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“SHOULD I STAY OR SHOULD I GO – KEY DETERMINANTS FOR EFFICIENTLY RETAINING A SUBSCRIBED CUSTOMER WHO DECIDED TO LEAVE”

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“SHOULD I STAY OR SHOULD I GO – KEY DETERMINANTS FOR EFFICIENTLY RETAINING A SUBSCRIBED CUSTOMER WHO DECIDED TO LEAVE”

Abstract

Subscription-based businesses have exponentially outperformed product-based businesses since 2012, leading to a revenue growth rate seven times higher than S&P 500 companies’ growth in 2020 (Zuora, 2021). Also formerly product-based businesses such as the New York Times have successfully managed the shift towards subscriptions with an increase of 690 percent in digital subscriptions from 2015 till 2020 (New York Times, 2021). At the same time, however, churn rose considerably, too. Digital service subscriptions have reached churn rates of up to 41 percent in 2021 from 29 percent two years before (Zuora, 2021). This recent development increases the meaning of retention management for subscriptions as a central construct in marketing theory (Schweidel, Bradlow and Fader, 2011; MSI, 2020) and among top executives (Rioux, 2020), which has been underrepresented for years (Homburg, 2017).

There is a broad range of studies which illustrate that it is smarter to increase efforts in customer retention than in new customer acquisition: According to Reichheld and Sasser (1990) a five percent increase in customer loyalty results in a profit increase of 25 to 85 percent. Spending for acquiring a new customer are also up to six times higher than for retaining a customer (Rosenberg and Czepiel, 1984; Payne and Frow, 1997; Peng and Wang, 2006). Rosenberg and Czepiel (1984) identified the huge profitability potential that is entailed in driving customer loyalty at an early stage. However, the question of what influencing variables have the biggest impact on customer retention profitability, particularly in the specific context of subscription-based services, has remained insufficiently illuminated and is hence considered as research gap.

Before addressing this challenge, it is to distinguish between two phases for managing customer retention in subscription settings: (1) the indefinite retention and (2) the definite customer retention phase. The indefinite retention phase includes the service usage period before contract termination, while the definite customer retention phase embraces the period after termination of the subscription. Consequently, the indefinite retention phase includes many uncertainties about the churn probability and so the need for retention measures, whereas the definite retention phase is clear: If the firm does not induce counteractive measures, the client is gone.

To address this arising question of retaining a customer who already decided to leave, this study is aimed at finding answers to two central research questions: **(RQ1)** What variables have a

significant impact on a customer's decision to stay with a firm after terminating a subscription?; **(RQ2)** What is the efficiency of individual marketing mix variables on customer retention?

To appropriately address the research gap of a comprehensive conceptualization of customer retention efficiency and its key determinants, an exploratory procedure to develop grounded theory is applied (Edmondson and Mcmanus, 2007). The procedure involves integrating field-based insights of 25 customers who have recently rejected their churn decision stimulated by on a subscription firm's counteractive measure with supplementary literature pointing to the influencing factors of customer retention success. Even though many influencing factors on customer loyalty seem obvious, the underlying assumption is there are significant differences in the effectiveness of individual marketing activities when it comes to their impact on customer retention efficiency (or return on marketing invest). Thus, the first part of the study deals with conceptualizing the influencing factors on customer retention success based on a systematic literature review. Figure 1 provides an overview of a first overview of main influencing factors which are split into marketing-mix- and customer-relationship-related variables.

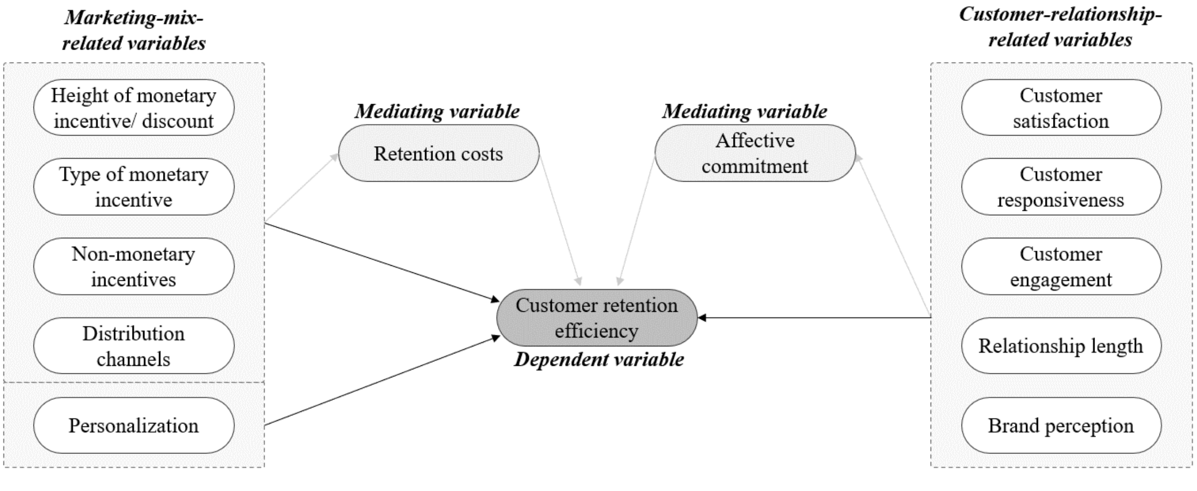
Marketing-mix-related variables
Height of monetary incentive/ discount
Type of monetary incentive
Non-monetary incentives
Distribution channels
Personalization
Mediating variable
Retention costs
Mediating variable
Affective commitment
Customer retention efficiency
Dependent variable
Customer-relationship-related variables
Customer satisfaction
Customer responsiveness
Customer engagement
Relationship length
Brand perception

Figure 1: Conceptual model of influencing variables on customer retention efficiency

Moreover, as customer retention activities differ in costs, driving the profitability of a firm requires to consider efficiency-related cost factors which again allows to better allocate budgets. The efficiency factor is particularly addressed at the second stage of the study, where both the effectiveness and efficiency of each influencing variable is measured based on a field study with retained customers across numerous types of subscription services. In this part of the study customers are analyzed in semi-structured in-depth interviews around their decision to rethink their churn decision and additionally stimulated with experimental marketing campaign designs on their retention decision. The stimuli are derived from priorly identified influencing variables from the conceptual model and set in comparison to one another. If the theoretical saturation should not be reached at the number of 25 participants, the sample size is subject to be increased.

The results of the research project are expected to deliver valuable insights for marketing science as well as marketing managers from both digital and traditional subscription-based industries. An obvious limitation of the study is the qualitative approach for measuring customer retention efficiency. Thus, further research is proposed to make use of quantitative methods, such as, regression analyses to compare the efficiency of independent variables.

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