

SaaS Cancellation Risk Study

SaaS Cancellation Risk Study

In April 2018, Paradoxes Inc. asked US business SaaS users whether their organizations were planning on canceling any SaaS subscriptions over the next 12 months.

About 10% of respondents indicated they were thinking of canceling at least one SaaS subscription. The SaaS Cancellation Risk Study findings focuses on understanding why these respondents are at risk.



50%



Your product may be at risk

Among customers thinking about churning, an average of **50%** of their SaaS products are at risk of cancellation in the next 12 months.

40%



Once a customer decides to cancel, it's likely too late

40% of customers who make a decision to cancel will never reconsider.

83%



Having valuable functionality is not enough

83% of customers who are considering churning find the SaaS functionality valuable, but find it's **easily replaceable** with internal capabilities or competitor products.



10% of users are thinking about canceling at least one subscription. Study findings focus on this 10%.

Four steps to reduce cancellation risk:

Communicate product value, not just functionality



Engage customers and look beyond telemetry

Assess your customers' expectation gaps



Invest in training and support



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Study Overview: SaaS Cancellation Risk Study

Paradoxes Pulse Research Series

The first installment of the Paradoxes Pulse Research Series was the **SMB SaaS Usage and Adoption Study**. Through our research we learned about SaaS customer usage, as well as adoption motivations and challenges.

For this second study, we wanted to flip the usage coin and **investigate why customers cancel SaaS subscriptions**.

This study provides you insights to help you assess your own customers' cancellation risk.

To access the Pulse Research Series, visit our Studies page at <http://paradoxesinc.com/studies/>.

Paradoxes created the **SaaS Cancellation Risk Study** to answer three questions:

- 1 What percent of SaaS subscriptions are at risk of cancellation?
- 2 Why do customers cancel SaaS subscriptions?
- 3 What can you do to reduce cancellations?

To answer these three questions, we surveyed 294 “at risk” SaaS users who are considering canceling at least one SaaS subscription over the next 12 months.

FINDINGS SUMMARY



Through our research, it is clear **cancellation risk is a problem frequently faced by most SaaS companies.**

The main reason customers consider canceling is a lack of realized value, and **once they consider canceling it's too late.**

To reduce churn risk, proactive measures are most effective. **Focus on guiding and meeting initial expectations.**

How frequently are SaaS subscriptions at risk of cancellation?

Cancellation risk is a problem most SaaS companies frequently face

- Around 10% of all SaaS customers are “at risk” of canceling at least one subscription.
- Per respondent, an average of 1.37 SaaS products are “at risk” – the average respondent has 2-3 SaaS products.

Why are customers considering canceling?

Lack of value is the main reason for cancellations

- The #1 reason for considering cancellation is the cost of the subscription, indicating customers feel they aren't realizing enough value for the price.

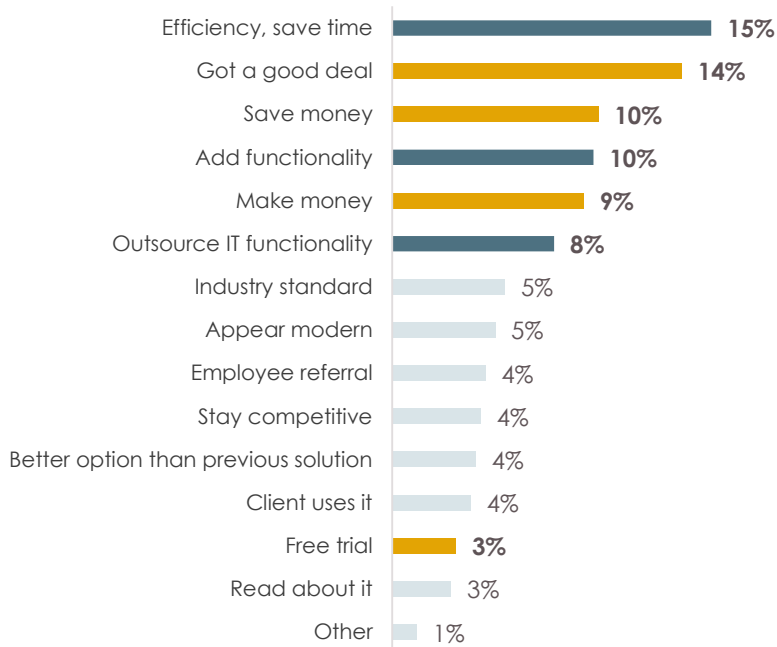
What can SaaS companies do to reduce cancellations?

Be proactive

- Communicate product value, not just functionality
- Engage customers and look beyond telemetry
- Assess your customers' expectation gaps
- Invest in training and support

Why did customers subscribe?

Customer reasons for subscribing



It's about money and usefulness – SaaS customers subscribed mainly for **financial-related and functionality-related reasons**.

○ Financial reasons (36% of total):

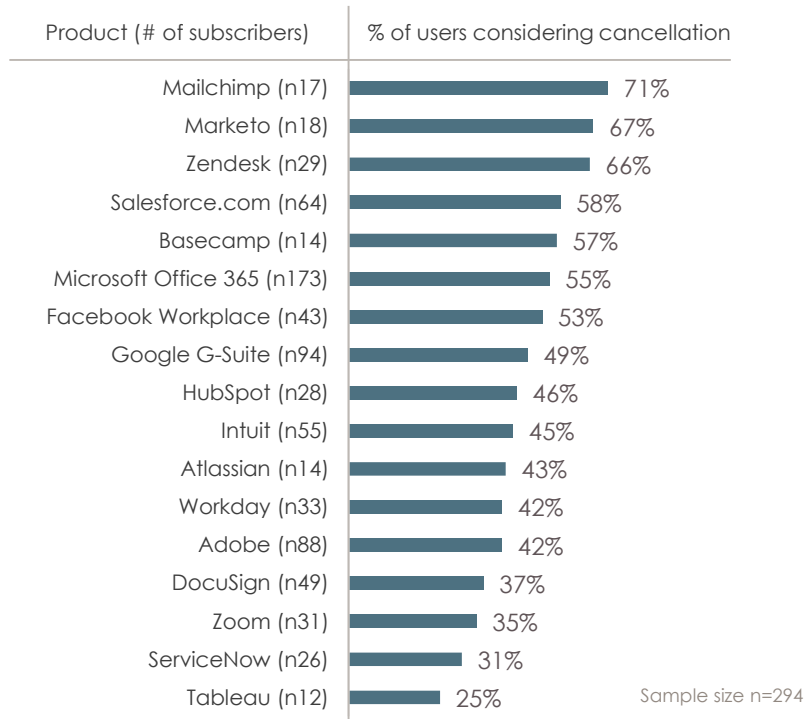
“Got a good deal”, “save money”, “make money”, “free trial”

○ Functionality reasons (33% of total):

“Efficiency”, “add functionality”, “outsource IT functionality”

What subscriptions are at risk of cancellation?

Current subscriptions at risk of cancellation



We asked “**at risk**” respondents what SaaS software their companies currently use and which SaaS subscriptions they are thinking of canceling.

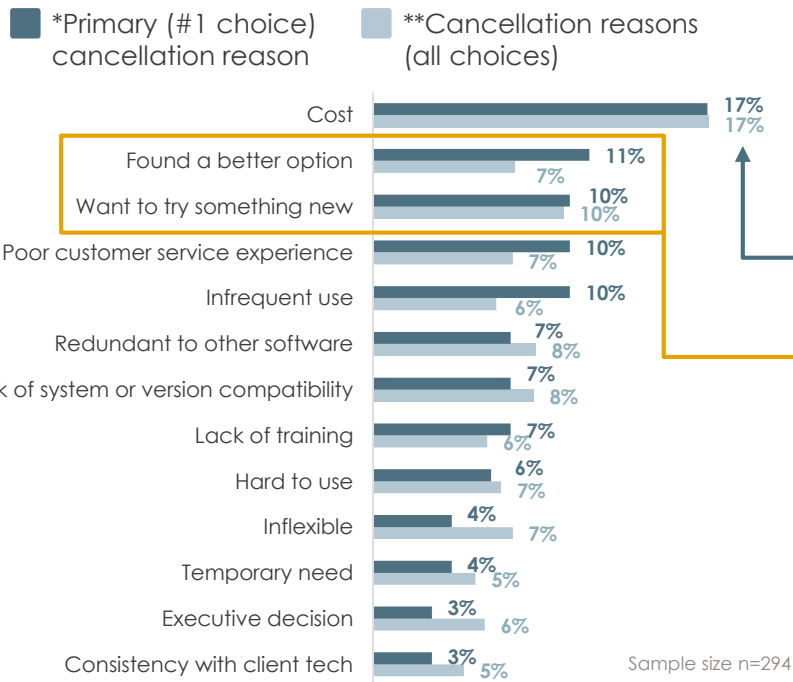
- Of the 805+ SaaS licenses identified by the 294 “at risk” respondents, **50% are at risk of being canceled.**
- On average, the number of “**at risk**” SaaS **products per customer is 1.37** – the average respondent has 2-3 SaaS products total.

*Q: What paid software is your company subscribed to? (See n for # of subscribers)

**Q: Is your company considering canceling any of these in the next year?

Why are customers considering cancellation?

Reasons for considering cancellation



We asked respondents to list all their reasons for canceling a selected SaaS subscription and which was their primary reason.

The #1 reason for considering cancellation is the cost of the subscription, **likely meaning customers feel they aren't getting the value they're paying for** from their SaaS solution(s).

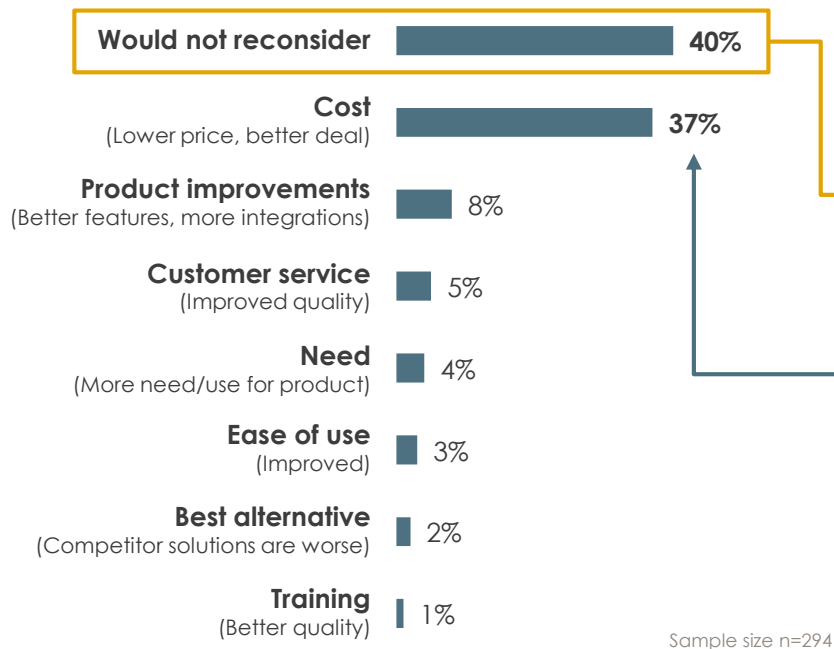
21% of respondents want to try something new or found a better option, suggesting subscribed customers **are open to competitive products**.

*Q: What is the primary reason your company is considering canceling the subscription?

**Q: Why is your company considering canceling the subscription?

Would customers reconsider their cancellation decision?

Current subscriptions at risk of cancellation



We asked respondents to provide text responses on what would make them reconsider canceling their “at risk” software product(s):

A large percentage of SaaS cancellation decisions (40%) were irrevocable – nothing could be done to change minds on selected software.

Cost reduction of the subscription was by far the top potential reconsideration reason.

- Improving the value of the product would make few reconsider. Once dissatisfied with the product's value, **the risk of irrevocable cancellation decisions increases.**

Q: What would make you reconsider canceling [product] subscription?

What plans do “at risk” customers have post-cancellation?

We asked respondents what they would do post-cancellation:

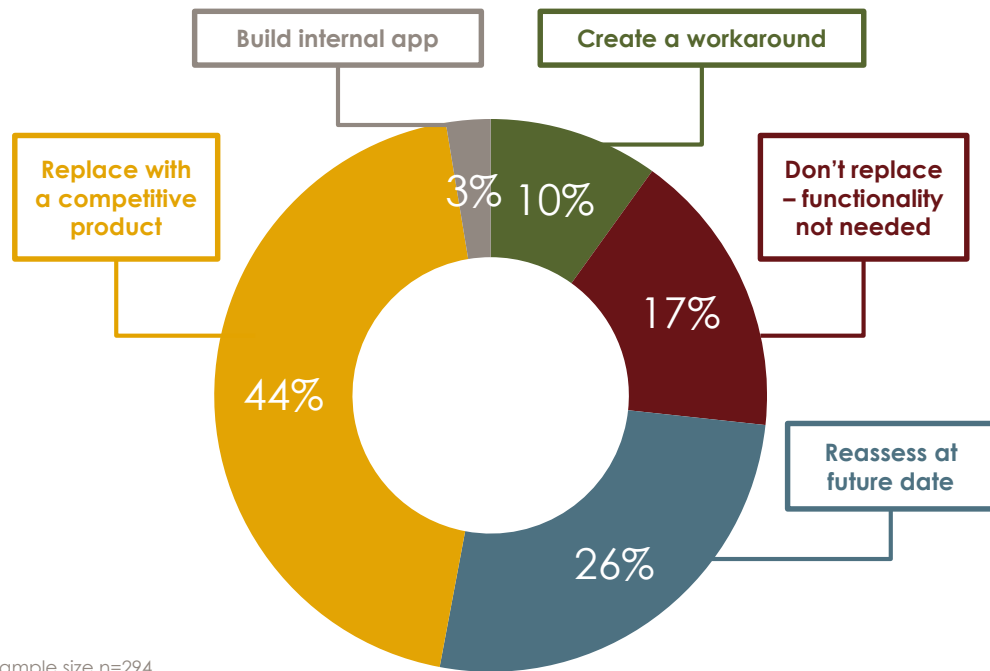
The majority (83%) need the functionality of the SaaS software they are thinking of canceling.

- 44% of respondents are considering competitive products

Having a product with valuable functionality is not enough to protect from churn.

- Only 17% feel functionality did not add value

Post-cancellation plans



Sample size n=294

*Q: Assuming you cancel the [product] subscription how do you plan to fill the gap?

What can SaaS companies do to reduce cancellation risk?

SaaS firms spend a lot of time, effort, and money acquiring customers. Given nearly **half of customers won't change their mind after they reach a decision to cancel**, efforts to reduce cancellations should be focused on preventing customers from reaching that point.

Take these 4 proactive steps to reduce cancellation risk:

1

Communicate product value, not just functionality:

Customers need to understand and see proof of your product's value. Cost is a primary cancellation reason likely because customers feel the product is not delivering on expected value. The product's value needs to be explicit or explained.

2

Engage customers and look beyond telemetry:

Behavioral analysis is helpful, but it doesn't give you the full picture. To understand how your customers feel, nothing beats talking to them.

3

Assess your customers' expectation gaps:

Cancellation reasons are frequently tied to expectation gaps. Identify your subscribers' expectations and find out where there's a mismatch.

4

Invest in training and support:

Many cancellations occur when users are unable to unlock enough of a product's value, either due to inadequate training or a lack of helpful customer service. Show customers how to get the most out of their investment and support them along the way.

Appendix

Research methodology and sample

In April 2018, Paradoxes asked US business SaaS users **whether their organizations were planning on canceling their SaaS subscriptions** over the next 12 months.

Approximately **10%** of those surveyed, **294 “at risk” respondents**, indicated that they are considering canceling at least one SaaS subscription.

Around **75%** of these “at risk” respondents were from SMBs (less than 1,000 employees) and around 25% were from large or enterprise organizations (over 1,000 employees).



Methodology

Short screening survey to identify **“at risk” respondents**

5-10 minute quantitative survey fielded across the US

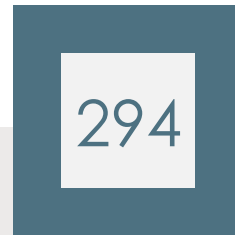
Research conducted from April – May 2018



Sample profile

77% of the sample are decision-makers for SaaS implementation (they either decide or recommend what to implement)

Mix of small, medium, and enterprise size businesses - Around **75% of sample are from SMBs** (less than 1,000 FTE)

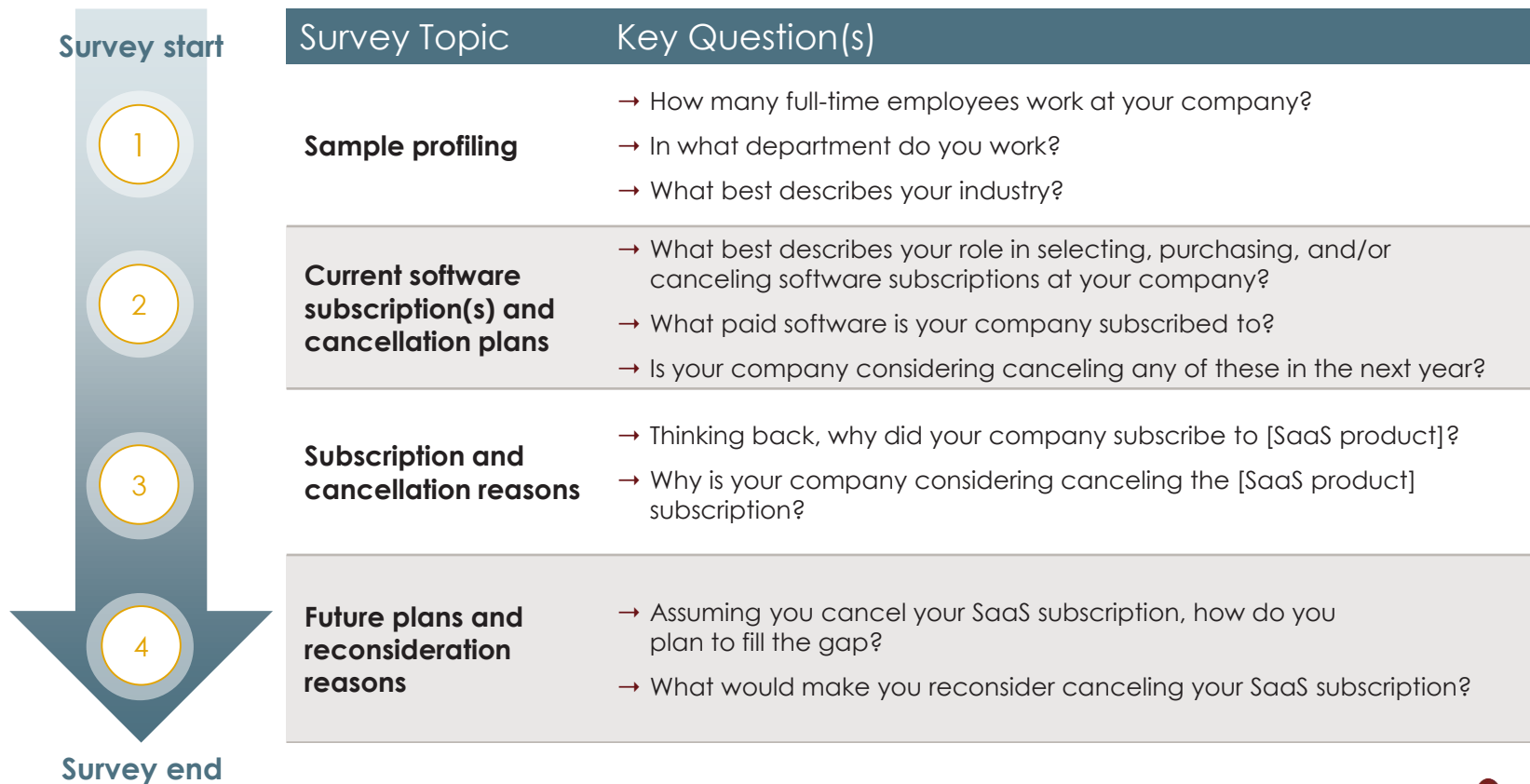


Sample size

Survey sample consists of **294 “at risk” respondents**

Screened in **“at risk” respondents** from about 3,000 information and technology workers (US business SaaS users)

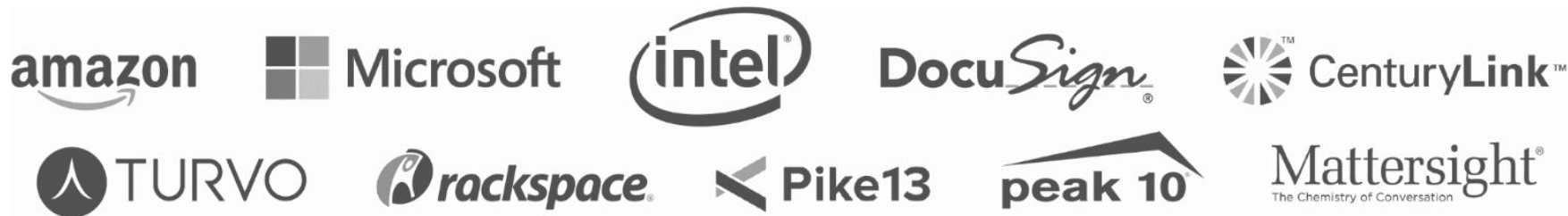
Research methodology: Survey flow



About Paradoxes

Founded in 2007, Paradoxes is a strategic marketing organization that helps technology companies collect, analyze, and use data to make smarter sales, marketing, and product decisions.

We specialize in helping companies get their products adopted and used.



Since 2007, Paradoxes has a proven record of successfully helping many of the world's most recognized brands in technology, cloud services, social media, and other subscription-based businesses.



"The team there is sharp and has good ideas. Idea generation is great. That's why we have you back again – we like your brains."

"Paradoxes was the absolute right choice for our research project... I'm very impressed with the level of engagement, professionalism, insights into the market, and of course with the personal engagement of the team."

"I'm a big supporter of Paradoxes and they provide a great product, impressive customer service, and knowledgeable insights and guidance."

"I was very impressed with the insights Paradoxes provided. The information makes for a great strategic launching pad for us."



Paradoxes Audience and Industry Experience

Since 2007, Paradoxes has spoken with over 30,000 audience members. Paradoxes' expertise includes the following:



AUDIENCES

- ✓ Advertisers
- ✓ Business decision makers (BDMs)
- ✓ Channel partners
- ✓ Consumers
- ✓ Educators
- ✓ Information workers
- ✓ IT professionals
- ✓ Software developers and engineers
- ✓ Students
- ✓ Technical decision makers (TDMs)



INDUSTRIES

- ✓ Cloud service providers
- ✓ Education
- ✓ Healthcare
- ✓ Manufacturing
- ✓ Retail
- ✓ Social media
- ✓ Technology

Expertise

Our Services

RESEARCH

QUALITATIVE

Advisory councils
Dial testing
Ethnography
Focus groups
In-depth interviews (IDIs)
Usability

QUANTITATIVE

Conjoint/MaxDiff
Tracking studies
Web/mobile surveys

NEURO-PHYSIOLOGICAL

Biometrics
EEG
Eye tracking
Facial coding

ANALYTICS

DATA STRATEGY AND DEVELOPMENT

Data development
KPI creation and data mapping

DESCRIPTIVE ANALYTICS

Dashboards and reporting
Data visualization
Existing information synthesis (EIS)

PREDICTIVE AND DESCRIPTIVE ANALYTICS

Churn, vulnerability, and
usage models
Look-alike modeling
Segmentation

POSITIONING

MARKET OPPORTUNITY ANALYSIS

Competitive analysis
Market segmentation and sizing
Target audience selection

VALUE PROPOSITIONS

Cost/benefit analysis
Differentiation

POSITIONING AND MESSAGING FRAMEWORKS

Message testing and validation
Promise statement
Supporting evidence

Paradoxes helps you on your product/services path wherever you are today – or wherever you want to go.



Plan

QUESTIONS WE HELP ANSWER:

- What's my addressable market? →
- Who would buy it? →
- How is it different than the alternatives? →
- How does it fit into the lives of my customers? →

SOLUTIONS WE PROVIDE:

- ✓ Market opportunity analysis
- ✓ Target markets and audience selection
- ✓ Competitive analysis
- ✓ Value proposition and positioning



Design, Build & Test

- Is my idea compelling? →
- Is it easy to use? →
- Is there customer friction? →
- Is the price right? →
- How do I make money from it? →

- ✓ Concept testing
- ✓ Usability testing
- ✓ Customer experience journey mapping
- ✓ Price testing
- ✓ Monetization models



Market Strategy

- What messages and words will resonate? →
- Which ads should I use? →
- Which channels should I use? →
- What else can I offer to the current customers? →

- ✓ Message development and testing
- ✓ Creative testing
- ✓ Pipeline modeling
- ✓ Cross-sell and up-sell strategies



Measure & Optimize

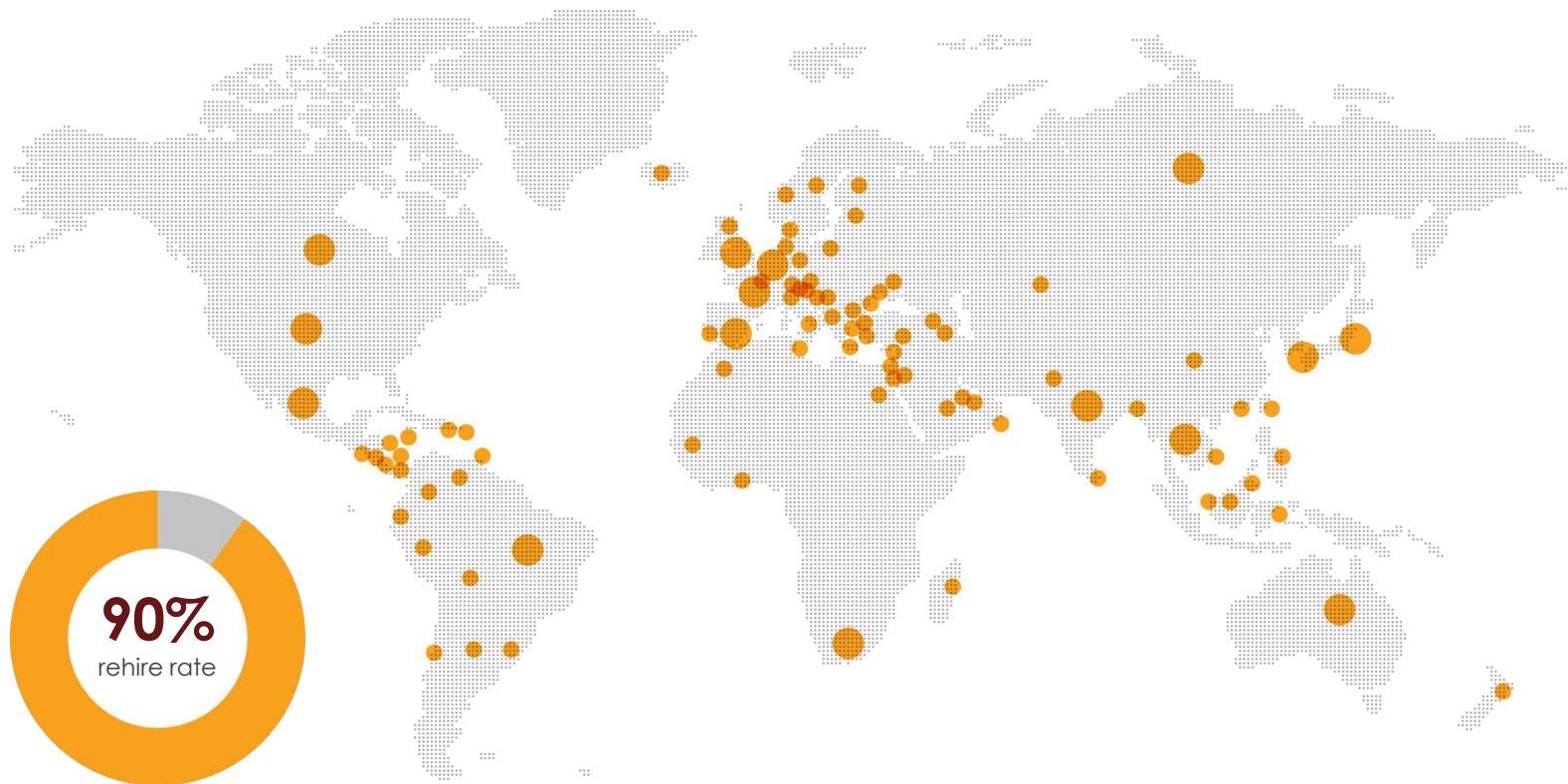
- What key measures should I use? →
- How do I get the most out of my data? →
- Are my customers happy? →
- Who's likely to churn? How do I stop them? →
- Who are my best customers and how do I get more of them? →

- ✓ KPI audit, design, and definition
- ✓ Data and analytics strategy
- ✓ Customer satisfaction studies
- ✓ Churn and vulnerability analysis
- ✓ Best customer look-alike + next-logical-purchase modeling

Why Paradoxes? GLOBAL. EXPERIENCED. TRUSTED.

FOUNDED
2007

We've conducted thousands of research, analytics, and positioning projects worldwide for leading technology companies.





 **paradoxes**

Research • Analytics • Positioning

For more information about how Paradoxes can help you make smarter decisions, go to **paradoxesinc.com** or contact **jscott@paradoxesinc.com** or **steveb@paradoxesinc.com**