charges to date (including signup costs). This suggests revenue expansion occurs at the customer level for a significant portion of the base (though it could also partially reflect transitions from free trial period promotions). In either case, revenue expansion occurred on 20% of the population with a high likelihood that the true percentage is greater given existence of onboarding fees.
3. **Revenue Retention Limitations**: Due to the snapshot nature of the data, calculating true revenue retention remains challenging. Without historical MRR information for churned customers, we cannot accurately compare retained versus lost revenue over time.

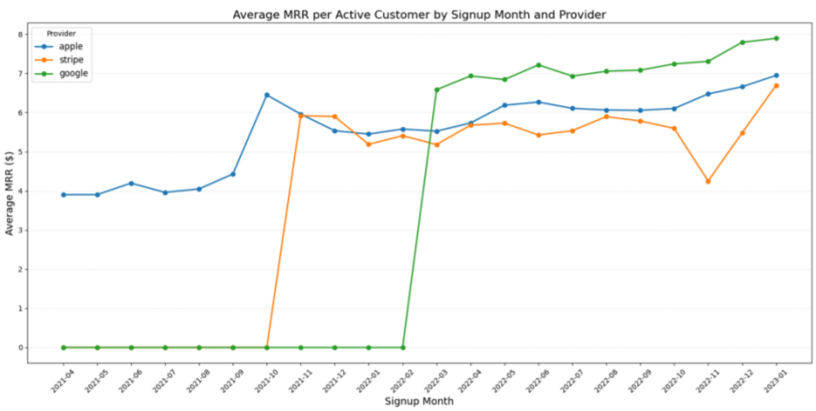
Provider Analysis

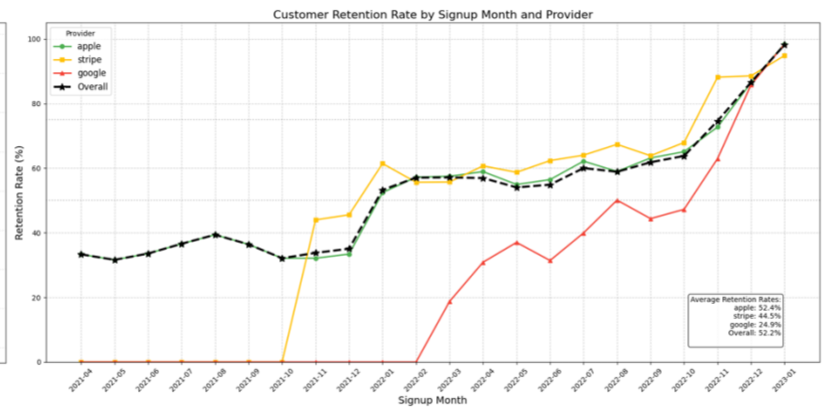
Payment provider data reveals distinct performance patterns:

1. **Volume Distribution**: Apple has consistently captured the highest customer volume, beginning as the sole provider when the service launched.



2. **Provider-Specific Performance**: Google-originating customers generate the highest initial MRR but exhibit significantly worse retention rates compared to other providers. Apple shows the best retention metrics when examining where retention rates stabilize. Google is also the newest provider so could be trying to operational work out differences to platform.



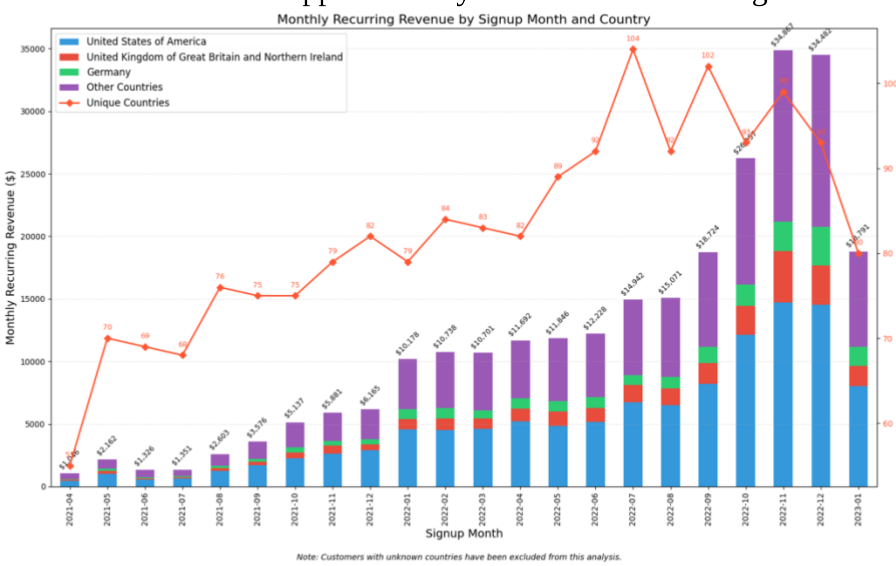


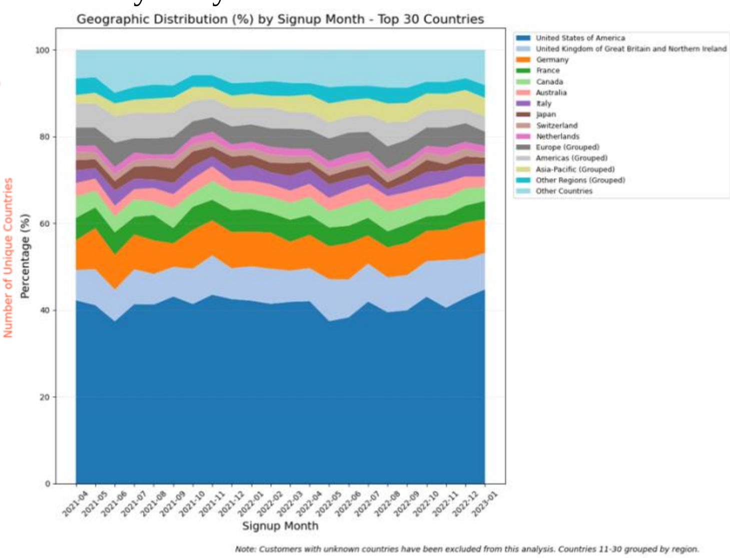
3. **Lifetime Value Implications**: When calculating implied lifetime value based on retention stabilization rates and average revenue, Apple emerges as the superior provider for maximizing customer value, despite not having the highest initial MRR.

Geographic Distribution

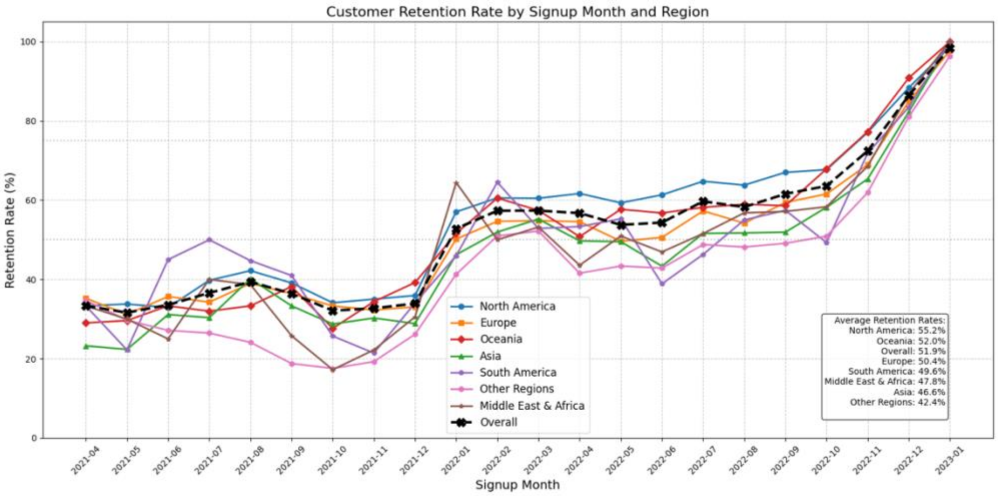
The geographic analysis shows:

1. **Rapid Expansion**: The service expanded quickly from 5 countries in the first month to approximately 100 countries with regular customer activity today.





2. **Market Concentration**: The United States represents the largest portion of the customer base, followed by the United Kingdom and Germany.
3. **Regional Retention Variation**: The United States maintains higher retention rates on average compared to other regions. This geographic retention advantage persists across cohorts.
4. **Consistent January 2022 Pattern**: The retention improvement observed beginning in January 2022 appears consistently across geographic segments, suggesting a product-level or company-wide change rather than a region-specific initiative.



Data Limitations

Several limitations affect this analysis:

1. **Snapshot Data Structure**: The data represents a single point in time, limiting our ability to track individual customer behavior over time. This particularly impacts our ability to analyze revenue expansion and churn patterns.
2. **Missing Historical Information**: For churned customers, we lack information on their final subscription prices, limiting our ability to calculate accurate revenue retention metrics.
3. **Cohort Duration Variation**: Newer cohorts have existed for less time, creating an inherent bias in retention comparisons across different time periods.
4. **Attribution Challenges**: While correlations between variables (such as pricing tiers and retention) are observable, determining causality remains challenging without additional customer attribute data.

Conclusion

The subscription product shows distinct retention characteristics that vary significantly by cohort timing, pricing tier, payment provider, and geographic region. The most notable patterns include the three-month normalization period, the January 2022 retention improvement, the correlation between higher pricing and better retention, and the superior performance of Apple as a payment provider and the US as a geographic market.

These findings suggest several areas for potential operational focus:

1. Investigating the specific product, pricing, or experience changes implemented around January 2022 to identify retention drivers
2. Analyzing the correlation between higher pricing tiers and improved retention to optimize customer acquisition and pricing strategy
3. Addressing the retention challenges with Google-originated customers despite their higher initial MRR
4. Implementing improved data infrastructure to enable longitudinal customer analysis, particularly for understanding revenue expansion and churn patterns over time
5. Applying successful retention strategies from the US market to other key geographic regions to improve global performance