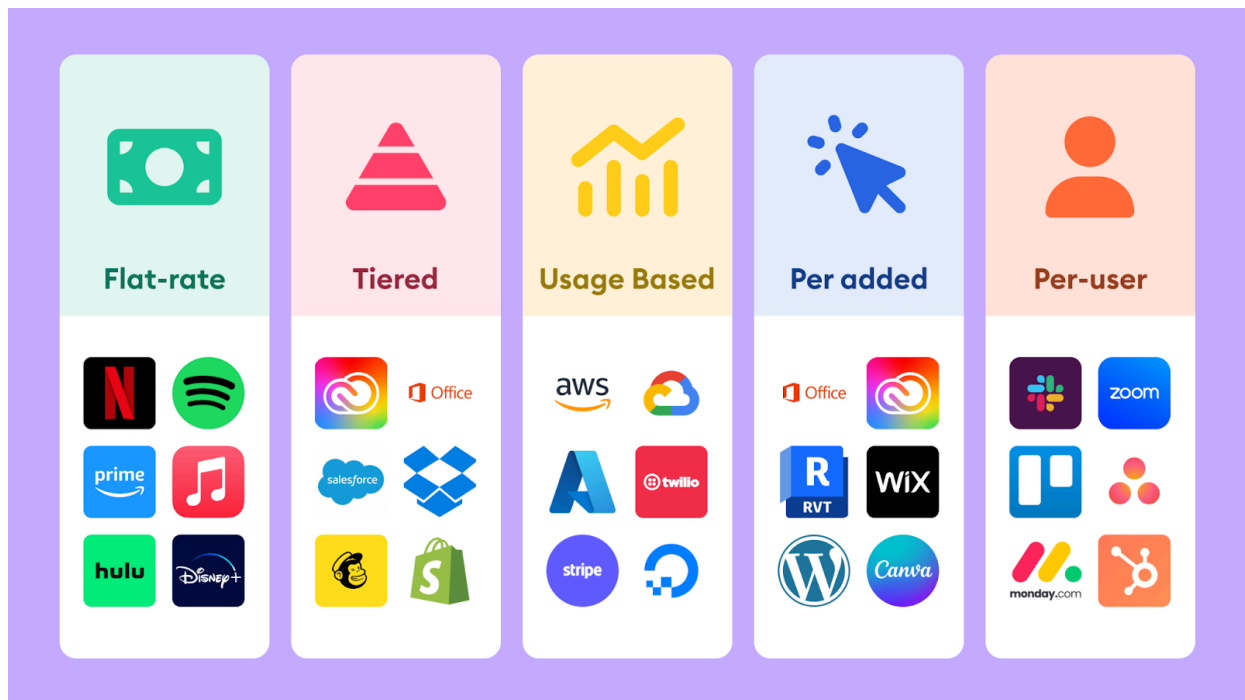


# Subjective research case study

## Adobe Creative Cloud

Creating a subscription-based model involves a delicate balance of acquiring and retaining customers while maximizing their lifetime value (CLV) and minimizing churn. Many companies have implemented various tactics to address these challenges effectively.

Let's delve into one examples:

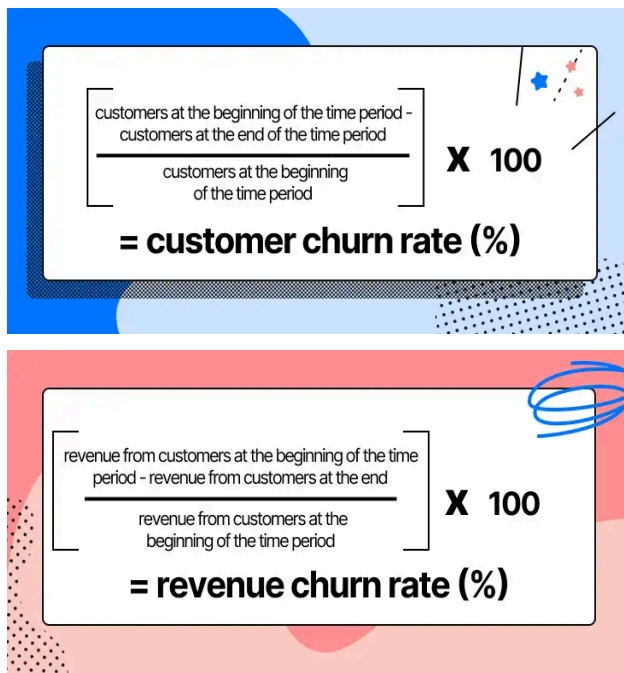


### Adobe Creative Cloud

Adobe Creative Cloud underwent a significant transformation, transitioning from a one-time software purchase model to a subscription-based approach. This shift enabled Adobe to continually provide customers with updated features and tools, catering to diverse user needs and budgets. This case study explores how Adobe tackled challenges inherent in subscription-based models, leveraging Creative Cloud to enhance customer experience, drive CLV, and thrive in a competitive market.

## Essential Metrics for Managing Subscription-Based Models

- **Customer Lifetime Value (CLV):** Monitoring CLV helps companies understand the long-term value each customer brings to the business. By tracking CLV over time, companies can assess the effectiveness of their strategies in increasing customer loyalty and driving revenue.
- **Churn Rate:** Churn rate measures the percentage of customers who cancel their subscriptions within a given period. Lower churn rates indicate higher customer retention and loyalty.

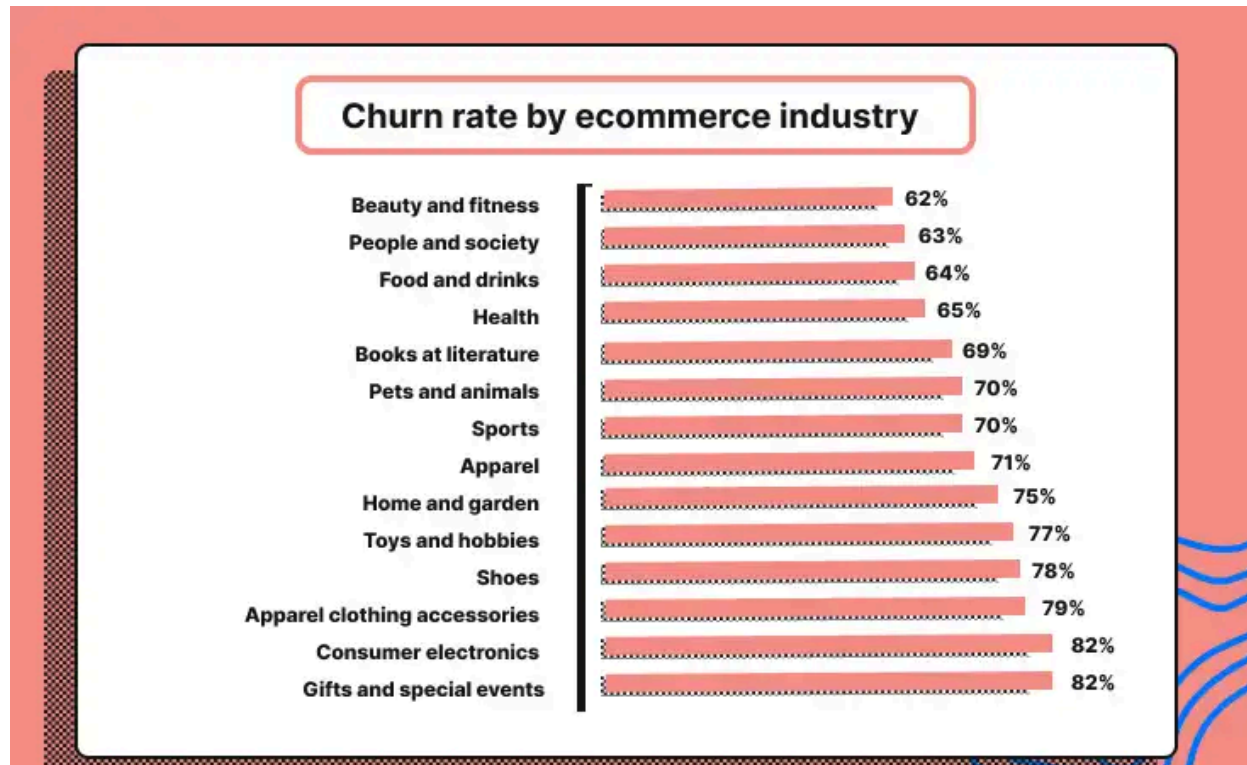


The image displays two formulas for churn rate, each enclosed in a white box with a black border. The top box is set against a blue background with a dotted pattern and contains the formula for customer churn rate. The bottom box is set against a red background with a dotted pattern and contains the formula for revenue churn rate. Both formulas are presented in a clear, step-by-step manner, with the final result highlighted in bold.

$$\frac{\text{customers at the beginning of the time period} - \text{customers at the end of the time period}}{\text{customers at the beginning of the time period}} \times 100 = \text{customer churn rate (\%)}$$
$$\frac{\text{revenue from customers at the beginning of the time period} - \text{revenue from customers at the end of the time period}}{\text{revenue from customers at the beginning of the time period}} \times 100 = \text{revenue churn rate (\%)}$$

- **Retention Rate:** Retention rate measures the percentage of customers retained over a specific period. It complements churn rate by focusing on the flip side—how many customers stay with the service. Improving retention rate directly impacts CLV by extending the customer relationship.

The following numbers show the % of customers that were not retained, meaning they purchased at least one item but did not come back to purchase additional items



- **Customer Acquisition Cost (CAC):** While not directly related to CLV or churn, CAC provides valuable insights into the efficiency of acquiring new customers. By comparing CAC to CLV, companies can determine whether their acquisition efforts are cost-effective in the long run.
- **Net Promoter Score (NPS):** NPS measures customer satisfaction and loyalty by asking customers how likely they are to recommend the product or service to others. A high NPS correlates with lower churn rates and higher CLV, as satisfied customers are more likely to remain subscribed and refer others.

## A Closer Look at Subscription Model Challenges

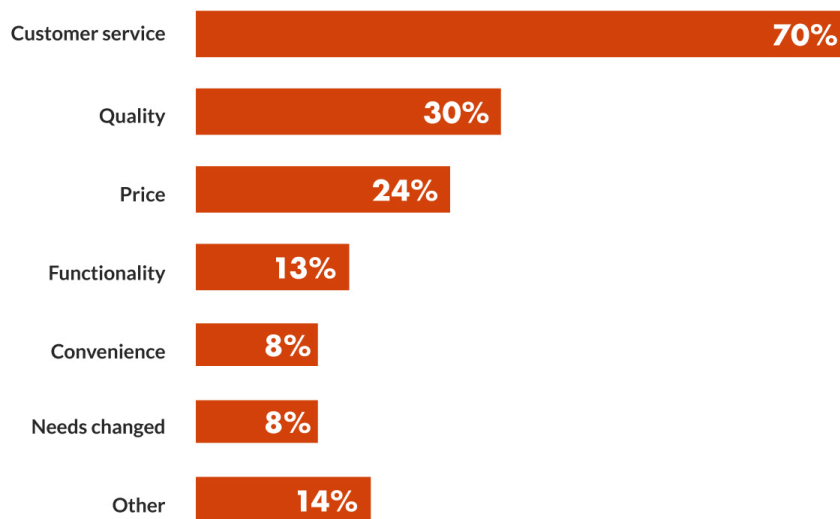
### Churn Rate

Churn is the rate at which customers stop doing business with a company or service. It is a critical metric for any subscription-based business, as it directly affects the revenue and growth potential.

Some of the common causes of churn and how to identify them are:

- **poor customer service:** Customers expect timely, courteous, and helpful support from the businesses they subscribe to. Poor customer service can lead to frustration, dissatisfaction, and ultimately churn.
- **Lack of value proposition:** Customers subscribe to a business because they perceive a value in the product or service. However, this value proposition may change over time, either because the customer's needs evolve, or because the product or service fails to deliver on its promises.
- **Competitive pressure:** Customers may churn if they find a better alternative to the business they are subscribed to. This could be because of a lower price, a higher quality, a more convenient delivery, or a more attractive offer.
- **Lack of loyalty:** Customers may churn if they do not feel a strong connection or loyalty to the business they are subscribed to. This could be because of a lack of personalization, communication, or recognition.

### WHY DO CUSTOMERS LEAVE? (CUSTOMER VIEW)



### Customer Acquisition Cost (CAC)

One of the main challenges of a subscription-based revenue model is how to acquire and retain customers at a reasonable cost. You need to invest in marketing, sales, and customer service to attract and convert prospects, as well as to reduce churn and increase loyalty.

## Customer Lifetime Value (CLV)

Subscription-based models face several challenges related to customer lifetime value (CLV):

- **Predictability:** Estimating CLV accurately can be challenging due to factors such as changing customer behaviors, market dynamics, and evolving competition. Fluctuations in CLV predictions can affect resource allocation and strategic decision-making.
- **Subscription Fatigue:** With the proliferation of subscription services across various industries, customers may experience subscription fatigue, leading to shorter subscription durations and lower CLV. Retaining customers over the long term becomes increasingly difficult in such a competitive landscape.
- **Subscriber Loyalty:** In highly competitive markets, subscriber loyalty may be lower as customers are more willing to switch between providers to take advantage of promotional offers or better deals. This increases churn rates and makes retaining customers more challenging.
- **Market Saturation:** In mature markets with high levels of competition, acquiring new subscribers becomes increasingly challenging. Market saturation can limit growth opportunities and put pressure on CLV by intensifying competition for existing customers.

## Competition

Stiff competition poses several challenges for subscription-based models:

- **Differentiation:** With numerous competitors offering similar services, differentiation becomes crucial. Companies must clearly communicate their unique value proposition to potential subscribers to convince them to choose their service over others.
- **Price Sensitivity:** Price competition can intensify in crowded markets, leading to pressure to lower subscription fees or offer discounts. This can negatively impact profitability and sustainability if not managed effectively.
- **Innovation Pressure:** To stay ahead of competitors, subscription-based businesses must continuously innovate and improve their offerings. This requires significant investment in research and development, which may not be feasible for smaller players or those with limited resources.

## Customer Satisfaction and Engagement

Another challenge of a subscription-based revenue model is how to deliver consistent and high-quality value to your customers. You need to ensure that your product or

service meets their needs and expectations, as well as provides them with additional benefits and features that justify their ongoing payments. You also need to monitor and measure your customer satisfaction and feedback

## Approaches for Identifying and Conquering Subscription Model Challenges

### Reducing Churn Rate

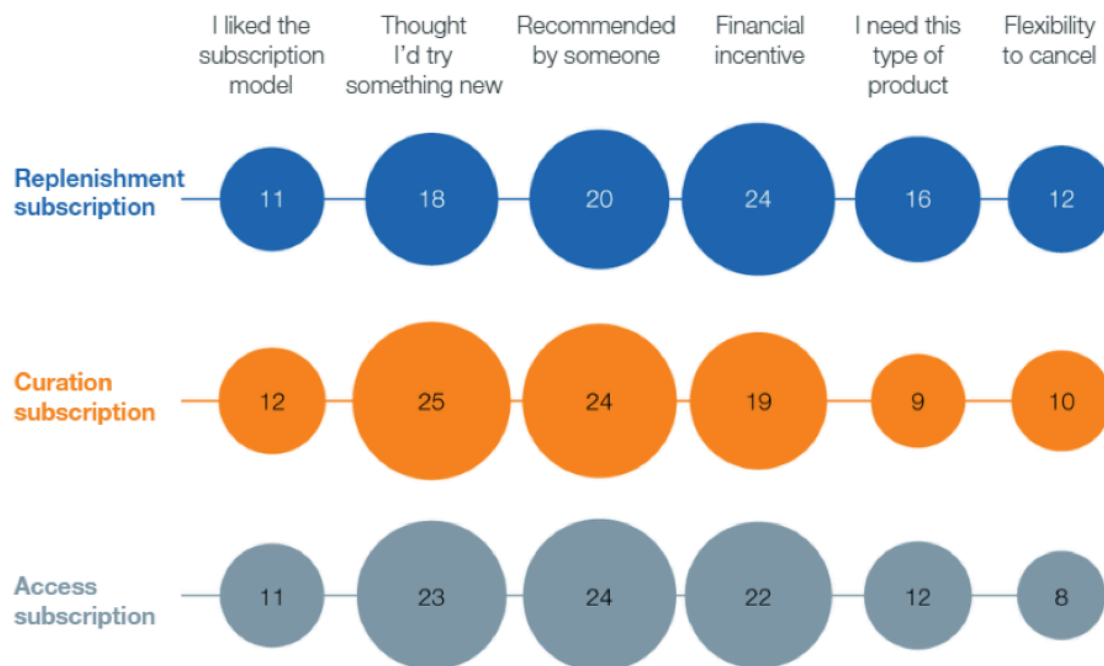
- **Poor customer service:** To identify this cause, businesses can measure customer satisfaction (CSAT) scores, net promoter scores (NPS), and customer effort scores (CES) after each interaction. These metrics can indicate how happy customers are with the service they receive and how likely they are to recommend the business to others.
- **Lack of value proposition:** To identify this cause, businesses can track customer usage, engagement, and feedback. These data points can reveal how often customers use the product or service, how engaged they are with the features and content, and how they feel about the value they get from their subscription.
- **Competitive pressure:** To identify this cause, businesses can monitor the market trends, the competitor's activities, and the customer's behavior. These insights can help businesses understand what customers are looking for, what competitors are offering, and how customers are responding to different options.
- **Lack of loyalty:** To identify this cause, businesses can segment their customers based on their characteristics, preferences, and behavior. This can help businesses tailor their messages, offers, and rewards to each customer segment and increase their loyalty and retention.

For our example: Adobe could justify higher subscription fees by continuously delivering value through regular updates and new features, enhancing perceived value for customers.

## Reducing cost of acquisition (CAC)

Acquiring new customers to a curation brand comes down to convincing customers that your brand is exciting month-over-month and offers the most value for the cost. This can be accomplished in two key ways.

- **Referrals** are the first strategy that a curation brand can capitalize on. 84% of global consumers believe recommendations from friends and family are the most trustworthy sources of information.
  - ◆ Using your already happy customers to recommend a curation service is the best way to convince potential customers that your brand will bring them more joy and satisfaction than your competitors.
  
- The second strategy for acquiring new curation customers is capitalizing on user generated content. Because of the role curation brands play in customers' lives and the nature of social media, the internet is rife with customer-generated content.
  - ◆ From blogs to **Instagram posts and Youtube videos**, customers are regularly creating content about their latest box or monthly delivery. **Collating this content and collecting permission to use it in marketing is an excellent way to convince customers of the value of your curation subscription.**



**NOTE:** In response to questions: Thinking back to when you first started thinking about subscribing to [brand], what are the 3 main reasons you subscribed to [brand]? Which of the following is the most important reason you first started thinking about subscribing to [brand]?

McKinsey&Company

Source: McKinsey analysis

## Increase in Customer Lifetime Value (CLV)

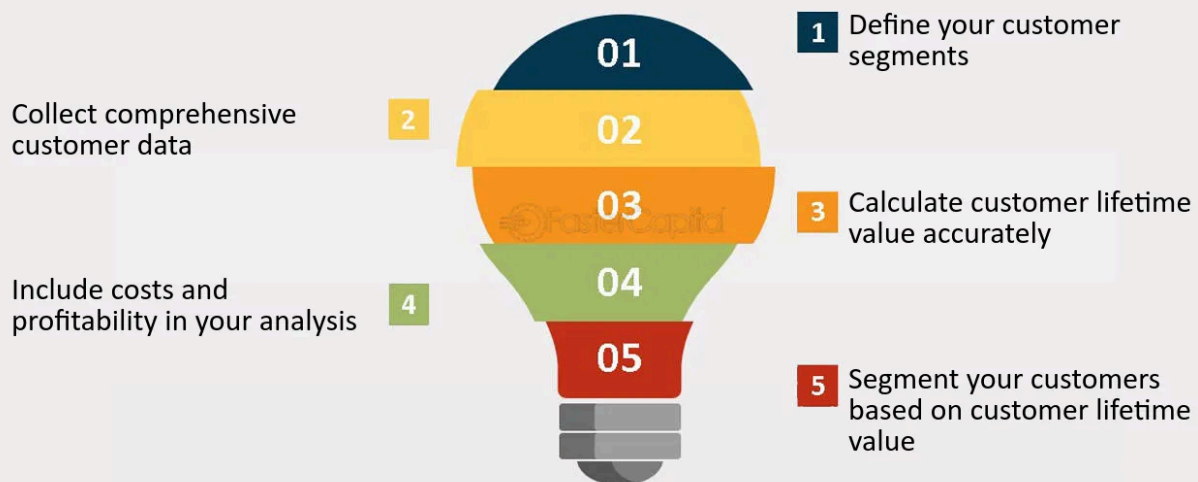
To increase your CLV, you need to implement strategies that address the specific needs and pain points of your customers at each stage of the funnel. Some of the common strategies are:

- **Awareness:** Create engaging and relevant content that attracts your target audience and educates them about your value proposition. Use channels such as social media, email marketing, SEO, and PPC to reach and capture your potential customers. Use metrics such as traffic, impressions, reach, and cost per lead to measure your performance.
- **Consideration:** nurture your leads and build trust and rapport with them. Provide them with more information and value that helps them evaluate your offer and compare it with your competitors. Use channels such as email marketing, webinars, case studies, testimonials, and free trials to influence their decision. Use metrics such as leads, conversions, bounce rate, and cost per acquisition to measure your performance.



- **Conversion:** persuade your prospects to take action and become your customers. Use tactics such as clear and compelling calls to action, landing pages, pricing strategies, discounts, and guarantees to overcome their objections and close the deal. Use metrics such as sales, revenue, conversion rate, and average order value to measure your performance.
- **Retention:** Retain your customers and encourage them to buy from you again. Use tactics such as customer service, loyalty programs, upselling, cross-selling, and personalization to increase their satisfaction and loyalty. Use metrics such as retention rate, churn rate, repeat purchase rate, and customer lifetime value to measure your performance.
- **Advocacy:** Turn your loyal customers into your brand advocates and promoters. Use tactics such as referrals, reviews, testimonials, social media, and word-of-mouth to amplify your brand awareness and reputation. Use metrics such as net promoter score, customer satisfaction, customer advocacy, and customer acquisition cost to measure your performance.

### Best Practices for Implementing Customer Lifetime Value Analysis

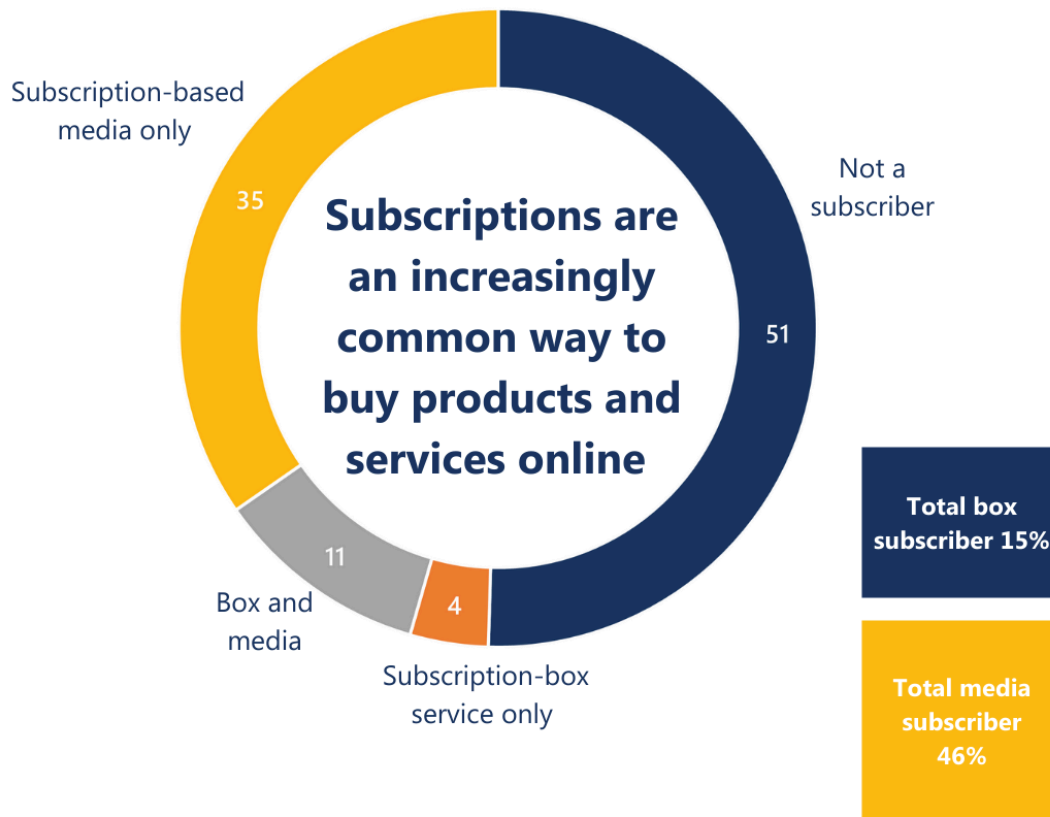


### Tackling the Competitions

Here are several strategies to tackle the challenges posed by competition:

- Focus on Unique Value Proposition (UVP):
  - ◆ Clearly articulate and emphasize what sets your subscription service apart from competitors.

- ◆ Identify and highlight the unique benefits, features, or content that appeal to your target audience.
- Niche Targeting:
  - ◆ Identify niche markets or underserved segments within your industry and tailor your subscription offering to meet their specific needs.
  - ◆ By focusing on a niche, you can differentiate your service and potentially reduce direct competition.
- Continuous Innovation:
  - ◆ Stay ahead of the competition by continuously innovating and improving your product or service.
  - ◆ Regularly introduce new features, content updates, or exclusive offerings to keep subscribers engaged and interested.
- Pricing Strategy:
  - ◆ Consider flexible pricing models that provide value to customers while maintaining profitability.
  - ◆ Offer tiered pricing plans with different features or benefits to cater to various customer segments and budgets.
- Community Building:
  - ◆ Cultivate a sense of community among your subscribers by creating forums, social media groups, or events where they can connect and engage with each other.
  - ◆ Encourage user-generated content, feedback, and discussions to foster a loyal and engaged subscriber base.



Subscribers in the past 12 months among online shoppers, %

Source: McKinsey analysis

## Increasing Customer Satisfaction and Engagement

Here are some strategies to overcome these challenges:

- **Personalization:** Tailor the subscription experience to individual customer preferences and behaviors. Use data analytics to understand customer preferences and deliver personalized recommendations, content, or product offerings.
- **Regular Communication:** Stay in touch with subscribers through regular communication channels such as email newsletters, in-app notifications, or

social media updates. Keep customers informed about new features, content, or promotions to maintain their interest and engagement.

- **Feedback Mechanisms:** Actively seek feedback from customers to understand their needs, preferences, and pain points. Use surveys, feedback forms, or customer interviews to gather insights and make improvements to the subscription offering based on customer input.
- **Gamification:** Incorporate gamification elements into the subscription experience to make it more interactive and engaging. Offer rewards, badges, or challenges to encourage participation and keep customers motivated to remain subscribed.
- **Transparency and Trust:** Be transparent with customers about pricing, terms of service, and any changes to the subscription offering. Building trust with customers is essential for fostering long-term relationships and loyalty.

By implementing the above strategies, subscription-based businesses can effectively address the challenges, leading to higher retention rates, increased customer loyalty, and ultimately, greater long-term success.

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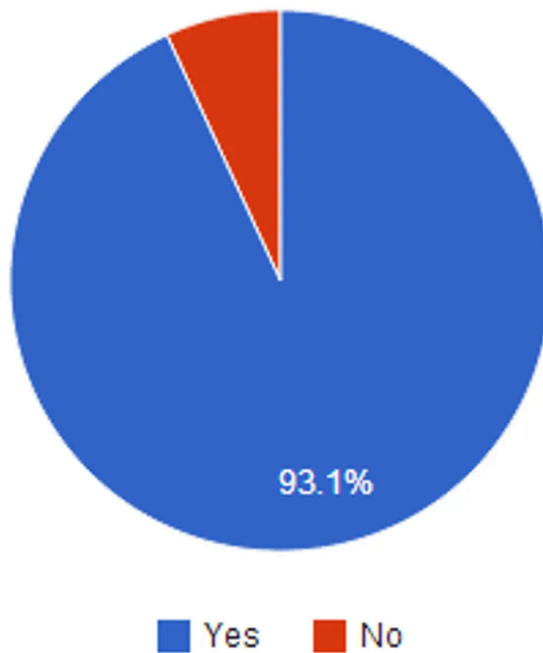
## How did Adobe Creative Cloud's Subscription-based models overcome the challenges of Subscription-based models

### The Challenge

In 2013, Adobe announced a radical business model change for its suite of creative products - the end of Adobe Creative Suite to a fully subscription-based model, Adobe Creative Cloud. This was a big change for its creative users, which received a lot of negative sentiment and push back. The challenge was to leverage social media to build a new community for Adobe Creative Cloud, supporting its customer community in a way that would influence sales for Adobe Creative Cloud.

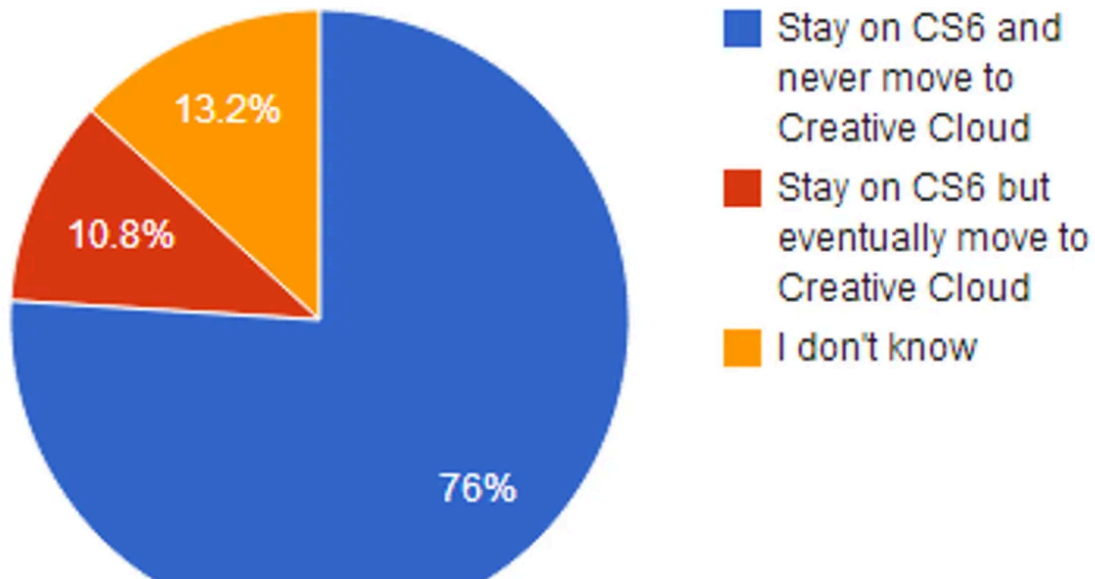
*“Marking a huge change for the company and its customers, Adobe announced today that it will stop selling its Creative Suite software, opting instead to solely support a subscription-only model in its Creative Cloud.”- Beth Romanik(May 6, 2013)*

**Do you plan to look for alternatives to Adobe's tools?**

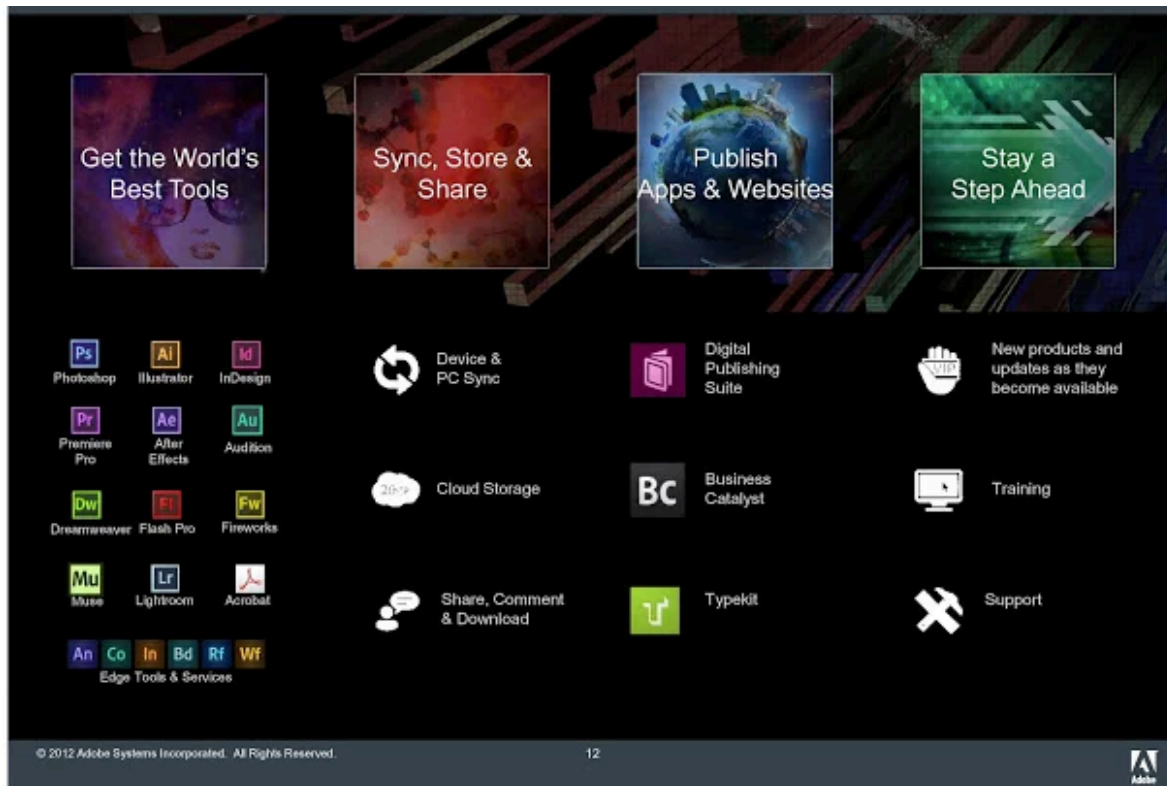


*“Displeasure was abundant among more than 1,600 Adobe customers responding to a survey by CNET and Jefferies about Adobe’s shift to subscription sales. But Adobe’s Creative Cloud shows some silver linings.”- [Stephen Shankland](#)(May 28, 2013)*

## Creative Cloud subscription?



Strategies for Conquering Adobe’s Subscription Model Challenges



**Flexible Pricing Tiers:** Adobe Creative Cloud offered various subscription tiers tailored to different user needs and budgets. This flexibility allowed customers to choose the plan that best suited their requirements, thereby increasing customer retention and satisfaction. It also encouraged upselling and cross-selling opportunities, enabling Adobe to maximize CLV by offering additional services or features to customers as their needs evolved.

**Value-Based Pricing by Regular Updates and New Features:** Adobe implemented value-based pricing strategies, where the subscription fee was justified by the continuous value delivered through regular updates, new features, and access to a comprehensive suite of creative tools. This ensured that customers remained engaged and saw ongoing benefits from their subscription, increasing the likelihood of long-term retention and higher CLV.

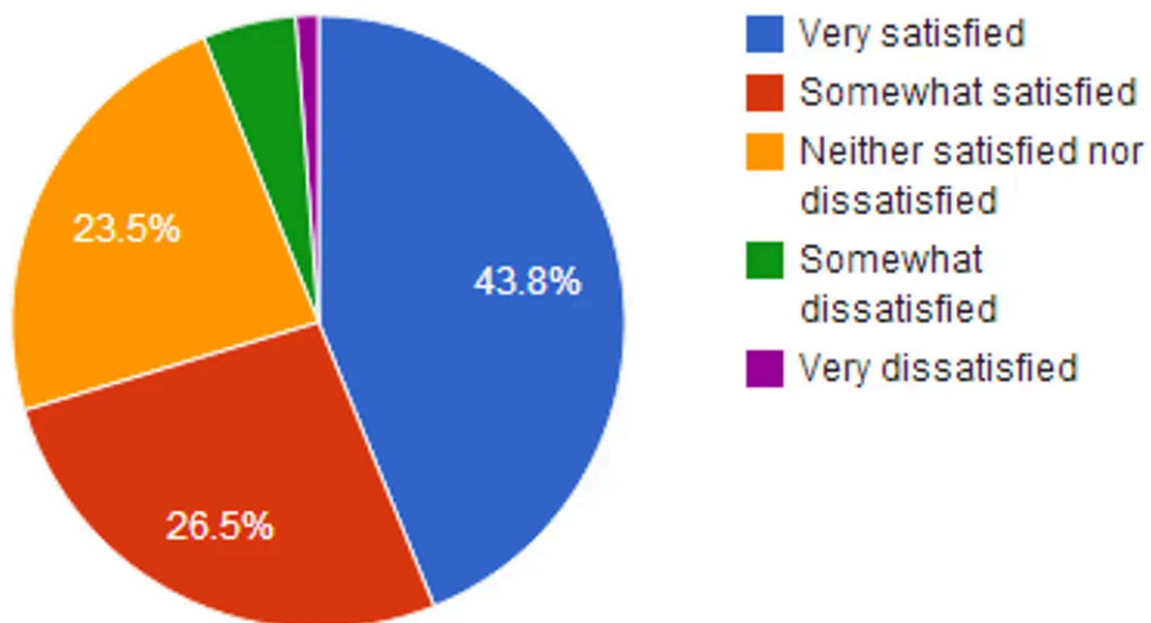
**Retention Strategies:** Adobe implemented targeted retention strategies, such as personalized offers, discounts, and incentives, to incentivize customers to remain subscribed. These efforts helped mitigate churn by providing added value and encouraging customer loyalty.

**Value-added Services:** In addition to access to Adobe's suite of creative tools, Creative Cloud subscriptions included value-added services such as cloud storage, collaboration features, and access to Adobe Stock. These additional services enhanced the overall customer experience and increased the perceived value of the subscription.

**Focus on Customer Experience and Customer Support:** Adobe prioritized delivering an exceptional customer experience by providing responsive customer support, easy-to-use software interfaces, and regular communication with subscribers. This focus on customer satisfaction helped build loyalty by reducing churn and encouraging long-term subscriptions.

**Customer Feedback Loop:** Adobe solicited feedback from customers through surveys, forums, and other channels to understand their needs and preferences better. This feedback loop enabled Adobe to make data-driven decisions to improve the product and address pain points, reducing churn.

## How satisfied are Creative Cloud customers with the pace of its improvement?



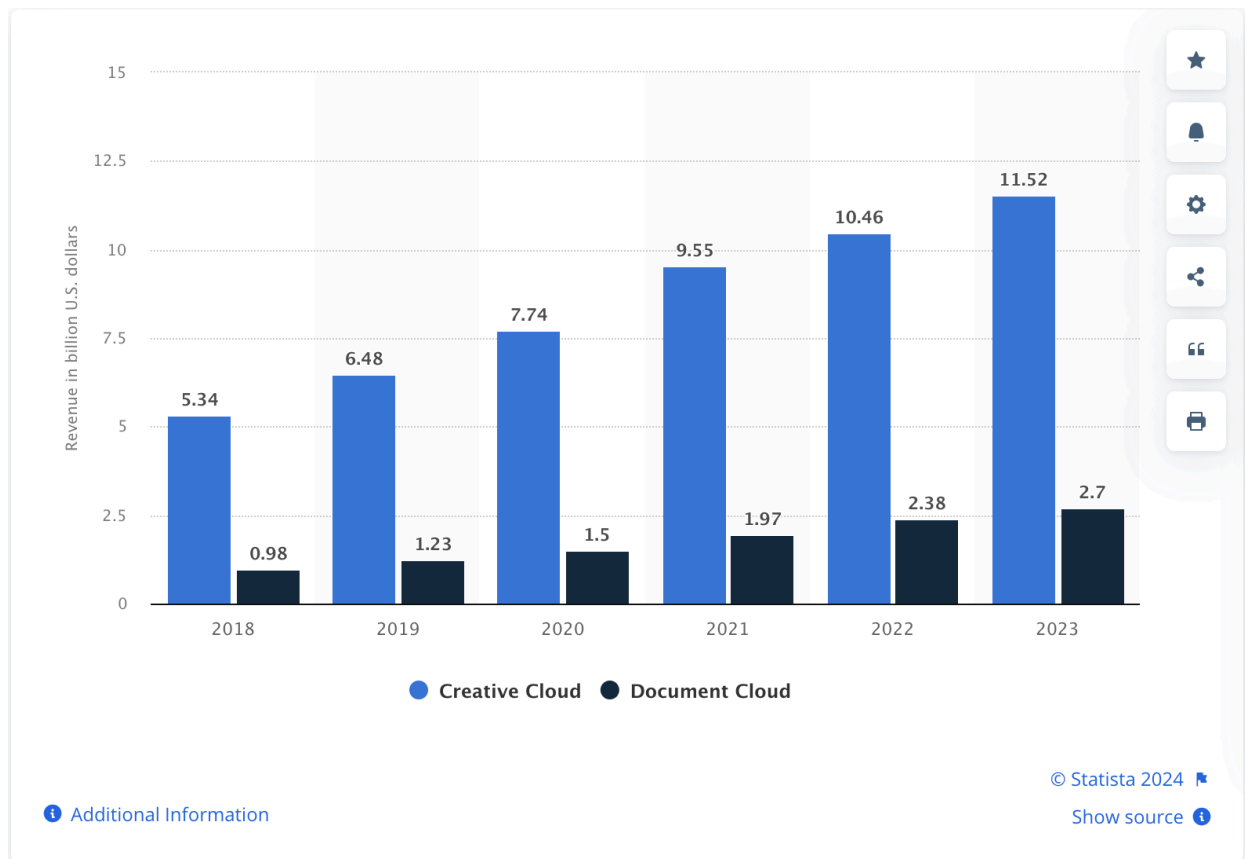
**Partnerships and Integrations:** Adobe forged partnerships and integrations with other software providers and platforms, expanding the reach and capabilities of Creative Cloud. These partnerships allowed Adobe to offer seamless workflows and integrations with popular tools and services, further enhancing the value proposition for customers.



## The Result

The social media strategy for Adobe Creative Cloud helped influence a growth in subscribers from 700,000 subscribers in Q2 2013 (time of the announcement) to surpassing more than 1M subscribers in Q3 2013.

## Annual revenue of Adobe's Creative Cloud and Document Cloud offerings from 2018 to 2023



(in billion U.S. dollars)

## Conclusions

Successful subscription-based companies employ a combination of personalized content, continuous innovation, and customer-centric strategies to increase CLV and reduce churn. By tracking key metrics like CLV, churn rate, retention rate, CAC, and NPS, companies can assess the effectiveness of their tactics and make data-driven decisions to optimize their subscription models for long-term success.

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