




Modernizing Payments: A Roadmap from Recovery to Prevention

How leading companies are shifting from reactive
fixes to revenue-resilient infrastructure



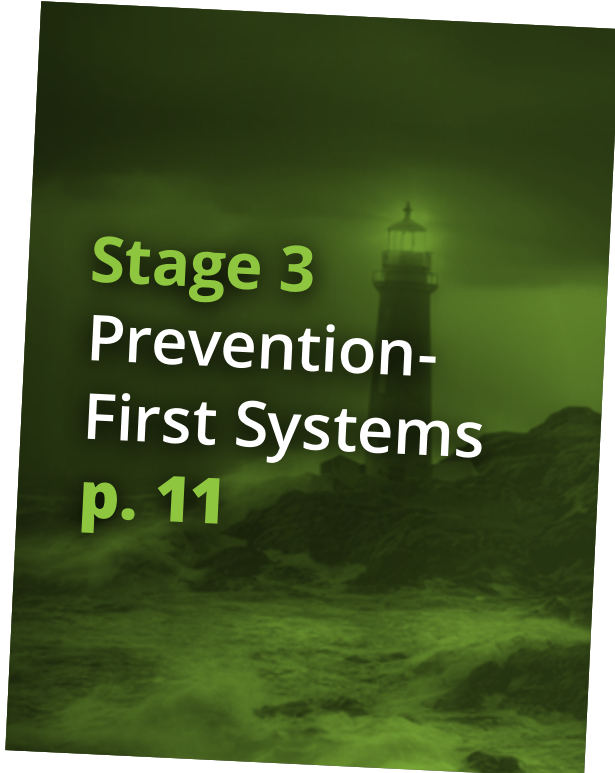
Table of Contents



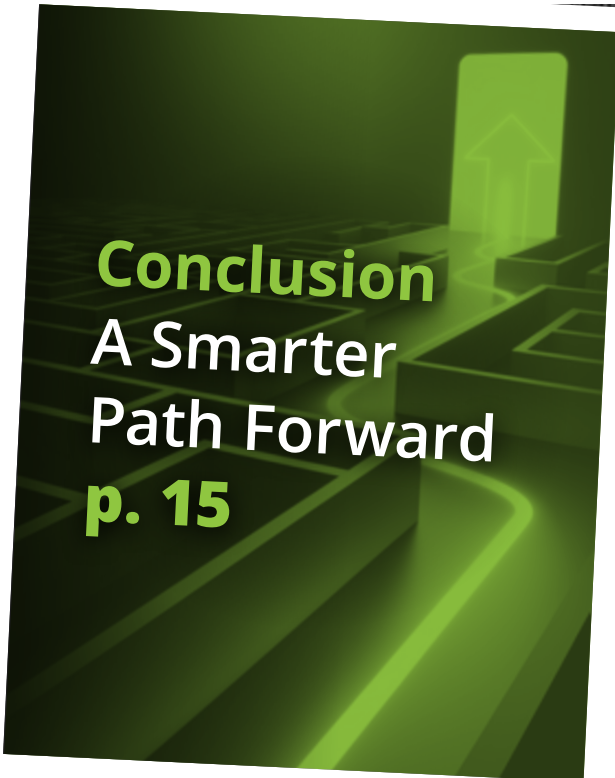
Stage 1
Reactive
Recovery
p. 4



Stage 2
Tactical
Optimization
p. 6



Stage 3
Prevention-
First Systems
p. 11



Conclusion
A Smarter
Path Forward
p. 15

Introduction: Why Recovery Isn't Enough Anymore

For years, failed payments have been seen as a behind-the-scenes billing problem—an unfortunate but expected hiccup that companies would address after the fact. According to findings in [a study by PYMNTS and Nuvei](#), 11% of transactions processed by the average eCommerce firm failed in the past year, while false declines put \$157 billion at risk in the United States alone in 2023, with an estimated \$81 billion ultimately lost.

To recapture lost revenue, many businesses have leaned heavily on dunning emails, card update prompts, and standard retry attempts. While these tactics may help recover some payments, the environment in which companies operate today has changed dramatically.

Customer acquisition costs continue to climb, consumers have higher expectations than ever, and brand loyalty is increasingly hard to secure. In this landscape, a failed payment is no longer a small setback—it can jeopardize the entire customer relationship. Each failure increases pressure on support teams, drives up churn, and diminishes lifetime value (LTV), all because a transaction didn't succeed the first time.

Recovery alone is no longer enough, however. Leading subscription and eCommerce businesses are shifting to a more proactive approach and modernizing their payment systems to optimize transaction success before failures occur. This shift doesn't just reduce friction; it improves revenue predictability, strengthens customer retention, and decreases operational strain.

This guide introduces a practical framework to help businesses evolve their payment operations from reactive to preventative. We'll walk through the three stages of payment system maturity and provide a roadmap to help you assess your current position, and outline the steps needed to reach a more resilient future.


A preventative strategy improves revenue predictability, strengthens customer retention, and decreases operational strain.



Stage 1

Reactive Recovery





Plugging the leaky revenue hole

At the earliest stage of payment maturity, most businesses operate reactively. When a payment fails, the response usually includes sending a series of dunning emails, relying on automated retries set by default platform logic, and depending on manual outreach from support or sales to re-engage the customer.

The focus here is on plugging the hole after revenue has already started to leak. Companies at this stage typically track basic metrics such as recovery rate, chargeback rate, and dunning email engagement (opens and clicks). These metrics can provide some insight into the effectiveness of recovery efforts, but they often fall short of showing the full impact on the business.

The prevailing mindset is: “We’ll fix it after it fails.” Unfortunately, this approach often leads to missed opportunities and customer dissatisfaction. Many soft declines—those caused by insufficient funds or temporary holds—go unresolved, resulting in avoidable churn. Even worse, the overall customer experience suffers, eroding trust and making it harder to win back loyalty.

By the time a business responds to a failed payment, it may already be too late to salvage the relationship.

Stage 2

Tactical Optimization




Making the recovery process smarter

In the second stage of evolution, businesses begin to enhance their recovery efforts by becoming more strategic. Rather than relying solely on default retry logic, companies start experimenting with customized retry schedules—adjusting timing, frequency, and sequencing to better align with customer behavior. Many also begin A/B testing their dunning emails to refine subject lines, send times, and messaging in an effort to boost engagement and payment resolution rates.

At this point, businesses start analyzing why payments are failing by digging into issuer response codes or platform data. They also equip support teams with better tools and training, so they can handle billing-related inquiries more efficiently and empathetically.

Metrics become more sophisticated as well. Businesses track retry success rates, email conversion rates (such as completed card updates), and customer churn following failed payments. These data points help companies fine-tune their processes and improve performance over time.

Still, despite these improvements, the approach remains reactive. All efforts are triggered by failure, and results are limited by that. Without addressing the causes of payment failure, even the most optimized recovery process will eventually hit a ceiling.



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Example:

**Hooked
on Phonics**

Timing matters. By handing off failed payments to FlexPay earlier in the process, Hooked on Phonics retained more customers, extended LTV, and achieved significantly stronger ROI.

Hooked on Phonics, a popular e-learning provider, knew that subscriber retention was key to long-term growth. But they were struggling with involuntary churn caused by failed payments.

Here's what was happening:

- Their internal recovery system was only able to recover 14% of failed transactions.
- The company wanted to improve results and improve retention.

At first, Hooked on Phonics only sent FlexPay the transactions that had already failed 10 times through their in-house recovery system. The company assumed these customers had likely churned on purpose and wouldn't be recoverable.

But FlexPay's results surprised them:

- An extra 10% of failed payments were recovered
- These recovered customers had similar lifetime value (LTV) to subscribers whose payments had never failed

Encouraged by the results, the Hooked on Phonics team decided to adjust their process. Instead of waiting for 10 retries, they sent failed transactions to FlexPay after just 2 internal attempts, and they set a clear goal: an 18% recovery rate to break even after factoring in FlexPay's fees.

After only one month:

- FlexPay was recovering 45% more failed payments than the internal system alone
- That meant FlexPay outperformed their break-even target by 150%

Payment Performance Metrics: Prevention vs. Recovery

Prevention Metrics

- ▶ **First-Attempt Authorization Rate (FAR)**

What it is: The percentage of transactions approved on the first attempt.

Why it matters: A high FAR = smoother customer experience and fewer downstream recovery costs.

- ▶ **Approval Rate (Total Authorization Rate)**

What it is: The percentage of attempted transactions that are ultimately approved, including retries.

Why it matters: Indicates overall payment system effectiveness but may mask retry dependency.

- ▶ **Decline Rate**

What it is: The percentage of transactions declined by the issuer or processor.

Why it matters: High decline rates hurt revenue and may signal data quality or fraud issues.

- ▶ **False Decline Rate**

What it is: Legitimate transactions incorrectly declined by issuers.

Why it matters: Drives unnecessary churn and lost revenue—especially in fraud-sensitive industries.

- ▶ **Involuntary Churn Rate**

What it is: The percentage of customers lost due to payment failure rather than a voluntary cancellation.

Why it matters: It's often preventable. A hidden revenue leak many businesses overlook.

- ▶ **Net Revenue Retention (NRR)**

What it is: Measures revenue growth/loss from existing customers after churn and upgrades/downgrades.

Why it matters: Involuntary churn directly pulls this number down.

- ▶ **Support Ticket Volume Related to Payments**

What it is: Number of customer service requests tied to billing or failed transactions.

Why it matters: High volume = poor payment experience = cost burden.

- ▶ **Billing Data Hygiene Score**

What it is: Measure of completeness and correctness of stored payment data (e.g., missing ZIP codes, expired cards).

Why it matters: Clean data improves approval rates and reduces preventable failures.

- ▶ **Chargeback Rate**

What it is: Percentage of transactions that are disputed and reversed by the customer.

Why it matters: Impacts merchant standing with processors and can lead to penalties or increased fees.

Payment Performance Metrics: Prevention vs. Recovery

Recovery Metrics

► Recovery Rate

What it is: The percentage of failed payments successfully recovered through retries, dunning, or outreach.

Why it matters: Measures the effectiveness of post-failure strategies.

► Retry Success Rate

What it is: Percentage of transactions that succeed on the second or subsequent attempt.

Why it matters: Helps refine retry logic (timing, frequency, method).

► Dunning Engagement Rate

What it is: Open, click, or conversion rates on post-failure recovery emails.

Why it matters: Indicates how responsive customers are to recovery efforts.

► Revenue at Risk

What it is: The dollar value tied to transactions that failed or are in retry flows.

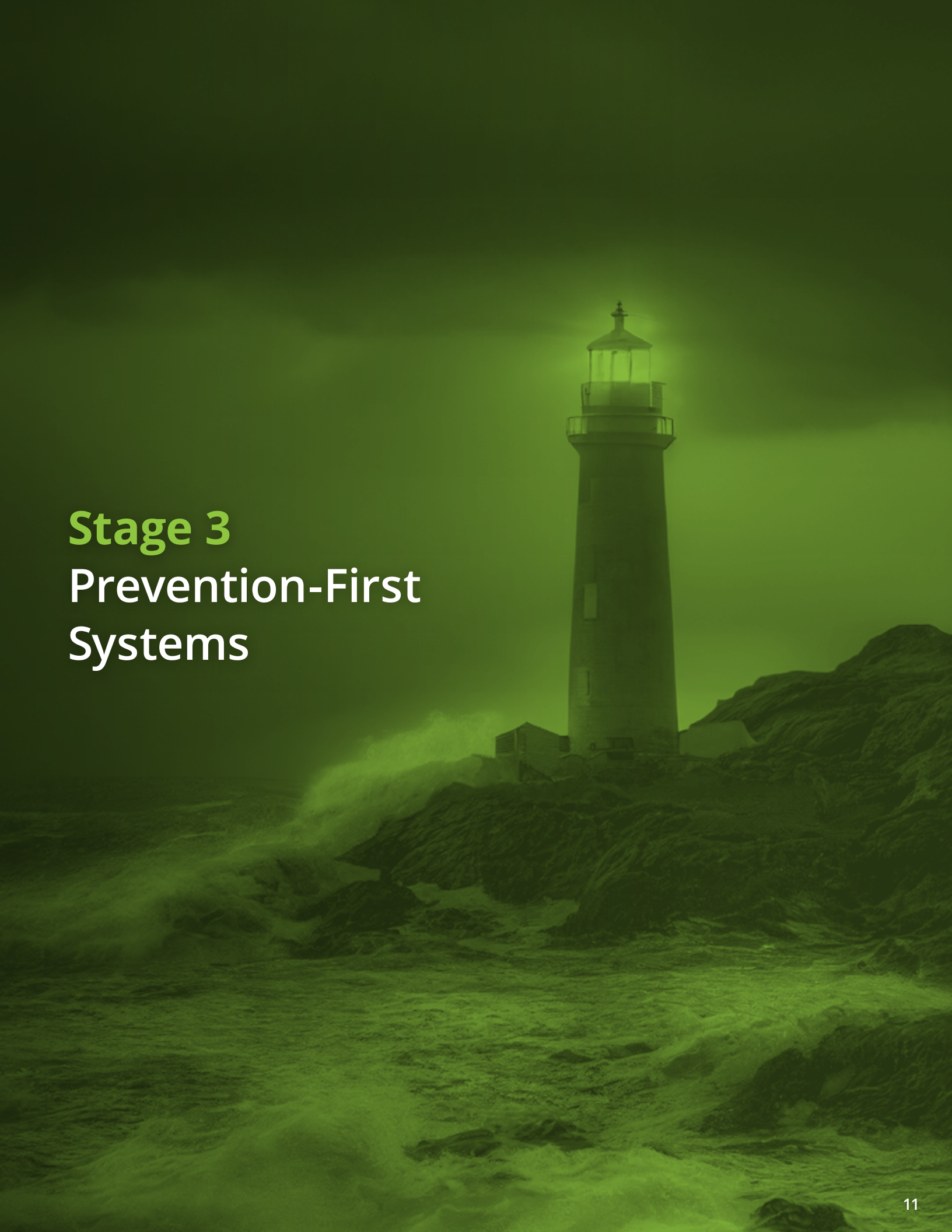
Why it matters: Shows the potential revenue loss due to failed payments.

► Recovered Revenue

What it is: Total revenue successfully recovered after payment failure.

Why it matters: Quantifies the ROI of recovery workflows or tools.





Stage 3

Prevention-First Systems

When more payments succeed on the first try, businesses spend less time recovering lost revenue and **more time growing it.**

Engineering success from the start

The third and most advanced stage represents a strategic shift toward proactive payment success. Rather than waiting for failures to happen, prevention-first businesses build systems designed to maximize approval rates from the outset.

This proactive approach includes optimizing first-attempt authorization through smarter transaction logic, predictive modeling, and high-quality payment data. Advanced companies use specialized tools to analyze historical performance and determine the best time to process transactions and use that insight to guide routing decisions. These companies prioritize clean, complete billing data and invest in reducing technical errors and preventable declines.

Equally important, they foster collaboration across departments. Fraud prevention, billing, product, and customer experience teams work together to reduce friction and increase transaction success. Instead of siloed efforts, there's a shared commitment to payment success as a strategic priority.

As a result, key metrics shift toward leading indicators of success. Companies begin tracking first-attempt authorization rate (FAR), preventable decline volume, LTV retention, and support ticket volume related to billing. Because fewer payments fail, the customer experience improves, and operational costs decrease.

Modernization Checklist:

Where Are You Today?

Not sure where your business stands on the roadmap? Use this quick self-assessment to find out. Check **Yes** or **No** for each statement:

YES NO

- 1. We send dunning emails after a payment fails.
- 2. Our retry logic follows the default settings of our billing platform.
- 3. We rely on manual outreach from support or sales to resolve failed payments.
- 4. We have updated or customized our retry schedule to improve timing.
- 5. We analyze why payments fail using available decline codes or reporting tools.
- 6. We've tested or optimized our card update flows or support content.
- 7. We track first-attempt approval rate as a key performance metric.
- 8. We optimize payment success before failure occurs (e.g., data hygiene, routing logic).
- 9. We've invested in technology or models that predict or prevent declines.
- 10. Our billing, fraud, and CX teams work together on payment success initiatives.

Your Results

YES to questions 1-3

Stage 1 – Reactive Recovery

You're still treating failed payments as isolated events. There's a major opportunity to reduce friction, improve customer experience, and capture lost revenue by moving toward optimization.

YES to questions 4-6

Stage 2 – Tactical Optimization

You've started refining your recovery efforts, but most of your work still kicks in after a failure. With smarter systems and better cross-team alignment, you can begin shifting toward prevention.

YES to questions 7-10

Stage 3 – Prevention-First

You're ahead of the curve. Your team is proactively working to reduce failure volume, retain more revenue, and modernize your entire approach to payment success.

The Shift in Motion: Get Started Now

Shifting from recovery to prevention isn't about layering on more tools; it's about rethinking how payments fit into your revenue strategy. Here are three actionable steps to start today:

Audit Your Data & Processes

- Identify the top drivers of payment failure (e.g., expired cards, false declines, insufficient funds).
- Benchmark your current first-attempt authorization rate and involuntary churn rate.
- Review data hygiene practices (billing information completeness, card updater usage).

Build a Cross-Functional Payment Team

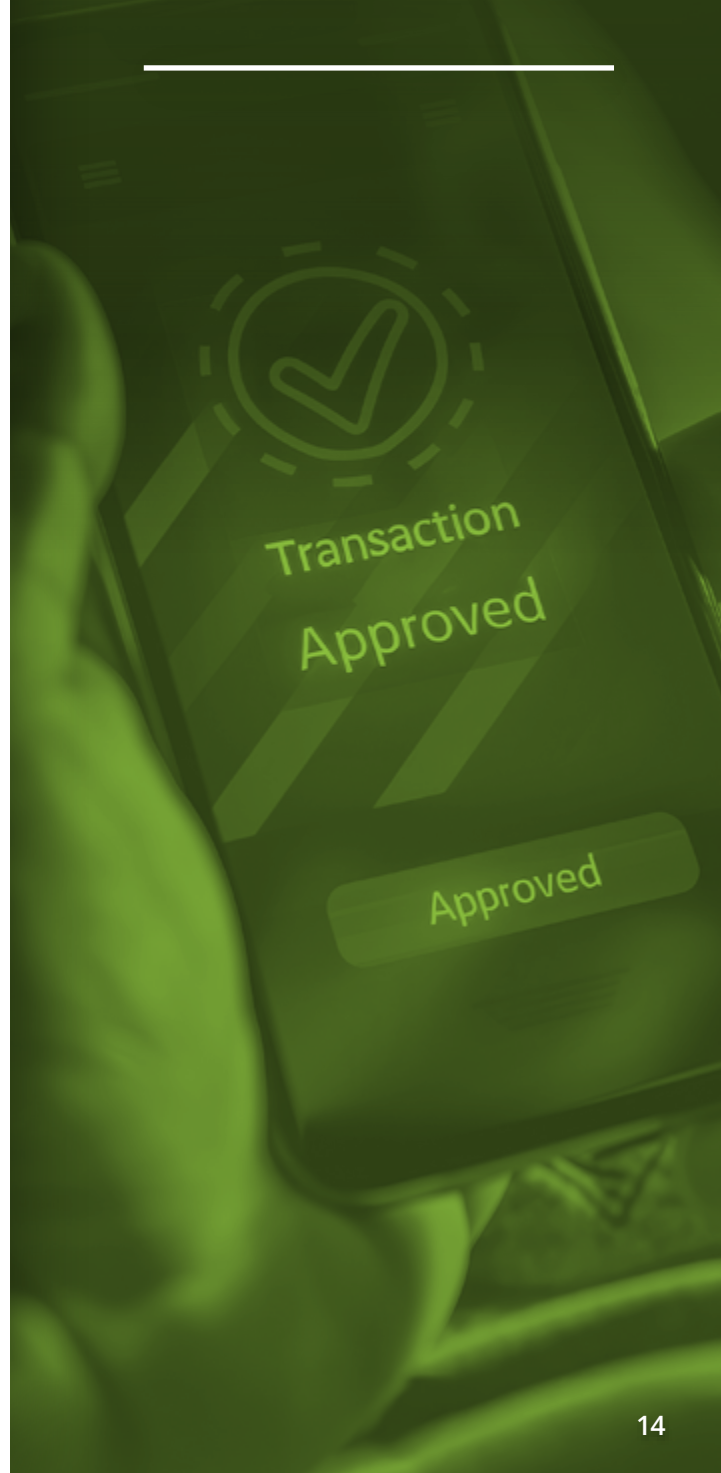
- Bring together finance, customer experience, fraud, and revenue operations teams to own payment success jointly.
- Set shared KPIs (e.g., first-attempt approval rate, billing-related support ticket volume) so payments aren't seen as "just a billing problem."

Invest in Prevention Tactics

- Improve billing data hygiene, implement smart retry logic, and adopt card updater services.
- Introduce regular reporting on preventable declines and customer experience impacts.

Equally important is a cultural shift. Businesses must move away from accepting payment failures as inevitable and instead treat them as signals that something in the system needs improvement.

**Failed payments are
preventable losses that
should be eliminated.**



A 3D maze rendered in a dark green color. A bright green, glowing path winds through the maze, starting from the bottom right and leading towards a green rectangular block in the distance. The block has a white outline of an upward-pointing arrow on its front face. The background is a gradient of dark green to black.

Conclusion

A Smarter Path Forward

A Smarter Path Forward

In today's environment of rising acquisition costs and shrinking attention spans, businesses that can't process payments reliably will struggle to scale. Modernizing your payment system begins by assessing where you are today and identifying small wins that reduce failure volume. By committing to building a smarter, more resilient payment experience, you'll prevent lost revenue and support growth.

Recovery will always play a role, of course, but it should be the safety net, not your primary growth strategy. Improving your authorization optimization is the new growth mindset. The future belongs to businesses that need recovery less often because their systems are built to succeed the first time. By focusing on first-time payment success, these proactive companies are not only reducing friction but also improving revenue predictability, boosting customer retention, and easing the burden on support and operations teams.

Because in the new era of payments, prevention isn't just possible, it's essential.

Curious about where your business stands?
Talk to our team to begin moving from failed payment
recovery to failed payment prevention.

For more information contact us.



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