Guide to Measuring Involuntary Churn in Your Business

A playbook to identify, measure, and reduce the largest source of subscription losses

FlexPay

Table of Contents

Introduction

Customers of subscription companies primarily use credit cards for their recurring payments. This makes subscription businesses uniquely vulnerable to problems in the card payments system because any issues that prevent payment completion also create involuntary churn.

Unfortunately, most subscription companies aren't aware of the frictions in the card payments system that lead to authorization decision errors, or that these errors are most likely to affect subscription payments.

While the impact of these decision errors varies from business to business, it does affect literally every recurring billing business, regardless of size. In fact, Visa estimates that an average of 24% of recurring billing transactions are declined. In fact, 67% occur for legitimate customers — proof that these declines are errors. According to the Aite Group, global false declines cost merchants over $443B in lost revenue from payment decline decisions in 2021.

This guide will help subscription businesses gain an understanding of the problem, measure the cost it creates, and identify what steps they need to take to reduce or eliminate the problem.

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FLEXPAY RESEARCH SHOWS THAT PAYMENT FAILURES CAUSE UP TO **48%** OF ALL SUBSCRIPTION BUSINESS CUSTOMER CHURN

Understanding False Declines and Failed Payments

According to Visa, two thirds of failed payments are caused by false declines, which are authorization decline decisions made on legitimate credit cards.

Why so high? The payments authorization ecosystem has two clear objectives:

1. **To approve all legitimate payment transactions.**
2. **To decline fraudulent and other undesirable payment requests.**

This system is enormously large and complex and must make accurate payment authorization decisions for billions of payment requests in milliseconds.

The enormous losses banks incur from fraudulent transactions approved by their authorization systems — an estimated $28.6B in 2020 — have created an incentive for banks to bias the algorithms in their fraud detection systems to avoid losses. Simply put, it is less expensive for them to decline a legitimate transaction than to approve a fraudulent one. These false-positive responses are called false declines.

Subscription companies are harmed by false declines in two ways:

- **Highest failed payment rates: An average of 24% of recurring payment requests made by subscription businesses are declined.**
- **A false decline on a subscription that cannot be resolved ends the subscription relationship.**

Involuntary Churn and Failed Payments

Customer retention and customer churn are core KPIs that every subscription business needs to optimize. For subscription companies to successfully manage churn, they must understand the different types of churn, measure them separately, and have programs and technology optimized to reduce each source.

Customer losses can be described in two ways: ***voluntary churn*** and ***involuntary churn***.

Voluntary Churn occurs when customers choose to end their subscription.

Many subscription companies assume that most (or all) churn is voluntary, and the subscriber has decided to cancel their subscription, so companies invest significant resources to improve the customer experience to prevent or delay this.

Involuntary Churn occurs when payment-related issues prevent legitimate recurring payments from completing successfully.

Involuntary churn is caused by failed payments (also known as declined credit card transactions), and is the source of up to half of all churn. The good news, however, is that this type of churn can be actively identified, managed and reduced.

Understanding If You Have a Problem with Failed Payments

Cost Measurement: Involuntary churn losses in your business

Identifying if your subscription business has a failed payment problem and measuring its impact starts by gathering data. Every subscription business should be able to easily gather the necessary data, although additional data and reporting may be required. While involuntary churn reporting and calculating the total cost of customers lost to failed payments is not difficult, it does require accessing and managing new data sources.

We recommend establishing a small team of people from your finance, technology, and reporting departments who can help collect the information and create reports for analysis.

Data to collect:

1. All churned customers
2. Customers who experienced failed payments
3. Average customer lifespan (in billing cycles)

These 3 data points will let you measure the percentage of your churn that is involuntary. It will also allow you to calculate the total cost of these customer losses.

Click the Measure Involuntary Churn button below to access the detailed data requirements and calculation logic needed to report and measure involuntary churn. The calculations measure your failed payment rate, the percentage of churn caused by failed payments, and the total amount involuntary churn is costing your business.

MEASURE INVOLUNTARY CHURN

Benefits Measurement: Value of a recovered customer

The previous calculations show how much failed payments and involuntary churn are costing your business. There is another calculation that is just as important for subscription businesses to measure, and that is the value of a customer who is recovered from a failed payment.

Because a recovered customer will continue as a happy customer for many billing periods following recovery, the true value of a recovered customer is the lifetime value (LTV) of the customer after the failed payment occurs. In fact, best-in-class recovery solutions improve the lifespan of a customer for maximum LTV.

Data to collect:

1. Customers who experienced a failed payment and who were recovered (either through a successful retry or by obtaining a new card which billed successfully)
2. Failed payment data
3. All successful billings for these customers in the months following the failed payment

These 3 data points will allow you to measure the full value of your recovered customers and the revenue gains delivered by your failed payment recovery efforts. The compounding effect of revenue generated by recovered customers creates one crucial insight: Failed payment recovery efforts must optimize for both high failed payment recovery rates and improved customer lifespan following recovery.

Click the Measure Value of Recovered Customers button below to access the data and calculations needed to build reports to measure involuntary churn.

MEASURE VALUE OF RECOVERED CUSTOMERS

Technology and Best Practices to Reduce Involuntary Churn

Technology

Best-in-class failed payment recovery solutions develop unique recovery strategies for each failed payment. Recovery strategies must factor in the issuing bank that declined the payment request, the reason code given for the failed payment, and the type of credit card that the customer used on their account (such as affinity, rewards, etc.). AI-powered solutions are particularly well-suited to create individual solutions for each failed payment, and typically deliver the highest failed payment recovery rates.

Best practices in retention and LTV

Failed payment recovery solutions must be optimized for both high recovery rates and high customer retention following recovery. The duration of the lifespan of a customer following recovery determines the LTV of the customer, which is why reporting best practices must include measuring customer LTV following recovery. Subscription companies must deliver a great customer experience during recovery so that the full LTV of the customer can be realized.

Best processes in recovery

Some failed payment reasons — such as hard decline reasons caused by expired or invalid card numbers — will require direct customer involvement to solve. Unfortunately, as our data confirms, customer knowledge of a failed payment can become a source of churn. Naturally, some customers will choose not to engage in a recovery process when asked to help and this will result in a lost subscription. This is why the highest performing recovery methods work directly with the payments system and avoid customer involvement and awareness of the failed payment.

Summary

Subscription businesses must address the problem of failed payments if they wish to reduce their involuntary churn, increase revenue, and keep their customers longer. Using a technology-based failed payment recovery solution is key to measuring how much involuntary churn is affecting your business and allows you to improve your bottom line. While most businesses use some sort of rules-based payment recovery process, this isn't enough—a more complex failed payment recovery solution is needed to create a unique strategy for each failed payment.

If you have any questions or want to talk to an expert in the payments industry, reach out to our team **here**.