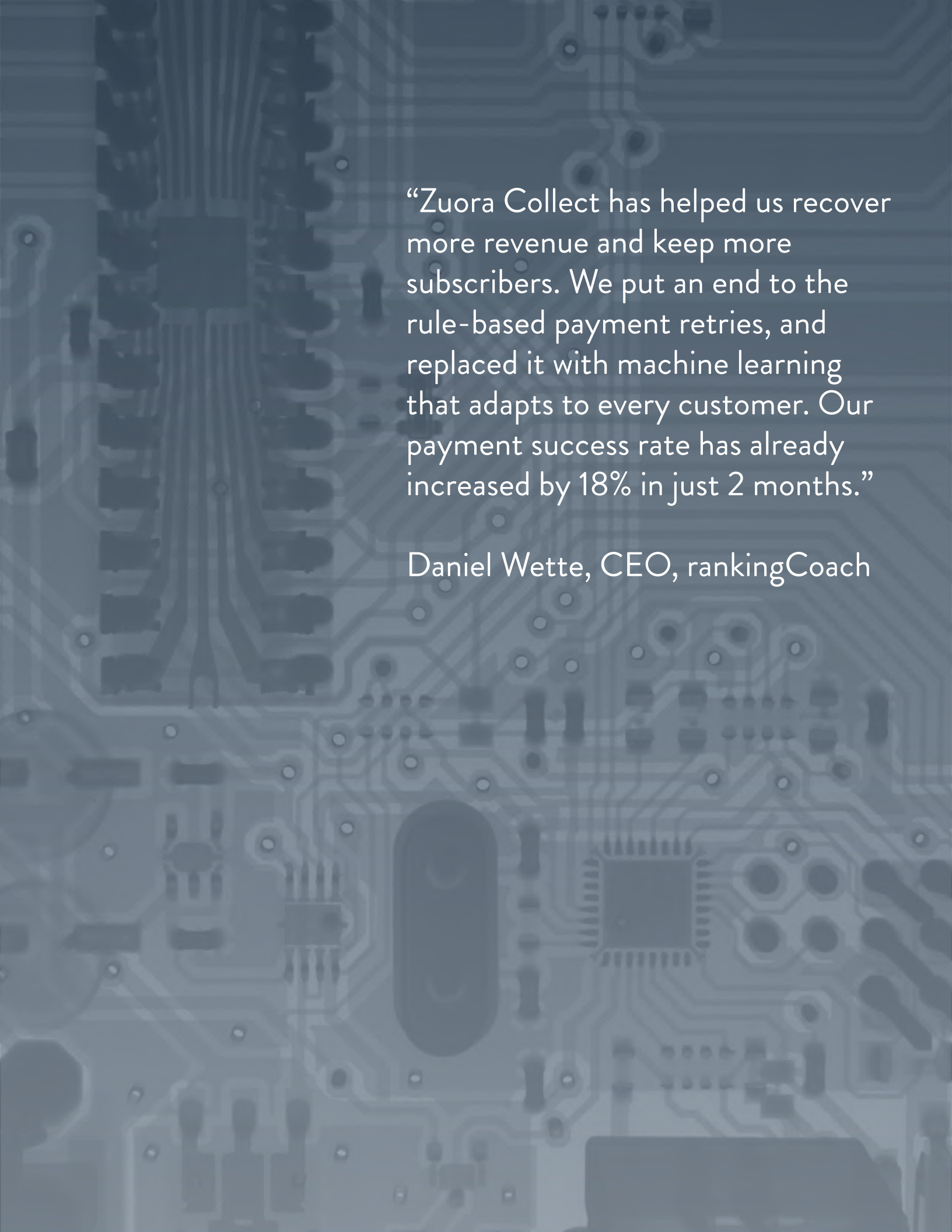


zuora

Eliminate Revenue Leakage and Passive Churn with Zuora Collect

by Yash Mahajani, Product Marketing Manager at Zuora





“Zuora Collect has helped us recover more revenue and keep more subscribers. We put an end to the rule-based payment retries, and replaced it with machine learning that adapts to every customer. Our payment success rate has already increased by 18% in just 2 months.”

Daniel Wette, CEO, rankingCoach

01 Collections are a strategic imperative for subscription businesses worldwide

Companies in the Subscription Economy have an ongoing relationship with their subscribers, and must set an entirely new strategy around collecting customer payments -- and this is now becoming increasingly imperative. Looking at the payments landscape, electronic payments are growing nearly twice as fast as the global GDP,¹ and because of this, nearly half of all businesses now see 7% of their payments fail.² This is why companies around the world have doubled down on their collections strategy and plan to modernize the technology supporting it. Collections are a strategic imperative and the best subscription companies use their collections processes as a backbone to ensure predictable revenue growth, customer retention, and bottom-line efficiency.



¹ The 2019 McKinsey Global Payments Map Report, September 2019

² Rethink Your Payment Strategy To Save Your Customers And Bottom Line, Forrester Research Inc, September 2020

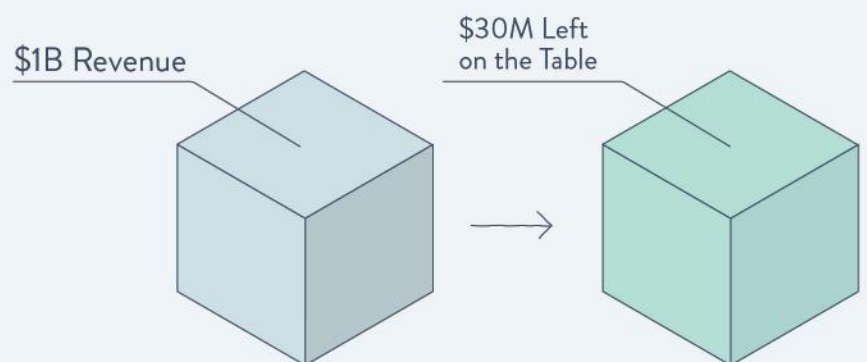
02 Subscription businesses without an effective collections solution face challenges in revenue leakage and passive churn

Subscription businesses without an effective collections process face major challenges in revenue leakage and passive churn. These are legitimate business issues that can significantly hinder a company's growth.

02.1 Revenue Leakage

Subscription companies with an increasing number of unpaid invoices eventually find themselves in a financial black hole known as revenue leakage. Zuora has seen that companies lose 3% of their revenue to unpaid invoices, and in North America, MGI research estimates that revenue leakage can account for up to 7% of annual revenues.³ That means that a company with \$1B in recurring revenue would be losing between \$30M - \$70M on an annual basis. That is a tremendous amount of money being left on the table, especially for high volume subscription businesses.

Figure 02.1



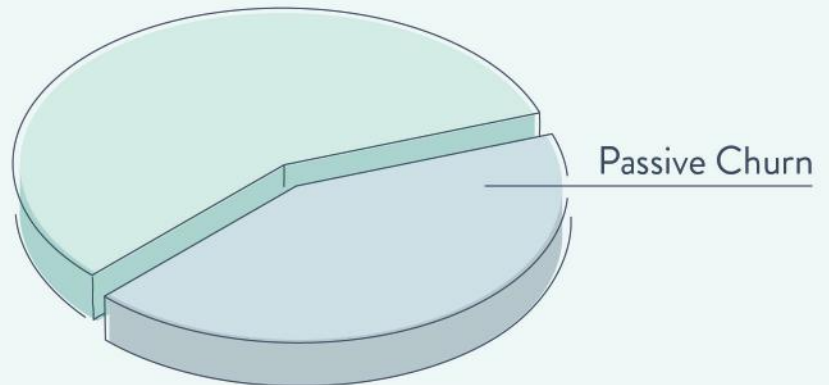
³ How to Scale Monetization Globally, MGI Research LLC., February 2020

02.2 Passive Churn

Passive churn, also known as involuntary churn, is when a customer's subscription ends unintentionally as the result of a failed payment. This is a common issue for subscription businesses because it typically accounts for at least 20-40% of all customer churn. It not only takes away a potentially endless supply of recurring revenue from a company, but it eats into the number of subscribers that can be upsold to in the future.

So why can't companies efficiently solve these two critical business issues? What exactly is wrong with their current approach to recovering failed payments?

Figure 02.2
Passive churn accounts for
20-40% of all customer churn

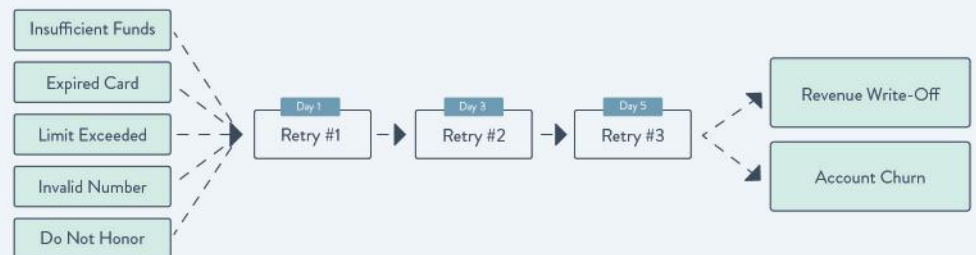


03 Companies are manually creating and analyzing retry schedules

Companies are retrying and dunning every failed payment with manual, reactive strategies. Payments can fail for dozens of reasons, whether it's due to insufficient funds, expired cards, exceeded limits, gateway errors, or other soft declines that should be recoverable. The reason a payment fails in addition to several other characteristics of a transaction should all have an impact on when it's retried, how many times it's retried, and all of the dunning actions that come after.

Companies need an efficient, data-driven approach to finding the optimal times to retry customer payments. At the very best right now, a subscription business will have rule-based logic to drive their retry strategy; however, this is simply not enough as it's still dependent on the manual creation and assessment of rules.

Figure 03.1



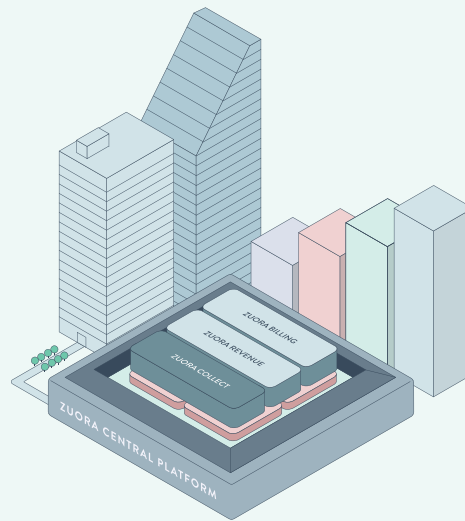
There are several characteristics of a payment transaction that impact when the best time to retry is such as its payment gateway, currency, issuing bank region, gateway response code, card type, and the time of its initial failure among many others. These defining characteristics live everywhere, and it is not feasible for even an entire collections team to synthesize them at scale. Companies that attempt this are using the few data points they can gather to make guesses on the most optimal retry times, which can also keep changing over time.

Manual collections approaches are not only highly inefficient, they lead to sub-par recovery rates as the timing of these retries are based on limited data and the guesswork of collections analysts. Full-time employees in collections can spend hours on a daily basis trying to stitch different retry strategies based on their ad-hoc analysis. In fact, Forrester estimates that two-thirds of B2B and B2C firms are spending more than 11% of the average transaction value to recover the transaction itself.⁴ Even for companies with configurable, rule-based retry logic, every payment failure they see still has a significantly high chance to never be recovered and turn into a churned account.

⁴ Rethink Your Payment Strategy To Save Your Customers And Bottom Line, Forrester Research Inc, September 2020

04 Recover up to 20% more subscription revenue with Zuora Collect

Figure 04.1



With Zuora Collect, subscription businesses can use machine learning to turn all of their invoices into revenue. Customers using Zuora Collect see an immediate impact on their recurring revenue and passive churn. AI is such a critical need for recurring payments, because payment retry success depends heavily on the time of day in every card issuing market. Zuora's AI-driven payment retries use machine learning algorithms to choose the optimal times to retry payments -- and this effectively prevents revenue-write offs as well as passive churn.

05 How our adaptive machine learning works

When the time comes to retry a payment, Zuora Collect analyzes over 15 characteristics of a transaction like the account's MRR, currency, payment amount, payment gateway, gateway response codes, the issuing bank region, when it last had a failed payment, and more. The analysis is then applied to Zuora's training dataset, the most robust training dataset in the Subscription Economy with hundreds of billions of dollars processed across a wide range of subscription businesses around the globe. Our machine learning model then automatically retries an account's failed payment at the most opportune times.

But then comes the question, how is this machine learning? We know that payment retry success depends heavily on the time of day in every card issuing market. However, this actually keeps changing so companies must adapt to the evolving factors impacting payment retry success. Zuora Collect's machine learning model does this exactly by ingesting new data on a daily basis to leverage the latest trends that may impact payment success.

For example, if the model starts seeing patterns that a certain payment gateway or a specific payment method (companies have multiple credit cards on file) is more likely to accept a payment on Friday morning rather than Friday afternoon in Germany specifically, it will take that into consideration and adjust the account's retry timing as needed.

So every minute of every day, new payment data optimizes our machine learning model, which will improve over time from the insight it gains from every transaction specific to a company. While there are subscription companies that have seen recovery rate improvements by manually applying retry rules, machine learning truly takes this to another level -- and the numbers speak for themselves.

Figure 05.1



06 Zuora Collect customers have thrived

Zuora Collect customers have recovered up to 20% more subscription revenue. Before Zuora Collect was supercharged with AI capabilities, customers were already recovering an average of 10% more subscription revenue. Several companies were doing an excellent job with the configurability available, but the power of AI and machine learning has made a substantial impact by adding up to a 10% increase to our customers' recovery rate. On top of this, our customers that retry their subscribers' failed failed payments with Zuora Collect see a 13% increase to their customer retention rate on average. These improvements create tremendous financial gains that can save high-volume subscription businesses tens of millions of dollars while minimizing customer churn on an annual basis.

Figure 06.1
Increase in Recovery Rate
with Zuora Collect



07 Increase first-time payment success and drive operational efficiencies

In addition to enabling a world-class dunning strategy, Zuora Collect allows companies to increase the success of their subscribers' first-time payments and drive bottom-line efficiency into their collections process.

07.1 Increase first-time payment success

Most of a company's revenue obviously comes from the initial payments that their customers make. Zuora Collect maximizes the success rates of these initial payments with proactive card updates that automatically incorporate any changes a company's subscribers have made to their Visa, MasterCard, or American Express card data. Zuora Collect also provides a company's subscribers with the flexibility to use over 20 payment methods to pay for various invoices or even individual subscriptions within an account. Combined with card updater services, these capabilities ensure a company collects as much as possible before its accounts go into the dunning phase.

Figure 07.1

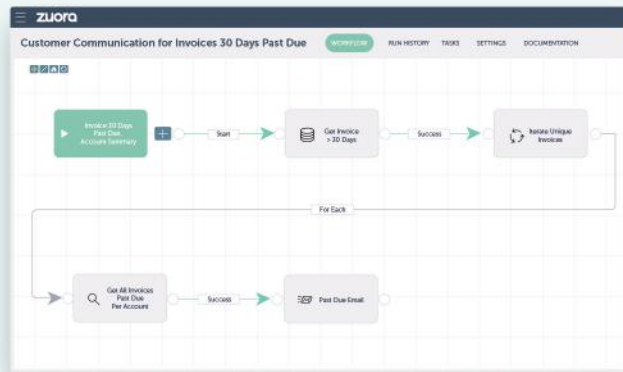


07.2 Operational Efficiencies

Subscription businesses are investing far too much manual time and effort into managing their collections processes. Fortunately, a lot of this can be solved with automation. Zuora Collect helps companies reduce their recovery costs and reduce their manual efforts around analyzing their payments data.

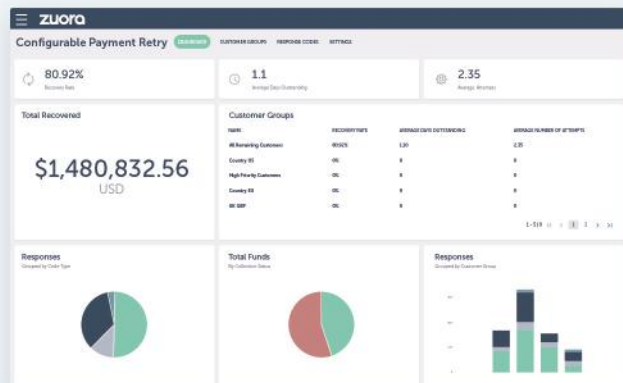
Customer communication often serves as the last step in a dunning process, and Zuora Collect provides companies with the best of both worlds in terms of AI-driven retry schedules and efficient customer communications. Automated dunning workflows are attached to every retry schedule so that companies can still communicate with their subscribers as they execute their retry strategies.

Figure 07.2



The product also helps companies create actionable insights into their collections by providing real-time view of metrics such as invoice collections rate, retry success rate, payment recovery rate, and others out-of-the-box. Zuora Collect also makes the collaboration efforts around collections much easier. Collections analysts can generate account statements, track account statuses as well as add notes, reminders, and files to an account so that the entire team can stay in the loop.

Figure 07.3



08 Meet Whitepages and rankingCoach

Whitepages and rankingCoach are two companies that have seen real business value in transitioning from manual rule-based logic to AI-driven retry schedules.

08.1 whitepages

“With Zuora Collect, we’ve increased our average payment recovery rate by an additional 10% from what it was when the product had no machine learning. Using an AI-driven retry strategy also prevented us from starting a time-consuming research project that would have required testing to parse out the most optimal times to retry payments.”

– Susanna Wright
Payments Manager, Whitepages

08.2 rankingCoach

“Zuora Collect has helped us recover more revenue and keep more subscribers. We put an end to the rule-based payment retries, and replaced it with machine learning that adapts to every customer. Our payment success rate has already increased by 18% in just 2 months.”

– Daniel Wette
CEO, rankingCoach

With all of this said, Zuora Collect is an easy choice for any subscription business looking to keep their hard earned revenue and loyal paying subscribers as it scales.

To learn more about Zuora Collect, visit www.zuora.com/products/collect

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About Zuora

Zuora provides the leading cloud-based subscription management platform that functions as a system of record for subscription businesses across all industries. Powering the Subscription Economy®, the Zuora® platform was architected specifically for dynamic, recurring subscription business models and acts as an intelligent subscription management hub that automates and orchestrates the entire subscription order-to-cash process, including billing and revenue recognition. Zuora serves more than 1,000 companies around the world, including Box, Rogers, Schneider Electric, Xplornet and Zendesk. Headquartered in Silicon Valley, Zuora also operates offices in Atlanta, Boston, Denver, San Francisco, London, Paris, Beijing, Sydney, Chennai and Tokyo.

More at www.zuora.com.