White Paper

On the CMO's agenda

Seven unexpected ways to improve retention and other recurring revenue KPIs

vindicia®

As a CMO, your success shows in the numbers

Like many online service and product providers, you rely on recurring revenue, such as from subscriptions and memberships. You win when you attract customers, see an excellent return on customer acquisition costs, and retain customers. Once you've invested in acquiring a customer, you need to retain their business over the long term. The formula seems simple: Win customers and keep them.

Going beyond the traditional

Traditional methods take you to a certain level. But you want to push performance higher. Take churn, for example – especially involuntary churn, where your subscribers lose access to your services due to problems like failed payment transactions. Involuntary churn metrics may never seem to budge in a favorable direction.

You could write off involuntary churn, and instead keep your team focused on acquiring new customers, lowering voluntary churn, and re-acquiring lost subscribers. That's the conventional CMO's approach. As an innovative CMO, you're ready to explore unexpected approaches to realize better results.

How unexpected? Look beyond conventional marketing solutions. Investigate your subscription billing procedures. You may be surprised by how much billing can affect your marketing metrics. Subscription billing is the key to taking average customer lifetime value and other success measures to new heights. The right approach to billing not only can deliver 5 percent or more in immediate revenue uplift, it can increase your team's acquisition agility at the same time.

Moving your metrics

How do you measure success? You measure and track performance using key performance indicators (KPIs). The following KPI metrics are among those that you likely watch closely:

Average customer lifetime value (ACLV)

In a subscription context, this is the product of the average customer duration and amount charged on a recurring basis: (average customer duration) x (amount charged) = ACLV. Increasing the average customer lifetime by just a few months leads to significantly higher revenue.

Customer acquisition costs (CAC)

The aggregate acquisition cost per new user, regardless of the acquisition channel (advertising, promotions, or affiliates). You want the difference between ACLV and CAC to be as great as possible.

Churn rate

The percent of customers lost on a monthly or annual basis. There are two types of churn:

Involuntary churn: This metric measures the attrition rate of your customers when a customer wants to continue their relationship with you but can't. Failed payment transactions are the most common cause of involuntary churn. You can address involuntary churn by using technology that can resolve failed transactions automatically.

Voluntary churn: This metric measures the attrition rate of your customers when a customer cancels a subscription because they no longer want the service. Beyond delivering a high-value service, you can reduce voluntary churn with good customer service and initiatives like loyalty programs.

Monthly recurring revenue (MRR)

The amount of monthly revenue that is highly likely to continue in the future, based on subscription contracts and historical customer retention rates. If your business sells subscriptions that can be canceled at any time, your MRR is vulnerable to unexpected changes in retention rates.

A winning combination: People, offer, and technology

You influence your KPIs with decisions you make in three key areas: people, offers, and technology. Hiring the right people is perhaps the most essential contributor to success for a CMO. As an innovator, you want people on your team who see and seize opportunities – and aren't afraid to take smart risks. Your offers attract customers. You want the best, most enticing mix of offers available. Technology is just as important; it has the potential to help you shoot ahead of the competition in novel ways.

From traditional marketing systems to marketing automation solutions to all sorts of analytics, technology lets you choose new capabilities and foster your team's talent for using those capabilities effectively. Yes, those capabilities can make a difference. But deep competitive advantage doesn't lie in choosing one marketing automation platform over another. Technology provides

you with the chance to change the rules and move the goalposts on competitors. There's an area of technology that has traditionally not been on the CMO's radar that can improve virtually all your key metrics: billing.

The right subscription billing system delivers a significant competitive edge. How much of an edge? A strategic billing system reduces involuntary churn by as much as 30 percent or more and increases revenue by as much as 5 percent. That stronger retention delivers the most benefits over time. Plus, a strategic billing system supports your people and offers in some surprising ways. This paper explores seven ways the right billing platform delivers strategic advantage.

One: Marketing flexibility empowers your team to acquire customers

Some billing systems make it hard to launch an offer. Here's how the process often works: A marketing team creates a subscription or recurring offer designed to attract new customers. Perhaps they package your core service as a seasonal offer targeting students, or they develop a new annual or multi-user plan designed to appeal to a business. Your team then asks IT to add the new offer to the billing system, a process that can take days or weeks. Conducting A/B testing of different pricing options for the offer takes just as long.

Then, when it comes time to promote the offer with coupons and other promotions, IT gets involved again. In some billing systems, each promotion requires as long to enter into the system as an entirely new product – because the system treats it as a new product. Again, A/B testing of pricing options represents a time drain. As a consequence, your team develops and tests fewer offers and promotions, limiting their ability to explore what attracts the most customers to your services.

When your billing system delivers go-to-market flexibility, the process of creating offers and promotions looks completely different. Your marketers are empowered to create offers themselves through an easy-to-use interface, eliminating the need for IT to participate in your team's development cycles. Each new offer and promotion launches sooner, improving time to market. You position your team to be the first and fastest to market with new ideas.

Two: Expand your business model to attract more customers

Online products and services require flexible business models. No matter what your model is – subscription, recurring, freemium, memberships, metered usage, loyalty points, free trial, or ad-based – you may be able to increase revenue and improve the user experience by introducing other revenue models to the mix. For instance, you might find that mixed-term subscriptions (monthly, quarterly, seasonal, and annual) or add-on purchases resonate with your customers.

You don't want your billing system to limit your ability to experiment and see what works. Want to add a metered usage option in addition to your current subscription model? Your IT team may say your system doesn't support that, and building the functionality would take months. Instead of learning what works and then deciding how much marketing resources to devote to ideas, your billing system makes every business model-related modification a big decision.

In contrast, a flexible billing platform lets you try – and promote – different business models easily. You quickly learn what business models attract customers to your services and drive higher revenue.

Three: Proactive channel management builds revenue

Smart channel management maximizes the revenues coming from your channel and partner relationships. Many billing systems hamper channel management. That's especially true if you want to create special partner pricing and promotions or rapidly and easily track metrics like churn and offer uptake by partner. Channel and partner promotions require the same IT support as any promotion within many billing systems. And digging beyond the surface into channel performance numbers may be nearly impossible without substantial IT intervention, leaving you with a picture of channel performance that's limited.

An agile billing platform makes it easy to support and measure your channel partners. Your team can get creative with a flexible product catalog that enables advanced pricing across multiple channels and at the product and billing plan levels. They also work more efficiently when they can clone successful campaigns and modify them for new channels. You see which promotions work at specific partners, and you gain the insight needed to target retention building and loyalty programs at partners who deliver customers but not retention. The result is a channel that better supports your acquisition, retention, and revenue targets.

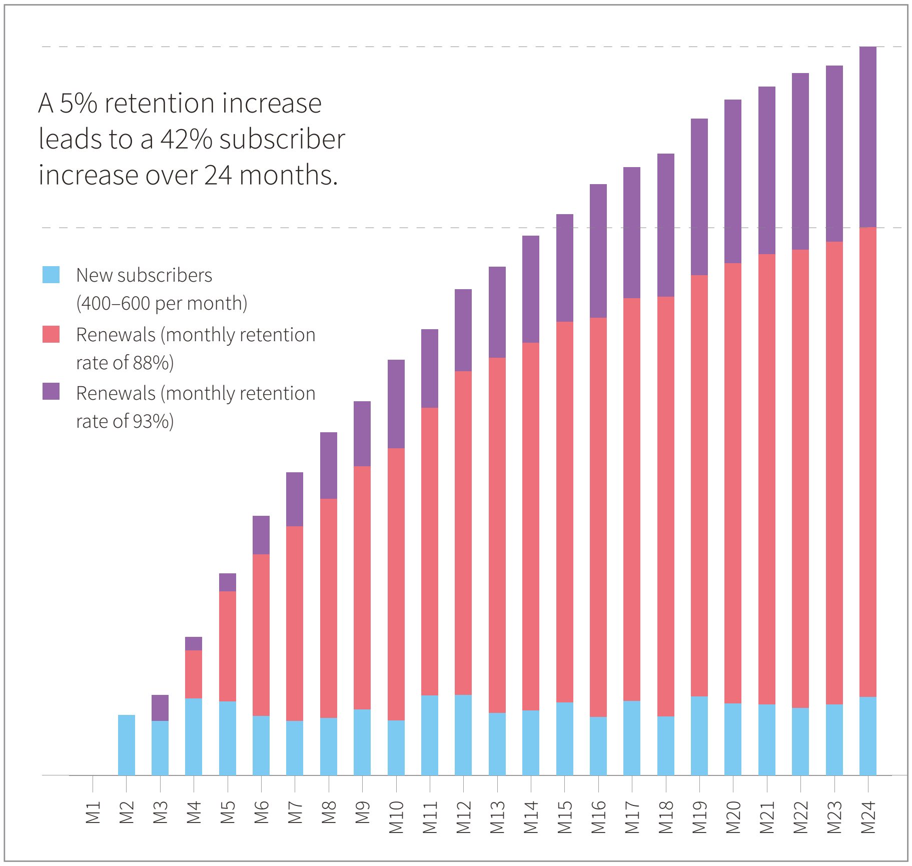

Figure 1. Small retention gains turn into large revenue increases.

Four: Lower involuntary churn to increase revenue

One of the easiest ways to improve retention is to reduce involuntary churn – and it's something your billing system should automate for you. The most common root cause of involuntary churn is transaction failures. Many of the reasons transactions fail are quite minor: a changed zip code, a subscriber has a new card expiration date, the issuer put a temporary hold on the card, or a subscriber may be temporarily over limit.

Most billing systems cut off the subscriber and leave it to them to fix the issue. The customer gets one or more emails telling them to fix their billing data. Unless the customer fixes the issue, the customer's account is suspended, usually fairly soon after the transaction failure. The traditional billing system basically treats a subscriber to an online service like a consumer of a physical product. No payment, no product. But for a digital product, it's more important to retain the customer and resolve the issue than it is to obtain immediate payment.

Strategic subscription billing systems designed for online services can actually resolve many of the most common causes of transaction failures. Issue resolution may take several days, so the system keeps the customer connected to your services while trying to resolve the issue automatically. Let's say the customer moved and needs to update the zip code associated with a credit card. A strategic billing system can spot that problem, and using data within its network, update the zip code. The customer stays connected to your service throughout the resolution process without any inconvenience. Once resolved, the billing issue stays resolved.

Not every billing issue can be resolved automatically through strategic billing, but a significant number can be. Every resolved transaction failure represents a customer you didn't lose and that you don't have to invest in reacquiring. That leads to substantial increases in revenue, especially over time. As Figure 1 illustrates, over two years, a 5 percent increase in transaction success can yield a greater than 42 percent increase in the paying subscriber base.

A Closer Look: 2% higher retention and 175% jump in transactions

An online service provider wanted to improve retention and make it easier to launch offers. It decided to adopt a strategic subscription billing platform to help. Since turning to its current solution, the company has launched a new subscription product aimed at small and medium businesses, and added onetime transactions to its mix. The company increased subscriber retention by 2% per month. The results show in the bottom line: Customer transactions surged by 175% in the first 15 months of strategic billing.

Five: Gain insights by benchmarking billing metrics against peers

Do you know how your subscriber data stacks up against peers? You need to know where you rank in terms of price point, subscriber uptake, renewals, and more. Having access to good data can help you do things like optimizing pricing. For instance, you see how tolerant similar companies' customers are of specific price points. You find the price that helps you maximize revenue.

Providers of strategic subscription billing systems can make benchmarking data available to you. Perhaps most importantly, they can group data from like companies, show you how you measure up, and recommend ways to improve results. Analysis from your billing platform can also help you understand ACLV and MRR across plans, trial conversion rates, and more.

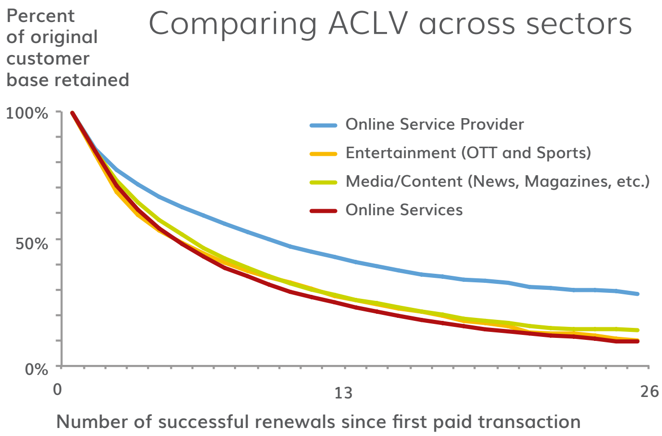

Figure 2. A benchmarking sample comparing ACLV for a specific media company to that of other recurring revenue sectors.

Six: Turn business intelligence into opportunity

When you evaluate the effectiveness of promotions and campaigns, you want to look beyond click-through rates and initial signups. You need to understand how your efforts translate into revenue easily. How many customers are converting from free trials? How long are they staying? Which campaigns deliver the highest ACLV? Billing systems not designed for businesses that rely on recurring revenue may not support your need for insight, leaving your team to ask IT for help getting actionable data or making decisions based on limited intelligence.

With a strategic billing system, you get fast access to reports that detail the effectiveness of promotions and campaigns. Executive dashboards let you see how your team is performing. Your team runs and views reports that help them fine-tune promotions to make them more effective. Insight into the long-term revenue impact of campaigns reveals which programs should be repeated and which need to be improved. Revenue climbs as you and your team focus on improving the most effective campaigns.

Seven: Support for global growth

People all over the world would benefit from your online services, and they can, assuming your billing system readily supports local currencies, payment preferences, and tax compliance. You know that currencies and tax codes vary by country, but so do payment preferences. Not everyone is satisfied with credit cards and debit cards. For instance, ELV, a form of direct debit, is popular in Germany with people who prefer not to use their credit cards online.

You can accelerate global expansion with a billing system that includes built-in support for virtually any currency, payment preference, language, and tax code. By automatically providing billing-related communications in the local language, you ease the customer service burden of moving into new regions. Equally automated tax compliance means expanding into new regions doesn't add to the workload of your finance team. As you expand your global reach, your team can use the insights gained from your billing system's business intelligence tools to target offers and marketing resources to the most promising regions.

Soaring metrics and higher revenue

A strategic billing platform isn't just something that's nice to have or that delivers only qualitative benefits. You should expect your billing platform to have a measureable impact on all your key business metrics, and the impact should be greatest on churn and ACLV. As your churn rates go down each month, your ACLV increases – as does MRR. The greater marketing flexibility enabled by strategic billing affords your team more opportunity to craft creative – and cost-effective – promotions. Their increased go-to-market flexibility will improve their ability to turn innovative ideas into lower customer acquisition costs and a stronger pipeline.

Clearly, the right billing technology moves KPIs in the direction CMOs like you want to see. Involuntary churn and CAC down. ACLV up and increased MRR. You also empower your team to acquire more customers across channels and borders.

Vindicia solutions

Vindicia Subscribe

Vindicia Subscribe provides comprehensive features that support all aspects of the subscription business lifecycle:

- **Acquire.** Attract new subscribers with the freedom to launch and refine offers. Get creative knowing that your billing solution helps you speed ideas to market.
- **Bill.** Support all the pricing and payment options that your customers want while accessing data-driven insights into revenue.
- **Retain.** Benefit from lower active and passive churn by reducing billing friction and leveraging subscription intelligence to resolve declined transactions.
- **Expand.** Mine data for opportunities to upsell and cross-sell. Pricing insights help you grow revenue from existing customers.
- **Succeed.** Connect with Vindicia subscription experts for industry benchmarking data, best practices, and ideas to increase revenue.

For more details, read our Vindicia Subscribe data sheet.

Vindicia Retain

Vindicia Retain cuts passive churn and drives higher customer lifetime value by correcting failed payment transactions. Retain can be used with your existing billing system or in conjunction with the Vindicia Subscribe platform. Vindicia Retain's unique retention technology:

- Applies subscription intelligence and analytics from Vindicia's vast data set of payment transactions to extract invaluable insights into when and why payments are accepted or declined.
- Unravels the reasons for transaction failure and then automatically determining which corrective action to take to resolve the issue.
- Resolves up to 30% of terminally failed payment transactions for an immediate 3 to 6% revenue boost.

More importantly, you retain the customer without the hassle and churn risk of asking for another payment method – resulting in greater lifetime value. For more details, read our Vindicia Retain data sheet.

ABOUT VINDICIA

Vindicia offers comprehensive subscription management solutions that help businesses acquire and retain more customers. Providing much more than just a billing and payments system, the company's SaaS-based subscription management platform combines big data analysis, strategic consulting and proprietary retention technology. Vindicia provides its clients with more recurring revenue, more customer data, better insights, and greater value throughout the entire subscriber lifecycle. To learn more visit www.vindicia.com.

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