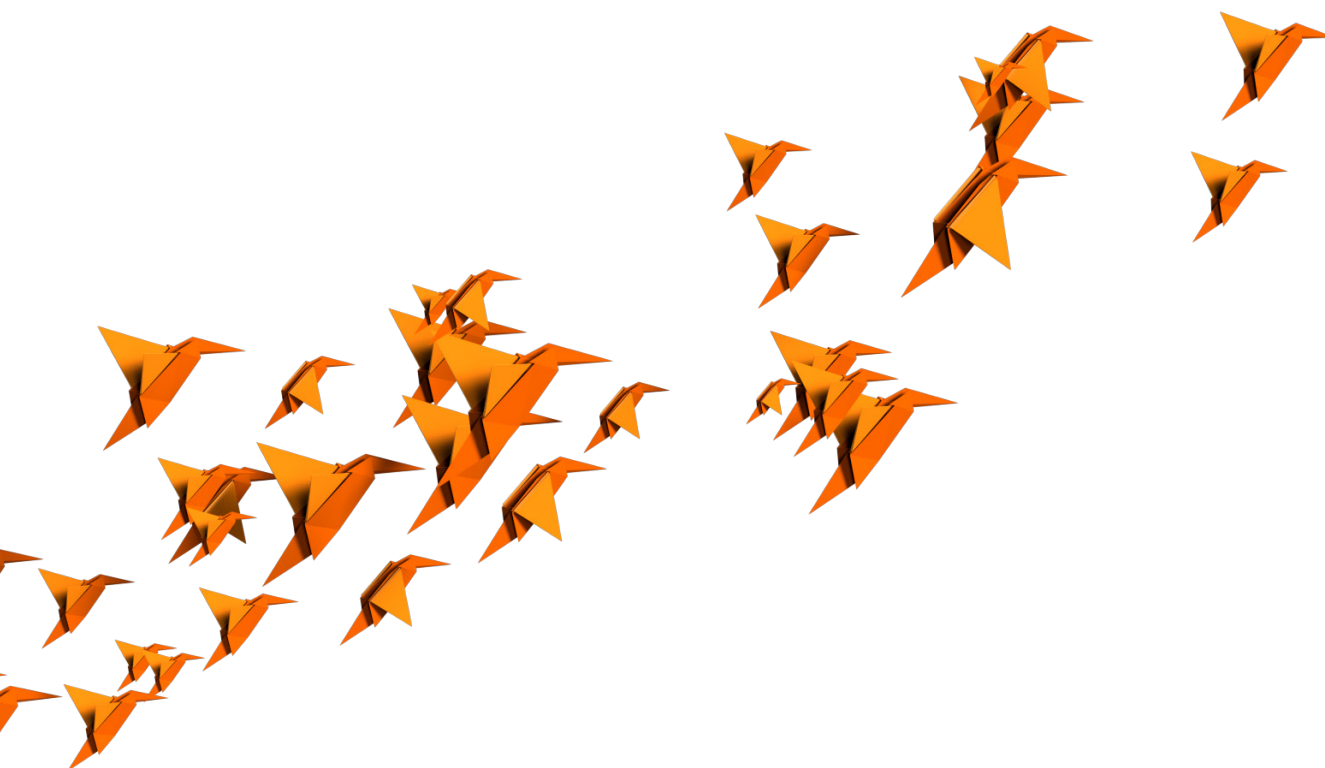




# A Guide to Understanding Recurring Payments



By 2023, **75% of organizations** selling DTC will offer subscription services according to a report by the **Subscription Trade Association (SUBTA)**.<sup>1</sup>



<sup>1</sup> <https://multichannelmerchant.com/ecommerce/subscription-services-will-make-up-75-of-dtc-brands-by-2023/>

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Recurring services have permeated nearly every aspect of a consumer's life, whether they are aware of it or not. From the auto-shipping of pet supplies to in-auto and at-home streaming audio services to local car washes, to, well, just about everything you can imagine, it's clear the recurring service model has taken hold.

As a business owner, offering products and services on a recurring basis equates to recurring revenue and more predictable operating expenses (OPEX) while your customers benefit from a faster, more seamless experience.

It also means you need to be prepared to support those recurring services with recurring payments.

This comprehensive guide to recurring payments will offer insights into how recurring payments work, the benefits of a recurring payment model, and what to look for when choosing a recurring payment provider.

The average consumer (of 2,500 surveyed) **spends an estimated \$273 per month** on TV streaming subscriptions, home Wifi, mobile phone services, cloud storage, dating apps, ebooks, pet supplies, meal services and the like.<sup>1</sup>

## What are Recurring Payments?

Pre-scheduled payments that automatically repeat per a billing cycle are known as recurring payments. Recurring payments can occur on a weekly, monthly, bi-annual or annual basis.

This automation is what distinguishes recurring payments from a one-time in-person or online payment, or the processing of an invoice. Customers are given the option to set up automatic payments and then the payment is processed each month (or year) through a payment processing solution.

<sup>1</sup> <https://www.zdnet.com/article/average-consumer-spending-273-per-month-on-subscription-services-report/>

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## There are two types of recurring payments:

### 1. Fixed recurring payments

Fixed recurring payment options are best suited for situations where the bill amount is the same every time. A good example is a gym membership where the membership is set at \$50 per month. The payment would be processed at the fixed price each billing period.

### 2. Variable recurring payments

As the name suggests, variable recurring payments vary and can change. This happens when the bill amount is based on usage. Examples of these include utility and telecom bills. Depending on the amount used per month, the amount due will fluctuate each month.




## The Benefits of a Recurring Payment System

We mentioned how recurring revenue and recurring payments go hand-in-hand. We also noted how recurring payments are often associated with subscriptions. There may be no better case study than a pandemic to illustrate the relationship between the three. COVID-19 has spurred an increase in subscription plan sign-ups.

Zuora's chief financial officer, Todd McElhatton, reported the overall subscription model grew 12% during the first year of the pandemic. Driven by a need to avoid checkouts and other in-person transactions as well as keep themselves entertained and occupied, consumers turned to contactless convenience.<sup>2</sup>

This shift in consumer behavior put a spotlight on the customer experience. It also put a floodlight on the many reasons recurring payments make sense for the business and the consumer.



**69%** of American consumers  
have **multiple subscriptions**  
and **28%** say they  
have **at least four**.<sup>3</sup>

<sup>2</sup> <https://www.nutanix.com/theforecastbynutanix/business/how-subscription-based-business-model-grew-during-covid-and-into-the-future>  
<sup>3</sup> <https://paymentdepot.com/blog/recurring-payment-processing/>

## Benefits for the Business

### 1. Better Cashflow, Predictable Fulfilment

With scheduled recurring payments coming in, it's easier to predict cash flow and demand. This predictability can help you better manage inventory, plan for growth, and scale for success. You can also use it as a financial indicator for investors or lending institutions.

### 2. Improves Customer Loyalty

Recurring payments provide an opportunity to learn more about your customers. The more a consumer relies on you for your product or service, the more chances you have to learn about their buying preferences and habits. That customer knowledge is key to providing personalized offers or experiences. The more personal the exchange between you and your customer, the more likely your brand becomes personal to them – creating loyalty and longevity.

### 3. Saves Time

Manually processing credit card payments can be a full-time profession. Automate that process and you'll create operational efficiencies and get much-needed flexibility in assigning resources to other business functions, not to mention reclaiming valuable time.

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## Benefits for the Consumer

### 1. Convenience

Consumers enjoy the convenience of recurring services. They do not enjoy managing payments for recurring services. It's one of the reasons auto-pay and auto-renewal is a must-have feature. No longer limited to credit card payments, auto-pay allows customers to schedule their payments – keeping them up-to-date, reducing the risk of late fees, and possibly helping build their credit. Auto-renewal reduces the risk of service interruption thereby keeping the customer happy.

### 2. Flexibility

Recurring services bring customers convenience and flexibility. They can have services they choose – from self care to animal care to car care and house care and everything in between – and use them as little or as often as they'd like.

Many recurring revenue and subscription businesses now have an option to skip a month of service or pause their subscription. This is a benefit for customers who may need a break either due to budget or usage. It's also better than the alternative – having a customer cancel their plan. Your customer will appreciate this flexibility. It puts them in control, and, as they have more options, they're more likely to stay engaged with your service.

### 3. Personalization

Customers like to know you're paying attention. They want suggestions on what they may also be interested in, or, get an early invite to try out a new feature or service. They also want you to notice how they've set up their recurring payment. It may be tied to a pay cycle, or a specific day of the week. It may be paid by a debit card, credit card, crypto, ACH transaction or wallet. There's likely a reason for this, and these insights can help you adjust your offer strategy and your payment scheduling options.

Many businesses today offer a subscription-based payment option. However, you don't have to be a subscription-type business to use recurring payments. Here's a list of different types of businesses that use recurring payments.

### Membership Services

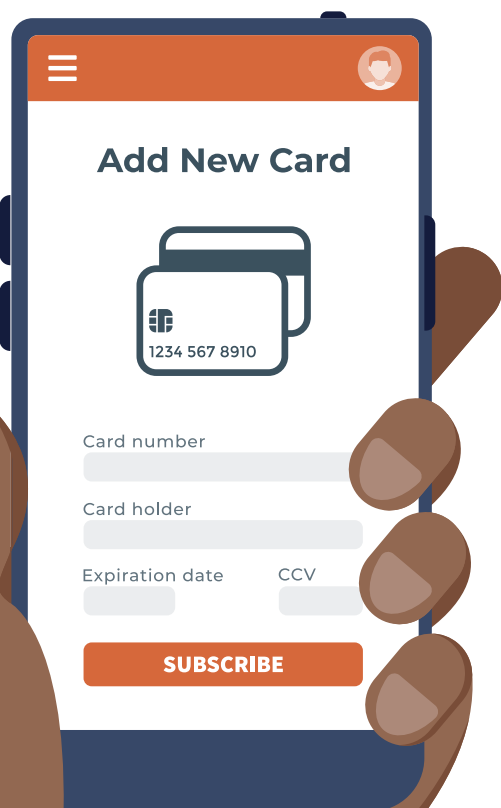
Think gyms, networking memberships, social clubs, or co-working facilities.

### Professional & Personal Services

Tutoring, cleaning, personal training, website management, or freelance services — any service that requires customers to book your time.

### Subscription Services

Streaming services are the most obvious, but this can also be SaaS products, website subscriptions, magazines, or even meal services like HelloFresh.



Of over 1,000 shoppers surveyed, **one in five had purchased a subscription box** to have products on-hand during the pandemic <sup>4</sup>



## Getting Started with Recurring Payments

According to CFO Research, subscription revenue business models are on the rise and Global Banking and Finance Review reports 70% of business leaders say subscription business models will be key to their prospects in the years ahead.

Clearly the opportunity for success with subscription companies is there and growing. The opportunity also comes with challenges.

Subscription metrics firm ProfitWell estimates that despite the rise in sign-ups, up to 40% of subscription churn is coming from failed payments.

Knowing that a significant portion of churn has to do with payments, it's also clear having the right payment partner is critical to successfully supporting subscription-based and recurring revenue-based companies .

The first step in processing recurring payments is to find a payment service provider (PSP) or open a merchant account. Both of these actions make it possible for you to accept card-not-present payments for recurring services. You have two choices, but one is considerably easier than the other.

Payment service providers (PSPs) are one-stop payment processing shops. They're in charge of every facet of web-based and card-not-present payments. This includes both processing, safeguarding, and depositing payments into your merchant account.

You also have the option of opening a merchant account on your own. With this option, you'll have total control over your account but you will need to find a recurring payment provider in addition to the merchant account.

You can learn more about the differences between PSPs and merchant accounts in our guide "[Merchant Accounts vs. Payment Service Providers: Which Should You Choose?](#)"

**90% of Gen Z shoppers**  
use subscription services, ranking  
it the highest cohort <sup>5</sup>

<sup>5</sup> <https://multichannelmerchant.com/ecommerce/subscription-services-will-make-up-75-of-dtc-brands-by-2023/>

## Five Things to Look for in a Recurring Payment Service Provider

You want to partner with a gateway company that has experience in subscriptions so they can provide the tools necessary to set-up recurring payments, such as scheduling.

A recurring payment service provider can offer companies a complete payment solution, eliminating the legwork required to source, set-up, run and manage all the software, hardware, connections, and security yourself. Many companies offer gateway services and it's important to make an informed decision on which payment partner will help you achieve your business goals.

When choosing or re-evaluating a payment partner, take the following five criteria into consideration:

»» **Ease of Integration**

»» **Ease of Migration**

»» **Security**

»» **Customer Service**

»» **Features**



## Ease of Integration

The last thing anyone wants is extra work. When you're checking out potential partners, ask about integration. How many systems do they connect in to? What platforms do they support? Do they have documentation and a development environment to work within? What platform is their API built upon? If it's a common one, like RESTful web service, then set up and testing is fairly easy. Speaking of testing, what is their testing process? Will they create a mirror environment for testing to ensure the pathways are correct? What about timing? These are all good questions to ask your prospective recurring payment partner.

## Ease of Migration

If you're moving from one provider to another, migration should be as easy and seamless as possible for everyone involved. It should include a secure transfer of all account information, such as customer names, address, credit card numbers, expirations and so on. Consider timing implications, as you want to minimize disruptions for you and your customers. Make sure you plan for any needed software upgrades. If your systems are up to date, the switch is simpler.

If you're moving a customer from one provider to another, migration should be as easy and seamless as possible for everyone involved. It should include a secure transfer of all account information. Also, consider timing implications, as you want to minimize disruptions for your customers.



## Security

When it comes to taking payments, security and compliance are paramount. Many online retailers don't realize they, like their brick-and-mortar counterparts, are required to meet standards set by the Payment Card Industry Data Security Standard (PCI DSS).

Point-to-Point Encryption (P2PE) is one of the best methods you can use to protect your business, as well as your customers, and prevent a credit card breach. While P2PE has been around for many years, only PCI-validated P2PE technologies have been tested to the rigorous standards and should be trusted to reduce risk and PCI DSS scope at a merchant.

The simplest way to ensure you're protected is to partner with a company listed as a Point-to-Point Encryption (P2PE) provider. This way you can verify the gateway is both certified and PCI-compliant.

You also want to protect your company against credit card fraud. At a minimum, the gateway you're considering should encrypt data at the time of transaction, offer address verification and be security code configurable. It should also be able to check and block transactions, be configurable by transaction source since the characteristics of transaction risks vary by source.

## Customer Service

Every payment service company will tell you they know the various systems and how they work. Well, they should. The question to ask is "how satisfied are your customers with the level of service they're receiving?"

Make sure to ask about their customer service and technical support. Problems happen, and how quickly they're resolved makes a big difference to customers. When vetting a company, check to see where their support team is located. Ask if you'll receive personalized service, or will you be re-directed through a series of menus. The more time spent on calls is less time you have to serve your customers.



## »» Features

If you run a subscription or recurring revenue business, make sure your payment gateway has features such as **fraud protection, payment scheduling, account updater** and **Level III processing**.

You want to partner with a gateway company that has experience in subscriptions so they can provide the tools necessary to set-up recurring payments, such as scheduling.

Account Updater should be one of their key features – it queries the banks regularly to ensure the card data is correct, cutting down on decline rates and reducing churn.

Same goes for Automated Level III processing. It autodetects and fills in information necessary for corporate and procurement cards to process at a lower interchange rate – oftentimes leading to significant savings.

You should also look for gateways that can handle multiple payment methods. This goes beyond your typical charge and credit cards.

Consumers are demanding more access to payment methods and your customers will have to be ready to support them. Having options such as Apple Pay and Google Pay wallet opens the door to more customers.

Another feature to look for is Direct Debit ACH scheduling – it allows merchants to get paid directly from a customer's bank account, and they, in turn, pay less in processing fees.



## Summary

While offering and accepting recurring payments can be a direct line to success, it can also be daunting when you consider all that goes into it. Hopefully this guide provided you the insights to better understand how recurring payments work and why they're important, and the questions to ask when talking to a payment service provider.

Customers always figure out the good from the not-so-good, and companies that can deliver consistent experiences and provide frictionless payment options will thrive and continue to grow. There's plenty of data to support that position as well.

Our expertise in recurring payments is unlike any other's in this space. In our over three decades of service we've seen first-hand the growth in recurring payments and the expansion of the subscription model. It's why we are continually evolving our cloud-based payment solution – to better help you support and scale your recurring revenue business. Payway has understood the subscription economy long before it was a hashtag and we're here to help you make the most of recurring payments.



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## Final Decision

Making decisions that impact your business – and how you go about doing your business – are never easy. Hopefully, our insights on what to consider when choosing a gateway partner help with your choice. If you have any questions or want to talk to someone with 35-years of experience in the card-not-present industry, give us a ring at 800.457.9932.

Already have a partner? That's okay. There's never a bad time to assess your payment processing options. After all, the less you spend on payments, the more you can spend on your business.



### About Payway®

Payway is a proven payment service provider offering a highly secure and versatile environment to help subscription businesses simplify and accelerate transaction processing leading to improved cash flow and significantly lowering the costs associated with accepting recurring payments.

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