

Optimizing Subscription Payments

Optimizing Subscription

Payments: How Providers Can Take The Sting Out Of Payment Declines, a PYMNTS and FlexPay collaboration, examines how declined electronic payments can erode subscription providers' customer bases. The report is based on a survey of 2,195 consumers in the United States from July 8 through July 16.

**How Providers Can
Take The Sting
Out Of Payment
Declines**



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ACKNOWLEDGMENT

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Introduction

Consumers' use of automated payments for subscription services has grown steadily, but growth has been particularly substantial over the past two years. This behavior aligns with consumers' increased appetite for subscription services, with many now subscribing for TV streaming, online gaming, digital music, online software and connected devices, consumer retail products, financial services, education and training and a host of other activities.

The market is on track to continue expanding, with consumers eager to snatch up various types of alluring new services that promise convenience and ease. The

Washington Post reported recently that earlier this year, six Washington, D.C., restaurants teamed up to charge \$360 for a six-week subscription that included a gourmet meal from a different chef each week. The service sold out just six days after it was unveiled.¹

Consumers may well be pleased with subscription services' convenience, but a large part of their positive experience hinges on seamless payments. Hiccups in the payments process can negatively impact subscribers' opinions of their services, ultimately leading them to abandon subscriptions and even switch to competitors.

80 PERCENT OF CONSUMERS HAVE AT LEAST ONE SUBSCRIPTION. IN FEBRUARY 2020, THE NUMBER WAS 72 PERCENT.

PYMNTS' research shows that such payment problems are unfortunately far from unusual, and so is the risk of customer churn. Twenty-seven percent of consumers who subscribed to a broad range of services said that they had experienced a subscription payment decline within the past year, and more than one-quarter of those customers terminated their subscriptions or switched services.

Optimizing Subscription Payments: How Providers Can Take The Sting Out Of Payment Declines, a PYMNTS and FlexPay collaboration, delves into the results of a July 2021 survey that polled 2,195 United

States consumers about their subscription usage and purchasing habits. Our analysis reveals strong consumer interest in subscription services across the board but also shows a risk of customer churn if payment declines are not proactively addressed. The report examines how subscription providers can address declined payments to avoid harming customer satisfaction and risking subscriber cancellation.

This is what we learned.

1. Long, H.; Van Dam, A. Everything's becoming a subscription, and the pandemic is partly to blame. The Washington Post. June 2021. <https://www.washingtonpost.com/business/2021/06/01/subscription-boom-pandemic/>. Accessed September 2021.

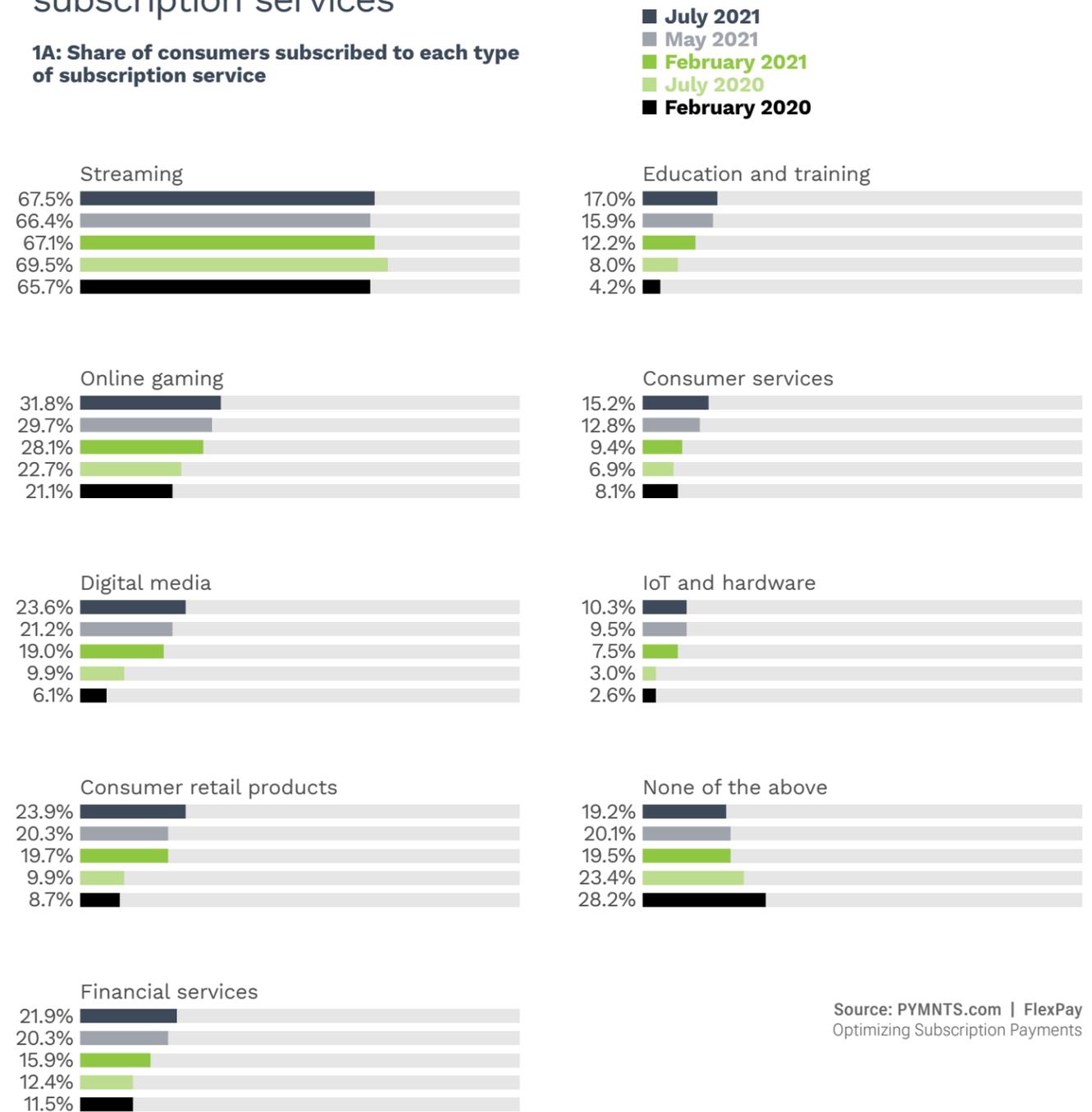
Subscription service providers **look for growth in a saturated market** as first-time subscribers become harder to find.

More than 80 percent of consumers have at least one subscription, up from 72 percent in February 2020, but our research has found that the number of consumers with subscriptions has leveled off over the past six months. Those who do have subscriptions are continuing to pick up more, however. The average consumer had 2.3 types of subscriptions as of July 2021, nearly twice as many as the average consumer held in February 2020. This is prompting

subscription service providers to examine how they can entice and retain consumers who already have at least one subscription. Streaming services, the most popular category, has held a relatively steady rate of customer acceptance over the past year. Sixty-six percent of consumers subscribed to streaming services in February 2020, and this share only inched up to 67 percent by July 2021.

FIGURE 1:
Consumers' usage of subscription services

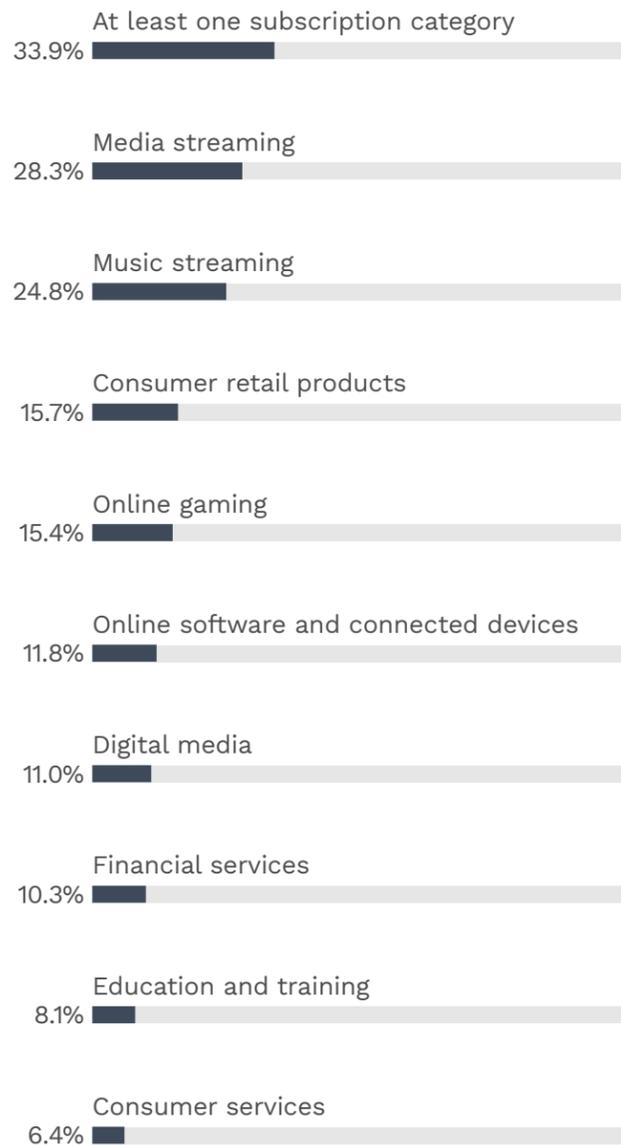
1A: Share of consumers subscribed to each type of subscription service



Source: PYMNTS.com | FlexPay
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FIGURE 1 (continued):
Consumers' usage of subscription services

1B: Share of consumers who purchase subscriptions every month



1C: Average number of categories of subscriptions that consumers have



Source: PYMNTS.com | FlexPay
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This illustrates that other product categories have accounted for much of the market's recent growth. Thirty-two percent of consumers subscribed to online gaming services by July 2021, for example, up from 21 percent in February 2020. The share of consumers who have digital media subscriptions, meanwhile, jumped to 24 percent in July 2021 from 6.1 percent in February 2020, while the portion of consumer retail product subscribers rose to 24 percent from 8.7 percent during the same span.

SUBSCRIPTION PROVIDERS CAN RETAIN CUSTOMERS' LOYALTY BY OFFERING WAYS TO OVERCOME PAYMENT-RELATED SNAGS.

Other metrics offer additional insights into consumers' subscription purchasing habits. Twenty-eight percent of consumers report purchasing a media streaming service each month, for example, while 25 percent say the same for music streaming services, making those the two most popular subscription categories. Consumer retail product subscriptions and online gaming services come in third and fourth, with 16 percent and 15 percent of consumers purchasing them monthly, respectively.

Subscribers are also inclined to tap traditional banking products when paying for their services. Thirty-eight percent of consumers who pay for subscriptions say they use debit cards to do so, making it far and away the most common payment method. Credit cards come in second place (28 percent), followed by PayPal (17 percent), digital wallets (9 percent) and bank account transfers (7 percent).

More than one-quarter of subscribers experienced a declined payment within the past 12 months.

Payment declines are not uncommon in the subscription services space, and our survey shows that a broad range of subscriptions are affected. Twenty-seven percent of subscribers say that they suffered a declined payment during the past year, but the share of subscribers who have faced this issue differs notably across different subscription types. Forty-five percent of consumer services subscribers report declined payments over the past 12 months, followed closely

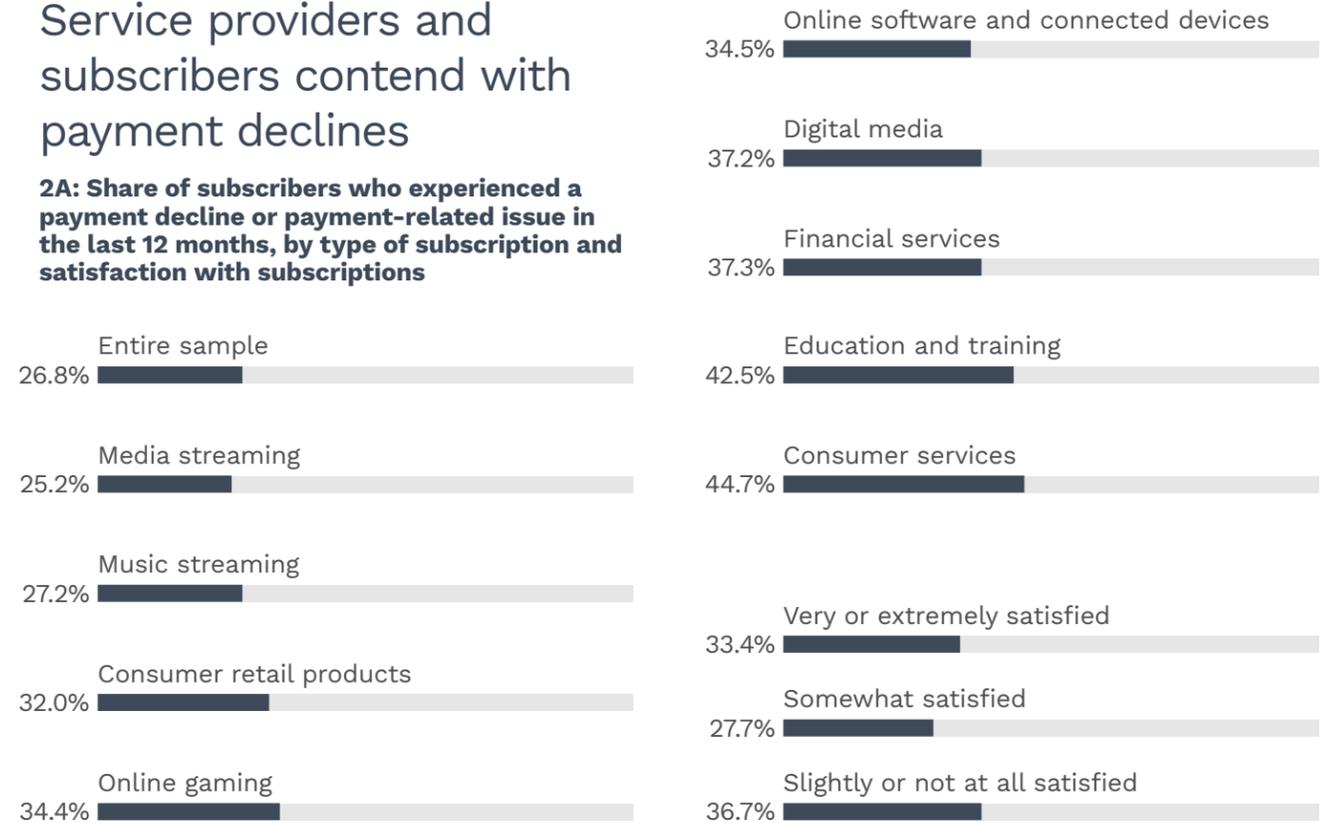
by education and training subscribers at 43 percent. Consumers who use streaming services, on the other hand, are at the lower end of the spectrum, with 27 percent of streaming music subscribers and 25 percent of media streaming subscribers reporting experiences with declined payments over the past year.

Certain payment methods are also more likely to be involved in declined payments, namely digital wallets. Thirty-six percent of

FIGURE 2:

Service providers and subscribers contend with payment declines

2A: Share of subscribers who experienced a payment decline or payment-related issue in the last 12 months, by type of subscription and satisfaction with subscriptions



Source: PYMNTS.com | FlexPay
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the people who pay for subscriptions with PayPal have had to deal with a declined payment. The problem is even more pronounced when subscriptions are paid for with other digital wallets, such as Amazon Pay, Apple Pay or Google Pay. More than half of the consumers who pay for subscriptions using these methods have endured a declined payment.

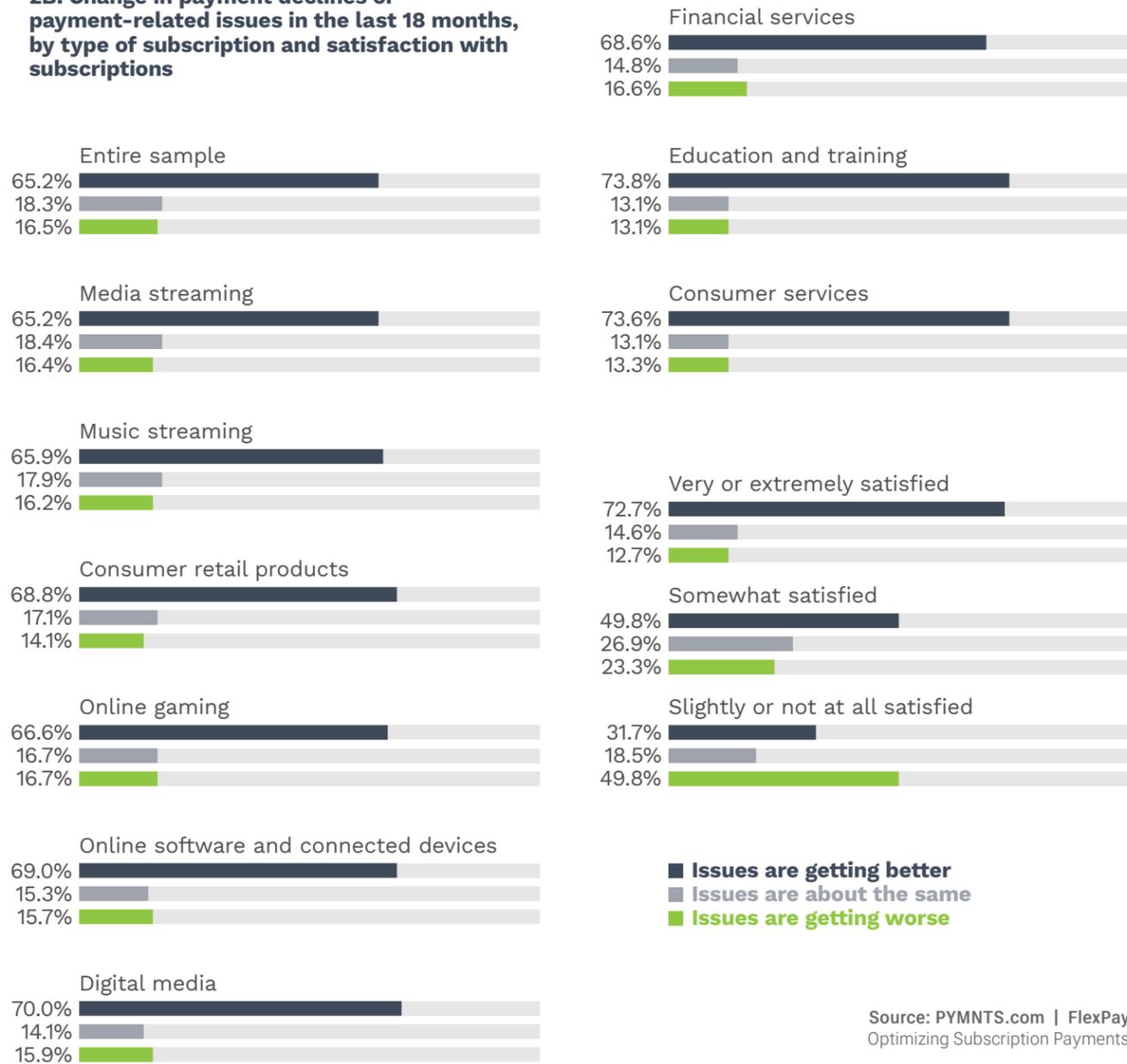
Our research indicates that subscription providers have key opportunities to keep their relationships with customers strong

even in the face of declined payments, however. Of subscribers who suffered from payment declines and payment-related issues within the past 18 months who say these issues improved, 73 percent report being highly satisfied with their subscriptions. This indicates that subscription providers still have a critical chance to retain customers' loyalty by offering ways for them to overcome payment-related snags.

FIGURE 2 (continued):

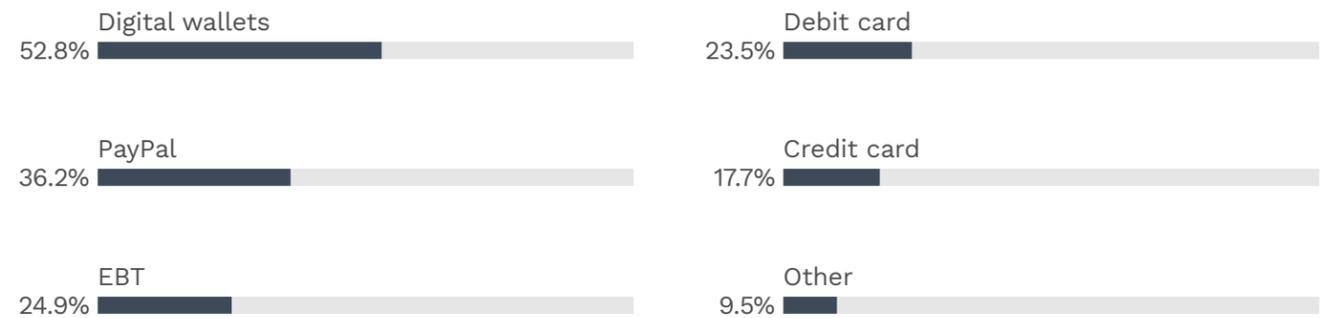
Service providers and subscribers contend with payment declines

2B: Change in payment declines or payment-related issues in the last 18 months, by type of subscription and satisfaction with subscriptions



Source: PYMNTS.com | FlexPay
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2C: Share who experienced a payment decline or payment-related issue in the last 12 months, by payment method



Source: PYMNTS.com | FlexPay
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68 PERCENT OF CONSUMERS WHO EXPERIENCE A DECLINED PAYMENT UPDATE THEIR INFORMATION TO KEEP THE SUBSCRIPTION CURRENT.

Subscription providers lose 27 percent of customers affected by declined payments, but proactive communication can stave off cancellations.

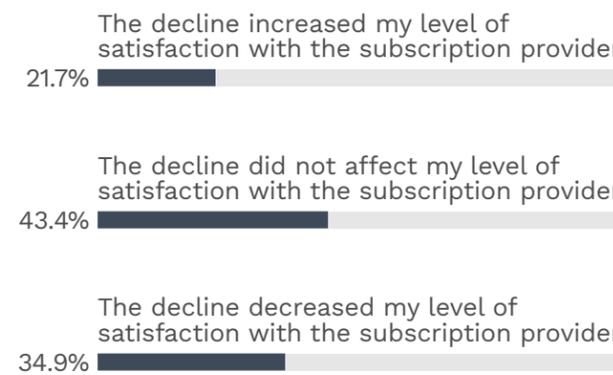
Payment declines can significantly affect subscribers' satisfaction with their service providers, often leading to customer churn. Payment declines drove 27 percent of affected subscribers to cancel or change providers, with 17 percent canceling and 10 percent switching to a competitor.

It is not surprising that 35 percent of subscribers who faced payment declines said the experience negatively affected their satisfaction with their services. Among the segment of subscribers who let their services end, 53 percent said their satisfaction diminished after the declined

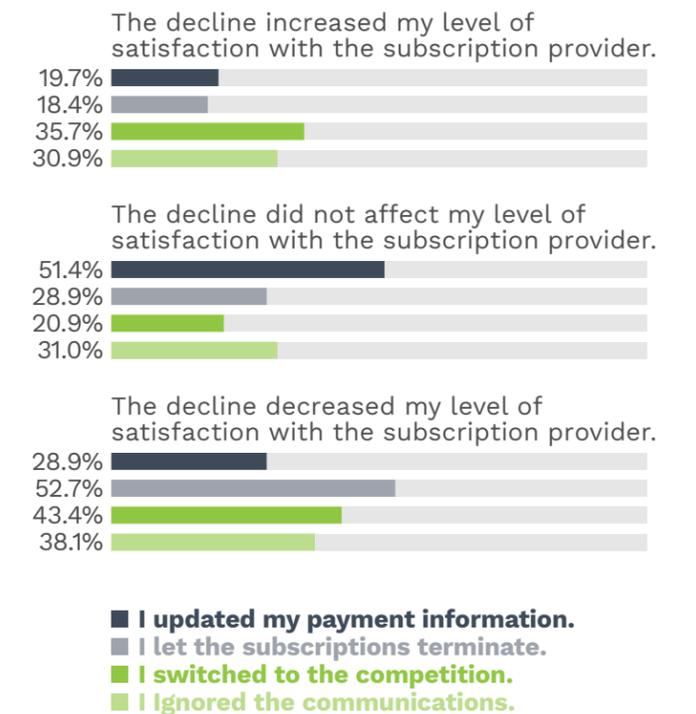
FIGURE 3:

Subscribers' satisfaction with services in the wake of declined payments

3A: Change in satisfaction with the subscription provider after a declined payment



3B: Change in satisfaction, by reaction to the declined payment



Source: PYMNTS.com | FlexPay
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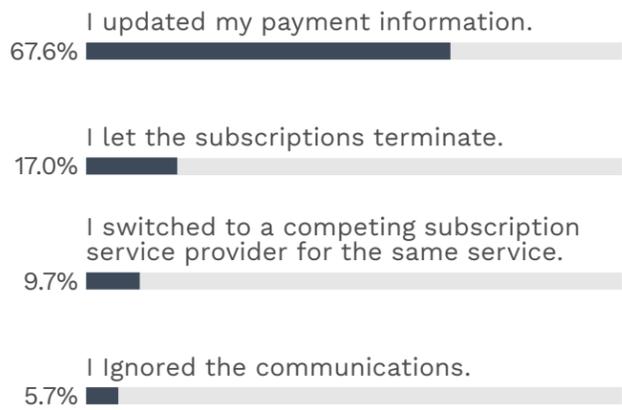
payment. Within the share of subscribers who ultimately switched to rival services, 43 percent said their satisfaction decreased after a payment was declined. Even within the group of customers who updated their payment information in response, 29 percent said their satisfaction decreased.

Our research shows that subscribers update their payment information 68 percent of the

time when service payments are declined, and the subscriber's decision to continue with or terminate the account depends upon how the subscription provider notifies them. This finding suggests that there is an opportunity for subscription providers to reduce customer churn by alerting customers when there is a declined payment.

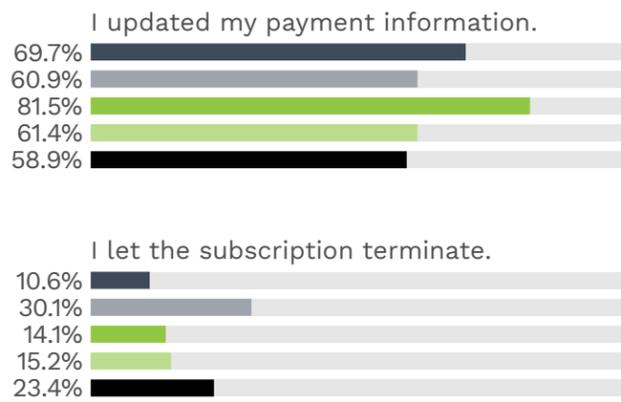
FIGURE 4:
Consumers' reactions to declined payments

4A: How consumers handled declined payments

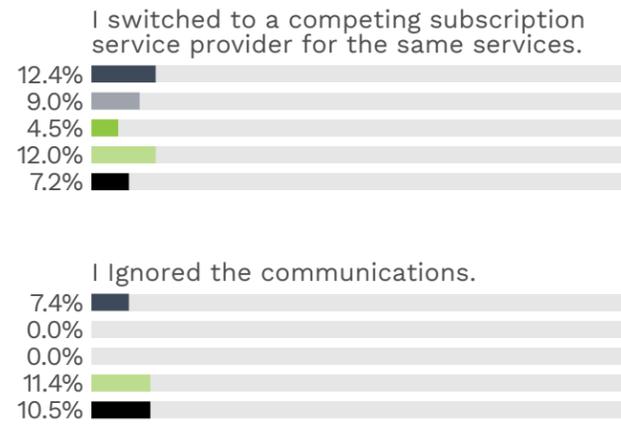


Subscribers' willingness to let their services end varies considerably depending on the actions subscription providers take after payments are declined, however. Subscribers whose services are interrupted terminate their contracts 30 percent of the time, whereas just 11 percent of subscribers who are notified of declines via email do the same. Even a sizable share of consumers who are at least relatively satisfied with their subscriptions will abandon them if their service is stopped due to a declined payment, with 14 percent of "very" or "extremely" satisfied subscribers and 26 percent of those who are "somewhat" satisfied saying so.

4B: How consumers handled declined payments, by provider's action after decline

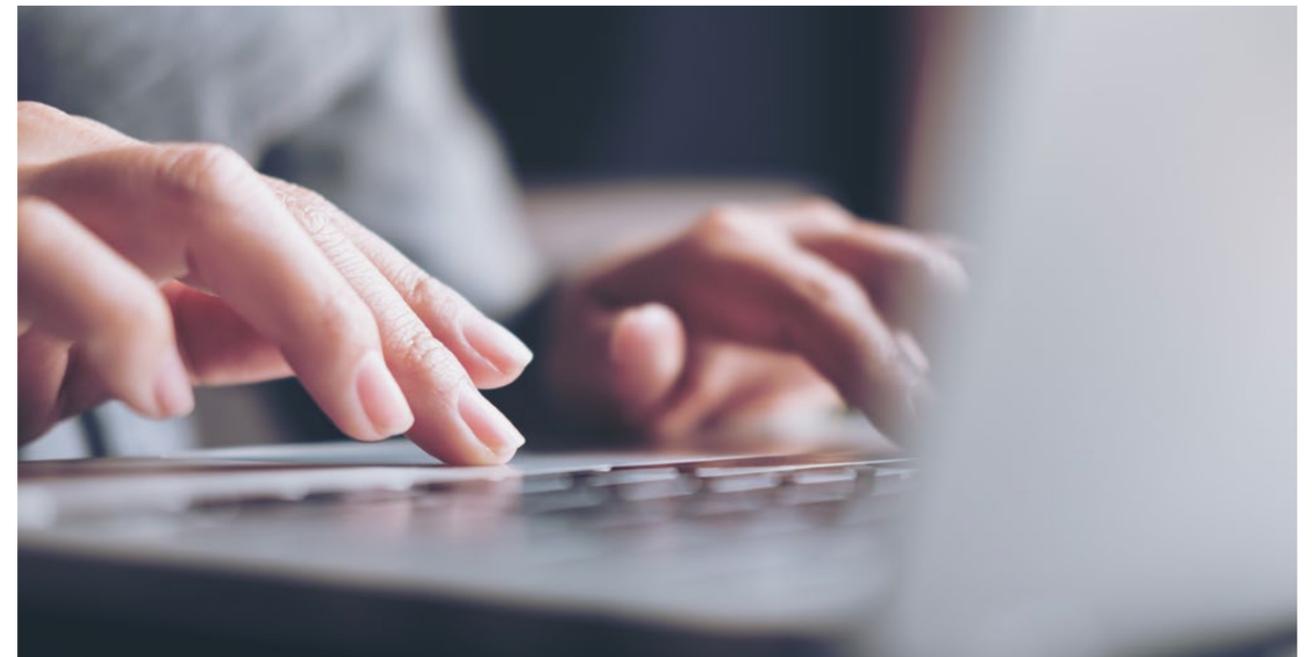


Subscribers who are required to reenter or revalidate their account details after a declined payment, on the other hand, are the most stable group. Subscription providers appear to cause the least disruption to their subscriber base when they simply require the updated information. These subscribers update their payment information 82 percent of the time, though 14 percent terminate their services and 4.5 percent switch to competing services. Of course, only subscribers who merchants successfully contact are able to update their information. Subscribers who do not respond — or cannot be contacted — churn.



- I received an email from the service provider.
- My services were interrupted or cut off.
- I was required to revalidate/reenter card credentials.
- I received a text message from the service provider.
- I received a phone call from the provider for payment.

Source: PYMNTS.com | FlexPay
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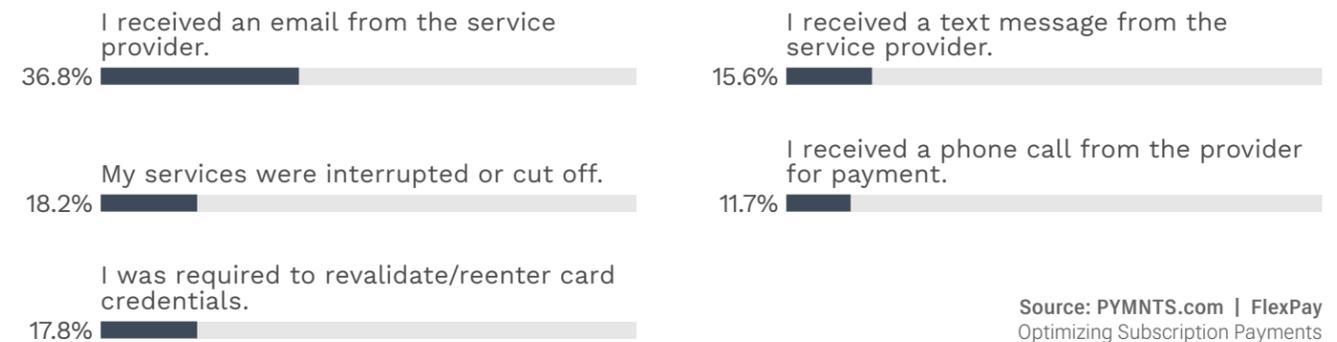
Subscription providers' handling of declined payments runs the gamut, including everything from email notifications to immediate halts in service.

Subscription providers manage declined payments in a variety of ways, and notifications to clients about declined payments seem to reduce the risk of customer churn. Thirty-seven percent of subscribers who faced payment declines were notified via email, while 16 percent were alerted via text

message and 12 percent received phone calls. Eighteen percent of subscribers said that their services were simply shut off, however, and an additional 18 percent were forced to reenter their payment or account details when the problem occurred.

FIGURE 5:
Subscription providers' handling of declined payment

5A: Actions that occurred when subscribers' payments were declined



Source: PYMNTS.com | FlexPay
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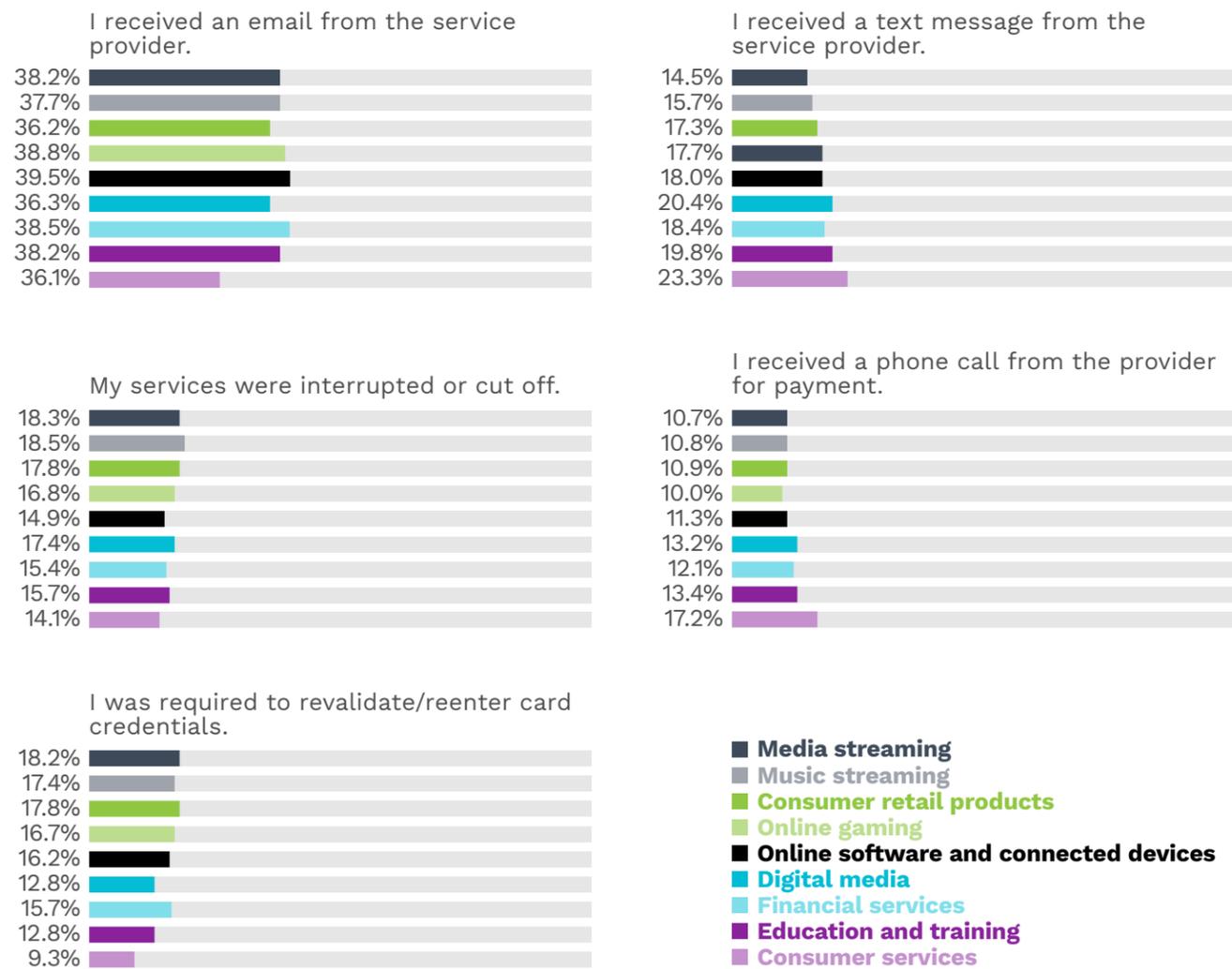
Email responses were the most common notification method among all subscription types, cited by 40 percent of online software and connected devices customers whose payments were declined. Approximately 36 percent of digital media, consumer services and consumer retail products subscribers said the same.

Subscription providers' usage of other notification methods showed more variation, with streaming subscribers being likelier than those in other segments to have their services canceled or be forced to reenter their

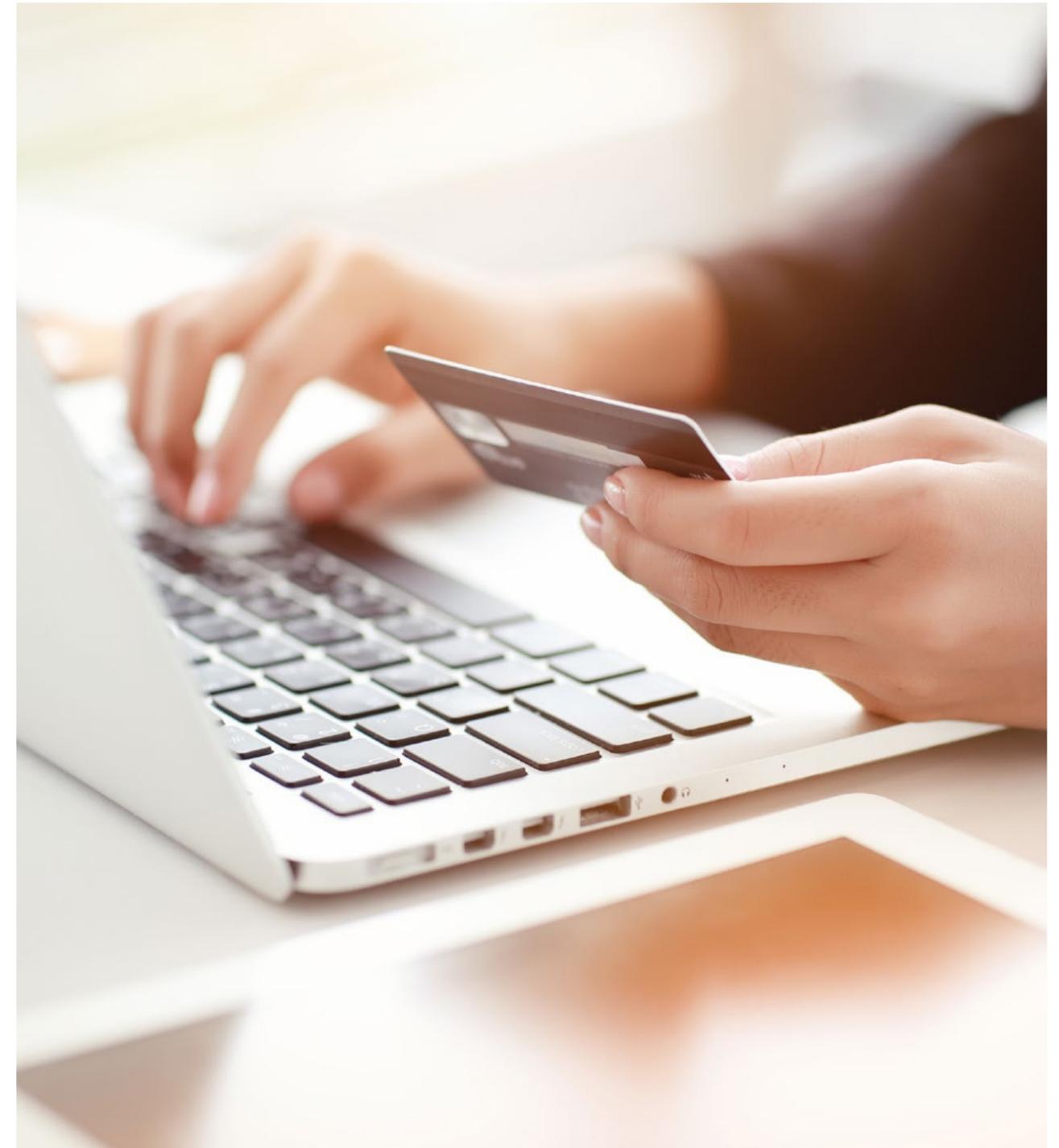
payment information when transactions were declined. Eighteen percent of music streaming subscribers who faced declined payments said that their service was canceled, while 14 percent of consumer services subscribers with payment declines said the same. Eighteen percent of media streaming consumers whose payments were declined reported reentering payment credentials, whereas just 9.3 percent of consumer services subscribers facing payment issues said the same.

FIGURE 5 (continued):
Subscription providers' handling of declined payments

5B: Actions that occurred when subscribers' payments were declined, by subscription type



Source: PYMNTS.com | FlexPay
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Subscription providers can **limit the damage from declined payments**, even among dissatisfied customers.

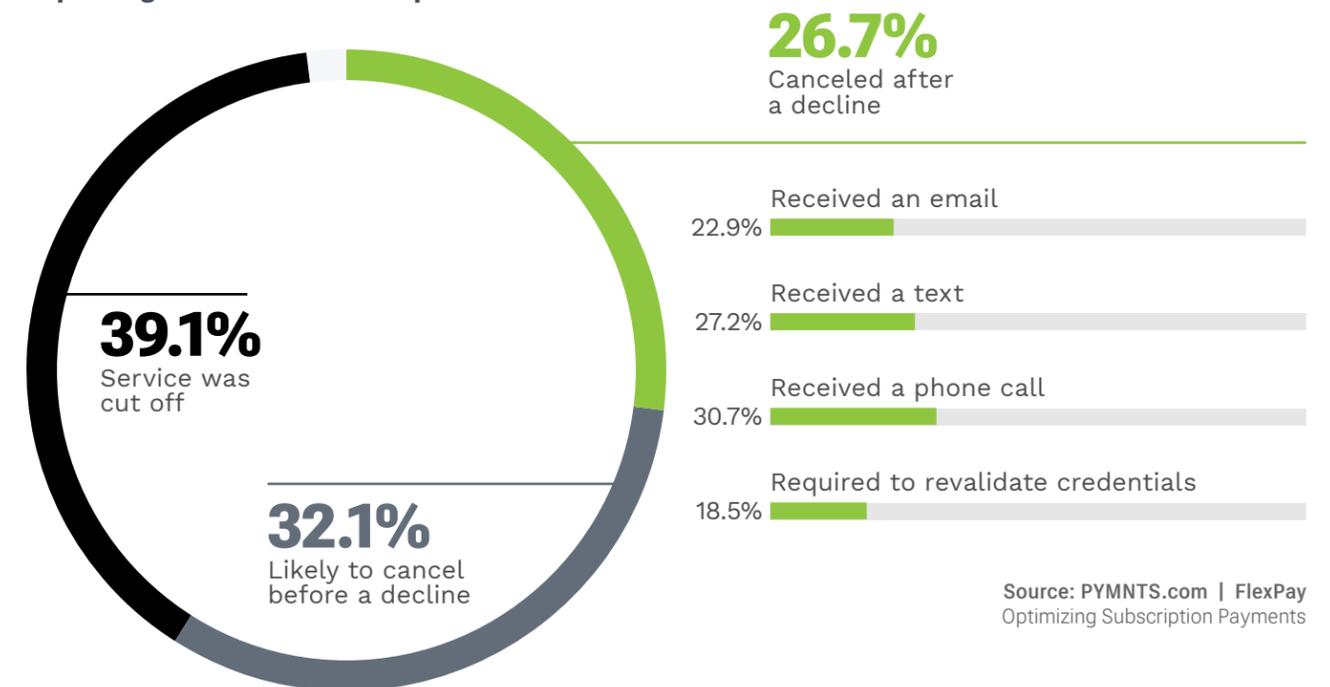
Like any businesses, subscription providers have to deal with the reality of dissatisfied customers. Some 32 percent of subscribers are prone to canceling their accounts before they experience a declined payment. Yet providers have tools at their disposal that can limit the bleeding from their customer base following payment declines.

An abrupt cutoff of service does the most damage, as 39 percent of the subscribers who endure a service cutoff cancel their accounts. When subscription providers are more proactive, the customer runoff is less severe. Thirty-one percent of subscribers who get phone calls about declined payments cancel the subscriptions, for

FIGURE 6:

How providers' actions impact consumers' likelihood of cancellation after a declined payment

6A: Share of subscribers very likely to cancel their service, and share who canceled depending on which action the provider took



example, and 27 percent of text message recipients cancel. Twenty-three percent of the subscribers who receive emails wind up canceling.

Notably, the quietest action by a subscription provider — simply requiring the subscriber to resubmit their account credentials — has

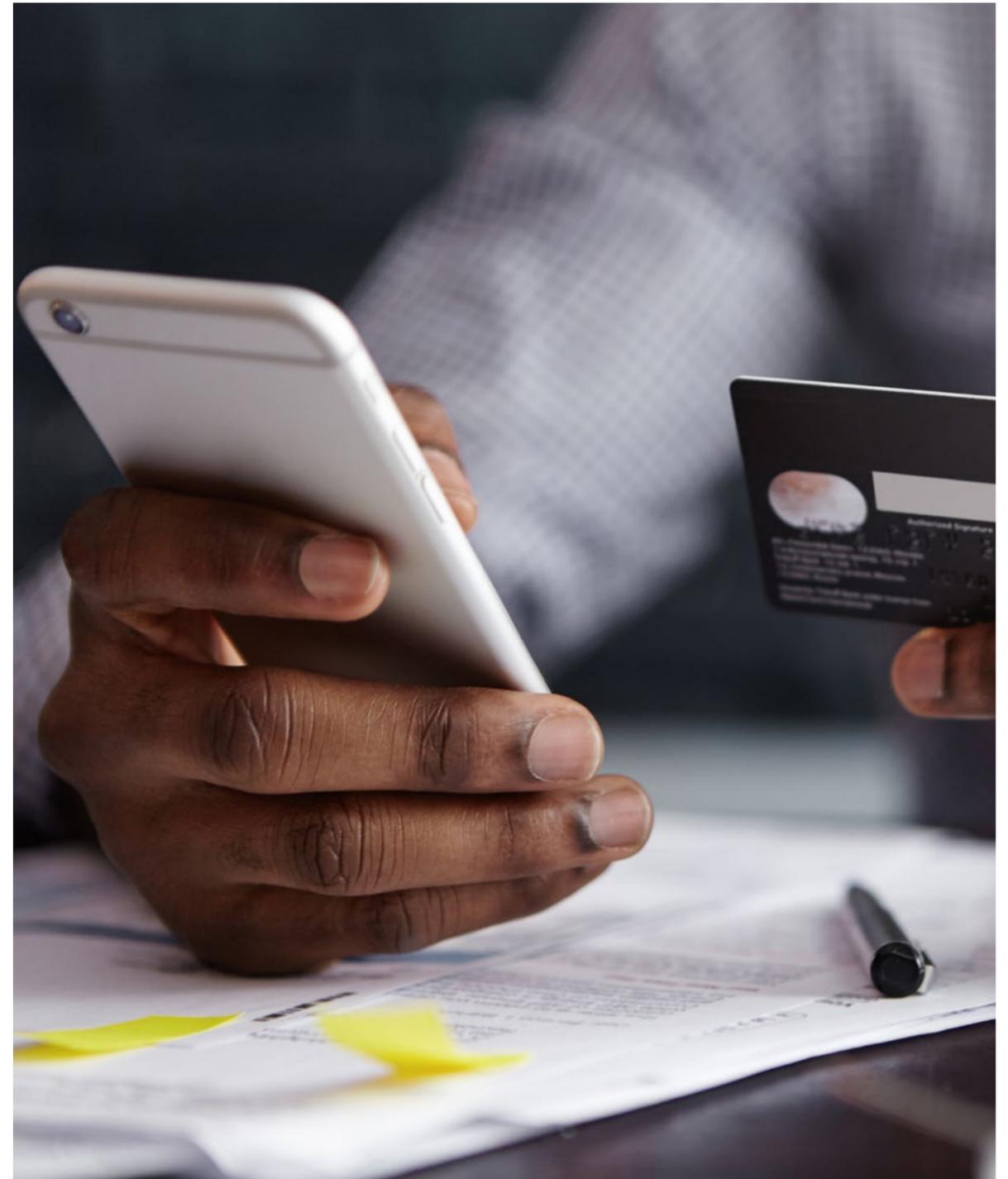
the most beneficial response. Only 19 percent of the subscribers who must supply payment or personal information to keep their accounts active cancel.

Conclusion

The subscription services market has grown rapidly in recent years, and more than four-fifths of consumers now have at least one subscription. Subscribers across all generations are also largely satisfied with their services, regardless of type, and they are typically eager to subscribe to additional ones. Factors threaten this satisfaction and could jeopardize subscription providers' relationships with their customers, especially declined payments and related payment issues. If a declined payment leads to an interruption in service, a customer who has thus far been an enthusiastic subscriber could quickly turn disgruntled. More than one-quarter of these customers are frustrated enough to terminate their subscriptions or even begin subscriptions with competitors. Providers who manage declined payments with skill and minimize the disruption subscribers face can keep customer relationships strong and position themselves for future growth.

METHODOLOGY

Optimizing Subscription Payments: How Providers Can Take The Sting Out Of Payment Declines, a PYMNTS and FlexPay collaboration, is based on a survey of 2,195 consumers in the United States from July 8 through July 16. The survey asked consumers 12 questions about their subscription services, the payment methods they used for their periodic subscription charges and how they reacted when a recurring payment was declined.



About

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PYMNTS.com is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.

We are interested in your feedback on this report. If you have questions, comments or would like to subscribe to this report, please email us at feedback@pymnts.com.



FlexPay is an AI-driven decline salvage platform. It uses advanced machine learning models to intelligently determine the best way to recover declined transactions. We’re tackling head-on the massive false decline problem associated with CNP transactions with advanced AI.

The platform recovers between 30%-50% of your declined transactions. FlexPay integrates seamlessly between your CRM and your existing payment gateway. In addition, you have access to our dedicated relationship management team - ready to assist you every step of the way.

Ask us how much money you are leaving on the table!

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