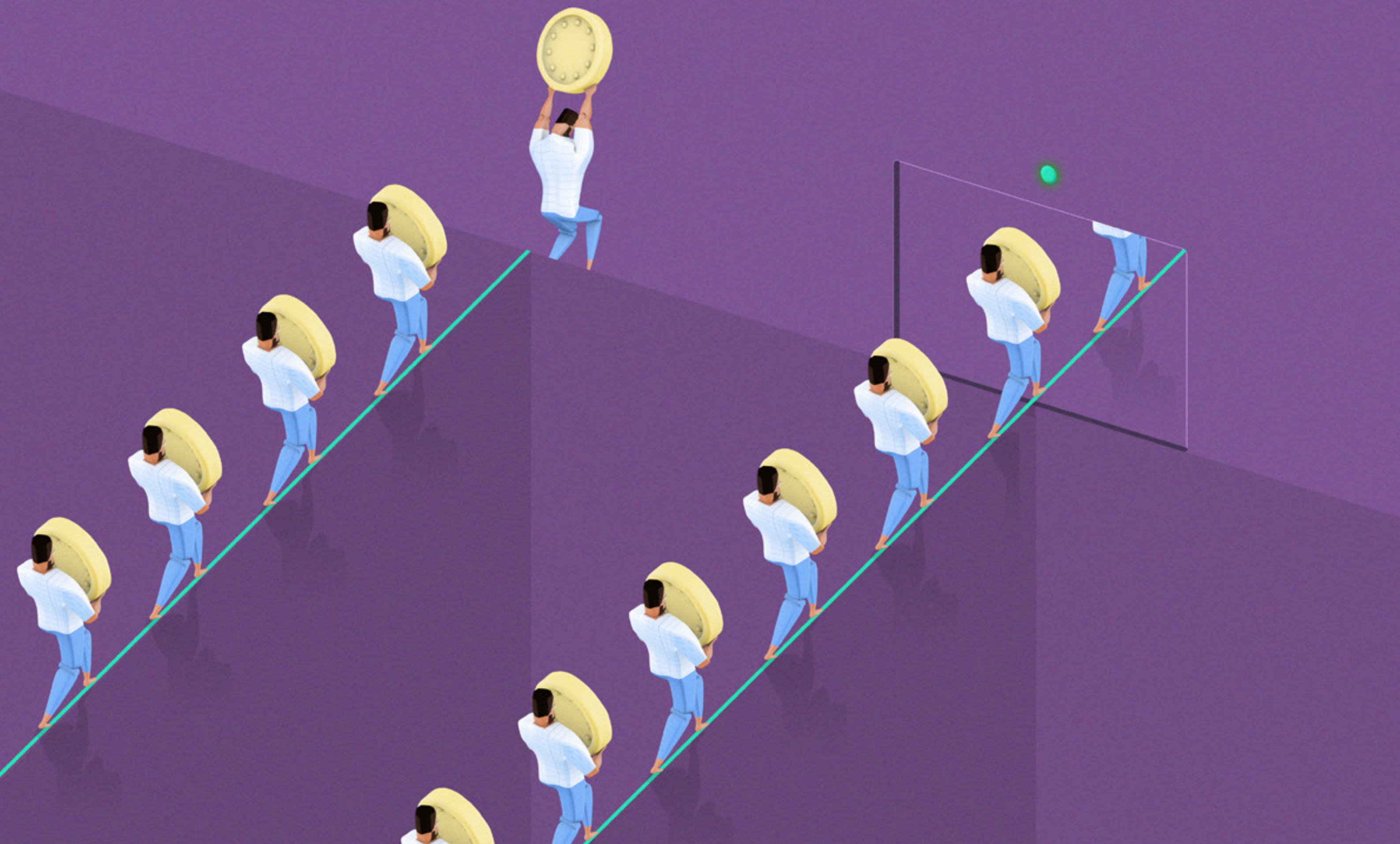
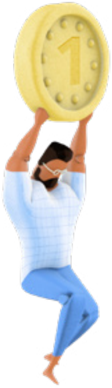
GOCARDLESS CHARTMOGUL

How payments impact key subscription metrics

The payment methods you choose affect the business metrics you care about, like churn rate and customer lifetime value.





Customer Churn Rate

Customer churn is the rate at which a company loses subscribers or revenue due to cancellations. A company's Churn Rate ranges from 3-10%, depending on sector and industry. Around 30% of overall churn is involuntary - typically the result of payment failures.

$$\text{Churn} = \frac{\text{No. of customers who churned in period}}{\text{Total no. of customers at start of period}}$$

$$\text{Total Churn} = \text{Voluntary churn} + \text{Involuntary churn}$$

Voluntary
Churn caused by customers actively cancelling their subscriptions. Around 70% of churn is voluntary.

Involuntary
Churn caused due to payment failures, for example expired, cancelled or lost cards. Around 30% of churn is involuntary.

Smart retries, automated dunning and account updaters can reduce failed payments by 45%.

By using bank to bank payment methods like Bank Debit (bank-to-bank Direct Debit) instead of cards, you can achieve failure rates as low as 0.5%.

Benchmarking
Compare average payment failure and churn rates for cards and Bank Debit.

	Cards	Bank Debit
Payment failure rate	5 - 18%	0.5 - 2.5%
Involuntary churn	0.9 - 3.3%	0.1 - 0.6%
Churn rate	3 - 11%	2 - 8%

Customer Acquisition Cost

Customer Acquisition Cost (CAC) is the total cost of sales and marketing needed to acquire a new customer.

$$\text{Customer Acquisition Cost (CAC)} = \frac{\text{Sales + marketing costs}}{\text{No. of new customers}}$$

For more insights into CAC, including examples and sample spreadsheets, see this guide from Brian Balfour (ex-VP Growth at Hubspot).

In the Payment Preferences for Recurring Purchases: 2019 Consumer Payer Report it was found that 46 percent of Australian consumers were likely to choose Bank Debit for household bills and instalments. This was even higher in New Zealand with 53 percent favoring Bank Debit. Globally, nine out of 10 of the markets, a third of those surveyed, said they were likely to choose bank debit to pay for online subscriptions. Yet of the 44 top global subscription websites, including HelloFresh and Spotify, only one offered bank debit as a payment option.

Offering a payment option that customers know and trust can help improve conversion. The more customers you convert, the lower your CAC.

A lower CAC also helps you achieve a better LTV: CAC ratio (see Customer Lifetime Value).

Cost of Goods Sold (COGS)

COGS is the cost of producing your your product or service. It includes the cost of the materials and staff for example. Some companies include transaction fees in the calculation. One way to think about COGS is to ask: “If I didn’t pay for this, could I deliver my product?”

Transaction fees for card payments range from 1.5 - 4% compared to 1% for bank to bank methods like Bank Debit. Lowering transaction fees reduces COGS, and in turn, improves Gross Margin and Customer Lifetime Value.

$$\text{Gross Margin (\%)} = \frac{\text{Revenue - COGS}}{\text{Revenue}}$$

Customer Lifetime Value

Customer Lifetime Value (LTV) is the average revenue generated by a customer (from signup to churn).

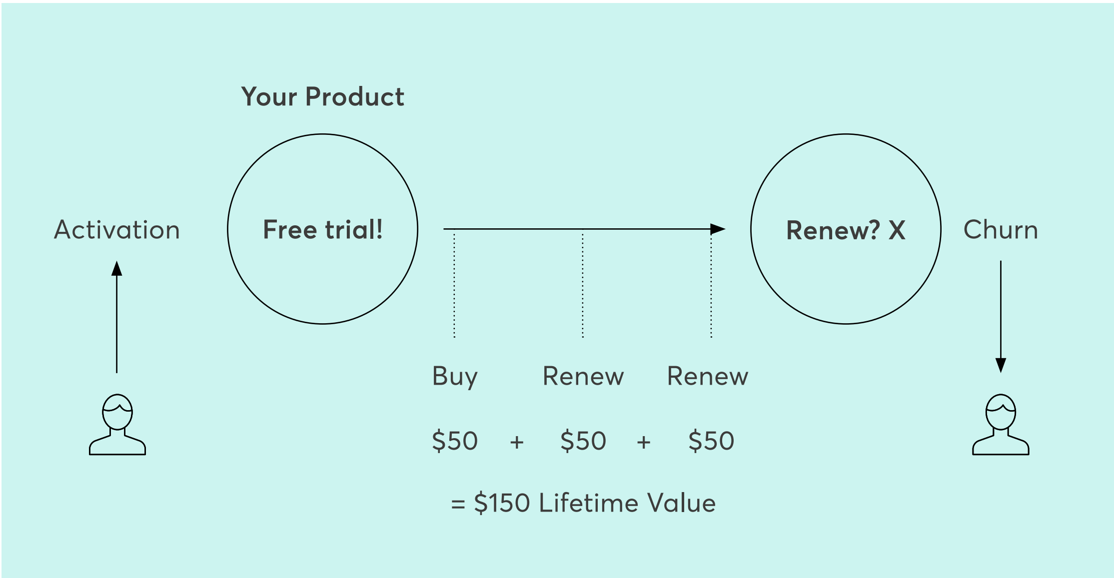
Churn Rate is a key component of LTV. Lowering your Churn Rate, by for example reducing involuntary churn through payment failures, increases your LTV.

By reducing your Churn Rate and COGS, bank to bank payments like Bank Debit can boost LTV by more than 30%.

Increasing lifetime value in turn increases your ROI (LTV: CAC ratio). Most SaaS companies aim for a 3:1 ratio.

$$\text{LTV} = \frac{\text{ARPA x Gross Margin (\%)}}{\text{Customer churn rate}}$$

$$\text{ARPA} = \frac{\text{MRR}}{\text{Total no. of customers}}$$



ARPA: Average Revenue Per Account, MRR: Monthly Recurring Revenue

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