How great start-ups manage churn rate?

You're sitting at home and you receive a text from your mobile network telling you that you're due an upgrade. If you stay with them, the text promises, you'll get a discount on your upgrade.

Excitedly, you browse their website and are disappointed to find there's only a marginal discount compared to if you'd just joined as a brand-new customer. You find a better deal elsewhere and switch provider.

Sound familiar? Well, this issue of customer loss and retention is referred to by businesses as their churn rate – the percentage of customers who cancel their subscriptions over a given period (month, quarter, year).

Churn rate is becoming an increasingly important statistic in the business world as subscription-based businesses are growing – from Netflix to Spotify – now more than ever we are willing to pay a fee for software/ a service we once purchased. In recent years, there has also been a visible boom in subscription-based products too, for example, beauty boxes and gin subscriptions.

One of the main factors preached again and again in articles to reduce your churn rate is to work hard to retain existing customers – loyalty is king! Frankly, it's expensive not to have loyalty - and this is why network providers scramble desperately to keep you at the end of your contract.

According to the Harvard Business Review, for example, it's 5-25 times more expensive to acquire a new customer than to retain an existing one! Having loyal customers also puts you in a better position to remain afloat in the face of market turbulence, as seen by the recent COVID pandemic. Of course, loyalty is easier said than done though.

Keeping subscribers interested and reducing your churn rate is a particularly difficult concept to navigate for start-ups. So today, I'm going to take a look at how Birchbox, a beauty subscription service, has handled churn and discuss some ideas of how your start-up can manage it too.

Birchbox is a monthly subscription service that sends their subscribers a box of four to five selected samples of makeup or other beauty-related products with the hope they will purchase the full-sized product from their website after. As of May 2019, after nearly a decade of operation, Birchbox has over a million subscribers and 2.5 million active customers.

So how did they do it? They claim it's all about data! After subscribing, the customer takes a "beauty profile" survey that aims to create a box suited to their preferences. By using the information provided, Birchbox can personalise its boxes to ensure consumer expectations are either met or exceeded and that they will retain a curiosity about what will be in their box next month. This means a curly-haired customer will not receive the same sample products as someone with straight hair.

After receiving their samples, Birchbox asked for reviews, and in return rewarded customers with points towards money off the full-size product. In doing so, they could better match customers with products and give feedback to brands about what clicked with their customers. By using data to know what the customer wants, they ensure that products are relevant to each individual and, in turn, reduced their churn rate.

It's important to note that through this process, Birchbox discovered there is a fine line between loyalty and relevance. While it's possible to retain customers by 'buying' loyalty with reward points for reviews, there is a limit to how much you should 'buy' a customer. Not only do you risk damaging the lifetime value/ customer acquisition cost (LTV/CAC) but if you're having to buy your customers you should think about whether your products are really relevant or not.

Acknowledging this, Birchbox introduced a review limit – from July 2016, subscribers could only receive points for their first five product sample reviews. This meant they still received relevant data but did not significantly damage their LTC/ CAC rate. By ensuring their products were still relevant/ suited to each person, subscribers stayed anyway, leading to the success we see today.

Of course, there are many other ways to work on reducing your churn rate. As mentioned, most of them involve investing in loyal customers! Fred Reichheld, writing for Bain & Company, argues that businesses shouldn't waste marketing expenses on 'disloyal' customers who won't stay around long enough to pay back acquisition investment. With this in mind, as a start-up, you need to look at the type of people who stay with your product and work on attracting and retaining those sorts of customers.

As part of this, Reichheld proposes ranking customer acquisition campaigns based on their yield of loyal customers. When this is done, shift resources towards programs that attract the richest mix of loyal customers!

Why not go a step further and also reward your sales/ marketing team for acquiring customers that stick - provide commission for those who stay to ensure your team are targeting the right type of customer, not just those around for a one-off purchase or freebie.

With all that said – do you have any other advice on how to reduce churn rate? Let me know and drop a comment below!

Sources:
https://hbr.org/2018/03/marketers-need-to-stop-focusing-on-loyalty-and-start-thinking-about-relevance

https://www.forbes.com/sites/eshachhabra/2015/09/23/key-to-success-beauty-box-company-birchbox-says-its-not-just-about-the-box/#52ebecb36511

https://hbr.org/2015/10/the-wrong-way-to-reduce-churn

https://media.bain.com/Images/BB_Prescription_cutting_costs.pdf

https://digital.hbs.edu/platform-digit/submission/birchbox-the-beauty-of-data/