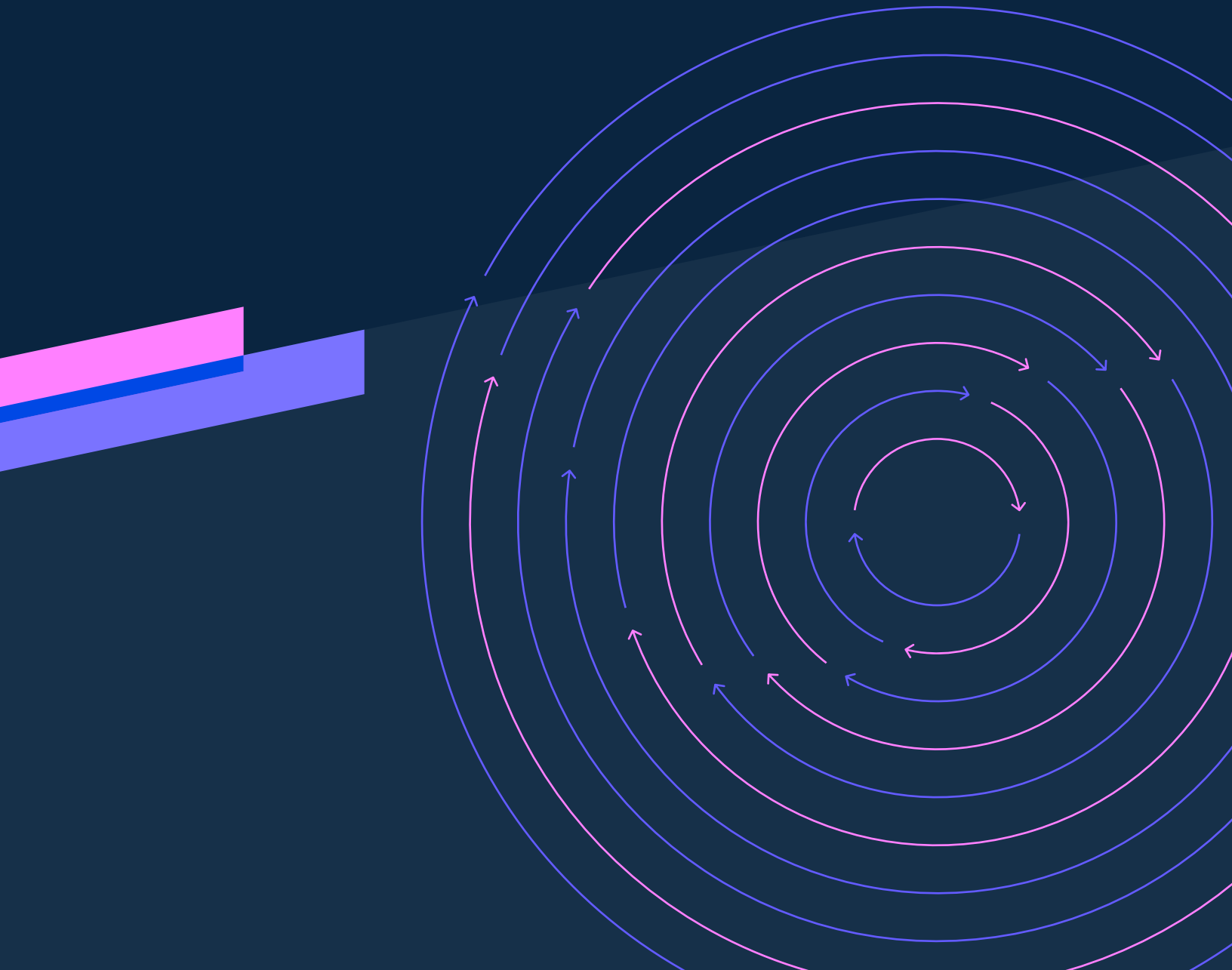


stripe

The Stripe guide to churn:

Benchmarks and churn management
strategies for subscription businesses



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Introduction

A thriving subscription business focuses on more than merely attracting new customers: it puts existing customers at the heart of its strategy. That means measuring and addressing the causes of churn, when customers voluntarily or involuntarily end their subscriptions. Churn is increasingly a focus among subscription businesses: in the US, half of them expected churn to increase in 2023, according to a Stripe survey of 1,500 business leaders.

Taking aim at churn can mean sifting through a seemingly endless maze of possible causes and solutions. But there are concrete steps you can take, both big and small, that are especially likely to limit churn—and help you keep and engage hard-won customers.

In this guide, we'll explore the differences between voluntary and involuntary churn, and we'll offer guidance to help your business manage both. We'll share new Stripe data on average churn rates by industry, payment method, and more. You'll also learn how [Stripe Billing's](#) revenue recovery features can help mitigate involuntary churn and give your important customer retention strategies a boost.

\$650B

Value of subscription economy in 2023¹

\$1.5T

Projected value of subscription economy in 2025¹

¹ Robeco, [Consumer trends in 2022: the subscription economy and the metaverse](#)

Understanding and measuring customer churn

There are two types of churn impacting your business:

- **Voluntary churn** happens when a customer intentionally cancels their subscription.
- **Involuntary churn**, sometimes called passive churn, occurs when a subscription lapses even though the subscriber didn't mean to cancel, such as when a payment method on file expires. Reducing involuntary churn helps the customer continue to enjoy your product or service without disruption.

In both cases, the lost customer means lost revenue. But the right strategies to reduce subscriber churn depend on the type of churn you want to tackle and how large of an issue it is.

How to measure churn

To measure churn, it's most convenient to use a billing software provider that includes [SaaS and billing analytics](#). But if you need to calculate churn rate manually, use one of the following formulas.

“Customer churn rate” refers to the rate at which you’re losing customers to churn. To find the overall rate of customer churn for a product in a particular period, such as a month or a quarter:

$$\text{Customer Churn} = \frac{\text{Number of canceled subscriptions in a given period}}{\text{Number of subscriptions at the start of the period}} \times 100$$

“Dollar churn rate” refers to the rate at which you’re losing revenue to churn. To find the dollar churn in a particular period:

$$\text{Dollar Churn} = \frac{\text{Revenue lost in a given period}}{\text{Revenue at the beginning of the period}} \times 100$$

Reducing the churn rate means your business is able to retain more customers from month to month, quarter to quarter, or year to year. That, in turn, leads to more revenue.

How churn impacts more than just revenue

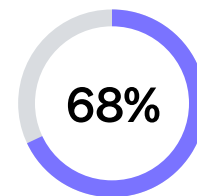
Subscription businesses rely on [recurring revenue](#), which greatly affects planning, growth, and profitability. But churn leads to more than lost revenue alone. Here are some of the areas where churn can impact your business:

- **Customer acquisition budget.** When you lose customers regularly, that puts pressure on your business to gain new top-of-funnel customers more effectively, increasing the amount you're spending on customer acquisition. And that can be expensive: Customer acquisition costs rose 60% in the past five years, according to 2022 industry estimates.
- **Planning and forecasting.** Churn also complicates future revenue forecasting if the churn rate is unpredictable. When a business can't foresee how many customers it will have in the next month, quarter, or year, that can hobble leaders' ability to make strategic long-term decisions.
- **Product development.** Churn rates can also give businesses valuable information. If churn is rising over time, or varies by product or geography, that could indicate weak product-market fit, highlighting an opportunity for improvement.

Once you're tracking your churn rate and understand what influences it, you can start to make optimizations to create more revenue. For example, focusing on involuntary churn means you can try to optimize your failed payment recovery flows like retries, emails, or in-app modals, whereas focusing on voluntary churn could mean providing customers with a way to temporarily freeze their subscription.

What contributes to voluntary churn?

Voluntary churn can reflect a customer's changing financial circumstances or their dissatisfaction with a product or service. In the current economic climate, as consumers reduce their discretionary spending in response to inflation, subscriptions are where many choose to cut back. In a Stripe survey of 1,500 global subscription-based business leaders, 68% of respondents said they were concerned about subscription fatigue among their customers.



68% of business leaders fear subscription fatigue¹

¹ Stripe internal data

Customers also cancel subscriptions because the product isn't the right fit for them—if it's not useful or not what they expected. That could be due to imprecise marketing, overpromising, or a misunderstanding of what the product offers. The price may be too high for the product or service's perceived quality, or compared to competing products in the market. Finally, customer service may be lacking, leading customers to cancel their subscriptions out of frustration.

What contributes to involuntary churn?

While the best steps to take to resolve voluntary churn will be unique to each business, there are several strategies to reduce involuntary churn that every business can implement. In these cases, the customer would prefer to maintain their subscription, but a payment issue prevented them from continuing to subscribe.

A customer’s subscription payment may fail because:

- There were insufficient funds on the saved payment method
- The customer’s bank declined the charge
- Their credit card expired
- Billing details changed
- The payment was blocked

Based on Stripe Billing data from 2023, the most common reason for subscription payment failure was insufficient funds (36%–39%). [Card declines](#) on the part of the customer’s [issuing bank](#) were the next most common reason. In some cases these are recovered through a well-timed retry. In other cases, the customer may need to contact their issuer to identify the reason for the decline. Stripe Billing makes it easy for you to automatically remind your subscribers to do this through recovery emails. Note that most card expiry failures are preemptively resolved by Stripe’s card account updater (CAU), Adaptive Acceptance, and network tokens functionality.

Reason for payment failure	Share of payment failures in 2023
Insufficient funds	36%–39%
Declined by card-issuing bank with decline code “do_not_honor”	10%–14%
Declined by card-issuing bank with decline code “generic_decline”	8%–12%
Declined by card-issuing bank with decline code “transaction_not_allowed”	6%–10%
Incorrect card number	5%–9%

Churn rate benchmarks

If you're eager to minimize churn among subscribers, you're not alone. Reducing churn is a priority across industries.



44% of subscription business leaders saw voluntary churn increase in 2023¹



41% of subscription business leaders saw involuntary churn increase in 2023¹

Businesses are hurting as a result of churn, and they're investing in a variety of tactics to address it.²

Average churn rates by order value

Average order value, or AOV, is the average amount customers spend per transaction. Stripe data for 2023 shows that churn rate typically decreases as AOV increases. This may be due to the fact that higher average transaction sizes reflect more intentional purchases and more reliable payment methods among customers.

The data shows that involuntary churn decreases as AOV increases. While there is also some decrease in voluntary churn as AOV increases, there's a particularly big drop in voluntary churn once AOV reaches \$10,000.



Average order value (USD)	Average overall churn rate	Average involuntary churn rate	Average voluntary churn rate	Involuntary churn as a % of overall churn
Less than \$10	38%	11%	27%	29%
Between \$10 and \$30	37%	9%	28%	24%
Between \$30 and \$100	31%	8%	23%	26%
Between \$100 and \$1,000	32%	6%	26%	19%
Between \$1,000 and \$10,000	27%	4%	23%	15%
Greater than \$10,000	17%	4%	13%	24%

¹ Stripe's State of subscription and billing management report

² The data covers November 2022 to October 2023. We looked at monthly subscriptions only—excluding yearly, quarterly, and weekly subscriptions—to allow for direct comparisons.

Average churn rates by payment method

Customers who use prepaid cards are most likely to churn involuntarily, according to 2023 Stripe data, due to the higher likelihood of a prepaid card having insufficient funds. Credit card-using customers are least likely to churn involuntarily. Businesses could consider encouraging customers to use a credit card in the payment flow, including as a secondary or backup payment method if the primary method is debit or prepaid.

Payment method	Average overall churn rate	Average involuntary churn rate	Average voluntary churn rate	Involuntary churn as a % of overall churn
Debit	37%	10%	27%	27%
Credit	34%	6%	28%	18%
Prepaid	42%	21%	21%	50%

Average churn rates by industry

To gain a full understanding of how pressing an issue churn is for your business, you can compare your churn rates with averages in your industry. In the table below you'll see involuntary and voluntary churn rates across some of the top industries for businesses using Stripe Billing.

Education (40%), personal services (39%), and business services (38%) saw slightly higher overall churn than other industries. Personal services businesses have the highest average voluntary churn rate despite one of the lowest rates of involuntary churn. Leisure businesses also saw high voluntary churn and comparatively low involuntary churn. While payment failures are less of an issue for these types of businesses, it's likely that tightening consumer budgets in 2023 were a key factor in high voluntary churn rates.

Industry	Average overall churn rate	Average involuntary churn rate	Average voluntary churn rate	Involuntary churn as a % of overall churn
Business services	38%	10%	28%	26%
Personal services	39%	7%	33%	18%
SaaS	36%	8%	28%	22%
Digital goods	37%	10%	27%	27%
Education	40%	9%	31%	23%
Retail	36%	9%	27%	25%
Leisure	36%	6%	30%	17%

Average churn rates by customer segment

B2B and B2C businesses had similar churn rates in 2023, according to Stripe data, though B2B businesses experienced slightly higher involuntary churn while B2C businesses saw slightly higher voluntary churn.

Business Model	Average overall churn rate	Average involuntary churn rate	Average voluntary churn rate	Involuntary churn as a % of overall churn
B2C	38%	9%	31%	24%
B2B	36%	10%	29%	28%

B2C businesses are vulnerable to changes in consumer spending patterns that B2B businesses aren't. But B2B businesses are also seeing their customers cut costs, albeit at a lower rate. In Stripe's global survey, nearly half of B2C businesses reported that voluntary churn rates increased in 2022, compared to about one third of B2B businesses.



48% of B2C businesses said voluntary churn increased in 2022¹



34% of B2B businesses said voluntary churn increased in 2022¹

¹ [Stripe's State of subscription and billing management report](#)

How to mitigate churn and recover more revenue

Churn isn't a static factor in a subscription business' operations. At any time, you can make major or minor changes to your product, payment processes, or customer support infrastructure that significantly influence churn rates and increase revenue. Here are strategies to implement when you've decided to take on voluntary churn, involuntary churn, or both.

Ways to reduce voluntary churn

To encourage customers to maintain their subscription to your product or service, try these approaches:

1. Gather feedback

To determine areas ripe for improvement, conduct customer surveys. As part of Stripe's [customer portal](#), you can ask customers who canceled their subscriptions to optionally provide the reason why, which can offer valuable insight into the most common issues.

2. Take seasonality into account

Your business may naturally experience customer churn during certain times of the year, when your product isn't top of mind for customers. Consider ways to provide incentives to stay subscribed or to adapt your product or service so it has value year-round. [Stripe reporting](#) can help you more deeply understand seasonality and customer trends.

3. Prioritize customer service

Give customers multiple entry points to get help with any concerns and make it clear that resolving complaints is a priority. Requiring too many interactions with customer support can be a nuisance, however. Stripe's [customer portal](#) can help you build a streamlined customer service experience by giving customers the ability to self-manage their account, such as upgrading, downgrading, and pausing subscriptions.

4. Customize the customer experience

Strong customer service includes making customers feel that your business understands who they are and what they want. For example, Stripe's [recovery and retention automations](#) let you set up customized cancellation confirmation emails, which gives customers the option to provide useful feedback as to why they ended their subscription. It can encourage customers to view your business positively and potentially resubscribe later if the customer experience is warm and pleasant all the way through.

5. Make product enhancements

When voluntary subscription cancellation is a problem, consider ways to revamp the product or service to meet customers' needs. It's important first to identify what customers are dissatisfied with (such as customer experience or delivery reliability), and then to test different tactics to see what works.

6. Offer customers a free trial

From the beginning of a customer's journey with your business, you can show flexibility and transparency, and your product's benefits, with a free trial. Stripe's [trial periods](#) feature gives customers the chance to try out the product or service for a limited time, which can win customers and encourage loyalty from the get-go. A free trial allows customers to decide whether the product is a good fit without signing up for a full subscription, potentially reducing the amount of early customer churn.

7. Offer discounts or rewards

A customer who's at risk of canceling their subscription may be persuaded to stick around for a lower price. Stripe gives businesses the ability to offer coupons or discounts to a customer.

8. Try out different pricing models

You may be able to retain more customers by changing your subscription business' pricing structure and including usage incentives. Stripe lets you offer [tiered pricing](#), for example—lower rates for more orders per month. You can also charge based on volume, allow the customer to define their own price, provide a discount for paying for a longer subscription up front, and more.

Ways to reduce involuntary churn

When customers churn involuntarily, their payment may be failing without their knowledge or due to unforeseen circumstances. In these cases, your business loses revenue on the customer's current transaction and on all their future subscription transactions—unless the payment method is updated, or you intervene.

Revenue recovery is a set of strategies you can use to recover failed payments. This ensures customers aren't at risk of inadvertently ending their access to your product or service, and that you aren't at risk of losing revenue or otherwise loyal customers.

There are numerous ways to mitigate involuntary churn, but many subscription businesses aren't making use of them.

That means they are leaving money on the table. A monthly subscription that's recovered after a payment failure will continue for another seven months on average, according to Stripe data. Stripe offers both preventative and reactive recovery tools that give businesses the opportunity to recoup substantial subscription revenue. Overall, Stripe's automated recovery features helped customers earn an additional \$3.42 billion in revenue in 2023.



32% of subscription businesses that saw an increase in involuntary churn in 2022 aren't yet implementing revenue recovery tactics¹

¹ [Stripe's State of subscription and billing management report](#)



\$3.42 Billion

Additional revenue Stripe's automated recovery features earned customers in 2023¹

¹ Stripe internal data

Preventative revenue recovery methods

These methods may help minimize involuntary churn:

1. Intercept failed payments right away

You may be able to avoid losing revenue on failed payments when you have the ability to retry them immediately. [Stripe's Adaptive Acceptance tool](#) uses machine learning to identify the reason for the payment failure and, if appropriate, retry the declined payment right away. Between August 2022 and August 2023, global Stripe Billing users saw a 0.91% uplift in authorization rates using Adaptive Acceptance.

2. Offer a range of billing options

Provide flexible billing options, and accept as many [payment methods](#) as possible, so your customers can use the payment type that they're most likely to keep fully funded and up to date.

3. Keep card numbers fresh

Update card details as soon as a customer's credit card number or expiration date changes. Stripe offers a [card account updater](#) (CAU) tool, which automatically updates card details via the credit card networks. This prevents a payment failure if the customer's card details change and they haven't proactively updated them with your business. Between August 2022 and August 2023, CAU led to a 3.05% increase in the authorization rate on average among Stripe Billing customers.

4. Help continually improve recovery rates

When you have the most recent email address on file for each customer, it's easier to get in touch to request an update to their payment details if, for example, a card is about to expire or a recent payment failed. Stripe's [self-service customer portal](#) lets users update this information themselves when necessary, as might happen for a B2B customer with a new point of contact for a SaaS subscription.

0.91%

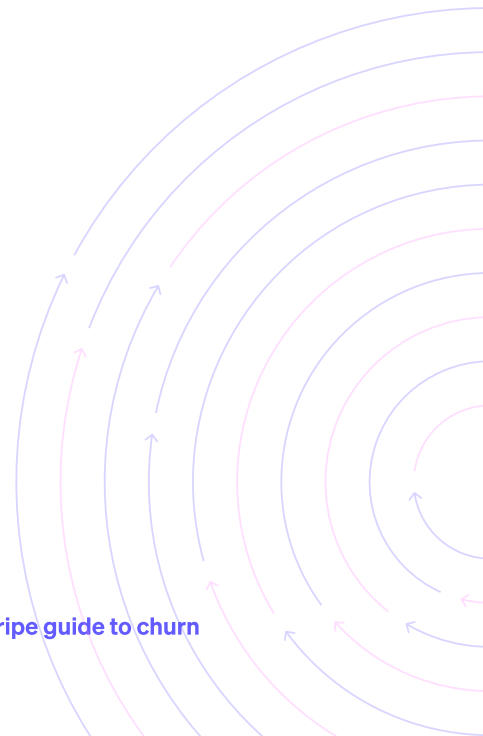
uplift in auth rates for Stripe Billing customers using Adaptive Acceptance¹

¹ Stripe internal data

+3%

increase in auth rates on average among Stripe Billing customers in one year¹

¹ Stripe internal data



Reactive revenue recovery methods

Once a customer's payment has failed, there are still plenty of ways to restore their payment, and subscription, in order to keep their membership active.

1. Retry failed payments

You can retry failed payments on a fixed or customized schedule. Using machine learning, Stripe Billing's [Smart Retries](#) feature automatically retries failed payments at optimal days and times to increase the likelihood of success. You can also create a custom retry schedule based on your individual business, industry, and knowledge of your customers' behavior.

2. Customized [dunning strategies](#)

Stripe allows you to automate custom revenue recovery methods to best meet your needs. That can mean, for example, retrying payments over a longer time frame for customers with annual subscriptions as opposed to monthly plans, which may help recover more revenue. The best strategy for you will likely depend on your industry or region.

3. Automated failed payment notifications

Send [customized emails](#) alerting the customer to a payment failure with an easy, one-click pathway for updating payment information.

4. In-app dunning

You can also offer notifications directly on your website or mobile app, ideally as reminders for customers to update the payment method before they lose access.

5. Discount offers

If a payment has failed a number of times, you could offer the customer the option to resume their subscription at a lower price. This can take the form of a discount on a certain number of upcoming months of membership.

6. Secondary payment method retries

Through [Link](#), Stripe's accelerated checkout experience which securely stores and autofills customers' payment details, failed payments can be retried on secondary payment methods, such as an alternative credit card stored on the customer's Link account. You can still make use of this revenue recovery strategy through other methods even if you're not using Link.

Making Stripe Billing your revenue recovery partner

Stripe is the only platform that offers customers the ability to manage payments and billing. Stripe Payments and Billing build on each other, and Billing benefits from Stripe's expertise in global payments (Stripe processed \$817 billion in total payment volume in 2022) and understanding of card issuers (Stripe is a card issuer too).

As a result, Billing comes with sophisticated payments automations under the hood. For example, Stripe Billing offers these proactive tools to avoid failed payments:

- Card account updater
- Automated renewal emails
- Hosted recovery surface

Stripe Billing offers these reactive features to recover failed payments:

- Smart Retries and scheduled retries
- Automated recovery emails
- Customizable recovery flows with [recovery automations](#)

Here's how they've worked for Stripe customers:

- | | |
|--|---|
| • In one year, on-demand delivery service Deliveroo recovered more than £100 million using Stripe's card account updater, Smart Retries, and Adaptive Acceptance tools. | £100M
recovered by Deliveroo |
| • Health platform Noom increased its payment acceptance rates by 8% after switching to Stripe and accepting more localized payment methods. | 8%
increase in acceptance rates by Noom |
| • Smaller companies are benefiting, too: Custom software startup Retool recovered more than \$600,000 in revenue with Smart Retries. | 600K
recovered by Retool |
| • AI platform Midjourney used Smart Retries to reduce involuntary churn and recovered millions of dollars in revenue—a substantial figure for a subscription business. | \$ Millions
recovered by Midjourney |

Retaining subscription customers isn't just about building a product that excites them. It's about keeping them engaged from month to month and year to year, and preventing them from inadvertently losing access through failed payments. Reducing churn and recovering revenue will save you money, but it will also save you customers—and help you build on the loyalty your business has rightfully earned.

“ For involuntary churn, we have found that Stripe's Smart Retries have really worked for us. They're built into Stripe Billing and use machine learning to retry cards at the optimal time. We've recovered millions of dollars in revenue that would have otherwise been lost—this is very substantial for us as a subscription business.

Midjourney

Ready to get started?

[Learn more](#) about Stripe Billing and how it reduces churn for subscription-based businesses.

Access a complete billing solution or contact us to design a package specifically for your business.

[Start now](#) or [get in touch with our team](#).

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