Beyond Authorization Rates: A Smarter Way to Measure Payment Performance

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Introduction

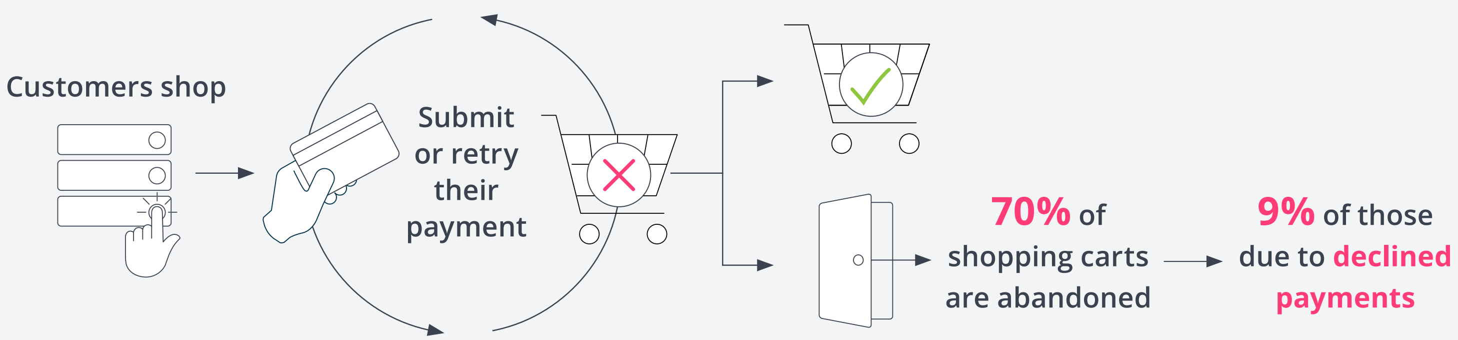
The credit card authorization rate used by eCommerce and subscription companies is a simple measurement that shows the ratio of authorization attempts approved by card issuers. While eCommerce and subscription companies know that earning the highest card authorization rates is a key goal, we find this ratio—and its relationship to optimizing revenue—is often misinterpreted, particularly by subscription companies who face challenges with recurring billing failures.

This report explains why focusing solely on authorization rates provides an incomplete view of performance. It introduces the Payment Success Rate, a metric that accurately reflects how much of your customers' revenue generation is actually captured.

Payment Processing

Payment Processing for eCommerce Merchants

The payment processing cycle for eCommerce companies is straightforward: Customers shop, and when they're ready to check out, they enter the shopping cart, put in their credit card number and place their order. If the authorization request made by the merchant is declined, the customer will either enter another card number and resubmit their order or abandon the shopping cart. If they try another card to complete the purchase, a second attempt is recorded.



According to a **2025 Baymard cart abandonment study**, 70% of shopping carts are abandoned on average, with an average of 9% of cart abandonments caused by declined payments. The resulting revenue losses are significant.

For eCommerce companies, the payment authorization rate calculation provides a reasonably effective way to assess the percentage of revenue earned from the total potential revenue customers tried to purchase. But that's not the case for subscription companies.

Payment Processing for Subscription Merchants

Measuring the success of a subscription company's payment processing system is a little more complex, because there are three times when a card authorization request can be made:

1. During the initial subscription enrollment — submitted by the customer while they are in the shopping cart, known as **customer-initiated** transactions

2. Renewal payment authorization requests made each billing cycle — **merchant-initiated**

3. Reauthorization attempts (retries) when a recurring payment is declined — also **merchant-initiated**

Calculating the authorization rate for the first two types of authorization requests makes sense because the authorization rate generally equates to the payment success rate for each customer.

But the authorization rate metric breaks down when tracking reauthorizations because it penalizes programs that deliver revenue from failed payment recovery efforts. The act of recovering failed payments generates more authorization attempts while delivering more revenue, meaning authorization decreases when revenue increases. This creates a conflict between the efforts to boost authorization rates and the efforts to increase revenue.

A Better Way to Measure Authorizations

Merchants use the card authorization rate metric as a key performance indicator (KPI) to monitor revenue capture efficiency and fraud exposure. In general, merchants want to increase their authorization rate because there are benefits when the rate increases and penalties when the rate drops or sits below card company thresholds.

1. **Higher authorization rates** = more revenue
2. **Lower authorization rates** = lower levels of trust by issuers in the merchant, suspected fraud in the transactions submitted for authorization by the business, and the possibility of technical problems that harm authorization rates

But the challenge with this metric is that improvements in the rate may not deliver on the merchant's primary objective of increasing sales and revenue. The rate can also be increased by decreasing declined payments, which doesn't necessarily generate more revenue. The following example demonstrates why.

Real-World Example

One of our customers was experiencing a 53% approval rate. The company wanted this to be higher and gave their Head of Payments a mandate to deliver improvements. They were experiencing high decline rates, so they began using a fraud tool, which allowed them to scrub likely fraudulent transactions from their payment submissions.

Using the fraud tool resulted in their authorization rate going up by 9% and they now have a 58% approval rate—they successfully increased their authorization rate by reducing the number of authorization submissions that were likely to be declined by issuers. This made them very happy: They avoided the revenue losses associated with fraud and the penalties MasterCard and Visa impose on chargebacks and refunds. But even though their costs were reduced, the increase in authorization rates didn't translate into additional revenue. While the authorization rate metric provides useful information, it doesn't correlate directly with revenue generation.

Improvements in the Payment Success Rate value is powered by changes in revenue earned and changes in approval rates.

Beyond Authorization Rates

But what if there was just one key metric eCommerce and subscription businesses could use to track their efforts to increase both authorization rates and revenue?

Introducing the Payment Success Rate Metric

The Payment Success Rate measures the percentage of revenue earned, compared to the potential revenue possible from total submitted payments, for both new and recurring customers. This metric gives a more accurate representation of the relationship between approval rates and revenue generation than the authorization metric does.

$$\textbf{Payment Success Rate} = \frac{\textbf{Revenue from Successful Payments}}{\textbf{Total Attempted Billings}}$$

Operating metrics are needed for accurate decision making, so the metrics used must provide the right intelligence. To demonstrate why the Payment Success Rate will drive more accurate decision-making than the Authorization Rate, let's track the journey of a subscription business before and after they begin using a specialized failed payment recovery solution.

Customers at the beginning of month 1: 10,000

Average subscription fee: $50

New customers added during the month: 500

Failed payment rate: 15%

Key Metrics Before Initiative

Payment Recovery	Total Revenue	Authorization Rate	Payment Success Rate
None	$450,000	86%	86%

Let's assume the company begins using a failed payment recovery solution that delivers 25% recovery on failed payments, but the solution increases the average retry count on failed payments to four attempts.

Key Metrics After Failed Payment Recovery Initiative Launches

Payment Recovery	Total Revenue	Authorization Rate	Payment Success Rate
25% Recovery	$468,750	66%	89%

In this example, the failed payment recovery solution increases a single month's revenue by 4%, generating more revenue by delivering more approved payments. However, the authorization rate decreases by 20% because the recovery process increased the number of retries.

If a team in this company had been given the goal of optimizing their authorization rate, they would probably decide to sacrifice revenue at this point. While it seems hard to believe that companies would choose to earn less revenue than they could earn or should earn, this is not uncommon. It's typically driven by selecting the wrong metrics to measure success and aligning team goals to the results of these KPIs.

Your Payment Success Rate is a more accurate measure of payment system performance, accounting for approvals and revenue.

What This Means to You

This example demonstrates that gains in approval rates and gains in revenue generation will increase the Payment Success Rate metric, while the authorization rate calculation can show a negative impact when the authorization rate of submitted payments increases, potentially driving unwanted actions and poor decision making. This is why we recommend that subscription companies use the Payment Success Rate to measure their payment processing results.

Note: For this simple example, we are ignoring the LTV benefits created by saved customers who will continue to bill in subsequent months. In the real world, the revenue gains earned from failed payment recovery are significantly larger.

Conclusion

While authorization rate is a commonly used metric in the subscription industry, it doesn't always tell the full story—and it can even result in bad decision-making that harms revenue. As shown in the real-world example and data presented, focusing solely on authorization rates can misrepresent the effectiveness of successful fraud prevention or payment approval efforts. Programs that reduce fraud or recover revenue through retries may increase the number of approvals but reduce the authorization rate because of a higher number of retries.

This is why the Payment Success Rate KPI offers a more reliable way to measure the health of your payment system. By capturing both the quality of approved transactions and the revenue earned across all billing attempts, it aligns with what matters most: customer retention and maximizing recurring revenue. For businesses aiming to grow efficiently and sustainably, shifting to this metric shows the true effectiveness of their payment performance.

Want to learn more?
Contact the payment experts
at FlexPay today.

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