A Recurly Guide

Cutting Failed Payments
and Reducing Churn

Find out how Recurly helps merchanges recover 5-9% of credit card revenues and reduce subscriber churn.

Introduction

Recurly automatically recovers revenue that would otherwise
be lost to failed credit card payments – about seven percent of revenue
on average. Recurly software also fights churn that would otherwise
result from credit card declines and reduces negative customer
experiences from credit card hassles.

Contents

Why Recovered Revenue Matters

Subscription billing is essential to the success of a flood of new companies and new offerings from existing majors. Software as a service (SaaS) is now in its third generation; video delivery "over the top" (OTT) is exploding. Subscription businesses seem to be everywhere.

Credit cards fuel rapid growth in subscription businesses due to their ease of use and ease of customer acquisition. But they also contribute to revenue instability: expiring cards, changing personal information, credit limit overages, suspended charging privileges, and canceled cards lead to missed revenue and customer churn.

Recovered revenue is our term for the additional income you get when Recurly increases your throughput on credit card transactions. Recurly recovers revenue by applying decline prevention features – updating card information, fixing expiration dates, retrying failed charges, and e-mailing customers with requests for new billing information. As a result, Recurly customers recover revenue at an average rate of **7%** of credit card billings per month, plus additional recovery from contacting customers.

In addition, Recurly helps cut costs associated with billing issues, improve customer satisfaction, and integrate with existing business systems such as customer relationship management (CRM), general ledger, tax accounting, business intelligence, and others. Recovered revenue averages **three to six times** our customers' Recurly subscription fees.

Reasons for Declines

Credit card transaction failures are a major source of hassle, expense, and lost business. Card declines happen for all kinds of reasons:

Gateway issues cause the transaction to fail

Credit limits cause card to be declined temporarily

Card information is out of date or inaccurate

Fraudulent activity causes credit card number change

Credit card transaction problems that cause declines are also a big contributor to churn, and Recurly fixes problems and cuts churn:

▸ Recurly prevents many card-charging problems without the need for customer contact, preventing the twin outcomes of churn (for customers who don't provide new billing information) and a poor customer experience (for those who do).

▸ Recurly effectively automates dunning, contacting customers for new payment information. This makes dunning predictable and manageable, and gives you the ability to progressively improve dunning so it works well for your unique base of customers. Customers are treated better and you get better results from the process.

The revenue recovery benefits of Recurly result in a strategic advantage: revenue continuity. A business supported by Recurly can take advantage of rapid growth enabled by credit cards while benefiting from the kind of revenue reliability that's usually only found with other forms of payment.

In this white paper, we describe the ways in which Recurly delivers substantial recovered revenue and highlight the revenue recovery advantages enjoyed by Recurly customers. We conclude by pointing the way toward enduring strategic advantage in managing your subscription business.

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Recovered Revenue and Recurly Customers

Credit card transaction failures are a large problem for businesses, and the impact of failures increases as subscription-based businesses grow in numbers and revenue.

Business-to-business (B2B) companies face failure rates of 9% for monthly recurring credit card transactions, or nearly one in ten; for business to consumer (B2C) companies, the rate is 14%.

A significant number of customers whose credit card transactions fail "churn out" and are lost as customers. The request for updated card information can be met with a cancellation, or inaction leading to cancellation, from a customer who might otherwise have continued on indefinitely.

Even when customers do provide needed information and the transaction clears, the customer experience is far from positive. Retrying charges, contacting customers, sending dunning notices, and tracking all of the interactions take up a significant amount of staff time as well.

Number of Declines

**For B2B businesses, 9% of monthly recurring credit card transactions fail on average.**

For B2C businesses, 14% of monthly recurring credit card transactions – a 50% increase – fail on average.
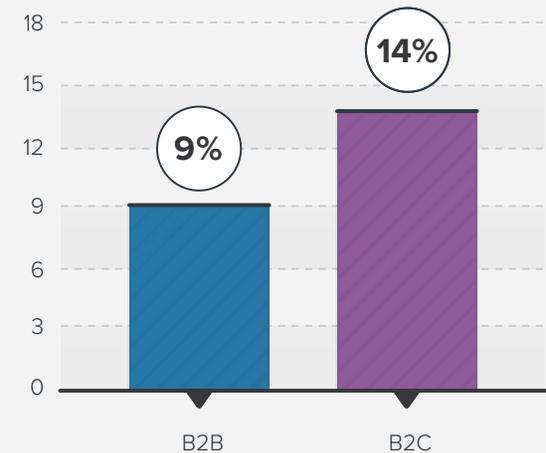
The graphs below demonstrate the impact of credit card transaction failures. If every credit card transaction failure caused the customer to "churn out" right away, then a typical B2B business would lose half its customers every eight months; a B2C business would lose half its customers every five months.
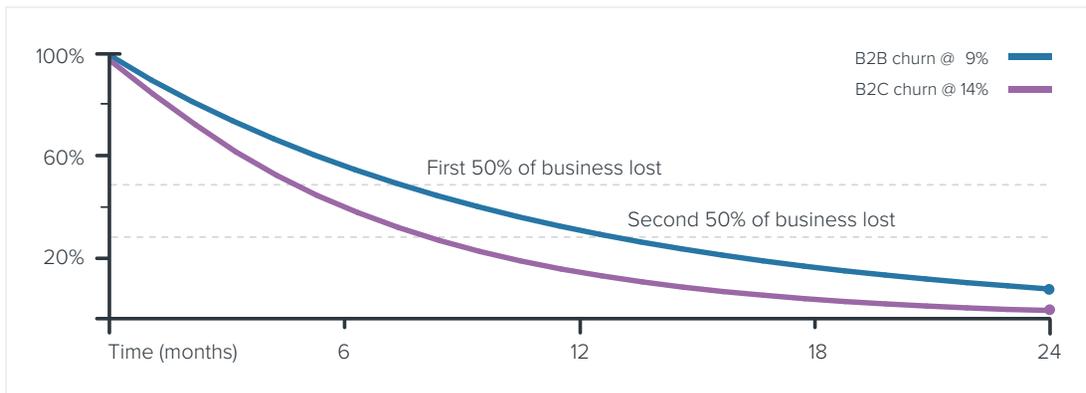
Cutting churn can make big difference in a fast-growing business. Over a period of two years, cutting churn from 5% to zero makes a fast-growing business twice as valuable.
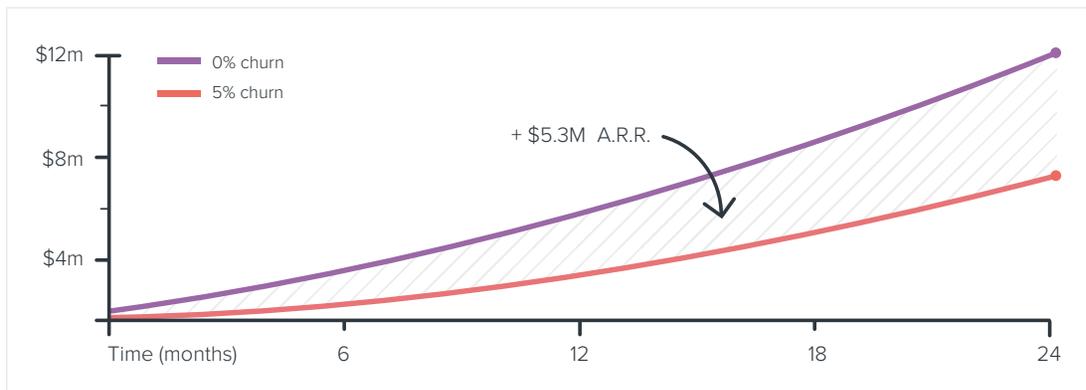
Recurly addresses credit card transaction failures effectively. Recurly automatically recovers an average of 7% of total revenue — a significant addition to the bottom line. Dunning, which is automated by Recurly, recovers additional revenue.

Along with significantly increased revenue, repairing credit card transactions cuts costs in two ways:

▸ **Less employee time spent on billing issues.** Businesses often use valuable employee time to chase card decline problems. Recurly does all of this automatically.

▸ **Less developer time commitment for custom solutions**. Many businesses tie up one or more developers to build and maintain one-off, semi-custom billing systems which, by their nature, are unlikely to be best-in-class.

Merchants who work with Recurly often cite the freedom that subscription management software gives them and their colleagues to focus on product development, marketing strategies, and otherwise growing their business, rather than combating subscription billing problems and the resulting churn.

How Much Will You Recover?

Recurly boosts revenue 5–9% for all kinds of businesses by recovering transactions that would otherwise be lost due to declines.

**+4%** International SaaS Company
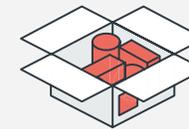
+7% Box of the Month Club

+6% Video Streaming Service

+?% Your Subscription Business

6

Most Recurly customers more than recoup their monthly Recurly costs from revenue recovery alone – even before cost savings and improved focus on the core business are taken into account.

▸ **3x fees for smaller TPV.** Customers under a million dollars in annual total payment volume (TPV) recover three times their Recurly fees, on average.

▸ **Up to 6x fees for larger TPV.** Larger customers (one million dollars TPV and up) recover as much as six times their fees, as shown in the chart.
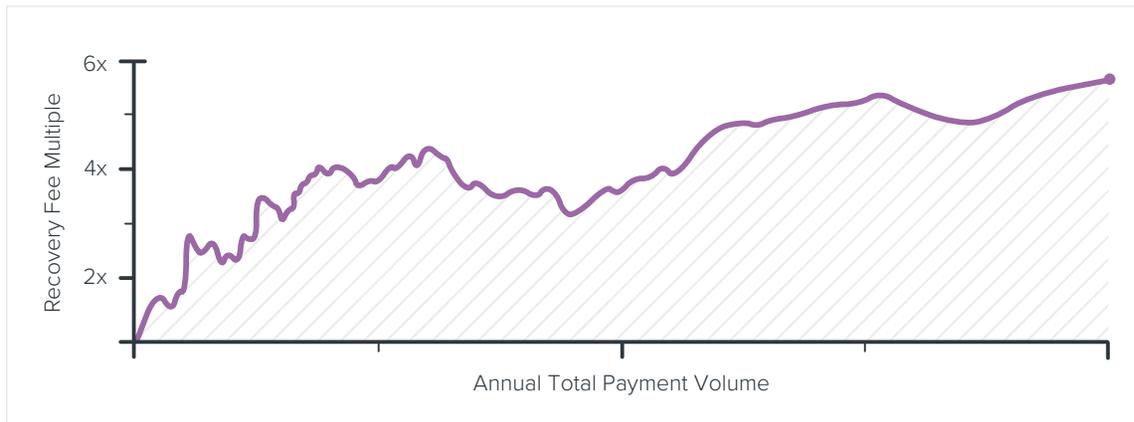
Larger Recurly customers recover as much as six times their Recurly fees.

How Recurly Reduces Credit Card Declines

Recurly has carefully studied the problem of credit card declines and takes steps to reduce these declines and recover revenue.

Recurly is designed to improve your bottom line from all stages of the transaction cycle:

Stage 1

We work to pre-emptively solve potential issues before the transaction takes place.

Stage 2

If the transaction fails, Recurly takes steps to save it.

Stage 3

If all else fails, we can automatically contact your customers to update their billing information.

Recurly helps recover revenue totaling from three to six times our customers' subscription fees.

Stage 1: Before a Transaction is Run

Pre-emptive Updates

Recurly's service includes a secure vault that holds credit card information from our merchants' customers. The information in the vault for a specific card, however, is not necessarily the information that gets sent in for each attempt to process that card.

Recurly software uses proprietary logic to pre-emptively update card information before a transaction is run. The updated information is less likely to lead to a decline than the original information.
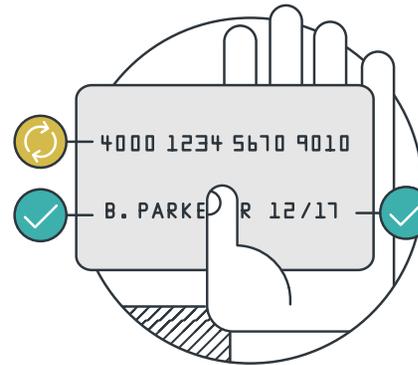
Account Updater Syncs with Current Customer Data

Account Updater

Recurly also incorporates the Account Updater services available for credit cards from Visa – called Visa Account Updater – and MasterCard, which calls theirs MasterCard Automatic Billing Updater. About three quarters of issued cards are covered by Updater services.

Updater services are available to qualified payment service providers. You can contract with some payment processors to run the appropriate Updater for you when needed, at extra cost. With Recurly, Updaters are built into the service at no additional cost.
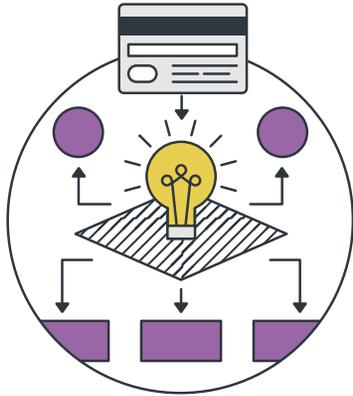
Stage 2: When a Transaction Fails

Smart Retries

Reasons for credit card declines can include a customer who's over their credit limit or who has had their charging privileges placed on hold after a questionable charge or a late payment.

One solution is to retry the charge – but how often? How many times? And at what cost?

Recurly uses sophisticated logic to decide when, and how many times, to retry charging a card. Currently, a decline for insufficient funds is retried after seven days, giving the customer time to make a payment; a decline because total charges on a given day have exceeded that card's daily limit is retried after three days.

Transactions also fail because of gateway issues. Most gateway issues generate a retry after two or three days; a communication or configuration error causes a retry after just four hours. Follow-on retries can be one, two, or three days apart.

Retries are capped at a maximum of twenty total attempts, limiting costs. And retries happen automatically, without human intervention.

Stage 3: Contacting Customers

Customizable Notifications

Dunning is described as "making insistent demands... especially for payment of a debt." In today's world of e-commerce and online customer support, email is frequently used for sending dunning notices.

Dunning is unpleasant for the merchant and the customer. At best, it's time-consuming and unproductive. At worst, it doesn't get done well, or hardly gets done at all.

Recurly improves dunning in three crucial ways:

1. Recurly's pre-charge logic, automatic use of Account Updater services, and retry logic all reduce the need for dunning by significantly cutting credit card decline rates.

2. Recurly provides automated dunning schedules which you can modify, taking the hassle and variability out of dunning.

3. Customizable email content allows you to make dunning work for your unique products, services, and user base.

The results are impressive. You are likely to find that dunning will add additional revenue — perhaps a couple of percentage points of total revenue — on top of the 7% of revenue already recovered by Recurly through our automatic decline management features.

All of this puts you in control of what is otherwise a difficult and uncertain process. You can progressively refine and improve your dunning efforts, achieving better results with less strain for all involved. Dunning is needed less often and becomes easier, more reliable, and more effective.

Making Recovered Revenue Strategic

Revenue recovery from credit card transactions can play a significant role in helping you grow your business. You get more revenue, less churn, lower costs, and less hassle. Recurly software frees you up from subscription billing issues to focus on growing your business.

By reducing credit card declines, Recurly's software is likely to reduce churn significantly. Declines cause churn directly, when customers don't fix charging problems or provide updated information. These customers are lost to you, not just for a month, but for the long term.

Even when a customer "fixes" a payment problem, they'll have chalked up a negative customer experience with your company. By fixing many payment problems without customer contact, Recurly software prevents immediate churn — and unpleasant experiences that contribute to future churn as well.

When a customer does enter the dunning cycle, Recurly's automation features make the effort to get the needed information easier, more predictable, and more likely to succeed. All of this cuts churn and adds revenue to your bottom line.

In addition to the impacts on revenue and churn, credit card transaction problems hurt your customer satisfaction levels and cause negative word-of-mouth from your current and former customers to new sales prospects. Customers who churn out, or who suffer credit card transaction problems with you, are unlikely to give glowing recommendations for your business.

Recovering revenue from credit card transactions also has strategic implications. Credit card billing is unmatched for getting you more customers, faster, than other forms of payment. With revenue recovery, you keep all of these advantages, while reducing transaction declines, revenue loss, and churn.

The enhanced revenue continuity — and customer continuity — that Recurly provides creates a strategic advantage for companies like yours. Existing business models that depend on credit card transactions are strenghtened, and new business models become viable.

Subscription billing software also allows for enhanced management control. Data from subscription billing and other forms of payment can be integrated into your existing business systems such as general ledger, customer relationship management, business intelligence, and others.

You can create a business information and intelligence platform which reaches all your audiences — prospects, customers, former customers, and stakeholders. Sales, revenue, customer retention, and customer satisfaction can move "up and to the right" together, stably and predictably.

It all begins with increased revenue recovery and decreased churn. Recurly helps put your business on a stronger footing and give you new strategic options for the future.

You can put your business on a stronger footing and create new strategic options.

Related Resources

Recurly has a number of resources on the topics of revenue recovery and churn:

[What's Your Dunning Profile?](#) ❯

A quiz and guidance on how to manage dunning with your unique customer base

[How Much Your Churn Rate Matters](#) ❯

Looks at the value of two Recurly customers over time.

[A Better Way to Calculate Your Churn Rate White Paper](#) ❯

Shows how to more accurately calculate your churn rate.

[What Has Recurly Recovered for Me Lately?](#) ❯

Describes how Recurly customers can view their recovered revenue totals.

[The Recurly Blog](#) ❯

Resources on churn, recovered revenue, and more.

Recurly

Recurly provides enterprise-class recurring billing management
for thousands of subscription-based businesses worldwide.

sling TELEVISION   twitch   HubSpot   AccuWeather   canary   CBS Interactive

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