The Economics of Decline Salvage for Companies with Recurring Billing Models

PROTECTING MONTHLY RECURRING REVENUE FROM CHURN

(The Simple Economics of Decline Salvage for Companies in the Subscription Economy)

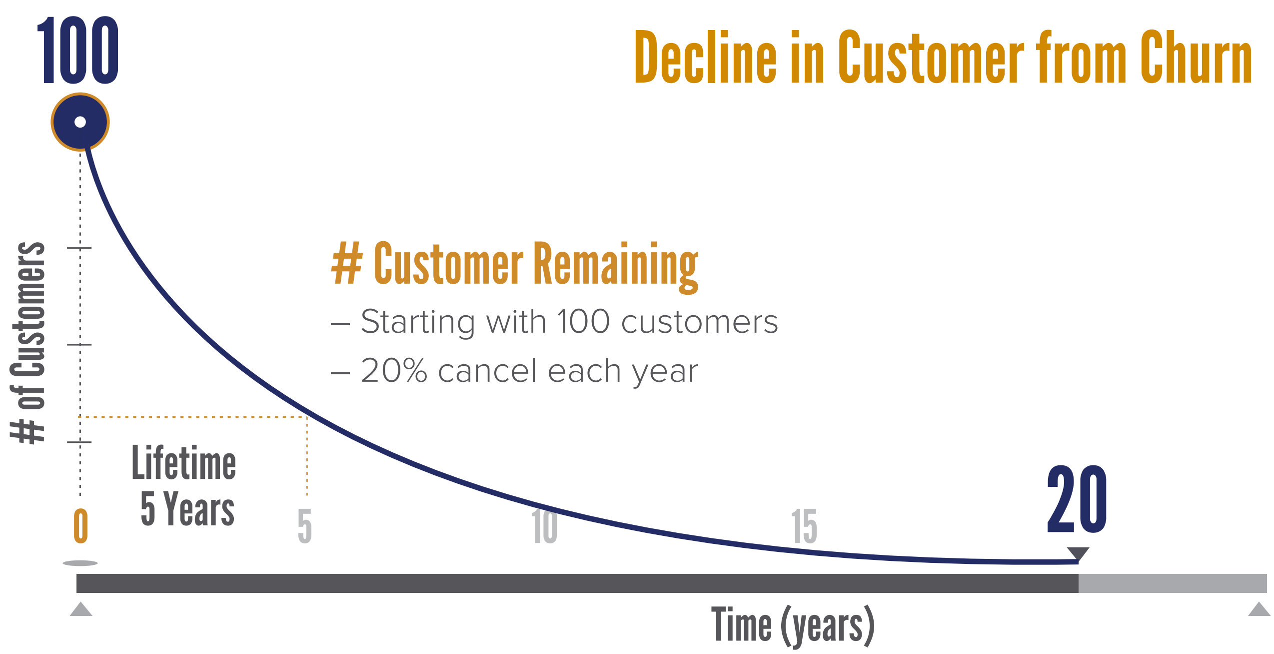
Improve monthly recurring revenue (MRR) by reducing churn from “card declined by processor”

Churn from “card declined by processor” – is estimated to be responsible for 2-5% of all potential sales.[1]

While losing customers to cancellation is bad, losing customers who want to keep paying you is painful. Merchants that properly manage “card declined by processor” can reduce churn and recover revenue some would consider uncollectable.

In businesses that depend on monthly recurring transactions, churn is defined as the number of customers cancelling (ΔC) per time interval (Δt) divided by the number of customers at the beginning of the interval (C).[2]

Every customer lost to churn today negatively impacts future annuity revenue. A negative churn has a negative exponential distribution, opposite of positive exponential distribution of viral growth.[3]



[1] http://baymard.com/blog/credit-card-declined

[2] http://chaotic-flow.com/saas-metrics-faqs-what-is-churn/

[3] http://chaotic-flow.com/saas-metrics-faqs-what-is-churn/

When calculating churn against MRR, subtract the number of customers remaining at the end of a month from the number of customers at the beginning of a month and divide by the number of customers at the beginning of the month. Then, multiply the monthly churn rate by twelve to get the annual churn rate.

Any business that depends on MRR will see churn from unwanted credit card errors.

It is important to understand that churn not only happens when a customer comes up for renewal, but it also happens much earlier in the customer lifecycle. Simple reasons (such as an incorrect credit card number or expiration date, insufficient funds, credit card rejecting an international charge, or other technical issues) are as much to blame for churn as a cancellation. One example is the "Card declined by processor" error, in which case the card information is often correct but the bank won't allow a merchant to charge the card.

While many other processes can be improved and optimized, churn from *"card declined by processor"* – is estimated to be responsible for 2-5% of all potential sales.[4]

The Role of Decline Salvage on Churn

Losing customers to buyers remorse or cancellation is bad enough, but losing customers who want to keep your subscription, loyalty or other product or service is particularly painful. Verifi recognized this problem early on and developed a Decline Salvage service and proprietary logic to help its merchants recover revenue that merchants might otherwise consider uncollectable.

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How does Decline Salvage work?

- Merchant's decline transactions are loaded in to the Verifi system via automated generation or via batch file to the Verifi FTP service.
- File is systematically analyzed and processed generating a response file containing a list of successful new authorizations.
- Files are secured using PGP encryption and transferred from and to the merchant to using secure FTP protocols.
- Integrating Decline Salvage typically takes 1-2 business days depending on the resource availability of the merchant's technical team.
- Stand-alone integration is available; however, Clients leveraging the Verifi Global Payment Gateway have ability for streamlining the integration and enabling Decline Salvage.

[4] http://baymard.com/blog/credit-card-declined

Conversion Rates From Decline Salvage

With Verifi's Decline Salvage, merchants can recover customers that would otherwise be lost to a card decline. Recurring customers are valuable. Verifi, through it's issuing bank relationships, participates in over 120 million transaction queries per day. This allows Verifi to gain unique insight into credit card patterns and customer behavior. As a result, Verifi has achieved **DOUBLE DIGIT** billing recovery success rates for its clients. Not only does this provide immediate, bottom line income in the form of upfront, salvaged dollars, but the retained customers continue to increase the lifetime value for each customer that merchants require for profitability.

Decline Salvage improves overall conversion rates. Although every business is unique, and we can't predict results without reviewing a merchant's decline transaction profile, the Decline Salvage service delivers a significant positive ROI every time and significantly adds to a merchant's bottom line. Take, for instance, the example below:

If a merchant has 10,000 current subscribers and bills the average invoice at $50, that merchant will recognize $500,000 in revenue each month from the recurring base, if successful, on all billings. If we assume an average decline rate of 20%, and take into account Verifi's success rate through the Decline Salvage process, the numbers speak for themselves.

Profit Improvement @ Various Decline Salvage Rates

	$ Value of Declines per month at 20%	5%	10%	25%
Monthly Benefit	$100,000 per month	$5,000	$10,000	$25,000
Annualized Benefit	$1,200,000 per year	$60,000	$120,000	$300,000

These conservative recovery rates alone illustrate the potential revenue that can be reclaimed, not to mention the lifetime value that can be salvaged for each customer retained and recovered.

Verifi's Decline Salvage service is offered as a standalone or bundled with Verifi's other world-class risk management solutions.

The ROI is easy to understand. Verifi steps in after a merchant has exhausted the internal recovery process and customer relationship termination is the remaining action. Pricing is performance-based, so merchants only pay when more revenue is created through the Decline Salvage process.

**Decline Salvage results are not guaranteed. Success is determined on a case-by-case basis and is dependent upon various factors outside of Verifi's control.*

About Verifi

Since 2005, Verifi has been a leading provider of global electronic payment and full-suite risk management solutions, helping card-not-present merchants improve their bottom line with industry-leading chargeback recovery rates of over 50%. The highly customizable payment and real-time reporting platform serves as a foundation for Verifi's suite of fraud solutions and risk management strategies. With a commitment of reducing risk while increasing profitability for clients, Verifi's multi-layered approach enables transaction risk management and mitigation, business optimization strategies, cardholder authentication and chargeback representment for all major credit card brands. Verifi is PCI Level 1 certified and headquartered in Los Angeles, California.

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