Product Marketing Alliance

Churn rate cheat sheet

Churn is a major talking point for any product marketer and any business. Your business' goal is to keep your rate as low as possible.

That's not always easy to achieve, but with this cheat sheet, you have a reference guide on the best formulas to use and tactics that'll lower your annual churn rate.

What you can use churn for

1	To measure your business' health and long-term prospects.
2	Understanding if you're improving customer retention each month.
3	To identify changes that led to a high churn rate.
4	Calculating your customer lifetime value (CLTV).
5	Working out which customers are successful with your product.
6	Working out your business' performance.

The different types of churn

1. Proactive	2. Reactive	3. Happy	4. Fake
The worst type of churn rate—where customers deliberately cancel their subscriptions.	Where a customer doesn't update their payment details, which leads to a subscription cancellation.	A customer ends their subscription with you as they've got all their use from it. They leave on a more upbeat note.	Customers take advantage of a 30 day money-back guarantee (i.e. use the free month, then unsubscribe).

The two ways to track your churn

Customer Churn	Monthly recurring revenue (MRR)
Measures the customer cancellation rate to your subscription service.	The monthly loss of revenue, which you can define as a percentage to keep track of losses/gains over each month.
You may want to use both of these to manage your business. Revenue churn covers your overall performance and financial health. They both use a simple calculation. The period you choose is random, so you can set any timeframe for it. Obviously, if you pick a big timeframe then you'll see large churn rates. But the basic formula is to divide your churn by the period size you're using. This way, you can work out churn across days, weeks, or months. See below.	

Churn rate by time frame

Months	Annually
Monthly churn rates are typically benchmarks or indicators that contribute to your annual income.	You can express this as a goal. The amount you want to aim for in revenue each year.
Do note, these aren't the same. If you're aiming for a 5% annual churn rate, for example, to track progress on a monthly basis you must convert the annual rate into a monthly rate. You can do that by using this formula: *1 - (1 - annual churn rate) 1/12*	

Calculating your churn rate

There are two ways to work out your churn rate. All you need is a calculator and customer data.

% Customer churn rate	Why choose this formula?
Customers that churned ÷ Customers at period start	You get a clear cut explanation about the number of customers subscribing over the period you choose. It's simple and easy to understand.
% MRR churn rate	**Why choose this formula?**

Churned MRR ÷ Previous Month	MRR is important if you use a mix of pricing tiers. So, it's a great deal more noteworthy if you're losing top tier subscribers over freemium users.

Calculating for annual plans

If you’re using an annual rate, then this works a little differently. See the formula below.

% Annual plan churn rate	Why choose this formula?
Cancellations in the last year ÷ Active customers one year ago	Use this for any plan that's annual (or isn't month-based). So you can target this data over customers who aren’t on long-term subscriptions.

How churn affects your business

What’s affected?	The result
Monthly recurring revenue	When customers unsubscribe, you lose revenue (obviously). You also get a sense of your long-term viability with your MRR. So, you want to keep churn low to maximize profits.
Customer lifetime value	Your CLTV provides the profitability and longevity of your business. And if you have a high churn rate, it lowers your CLTV. This is because the revenue you could be earning goes down.
Customer acquisition costs	If you're paying to bring in customers and they churn, that's a revenue deficit. This also means your churn increases your CAC costs.
Net negative MRR churn	With net negative churn, the extra revenue from current customers each month outpaces the revenue you lose through customers unsubscribing. The lower your churn, the easier it is to achieve your net negative goal.