

EBOOK

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# Routing, Recycling and Retries:

3 Rs That Can Boost Your  
Subscription Payments  
Profitability



**REBAR**  
— TECHNOLOGY —



Over the last few years, subscriptions have become more popular and a more important profit center for many businesses. The UBS financial services firm predicts that the “subscription economy” will grow to \$1.5 trillion by 2025, more than double the \$650 billion it’s estimated to be worth now. While digital services drove early growth, subscriptions can now be found in industries as varied as residential services, brick-and-mortar retail, convenience and retail fuel, physical goods and travel and tourism.

Regardless of your industry, your business might find subscription services beneficial for many reasons, including revenue predictability, customer loyalty, and new opportunities for regular customer engagement. Subscription services also deliver significant data that can be leveraged to drive further success.

For many companies, it’s not *if* they create subscription packages but *when* and *how*. To maximize your chance for success, you must find the most attractive subscription offers and also concentrate on these three key areas:

**1 Create and implement an effective launch and growth strategy.**

**2 Choose a customizable, scalable software platform that seamlessly integrates with your existing internal systems.**

**3 Undertake continual process optimization to lower fees, reduce churn and collect more efficiently.**

It’s the third of those key areas, continual process optimization, where the 3 Rs—routing, recycling and retries—come into play.



A subscription service might have thousands, tens of thousands, or hundreds of thousands of subscribers. Small per-customer costs look inconsequential when examined individually but can be considerable when viewed long-term, significantly impacting the bottom line.

**TO OPTIMIZE THE SUBSCRIPTION PROCESS, YOU SHOULD PURSUE THESE GOALS:**



**Minimize Processing Fees**

Imagine you are doing \$15M/month in online subscription revenue. If you can reduce your credit card fees by only half a point, you will directly add \$900,000/year to your bottom line.



**Maximize Collection Rates**

Using the same \$15M/month example, a nominal improvement of collection rates from 87% to 95% represents \$14,400,000 in additional revenue per year.



**Accelerate Cash Receipts**

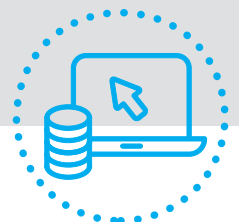
For fast-growing companies, cash flow is critical. Reducing delays in collecting payments by even a few days can significantly impact operations.

**Failed Subscription Collections Have a Tremendous Impact**

According to one study by LexisNexis Risk Solutions, failed payments cost the global economy \$118.5 billion in fees, labor and lost business in 2020. *In some industries, estimates peg the loss of revenue from failed payments for online subscriptions alone to be as high as 25%.* Even a fraction of that is significant. Would your business benefit from an additional 5% revenue by cutting down on failed collections? Of course!

**“We thought our collection rates were fairly standard in the industry, but through effective process optimization, we were able to increase these rates by eight full percentage points, generating millions in additional revenue.”**

*–Residential Services Business*





# Routing



Get the most favorable rates for every transaction while improving speed and reliability.

Routing refers to the ability to route each payment transaction to the optimal processor (frequently, this is the processor that offers the lowest rate for the payment type). Many subscription platforms, and particularly off-the-shelf solutions, limit that ability by routing all payments to a single provider. Others offer this capability but lack the sophistication to optimize results. Thousands, if not hundreds of thousands or millions of transactions later, the ramifications of such restrictions become apparent, as even a fraction of a point difference can put a major dent into your profits. Without ample routing flexibility, you are also at the mercy of down servers slowing or even canceling payments.

On the other hand, imagine the advantages of flexibility and the ability to route each credit, debit, ACH and prepaid transaction to the lowest-cost provider. Businesses can also take into account chargeback risk factors, which currency is being used, and volume thresholds (taking advantage of volume tiers at different processors). Routing can even be automatically altered when platform outages occur. In these cases, collection delays or cancellations are practically eliminated as the system merely reroutes payments to another processor immediately.

Any subscription platform that fails to offer routing flexibility is a platform you probably want to avoid, or that you should incorporate with caution.

**“We are constantly on the lookout for the best routing options. By optimizing our routing and processing, we’ve been able to realize a reduction in fees of \$500,000 per year—a huge win.”**

*—Consumer Products Business*

The 3 Rs (**routing, recycling and retries**) are the keys to continual process optimization. Let’s look into each.

## Optimizing Processors Has a Major Bottom Line Impact

Annual fee payments for a \$15M/month subscription business at various rates.

Total Annual Fees Paid	Average Transaction Rate
\$6.3M	3.5%
\$5.4M	3%
\$4.5M	2.5%
\$3.6M	2%

Your payments should be set up to automatically reroute based on several factors to take advantage of the biggest cost savings and speed, including:

- Payment Type
- Currency/Country
- Amount
- Product
- BIN/Card Type
- Attempt Number
- Volume Thresholds



# Recycling



## Keep hard and soft declines from becoming involuntary cancellations.

Recycling refers to attempts to recover a declined recurring payment due to the issuer or the customer. The most common decline codes related to this issue are “*Insufficient Funds*,” “*Over Limit*” and “*Do Not Honor*.”

These are often referred to as either hard or soft declines. In both cases, the customer has not voluntarily canceled their subscription. Without a good subscription payment partner at your side, however, that customer could still be lost.

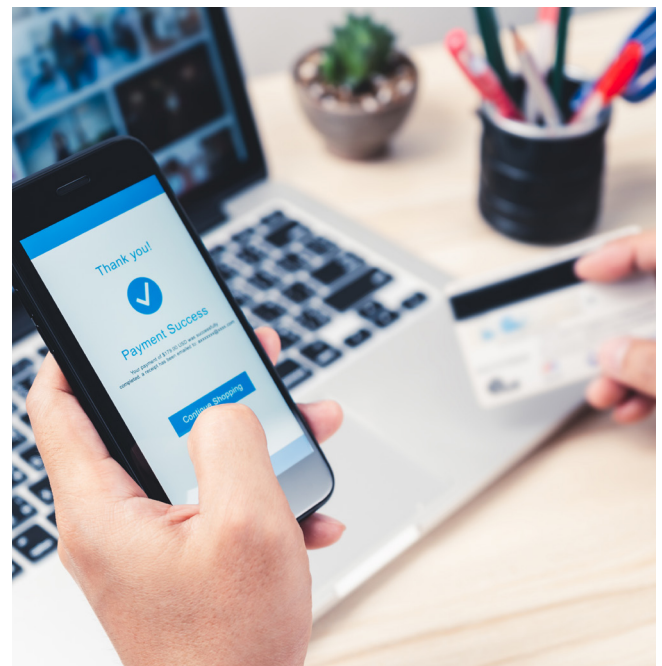
A hard decline is when a customer has canceled their credit card or closed their bank account. A soft decline is when the customer’s account is still open and available, but payment is declined because there is no room to buy on the account (e.g., the customer has reached their credit limit or has insufficient funds). Your business can limit the impact of soft and hard declines through both proactive and reactive tactics.

Proactively, you can ask customers to set up alternate payment methods during enrollment or at any point during the relationship. Be careful not to add another layer of friction to the signup process! You can do this by making the secondary payment method optional, or accepting payment from an online payment system such as PayPal.

Reactively, you can build out a process for when and how to recycle transactions based on business rules for which type of card the customer has on file. For example, a declined prepaid non-reloadable card may not be worth retrying. If the subscriber paid with a debit card or ACH account, overdraft fees might apply and retrying payment methods may trigger more overdraft fees, frustrating customers. If businesses want to take this risk, they should try debit cards on the 1st and 15th of each month as people typically get paid on these days.

## WHAT IS A GOOD BENCHMARK FOR DECLINE RATES?

Gauging decline rates by comparing to others is not always helpful. Not every business calculates collection rates the same way, and with so many variables—from churn to chargebacks to authorization rates—finding common ground is a task in itself. The best measure is to benchmark against yourself. Watch decline rates closely and work with an expert partner to execute actions for continual improvement.



# Retries



## Address technical or configuration errors to maximize billing success.

Retries refer to the need to reprocess a payment if the first attempt results in a technical or configuration error. Example decline codes related to this issue are “No Such Issuer” or “Invalid Transaction.”

These errors can occur for many reasons, such as from a processor outage (the most common cause) or from entering incorrect information like an invalid card number or bank routing number, or an expiration date that is in the past. Each of these errors may result in a credit card or ACH decline.

In many cases, decline codes require a manual intervention to fix. Often, a merchant won't even realize there is an issue. On some platforms, the subscription will be automatically canceled!

The best way to solve this problem is with a subscription payment partner that helps to properly monitor and correct these issues, many of which can only be fixed manually. The same can be said for many payment errors, such as those based on card acceptance limitations. For example, if a company doesn't have Discover enabled on their merchant account and a customer tries to pay using their Discover card, the payment will fail. It's up to the merchant or a subscription partner to notify the payer and suggest they try a different credit card.

Failed payments will happen, and losing a single purchase may be negligible. For a subscription service, however, each canceled purchase reverberates as the losses compound month after month, year after year. Even small errors can add up to significant revenue losses.



# \$300,000

revenue lost in one year\*

\*Revenue lost from just 0.5% of transactions failing based on a \$10/month subscription and 500,000 transactions/month, not including natural attrition or other voluntary cancellations.





To best minimize declines and the associated subscriber churn that they generate, you need to manage the 3 Rs and follow these strategies, which will help reduce your decline rates and maximize retention.



### Monitor All Decline Codes Closely

Decline codes are to be expected, but a sudden spike in any particular code is worth investigating. For example, a while back, Costco switched their rewards membership card from American Express card to Visa. During this process, each customer's card was re-issued, which meant that any recurring biller with a Costco co-branded card in their portfolio saw declines.

### Handle Chargebacks Correctly

Chargebacks occur when a customer disputes a charge on their account. This may happen for various reasons, but one major cause is a lack of clarity as to the source of the charge, leading the customer to believe it is fraudulent. Handling chargebacks properly and fixing any root problems not only improves collections and conversions but reduces fees and improves authorization rates. It also keeps businesses out of network chargeback reduction programs like Visa's VCMP, with strict remediation requirements enforced by hefty fines and penalties.



### Increase Customer Communication

You can reduce subscriber churn with proactive communication, especially around how the customer uses the product. Proactive communication keeps your business front and center in customers' minds and can introduce different product features that a customer hasn't used yet, adding subscriber value. Proactive communication also builds loyalty and customer trust.

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## Engage With Canceling Customers Before They Leave

Simply asking customers why they are leaving gives you one last chance to retain the subscription. For example, suppose a customer cancels because they feel like they aren't using the service enough. In that case, you could offer the customer a lower tier to retain them in some capacity.



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## Learn From Voluntary Cancellations

In a voluntary cancellation, the customer has initiated the request to cancel. But this doesn't mean you should simply move on. One major mistake businesses make is not asking the customer why they're leaving, as this may uncover a problem that will impact other subscribers. For example, if a customer cancels a subscription because they find a service too difficult to use, you can take steps to fix the issue(s) before more customers churn for the same reason.







# The Value of an Intelligent and Customized Approach: **Rebar Technology**

In order to take advantage of the many benefits of subscriptions, you need to be aware of the many payment challenges and opportunities out there. Remember, just like any single offer will never be perfect for every customer, a single approach will never be ideal for every business. But by focusing on the 3 Rs and by integrating best practices such as continual monitoring of payments, optimizing approaches, and reevaluating technical tactics, you can maximize the positive impact on your bottom line.

That's where a company like Rebar comes in. As experts in subscriptions and subscription payments, we combine a diverse collection of merchant, vendor and consulting perspectives along with decades of payment industry expertise. Our subscription billing management is explicitly designed to give you the best of subscription services—the freedom to create the best subscription payment platform for your needs, the flexibility to deliver optimized customized services, and the experience to optimize your bottom-line profitability.

Let's make the most of *your* subscription services with the 3 Rs and more. [Contact us](#) to get started.