GO BEYOND RETENTION

EXECUTIVE WHITEPAPER

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Executive Summary

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If the pervasiveness of the cloud as the predominant business model for software and services companies has taught us anything, it is that a customer 'on the books' is worth two or more off of them. While new customer acquisition is still certainly important, the simple fact is that the most successful cloud businesses today are the ones focusing their attention on retaining their existing customers.

A recent study by the Gartner Group posits that a company that is able to retain 20% of its existing customers would be able to secure 80% of its future revenues. With so much riding on retention, it's no surprise that businesses (especially in the B2B space) are willing to spend more on strategies to improve the customer experience. But even as companies spend more on customer service, few if any are realizing any significant gains from their investments.

In 2014, Accenture surveyed approximately 1,500 B2B executives in 13 countries and found that while 85% recognized the importance of customer experience to their overall revenue strategy, 76% were wasting more than half their investments on ineffective initiatives. With more than 50% of these companies reporting that their efforts had little or no positive affect on customer retention, it may be time to take a fresh look at the best practices the industry leaders are using to retain their customers and go beyond retention.

Let's start by examining what it is exactly that constitutes retention.

Defining and Measuring 'Good' Customer Retention

1. What is the target churn rate for a "best of breed" software or service company?

a.	1.25% a month	c.	7.5% a month
b.	5% a month	d.	15% a month

2. If you have 10,000 initial customers and retain 85% per month, how many of those customers will you have at the end of the year?

a.	5,000	c.	500
b.	2,500	d.	0

3. If you have 10,000 initial customers and lose 1.25% per month, how many of those customers will you have retained by the end of the year?

a.	3,000	c.	8,500
b.	6,000	d.	1,000

4. How much would a company need to increase its retention to boost profitability from 25% to 95%?

a.	25%	c.	50%
b.	5%	d.	10%

Answers: 1-A, 2-D, 3-C, 4-B (Bain and Co).

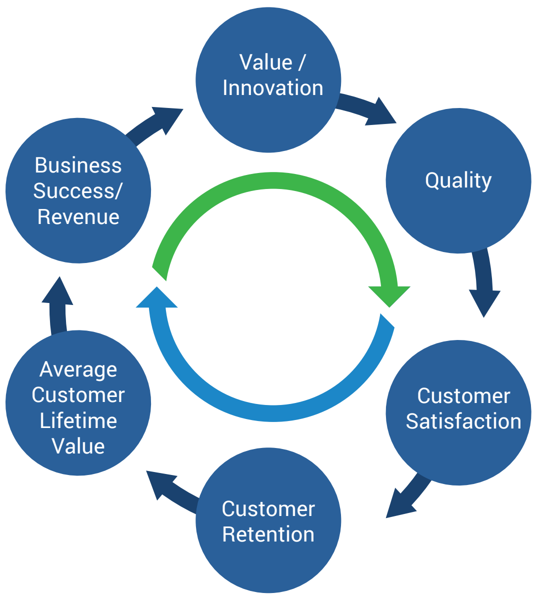
As this quiz demonstrates, even a small increase in retention can have a dramatic affect on a company's revenue. But as we've also seen, increasing retention is a difficult challenge for a majority of companies. Before we can answer why, we'll need to define exactly what retention is and outline the metrics the industry uses to measure and benchmark it.

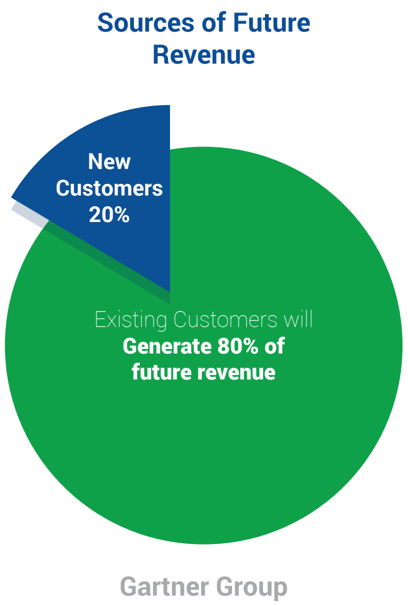
Retention as it is generally defined is the sum of all processes, mechanisms and costs associated with keeping existing customers from churning and securing the recurring revenue they generate. There are many factors that contribute to whether an individual customer 'stays' or 'goes,' but customer retention rates speak volumes about service / product value and quality, user satisfaction and long-term business financial outlook by measuring the degree to which acquired clients are "loyalized."

The Metrics of Customer Retention

The number of benefits a company receives from retaining a current customer is almost too much to quantify. Retaining an existing customer carries with it significantly less costs, resources and stress than acquiring one new. Plus, it provides a stable source of recurring revenue measured through the predictable Average Customer Lifetime Value (ACLV) metric. ACLV represents the total recurring charges through the customer lifetime, the duration passed since the initial acquisition. A customer using a monthly subscription that charges $40 a year generates $480 (the ACLV). Companies are spending on average five dollars to acquire new customers (lead acquisition) for every dollar spent retaining an existing customer (Lee Resources 2010).

Companies selling subscriptions thrive on repeat business, so customer retention and recurring revenue are key metrics to consider. A source of risk for a recurring businesses, churn is both an indicator of the health of the subscriber base and of the company's profitability and valuation.





Optimal Churn Rates

Subscriber churn can be linked to a number of sources, including credit / debit cards being declined, chargebacks and refunds, and customers simply forgetting to use the service they acquired or cancelling because they find it doesn't suit their needs.

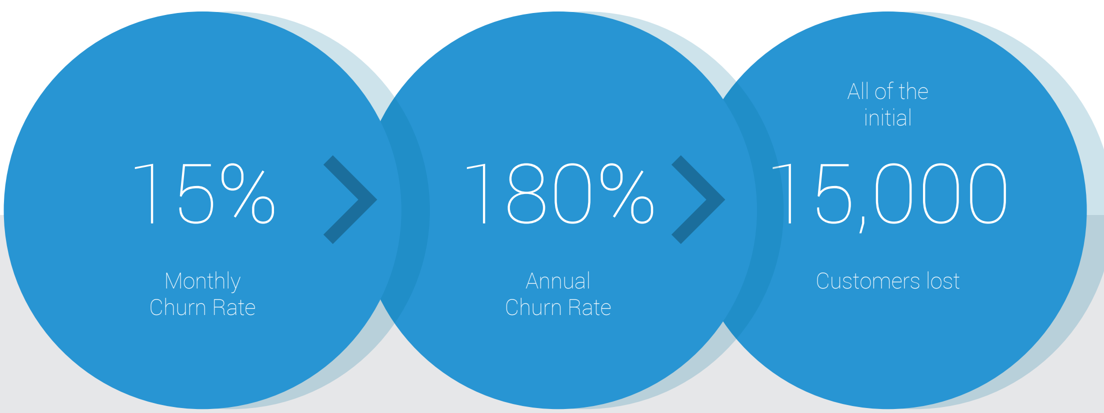
According to a report from River Cities Capital Funds, "[B]est-of-breed Software as a Service companies achieve gross margins in the 70%+ range and manage annual churn rates below 15%." A 15% annual churn rate provides a company with some breathing room, in the sense that it will only need to add 1,500 new customers by the end of the year to keep the subscriber base intact. On the other hand, a 15% monthly churn rate would spell disaster for a SaaS business. Churning 15% per month would mean having to attract at least 1,500 during the same period just to achieve net zero growth.

1.25%
Monthly Churn Rate

15%
Annual Churn Rate

15,000
Customers lost out of every 10,000

To put things into perspective, a 15% annual churn rate translates into a 1.25% monthly churn rate, whereas the 15% monthly rate represents an annual attrition of 180%. In the latter case, a company would lose almost twice as many customers as it started the year with – which is far from desirable. Ideally, a company should keep its annual churn rate under 10%, which represents a monthly attrition rate of less than 1%.



Retention Strategies

Customer retention strategies generally fall within one of the two following categories: Those aimed at reducing voluntary churn, and those designed to curb involuntary churn. Voluntary churn, or customer defection, is what we typically think of when considering issues of customer retention. It is the decision-driven shopper actions that are strongly correlated with the customer's actual experience with the product and service or the support-oriented touch points. It is the area of customer retention where most companies place their greatest focus and resources, whether to strengthen quality or provide more value at the beginning of the customer cycle.

While the focus on voluntary churn is certainly important, to do so at the exclusion of involuntary churn is a mistake many companies make, and a major contributing factor to the low retention rates they experience as a consequence. In contrast to voluntary churn, the source of involuntary turnover is not the customer, but rather a circumstantial occurrence, such as payment failures, that can be addressed in most cases by business process and infrastructure optimizations.

Reducing Involuntary Churn

While the majority of recurring subscription payments are processed successfully, payment failures represent one of the top sources of involuntary turnover. Transactions can fail due to a number of reasons, including expired cards or insufficient funds. Surprisingly these very solvable issues cause up to 17% of recurring transactions to fail. While the failure rate for each business is dependent on its model, industry and situation (B2B v. B2C or billing cycle, etc.), the specialized tools and strategies for solving them are pretty universal. Let's next look at the some of the key payment failure scenarios and the specialized tools and strategies that have been designed to correct them.

Key reason for why card payments fail:
• Insufficient funds.
• Card activity limit exceeded.
• Processing failures due to system, technical or infrastructure issues.
• Card restricted

Authorization Failures

Card declines or authorization failures contribute more to involuntary churn than possibly any other factor. Fortunately, they are also some of the simplest to resolve. All card declines, however, are not created equal. As a result, the best practices and strategies for retrying card authorizations are dependent on whether it is a soft or hard card decline.

Tale of the Card - Variances in Authorization Rates by Card

Jan '14 - Jun '14

Payment Method	Authorization rate Overall	Authorization rate Renewal
Visa / MasterCard	86.50%	83.35%
American Express	89.98%	92.14%
Discover	94.27%	92.89%

Apparently, nor all credit cards are created equal either. The data from the millions of transactions shows that renewal authorization rates for different cards can vary by as much as 11% points.

Soft declines

With a soft decline, the authorization failure is most likely a temporary issue, and there is a good probability that a subsequent try would be successful. Avangate recommends retrying all transactions with authorization failures accompanied by soft decline messages from payment processors, because there's a probability that subsequent authorizations will be successful. Soft decline reasons include:

- Insufficient funds.
- Card activity limit exceeded.
- Processing failures due to system, technical or infrastructure issues.
- Expired cards.

Hard declines

Hard declines, in line with industry practices, are permanent authorization failures that cannot be recovered, regardless of the retry strategy employed and can range from 10-20% of the total declines. Hard decline reasons include:

- Stolen or lost cards
- Invalid cvredit card data
- Account closed.

In hard decline scenarios, the best practices involve contacting customers through alternate retention channels instead of attempting additional authorizations that will result in more failures.

Alternative payment methods

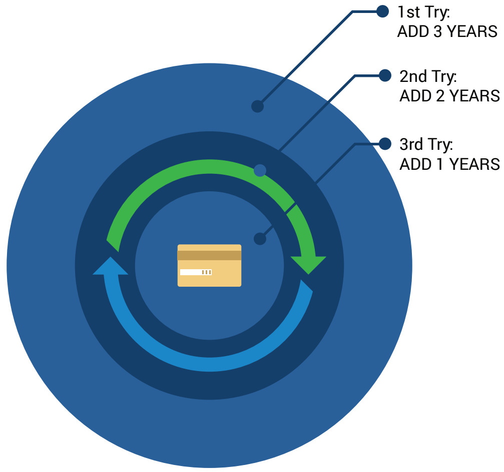
Hard declines are the most difficult to resolve successfully. The best strategy is institute logic that enables you to react immediately -- preferably while the shopper is still in the cart – and or institute an ordering process that enables shoppers to change their method of payment.

Call center and email marketing

Another strategy to combat hard declines, provided that you have the resources, is the direct customer service outreach to declined subscribers. While it may not make sense for every customer, it could be worthwhile for those with a high ACLV. A CRM system would also be required to manage the interactions and to determine which subscribers require the personalized service.

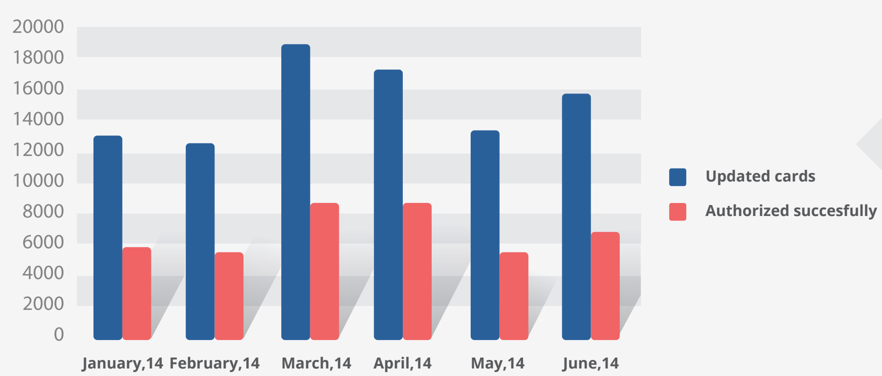
Expired Card Handling

Another easily solved cause of involuntary churn is expired or out-of-date credit cards. The most successful strategy for handling this is relatively straightforward. While an algorithm is required to do the actual work, the solution itself simply involves identifying expired cards and adding three, two or one year to the current expiration date until it is authorized. For example, for a card expiring on 01/14, the first authorization attempt would use an end date of 01/17. If that try fails, two years would be added, and then one. In order for this to be successful, it must, of course, be deployed in conjunction with some type of Retry Logic (which is covered in 4.4)



By deploying this method, we are seeing authorization rates of 40% to 50% for expired cards that would otherwise result in failed recurring charges. What this means is that for every 10 expired cards four are actually authorized successfully, securing recurring revenue for our customers.

Number of authorized cards out of thouse updated for a selection of participating companies



Successful authorizations of expired cards in the example above generated over $2,000,000 in total for the companies leveraging the service in the first six months of the year.

Account Updater Services

As we've seen, simple strategies such as extending credit card dates can significantly reduce involuntary churn, and increase recurring revenue. And even when those methods fail, there are other strategies, such as an account updater service that can help pick up the slack. Account updating is a service offered by all the major credit card issuers in the United States, Canada, Australia, New Zealand and some European markets. It enables you to update card data when the accountholder information has changed to a degree beyond the expiration date. The changes can include everything from a new account number and the cardholder's contact information to a specific new expiration date that cannot be remedied by the simple method described in 4.2.

Key benefits of the an account updater service

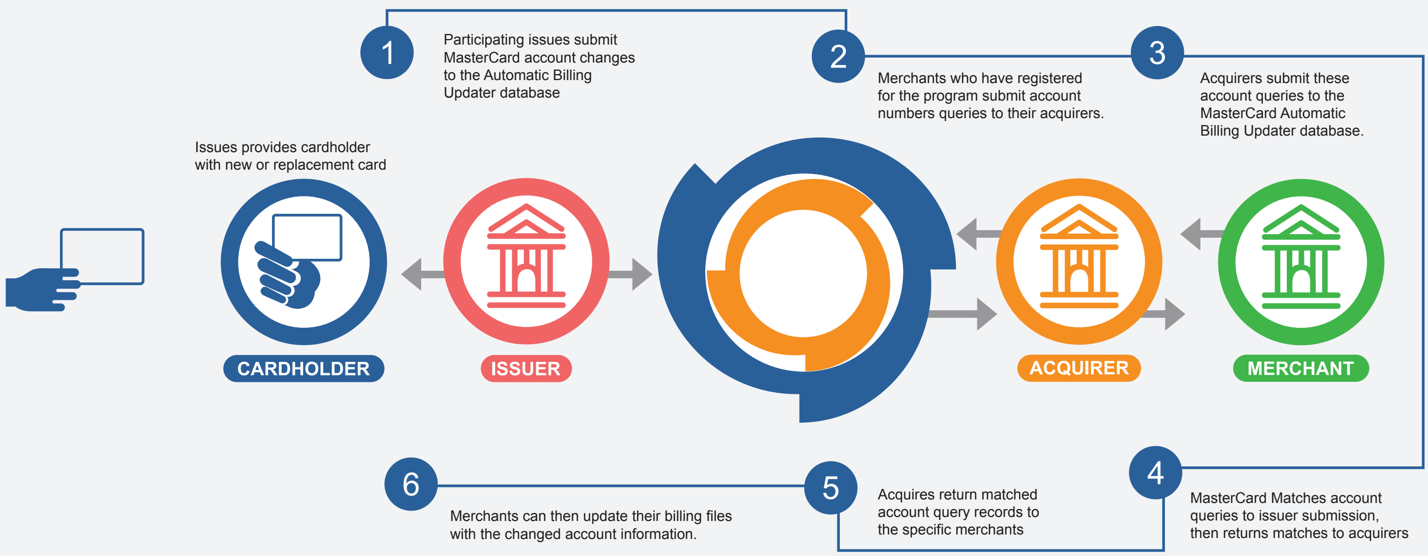
- Higher success of fund collection
- Decrease customer retention cost
- Increases customer loyalty by eliminating service disruption

Available account updater services include:

- Visa Account Updater
- MasterCard Automatic Billing Service
- Discover Network Account Updater
- American Express Continuity Billing Program

When used in tandem with the expiration date handling, Avangate has witnessed successful authorization rates of over 85%, and no less than 50% when using an updating service alone. The bottom line is than an account updater service can help you salvage over 90% of the unusable cards used for recurring billing. It's importance for handling involuntary churn cannot be overstated, especially when taking into account the transactions, subscriptions, customers and revenue that would other be lost without it.

How the MasterCard Automatic Billing Updater works



Retry Logic

As we covered in 4.1, there are many factors that can cause a card payment authorization to fail. But as long as the failure was accompanied by a soft decline notice, there is a good chance that it can be authorized upon resubmission. While the basic tactics of the payment retry (or declined credit card transaction recycling) strategy are relatively simple, there are varying methods and best practices that need to be considered before deploying them.

Avangate recommends that your particular strategy, especially with respect to the frequency and number of retries, should be tailored to your specific business and customer base, to achieve an optimal conversion rate. That being said, there are a few things every business should keep in mind before they start.

Success Varies Wildly

The success rate for retrying authorizations for soft card declines varies from company to company, but on average ranges between 2% and 15%.

Persistence Pays Off

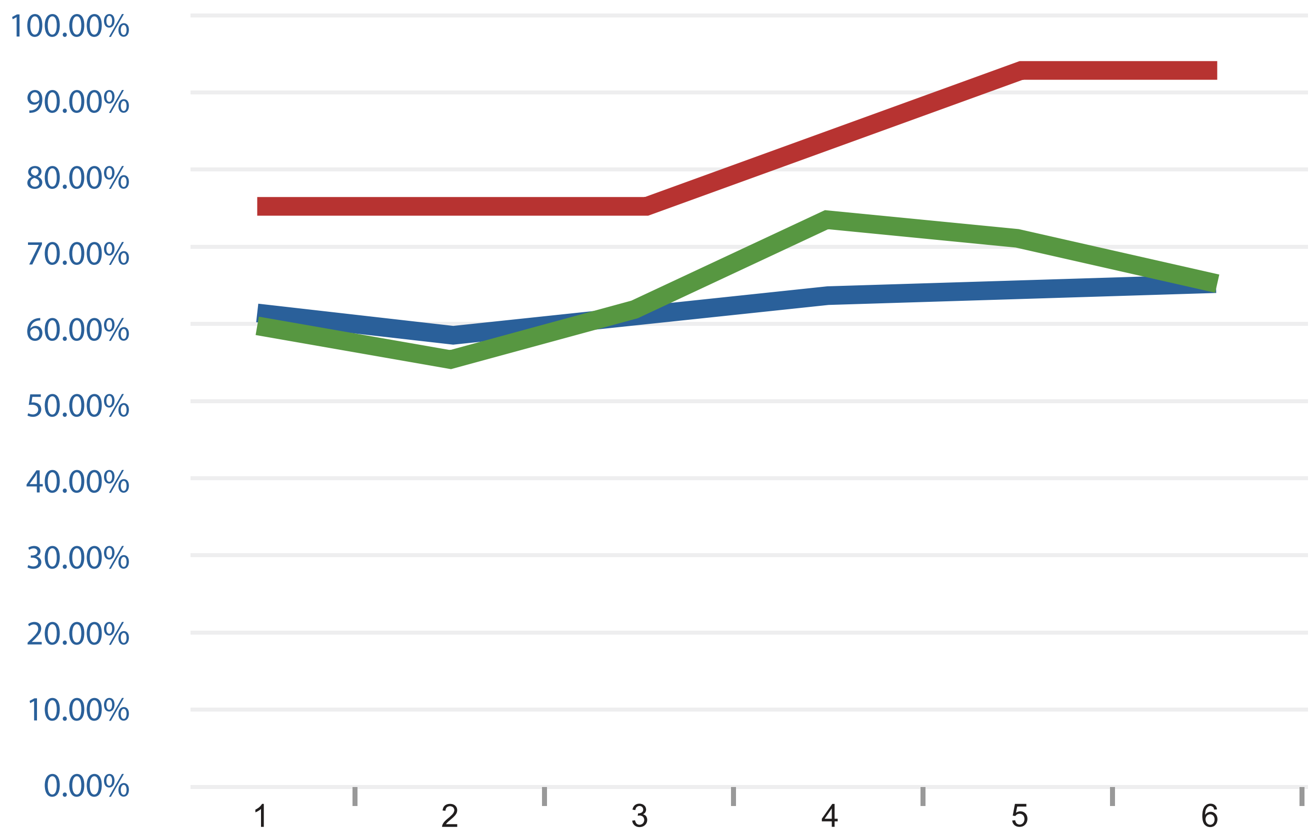
Looking at the aggregated data for vendors with a retry logic mechanism in place, we have seen a decrease in the decline rate of between 4% and 6%. And as we know, any reduction in the decline rate is significant, as it represents 'recovered revenue.'

Try and Try Again

Configure multiple retries, at least three, and spread them across a few days. For example, you can schedule them the first, fourth and seventh day after the initial authorization attempt fails for monthly subscriptions. For yearly subscriptions, the frequency between tries in days can be greater provided a grace period is offered. The schedule should be adapted and tested at the hour level as well.

The Law of Diminishing Returns Applies

In terms of schedules, we've also seen that ~95% of retries are successful on the first retry attempt, while less than 0.5% are successful on the eighth retry attempt.



The graph shows the evolution of authorization rates three months before and three months after the feature was enabled for three SaaS companies. If you were to apply this model to revenue, and plugged in $100,000, for example, you could potentially increase collected funds by as much as $15,000 per month.

Intelligent Payment Routing

Up to this point, we've mainly been discussing reactive strategies for dealing with involuntary churn. While addressing payment failures as they occur is certainly important, no retention strategy is complete without a component that enables you to proactively prevent failures from happening in the first place. One of the best methods for accomplishing that is intelligent payment routing.

Intelligent payment routing offers shortcuts to optimal transaction routes. A global ecommerce must-have, intelligent payment routing can juggle card transactions between multiple payment gateways based on a set of definable rules, maximizing authorization rates.

To increase the successful authorization of payments, an automated system needs to intelligently match, or route, card transactions to the payment gateways best equipped to handle them. The process also should be capable of compensating for authorization failures by relying on a payment retry process using failover or back-up gateways.

The following addresses the best practices for the matching or routing card transactions to their appropriate gateways.

Transaction Type -- New v. Recurring, Subscription v. Trial

Intelligent payment routing needs to be tailored to the type of transaction, with specific governing rules. For example, the algorithm matching recurring charges to specific payment gateways has to take into account previous successful transactions. Recurring transactions and payments made by returning customers also imply lower risk of fraud, refund or chargeback. Route transactions from high-risk customers, such as new/first time shoppers from markets with fraud legacies, to secondary payment gateways. This will help you protect the relationship with your main payment processors.

Card BINs (Bank Identification Number) offer a wealth of information, including the country of the issuing bank, and can be used in anti-fraud efforts to check that it matches the IP address and the billing address of the shopper.

Payment Methods, Customer Billing Country and Local Currencies

Use localization to your advantage to match transactions to domestic payment gateways. Local processors/banks in the same geography as the shopper will consistently deliver the highest authorization rates. Ideally, shoppers will always be able to use their preferred payment method/card in their local currency, with the transaction being processed by a payment gateway in the same country. This also means that you need to support advanced localization.

For Brazilian customers for example, payments made with local Visa and MasterCard cards in Reals and processed by a local payment gateway deliver an authorization rate from 70% to 90%, depending on business. Authorizations for international cards are half that.

Once again, you can rely on card BINs to identify the best-suited processor for a transaction.

Balance Transaction Volumes

Split transactions between multiple payment gateways. The old saying, don't put all your eggs in one basket holds true for the way you manage your relationship with payment gateways. Think about it in terms of risk distribution and balance the transaction volumes between multiple processors, setting in place a failover mechanism smart enough to reach rapidly, automatically and efficiently in case one of the gateways becomes unresponsive.

Some gateways may impose specific limits in terms of the total volume of transactions that you can perform for a certain amount of time. If this is the case, a backup gateway will help you balance the transaction load without penalizing shoppers in any way.

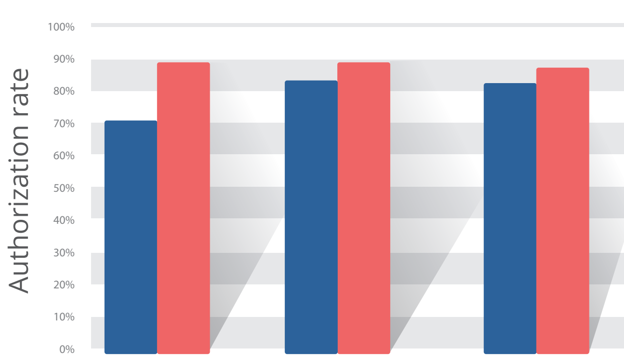
Authorization Failures

Authorization response codes for failed communications. Program your routing system to manage authorization response codes for failed transactions. Not all authorization failures are "created equal" and routing can help you complete a payment successfully even after the transaction failed initially. It's critical to distinguish between soft and hard declines, and retry the authorizations with a high probability of success on a failover gateway.

Average Order Value

Minimize processing costs. Protect your profit margin. Route transactions to specific gateways if the processing costs are lower based on the value of orders.

Single Payment Gateway vs. IPR



May	June	July	
73.23%	85.63%	84.65%	Single Payment Gateway
91.23%	90.76%	89.61%	Intelligent Payment Gateway

The chart on the left contains a comparison between the authorization rates that you can expect from a single payment gateway vs. a setup where multiple gateways are used in concert with Intelligent Payment Routing (IPR). IPR delivers consistently higher authorization rates, from 5% to as much as 18% in one month.

Dunning Management

While the majority of the strategies to reduce involuntary churn deal with the mechanical aspects of the payment process, one very important tactic, dunning management, brings the effort back full circle to the customer. Dunning management, which refers to the process of salvaging unfinished/past due/overdue payments through the use of delinquent user notifications, can be deployed both proactively and reactively, either before or after the transaction. In either case, great care should be given to the messages you deliver. It should be no surprise then that dunning management is also an essential part of an effective customer communication strategy, as it is as key to maintaining good customer relations as it is it reducing churn and increasing retention.

Proactive approach

Using your CRM system, you can act proactively to prevent potential payment failures. One tactic involves the smart identification and automated notification to customers whose cards are set to expire before the next recurring charges are due. Other proactive tactics include enabling customers to update their card data in your shopper portal.

Initial follow-up email

as soon as the payment has failed. It's best not to jump the gun and offer discounts too early, but instead bank on the fact that your customers want to renew their subscriptions.

Third email

A final notification would serve as the last attempt to nudge customers in the direction of a renewal. You can schedule this email after a few days since the payment fails, preferably within the first week after the event.

Reactive approach

Reactive dunning management involves communicating the problem to your customers after the failure has occurred. An automatic notification system is the best solution to reduce your costs while delivering emails timely and efficiently for each subscription payment failure. A three-step approach is generally considered standard, with notifications spread out over a number of days. The following are some best practices for distributing these notices.

Second notification

This email should be designed to reinforce the first notice, and confirm that the notices are being received. Once again, including a promotion at this stage would not necessarily increase the conversion rate, but reduce your revenue, since may be customers that would renew even without a discount. It's a good idea to send the second notification within 48 hours of the failed payment event, but statistics generally indicate that shoppers are most likely to react within the first 24 hours.

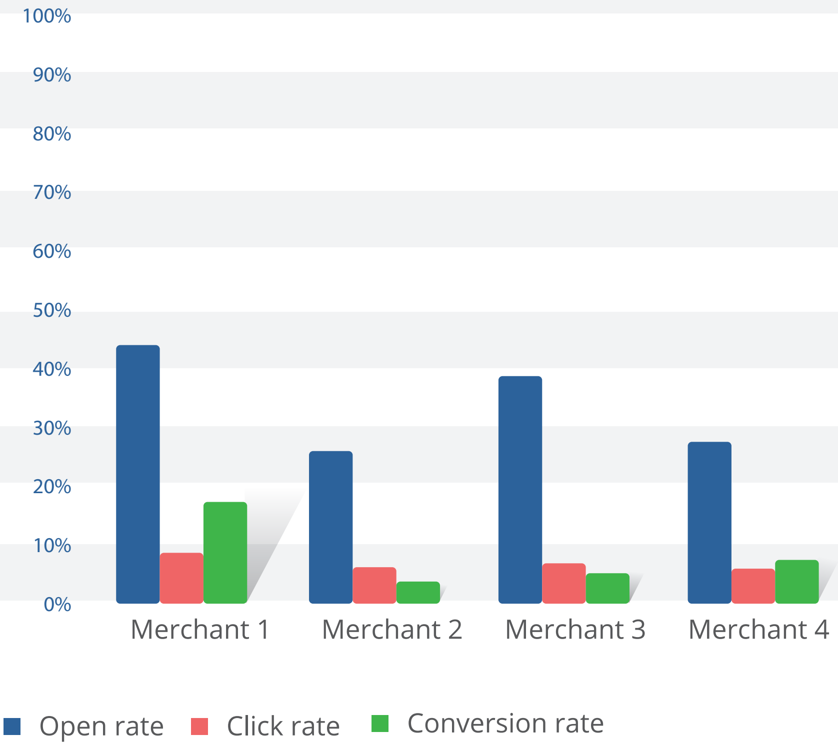
Additional things to keep in mind:

• **Speak differently** to customers based on the type of payment failure event. Unfinished, automatic recurring payments for a subscription renewal or a trial conversion should mention such details to shoppers. Clear communication is critical in these circumstances, as the customers should understand that the payment was attempted through an automated process.

• **Tailor the frequency** of your dunning notifications to your customers. Test different setups in terms of email frequency. You might find that a combination of dunning messages sent out in the first two days converts best, or you could identify a strategy in which emails spread out across an entire week produce the best results.

• **Adapt the frequency** to the type of payment method used.
  o React faster for failed payments involving cards and PayPal, since these types of transactions are generally instantaneous.
  o **Slow down the pace** when a payment method such as Direct Debit is used, and wait for a failure confirmation from the shopper's bank.

• **Enable tracking** for all communications and monitor and measure the following metrics.
  o **Open, click and conversion rates** for the emails sent out.
  o **The revenue** generated through purchases initiated from a dunning email.
  o **Bounce rate**, but also log soft and hard bounces to optimize your campaigns.



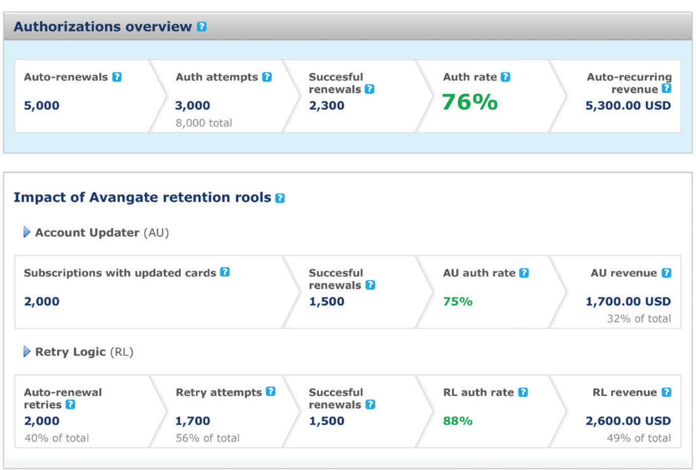
The chart above shows some result for four Avangate merchants over the course of 2 consecutive months in the second half of 2014. Merchant 1 is using a 2, 6 and 8 days strategy for unfinished payment reminders. With just 3 emails, more than one in every four dunning emails that are opened by customers result in a successful sale.

Merchant 3 also has a healthy conversion rate, almost one in every three dunning emails opened generates a sale. This particular company opted to send the first unfinished payment notification just 2 hours after the failure event. Two subsequent emails are scheduled for days 2 and 3.

Authorization Dashboard

Once you set up a complex strategy to fight involuntary churn and are utilizing multiple, automated processes and tools, the next step is to monitor their impact. Recurring revenue and average customer lifecycle value provide invaluable proof of the efficiency of curbing churn, but there's additional data to keep an eye on from segmented data on authorization and decline rates to specifics that are not available easily via the providers:

- Recycle Recovery Report
- Optimized Expiration Date Performance Report
- Account Updater Impact Report



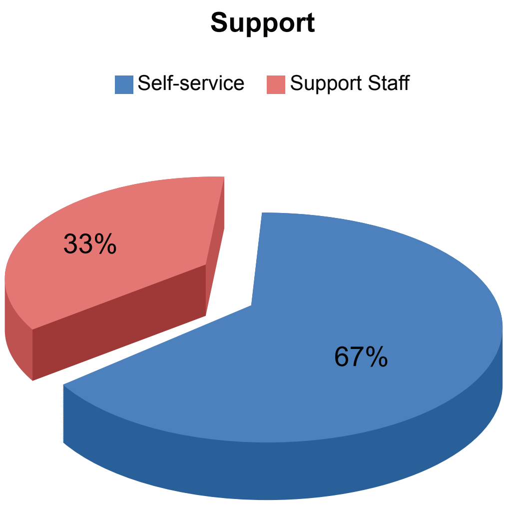
You need clear metrics on the efficacy of authorization retries, not only the success rate of charge attempts made on cards with updated expiration dates and the number of successful payments facilitated by an account updater but also for those at the subscription level – type of messages and next actions scheduled in terms of retry logic number of attempts for your customer support reps.

Reduce Voluntary Churn

Premeditated turnover is a metric of your services / products value and quality which translates into user satisfaction, or lack thereof. It involves your newly acquired or existing customers voluntarily churning out, opting to not use your service any longer and requiring you to stop billing them. Worst-case scenario? They'll ask for a refund, or bypass you altogether and request a chargeback directly with their bank. With the right tools and strategies in place, you'll also be able to curb premeditated churn.

Enable Self-service

Are you empowering your customers? According to a 2013 study by Zendesk, no less than 67% of consumers expressed a preference toward a do-it-yourself approach when the alternative was to contact support. Think about it. Almost seven out of every 10 customers enjoy solving any issues they might have without increasing your support overhead and stretching your resources thin.

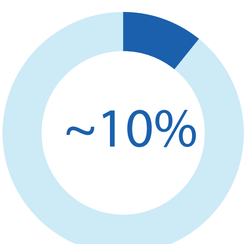


Self-service in ecommerce is about offering control to your customers, maybe even on par with that of your customer relationship managers. It's critical to offer self-service tools enabling them to:

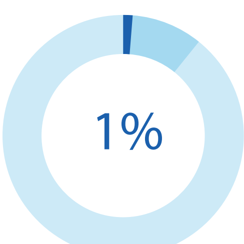
- Manage subscriptions throughout their lifecycle, including cancelling services.
- Control payments, update payment information and request refunds.
- Access additional support information, purchase history, invoices, acquired resources, etc.

Providing your customers with a self-service area for their subscriptions/services also opens up retention scenarios for your company and creates new engagement paths, making it simpler to reach out to those shoppers in danger of churning before it's too late.

On average, looking at the customer portal behavior (myAvangate) we see:



~10% of users actually logged into myAccount and updated their credit cards to ensure that they could be billed recurrently without loss of service.



1% of shoppers switched on recurring billing for their subscriptions, which they were previously renewing by going through cart purchases.

Single Sign-On and Customization

When using shopper hubs, look for two features in particular:

Customization
Your shopper portal must match the look and feel of your web properties, down to details such as the same or a similar domain name. The last thing you want is to provide an inconsistent experience that ends up confusing your customers.

Single Sign-On
Don't penalize your customers by requiring them to re-log into their portal, or require different usernames and passwords than the ones they use for your service. If you've already successfully identified and validated customers, use single sign on to seamlessly transition them into their account in the shopper portal. customers.

Cancellation Surveys and Discounts

Who best to explain why they're churning out but the customers themselves? And it works both ways.

- Loyal, returning customers will help you find out what's working and why they stay with you / why they keep coming back.
- Churned customers will help you get an idea of why they left or trying to leave.

Marketing email or surveys in your online shopper hubs offer plenty of opportunity to interact with customers, without taking those who stay for granted or ignoring those leaving. Ask the right questions:

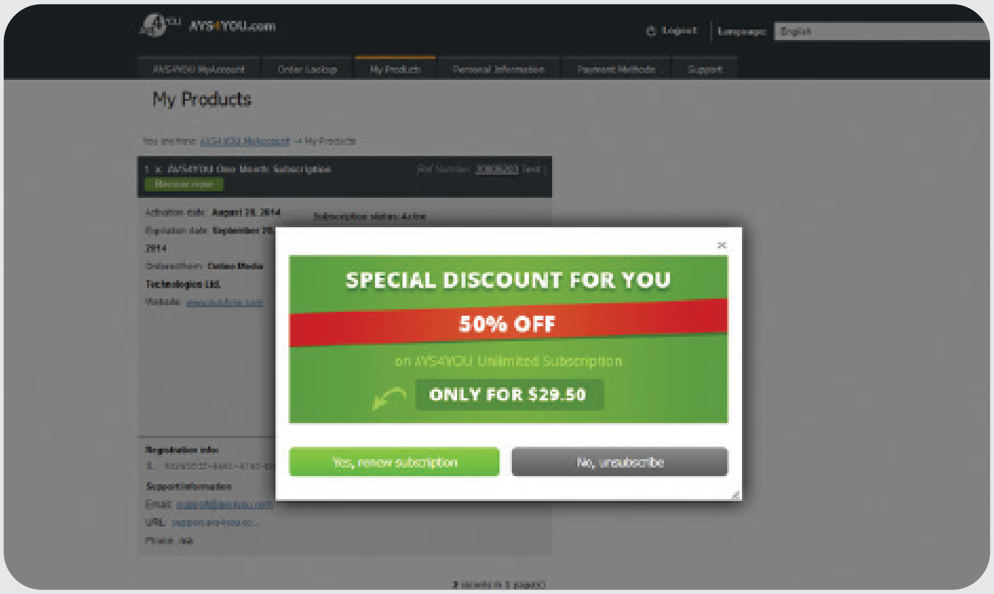
- Why customers leave or why they stay?
- Would they consider returning in the future?
- How do you compare to competitors?
- What role did pricing play in their decision?

Make sure to measure their satisfaction with your business and services in the context of demographics and the length of your relationship with them.
The end goal should be to produce a list with the top reasons generating churn. Subsequently, you need to react to the identified issues either by resolving them when possible, or coming up with retention strategies.

Don't impede their departure, but there's no harm in attempting to get customers to reconsider

Hiding the cancel subscription button and training your support staff not to take 'no' for an answer will end up causing more problems than you're trying to solve, especially around generating chargebacks that you really can't afford -- as you'll see further down. Some customers will inevitably churn out, and you'll have to let them go. Focus on minimizing the attrition rate rather than on gimmicks designed to retain customers at all costs.

One strategy to consider is to customize your retention flow based on churn triggers. You can for example provide special offers and discounts as incentives to deter customers from churning. Try to A/B test different promotions to see which one resonates best with customers and curbs your attrition rate.



Free Trials Management

Offering access to free trials is a great tool to increase your customer base. Provided that you offer a strong enough product/service capable of 'speaking for itself,' you're bound to retain at least part of those that sign up for the evaluation process. You can also use different tactics to come up with the top-converting mode. Best practices:

- Make sure the trial is free and without any hidden costs. When collecting card or PayPal data, pre-authorizations will be made, generally sums of $1 or 1 Euro, to validate the payment method. The authorized sum is returned to shoppers, but it's a good idea to inform this of this financial operation.

- **Decide on a free trials model:**
  - o Are you going to collect payment details upfront as a requirement to accessing the trial and use the info for conversion changes?
  - o Or are you going to provide unrestricted access and ask for payment details later?

- Loyal, returning customers will help you find out what's working and why they stay with you / why they keep coming back.
- Churned customers will help you get an idea of why they left or trying to leave.

	Credit card required	Credit card not required	Best in class SaaS leaders
Visitor to free trial signup conversion	2%	10%	10%
Free trial to paid subscription conversion	50%	15%	25%
Retained paid customers after 90 days	60%	80%	80%
Conversions end-to-end	0.6%	1.2%	2.0%

TOTANGO

According to Totango, trials that don't require card data can produce a higher conversion rate compared to those that do ask for the payment details upfront. In the graphic above, 120 users were retained after 90 days from an initial 1,000 free trial signups, with 150 of them providing their card data after they used the trial. By comparison, is the group where 200 shared their card data before the trial, only 60 of the 100 originally converted were retained as paying customers. Of course, if you run an established SaaS company with a strong brand, your retention rate will be higher, enabling you to retain a minimum of 200 customers.

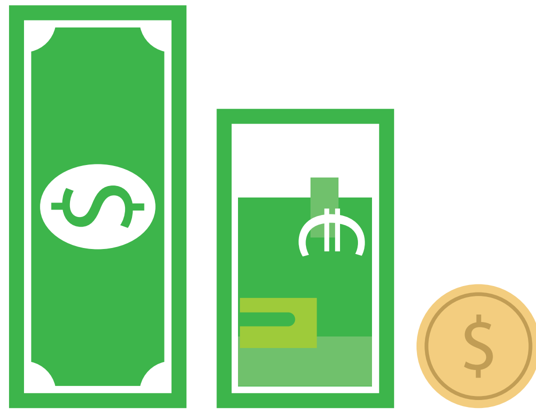
Free Trial Best Practices

1. Run A/B tests to see the scenario that will deliver the highest conversion rate, requiring cards upfront or after the trial was accessed.

2. Monitor testers closely and identify those that are most active. High activity is generally synonymous with conversion and a high probability of retention. Those with a lack of interest will most likely result in churn.

3. Be proactive. Engage your top users early and nurture them. One approach that you can take is to push special offerings packaged with early trial conversions on-demand.

Cohort Analysis



Think of cohorts as clusters of your customers sharing a key characteristic, such as users who purchased a product in the same interval of time. Case in point, you can track all users who signed up in January 2014 and their usage lifecycle. Cohorts give you a global overview over the evolution of your customer base in terms of churn rate, placing it in the context of how your business/service/product/etc. are growing, while also enabling you to get a sense of the impact of your retention strategies.

Product evolution

A critical use of cohorts is to see if you're taking your product in the right direction by monitoring and measuring modifications of engagement rates over extended periods of time. New features and functionality introduced, redesigns and other changes will all impact usage. Negative impact is immediately visible through cohort analysis, as churn will increase. Let's look at the example below.

Retention efforts

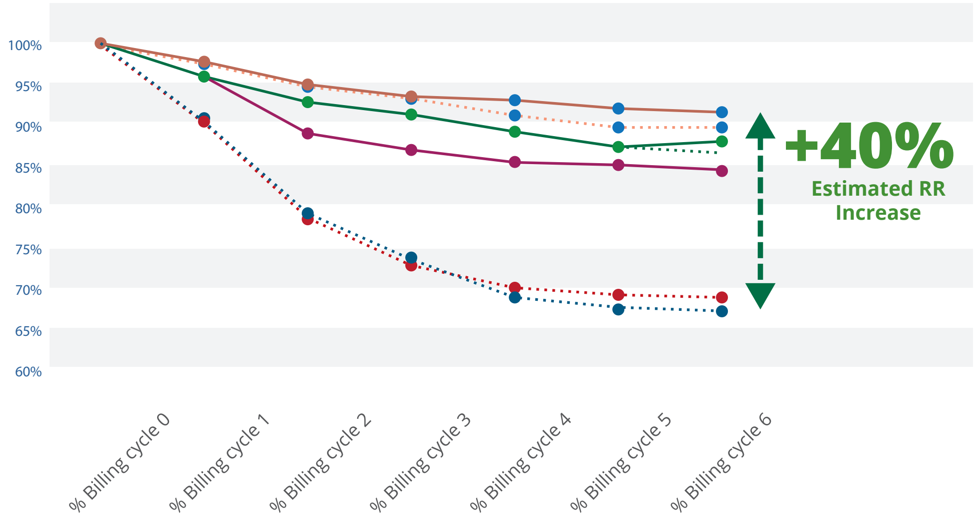
On top of this, you will also be able to evaluate the impact of retention efforts at a macro scale by analyzing churn fluctuations. The more optimized your retention strategy, the lower the churn rate and with more customers retained, you will notice an increase in recurring revenue.

Cohort	Start Size	% Billing Cycle 1	% Billing Cycle 2
Jan-14	100%	4.95%	7.92%
Feb-14	100%	1.87%	6.54%
Mar-14	100%	0.85%	6.84%
Apr-14	100%	0.78%	3.88%
May-14	100%	3.96%	6.93%
Jun-14	100%	12.9%	24.73%

The data reveals a clear increase in churn rate starting with May and a steep increase in attrition in July. Only 0.78% of the customers who started using the product in April canceled by the end of the first month. By contrast, 4 out of 100 users who started in May decided that they didn't want it by the end of the first month of use. Almost 13% of users from the June cohort did the same, with the churn rate doubling in July. It's clear from this that a change introduced in April had a negative impact and that it reverberated throughout the mass of new customers in June. In situations such as these, you need to correlate cohort and operational data, identify the source of the problem and mitigate its impact. Continuing to track cohorts, you will be able to assess if the change you made worked and to what degree.

Churn rates & Retention

Cohorts with billing cycle of 1 month



Highest Churn rate -
in the 1st and 2nd billing cycle

Starting with June cohorts, churn rates are decreasing> Customers who bought in June, and later, have higher retention rates compared to earlier customers

+$ 19,953~
(on billing cycle 6 only)

Chargeback & Refund Management

Costly and detrimental, especially to businesses relying on recurring revenue, chargebacks and refunds are problems that you need to face head on. Since you can think of refunds as the lesser of two evils, maintaining a painfully low chargeback rate should be a top priority.

Companies including Visa and MasterCard require businesses to keep their chargeback rate well below the 1% mark in terms of total sales revenue. Exceed this milestone and you risk fines upward of a few thousand dollars, as well as the very real possibility that Visa and MasterCard could refuse to work with your. Not being able to accept Visa and MasterCard cards is a good a death sentence for your business as any.

Chargeback reasons vary and can range from not being to use/access the subscription/service, to duplicate charges, a fraud claim, or the shopper forgetting about a future recurring charge, especially in the case of extended renewal intervals such as one year. There are a number of steps you can take to prevent chargebacks:

When customers open a dispute, you will need to provide information about the disputed charge to the shopper's bank. Info retrieval requests are accompanied by nominal fees, generally below $15. If the dispute is resolved in favor of the customer, resulting in a chargeback, you'll also be required to pay chargeback fees, which can amount to as much as $40. This on top of the initial processing costs of the transaction. Escalating the dispute to the arbitrage stage might generate cost of a few hundred dollars in fees.

1.Inform shoppers clearly and concisely about future recurring charges when they opt to have their subscriptions auto-renewed. Get your legal department to validate the verbiage of your message and make sure that you don't hide important details in the fine print.

2. Use subscription renewal notifications to let shopper know in advance of any upcoming charges. They'll have a chance to opt out before you collect the funds, and you can mitigate the risks and costs of refunds and chargebacks.

3. Personalize card descriptors. This very simple move will help customers identify the source of the charge from their account statement. You can use details such as your company name, or even info that identifies the product/subscription for which the charge is made. The truth is that customers who can't identify a charge correctly will most likely assume that their cards were compromised

4. Customer support can make a world of difference. Some problems that customers have can be resolved amicably. Technical issues, access glitches, erroneous system behavior, if reported via support should be dealt with expeditiously. If the problem is related to not being able to use a purchased subscription / product as advertised and you can fix it, there's less risk that the customer would churn.

5. When push comes to shove, offer a refund. Refunds deliver a softer blow compared to chargebacks, and if possible, choose to return the money to shoppers yourself rather than having to go through the pain of the chargebacks.

Chargeback Visibility

One way in which you can prevent future disputes is to monitor your past chargebacks, identify your vulnerabilities and fix them. If you manage to win just one in three fraudulent chargebacks, you'll be able to cut your financial losses from false disputes by almost a third. The following best practices will help you

Track the evolution of disputes from the moment they're opened to when they're resolved, either won by you or lost in favor of the customer. Identify a trend, how many are you losing vs. how many winning, what's your chargeback rate compared to the total number of sales. Remember, you need to keep it less than 1%, no easy task. But with continuous monitoring, you will be able to know where you should focus more. For example, if the chargeback rate is approaching 1%, focus on resolving customer complaints and increase flexibility on the refund front.

Dig a little deeper and match the dispute reasons provided by the bank with the actual reason why shoppers requested the chargeback. Identify patterns and use them to fight chargebacks more efficiently, increasing your chances to win.

Monitor customer names, email addresses, cards used. This will help you not only to immediately block services for customers once a chargeback is initiated, but also to identify fraudsters that are trying to get a free ride. They might fool you once, but you'll be able to recognize them the next time they try.

Visa estimated that chargeback fraud ballooned to some $11.8 billion in 2012. According to a study by LexisNexis, the costs of a chargeback in 2013 was $2.79 for every $1 of fraud. This means that for every fraudulent dispute, your losses are three times the value of the actual dispute.

Conclusion

Throughout this whitepaper we've looked at key business and operational areas you can focus on to increase retention and decrease churn. The strategies explored are as diversified as the scenarios that can contribute to inflating the attrition rate, but they offer a roster of tactics to be prioritized. Performed as a coherent, unified and continuous effort, the optimization of customer retention processes, mechanisms and tactics will reverberate across all aspects of your business, in addition to growing recurring revenue and your user base:

- Reduce and mitigate chargeback costs and risks.
- Empower users with self-service capabilities and boost satisfaction.
- Cut your support overhead and load.

How can Avangate help you Go Beyond Retention?

At Avangate we understand that you need to bring an entire arsenal of solutions to go beyond retention and battle the customer churn fight. Our ecommerce platform includes a collection of powerful and flexible solutions that can automate and tailor retention strategies to your business needs and customer specificities.

- Account Updater for seamless updates of credit / debit card account information.
- Retry Logic for highly customizable multiple subscription renewal authorization attempts.
- Intelligent Payment Routing for retrying failed payments through alternate processor based on specific transactions rules.
- Customer communication for your efforts around engaging users with lead management messages and dunning emails.
- myAccount for a complete, fully customizable customer self-service solution with Single SignOn capabilities.
- Cohorts for an overview of retention and churn evolution based on customer segments.
- Chargeback visibility for a deep view into the chargeback activity for your account.
- Authorization report for full transparency into the authorization efforts around recurring payments and critical retention tools.

Go to www.avangate.com to learn more or email us at info@avangate.com.