

VENDASTA SMB RESEARCH

# Why Your Clients Churn

Data from 100K clients showing  
why marketing service providers lose business



## Executive Summary

Local businesses have more technology at their disposal than ever before, which means it is increasingly difficult for marketing providers to satisfy current and prospective clients.

In this landscape, client acquisition is difficult. However, a greater challenge is client retention.

This report is based on the data from within Vendasta's marketing platform, representing more than 100,000 small and medium businesses (SMBs). The findings in this report unveil key factors why SMBs churn and identify new strategies for client retention.

### **The churn factors analyzed in this study are:**

1. Sales approach
2. Upsells and timing
3. Product engagement
4. Number of products sold
5. Vertical vs horizontal specialization

Other potential churn variables, such as customer service quality, pricing, and contact frequency were harder to isolate in the data and were not considered in this report.

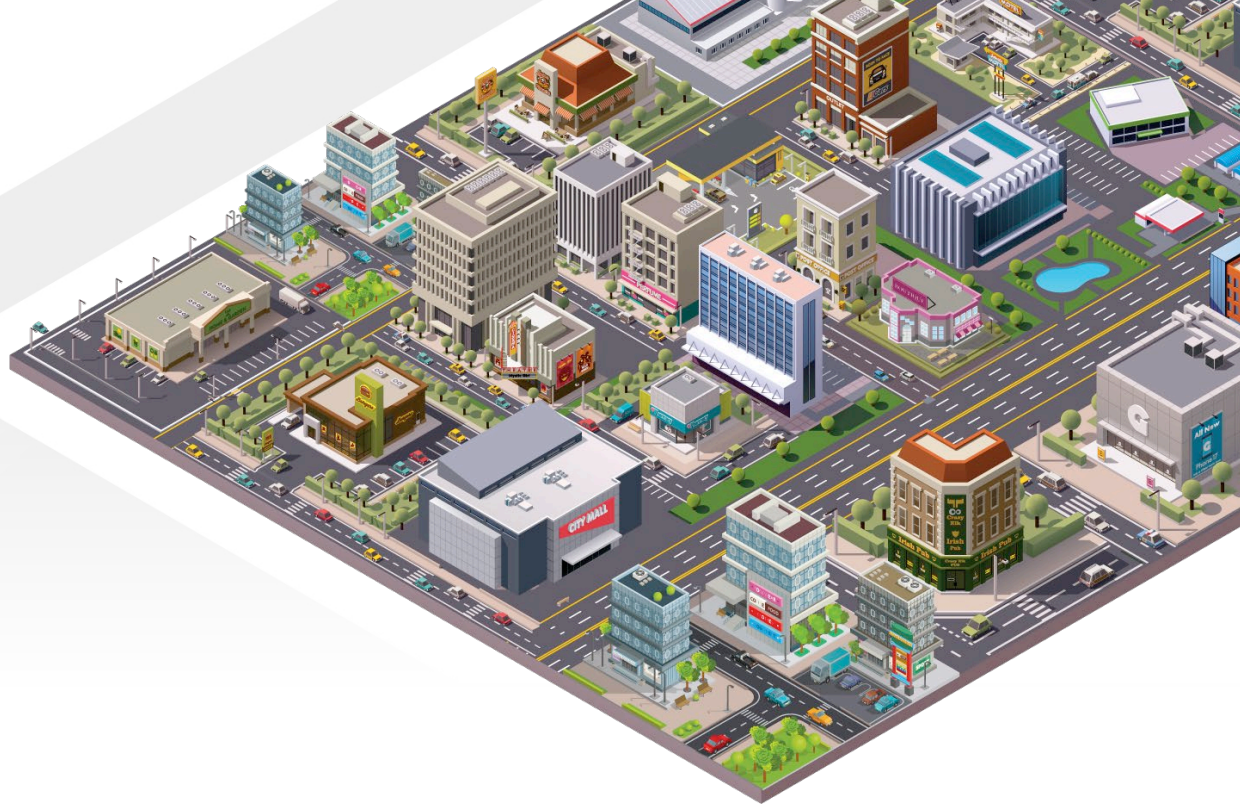
All five factors above had substantial impact on client retention rates, with a needs-based sales approach, number of products sold, and product engagement having the largest effects.

Major themes drawn within this analysis conclude that in order for you to maintain a healthy client retention rate, you must sell to SMBs based on their needs, constantly re-evaluate those needs as the client and relationship evolve, invite early and frequent client engagement through a holistic experience, and ultimately become the single, trusted provider by offering solutions for all of your clients' challenges.

*"The only thing more important than getting new customers?*

*Keeping the ones you have."*

*(SaaS proverb)*



## Key Findings from 100,000 SMBs

Getting to the root of what makes customers leave is at the core of growth and a critical component of survival. Here are the key findings from this report:

- Identifying the needs of SMBs with needs-based selling and providing relevant solutions increases client retention by 30%.
- Upselling has the highest impact on the lifetime of your clients at the 3-month mark, indicating that early re-evaluation is important. Conversely, 62% of clients that were not upsold within the first three months churned within 2 years.
- Selling an SMB 1 product has a retention rate of only 30% after 2 years. Selling that SMB just 1 more product showed an increased retention rate of nearly 20%, while selling an SMB 4 products shows a retention rate of 80%.
- A proper onboarding is key to retention. The sooner that clients engage with the solutions they have purchased, the higher their retention rate. Clients who engage weekly have a 26% higher retention rate than those who do not.
- Understanding and serving the unique needs of an industry will improve retention. Vertical-specific marketing providers have 15% higher SMB retention after 2 years than non-vertical sellers.

# Hypotheses

In order to examine churn, Vendasta established three hypotheses for client retention:

## 1. Needs-based selling is critical for building long-term customers

It is widely believed that a sales approach wherein marketers aim to solve specific pain points with their products—aka “needs-based selling”—builds trust and establishes long-term value. Here, we evaluate how client retention is affected when SMB pain point data is used and a relevant product or service is sold. Additionally, we examine whether upselling has an effect on retention and the right time to re-evaluate client needs.

## 2. Early and frequent engagement builds stronger relationships

Encouraging early and frequent SMB engagement with your products should establish value, keep your company top of mind, and promote strong business relationships. We tested this through examining the relationship between frequency of SMB engagement and their retention over time.

## 3. Providing more solutions will reduce churn

The more problems of your clients that you solve, the more meaningful you are to their business. Understanding your clients’ problems and being able to provide them with what they need to solve those problems will reduce churn. To test this idea, we examined the relationship between number of products sold and client retention over time. Additionally, we examined the churn rate of companies that specialize in 1 or 2 main business verticals versus those that do not..

# Methodology

This data is gathered from +100K SMBs within the Vendasta platform. This study examines client retention with local marketing service providers over a two-year period.

## Data sample:

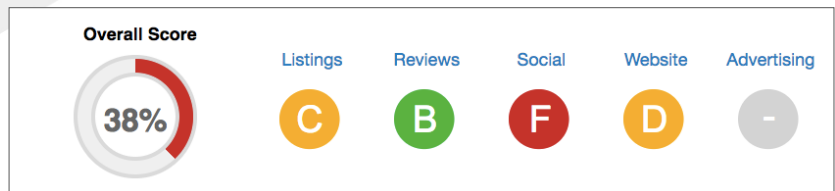
- Partners who have been with Vendasta for 2+ years
- SMBs who have purchased 1+ paid product and/or service

## Definitions

- **Churn:** when the SMB is no longer paying for any products or services or have been removed from the Vendasta platform
- **Provider:** an agency, media company, or other business that sells digital marketing solutions to local businesses

*Written in collaboration  
by Merridew Smith, Devon Hennig  
and Jacqueline Cook.*

*Data analysis conducted by  
Stephanie Goertzen*



Scoring section from "Snapshot Report" with failing Social grade.

## Results

### Part I: Needs-Based Selling

If marketing agencies work to understand and subsequently solve their clients' problems from the beginning of their sales cycles, it is reasonable to assume that clients are more likely to see the value of the relationship and continue to work together than if they are sold a non-consultative solution.

To test this theory, we examined local businesses that had a failing social media grade in the Vendasta [Snapshot Report](#) and split them into two cohorts: those which were sold a social media product and those which were not. The idea here is that if you show businesses owners something that is "broken"—e.g., their poor social media presence—and then offer a solution for that specific issue (in this case, a social marketing product), you are more likely to earn their trust and keep them as clients over a longer period of time.

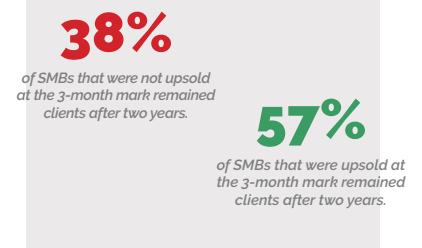
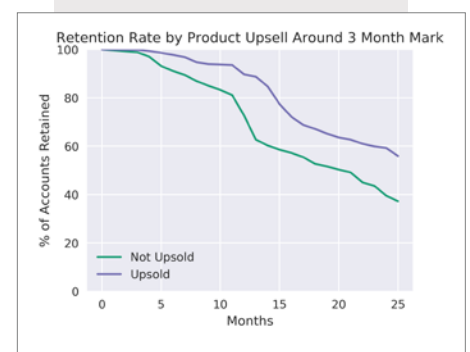
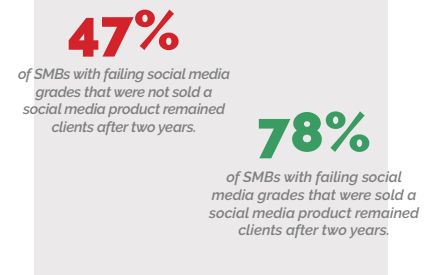
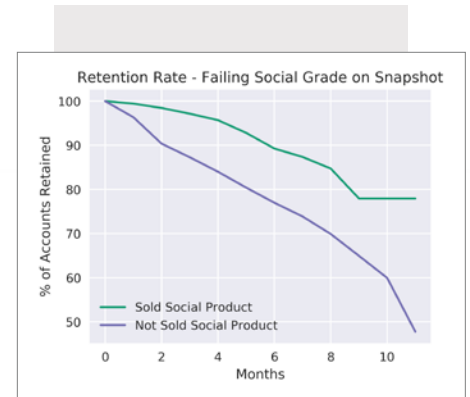
While somewhat intuitive, it was assuring to confirm that needs-based selling had a measurable impact on churn. By simply identifying the social media needs of these SMBs and then selling them a social marketing solution, providers had a 30% higher retention rate.

Of course, client needs evolve over time—both as they grow and as they see the results of their marketing services blossom. Revisiting performance, reevaluating their needs, and solving their problems with new solutions also has an impact on retention over time.

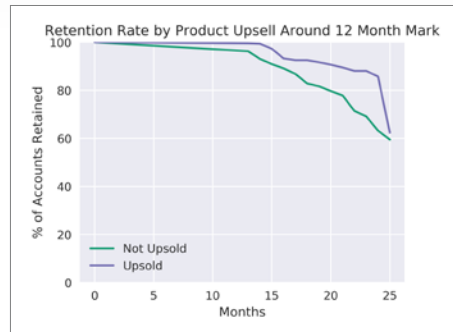
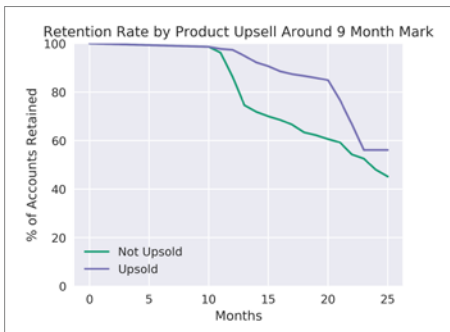
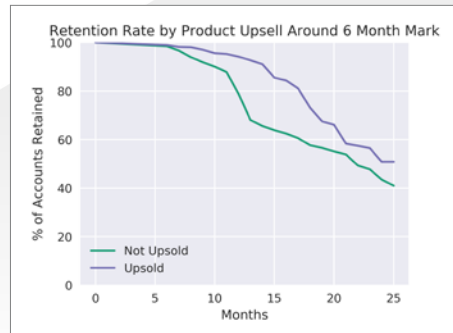
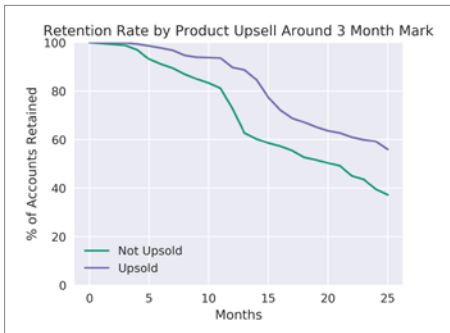
To measure this, Vendasta looked into whether local businesses that had been upsold earlier in their relationship with their marketing providers stayed customers longer.

After two years, 62% businesses that had not been upsold within the first three months were no longer clients compared to 43% that had been upsold.

Why? The theory around the water cooler is that re-evaluating a client's needs and upselling solutions to solve those needs offers new value, establishes trust, and suggests that engaging with clients more often—particularly early on—is key to retention. Customers are engaged more at the beginning of the relationship. If you let initial interest die, you have to sell them from the start all over again.



With the effect of upselling established, Vendasta also analyzed whether the timing of the upsell had an effect on customer lifespan. As it turns out, the longer a provider waits to re-evaluate and solve their clients' problems, the less likely the client will remain with them. A longer time to upsell may also indicate a more neglectful client-provider relationship.



Month	3	6	9	12
Retention rate of clients who were upsold at indicated month	57%	50%	55%	62%
Retention rate of clients who were not upsold at indicated month	38%	40%	45%	60%

*\*Note: the SMBs in the 12 month analysis have already been committed to the partnership for a year, therefore the upsell (or lackthereof) does not have substantial impact on retention.*

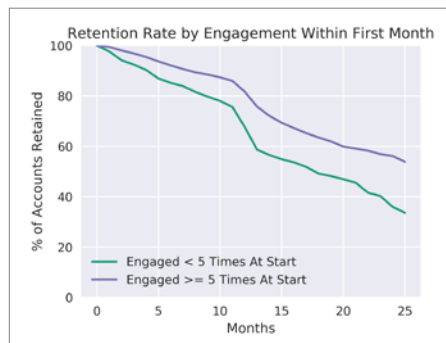
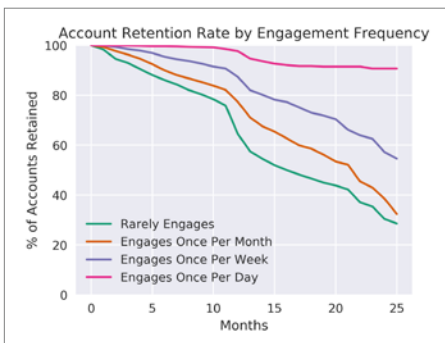
Upselling at the three month mark makes the greatest difference on client retention over time, showing a 20% increase. Re-evaluating the results of your initial solutions and adding additional value early on appears to promote a healthier, longer relationship.

## Part II: Client Engagement

Encouraging early and frequent engagement with your solutions should establish value, keep your company top of mind, and promote strong business relationships. By getting clients invested early in the solutions and value provided, it is reasonable to assume that clients are more likely to continue the relationship.

Engagement was measured by any activity or action taken by an SMB. These activities may include opening an email sent from their marketing provider, logging in to their marketing solutions, activating new products, and so on.

Active engagement implies that SMBs are finding value from the products they purchased. The study data showed a massive difference in churn between engaged and disengaged clients—almost a 60% difference. Disengaged users churned at roughly 70%, whereas 90% of engaged users were retained.



Furthermore, early engagement within digital products showed improved retention as well.

Getting clients to engage five times within the first month of service was found to have the greatest impact on increasing retention. Having clients engage with solutions as early as day one to establish the value of what's been sold and incorporate it into their regular routine can improve their retention rate by 20%.

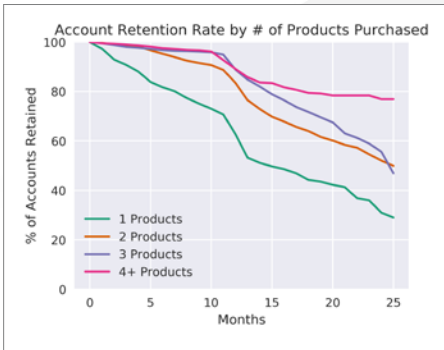


## Part III: Products & Verticals

The more of your clients' problems you are able to solve, the more meaningful you are to their business. Understanding your clients' problems and being able to provide them with what they need to solve those problems will reduce churn. Intuitively, clients that have more challenges solved by a single provider are likely to find value with that provider and choose to continue buying from them.

A potential corollary, then, is that the more products and services a marketing provider offers their clients, the "stickier" their relationship. Although more products does not equal more value, the number of solutions a marketing provider offers is related to the number of problems it can solve for an SMB.

By comparing the number of SMBs with the number of marketing products they purchased, the data shows that SMBs with more products purchased are more likely to stay with a marketing provider over time.

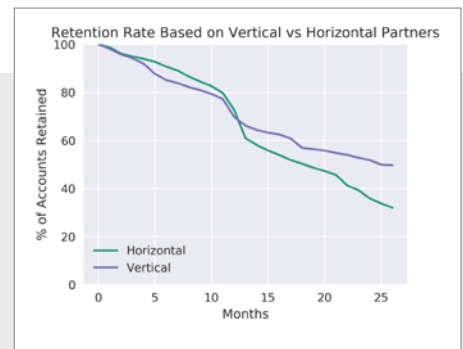


<b>30%</b> one product	<b>48%</b> 2 products
<b>50%</b> 3 products	<b>78%</b> 4 products

As shown above, some marketing providers may be losing upwards of 70% of their clients by offering only one solution. If an SMB purchases only 1 product, selling that SMB just 1 more product showed an increased retention rate of nearly 20%. Why? More products appear to solve more problems, provide more value, and make marketing agencies stickier.

How does this relate to **vertical-specific** marketing providers versus **horizontal** providers?

The data shows that vertical providers have better retention (which probably doesn't come as a shock to many). The theory here is that the better a marketer understands a particular industry, the better they can solve the problems within that industry. Therefore, providers that specialize within a select few business industries will lose fewer clients over time.



**35%**

of SMBs buying from horizontal marketing providers were customers at the end of two years

**50%**

of SMBs buying from vertical marketing providers were customers at the end of two years



# Strategies for Retention

Now that major causes of client churn have been evaluated, Vendasta has determined three key strategies needed to counteract client loss and unlock new growth.

1. Sell based on client needs and constantly re-evaluate
2. Invite customer participation and encourage engagement
3. Provide more solutions to your clients problems

## 1. Sell based on client needs and constantly re-evaluate

Offering customers value by showing them an unconsidered need allows you to address a problem they may not have known they had. It allows you to offer value and insight before asking for their business.

In other words, sell based on needs and then continuously re-evaluate.

Sell customers what they need. Use data to highlight unconsidered needs. Evaluate your prospect and clients' performance online through tools and analytical software to help you determine your clients' major pain points and map them to your solutions.

Revisit customer needs and performance around the 3-month mark and identify new opportunities for your business to help. Continuously optimize to keep providing value and grow that relationship over time.

*"Solving specific needs and identifying unconsidered needs early on in the relationship not only increases revenue, it also extends customer lifetime."*

### Looking for a needs-analysis tool? Check out Snapshot Report

Integrate data into your sales process and use automated insights to identify unique pain points of your clients.

[LEARN MORE](#)

## 2. Invite customer participation and encourage engagement

Invite customers to participate—and the sooner the better.

**Invest in onboarding.** Get customers to engage five times in their first month and at least weekly after that. Have a dedicated success team committed to that client relationship to ensure fluid, frequent engagement. Respond to questions, eliminate hesitations, and show value early to promote participation and retention.

**Make it easy to engage through a unified experience.** Your clients need to know what's happening to their business through unified notifications, tasks, emails, and reports to know what's going on. By keeping your clients involved in the process of their business' improvement, you keep them invested in the value you are providing.

*"Early & frequent engagement is key. Creating a unified experience for the customer and getting them to see value in their solutions by engaging extends customer lifetime."*

**Give SMB clients one platform to manage all** of their solutions with a unified experience, from email campaigns to notifications

[LEARN MORE](#)

### 3. Provide more solutions to your clients problems

Be able to solve your clients' needs with the right solutions to become the single trusted provider.

- 1. Don't sell them everything,** but be able to provide them with everything they need.
- 2. Win by continually solving the problem better.** Work to deeply understand their issues to solve their unconsidered needs and continuously provide value.
- 3. Deeply understand their problems.** Try specializing in 1 or 2 verticals, offer vertically-tailored products, or create vertical experts within your team to deeply understand and address your clients' industry problems.

#### Marketplace

Diversifying your product offerings to capture more SMB spend and improve client retention.





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*"Offering more solutions not only allows you to capture a greater share of wallet over the lifetime of that customer, you're also extending the lifetime of that customer."*



www.vendasta.com  
1-855-955-6650

Suite 405, Avenue Building  
220 3rd Avenue South  
Saskatoon, Saskatchewan, S7K 1M1  
Canada

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