

What B2B Executives Learn from Conducting Churn Analysis

Quickly and Easily Get Meaningful Feedback to Improve Customer Retention & Success

When looking at “Churn”, a lot of the focus is about the various methods of calculating churn...and there are several. Often this results in a Churn Analysis that is limited to a financial model for tracking and forecasting revenue loss. It’s analyzed by product, by geography, by industry, by customer longevity and customer size to facilitate financial modeling. While that is useful for financial planning purposes, Churn Analysis that is done well provides clear direction to reduce Churn, which is much more significant and vital business value.

Many executives also seek to understand what normal or acceptable Churn levels are. While it’s difficult to generalize, in the B2B sector, a few benchmarks are helpful:

- A Pacific Crest 2016 study of 177 SaaS companies reporting churn rates – median was an annual level of 10% of customers.
- A CoBloom Meta-Analysis of Churn studies - established SaaS companies typically have annual churn in the 10% range but are targeting an ideal achievement in the 5%-7% range.

The term “Churn” that is used in B2B SaaS companies is a dangerous euphemism. It’s a lost customer. Likely a customer that a tremendous investment of time and expense went into finding and winning. Using the 10% benchmark, that would mean that a company with 1,000 customers is losing 100 customers a year. That should always be cause for concern. When a customer cancels, not only do you lose their direct revenue and profit, but you also lose in other ways:

- Possibility of negative reviews and references
- Lost potential growth at the account
- Lost potential referrals from a delighted customer
- Cost of internal resources engaged in cancellation (support, legal, financial)
- Possibility of bad debt

TYPICAL RESPONSE TO CHURN

Given the significant business impact of customer losses, most companies engage a response strategy to reduce the churn level. The problem is that the response strategy is often not aligned to the true Churn drivers. Many of these strategies gravitate towards building and growing “Customer Success” teams – a very reactive posture that is often geared towards responding to customer issues instead of preventing those issues in the first place. This approach likely fails to fully address the more fundamental drivers, and therefore may not be the right resource investment decision.

A customer's desire to cancel typically arises in the "Customer Success"/ Support organization and intervention is attempted to stop the cancellation and failing that, to capture the key reason for cancellation. It's often dealt with primarily as a financial and administrative protocol after the save attempt.

There is a missed opportunity for a structured interview with the customer to methodically identify key steps and drivers in the customer's decision and to identify the customer's plans for addressing their needs. It's best to do this a few weeks after the cancellation has occurred and the save attempts have failed. This provides more candid and detailed feedback that is critical for long term improvements.

WHY ARE COMPANIES NOT CONDUCTING FORMAL CHURN ANALYSIS?

From conversations with Marketing and Sales leaders at many B2B SaaS companies, three primary reasons emerge to explain why most companies do not perform a formal and thorough churned customer interviews and analysis:

1. They feel they know the answers already through feedback from the customer success/support team
2. They feel they don't have the resources for such an analysis
3. There is no clear ownership of churn analysis – is it Customer Success? Sales? Marketing? Product Management?

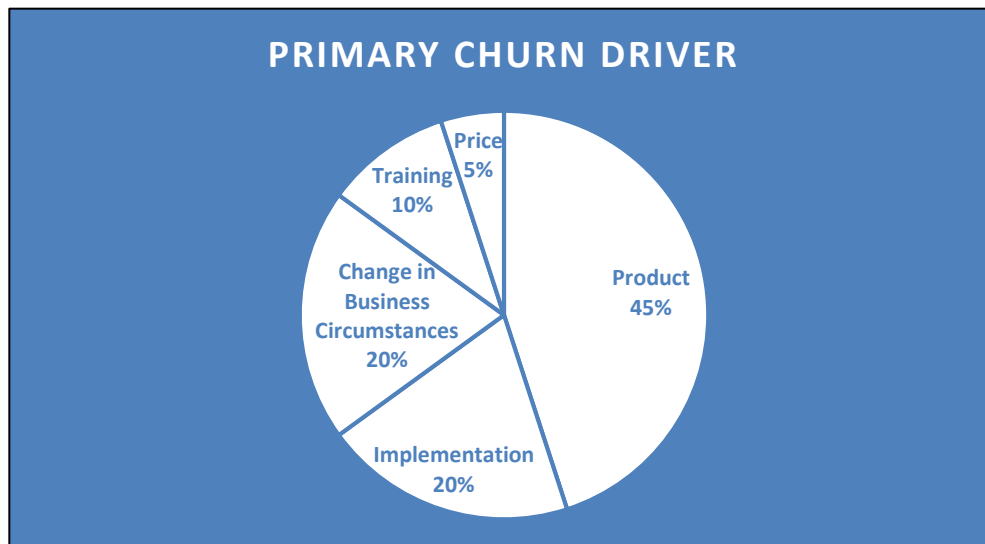
As a result, there is a heavy reliance on anecdotal feedback, customer stories or internal department perceptions to develop the strategy and prioritized tactics for improving customer retention. This can indeed yield improvements, but it often masks more fundamental challenges and opportunities for improvement.

TYPICAL REASONS FOR CHURN

Based on our work, there are multiple major drivers for losing a customer in the B2B space that include:

- Lack of effective customer training
- Lack of user adoption
- Product/solution gaps
- Implementation short comings
- Customer frustrations with siloed "hand-offs"
- Not achieving expected ROI/benefits
- Changes in business circumstances

Note that price is not typically a major driver for churn. Looking at a sample of 100 Churn interviews we recently conducted across four SaaS companies provides some insight into what lies behind Churn and how much of it is "addressable" (see Figure 1).



In our experience, the 20% attributable to a change in business circumstances are largely unaddressable. These result from companies going out of business, companies losing key customers or being acquired. Using the 10%

Figure 1 Primary Drivers of Churn from 100 B2B SaaS Interviews across four companies

overall Churn level benchmark, that would mean that a 2% Churn rate would be the ideal minimum to be achieved.

Removing those amplifies the importance of the other major factors. It's worth noting that "customer service" is not a driver. While a lot of companies identify that as a contributor to Churn, in reality, that is only a reactive situation caused by a serious defect in another area. It's why companies often make the mistake of directing their investment to support or customer success rather than the area that would have the best long-term, sustainable benefits.

In our review, Product is far and away the biggest driver. Most often, this centers on usability that hinders successful adoption by the users in a way that delivers the ROI/Benefits they expected. It was also clear that the right approaches for excellence in customer training and implementation were critical.

Most interestingly, some 10% of our interviews were companies that should re-engaged as future opportunities.

BENEFITS AND GOALS OF A CHURN ANALYSIS

The benefits are considerable. Analyzing your Churns is one of the highest ROI projects that can be implemented quickly and easily. The goal of Churn Analysis is to identify the causes of customer cancellation and implement effective operational strategies to improve customer retention. A secondary goal should always be to identify customers that may come back in the future and to get them into a different pathway for engagement with you. Like all successful projects, it's critical to establish specific goals upfront and develop the interview sampling and question sets accordingly. There should be a clear set of outcomes you are looking for, which often include:

- Improve retention rate

- Identify where best to focus Churn prevention investments (Training? Product? Support? Implementation?)
- Gain insights to prioritize product features/capabilities (often centered on usability)
- Gain competitive insights
- Identify improvements in customer training
- Identify improvements in customer onboarding process
- Identify improvements to the implementation process
- Identify “Churns” that should be re-engaged as potential opportunities
- Identify how long in advance of cancellation that they are making the decision to cancel

CONCLUSION

A Churn analysis can be implemented quickly and cost effectively, with the use of an independent third party. Every B2B SaaS company should be conducting regular, formal interviews with lost customers. A formal analysis has proven benefits and allows organizations to gain valuable insights that help to prioritize investments that improve Churn rates. This type of real market feedback is tremendously impactful for growth-oriented organizations and has cross functional benefits that span Sales, Marketing, Support, Training and Product Management.

About the Author

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He has conducted almost 100 VOC primary research projects and thousands of interviews for B2B companies that cover Win/Loss Analysis, Churn Analysis, Due Diligence Customer Interviews and other market research. He is the author of several papers on Win Loss Analysis and articles on Sales leadership. He can be reached at: Mark.Benfer@LocalGroupCommunications.com

