GOCARDLESS

CHURN

Little book of quotes about churn

Churn is the enemy of every SaaS business. A customer who leaves before you have recouped your cost of acquisition is the worst possible outcome: worse than not signing up a customer at all. We have collected the advice of some of the world's most successful and outspoken investors and SaaS C-suite executives for an insight into meeting the churn challenge head-on.

Part 1
What is churn?

Part of the problem for the leaders of SaaS businesses is that churn can be measured in several different ways – applicable to different types of service offering.

Despite its shortcomings, customer churn is the simplest and most well-known way to measure churn. It's the percentage of customers who leave your company in a given time frame… Most people think churn only measures one thing: customers who cancel your service. But that's a gross oversimplification. [There's also] Revenue churn—the percentage of monthly recurring revenue you lose from cancellations.

Steli Efti, Y Combinator Alum, CEO, Close.io[1]

People who sign up and use your product once and never again - they didn't churn. If you go on a date, and they never call you back, they didn't divorce you: they never liked you in the first place! It's the same with churn: "one and done" is an activation problem. When I look at churn, the denominator of the equation is only regularly active engaged/retained customers. That definition varies for different businesses. For a credit card, it might mean over 5 transactions per week. For Netflix, maybe it's watching 3 shows per month. But you should have some number that means your customers are hooked/habituated, and at that point, if those people "go dark" then they have churned.

Matt Lerner, Venture Partner, 500 Startups

Net Dollar Churn looks at the revenue you are losing from customers churning or down-selling, less the gains from upsell (effectively, the change in your monthly recurring revenue excluding new bookings). The best-in-class benchmark for this metric is negative net dollar churn – these companies will still grow even if they did not acquire a single new customer. We saw this behavior with Zendesk, one of our portfolio companies. Once a business purchases Zendesk, it typically increases its spend with the product as it brings more agents onto the platform.

David Skok, General Partner, Matrix Partners[2]

Customers who churn are also customers who aren't fulfilling their full potential.

We need to acquire customers not just that we can keep, but that we can grow. The most valuable customers have net retained revenue, i.e. they expand revenue during the lifetime of their relationship with the business.
If I can multiply revenues with a customer across five years, then the impact on profitability is huge. The unit economics and impact of expansion are much better than just whether you keep – or worse still lose – a customer.

Stephen Millard, Partner, Notion Capital

Part 2
Why churn matters

Most SaaS businesses start making money after 9-12 months, so a customer lost in month 8 is worse than a customer not walking through the door at all. Keeping customers means making them happy, and in SaaS, we must bring constant value to the customer.

Churn is absolute death. It's the mathematical inverse of compound interest. The great Albert Einstein once said, "Compound interest is the eighth wonder of the world. He who understands it, earns it … he who doesn't … pays it." If you invested $0.02 in an account in Ancient Egypt and compounded it at 3% per year, it would be worth $44 Trillion now. Churn is exactly the opposite of that: if you're losing customers at 8%/month and you graph that out, you get a hyperbolic downward curve.

Matt Lerner, Venture Partner, 500 Startups

The focus on high growth (often at any cost) means that many companies I meet with obsess over how good their gross monthly growth is. While top line growth is of course very important, so is churn management. For example, 5% revenue churn on a monthly basis may not sound like a lot but, if you map that over a year, it means that you're losing almost 50% of your revenue every single year! Just think about that – for every dollar you sign up this year, 50 cents goes away within 12 months. With a bucket that leaky, it gets harder and harder to keep growing as a business. Given that, I often tell companies to de-focus (at least temporarily) from growth and really get stuck into churn. You need a solid foundation before you start building castles.

Suranga Chandratillake, Partner, Balderton Capital

Focusing exclusively on new business and ignoring churn is like pushing a giant rock that doubles in size every minute. You ain't gonna be successful… The gold standard in SaaS is negative net churn. You always want to have existing customers growing via expansion/add-on/upgrade faster than the customers you are losing.

Bill Macaitis, GoCardless Board Advisor and former CRO/CMO at Slack, Zendesk and Salesforce

It goes without saying that the success of subscription businesses is dependent not solely on acquiring new subscribers, but on the recurring nature of revenues from retained subscribers. As the Subscription Economy grows (according to the Subscription Economy Index[3], subscription business sales have grown nine times faster than the S&P 500 over the past five years, 15.1% versus 1.7%), so too does churn increase as an important metric for business leaders.

Elizabeth Glover, Marketing Director Europe, Zuora

A churned customer is much more than just lost revenue, it's a triple gut punch of failures. Not only does it reduce your top line growth, but it also represents lost time that your marketing and sales team spent on bringing them in originally, and it's a vote of no-confidence in your product. While a lot of start-up literature is obsessed with short-term revenue growth, reducing churn is the long-term solution to building a sustainable and healthy business.

James Wise, Partner, Balderton Capital

Part 3
Measuring churn

Measurement of appropriate metrics is everything in SaaS businesses. But don’t rely on just one metric – it will give you a ‘pixellated’ view. Broaden your analytical toolkit as much as possible, in particular accounting for a blend of qualitative and quantitative insight.

> The more you can track, the better. Think about your financials, churn, deal size etc. The more granular, the better. Often we see companies waiting too long to think about that. Don’t build a parachute while the plane is in flight.

Alex Kayyal, Partner, Europe Head, Salesforce Ventures[4]

Don't look at churn on a blended basis. You have to look at cohorts and segments, so you can understand the implications of payback (when customers turn you a profit), retention (how long they stay) and expansion (the opportunity for upsell) in a precise and granular way. Talk to your customers, quantitatively and qualitatively!

Stephen Millard, Partner, Notion Capital

Single-metric triggers can get you started but they won't take you to the finish line. You need a way to analyze the several dozen customer-health related variables in combination. [It's] impossible to do without true data science.

Dan Steinman GM, Gainsight EMEA[5]

99% of founders and VCs look at the wrong metric. Every founder who shares churn numbers tells me that XX% of their subscribers remain after 1 month, XX% are active after 3 months, and XX% are active after six months. That really doesn't matter at all. What matters is the shape of the curves. If the curves flatten, you have a viable subscription business. If they don't, you don't. End of story.

Matt Lerner, Venture Partner, 500 Startups

Remember that we are always trying to minimise the gap between past and present, because there's not a moment to waste...

Retention and churn are "rear-view mirror" metrics in that they reflect things from the past. How is the customer base doing today and what does that bode for future retention rates? As a board, you should have an understanding of the health of the current active customer base.

Nick Mehta, CEO, Gainsight[6]

What actually represents a reasonable rate of churn? There's no single answer – the ideal outcome is that your metrics give you a good sighting shot at the optimum for your sector and the trends move consistently in the right direction.

SaaS businesses are predicated on compounding benefits. Very often the payback will extend beyond one year. So if your churn is anything over 5-10%, you're constantly acquiring customers you never make money from.

Stephen Millard, Partner, Notion Capital

It's critical that you get your monthly churn under 5% and your goal should be 1-2%. Later on, you can experiment with upsells and cross-sells to get negative churn. If churn isn't in the single digits, it's absolutely the only thing you should be focusing on.

Andrew Chen, Partner, Andreessen Horowitz[7]

Part 4
Understanding churn

Understanding the rate of churn in your business is one thing. Understanding its causes is quite different, and demands continued effort and investigation.

> Tracking the reasons customers are leaving can be even more important than tracking this number itself.

David Skok, General Partner, Matrix Partners[8]

It's important to understand which customers are churning – are they from a specific acquisition channel? Are you seeing high levels of churn from a particular customer segment? This sort of visibility is key to addressing churn rates.

Taking this a stage further, learning to predict churn is hugely beneficial. In the same way we identify sales signals on the path to purchase, it's equally important to identify churn signals so you can address it upstream. Having a robust model for predicting churn can make a significant difference to profitability and customer LTV.

Nina Pepper, Director of Demand Generation, GoCardless

Today’s users expect super-fast performance and are increasingly impatient when it comes to getting the information they need, especially with giants like Facebook and Google conditioning them to expect almost instantaneous load times. Anything less than top-notch performance puts a company at a competitive disadvantage. Customers will actually develop negative sentiment towards a brand and migrate to a competitor.

Mehdi Daoudi, CEO & Founder, Catchpoint[9]

No matter what value you provide, if the customer experience is not a good one, you still run some risk, especially if there are other solutions out there. Incorrect invoices, poor response times, a bumpy onboarding process.

Dan Steinman GM, Gainsight EMEA[10]

While customer success teamswork hard to keep customers happy, their efforts can be brought to nought by the threat of involuntary churn.

20-40% of your churn is actually absolutely needless, stemming from failed, expired, and delinquent credit cards. Let me put that data in perspective for you. If your churn rate is currently 5%, then one to two percentage points of that churn exists for an absolutely needless reason. You're pointlessly losing a lot of money every month.

Patrick Campbell, Co-Founder & CEO, ProfitWell[11]

The Subscription Economy Index[12] found that companies that employ usage-based billing have significantly lower churn rates than those that do not, about 10% less on an annual basis. These lower churn rates exemplify the ethos that is at the heart of the Subscription Economy – higher customer satisfaction rates lead to loyalty. Churn can result from a number of reasons (weak customer service, a poorly upgraded product, a better offer from the competition…) but losing subscribers from failures in the payment experience can easily, and should, be avoided. It is crucial to listen to customer preferences and pick the right payment provider to offer a seamless journey throughout the subscription lifecycle to help prevent involuntary churn.

Elizabeth Glover, Marketing Director Europe, Zuora

Part 5
Tackling churn

Changing product, even with SaaS' typical sprint development cycles, is hard. Admitting that users don't want certain features is also challenging. To sweeten the pill and focus the mind, all experts agree that there's no substitute for getting directly in touch with customers.

> Call your customers. If you are an early stage startup with significant churn, the first place to start is to call the customers that are cancelling to find out why. I recommend that the entrepreneur (or CEO) themselves make these phone calls, as only they will have the ability to change the product vision or other service attributes based on the feedback. This function is far too important to delegate.

David Skok, General Partner, Matrix Partners[13]

Most fledging SaaS businesses don't call their trial users, and those that do often wait until the last day. They don't know how to sell SaaS. In the early stages of your startup, you should call every single trial user within five minutes of signup. If you do that, you'll drastically improve your reach rate and quickly qualify or disqualify prospects.

Steli Efti, Y Combinator Alum, CEO, Close.io[14]

Make active listening your core competency.

You may be trying to drive in a particular direction that people don't necessarily understand at first. In our case, we knew the users we had in mind for this product. So in the early days, we looked at our customers, really just testers at that point, and we paid extra attention to the teams we knew should be using Slack successfully. When key users told us something wasn't working, we fixed it — immediately.

Stewart Butterfield, CEO & Founder, Slack[15]

In fact, some SaaS heroes are prepared to swallow customer anger rather than let them go without an explanation…

> The very first thing we did was remove the ability to cancel your account yourself. I know. Gasp! Heresy! Treason! But the reality was, our free-form "let us know why you're canceling" text box wasn't cutting it. We just weren't getting anything remotely useful when it came to understand exactly why people were canceling. Instead, when someone wanted to cancel, we just made it really easy to contact us. You could live chat with us on the spot or send a message to us directly from in the app. Most of the time, we'd respond in a couple of hours, sometimes within minutes (or instantly, in the case of live chat). …we were able to save about 15% of cancellations from actually canceling at all!

Josh Pigford, Founder, Baremetrics[16]

> If you think about it from the customer's perspective, the right time to "save them" is right at the very start – the onboarding stage. That is when they are most excited about your product, and most willing to put in the time and effort to learn it, and get it going. If you fail to get it going at that time, they will write it off as not being as good as they had hoped, and once they get into that mindset, it is then much harder to get them back to a positive enough view to spend more time to try it again later.

David Skok, General Partner, Matrix Partners[17]

Deploy your customer success team on overdrive, to manage customer experience, with a particular focus on the issues that you now know turn them into churning customers.

Delight your customers at every stage of their lifecycle. Every team including sales, marketing, support, success, product, legal has an impact on a customer's experience. Religiously track experience via Net Promoter Score (NPS) and relentlessly try to improve your score. High scores = tiny churn.

Bill Macaitis, GoCardless Board Advisor and former CRO/CMO at Slack, Zendesk and Salesforce

While customer success and retention teams tackle voluntary churn, make sure your payment, product and ops teams are working on reducing involuntary churn.

At around 30% of your overall churn, involuntary churn is worth paying attention to. Especially since it's mostly avoidable - typically the result of card payment failures. Smart retries and account updaters help, but tackling the root of the problem by reducing your reliance on cards and introducing bank-to-bank payment methods like Direct Debit, can bring payment failures down to as low as half a percent, dramatically cutting involuntary churn and reducing overall churn rate by 1-3%.

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