Aptitude

Guide

5 steps to payment optimization and churn management

Optimizing your recurring card payments and reducing churn

The problems with payments

Payments don't just work. Every step along the path to gaining a new recurring card payment for your services is important, but the hard work isn't over once you have convinced someone to make their first payment.

The nature of a business that relies on recurring payments is that every month you will lose subscribers for a variety of reasons, some of which are beyond your control. However, what you absolutely can't afford to do is to miss out on payments and lose customers because of flaws in your payment processes.

So why do payments fail? Some of the most typical reasons are:

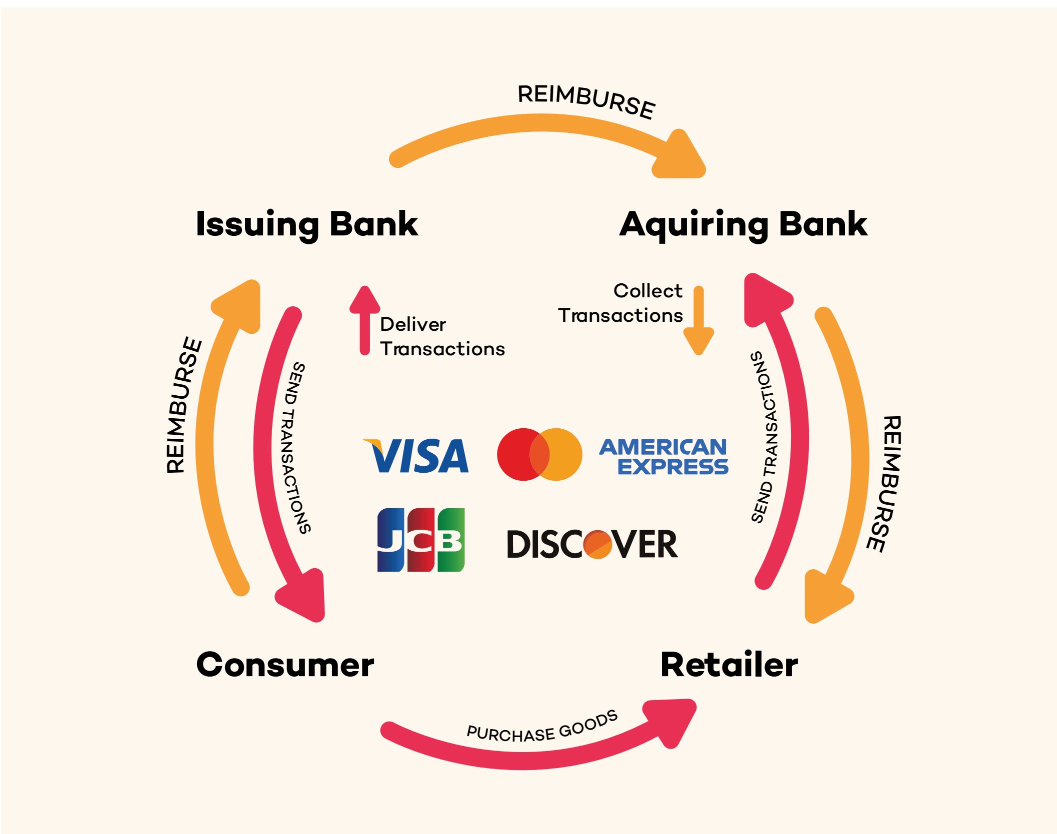
- **The customer has cancelled their subscription voluntarily due to a variety of reasons including no longer needed, not happy with content, can no longer afford, do not have time, etc.**
- **The customer has instructed their bank to revoke 'Continuous Authority' for the payments to be collected**
- **The customer performs a chargeback or disputes the transaction**
- **The card is lost, stolen or expired**
- **The account has insufficient funds**
- **The acquirer deems the transaction to be high risk for fraud**
- **The transaction is classified as 'customer not present'**
- **A recurring flag hasn't been passed into the acquirer**
- **The MCC (Merchant Category Code) is incorrect (for example, a recurring transaction for cable and Pay TV should be 4899)**

There are plenty of ways you can try to convince a customer not to voluntarily churn (offers, skinny bundles, quality of content, loyalty rewards, UX, etc.), but there are also several, more specialist practices which can be adopted to ensure you maximize approval rates and minimize involuntary churn.

Payments 101

Before we get into the details, here is the basics on how payments get processed.
Here is the four main parties involved and the directions the payments can flow:

- **The consumer who purchases the goods and services**
- **The bank who issued/provided the consumer with the card**
- **The merchant who provided the goods and services**
- **The bank who provided the merchant with a trading account to allow the payment of purchases via card.**

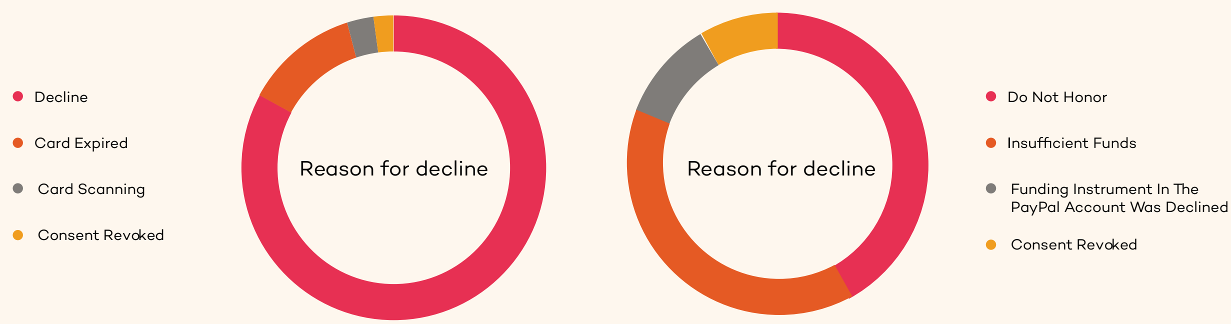


That's the simplified view but there are other important parties involved in making sure payments go through. In particular there is the Payment Service Provider (PSP), which acts as a processing gateway between the merchants and the acquiring bank. This is where so much payment optimisation can take place, as long as your PSP offers the flexibility to make the required changes. Aptitude has acted in this capacity for major clients all around the world and in this guide, we'll detail some of the work we have done to significantly reduce the number of failed recurring payments they were encountering.

1. Increasing approval rates

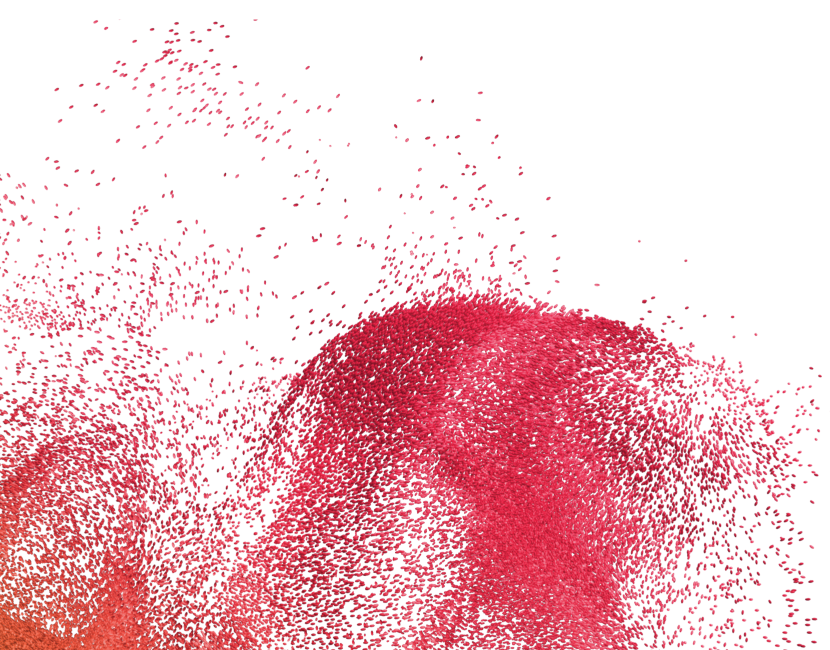
From our experience, most merchants aim for a benchmark payment approval rate of 80-85%, which means that every month they are dealing with **up to 20% of their payments failing.** At best this results in a lot of work resolving issues to get the payments approved, while at worst it leads to an unnecessary level of churn.

On the surface, it can be hard for businesses to identify why they are experiencing failed payments, as most declined transactions are simply described as DECLINE. Breaking down the results further gives little extra information, as you can see from the example below. Obtaining an ISO merchant account from your acquirer will provide a richer suite of error responses, which enables operators to gain intelligent feedback on why payments are failing, and subsequently build out retention tactics based on these responses.



Example payments analysis conducted by Aptitude on behalf of client

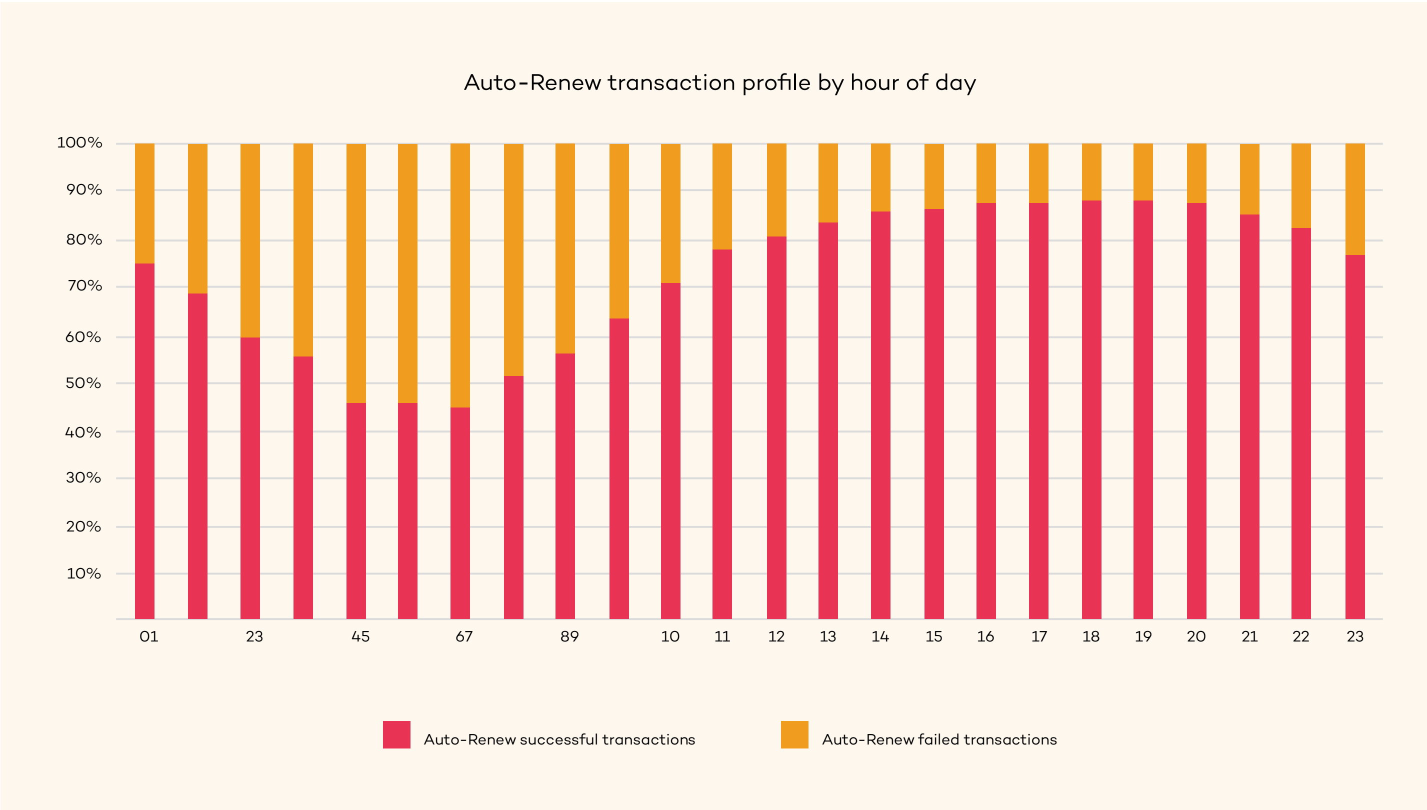
It takes more digging into the data to start seeing patterns that can be analyzed to find ways to optimize processes. Looking at the times and dates of transactions is a good start.



2. Suppression windows

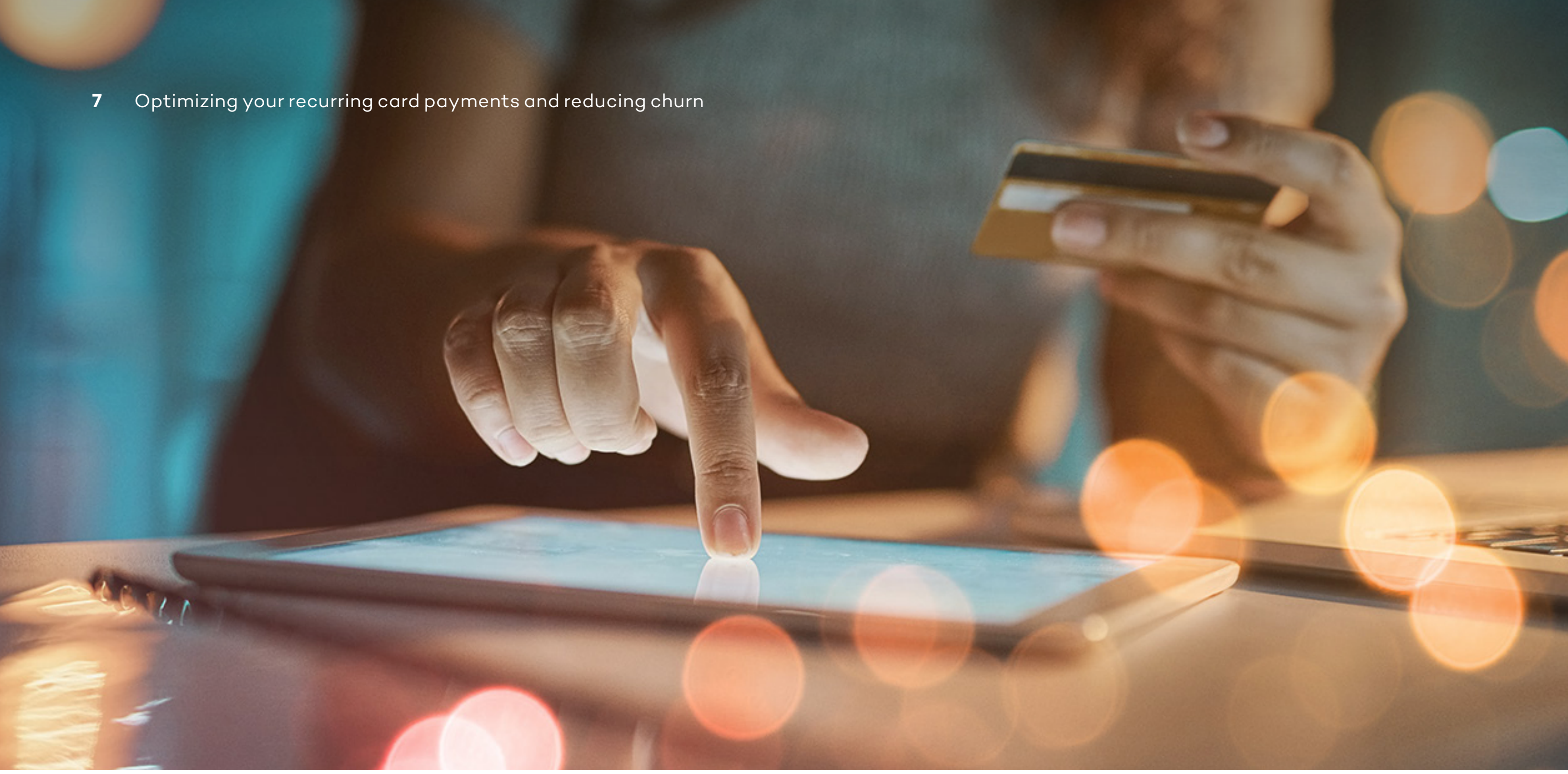
Just because a payment has failed doesn't mean that the customer doesn't want to or is unable to pay. Sometimes it's just a case of getting the timing wrong. There are times of day when a transaction is more likely to fail and these are generally overnight, due to:

- **Maintenance undertaken by the card issuers. Most card issuers conduct maintenance during the early morning**
- **Card holder account balances have not been updated to reflect new funds available resulting in declines due to insufficient funds**
- **Card issuers use a more robust fraud rule set during maintenance which could impact approval rates**
- **When high street banks close they start to process huge volumes of batch processing of transaction files, which can cause disruption**
- **Card issuers' standard fraud protection rules tend to be stricter during the early morning hours, when legitimate card owners are assumed to be asleep**



When you have identified times of the day when transactions are less likely to be successful, which can vary from acquirer to acquirer, it makes sense to avoid trying them at those times, right? This is where Suppression Windows can be utilized, blocking out times when the risk of a failed payment is at its highest. Furthermore, Suppression Windows also work on a per-country basis, enabling companies to specify optimal local times for subscription transactions to be presented for payment processing. It's a simple way to cut down on the number of failed payments and this type of consultancy forms a part of the relationship between Aptitude and its clients, who share the same goals.

Suppression Windows can also be used when you have identified specific days of the month that are more likely to result in a failed payment attempt. As well as looking at the available data, you can also use common sense to pick out the days just before the middle or end of the month (typical paydays) as times when bank accounts might be more likely to have insufficient funds in them. Suppressing payment attempts at these times of the month spares your customer the embarrassment and inconvenience of potentially losing their service as well as ensuring that more of your payments go through first time. This is also true of sophisticated Retry Rules, should a recurring transaction fail initially.



3. Retry rules

If a payment has failed, that doesn't need to be the end of the story. As we've already explained, there can be many reasons why it might happen on the first attempt, which could only be related to a temporary issue, whether it's a security precaution or a short-term lack of funds. It's common practice therefore to try again to take the payment, and this is often automatically done 24 hours later, but that could be subject to the same problems, especially if the time of day was an issue the first time around.

Through richer error code messaging for failed transactions, intelligent subscription management platforms, such as eSuite, will apply different retry rules based on the reason for failure, and trigger bespoke email communications to the customer.

Setting up multi-layered retry rules gives you the ability to determine how many times - and crucially at what times – the collection of payment is reattempted. This means you can retry at times when there is more chance of the payment being successful - again, referencing data from suppression windows - which is usually during normal banking hours.

When a consumer subscribes to a recurring service they are giving the operator explicit permission to bill them every month until they choose to cancel. Therefore, they will have no objection to you making sure you are successfully collecting their payments to ensure they don't lose their access.

4. Card updater services

Businesses can realistically expect that around 24% of cards registered for payments will expire in any given month, which presents a major challenge in terms of collecting payments. This is a time-consuming job for service teams to contact each customer to get the updated details to process the payment.

Only the most diligent customers will remember to update their card information after one has expired, which leaves the best-case scenario being that they will input the new details once they have noticed their payment has failed and they have lost the service. The worst-case scenario would be that they decide not to bother updating it at all and let their subscription churn.

This is avoidable thanks to the Card Updater Service available within eSuite. This works with Visa Account Updater and Mastercard Automatic Billing Updater to get the new details for expired, lost or stolen cards and seamlessly update them automatically within your customers' payment wallet without any customer interaction.

It can be used to update cards in batches - on a daily or weekly basis - or to automatically call up the Visa or Mastercard updater services at the point of failure, but either way this makes for a frictionless experience for the customer without their intervention and prevents you from having to spend time fixing the issues.

5. Turn the churn

Like all services, there are customers that will inevitably churn voluntarily. Reasons for this include no longer interested in the service, can no longer afford the service, just wanted to try the service for free, product/content updates and beyond.

Gathering that information as part of the cancellation process enables the service to tailor a winback flow to entice them back to service. For example, if a customer has expressed that they can no longer afford the service, then triggering a voucher code for 50% off 3 months and showcasing content likely to appear in the next 3 months that is tailored to their viewing habits can seriously increase the likelihood of that customer staying subscribed. 50% of that customer's payments, with 3 months to re-entice the customer, is much better than 0%.

And there are several tactics, using services such as eSuite and its partners, which can be adopted to prevent churn.

Examples include:

- **Targeted offers and promotions such as discounts, free months, additional entitlements, etc.**
- **Offering the ability to pause subscription payments & entitlements**
- **Content recommendations based on previous viewing habits**
- **Upgrade/downgrade/switch subscriptions to provide a more tailored service to the customers' needs**

Predictive churn

Tactics to turn the churn commences at the point a customer triggers the cancellation process. However, what if there were reports that were sent directly to your marketing department that identified those customers which are most at risk of churn over the forthcoming weeks or months. Well, such activity is possible with eSuite.

Leveraging Machine Learning algorithms, companies can accurately **identify up to 90% of customers who will churn** next month. This provides incredible insights to your subscriber data by providing you with a monthly report of the customers who are about to churn and enables you to act decisively, by targeting them with an offer/incentive to retain their customer status.

Other tactics

Increasing your approvals can be done in several ways and here are some additional actions that you can take to give you the best chance of most of your payments going through:

- Recurring flags - Payments where the customer isn't 'present' or inputting their CV2 number each time can have a higher risk rating, so flagging the payment transactions as recurring gives the banks even less reason to treat your request as potentially suspicious when it recurs.
- Cards with lower approval rates - We have found through our analysis of payment renewals that pre-paid cards, cash cards and even some branded credit cards can consistently fail to be approved. Digging down into this data and reviewing which cards you'll accept is another way of cutting down on payment issues.
- Getting the configuration right - Payments can fail simply due to badly configured accounts that cause the banks to reject them.
- International vs domestic acquiring - Approval rates can be much higher for merchants operating payment routing and domestic acquiring in specific markets.

Conclusion

So, what kind of impact can payment optimization and retention tactics have on your business? For one of our major TV clients, failing payments were costing them time and money every month. Around 10% of their recurring payments were failing, which may be a figure most businesses would envy, but they wanted to improve on it with our assistance.

We launched our Retention & Recovery churn management module with an operator, utilizing the tactics we've mentioned in this guide, including the Card Updater Service, Retry Rules and Suppression Windows.

Their payment approvals rate increased to more than 99%, meaning that failures were down to less than 1% within 12 months, providing a **multi-million pound positive impact on their bottom line.** This was done through an iterative process, prioritizing some key areas and incrementally releasing new features across several months while monitoring the improvements.

If you want to start working on improving your approval rates on first and recurring transactions, or minimizing voluntary churn, have a chat with our OTT and Publishing experts and we can start working together to deliver these kinds of results for your organization.

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