Invisible Recovery™

The Most Powerful Solution Subscription Businesses Can Deploy to Reduce Customer Churn

FlexPay

THE MOST POWERFUL SOLUTION SUBSCRIPTION BUSINESSES CAN DEPLOY TO REDUCE CUSTOMER CHURN

Businesses with subscription and recurring billing models build businesses that deliver great products and services, flexible payment terms, and positive customer experiences. Of course, all subscription businesses depend upon a functioning payments system to manage the submission, authorization, and acceptance of legitimate transactions.

Companies with recurring business models focus significant energy and resources to retain customers and avoid churn because longer customer tenures increase customer lifetime value (LTV), generating more revenue and profits for the business.

Most causes of customer churn are recognized and understood.

- **Customer fatigue drives churn when the customer no longer sees value in the product or service**
- **Competitive loss drives churn when the customer finds a preferred solution from a competitor**
- **Customer service issues drive churn when the customer experiences a negative brand experience**

These churn drivers are called voluntary churn because the customer proactively cancels their subscription. However, what is not recognized or understood is that **the single largest cause of recurring customer churn is involuntary churn**, which is caused by failed payments.

THIS RAISES 3 QUESTIONS:

1. **What are failed payments?**
2. **What causes failed payments?**
3. **What can businesses with subscription and recurring billing models do to solve this problem?**

Failed payments occur when credit card payment requests submitted by merchants are declined by the issuing bank's payment authorization system.

Of course, fraudulent transactions should be declined, but most failed payments are caused by false declines and not by the payment authorization systems accurately identifying fraudulent transactions.

False declines occur when the credit card authorization decision declines the payment request from legitimate merchants who submit payment requests from consenting customers. These customers have available credit balances and want to purchase the product or service.

Mastercard's own data measures the percentage of failed payments caused by false decline decisions at 67% percent. In fact, the ratio of declined payments caused by false declines is 7X greater than the decline rates for actual fraudulent transactions. Unfortunately for subscription businesses, the rate of failed payments averages 24%, which is the highest of all commerce transaction types.

False declines are a result of the efforts banks are making to reduce the growing fraud losses they are incurring ($30B in 2020) from payment authorization approvals made on fraud transactions. False declines are unintended consequences of payment authorization systems with access to limited data, that need to make sub-second decisions, and look for reasons to decline transactions. This paper doesn't have space for a deeper dive into the root causes of false declines, but read the **Payment Authorization Management** white paper to learn more about the causes of this problem.

THE RATIO OF DECLINED PAYMENTS CAUSED BY FALSE DECLINES IS

7x

GREATER THAN THE DECLINE RATES FOR ACTUAL FRAUDULENT TRANSACTIONS.

FALSE DECLINES AND CUSTOMER CHURN

Unrecovered false declines cause customer churn. But, it's not commonly understood that certain recovery methods contribute to avoidable churn.

According to FlexPay research, up to 48% of subscription customer churn is caused by failed payments and not by customers ending their subscription relationship proactively. This vital statistic provides the guidance that subscription companies need to expand their understanding of the root causes of most customer churn and the strategies and solutions to reduce churn.

It is evident that failed subscription payments that are not recovered cause churn. But, what may not be as immediately obvious is that some failed payment recovery methods themselves contribute to customer churn.

According to a recent **PYMNTS survey**, 27% of customers actively cancelled their subscription as a result of their knowledge of the failed payment. This is the churn that is created, in addition to the customer losses caused directly by unrecovered failed payments.

In fact, according to this survey, 38% of subscription customers who were on the fence about their subscription (not satisfied and not dissatisfied) took the opportunity to cancel their subscription after exposure to the failed payment.

FAILED PAYMENTS CAUSE UP TO

48%

OF ALL CUSTOMER CHURN*

27%

OF CUSTOMERS ACTIVELY CANCELLED THEIR SUBSCRIPTION AS A RESULT OF AWARENESS TO FAILED PAYMENT◊

** FlexPay research*

◊ PYMNTS survey

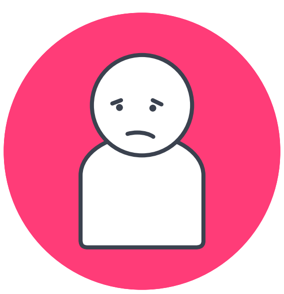
WHY DOES CUSTOMER VISIBILITY TO FAILED PAYMENTS CREATE CHURN?

To better understand why customer awareness of a failed payment leads to churn, let's review what happens to a customer when a merchant engages them in recovering the failed payment.

- The customer has an emotional reaction to the news that their credit card failed. This reaction ranges from annoyance, to a defensive response as customers interpret the failed payment as a judgment on their ability to pay.
- A bad brand experience is created when the merchant forces the customer to solve a problem they didn't initiate.
- Your brand becomes associated in the customer's mind with a credit card issue, which most likely this customer hasn't experienced with other brands.
- The customer is forced to make an affirmative decision that they want to continue with the subscription or passively end it by not taking action.

After reviewing the possible outcomes of the customer experience, it should be clear as to why engaging the customer in failed payment recovery should be avoided when possible.

COMPANIES THAT EXPERIENCE FAILED PAYMENTS NEED TO OPTIMIZE RECOVERY AND DEPLOY METHODS THAT:



Avoids the customer experiencing a negative emotional reaction from a failed payment

Avoids forcing the customer to solve a problem they didn't create

Avoids creating an opportunity that forces customers to decide whether they want to continue the subscription or not

FAILED PAYMENT RECOVERY METHODS

There are various types of methods subscription companies can use to recover failed payments. It's important to understand why the method you use matters.

Recovery methods that create customer visibility to the failed payment include customer service outreach, and recovery attempts using SMS, email messaging, and phone calls.

The recognition that each failed payment represents not just the revenue from a missed billing period, but rather the sum total of revenue from a lost customer, is what led FlexPay to develop that AI-powered Invisible Recovery™ failed payment recovery solution.

Invisible Recovery™ is the most effective failed recovery solution, typically improving recovery rates by up to 70% versus other recovery methods. But, Invisible Recovery™ delivers another powerful benefit by avoiding customer exposure to failed payments, eliminating indirect churn.

There are hundreds of reasons why a payment might fail the authorization process. There are over 8,000 issuing banks in North America, and they each use their own payment authorization rules. The millions of permutations of possible recovery strategies require powerful technology solutions to optimize results.

FlexPay's AI-powered Invisible Recovery™ creates individual strategies to optimize recovery for each failed payment, using the fewest attempts possible. Invisible Recovery™ augments existing payments tech stacks, working independently and without customer involvement.

INVISIBLE RECOVERY™ TYPICALLY IMPROVES RECOVERY RATES BY UP TO

70%

VERSUS OTHER RECOVERY METHODS

IS INVISIBLE RECOVERY™ THE ONLY SOLUTION?

Invisible Recovery™ is not the only solution companies should employ for failed payment recovery, but it should always be the first solution used.

Start with Invisible Recovery™, and only use a customer engagement solution when Invisible Recovery™ is not successful. This sequencing and combination maximizes recovery rates and avoids the customer churn caused by exposing customers to the failed payment in most cases.

As mentioned previously, there are thousands of reasons that payments fail, and there are certain reasons, like when a card is lost or stolen, where Invisible Recovery™ won't work. These are the cases when recovery methods that require customer involvement should be employed, to help ensure maximum recovery is achieved.

Schedule a consultation with a FlexPay failed payments expert and learn how Invisible Recovery™ optimizes payment recovery while avoiding the causes of indirect customer churn.

USING A SOLUTION THAT AVOIDS CUSTOMER VISIBILITY SHOULD ALWAYS BE YOUR FIRST STEP IN RECOVERING FAILED PAYMENTS.

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