Subscription-based e-commerce business: What is churn and clv?

DESCRIPTION:

In this case study ,we discuss how a subscription-based e-commerce business employed customer-centric strategies to reduce churn and increase customer lifetime value. Find how companies are Maximizing customer spending and loyalty while minimizing subscription cancellations to enhance profits and long-term business sustainability in an e-commerce model.

- This case study shed's light on the subscription-based model and how Customer lifetime Value(clv) and churn rate work for them.

- We investigate various companies, their tactics, and the correlation between these strategies, and their impact on CLV and churn and determine which metrics will be best for them to track whether clv or churn is getting better.

CLV:

- Customer lifetime value (CLV or CLTV) is a metric that represents the total net profit a company can expect to generate from a customer throughout their entire relationship.

- Calculating CLV : multiply the average order value (AOV) by the average number of purchases per year by the average customer lifespan. For example, if your AOV is $50, your customers buy from you 4 times a year, and they stay with you for 3 years, your CLV is $50 x 4 x 3 = $600.

Churn rate:

- Churn rate in business refers to the number of customers or subscribers that leave a provider in a given time period.

- <u>Calculating Churn Rate</u>: divide the number of customers lost during a specific period by the total number of customers at the beginning of that period. For example, if a company starts the month with 500 customers and loses 50 by the end of the month, the churn rate would be 10% (50/500).

- In today's highly competitive business landscape, customer retention is crucial for the long-term business and growth of any company.

Relation between CLV and CHURN RATE:

$$CLV = \frac{1}{ChurnRate} \times ARPA$$

CLV: Customer Lifetime Value
Churn Rate: The rate at which customers cancel their subscription
ARPA: Average revenue per account (customer) for a defined period of time (eg, monthly)

- There are many benefits to knowing your CLV – and, on the flip side, not having a good grasp on it can be detrimental to your growth strategy.
- However, the CLV by itself as a metric can only tell you so much about the health of your customers and your business.

- Company A's customer churn rate is higher, while Company B's revenue churn is higher. While churn rate measures how many customers a business lost, growth rate measures how many customers a business gained. Overall, these three metrics influence your company's longevity and can help you measure customer satisfaction.

Customer churn rate formula

$$(Y / X) \times 100 = Z$$

X	Number of customers at the start of the time period
Y	Number of customers lost during that time period
Z	Customer churn rate percentage

Tactical Approaches to Enhance Customer Experience and Prevent Churn:

Personalization:

It is a process of tailoring customer experiences to meet individual needs and preferences. It can reduce churn rate in e-commerce by:

- Understanding customers on a personal level
- Providing personalized experiences

- Fostering customer loyalty and trust
- Increasing customer retention rates
- Creating customized shopping experiences.

Maximizing Customer Feedback for Retention Optimization:

Customer feedback is imperative for gaining insight into customer requirements and preferences, which can aid businesses in optimizing their retention tactics. By collecting customer feedback through various methods such as:

- Surveys
- Emails
- Interviews and focus groups
- Social media
- Website analytics
- Free-text feedback

Segmenting Customers for Targeted Retention Campaigns:

Segmenting customers for targeted retention campaigns has multiple advantages, such as:

- Enhanced targeting
- Targeted communication
- Increased competitiveness
- Increased ROI
- Strengthened brand identity.

Real-time Monitoring of Churn and Adaptive Strategies:

- Real-time monitoring of churn and adaptive strategies involves the continuous tracking and analysis of customer behavior and engagement to identify potential churn indicators in a timely manner.

- By monitoring churn in real-time, e-commerce businesses can take proactive measures to prevent customer attrition and implement adaptive strategies to retain customers.

Cultivating a Retention-centric Business Culture:

- Cultivating a retention-centric business culture is a customer-centric environment that emphasizes putting the customer at the core of business decisions and strategies. This approach leads to increased loyalty, higher customer satisfaction, and ultimately, improved customer retention rates.
- By prioritizing customer retention and long-term success, subscription based ecommerce businesses can optimize their operations, maximize customer lifetime value, and achieve sustainable growth in the competitive e-commerce landscape.

Checklist for Crafting an Effective E-commerce Retention Strategy:

A comprehensive checklist for crafting an effective e-commerce retention strategy includes:

1. Gaining an understanding of customer churn and its effect on business performance.
2. Analyzing customer data to recognize patterns and trends.
3. Segmenting customers for targeted retention campaigns.
4. Providing engaging customer experiences at each touchpoint.

Utilizing analytics for early detection of at-risk customers, deploying probabilistic models to predict and prevent customer churn, instituting loyalty programs and incentives for churn reduction, and engaging customers beyond the purchase.

CASE STUDY:

NETFLIX:

- When you think about searching online, you think Google. When you think about colored sticky notes, you think Post-it. And when you think about binge-watching series and movies you think of......right: Netflix.

- Netflixing has become synonymous to binge-watching.

- When **Netflix** launched, **Blockbuster** (a global chain of video stores where customers could go and rent videos in store) was their biggest competitor.

- It took Blockbuster years to start offering a similar service as Netflix was already doing. By the time they finally shifted to a subscription service, Netflix already had started the process of shifting their customers to streaming subscribers and was quitting the DVD rental business.

- From the launch of their subscription model in 1999, Netflix gained **239.000 subscribers in its first year** and went on to build a customer base of **1 million subscribers by 2003**. As of today, Netflix is by far the number one online player of series and movies.

How Netflix uses Customer Lifetime Value to optimize Content and Pricing?

- By analyzing CLV, Netflix gains valuable insights into long term value of its customers, enabling them to make data-driven decisions that drive growth and customer satisfaction.

  1. Content Optimization.
  2. Pricing Strategy.
  3. Personalization and Recommendation.
  4. Retention strategies.

- Some of the important factors that influence the CLV are:

1. Customer Acquisition Cost (CAC).
2. Customer Retention Cost (CRR).
3. Customer Average Order Value (CAOV).

Some key concepts adapted by Netflix to attract and retain customers:

Original Content:

- Netflix has heavily invested in producing original content, which sets it apart from other streaming services.
- By creating popular and critically acclaimed shows and movies such as "**Stranger Things**," "**House of Cards**," and "**Bird Box,**" Netflix has been able to attract a large audience and keep them engaged.
- This strategy allows Netflix to offer exclusive content that cannot be found on any other platform, making it a compelling reason for customers to subscribe and stay loyal.

Personalized recommendations:

- Netflix leverages advanced algorithms and data analytics to provide personalized recommendations to its users.
- By analyzing a user's viewing history, preferences, and ratings, Netflix suggests content that aligns with their interests.
- This personalized approach not only helps customers discover new shows and movies they might enjoy but also enhances their overall viewing experience.
- This tailored recommendation system is one of the key factors that keeps customers engaged and coming back for more.

User-Friendly Interface:

- Netflix has a user-friendly interface that is easy to navigate, making it convenient for customers to find and watch their favorite content.
- The platform offers multiple user profiles per account, allowing each family member to have their own personalized experience.

- Additionally, Netflix continuously updates its interface based on user feedback, ensuring a seamless and intuitive user experience across devices. This attention to detail enhances customer satisfaction and encourages them to continue using the service.

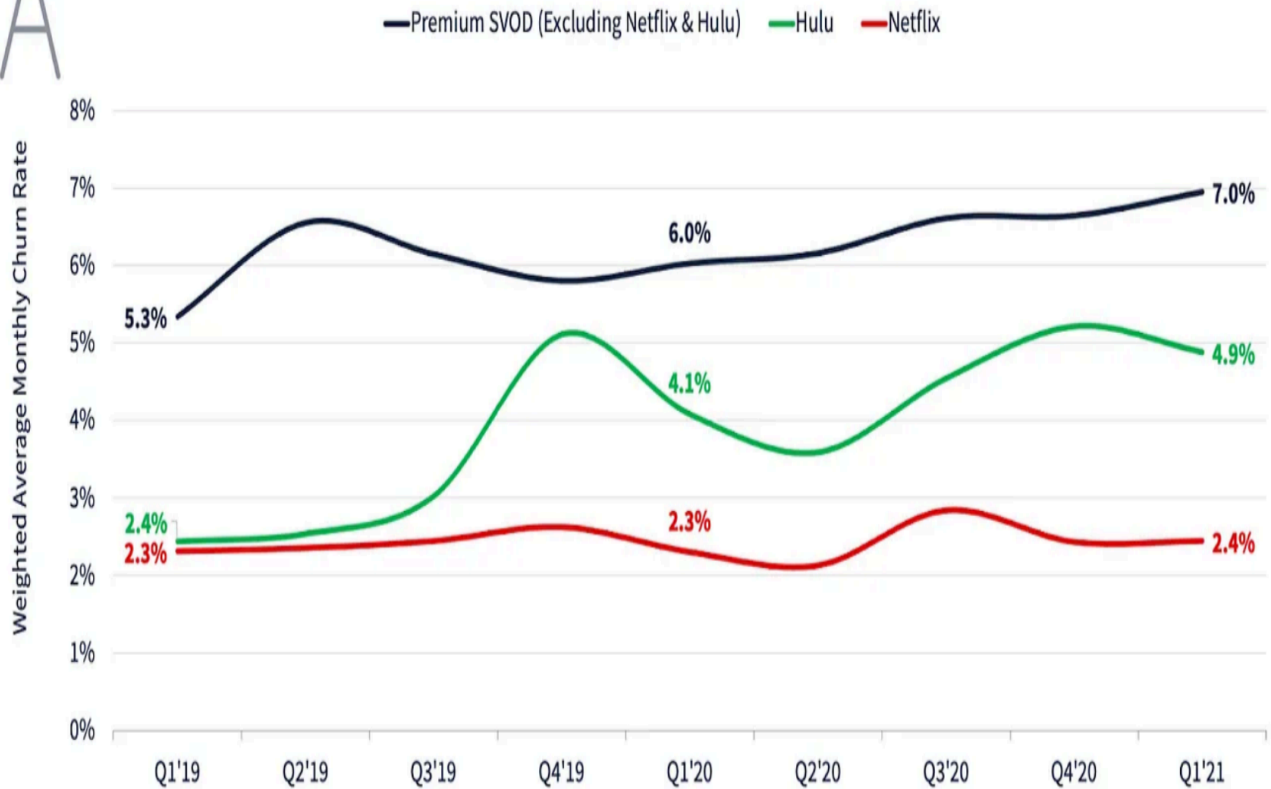**Pricing and Subscription Options:**

- Netflix offers different pricing tiers and subscription options to cater to a wide range of customers. By providing affordable plans, Netflix makes its service accessible to a larger audience.
- Additionally, Netflix allows customers to upgrade or downgrade their subscription at any time, giving them the flexibility to choose a plan that best suits their needs.
- This pricing strategy helps Netflix attract and retain customers by offering them value for their money.

Continuous Innovation:

- Netflix is known for its continuous innovation and willingness to adapt to changing customer preferences and market trends. The company constantly experiments with new features and technologies to enhance their user experience.
- For example, Netflix introduced the ability to download content for offline viewing, which proved to be a popular addition.
- By staying ahead of the curve and embracing technological advancements, Netflix ensures that its service remains relevant and appealing to customers.

- According to recent research from Antenna, **Netflix churn rate** is around 2.4% - incredibly low in comparison to competitor Hulu with 4.1%.
- This means that Netflix subscribers are less likely to cancel their subscriptions, Antenna also says that Netflix has **high re-subscription rates**, meaning that even after customers churn, they're likely to win them back.

FIGURE 3: Weighted Average Churn Rate

Legend: Premium SVOD (Excluding Netflix & Hulu) — Hulu — Netflix

Y-axis: Weighted Average Monthly Churn Rate (0% – 8%)

X-axis: Q1'19, Q2'19, Q3'19, Q4'19, Q1'20, Q2'20, Q3'20, Q4'20, Q1'21

Data labels: 5.3%, 6.0%, 7.0% (Premium SVOD); 4.1%, 4.9% (Hulu); 2.4%, 2.3%, 2.3%, 2.4% (Netflix)

Conclusion:

 Netflix employs several key strategies to attract and retain customers. These strategies include investing in original content, providing personalized recommendations, offering a user-friendly interface, ensuring a seamless cross-device experience, providing flexible pricing and subscription options, embracing continuous innovation, and expanding internationally. By implementing these strategies effectively, Netflix has been able to build a loyal customer base and remains a dominant force in the streaming industry.

CASE STUDY:

SWIGGY

- Swiggy is a leading food delivery app in India, connecting users with a wide range of restaurants and enabling convenient and timely food delivery. However, recent trends have indicated a decrease in customer loyalty and an increase in user migration to competitor platforms. Swiggy aims to address these challenges and improve customer retention by identifying and resolving user pain points, ultimately enhancing customer satisfaction and loyalty.

- **Increase customer loyalty**: Swiggy aims to enhance customer satisfaction and loyalty by addressing the pain points experienced by users, ensuring a seamless and delightful food ordering experience.

- **Retain customers**: By understanding user requirements and incorporating relevant features, Swiggy aims to prevent customer migration to other platforms and encourage users to stay engaged and loyal to the Swiggy app.

- Swiggy often offers promotions, discounts, and cashback deals to incentivize repeat orders and keep customers engaged. These promotional strategies aim to provide value to customers, making them more likely to choose Swiggy for their food delivery needs.

There are several ways in which Swiggy has managed to gain a strong customer foundation. One of the best aspects of Swiggy is its continually changing system of operation which comes to the rescue at one of the most dynamic periods in history. A step-by-step guide to how Swiggy has managed to attain ground-breaking results include:

Some key concepts adapted by Swiggy to attract and retain customers:

How does Swiggy prioritize customer retention in its business model?

- Swiggy prioritizes customer retention through various strategies, including loyalty programs, personalized offers, and seamless user experiences. The aim is to provide incentives for customers to continue using the platform for their food delivery needs

What is Swiggy's loyalty program, and how does it benefit customers?

- Swiggy's loyalty program, such as Swiggy SUPER, offers benefits like free deliveries, exclusive discounts, and priority customer support. Subscribers enjoy these perks, fostering customer loyalty by providing added value to their food ordering experience.

Memberships
- First, Swiggy introduced the scheme '**Swiggy Pop**' which required no membership and was open to all. The aim was to provide a budget, single meals under Rs. 100 each. They made the impossible possible in India leading to major breakthroughs in the market.
- Next, they introduced '**Swiggy Super.**' Members of this scheme earn rewards for being loyal customers which include free delivery on orders above Rs. 99, zero surge fee, and free goodies for members called 'Super Delights.' They have a one-month plan of Rs. 49 and a three-month plan of Rs 129.

Delivery

- Customers are constantly on the lookout for being able to pay the least amount of money for delivery while availing their orders at the said time. Punctuality is key with respect to delivery services, especially food. Along with this, it is also important that your delivery agent be friendly, courteous, and good with navigation.

- They end up becoming the face of the company and if they put up a positive and friendly front, the loyalty of the customer can be obtained automatically. Swiggy is widely known for its punctuality when it comes to food delivery, along with excellent delivery agents.

Discounts

- The Indian audience is perpetually hungry for discounts, and that is a fact. We love to avail discounts however we can. Most people often visit the same store for a variety of discounts that are offered and Swiggy has managed to crack that code.

- Beginning with Swiggy Pop that provides a huge discount on meals, they also constantly tie-up with restaurants to provide their customers with endless discounts. There is no dearth of options when it comes to the number of discounts that are available.

Swiggy One

- In March of 2021, Swiggy revamped its Swiggy Super subscription service by breaking it into 3 parts – Binge, Bite and Bit. The benefits vary across the three programs as per the subscription plans. With Swiggy One, however, all the existing Swiggy Super Members will be automatically upgraded to the new program for the remainder of their subscription. Now, patrons can enjoy unlimited

free deliveries, better discounts and other benefits. These subscriptions generate a good amount of revenue for the company.

Swiggy Marketing Strategies

Swiggy makes great use of digital marketing, especially social media marketing, email marketing and paid ads.

Social Media Marketing

Swiggy is very active on all social media platforms. Swiggy has come up with many interesting hashtags in the past, for example #EarnYourCheatMeal #NoOrderTooSmall #EatYourVeggies. They also share humorous posts in which they spin-off the current trends into something that promotes the company's services and vision.

Email Marketing

Customers receive emails from Swiggy on a regular basis. The use amazing graphics, catchy slogans and jaw-dropping deals to garner consumer interest. These emails start getting particularly interesting during major events such as IPL, World Cup, Olympics, etc.

PPC Advertisement

The online food ordering and delivery company runs Google text ads and display ads to offer amazing cuisines to people searching for food on Google search. Then, Swiggy also actively promotes mouth-watering dishes and restaurants to try through social media advertising on platforms such as Facebook and Instagram.

- "As of March 2023, Swiggy's food delivery business has turned profitable (After factoring in all corporate costs; excluding employee stock option costs)," said

Majety, a co-founder of the company. "This is a milestone for food delivery globally, not just for us, as Swiggy has become one of the very few global food delivery platforms to achieve profitability in less than 9 years since its inception.

In the first six months of 2023, Swiggy's food-delivery business grew by 17%, achieving a gross merchandise value of $1.43 billion. Transacting users contributed to this increase.

CONCLUSION:

Understanding the CLV of your customers can have far-reaching implications for your business. It provides insights into the profitability of each customer, allowing you to make informed decisions about marketing strategies, customer retention initiatives, and overall business growth.

By accurately calculating CLV, businesses can identify their most valuable customers and allocate resources accordingly. This enables them to prioritize customer satisfaction initiatives for high-value customers, ensuring their long-term loyalty and advocacy.

The advantage of calculating a company's churn rate is that it provides clarity on how well the business is retaining customers, which is a reflection on the quality of the service the business is providing, as well as its usefulness.

The churn rate will indicate to a company that it needs to understand why its clients are leaving and where to fix its business

THANK YOU