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Thought Leadership Paper
Commissioned By GoCardless

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Rethink Your Payment Strategy To Save Your Customers And Bottom Line

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Executive Summary

In a world of technology advancements like the cloud, mobility, and internet of things (IoT), businesses are constantly evolving to add value to their customers. Recurring revenue models, like subscriptions or consumption-based models, are becoming key to this ongoing business evolution. For recurring B2B payments, the manual, slow, and expensive processes of traditional payments do not work. The lack of process automation and integration between various payment technologies causes inefficiencies and human error, and the increasing complexity of the payments landscape results in lost customers, payment failures, high costs, and, in turn, lower revenue impacting the wider business.

GoCardless commissioned Forrester Consulting to evaluate the state of recurring payments across the globe. To explore this topic, Forrester conducted an online survey with 700 payment decision makers in B2B and B2C, or B2B-only firms. We found that recurring B2B payments are pushing firms to modernize their payments technology and update their payments operations.

KEY FINDINGS

- **Payment methods for B2C and B2B firms vary, complicating the payments landscape.** Modern business is changing the way consumers make B2B and B2C payments. As more merchants change their business models, sell in more countries, and accept more payment methods, the payment landscape has become convoluted. Firms that cater to both consumers and businesses often must support wildly different payments flows. Consumers primarily use digital wallets, credit cards and bank debit (e.g., ACH debit, Bacs Direct Debit, SEPA Direct Debit), while business buyers favor bank debit and bank wire transfers for recurring purchases.
- **Operational issues and payment failures are ongoing hurdles for all firms.** Four out of five respondents indicated that it takes their firm more than a month to receive payments and that the average days sales outstanding (DSO) is 20 days or more, which has a tremendous impact on cash flow and revenue and prohibits company growth. Half of all respondents said that in the past 12 months alone, their firm experienced a payment failure for 7% of its payments. Failed payments are not only costly for businesses to collect, but they also impact customer relationships and increase the risk of bad debt and customer churn. Payments are high leverage with many downstream effects across a business. More than half of surveyed payment leaders said their firm's revenue and profitability decrease because of failed payments.
- **Firms recognize the importance of recurring payment solutions to optimize their payments strategy.** Nearly 60% of respondents said their firm is planning to invest in or expand/upgrade investment in recurring payment providers. Organizations are responding to their customers' demands by adopting recurring payment solutions to deliver exceptional service, but also to drive strategic growth. As such, they expect numerous benefits, including improved payment success, efficiency, and cash flow, customer retention and satisfaction, growth and facilitation of international expansion, and meeting compliance requirements.

The Fragmented Landscape For Recurring Payments Causes Business Operations Challenges

Making a payment is one of the most emotionally potent moments in the customer experience (CX). It's also critical for the survival of a business. With more choices than ever before, decision-makers should research what's out there, learn what makes sense for their business, and understand which recurring payment methods their customers prefer to use.

Customers use different payment methods when they're buying for themselves versus when they're buying for their businesses. And merchants (whether they're selling to consumers or businesses or both) must support a broad set of payment methods to serve customers and meet their expectations. Some use a traditional mix of payment methods, and some prefer newer digital forms of payment.

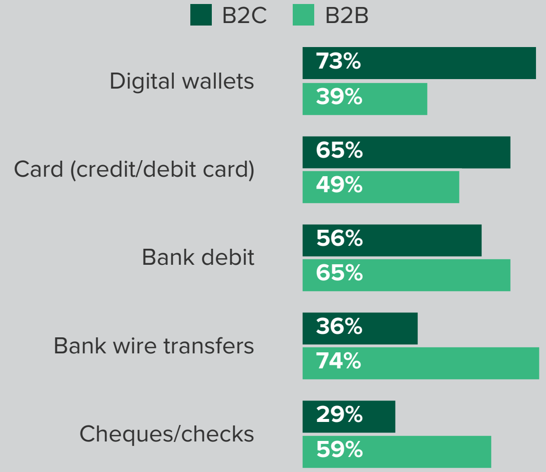
In surveying 700 payment decision-makers from both B2B and B2C firms, Forrester found that:

- **Businesses cater to different payment preferences for each customer base.** Firms that cater to both consumers and businesses often must support wildly different payments flows. Forrester's survey found that consumers primarily use digital wallets, credit cards, and bank debit, while business buyers favor bank debit and bank wire transfers for recurring purchases (see Figure 1).
- **The recurring payment method mix is evolving and modernizing.** In the past 12 months, merchants' contributions from digital wallets, wire transfers, and bank debit have increased, while contributions from checks have decreased. Although checks are still a significant contributor to the payment mix, the shift away from them indicates a shift toward modernization in the payment landscape.
- **Investment in people and technology aim to alleviate complexities with recurring payments.** Customer preferences, payment methods, and market trends have left firms strapped for resources to handle the complexities of the payments landscape. Forrester found that firms have put large teams in place to take and receive payments: 86% have more than 20 full-time employees to handle recurring payments. Reliance on multiple technologies is also prevalent today. Firms use an average of nine technologies to handle recurring payments, primarily relying on CRM, billing, and accounting systems (see Figure 2).

Merchant payment mixes are evolving differently based on geography and contribution from checks is decreasing.

Figure 1

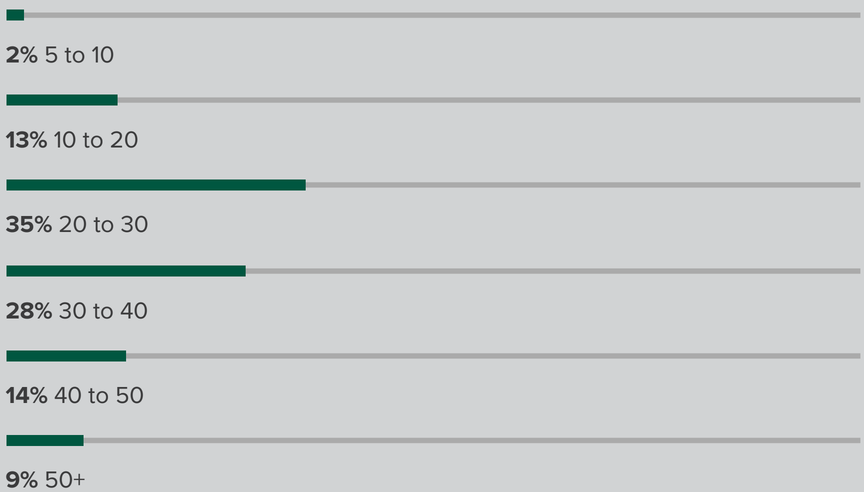
Payment method options available for recurring purchases



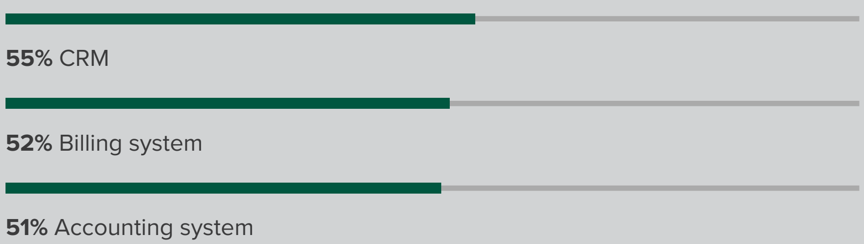
Base: 307 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Figure 2

"How many full-time-equivalent employees are involved in taking and receiving payments?"



"Which technologies do you currently use to handle recurring payments?"



Base: 700 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

OPERATIONAL ISSUES HINDER FIRMS' ABILITY TO ACCEPT PAYMENTS

Regardless of who their customers are or what resources are available, firms are facing significant challenges managing the myriad of payment methods and the processes they need to support them. Hamstrung by operational issues, virtually all firms struggle with accepting recurring payments, primarily with:

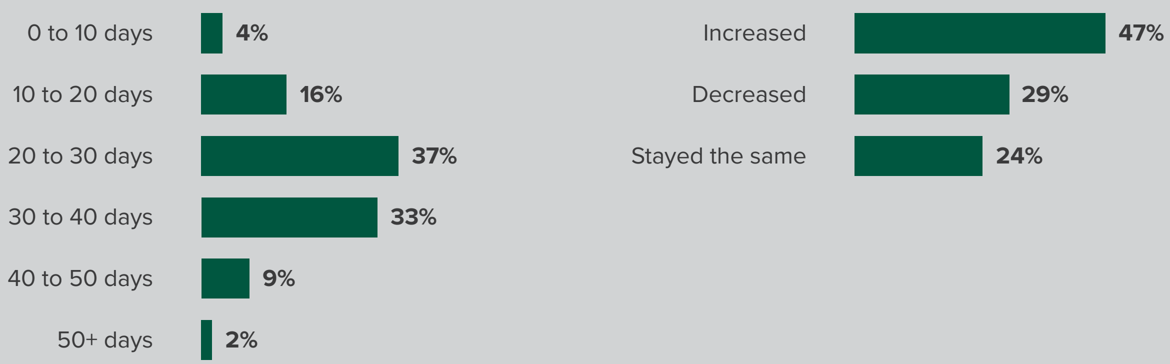
- **Slow payment intake.** Cash flow is crucial for organizations as it enables them to invest revenue back into the business. Most firms in this study are missing out on these opportunities: Four out of five respondents indicated that it takes them more than a month to receive, and that the average DSO (a measure of the average number of days that companies take to collect payment payment after a sale) in the past 12 months is more than 20 days across their payment methods (see Figure 3). Checks and cards are driving this high DSO, while bank debit has the lowest DSO. When left unaddressed, a high DSO will expose the business to risk and bad debt.
- **Time-consuming manual processes.** Processing payments is still labor-intensive for more than half of surveyed firms, and aside from impacting cash flow, it distracts teams from important work that moves the needle on strategy and innovation. More than 60% of surveyed payment decision-makers said the most time-consuming areas are matching payments to invoices and reconciling reporting from different gateways/processors (see Figure 4). This indicates that investments in current resources (e.g., technology, payment process automation/integration, and people) fail to improve even basic elements of processing payments.
- **Increased cost in taking payments for all payment methods.** The cost of taking payments has increased in the past 12 months for all surveyed firms. More than half of respondents from B2B-only firms and three-quarters both B2B and B2C firms said their administrative costs have increased by more than 10% (see Figure 5). This sort of increase directly impacts profitability.

Navigating banking procedures and rules outside of home country or domestic market and long process times for bank transfers are the top challenges related to DSO and cash flow.

Figure 3

"Using your best estimate, what is your firm's average days sales outstanding (DSO) in the last 12 months?"

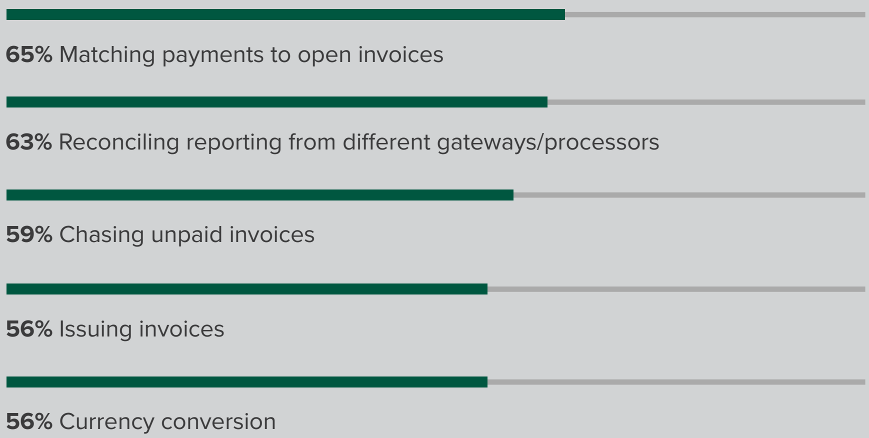
"How has your DSO changed in the past 12 months?"



Base: 700 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Figure 4

"Which areas of processing payments are the most labor-intensive?"

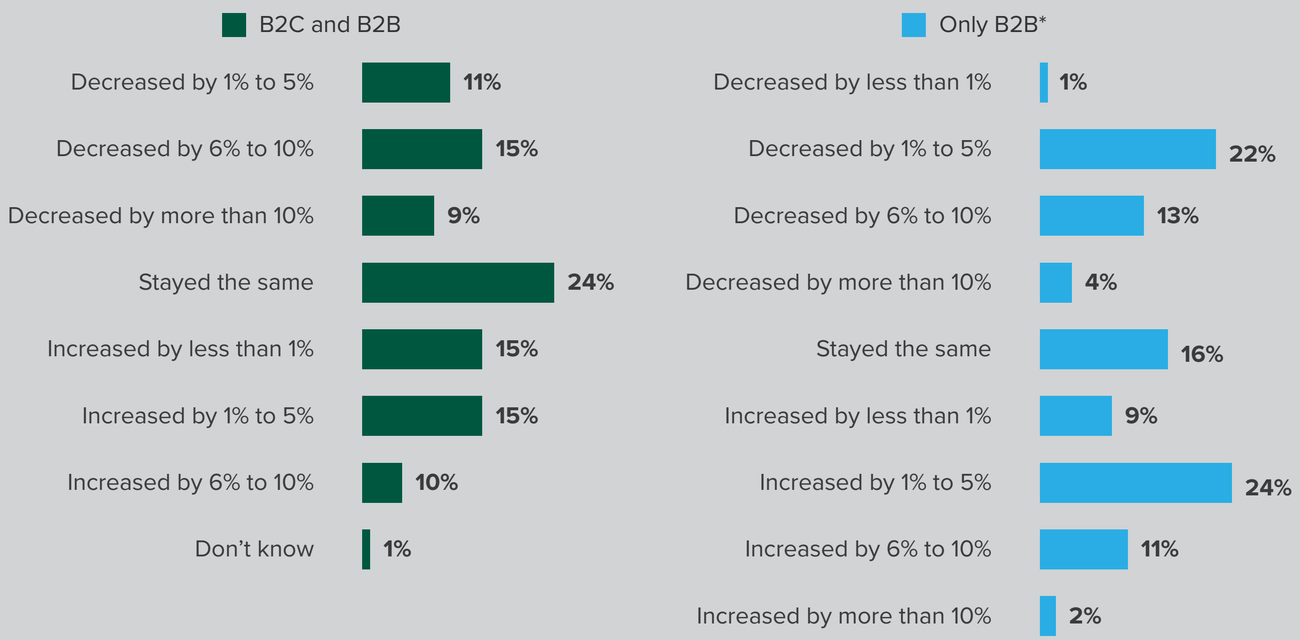


Base: 700 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany

Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Figure 5

"On average, what percentage have your cost of taking payments (e.g., transaction fees and admin costs) increased or decreased by during the past 12 months?"



Base: 189 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany

*Base: 393 payment decision-makers at B2B-only firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany

Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Payment Failures Affect The Bottom Line, Resulting In Bad Debt And Customer Churn

Payment failure is too common of an occurrence for firms. Limiting their occurrence is a critical component of saving operational costs and resources. Half of respondents said that in the past 12 months, their firm experienced a payment failure for 7% of its payments (see Figure 6). And recovering failed payments is costly. Payment failures have serious business implications, including:

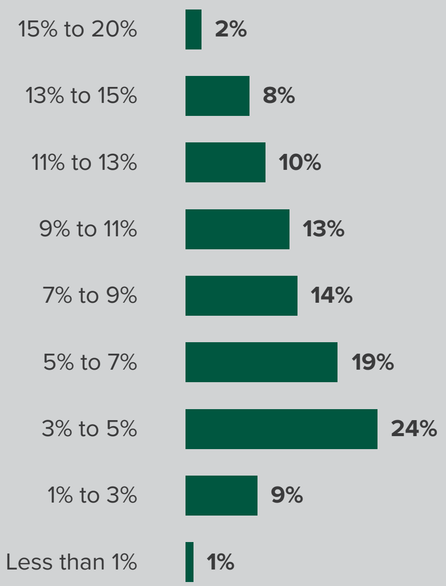
- **High costs with payment recovery.** Trying to uncover why a payment failed and attempting to collect on failed payments can be a cumbersome and costly endeavor. Forrester's study found that for two-thirds of B2B and B2C firms, the cost of recovery is more than 11% of the average payment size. These same costs also apply to 80% of B2B-only firms (see Figure 7).
- **Bad debt.** Every time a payment is uncollectible, it results in lost money or bad debt. In fact, more than two-thirds of surveyed B2B firms with a usage or consumption-based payment model reported that 10% or more of their failed payments turn into bad debt (see Figure 8). If firms could turn some of this bad debt into collectible revenue, it could mean the difference between profit and loss.

More than 7% of payments fail for nearly half of surveyed merchants.

11% or more of their payment failures turn to churn.

Figure 6

"To the best of your knowledge, what percentage of your payments failed over the past 12 months?"

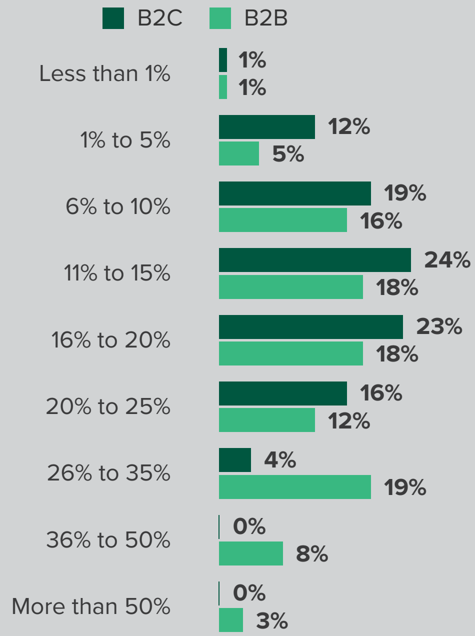


Base: 700 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Half of respondents said that in the past 12 months, their firm experienced a payment failure for 7% of its payments.

Figure 7

"For your usage or 'consumption-based payment model,' what is the cost of recovery as a percentage of the average payment size?"

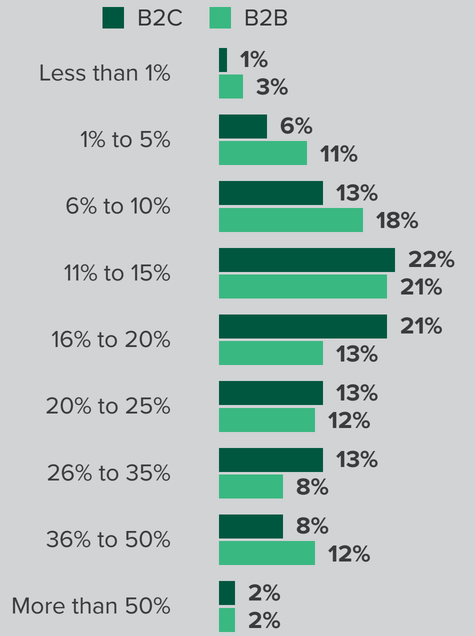


Base: 207 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Two-thirds of B2B and B2C firms, say the cost of recovery is more than 11% of the average payment size. These costs also apply to 80% of B2B-only firms.

Figure 8

"For your 'usage or consumption-based payment model,' what percentage of customers with failed payments turned into bad debt in the last 12 months?"



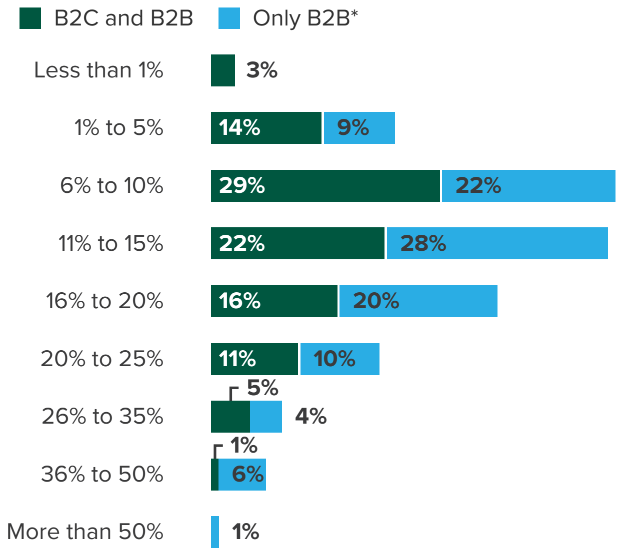
Base: 207 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Two-thirds of B2B firms with a usage or consumption-based payment model say that 10% or more of their failed payments turn into bad debt.

- **Customer churn.** The consequences of failed payments can mean revenue loss from the payment in question, or it can result in a lost customer. That means the merchant misses out on all the subsequent revenue that customer would have generated. Forrester's survey shows that payment failures lead to lost customers. More than two-thirds of surveyed B2B only and more than half of those B2C and B2B firms said 11% or more of their payment failures result in churn (see Figure 9). From a customer experience perspective, payment failures result in increased customer dissatisfaction for more than half of merchants.
- **Lower profitability.** Failed payments can be a silent killer for businesses if they are not handled properly. Failed payment challenges may start small, but they can quickly impact a company's metrics and bottom line. Over half of surveyed payment leaders said their revenue and profitability decreases when payments fail, among other implications (see Figure 10).

Figure 9

"For your 'subscription model,' to the best of your knowledge, what percentage of customers with failed payments turned into churn in the past 12 months?"



Base: 207 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
*Base: 319 payment decision-makers at B2B-only firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

More than two-thirds of B2B-only firms and more than half B2C and B2B firms said 11% or more of their payment failures result in churn.

Figure 10

"When recurring payments fail, what are the implications for your business?"

54% Increase in customer dissatisfaction

51% Difficulty replacing lost customers

51% Increased revenue or profitability losses

51% Increased cost of recovery

50% Increase in chargeback rates

45% Reluctance to pursue new, innovative recurring pricing and packaging solutions

45% Failed payments turn into bad debt

0% None of these; We don't feel any negative impact on our business from recurring payments.

Base: 700 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Firms Lean On Recurring Payment Solutions To Bolster Their Payments Strategy

The already-modernizing payment landscape is now on an accelerated track due to the COVID-19 pandemic. Forrester hypothesizes that “months of COVID-19 delivers years of change” in the payment landscape.[1] Changes in the mix of payment options, customer usage patterns, and existing challenges firms face with accepting or processing payments are driving firms to rethink their payments strategy. Firms are eager to improve and are taking steps by:

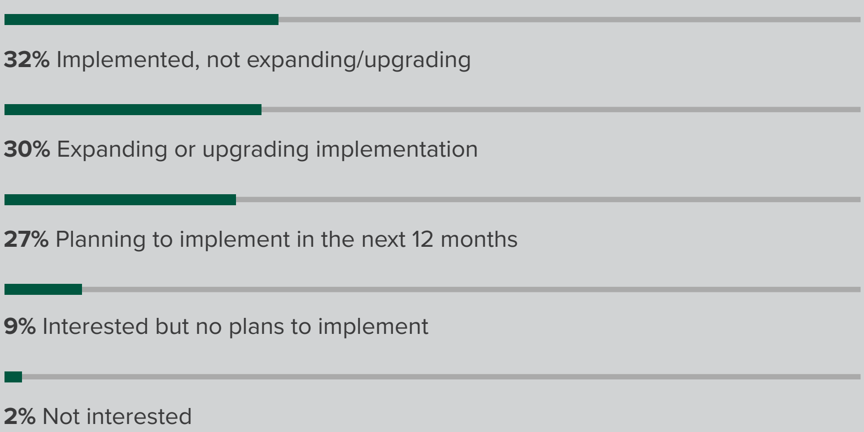
- **Finding reliable partners.** Nearly 60% of surveyed firms are planning to invest in or expand/upgrade investment in recurring payment providers (see Figure 11).
- **Investing in solutions purpose-built for their needs.** Many surveyed firms have interest in implementing a pull-based payment solution (58%), and the most important functionalities revolve around CX and integration (see Figure 12).

Increased focus and investment in these areas will help firms address internal operational challenges and external market shifts, as well as support growth strategies.

Recurring B2B payments are pushing firms to modernize their payments technology with 60% of respondents saying their firm is planning to upgrade/invest in a recurring payment provider.

Figure 11

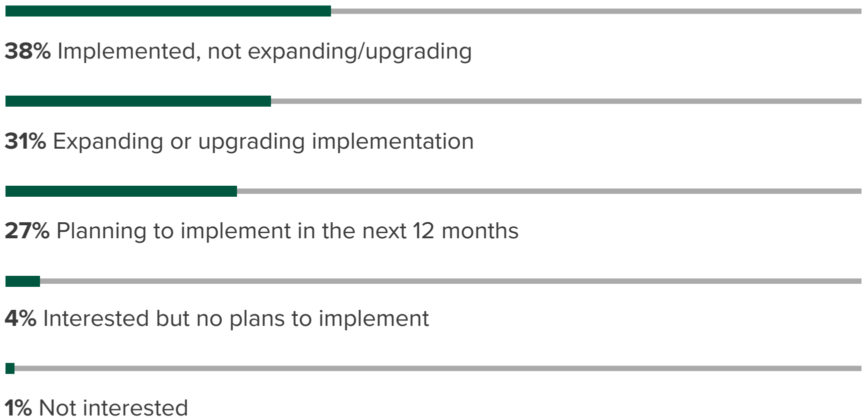
Recurring payment service provider: “What are your plans to invest in the following?”



Base: 700 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Figure 12

A pull-based payment solution (the merchant initiates the transfer of funds from consumer to merchant): "What are your plans to invest in the following?"



Base: 285 payment decision-makers at B2B and B2C firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

More than half of respondents said their firm is planning to implement or expand/upgrade implementation of a recurring payment provider.

FIRMS STAND TO BENEFIT FROM A RECURRING PAYMENT SOLUTION

Firms are aware that it is not just about solving internal problems. The outsized impact payments have on their customers' experiences have encouraged them to look beyond strict operational improvements from their payment technologies. By investing in a recurring payment solution, respondents from all firms expect to benefit by (see Figure 13):

- **Improving payments success and customer retention.** The scope of a recurring payment solution doesn't end with invoicing and payment collection. A recurring payments tool can help businesses increase customer retention. That's something 44% of respondents said their firm expects. If firms manage to build trust and retain customers, the long-term benefits are not just limited to increased profit, but they can also help with acquiring new customers through advocacy.
- **Facilitating international expansion and adherence to compliance.** Firms look for recurring payment solutions that are building better connections to local banks and payment schemes in more countries. Businesses looking to optimize in their local markets or expand internationally can't take a one-size-fits-all approach to payments. To maximize conversion and offer the best payer experience, it's essential to adapt to market preferences.
- **Improving operations, optimizing cost and cash flow.** At the same time, respondents said their firms expect a recurring payments tool to facilitate the logistics of accepting payments by reducing DSO (43%) and the time it takes to reconcile payments (37%) and chase unpaid invoices (40%). Meanwhile, more than one-third of respondents said their firm expects lower costs, both administrative and transactional.

Figure 13

"What benefits, if any, do you expect to receive from adopting a recurring payment solution?"

Benefits of adopting a recurring payment solution

Improved payments success and customer retention

- **44%** Improved customer retention
- **41%** Reduced payment failures
- **40%** Improved sales by boosting payment acceptance
- **38%** Reduced churn

Facilitate globalization and adhere to compliance

- **41%** Facilitate compliance with local regulations
- **39%** Ease of market into new countries

Improve operations, optimize cost and cash flow

- **43%** Reduction in DSO
- **40%** Less time chasing unpaid invoices
- **39%** Increased visibility over cash flow
- **37%** Less time reconciling data from processors
- **35%** Lower transaction costs
- **33%** Lower administrative costs

Base: 700 payment decision-makers at B2B and B2C and B2C-only firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany
Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

All respondents said they expect their firm to benefit from recurring payment solutions.

Key Recommendations

The recurring payment landscape is continuously evolving. As more and more business decision-makers choose the recurring revenue model over or alongside one-time transactions, it's vital to ensure your payments strategy and process meets customer demands and improves business performance.

Forrester's in-depth survey of 700 payment decision-makers at B2B and B2C firms and B2B-only firms about their payments strategy yielded several important recommendations:

Treat payments as a strategic imperative, not just a cost center. Firms that treat payments as a cost center versus revenue drivers will inevitably deliver subpar customer payments experiences and fall behind competitors. It is far too important to the customer experience and to business performance. Firms must break free from accepting high failure rates, lost revenue due to churn of customers, and lengthy DSOs as merely the cost of doing business. Decision-makers must instead look at the present state as a massive opportunity for improvement.

Assess KPIs and strength of integration in new payment methods. In both B2B and B2C payments scenarios, customer preferences globally are moving away from traditional methods of check or credit cards toward methods like digital wallets or bank debit. Merchants must cater to their customers' evolving needs while keeping an eye on critical KPIs like transaction costs, DSOs, failure rates, and costs of recovery. And the quality of the integration with payment methods (either directly or via the processing partner) is key to accurate KPIs, optimization, and automation possibilities.

Tackle recurring payments complexity with more than just people. Firms have been growing their payments teams in order to tackle the increasingly complex task of accepting and collecting payments. This is great, given how important payments are to the business. But too few firms with recurring business models are equipping their teams with solutions purpose-built for this unique payments challenge.

Look for a partner with global recurring payments expertise. As a software-as-a-service (SaaS) business, the obstacles of international expansion lay not in carrier logistics and package delivery, but in regulatory compliance and localization. Payments are at the intersection of these two requirements. Find a payments partner with a strategic focus on recurring payments and one with the domain expertise about and experience in the relevant countries for your business.

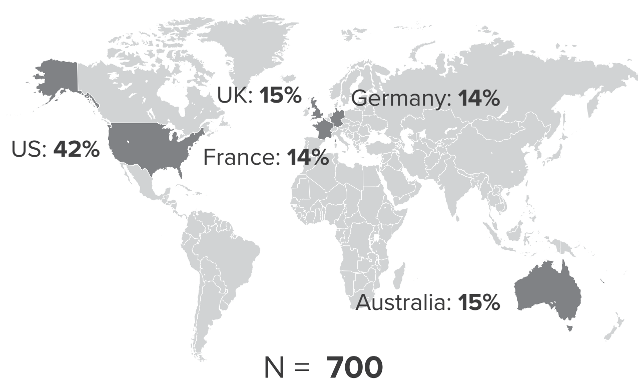
Appendix A: Methodology

In this study, Forrester interviewed 700 payment decision-makers at B2B and B2C firms and B2B-only firms in the UK, the US, Australia, France, and Germany to evaluate the state of recurring payments across the globe. Survey participants included decision-makers at the functional practitioner level or above who have more than five years of experience in payments. Questions provided to the participants asked about their recurring payments strategy. The study began in July 2020 and was completed in October 2020.

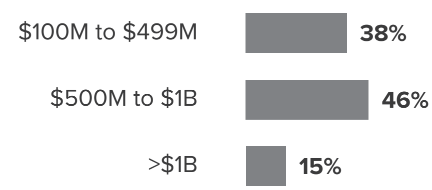
Appendix B: Demographics/Data

FIRMOGRAPHICS

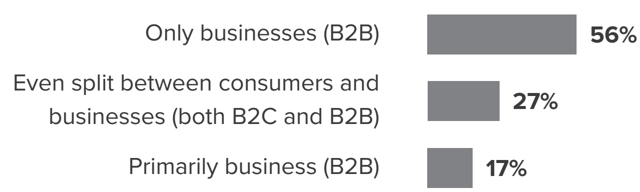
COUNTRY



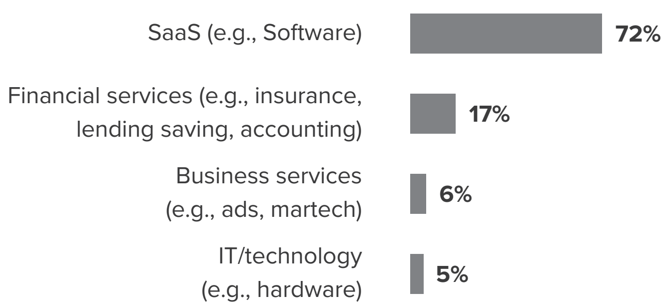
COMPANY REVENUE



CUSTOMER BASE



INDUSTRY



Base: 700 payment decision-makers at B2B and B2C and B2C-only firms with responsibility for payment strategy in the US, the UK, Australia, France, and Germany

Source: A commissioned study conducted by Forrester Consulting on behalf of GoCardless, September 2020

Appendix C: Endnotes

[1] Source: "The COVID-19 Pandemic Alters The Payment Industry In Europe For Good," Forrester Research, Inc., September 18, 2020.