Eliminating Churn Is Growth Hacking 2.0

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New customers can be five to twenty-five times more expensive than retaining existing ones according to <u>Harvard Business Review</u>*. Here is the message every company should to understand at first hand: keeping the right customers can be quite valuable. Not only because customer acquisition is much more expensive, but as more and more business models are shifting towards subscription plans, a customer can be worth thousands of dollar in future.* **Reducing your churn ultimately leads to a sustainable growing business.**

What To Expect In This Article

This article is written to help you understand why customers stop using your service and how you can measure it. After becoming an expert and knowing everything about your own churn rate, you will explore the variables may needed for predicting customer churn. Because only then you can ultimately take actions to fight it.

A Brief Definition Of Churn

Let's start with the basic: what actually is customer churn?

There are several definitions but in this case we want to use the one as follows: Customer churn has happened as soon as a customer stops using your service or stops doing business with you. This is often put in a simple formula:

$$\frac{\text{Customers lost during fixed period}}{\text{Total customers at the start of fixed period}} = \text{Customer Churn Rate in \%}$$

Let's do the maths with one example: On January 1st you have 1000 customers. 100 of them are not using your service at the end of the month anymore. Furthermore you have acquired throughout January (31st of January) 500 new customers where 125 directly churn out. Simplest calculation looks as follows:
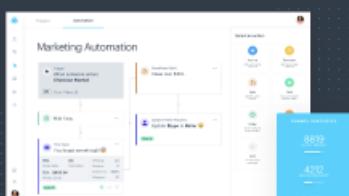
$$\frac{100 + 125}{1000} = 0,225 \quad (22,5\% \text{ Churn Rate})$$

Knowing the basic calculation is the first step to measure and fight churn in your company. But did we already ask ourself the questions: How is an inactive or lost customer actually defined?

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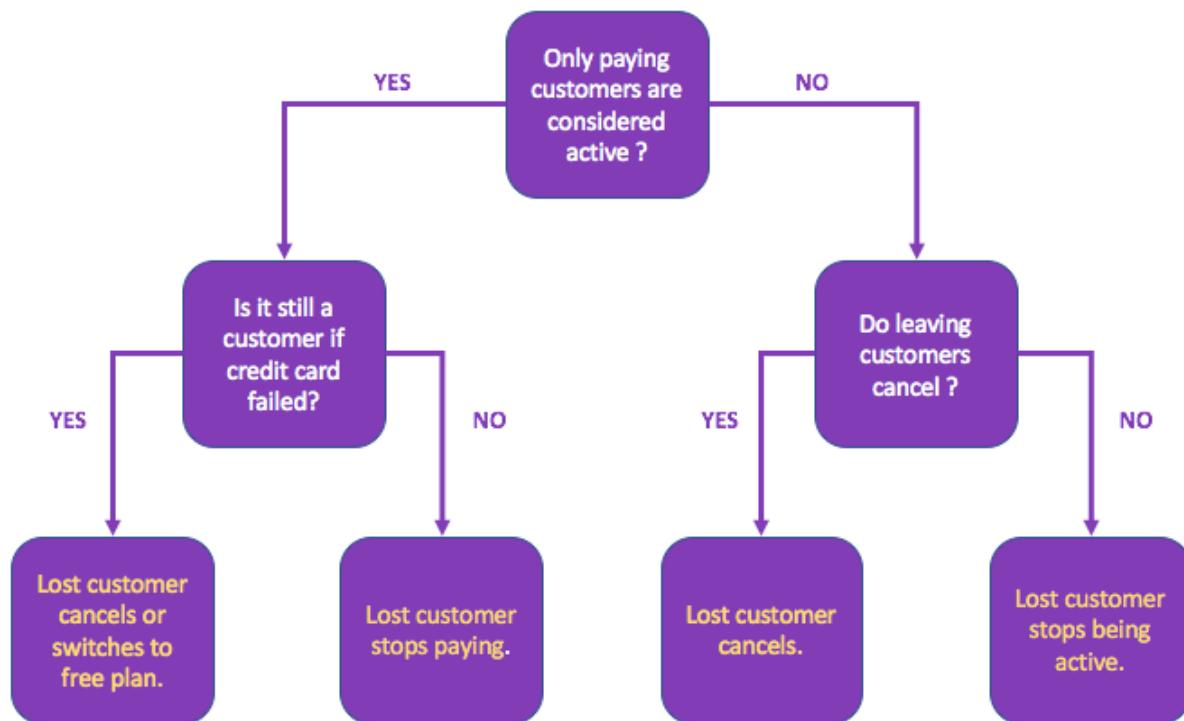
Joseph Hsieh

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Identify Churn For Your Service

To find out which customer can be counted as churn you have to find your own definition. The decision tree below should be of help when it comes to defining "churn". Walk through the decision tree and check the corresponding definition of your result.


Decision tree: type of churn
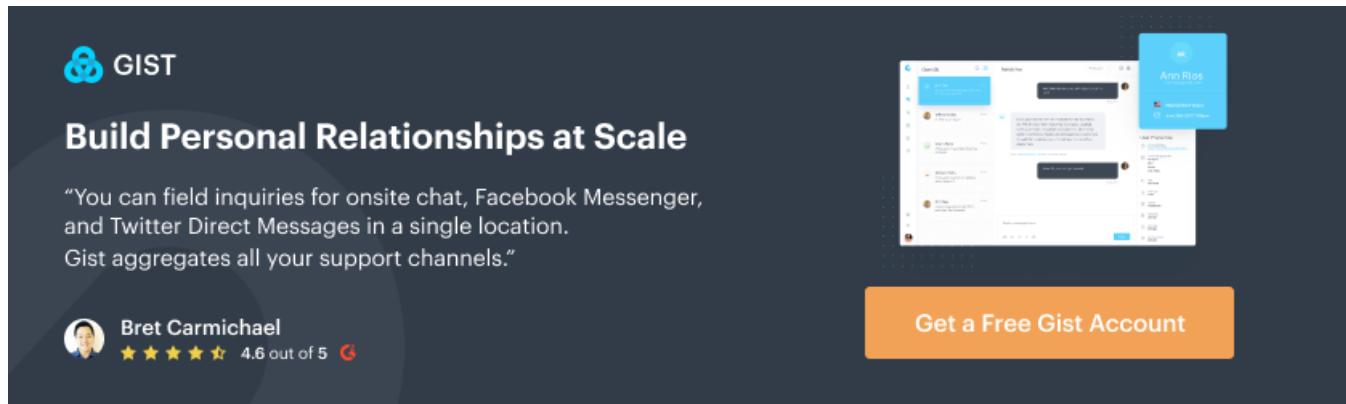
Lost customer cancels or switches to free plan:
You only follow voluntary churn. This means if your customer has problems with paying, you still consider him as customer and figure things out. Take only in considerations customers that actively cancel their subscription or switch to a free plan.

Lost customer stops paying:
You follow voluntary and also involuntary churn. In this case the customer simply stops paying. The reason can be both: he may have cash flow problems or does not want to use your service anymore. You don't care — is a customer not paying it means he is lost.

cannot only take actions in time, but also start implementing a predictive churn model with the help of AI (ATTENTION BUZZ WORD!):

1. **Events After Onboarding**

   The first days after your customer signs up and starts using your service can be crucial for the further account development. If it takes too much time and effort for the customer to get his/her account up and running, it is a good hint that he will stop using your service in the near future.

   My personal favourite to measure the success rate at the beginning is **"time to benefit"**. Meaning you analyse which actions your customer has to realize in order to get the first benefit from your product. If the defined actions are not conducted or it takes too long you should immediately get in touch with them.

2. **Overall Usage level**

   After the initial phase of signing up is cleared, a reduced overall usage often precedes customer churn. As stated before the ideal amount of logins depends heavily on your product, but you can explore that level with the help of a "role-model customer".

3. **"Killerfeature" Adoption**

   Usually a product offers one features that underlines YOUR unique selling proposition. It is the main reason your customers are buying your product. So If a customer stops using your "Killer Feature", you should be careful and see how further behaviour develops. The chances of churning are increased!

4. **Lowering Subscription Plan**

   Whenever a customer is lowering his/her subscription plan, it can be an indicator for an approaching churn. It seems your product is not needed as much us before anymore and another solution may replace your offering.

Lost customer cancels:

Lucky you! This is very unusual for customers with a free plan. In case it is free service there in 90% of the cases no reason why the should actively quit. Nevertheless it can happen and in this case you simply take the daily/weekly/monthly cancellations into your churn calculation.

Lost customer stops being active:

Congratulations — you have the most challenging version of measuring churn. Why? Because your customer does not actively giving any hint that he stops using your service. You have to precisely determine when a customer is lost. It can be something like: "Last login over 30 days." or "Last login and no active event triggered since 7 days". You have to define it in line with your business model. The only hint is: **Try to find the first hint of a churning customer — because otherwise it may be too late to act!**

Knowing The Churn Variables

In order to take actions against an increasing customer churn rate, you have to know in advance when churn is most likely to happen. Let's explore the critical variables so you

5. **Customer Service**

   Although a silent is in many cases also no healthy customer, at this point we are looking at the service level of your company when issues are reported. There are mainly four metrics that give you insights on the customer account's health:

   - Number of issues

   - Solving quality of the issues

   - Time to solving the issues

   - Overall happiness with your customer service (best is a rating)

6. **Payment Performance**

   Delayed and irregular payments can mean that the customer has economic problems or he simply does not want to pay for your service but somehow needs it. Important is that you have an eye on these customers and try to solve this issue with a long term perspective. Nevertheless it can happen that you want this customer to leave if behaviour doesn't change.

7. **Feedback Customer's KPIs**

   Knowing where your service benefits the customer is key for a successful relationship. Only if your service is considered as adding value to his / her business churn is very unlikely. Therefore regular feedback session with key customers via phone, e-Mail or surveys are inevitable.

8. **Macroeconomic Factors**

   In case you know that a industry sector is going very badly and customers of this sector may be struggling with their economic situation, it can be an indicator of churn. Being aware of the situation and taking care of the customer can prevent unwanted churn.

Conclusion & Next Steps

In order to win the fight against churn and to define reducing actions, it is essential to understand where the problem is coming from. I hope this article assisted you with approaching the topic and highlighted the most important indicators of a customer leaving, so you can take preventing actions which I will define in one of the following articles.

A logic next step could be building an predictive intelligent algorithm where you take all the variables into consideration (yes you can also call it Machine Learning).

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Everything I write about comes from experience with working in our own startup investory.io. So feel free to share your experience.

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