The Subscription Industry's Dirty Secret:

Solving the Hidden Barrier Blocking Full Subscription Revenue

FlexPay

Introduction

It's no secret that subscription businesses have become wildly popular with both consumers and businesses. The sector is growing rapidly, outpacing the S&P 500 growth rate by around 35% in 2021. Of course, the COVID-19 pandemic accelerated subscription adoption by filling a need to regularly deliver products and services to customers. By some accounts, there are now over 12,000 subscription businesses globally, serving consumer and business categories like health and beauty, software, media, retail products, and many other sectors.

These thousands of subscription businesses deliver different products and services, and serve very different customers. However, every subscription business operating today shares one enormous problem: Failed payments. Failed payments are decline decisions on credit card authorization requests.

According to Visa's own data, an average of 24% of subscription credit card payments are declined by the card authorization systems, two-thirds of which are incorrect decline decisions on legitimate cards.

Why are subscription payments so susceptible to authorization declines?

The answer is relatively simple. The existing payments system is an old solution designed for single-purchase, in-person transactions, and was not designed for the card-not-present, recurring payments from subscription customers. This system views recurring card payments as high fraud-risk transactions and over-compensates for this perceived risk by choosing to decline legitimate transactions from good customers rather than approving truly fraudulent transactions. The system would rather be safe than sorry. This is the core reason why failed payments occur and why the problem hits subscription businesses so hard.

This paper provides insights for subscription businesses into an industry-wide problem that, when solved, leads to gains in revenue, customer LTV, and profitability. It outlines the critical importance of why companies need to act now to solve this problem and how this translates into more available resources and market share gains that lagging competitors won't able to overcome. Sound too good to be true? Judge for yourself.

CUSTOMERS LOST TO PAYMENT ISSUES CAN TOTAL UP TO **48%** OF ALL CUSTOMER CHURN.

The connection between failed payments and involuntary churn

While Visa's data shows an average of 24% declines, the actual rates that any individual subscription business suffers from varies and is influenced by their product or service, their customer acquisition programs, their customer demographics, and many other factors.

But make no mistake, every subscription business does suffer from this problem. Worse, customers lost to payment issues can total up to 48% of all customer churn. This problem is so pervasive there is even a term for it: involuntary churn. This is so important, subscription businesses must start to track and separately measure customers lost to involuntary churn from customers lost to active cancellations.

We recognize that this probably isn't the first time you've heard about failed payments, and if you work for a subscription company you may already have a program in place to try to recover failed payments. You may even recognize that failed payments create customer churn.

However, most subscription businesses don't truly understand the total harm that failed payments cause their businesses, or the unique opportunity that solving failed payments can open for them. Once a deeper understanding of the current problem is created — and of the opportunities that are opened when the problem is minimized or eliminated — a sense of urgency to take action and move quickly is created.

The need for failed payment recovery

The failed payment problem is so pervasive and painful for subscription businesses that it is very likely that within 2-3 years, virtually every subscription business will have a solution in place to minimize or eliminate it. Failed payment recovery will become table stakes for the subscription business model and will be a part of every payments tech stack.

As mentioned before, Visa's research found that an average of 24% of subscription card payments are declined. And according to FlexPay's customer analysis, up to 48% of all churn is caused by failed payments — not by the customer actively ending their subscription. This insight leads to two important conclusions:

1. Up to half of all subscriber churn is not being reduced by the investments currently made to build customer loyalty and retention.

2. Solving failed payments can reduce or eliminate up to half of your churn.

FAILED PAYMENT RECOVERY WILL BECOME TABLE STAKES FOR THE SUBSCRIPTION BUSINESS MODEL AND WILL BE A PART OF EVERY SUBSCRIPTION COMPANY'S PAYMENTS TECH STACK.

How involuntary churn hurts your business

Every subscription business has an involuntary churn problem, which means your customer retention results and customer LTV, along with that of your competitors, are being artificially diminished by involuntary churn. This in turn keeps industry-wide revenue and growth artificially low.

The loss of revenue caused by involuntary churn reduces overall revenue, growth rates, and customer LTV, resulting in less money being available for new customer acquisition.

This means that the market share each subscription business owns in their category has been determined by available customer acquisition budgets, customer LTV, and profitability that has been artificially suppressed by involuntary churn.

Luckily, a corollary also exists. Since customer acquisition budgets (both total dollars and unit metrics) are determined by customer retention and LTV results, customer acquisition values can be increased when involuntary churn is decreased because overall customer LTV will go up.

COMPANIES THAT SOLVE THE PROBLEM OF FAILED PAYMENTS REDUCE THEIR INVOLUNTARY CHURN AND ACHIEVE COMPOUNDED ACCELERATED REVENUE GROWTH AND GAINS IN CUSTOMER LTV.

The power of compounded revenue growth

Reducing involuntary churn results in customers continuing to successfully bill for months after they would have been lost to a failed payment. These groups of recovered customers create a compounding revenue growth benefit for months. The actual compounding amount is determined by the duration of the customer lifespan following failed payment recovery.

These new levels of revenue and profits can be reinvested in customer acquisition and improvements in product or service experience, which will in turn increase growth and retention. This cycle of accelerated customer acquisition — powered by higher levels of revenue growth, customer retention, and profit — can translate into increased market share at the expense of competitors who haven't fully solved the failed payment problem, and who are still dealing with a high rate of involuntary churn, which suppresses their revenue and profit.

CRITICAL INSIGHT: THIS COMPOUNDED REVENUE GROWTH IS REALIZED WITHOUT HAVING TO INVEST IN ACQUIRING NEW CUSTOMERS, WHICH MEANS THE REVENUE EARNED FROM RECOVERED CUSTOMERS IS INCREDIBLY PROFITABLE.

Your window of opportunity

Every subscription business has a window of opportunity to immediately reduce their rate of involuntary churn, and achieve an outsized benefit. A window of opportunity exists to deliver fundamental improvements in financial performance that can achieve market share gains at a rate that competitors who haven't fully solved their failed payments problem simply won't be able to match. Recognizing the problem of involuntary churn now, and putting a solution in place to fight it creates a clear advantage over the competition.

Imagine how much you could invest in your business, and the impact it would have, if you weren't held back by the financial losses caused by failed payments and involuntary churn. What a game changer this would be!

Solving the problem of involuntary churn — by using a failed payment recovery solution that optimizes both short-term recovery and long-term customer LTV following recovery — will allow you to outpace your competition by improving your core metrics. You will create a competitive advantage that will improve these KPIs so much that others who didn't adopt a solution early won't be able to catch up.

While every company in the subscription space will eventually have this solution, it's only the early adopters who will gain the long-term competitive advantage. Taking action now will give you the edge for years to come.

PUTTING A SOLUTION IN PLACE TO FIGHT INVOLUNTARY CHURN NOW WILL GIVE YOU A CLEAR ADVANTAGE OVER YOUR COMPETITION FOR YEARS TO COME.

FlexPay is the leading Payment Authorization Management solution, helping subscription businesses accelerate revenue and profit growth by recovering failed payments, which is the single largest cause of customer churn.

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

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