

A Recurly Guide for OTT Businesses

Recover Lost Revenue and Fight Churn

Find out how OTT businesses can recover, on average, 12% of credit card revenue and reduce subscriber churn with Recurly.



Introduction

Over the Top (OTT) video streaming services are driving a new era of entertainment. Viewers are increasingly cutting the cable TV cord in favor of video subscription services which let them watch anywhere, anytime, on any device. The subscription fees many OTT providers earn let them produce ever more compelling shows with record viewership. Other OTT services provide niche content that wouldn't be feasible via traditional cable outlets.

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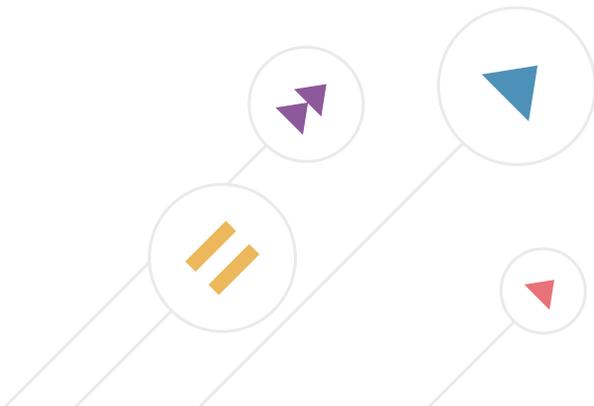
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Why Recovered Revenue Matters for Your OTT Business

A subscription model underpins nearly all OTT services. Credit cards, which are an incredibly common and convenient payment method, have contributed to rapid growth in many subscription businesses, including OTT, due to their ease of use and ease of customer acquisition. But they also can decline for a myriad of reasons, contributing to revenue instability. Cards expire, personal information changes, credit limits are reached, charging privileges are temporarily suspended, and cards are lost and canceled, leading to lost revenue and customer churn.

One of the keys to any successful subscription business is to manage churn, which includes both voluntary and involuntary churn. Voluntary churn results from a customer who cancels their subscription. Involuntary churn results when a subscription business is unable to collect payment. Both lead to customer attrition and a loss of revenue.

When payments are frictionless, subscribers are less likely to churn. For high-velocity subscription OTT businesses, this makes ensuring that payments are successful that much more critical. Recurly reduces involuntary churn from failed transactions, increasing your throughput, and resulting in more revenue that is 'recovered' for your business. By addressing potential failures before they occur, Recurly recovers 12% of our customers' monthly revenue, on average. One customer reports that as a result of switching to Recurly, their involuntary churn rate dropped from 9% to 4% in just three months.

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



How Recurly Fixes Payment 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. An OTT businesses 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 OTT subscription business.

Recurly's OTT customers recover, on average, 12% of credit card billings per month.



Recovered Revenue and Recurly Customers

Credit card transaction failures are a large problem for high-velocity businesses, such as video streaming services. And the impact of failures only increases as subscription-based businesses grow in numbers and revenue.

Business-to-consumer (B2C) companies are especially vulnerable, with average failure rates of 14% for monthly recurring credit card transactions. Business-to-business (B2B) companies fare better with a failure rate of 9%.

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

B2C Businesses

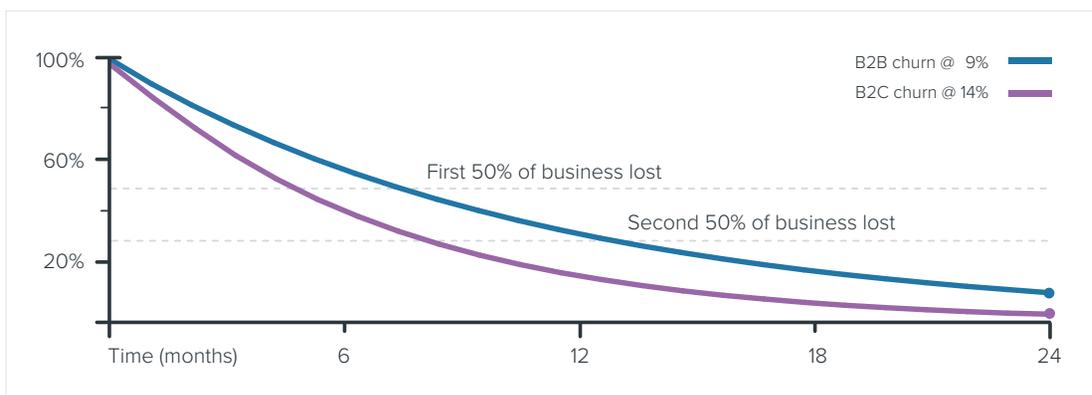
14% of monthly recurring credit card transactions fail on average.

B2B Businesses

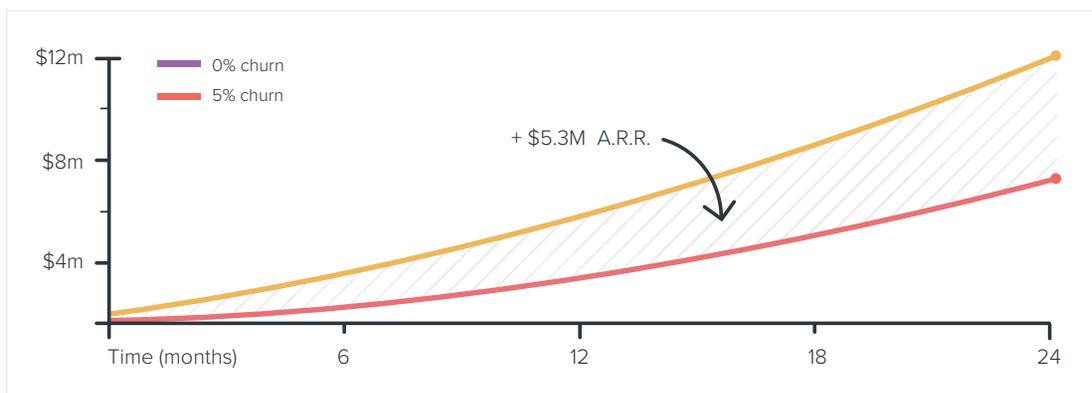
9% of monthly recurring credit card transactions fail on average.



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 such as OTT video streaming. Over a period of two years, cutting churn from 5% to zero would make an OTT business twice as valuable.





Recurly addresses credit card transaction failures effectively. Through decline management, Recurly recovers an average of 12% of total revenue — a significant addition to any business' bottom line.

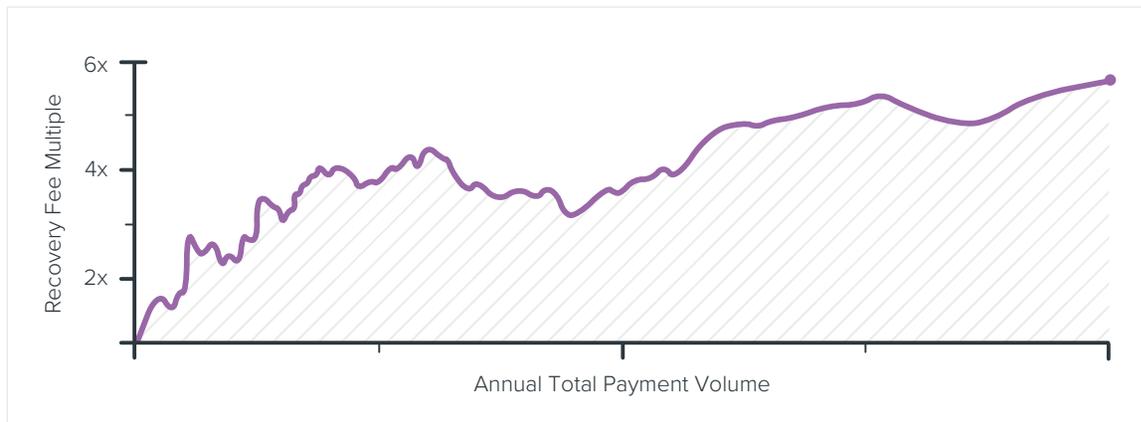
Along with significantly increased revenue, repairing credit card transactions cuts costs in two ways:

- ▶ **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.

OTT businesses and others which 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.

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

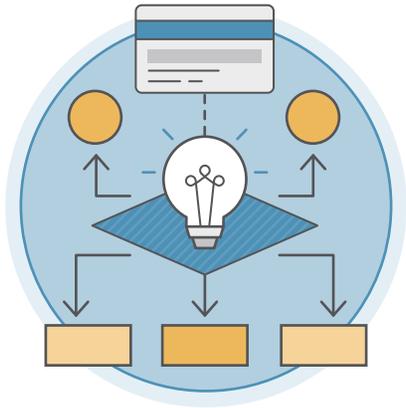
Recurly's service includes a secure vault that holds credit card information from our merchants' customers. The information in the vault for a specific card, however, is not necessarily the information that gets sent in for each attempt to process that card.

Recurly 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

Recurly also incorporates the Account Updater services available for credit cards from Visa – called Visa Account Updater – and MasterCard, which calls their 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.

Every declined transaction is different, which makes a static, one-size-fits-all retry schedule less effective. Recurly's Revenue Optimization Engine uses **the power of machine learning** to craft a more intelligent retry schedule that is specifically tailored to each individual declined transaction.

Using this technology, our customers recover an average of 61% of failed subscription renewals. This increased payment success rate increases revenue and decreases involuntary subscriber churn that results from failed transactions.



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 both the business 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 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 OTT service and its unique user base.

The results are impressive. Through our decline management strategies, Recurly is able to increase monthly recurring revenue by an average of 12%.

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.



Recover Revenue and Increase Growth

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

By reducing credit card declines, Recurly 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 repairs a payment problem, they'll have chalked up a negative customer experience with your company. By repairing many payment problems without customer contact, Recurly 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 on their social media channels. Customers who churn out, or who suffer credit card transaction problems with you, are unlikely to give glowing recommendations for your OTT subscription service.



Recovering revenue from credit card transactions also has strategic implications. Credit card billing is a convenient and favored form of payment which streamlines the customer acquisition process. With a revenue recovery strategy, you keep these advantages, while reducing transaction declines, revenue loss, and churn.

Recurly also simplifies customer acquisition and will scale with you as your business grows. Our robust reporting provides the key data and metrics that subscription OTT businesses rely on to optimize their revenue and subscriber retention while lowering their customer acquisition costs. Recurly helps reduce other costs associated with recurring billing and improves customer satisfaction. Our integrations with Netsuite, QuickBooks Online, Salesforce and other solutions extend the value of these existing systems and streamline related processes.

The enhanced revenue continuity — and customer continuity — that Recurly provides gives OTT companies a strategic advantage. Existing business models that depend on credit card transactions are strengthened, and new business models become viable. It all begins with increased revenue recovery and decreased churn.

“Recurly has done a really good job of creating a tremendously powerful subscription ecosystem while maintaining genuine simplicity in terms of the implementation.”

Marc Ruskin

Founder of FASTHockey

Related Resources

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

[Recurly Research](#)

See comprehensive benchmark data segmented by industry, audience, and price point.

[Maximize Revenue](#)

Explores Recurly's tools for managing plans, promotions, churn and fraud.

[Recovered Revenue Calculator](#)

Calculates how much revenue you could recover by preventing credit card declines.

[HockeyTV Case Study](#)

Documents HockeyTV's experience with Recurly.

[Recurly Blog](#)

Provides resources on churn, recovered revenue, subscription trends, and more.



Recurly

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



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