STRATEGICALLY MANAGING A SUBSCRIBER BASE

DATA-BASED RETENTION FOR SUBSCRIPTION BUSINESSES

Cicero INSTITUTE

SCOTT NEUNER

Subscription businesses are built on the premise of an ongoing relationship between business and consumer. I know what it's like to have a personal relationship with a subscription business: for my entire childhood, my family subscribed to the magazine *Reader's Digest*, which I eagerly devoured each month. My family's relationship with *Reader's Digest* was multi-generational, going back to at least my great-grandfather, who gifted a subscription to each of his grandchildren for their high school graduation. Those grandchildren included my mom, who re-subscribed for years. My family was not alone in its loyalty. In its heyday, *Reader's Digest* was the most widely-circulated general interest magazine in the United States, with an audience of over 16 million monthly readers.

You might call *Reader's Digest* the archetypal subscription business. Though the dawn of digital media has since brought difficult challenges, *Reader's Digest* and other print publications laid out the simple but highly effective blueprint of a relationship-based business driven on the economics of customer acquisition, recurring revenue, ongoing costs, and retention.

Today, when Siri reminds you that it's time to renew your subscription, she's just as likely to be referring to your Dollar Shave Club razors as to a magazine or newspaper. Subscription businesses have emerged in a wide variety of contexts and formats—B2B and B2C, goods and services, mass market and customized, ongoing monthly payment and annual renewal. Not only can you get your media fix by subscribing to Spotify, you might also subscribe to weekly vegetable deliveries from a local farmer through a CSA (community-supported agriculture) business.

Because many diverse companies employ this model, it's hard to define numbers for the overall subscription economy. However, headlines attest to its impact. For instance, Netflix's early-2000s takedown of video rental behemoth Blockbuster is a textbook example of disruptive innovation leveraging a subscription model that emboldens recent startups like Birch Box, Honest Company, and Dollar Shave Club—all subscription businesses aiming to upend their respective industries. Despite marketplace changes and technological innovations, today's subscription businesses are no different from the once-ubiquitous *Reader's Digest* in their need to develop and deploy effective customer retention strategies.

THE OLD WAY

Even though today's subscription companies are built on a time-proven business model, they shouldn't fall into the trap of using yesterday's approach to customer retention.

> Companies often lack the information they need to make the *right* offer to the *right* customers

It used to be good enough to hire a fleet of call center agents to troll through expiring account lists and make renewal calls to each and every customer. Every one of these calls could open with a generic greeting followed by an equally-generic retention offer.

What used to be good enough is not good enough anymore. With this antiquated approach to customer retention, the company wastes resources retaining its least-profitable consumers and inadvertently encourages subscribers to cancel—many of whom would have rolled into a month-to-month plan by default had they not received the renewal call. Even when customer service agents and renewal teams listen carefully, treat customers well, and use all the right "relationship-building" catchphrases, they often simply lack the information they need to make the *right* offer to the *right* customers.

A BETTER WAY

Companies who handle retention the old way ignore one critical modern asset: data. Subscription-based businesses have an ongoing flow of information about their customer base that provides insight into future behavior at the individual consumer level. These data enable companies to develop predictive analytics that inform tailored retention offers that speak to individual tastes to increase acceptance rates, while also optimizing for company profitability on a case-by-case basis.

For example, a business in the home automation and security industry worked with Cicero to apply modern analytics in solving an age-old problem: how to predict which customers were most likely to churn and how they could best be retained. By combining primary customer research with internal data—including info that the company collected at sign up (such as zip code and FICO score), ongoing system monitoring, and

customer service interactions—Cicero helped the company develop two predictive models to guide their renewals team and field reps. One model predicted attrition risk, and the other predicted offer response. Together, they provided a single score that predicted how customers would respond to specific offers. This modeling also helped guide the company's decisions about the right people (i.e. renewal team, field reps, etc.) to contact specific customers.

By involving real-time data in customer retention activities, the company is equipped to reach out to customers at the optimal time, understand their needs, and gauge which approach and offerings would be most beneficial to both customer and company. By employing a data-driven approach to retention, this business reduced attrition by over 200 bps, with an estimated valuation impact totaling in the hundreds of millions of dollars, per discounted cash flow (DCF) analysis.

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Addressing attrition doesn't have to be complicated—in fact, it may be best to start simple and ask customers what they want. Such was the case for another Cicero partner. This major performing arts company was heavily reliant on annual season ticket purchases—buyers they referred to as subscribers—to provide a reliable revenue base. Using ethnographic research, in-depth interviews, focus groups, and a quantitative survey, Cicero identified two major problems:

1) Younger subscribers were growing disenchanted with the upfront subscription model for their out-of-home entertainment purchases—they loved the arts company, but didn't want to sign up for a season pass ahead of each season.
2) Older patrons who remained committed to the existing subscription model were literally dying off.

In other words, the company learned that, despite high satisfaction with the organization and its artistic productions, their current subscription model was no longer viable as their primary revenue driver.

In response, they undertook a dramatic redesign of their annual programming: they made season tickets more attractive and introduced a festival series to tailor bundled purchasing to the "binge" culture. By tapping into their patrons' needs and re-thinking their offerings, this organization deepened the loyalty of their long-term subscribers while developing relationships with an entirely new audience. In this case, the assumption that a sophisticated predictive model was needed would have been incorrect, but the worse error would have been ignoring the attrition problem entirely.

Not all companies will need to completely reformulate their subscription models. However, in-depth customer research may reveal foundational problems unique to the organization, such as consistent dissatisfaction with a certain element of the product or service, the emergence of a new competitor or substitute, or issues with subscription delivery or reliability—any of which could bring a subscription business to its knees if left undiagnosed. Even companies boasting good attrition rates should seek data-driven improvements to become the gold standard for their industry as they mature.

CICERO'S APPROACH TO REDUCING ATTRITION

Cicero helps companies analyze and adjust their retention approaches for success. To evaluate and improve a retention strategy, Cicero works through a defined process to assess market and internal factors, and produce actionable insights that drive change and earn organizational buy-in.

First, we help companies understand their customer base at a deep level, particularly in comparison to competitors. Companies need to get a sense for who they're attracting, who they're overlooking, who they're losing, and so on.

Cicero draws on several methods of research and analysis to paint an accurate picture of the customer base. To start, secondary industry research provides a foundation for analysis and establishes objective benchmarks. Next, we perform internal research into the company's specifics. This requires gathering data from employees, including executive team members, front-line sales, retention and customer service staff, and others. It also involves analyzing existing internal data to quantify attrition drivers.

Both secondary information and internal data guide our construction of primary research instruments. We use in-depth interviews or focus groups with current and lapsed customers of the company and important competitors. This provides a broad understanding of attrition drivers and potential retention levers to refine and bolster quantitative survey design. With the survey, we validate and prioritize findings from previous

research: data reveals which factors have the greatest impact on customers' decisions to leave, and which individual retention levers have the greatest impact in convincing them to stay. This survey also identifies segments within the customer base, highlighting the unique needs of discrete groups of customers.

Finally, with this data in hand, it's time to take action. Cicero helps organizations prioritize their initiatives according to estimated impact and feasibility. We work with leadership to assign owners for each initiative, including generating trackable key performance indicators (KPI) and an accountability plan. We also help foster a sense of urgency and buy-in based on data-driven results from selected pilot programs. Reducing attrition is more than an academic exercise; to make real improvement, companies must implement changes based on the research and analysis.

LESSONS LEARNED

Most modern subscription-based businesses have a few things in common with regard to attrition. First, nearly all of them face a baseline set of attrition drivers—namely, life events, financial concerns, and overall dissatisfaction. But while these common drivers are a decent first place for companies to look, they rarely tell the whole story.

For example, consider companies that sell service subscriptions door to door. In this model, one of the primary drivers of attrition is the extreme lengths to which competitors will go to steal customers from one another—almost like hand-to-hand combat. This idiosyncratic driver of attrition requires tailored solutions that wouldn't apply to most subscription businesses.

Beyond working with common and industry- and company-specific drivers, companies need to differentiate their retention approaches for various segments. For example, an online university with a diverse part-time student population of working adults knows that each student experiences unique pressures on time and finances, and has a unique track record of prior academic success (and failure). For this university to retain students, it has to address specific needs: some students are dealing with competing life demands, while others may simply be struggling with math. Addressing attrition in this context requires not only industry-specific solutions, but also differentiated approaches for different segments of their student population.

When considering reasons for attrition, companies often lack the full picture—usually they don't have a good grasp on what competitors are doing or why their customers behave as they do. Incomplete information leads to incomplete solutions.

Another common challenge for companies is how to properly valuate and respond to individual customers. Some customers may only be worth $1 dollar, but the standard retention offer treats them as though they're worth $10, and suddenly retention efforts seem overbearingly expensive. At the end of the day, if strategy is defined as "choosing what not to do," strategic retention may best be defined as "choosing whom not to retain."

Among those companies that have developed segment-based thinking and are taking individual profitability into account, a majority tend to focus only on their biggest segment (by population or profit contribution). They feel like they're being responsive to customer needs, but really they're only hearing the biggest voice. They need to strategically target other profitable segments that are worth retaining.

Despite the popularity of conspicuously referencing "big data" in board meetings, perhaps the most common mistake is ineffectively collecting and analyzing the data that is readily at hand. For example, if customer service calls aren't being logged or categorized in an efficient and informative way, meaningful insights critical to smart retention strategies are likely falling through the cracks.

ABOUT CICERO GROUP

Cicero Group prides itself in helping subscription-based businesses assess their capabilities, analyze their customer bases, and define, pilot and implement specific retention strategies that impact their bottom lines. We'd love to help you.

Cicero Group is a premier data-driven strategy consulting firm. Cicero integrates inductive problem solving with insightful data analytics to guide business strategy. For more information, visit CiceroGroup.com or follow us on Twitter: @Cicero_Group.