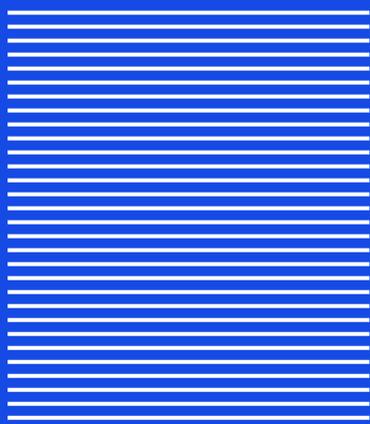
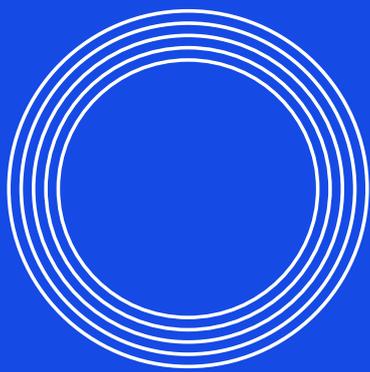


# The payment success index

2020



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Some payments fail. How often payments fail depend on several factors: the payment methods you use, the quality of your payment experience, and your customers' ability and willingness to pay, to name a few.

But there's an odd phenomenon concerning payment failures. Businesses accept them as an inevitability, as something to write off as a part of doing business.

Failed payments can hurt your business in seriously damaging ways, though, especially if the rate at which payments fail gets too high.

When you're collecting money you're already owed, failed payments lead to bad debt. For subscription businesses, failed payments lead to involuntary churn, where an otherwise happy customer can't make a payment and loses access to your service. On average, [30%](#) of a subscription business' churn is involuntary. Even your most loyal customers aren't immune from failed payments.

But what is a good payment failure rate for a business that collects payments on a recurring basis? Or to put a more positive spin on things, what's a good payment success rate?

To find the answer, we analyzed payment data from over 55,000 [GoCardless](#) customers to create a payment success index. We think it's important for businesses to understand how their own failure rates measure up, and what that means from a revenue point-of-view.

Virtually every customer journey involves a payment collection of some kind. And a payment failure marks a fork in the road where an "unhappy path" begins. Understanding, and eventually minimizing, payment failures is fundamental to creating a positive experience for the highest possible percentage of your customers.

To summarize, payment success matters. It matters for your business' health, and it matters for your customers' journey with your brand. And it's previously been woefully under-discussed.

Let's change that, and in the process reduce your churn, minimize your bad debt and forge better relationships with your customers.

DUNCAN BARRIGAN,  
CHIEF PRODUCT OFFICER,  
GOCARDLESS

# HOW WE CALCULATED THE PAYMENT SUCCESS INDEX

The GoCardless payment success index looked at the cumulative payment collection data from over 55,000 GoCardless customers. The index includes all payments that were created in the first quarter of 2020. To provide a comparison, we also analyzed data from the first quarter of 2019. In total, over 52 million payments were analyzed.

For further insight into the state of recurring payments, we also surveyed 900 external businesses on their experience with failure rates. This survey, carried out between 26 February and 10 March 2020, includes failure rates by different payment methods, as a comparison to the bank debit mechanism used by GoCardless.

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## 52M

In total, over 52 million payments from 2019 and 2020 were analyzed

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### The index includes the following metrics:

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#### Payment failure rate:

The percentage of payments that have been submitted but subsequently remain uncollected.

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#### Total revenue:

The total value of payments submitted by an average business. Data is taken from over a 3-month period, extrapolated to show a 12-month projection.

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#### Total uncollected revenue:

The average uncollected revenue by a single business. Data is taken from over a 3-month period, extrapolated to show a 12-month projection.

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#### Average transaction value (ATV):

The average value of a submitted payment.

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#### Payment failure rates by maximum retries per business:

The average failure rate of payments by the maximum number of retries a business has attempted.

## FINDING 01:

### 2.9% OF PAYMENTS FAIL

The global benchmark for recurring payment failure in 2020 is 2.9%. This means that, on average, one in every 34 payments submitted will not be collected successfully. This is a slight increase on 2019 when the failure rate was 2.8%.

While businesses are slowly paying more attention to payment failure rate as a [key metric](#), the slight increase in failure rates from 2019 to 2020 shows that there is no room for complacency in your payment experience. External factors, including the global COVID-19 situation, may continue to affect failure rates.

1/34

On average, one in every 34 payments submitted will not be collected successfully.

Q1 2019

2.8%

Q1 2020

2.9%

## FINDING 01:

2.9% OF PAYMENTS FAIL

### RECOMMENDATION:

# Calculate your brand's payment failure rate

Your payment failure rate is calculated as:



How does your brand's payment failure rate compare to the GoCardless benchmark?  
And how much of your annual revenue remains uncollected as a result?

## FINDING 02:

### ENTERPRISE BUSINESSES STAND TO LOSE ALMOST \$1.2 MILLION EVERY YEAR IN FAILED PAYMENTS

Analyzing payment failure rates by business size reveals that mid-market businesses have the highest average failure rate at 3.6%, followed by small business at 2.8%. Enterprise businesses have failure rates of just 2.1%.

This means a mid-market business can expect to lose \$296,800 in uncollected payments every year, while a typical enterprise business will lose \$1,165,400.



#### Business sizes

##### Small business:

Up to £10million [up to ~\$13 million] annual revenue

##### Mid-market:

£10-250million [~\$13 – 325million] annual revenue

##### Enterprise:

£250million+ [~\$325 million+] annual revenue

	Small business	Mid-market	Enterprise
Failure rate Q1 2020	2.8%	3.6%	2.1%
Total Revenue* 12-month projection	\$293,600	\$8,154,000	\$55,232,100
Total uncollected revenue 12-month projection	\$8,200	\$296,800	\$1,165,400

\*Revenue figures in the above table may be lower than the revenue brackets for each size of business. This is because, typically, GoCardless is used as part of the overall payment mix. It's important to look at uncollected revenue across all payment methods. For example, a business with \$250million in annual revenue, with a 2.1% failure rate across all payment methods, will lose \$5.25million each year in uncollected payments.

## FINDING 02:

ENTERPRISE BUSINESSES STAND TO LOSE ALMOST \$1.2 MILLION EVERY YEAR IN FAILED PAYMENTS

### RECOMMENDATION:

# Make payment experience a core part of your growth strategy

The average small business will lose \$8,200 every year in uncollected payments, but this leaps to \$296,800 for mid-market businesses.

This proves that businesses need to optimize payment experiences much earlier in their growth curve than is currently happening.

## FINDING 03:

### FAILURE RATES VARY SIGNIFICANTLY BY PAYMENT METHOD

GoCardless payments are all collected using bank debit. Credit/debit cards, digital wallets and bank transfers are also common methods businesses use to collect recurring payments.

In our external survey, businesses primarily collecting payments with digital wallets have the highest average failure rate (11.5%), followed by credit/debit cards (7.9%).

The failure rates in the external survey are all considerably higher than those of GoCardless merchants. A business collecting primarily using credit cards can expect to experience 2.7x more failures than a GoCardless merchant, while a business using digital wallets will experience 4x more failures.



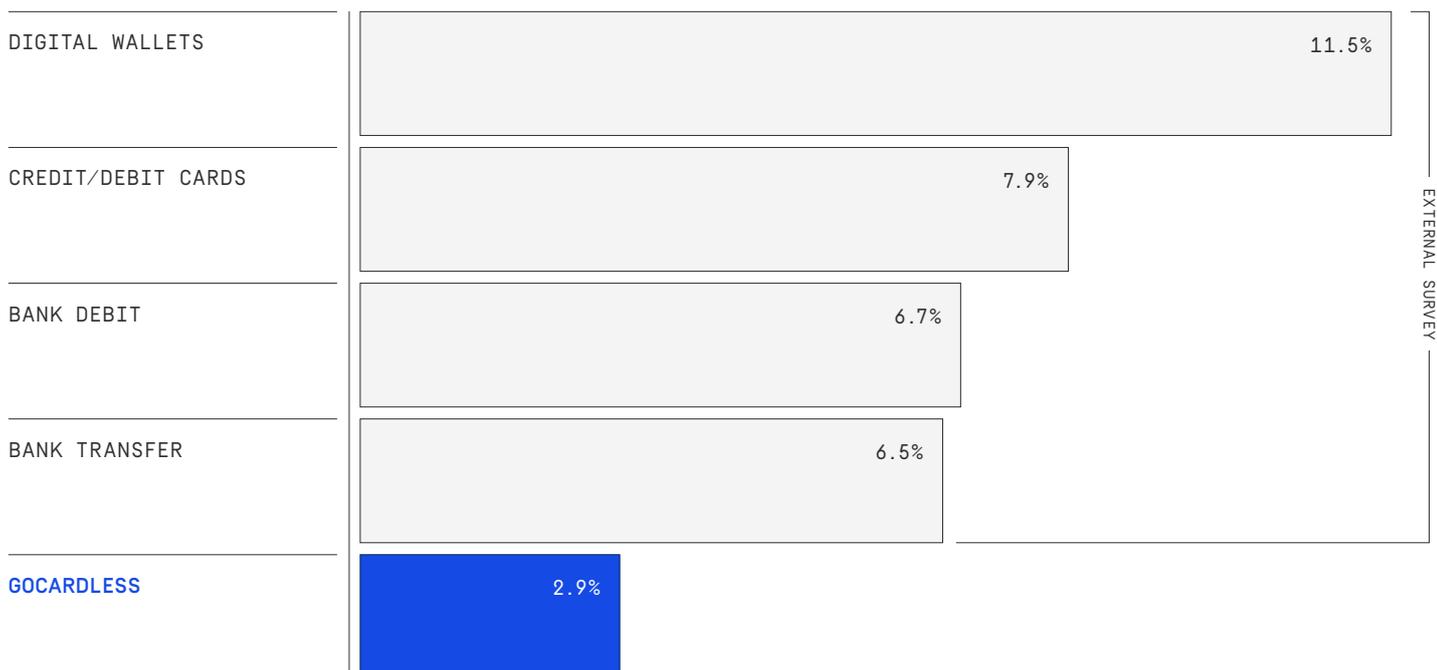
#### What is bank debit?

Bank debit is based on the idea that organizations (payees) can ask payers/debtors for permission to take regular payments directly from their bank account. Bank debit is optimally suited to collect recurring payments, as it enables the payee to collect a flexible amount at a fixed or flexible date.

There are different terms used for bank debit around the world, and for the purpose of this paper we will use bank debit. Bank debit and Direct Debit can be used interchangeably.

In the US, the term bank debit is less known, and Americans commonly refer to bank debit as ACH transfers in general and as auto-pay transfers specifically. However, the term ACH transfer is misleading, as it not only refers to bank debit, but also to standing orders and single fund.

#### Primary payment method



## FINDING 03:

FAILURE RATES VARY SIGNIFICANTLY BY PAYMENT METHOD

### RECOMMENDATION:

# Optimize your payment mix to reduce payment failures

There's no perfect payment method, but finding the right payment mix for your customers is key to maximizing payment success.

Calculate your failure rates by the different payment methods you use. Is there one that underperforms compared to the others?

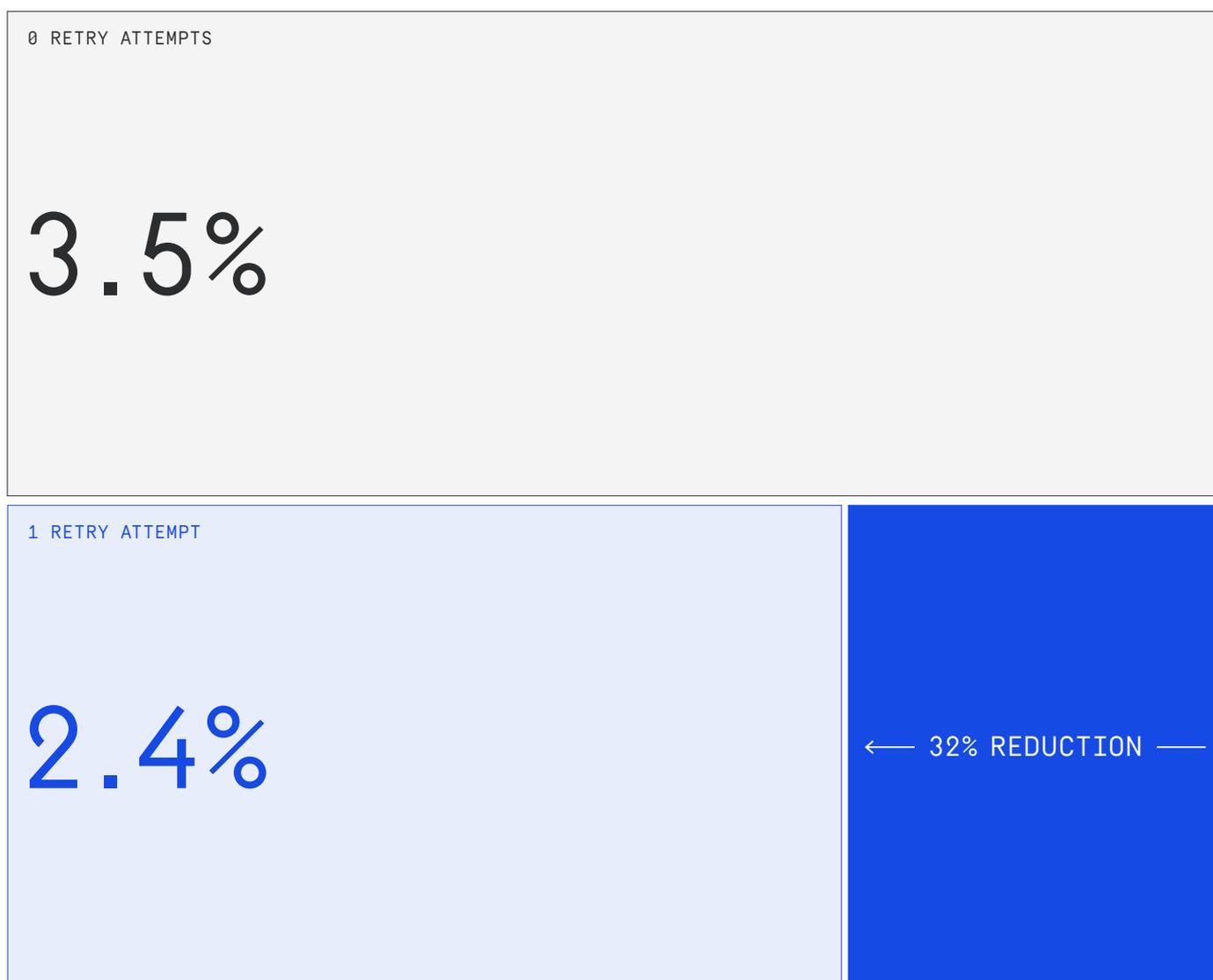
## FINDING 04:

### PAYMENT RETRIES CAN REDUCE FAILURE RATES BY ALMOST A THIRD

A business that does not retry payments can expect to see a failure rate of 3.5%. However, when a business makes a maximum of one retry attempt per failed payment, it can expect to see a payment failure rate of 2.4%.

This means, businesses that retry payments once have a failure rate almost one third lower than those that do not retry failed payments.

#### Businesses by max. number of payment retry attempts



## FINDING 04:

PAYMENT RETRIES CAN REDUCE FAILURE RATES BY ALMOST A THIRD

### RECOMMENDATION:

Reduce your overall  
payment failure rates  
by retrying failed  
payments

There is no silver bullet for reducing payment failure rates. But the fact that a single retry yields a significant drop in failure rates proves payment retries are a reliable way to start recovering failed payments.

## FINDING 05:

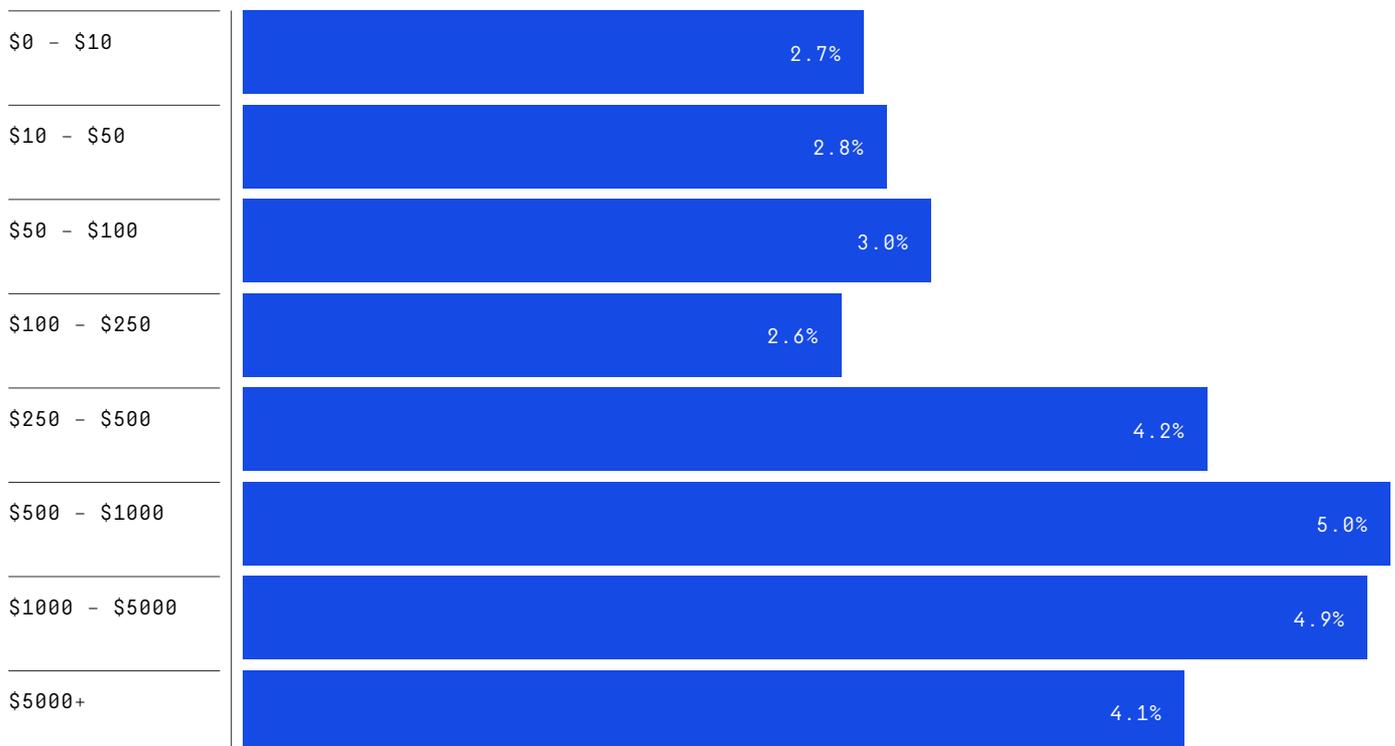
### HIGHER-VALUE PAYMENTS HAVE HIGHER FAILURE RATES

An important consideration when collecting a payment is how much revenue you stand to lose if the payment fails. If your business collects payments of varying amounts, a \$5,000 payment failure is obviously much more worrying than a \$5 payment failing.

Our analysis of payment failures by payment amount found that payments between \$0 – \$250 are relatively steady (between 2.6% and 3%). For payments over \$250, the failure rates are much higher, ranging from 4.1% to 5%.

#### Payment failure rate

Q1 2020



## FINDING 05:

HIGHER-VALUE PAYMENTS HAVE  
HIGHER FAILURE RATES

### RECOMMENDATION:

# Segment your payment failure recovery approach by payment amount

Failure rates for payments above \$250 are significantly higher than payments below \$250. For smaller failures, an automated retry approach may yield improvements, while high value payments every year will warrant a tailored approach to each failure.

## FINDING 06:

### SUBSCRIPTION BUSINESSES HAVE THE LOWEST FAILURE RATES OF RECURRING REVENUE BUSINESSES

For businesses collecting payments on a recurring basis, the way they collect payments can also impact failure rates. Payments collected on an installment basis have an average failure rate of 4.9%. This is in stark contrast to invoice payments (3.1%) and subscriptions (2.2%).

# 8.5x

The average installments business will lose 8.5x more revenue in uncollected payments every year than the average subscription business.



#### Installments:

A business that charges their customers a **fixed** amount on a **fixed** frequency over a **definite** period of time.

#### Invoice:

A business that charges their customers a **variable** amount on a **fixed or variable** frequency over an **indefinite** period of time.

#### Subscription:

A business that charges their customers a **fixed** amount on a **fixed** frequency over an **indefinite** period of time.

	Installments	Invoices	Subscriptions
Failure rate Q1 2020	4.9%	3.1%	2.2%
Total Revenue 12-month projection	\$908,400	\$423,200	\$242,400
Total uncollected revenue 12-month projection	\$44,800	\$13,200	\$5,300

## FINDING 06:

SUBSCRIPTION BUSINESSES HAVE THE LOWEST FAILURE RATES OF RECURRING REVENUE BUSINESSES

### RECOMMENDATION:

# Learn from other business models on how to optimize your payment experience

Installments businesses have failure rates well over double that of a typical subscription business. Reducing churn — both voluntary and involuntary — is a focus for many subscription businesses, and reducing involuntary churn requires improving the payment experience.

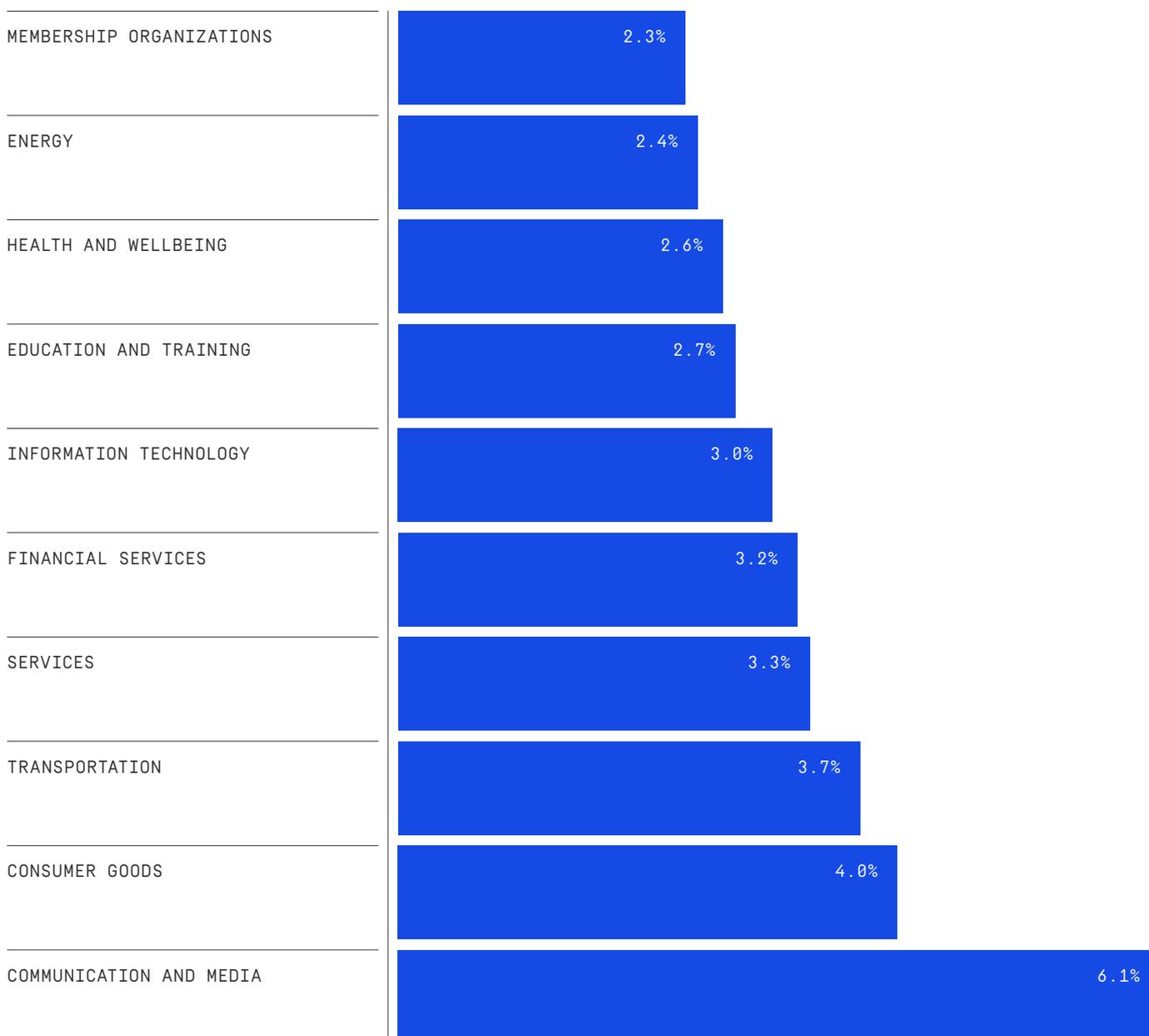
What can other businesses learn from a typical subscription payment experience?

## FINDING 07:

### PAYMENT FAILURE RATES VARY SIGNIFICANTLY BY INDUSTRY

Breaking the payment data down by industry, we can see that **Communications and media** has the highest average failure rate (6.1%), while **Membership organizations** have the lowest (2.3%), followed by **Energy** (2.4%).

#### Q1 2020 failure rates



## FINDING 07:

PAYMENT FAILURE RATES VARY  
SIGNIFICANTLY BY INDUSTRY

### RECOMMENDATION:

# Understand why a payment has failed

Bank debit payments primarily fail for two reasons, insufficient funds or mandate cancellation. For other payment methods, there are a number of reasons a payment will fail. Understanding why a payment fails presents a clear route to subsequently collecting it.

The payment success index proves the immediate cost of failed payments. An enterprise business, even with its low failure rates of just 2.1%, will lose an average of \$1,165,400 every year. At this level, even the smallest improvement in failure rates will yield an excellent return on investment.

But a poor payment failure rate can lead to other, even more serious, consequences.

Chasing failed payments involves awkward conversations, which damage relationships with customers. Eventually, uncollected payments become bad debt you'll never be able to collect on. Payment failures can also lead to involuntary churn, where an otherwise happy customer can't make a payment.

In short, optimizing your payment experience has benefits for your brand and your customers. It's never too early in your company's journey to put in place a payment process you can rely on.

# APPENDIX

Q1 2020 payment success data includes all payments submitted between 1 January 2020 and 31 March 2020. Q1 2019 data includes all payments submitted between 1 January 2019 and 31 March 2019.

Payment failure rate is calculated at the payment level. If a payment has failed three times, but was eventually successful, it will count as a success. If the payment has failed three times and is still not successful, it will count as one failed payment.

All payment data was originally collected in GBP, but for the purpose of this report has been converted into USD. The exchange rate for Q1 2020 was 1.3099, and for Q1 2019 was 1.3303. These conversion rates are taken from the rate used by GoCardless on the 1st of February of the respective year.

## Global payment success data

	Q1 2020		Q1 2019	
	Payment level failure rate	Average transaction value	Payment level failure rate	Average transaction value
GLOBAL	2.92%	\$147	2.78%	\$149
SB	2.80%	\$134	2.53%	\$128
MID-MARKET	3.64%	\$272	4.90%	\$281
ENTERPRISE	2.11%	\$121	1.47%	\$129
INSTALLMENTS	4.93%	\$431	3.94%	\$299
INVOICES	3.13%	\$131	3.19%	\$150
SUBSCRIPTION	2.17%	\$130	1.80%	\$94

## Global payment retry data

	Q1 2020 Payment level failure rate		Q1 2019 Payment level failure rate	
	0 retries	1 retry (max)	0 retries	1 retry (max)
GLOBAL	3.54%	2.36%	3.56%	2.18%
SB	3.17%	2.44%	2.63%	2.72%
MID-MARKET	4.88%	1.35%	7.87%	1.49%
ENTERPRISE	1.45%	2.37%	0.87%	1.73%
INSTALLMENTS	6.86%	5.08%	5.76%	4.12%
INVOICES	4.04%	2.58%	4.49%	2.27%
SUBSCRIPTION	1.77%	1.78%	1.33%	1.79%

## Global payment success data by payment amount

Payment amount	Q1 2020	Q1 2019
	Payment level failure rate (%)	Payment level failure rate (%)
\$0 - 10	2.72	2.73
\$10 - 50	2.81	2.84
\$50 - 100	2.98	2.80
\$100 - 250	2.56	2.19
\$250 - 500	4.17	3.84
\$500 - 1000	4.98	4.50
\$1000 - 5000	4.92	3.98
\$5000+	4.13	4.42

## Industry payment success data

	Q1 2020		Q1 2019	
	Payment level failure rate	Average transaction value	Payment level failure rate	Average transaction value
ENERGY	2.37%	\$134	2.16%	\$144
FINANCIAL SERVICES	3.24%	\$208	3.59%	\$293
HEALTH AND WELLBEING	2.64%	\$92	2.03%	\$73
INFORMATION TECHNOLOGY	3.01%	\$145	2.33%	\$133
SERVICES	3.34%	\$148	2.78%	\$136
EDUCATION AND TRAINING	2.74%	\$138	2.36%	\$130
MEMBERSHIP ORGANIZATIONS	2.27%	\$64	1.48%	\$48
TRANSPORTATION	3.69%	\$348	3.52%	\$361
COMMUNICATION AND MEDIA	6.07%	\$94	8.31%	\$94
CONSUMER GOODS	4.01%	\$149	3.25%	\$144

## External payment survey data

The external payment success survey was completed by 900 respondents between 26 February and 10 March 2020. Respondents were asked 'what primary payment method does your business use to collect the majority of its payments by volume?'

The total responses equals 898, as two respondents answered 'Other'.

The averages were calculated using the midpoint of each bracket, with the exception of 'more than 30%', which uses 40%.

Businesses were not segmented between B2B or B2C so will likely include a combination of both.

	Primary payment method				
	Credit and debit cards	Digital wallets	Bank debit	Bank transfers	Total
LESS THAN 2%	51	6	59	97	213
2 - 5%	62	14	66	86	228
5 - 10%	67	33	65	69	234
10 - 15%	48	34	34	39	155
15 - 30%	14	7	10	9	40
MORE THAN 30%	7	7	4	10	28
TOTAL RESPONSES	249	101	238	310	898
FAILURE RATE	7.89%	11.53%	6.67%	6.47%	7.49%

# GOCARDLESS: MADE FOR RECURRING PAYMENTS

[GoCardless](#) is the most effective way to collect subscriptions and invoice payments, both domestically and around the world.



We have a payment failure rate of only 0.4%, and many of those are rectified instantly upon retrying the payment.

DAMIAN CLEMENTS, FINANCE DIRECTOR,  
[YORKSHIRE ENERGY](#)

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## Failed payments are optional, not inevitable

Even with our low failure rates, even a small improvement in payment success rates can make a huge difference.

[Success+](#) uses recurring payment intelligence to predict and manage payment failures. Recover, on average, 76% of failed payments.

### PUT YOUR CUSTOMERS FIRST

Intelligently adapt your payment recovery schedule to match what works best for each customer's individual needs. 70% of businesses said Success+ improves their relationships with customers.

### REDUCE YOUR ADMIN BURDEN

Success+ does all the heavy lifting, calculating the best time to retry a payment and tracking which payments have been successfully collected. 89% of businesses said Success+ saves them time.

### INCREASE YOUR REVENUE

With Success+, minimize both the lost revenue from failed payments and the cost required to attempt to recover those payments.

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## Want to learn more?

Speak to our payment experts today about your payment challenges, and see how we can help.

[SPEAK TO AN EXPERT](#)