



# Nine Essentials for Acquiring Subscription and Recurring Revenue Customers

By **vindicia**<sup>®</sup>



# Contents

Preface: Bring Digital Goods and Subscribers Together . . . . .	3
Infrastructure Components . . . . .	4
Get Your Site Right. . . . .	4
Going the App or Social Route? The Path to Payment Still Matters . . . . .	5
Customer Information . . . . .	6
Know Your Demo. . . . .	6
Acquisition Channels . . . . .	7
Changing Channels . . . . .	7
Channel Lineup . . . . .	8
Campaigns and Promotions . . . . .	9
Special Ops . . . . .	9
Metrics . . . . .	10
Testing, Analysis, and Optimization . . . . .	11
Ready for Your Test? . . . . .	11
Pricing . . . . .	12
Fraud . . . . .	13
Giving Back . . . . .	13
Payment Methods . . . . .	14
Fitting the Bill . . . . .	14
Summary . . . . .	16



# Preface: Bring Digital Goods and Subscribers Together

The breadth of digital goods available today is staggering. You can subscribe to everything from identify theft protection and personalized “radio” to streaming movies and sports networks. And there’s probably an innovator dreaming up an entirely new kind of digital good as you read this. Many of these digital offerings are sold on a subscription and recurring basis. Subscription opens up a world of possibilities for building revenue with a core base of loyal customers. But first you need to acquire the customers. This e-book can help.

## Vindicia Knows How to Monetize Digital Goods

*Nine Essentials for Acquiring Subscription and Recurring Revenue Customers* outlines customer acquisition essentials for companies that sell digital goods and services on a subscription or recurring basis. What does Vindicia know about acquiring subscription customers? We know what works. Vindicia solutions improve and accelerate the customer acquisition process for many of the world’s leading B2C digital goods and services companies. We’ve processed 143 million credit cards and more than \$6 billion in subscription and recurring revenue payments.

Vindicia users benefit from regular business reviews in which we analyze their processes and data. We recommend ways that users

could grow subscribers, reduce churn, and increase revenue. Those recommendations are tailored to specific Vindicia users, but we’ve noted that many companies aren’t nailing all the basics. When you miss the essentials, you’re leaving money on the table. Don’t.

We’ve included some of our top tips in this e-book.

## Look to Best Practices and Experimentation

Customer acquisition spans promotions, advertising, affiliates, pricing models, and payment methods. This guide will touch on all of these topics, but it should be viewed as a supplement to best practices in each of these areas. Customer acquisition best practices are in constant flux as marketers

continue to research, learn, and, most importantly, experiment. Also, certain topics are too company-specific for ironclad recommendations, especially when it comes to pricing and A/B testing. We will, however, discuss general approaches that work well across industries for these topics.

Testing and experimentation will appear as a recurring theme throughout this guide. If you come away from this e-book with only one takeaway, it should be importance of experimenting—you’ll learn more from six or seven promotions than from just one or two. As a marketer of digital goods or services, you’re often asking customers to try something new. Shouldn’t you be willing to do the same thing?



# Infrastructure Components

Whether you do most of your business from your company's website or a third-party platform, your customer acquisition strategy should start with a close look at the face you're presenting to potential customers—and the experience you're guiding them through.

## Get Your Site Right

If your product or service offering relies on your website, and the site isn't built to lead customers smoothly toward a purchase decision, your other acquisition efforts may amount to a waste of time. Each of the following elements plays a critical role in the acquisition process:

### Home page

The design and content of your home page should guide visitors toward a purchase decision. Potential customers need to find essential information about your offering as well as easy links to the subsequent pages.

### Pitch pages

Pitch pages should have at least two, but not more than four, product offerings, with one offering—the most popular or profitable—highlighted or recommended. Other offerings should present alternatives that vary in terms and features, but should guide most users back to the recommended offering.

### Buy page

Less optimization is necessary with the buy page, but the less effort it requires of the visitor, the better. Your buy page should ask only for the information necessary to complete the purchase. For example, there's no need to request the credit card type, since it can be easily identified by the card number.

### Landing pages

Customized landing pages are essential for growing acquisition through campaigns (email, print, and advertising) and affiliate partners. These pages should be tailored to the associated promotion, campaign, or affiliate, allowing for an even more streamlined buy process for certain groups of prospective customers.

## Website Do's and Don'ts



### DO

Highlight your most profitable or popular offering



### DON'T

Clutter your buy page with unnecessary requests for information



# Infrastructure Components

## Going the App or Social Route? The Path to Payment Still Matters

Social applications based on a third-party platform occupy a slightly different acquisition landscape. One key difference is the in-application presentation of the pitch and payment pages. (These can be linked to application usage—such as the purchase of 10 “coins” to acquire a desired item.)

Social media apps typically use a freemium or free-to-play (F2P) model, which acts as an ongoing free trial that demonstrates the value of the service. In this case, the item store works much like a pitch page, clearly identifying the value of each item. Item stores should display only items that are relevant to or accessible by the user. For a game, that might mean showing only those items that can be outfitted by a player at the current level.

As with a website, the payment page should make purchasing as easy as possible, but may have the added complexity of an offer wall—an advertising offer that lets users trade marketing information for application currency. Offer walls are often confusing; make sure the purchase experience is easily understandable.

Each of these components, regardless of the type of product, should be continuously tested (more on that later). And unless you rely exclusively on the acquisition opportunities available on the third-party platform, all these components should be augmented by a separate portal with more traditional pitch, buy, and landing pages.





# Customer Information

Detailed customer information is the most important resource for developing your acquisition strategy. It will influence everything from advertising buys and affiliate relationships to pricing and new product launches.

## Know Your Demo

Taking advantage of customer demographic and usage information requires data analysis and tracking, but pays huge dividends to the companies that can accurately model it. Doing so is easier in some industries than others. For example, social networks have access to extensive demographic information, and online gaming services usually record detailed information on player usage and community interactions.

Regardless of your industry, consider investing in systems that record and track this information. Analytics and information mining will help you build the kind of accurate customer profiles that drive the most effective acquisition strategies. For instance, you'll be better able to figure out the characteristics of customers with the highest lifetime values. Target them effectively, and you'll boost average customer lifetime value (ACLV)—a key metric for subscription and recurring revenue companies.



## Do the Math: A Lifetime of Value

ACLV is the average ticket price multiplied by the average number of purchases. For subscription businesses, this requires calculating average customer relationship duration. Other businesses must determine how many times a user returns to make purchases. For example:

- A news service sells subscriptions for \$14.95 per month. Customers subscribe for an average of 2 years. The resulting ACLV is just under \$360.
- On a free-to-play (F2P) gaming site with an average ticket price of \$12.50, customers make an average of 6 purchases per year, and play for 18 months. The ACLV is just over \$110.

Smart investments in customer acquisition and retention increase ACLVs—without driving up costs.



# Acquisition Channels

Acquisition channels offer the ability to achieve broader distribution than internal efforts alone can deliver. And you can tune pricing and products to match the needs of prospective customers for each channel. But without a proper channel strategy, you can easily spend a lot of time and resources without achieving much.

Once you've identified your ideal customer profile, it becomes easier to determine profitable acquisition channels. These can include print advertisements in magazines and newspapers, television ads, display ads on specific websites or networks, keyword searches, email marketing campaigns, social media, and affiliate networks. This is by no means an exhaustive list—and new channels are being created constantly.

## Free Choice

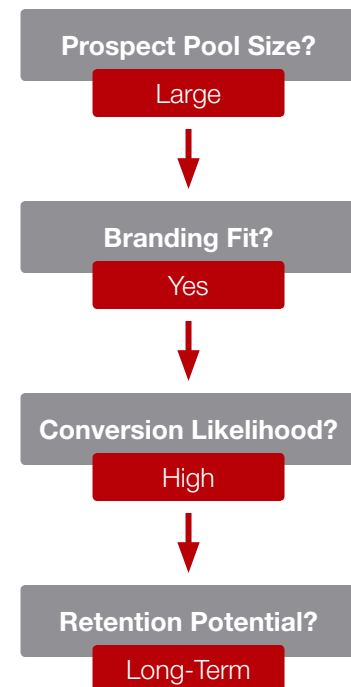
Free trials that don't require a payment method have notoriously low conversion rates. But if you want to offer a free trial that doesn't require a payment method, try offering two different trial lengths, giving users that opt to enter payment information a longer trial. Always capture a customer's email address early in the sign-up process for marketing purposes, even if the trial sign-up is abandoned.

## Changing Channels

Use your ideal customer profiles to identify the channels with the highest likelihood of successful acquisition and retention. Your knowledge of your customer base and usage patterns should help you understand which channels fit and which do not. Of course, you'll want to choose channels that align with your brand, too. For example, a service for hip thirtysomething moms might decide to buy keywords on searches related to retail stores, but buying advertising on "Target" would be more appropriate for this audience than "Walmart."

The graphic at right summarizes this approach, depicting a workflow that can help you identify the best acquisition channels.

## Customer Acquisition Strategy Workflow





# Acquisition Channels

## Channel Lineup

The most popular acquisition channels used by online merchants include:

### Affiliate Networks

Affiliate networks are partners that drive traffic to your website. Because they may provide the potential customer's first interaction with your brand, they should be carefully screened. Typical affiliate partnerships work on a referral basis and involve a commission for each successful registration. Additional commissions may be granted for higher-quality customers, such as those who subscribe for longer than three months. Conversion rates from affiliates are higher than those from some other channels.

### Display Advertising

Display advertisements are the ads shown at various places across complementary websites. The size, placement, and price per 1,000 impressions (CPM) are the key terms for negotiation. Overall site traffic and the creative content displayed are also critical factors in driving acquisition. Conversion rates depend greatly on the type of site and its associated demographics.

### Email Marketing

Email marketing is the online equivalent of direct mail. Merchants send emails to a list (in-house or purchased) to entice users to sign up. Major factors that affect conversion are message content and list quality. Conversion rates vary almost as much as with display advertising, but tend to be on the lower side overall. "Open" rates above 15% and click-through rates over 2% are considered above industry average.

### Social Media

Advertising on social media and microblogging services has the advantage of being highly targetable (for when you want to appeal to 33-year-old cyclists in downtown Topeka), but best practices are still emerging. Advertising on microblogging channels such as Twitter works much like an ongoing conversation. Conversations can be initiated based on users' interests or questions, and monitored with set searches on keywords. Other advantages for all social media acquisition efforts include higher conversion and lower costs, though volumes are smaller than with other channels.

### Search Advertising

Search advertising falls into two main buckets: natural search results, and paid search sponsorship based on keywords. Natural search requires high-quality, constantly updated content and search engine optimization (SEO). Paid search requires work to optimize keyword choice and messaging, but can be phenomenally successful when done right. The downside is that popular keywords are fairly expensive. When not optimized for conversion, this can be a very costly channel with low conversion rates.

### Customer Referrals

Customer referrals can be a very profitable acquisition channel. You can encourage referrals by providing discounts, virtual goods, virtual currency, or free service, depending on your product and business model. Many games and social products rely heavily on referrals, as referrals deliver very high-quality traffic for a low overall cost. A word of caution: Using a payment platform that doesn't readily support loyalty and other incentive programs may limit your ability to encourage customer referrals.





# Campaigns and Promotions

Campaigns and promotions are usually specific to the products being offered as well as the industry and channel. But general best practices do apply. Each campaign or promotion should have a method of tracking customers for further analysis. And each should be tested for both messaging and creative content. The most effective campaigns and promotions will be those that entice customers with value for their time, effort, and money—while delivering high acquisition and retention rates

## Special Ops

Common campaigns and promotions include:

### Free Trials

Free trials can be used as a kind of acquisition channel, or as campaign/promotional strategies if free trials are not normally offered. Alternatively, longer-than-normal trial periods can be offered as a promotional technique.

### Discounts

Temporary or ongoing price breaks can aid your acquisition efforts if carefully calibrated to current market conditions. Any discount promotion should mention the original price so users know what a great deal they're getting.

### Community Events

Typically used for community-focused products, such as gaming, virtual worlds, or social networks, community events can attract large numbers of existing and new users when paired with additional, unique content. Examples

include hosting a speaker in a virtual world, or giving an online gamer who made a purchase on a given day a unique virtual good.

### Additional Content

Offering unique goods, or goods that extend the value of the product, can entice users to join (or pay, in a freemium/F2P model). This type of promotion works well with events, or as an incentive to make additional purchases.

### Bundles

Offering access to multiple products for a lower combined fee is ideal for customers who use (or might want to use) multiple products. You might also partner with other companies to offer combinations of complementary products, such as a subscription to online backup software bundled with an antivirus software subscription. Many games and social products rely heavily on referrals, as referrals deliver very high-quality traffic for a low overall cost. A word of caution: Using a payment platform that doesn't readily support loyalty and other incentive programs may limit your ability to encourage customer referrals.

There's a category-killing promo around the corner ...



How will you find it? Trial and error. Don't try one or two versions of a coupon or promo—test several. What's stopping you? Many billing systems limit marketers' ability to launch promotions and campaigns without involving IT. Even simple coupons can take weeks to get into some billing systems. The way you collect payments for subscriptions shouldn't hold you back. Look for a subscription billing solution that makes it easy to try coupons and promotions.



# Metrics

By creating methods and processes to track key acquisition metrics, you'll get a more accurate picture of the traffic and new customers that result from each channel. Key acquisition metrics include:

## Unique Visitors

The overall traffic driven to the site should be tracked as an aggregate number, as well as by each acquisition channel. Knowing how many visitors you have and where they come from is a great help in identifying successful acquisition channels and defining your customer profile. Tracking the number of repeat visits can help you optimize messaging and understand purchasing patterns.

## Registrations

The overall number of successful registrations per channel should be tracked to measure overall site usage as well as "natural" conversion rates that result from web messaging.

## Conversion Percentage

The percentage of registrations divided by the overall traffic for each acquisition channel. This critical metric enables you to compare very different channels and programs against one another.

## Fraud Rates

Often overlooked, yet absolutely critical, is the amount of fraud per channel. Channels that generate many successful registrations may seem like the best choice, but if they generate a correspondingly high fraud rate, other channels might be better.

## Customer Duration

The length of time that customers stay with a product or service should be tracked by acquisition source. This data is valuable for long-term planning and acquisition optimization.

## Average Ticket

The average amount of money spent per customer should also be tracked by acquisition source. This metric is used along with customer duration to determine average customer lifetime value (ACLV) or average revenue per paying user (ARPPU).

## Customer Retention

Tracking the number of customers who are retained each billing period, or who make repeat visits or purchases, can help you identify problems and better understand customer behavior.

## The Ultimate Metric: Revenue

All your acquisition metrics can be stellar, and you can still measurably increase revenue. Vindicia solutions use patent-pending Advanced Retention Technology (ART) to improve transaction processing success. The Vindicia advantage adds as much as 5% revenue uplift to your bottom line.

Without Vindicia	With Vindicia
<b>\$100</b> Billings	<b>\$100</b> Billings
×	×
<b>80%</b> Transaction Success	<b>80% + 5% = 85%</b> Transaction Success
=	=
<b>\$80</b> Successful Billings	<b>\$85</b> Successful Billings
↑	↑
+5% uplift	+\$5 increase



# Testing, Analysis, and Optimization

Testing is no longer a buzzword when it comes to online marketing. It's essential for success. Marketers have discovered that it can help them increase their conversion rates by as much as 500% without increasing their marketing spend. That's exciting, especially in the context of tightening budgets and declining click-through rates.

Brooks Bell, founder and CEO of the testing firm of the same name, has helped a wide variety of clients improve their conversion rates. She describes testing as follows:

At its core, testing is simply presenting your customers with two (or more) competing marketing messages or experiences in your live marketing campaigns to see which one they respond to. Once you've determined which message is better, you develop a second series of tests to improve on the winning message. Repeating this process numerous times can yield vast improvements on the original message or experience.

## Ready for Your Test?

Despite the buzz around testing, it's not for everyone. To determine whether your business is ready for a testing program, ask yourself whether it has "the four T's": Time, Traffic, Technology, and Trust.

### Time

Worthwhile testing requires an ongoing investment of time. Testing shouldn't be treated as a one-time project. The key drivers in your marketing program, such as your search landing pages, email newsletter sign-up pages, registration paths, and email lifecycle, should all be tested constantly.

### Traffic

A lack of sufficient traffic is the most common obstacle to putting a testing program in place. To achieve statistical significance—that is, 95% certainty—your campaigns must be exposed to hundreds or even thousands of customers.

### Technology

You also need to determine whether you have the necessary technology in place. Several testing platforms are available. Whichever one you choose, make sure you can split traffic into each of your test groups, track customer behavior in each test separately, and quickly make changes to tests.

### Trust

For many business leaders, testing is an unfamiliar venture. Successful testing may require you to put some trust in the scientific method, statistics, your web analytics data—and the idea that the process can yield big conversion gains.

As you test, be sure to carefully monitor and analyze customer retention data. This should be done by demographic and acquisition source, and repeated regularly to accurately detect business trends.

# Pricing

Pricing is an extremely sensitive and merchant-specific topic that depends on a wide array of variables. But a few guidelines should be highlighted.

First, don't be afraid to charge for value. By establishing a higher price (or, in some cases, any price at all), you are indicating that you provide greater value. Users will ultimately decide if the value provided is worth the price, and vote with their wallets.

For merchants launching a new product and wondering about where the initial price point should be set, surveys and user testing are invaluable. Competitive offerings will also influence your pricing strategy. A peer review, if possible, can reveal what others have found to be a reasonable market price. Price should be decided as early as possible and continually tuned to match fluctuating customer interests and market conditions.

## Win and Keep More Customers

When do you acquire a customer? When they pay for your digital service or good. How you process payments can have as much impact on customer acquisition as price. Vindicia CashBox is designed to support every aspect of your customer acquisition process, helping you win more customers and retain them longer.

Change prices. Run dozens of promos at the same time. Add multiple flavors of free trials. Try different pricing structures. You can do it all with Vindicia CashBox. Plus, Vindicia CashBox can even increase customer retention by as much as 15 percent. The result: You get maximum value from your customer acquisition efforts.

## Price Right

A company that provides services to consumers by subscription knew it was underpricing its annual plan. But what was the optimal price? It didn't want an annual plan price increase to drive customers to plans with higher churn rates. The service provider turned to Vindicia for help. Benchmarking and pricing analysis that leveraged data within the Vindicia network helped the company choose a new price. And that new price is delivering higher revenue—as predicted.



# Fraud

Companies that sell digital goods on a subscription or recurring basis face the challenge of fraud networks that target merchants allowing small purchases. These networks test stolen credit cards on small purchases before making larger ones. If there are holes in your service, fraud networks will find a way to exploit them. You must work diligently to ensure that you stay ahead of potential fraud.

## Giving Back

For digital merchants, providing a refund on goods with a negligible production cost or cost of goods sold (COGS) is relatively easy. But card networks such as Visa, MasterCard, and American Express limit the overall number of chargebacks allowed for any merchant. Typically, this limit is around 1% of total transaction volume. Merchants who exceed this limit are fined and can even be permanently prevented from accepting credit cards.

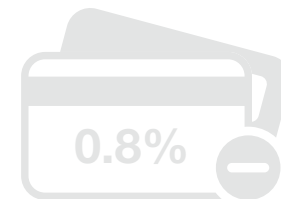
When true fraud is missed, it leads to lost potential revenue and chargeback fees. And so-called “friendly” fraud—in which a customer abuses the chargeback process to avoid paying for goods or services—results in actual lost revenue and lower overall community quality.

The right tools to track and manage your chargeback rate give you a huge advantage in selling digital products and services online. For example, if you can accurately track your chargeback rate, you know how much appetite for risk you have at any given time, and can increase or decrease promotional activities accordingly. Alternatively, if you see a spike in chargebacks, you can offer promotions to existing customers with a good billing history in order to increase the amount of legitimate transactions, thereby lessening the effect of the chargebacks. One key takeaway: make sure the team responsible for fraud and chargebacks is involved in the marketing and acquisition process.



## Fighting Fraud? Don't Overdo It

Merchants who have a chargeback rate far below the 1% limit may be letting their anti-fraud efforts hinder customer acquisition—and throttling their growth and revenue. You shouldn't aim to eliminate fraud entirely, but rather to balance customer acquisition with the amount of chargebacks received. A general best practice is to maintain a chargeback rate around 0.8%. This optimal rate allows for unexpected spikes in activity and should not be exceeded.





# Payment Methods

Payment methods play a key role in customer acquisition, as well as ACLV and customer retention. Credit and debit payments are by far the most popular form of payments, accounting for over 70% of global e-commerce. But offering a third payment method can yield a significant increase—up to 14%—in conversions. The best strategy: Offer the options that are popular with your key demographics. And keep in mind that as a digital goods provider, you're almost inevitably doing business globally—so make sure you support multiple currencies.

## Fitting the Bill

You must choose among a very broad array of payment methods to determine the best choices for your products and customers. (For a gaming company targeting pre-teens, credit card-only billing may not be the best fit.) Don't want the hassle of dealing with too many methods? Choose a payment solution that makes it easy for you to support the payment methods your customers prefer.



## Credit & Debit Cards

Credit cards require monitoring of chargeback rates, but they're by far the most common global payment method. For online merchants, most debit cards function just like credit cards. Online merchants are classified as Card Not Present (CNP) by the credit card networks and payment processors, meaning that customers don't physically present their credit cards when making a purchase. This classification affects the rates charged for accepting credit card transactions.

*Typical demographic: Over 18 years old, or 5–14 years old (parents' cards).*

## PayPal

PayPal is an alternative payment method that lets users pay with an email address and password. PayPal accounts are backed by credit cards or bank account transfers and provide a transaction acceptance cost slightly higher than that of credit cards. Currently, the dispute process for PayPal is less than ideal, but fraud rates are fairly low.

*Typical demographic: Over 18 years old, but new offerings are aimed at "underbanked" customers, typically 10–20 years old.*

## Mobile Phone SMS Billing

SMS billing is growing in popularity in the United States and is common in many countries around the world. Charges are added to a user's mobile phone bill after being accepted via text message (SMS). Functionality is expanding, but transaction costs are high, especially in the United States. Merchant dispute processes are also not ideal, as phone companies are reluctant to challenge customers over charges of less than \$20. True fraud rates for mobile billing are very low.

*Typical demographic: 13–25 years old.*



# Payment Methods

## Prepaid Cards

Prepaid cards (also called “stored valued cards”) are purchased in a retail store and activated on checkout. Customers then enter the card information into a merchant’s website, and the purchase amount is credited to their account. Fraud rates are very low for prepaid cards purchased at physical retail locations, but online purchase of prepaid cards is a prime target for fraud networks. Other issues with prepaid cards are distribution network logistics and high transaction costs.

*Typical demographic: Young and underbanked, typically 13–18 years old.*

## Electronic Checks (ACH)

Electronic checking carries low transaction costs. Customers enter their bank account number and personal information, and funds are debited to the merchant after a few days. Key problems with electronic checks are long confirmation times and a minimal merchant dispute process. But for merchants with a stable customer base, higher average tickets, and low fraud, this may be an ideal payment method.

*Typical demographic: Business and mature users (35+ years old). Also may be used by younger users without credit cards (16–18).*

## Regional

Many regions around the world have unique payment methods that are minimally used outside the region. One example is ELV, a form of direct debit common in Germany, Austria, and the Netherlands. For merchants with a heavy concentration of users in a geographical area, regional methods can be important.

*Typical demographic: Varies by method, but many regional payment methods are used across all demographics, especially 18+ years old.*

## Cash-Based Payments

There are many methods in this category, mostly different kinds of prepaid cards that are funded with cash at a physical location. For example, one cash-based payment service, Rixty, partners with Coinstar in order to directly convert coins into an online virtual currency usable across many merchants.

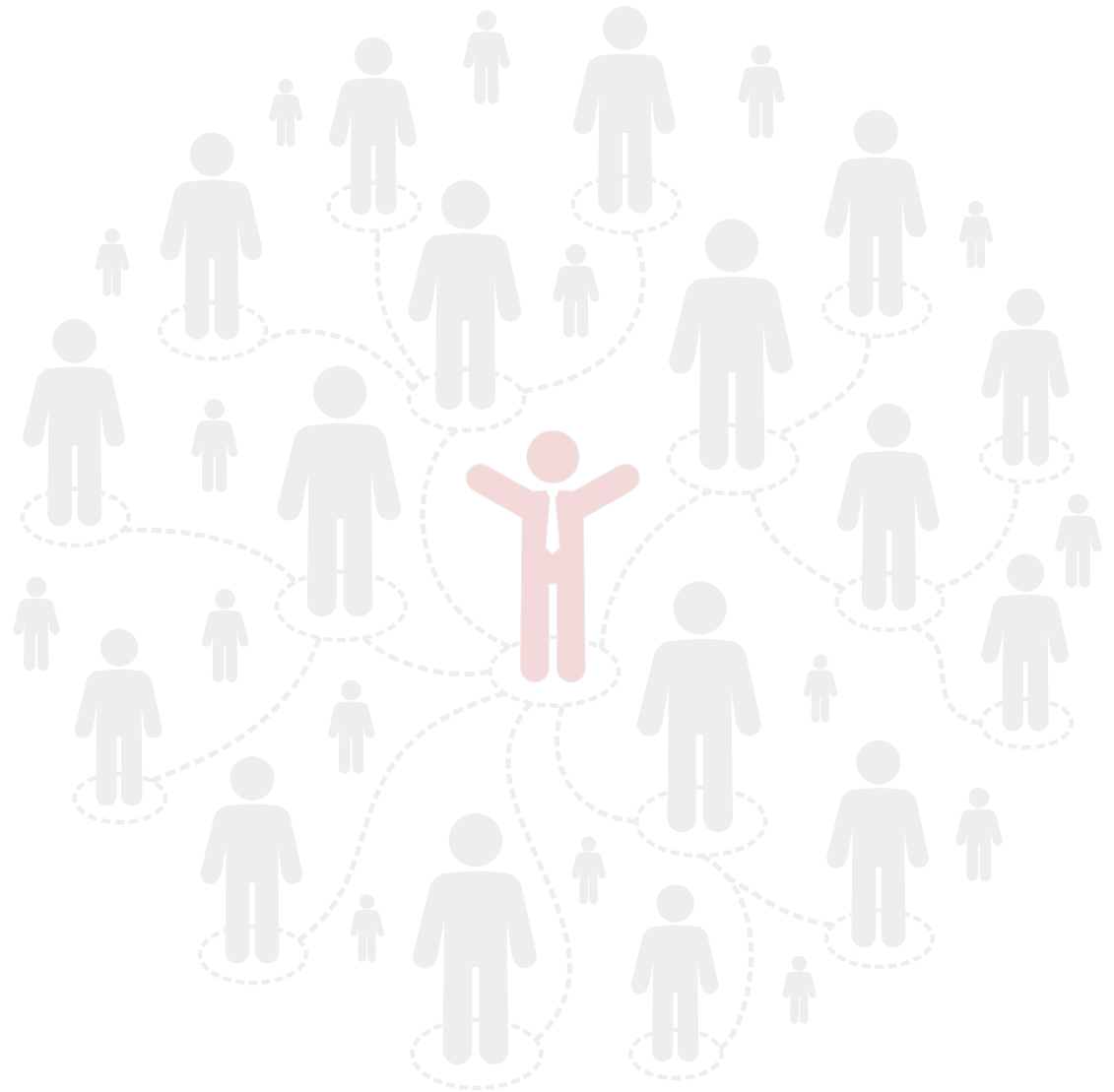
*Typical demographic: Under 18 years of age and underbanked, or users who prefer higher levels of security.*



# ▶ Summary

As an online marketer pursuing subscribers, you have to find the mix of promotions, acquisition channels, and payment methods that works best for your digital good or service. But one thing is true for every company that sells digital goods and services by subscription—including yours: limiting your options makes success harder to achieve. Try multiple channels to find the right ones for your offerings. Test different coupons and promotions. Offer customers more ways to pay than just credit and debit cards. And don't choose a subscription billing solution that hampers your customer acquisition process.

Vindicia solutions help companies like yours acquire more subscribers—and retain them longer. Customer acquisition is one of the hardest things your company has to do. Find out how Vindicia makes it easier to win customers and keep them. Visit us on the web at [www.vindicia.com](http://www.vindicia.com).





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