



WHITE PAPER

Chargeback Management for Subscription Businesses



**Best practices
for managing
chargebacks**



White Paper

Best Practices for Managing Chargebacks

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Introduction

Chargebacks & Subscription Businesses



Subscription businesses are rewarding. They typically grow 5-8 times faster than nonsubscription businesses but also come with challenges like chargebacks.

Specifically, the nature of subscription businesses opens the door to a lot of “friendly fraud”. This is when a customer purchases a subscription and forgets they have it. Months or even years later, these customers file chargebacks with their issuer, even though you did nothing wrong, these chargebacks hinder your business and your relationship with your processor.

Getting ahead of these chargebacks is very important. But what is chargeback management, and how can you get started?

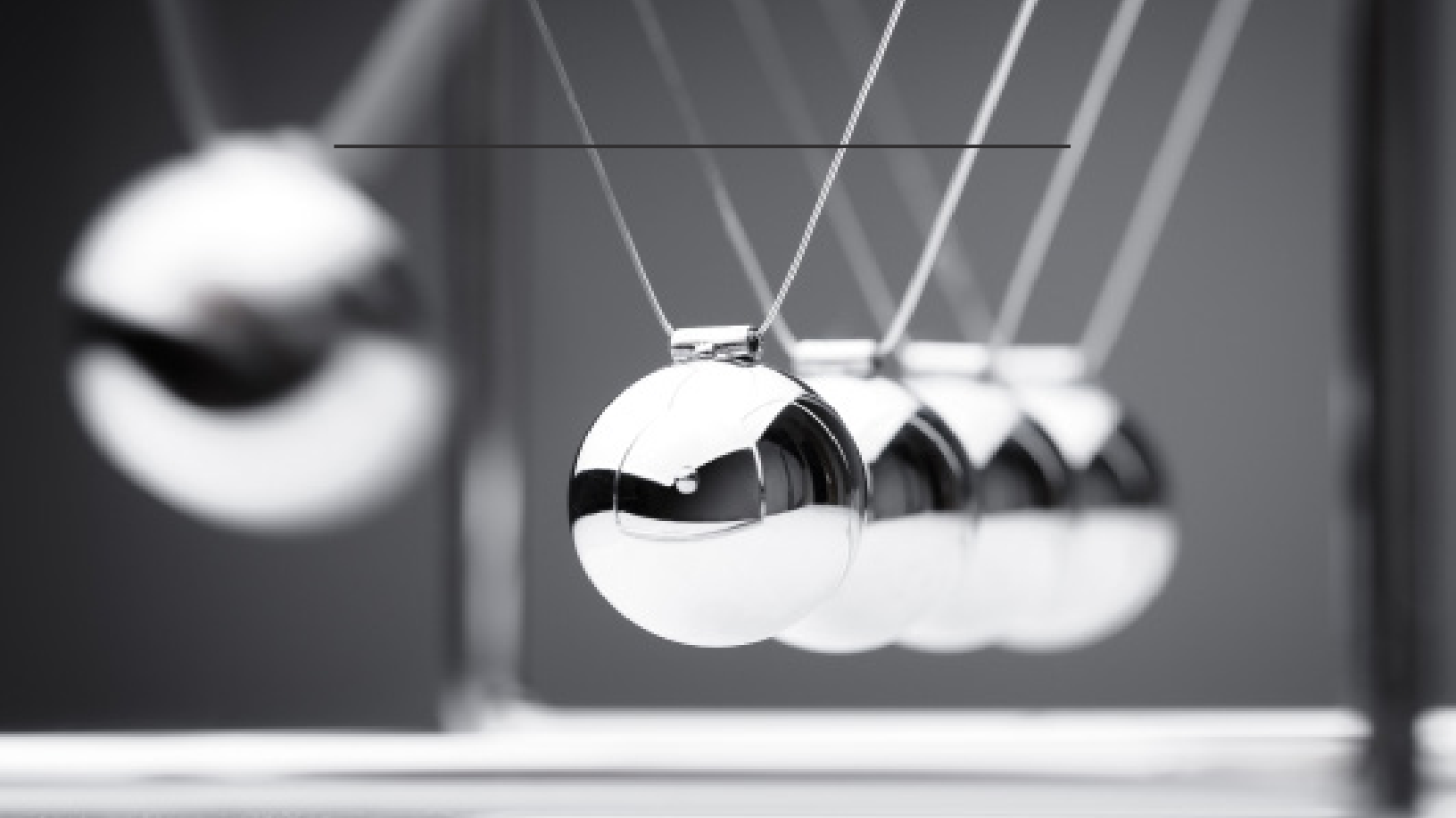
Background

What are chargebacks and why do they matter?



Chargebacks are transaction disputes your clients open with their issuer to get their money back. In many cases, chargebacks are an easy way out for customers when the cancellation process is difficult, thus the term “friendly fraud”. They can also be the result of unauthorized transactions, transaction errors, poor customer service, or other customer grievances. If the customer wins the dispute, they get their money back at your expense. If the issuer finds the transaction legitimate, the money held in the chargeback process is returned to you.

Chargebacks can cost your company between \$20 and \$50 in fees. That’s on top of the opportunity costs associated with the time it takes to fight chargebacks. Moreover, high chargeback rates directly impact your relationship with your payment provider. Payment providers will increase fees and put higher guards on payment authorizations on accounts that have high chargebacks. In a lot of cases your relationship with your



payment processor can be impacted even if you routinely “win” your chargebacks. Managing chargebacks is very important.

The Hidden Costs

Chargeback rates impact your approvals.

High chargeback rates can have a significant impact on business outcomes. There's a strong correlation between chargebacks and approval rates. When chargebacks spike, transaction approval rates tend to fall as the merchant is seen as a greater risk to issuers. If a merchant exceeds the chargeback limit for too many months, they may be viewed as a liability and dropped by the card issuer, payment processor, or both.

The good news is that the code that comes with each chargeback tells you why it happened. Pay close attention to these codes and take active steps to reduce the reasons for chargebacks.

Best Practices

Internal Management of Chargebacks

Chargebacks are time-consuming and expensive and can significantly impact your business's ability to generate revenue. That's why creating a chargeback prevention strategy for your business is crucial.



Reporting and Correlation for Various Business Metrics

Chargebacks are a trailing indicator of business and marketing changes. It's important to understand where you stand with chargebacks and what correlations can be found between your business operations and your chargeback rate. Start by keeping track of all chargebacks you deal with and the reason for those chargebacks.

Now compare these to other business metrics. For example, what percentage of your revenue and earnings do you lose to chargebacks? Do they correlate to the amount of time it takes customers to receive services? Use these correlations to discover why chargebacks are happening and incorporate a chargeback management strategy to address them.

Common reasons for an increase in chargebacks include; changes to marketing practices, especially volume of affiliate traffic, changes to customer UI/UX that make online cancellation more difficult, bugs and defects preventing consumers from using the product, and system issues that fail to update customer information, settings, or changes.

Refunds and Chargeback Representments vs. Wins and Losses

Merchants with a low average ticket may find it more expensive to represent or fight a chargeback than the revenue associated. In these cases services such as Verifi and Ethoca that allow the chargebacks to be refunded before turning into chargebacks are something to consider. This not only lowers your chargeback volume, which directly helps approvals, but it provides faster resolution than even accepting a chargeback.

To better understand how chargebacks affect your business, track the number of chargeback requests you refund and the amount you fight with representment. Consider your win and loss rate when you do fight them. You may find that you win often or that the fight isn't worth your time and money.

Third-Party Solutions in the Chargeback Management Process

You can take advantage of multiple chargeback management solutions and integrations to reduce your chargeback rates, but why outsource chargeback management? The reason is simple. Doing so not only saves you time digging through transaction details but can also save you money and help with revenue recovery.

Turn Your Chargeback Into a Refund

Refunds are one of the most effective chargeback management tools at your disposal. If you decide to process a refund when you receive a chargeback, you don't have to spend time compiling a case or pay increased investigation fees.

However, it's also important to protect your business. Compare cash flow metrics to your chargeback costs to help you understand and manage the money your company spends as part of this process. For example, consider metrics like:

- Refunds as a percentage of revenue
- Refunds as a percentage of profits
- Refunds as a percentage of operating cash flow
- Consider refund and chargeback metrics by both dollar and volume, as the difference here can often provide insight into customer behavior.

Use these metrics to determine if you're on the right path with refunds or if you should fight more chargeback requests. Keep in mind this is a long process. After reducing your chargeback rate, it can take 90+days to see changes in overall approvals.

Continue adding to metrics that provide insight on your business and know that change may not happen overnight.

Overlap and Coverage Between Vendors

As mentioned above, you can use third-party vendors to help you manage your chargebacks. This can be beneficial if you process many transactions each month and chargebacks are commonplace.

However, when you decide to work with third-party chargeback solutions, it's important to understand what your vendors offer and ensure both of the following:

- **You're Covered:** Work with vendors that can efficiently help with any chargeback situation, so you're covered at all times.
- **No Overlap:** You may choose to work with multiple third-party services. However, if these vendors' services overlap one another, the overlap can result in paying double for similar services or confusion in the chargeback process that reduces your win rate.

Strategy For Automating Chargebacks

Chargeback automation can save you a significant amount of time. You can use chargeback management software to automatically produce rules-based responses to these inquiries. The rules are typically based on chargeback codes to create appropriate responses without needing to manually review every case.

Consider incorporating this software to save time and money, but compare your options. As with any other product or service, each solution comes with its own price

tag and features.

Moreover, it's essential to understand that chargeback automation may not be a complete solution for the entire chargeback life cycle. Using multiple solutions to ensure you're completely covered may be a good idea. One size never fits all so understand the limitations of your current platform, processor, or service provider and make any necessary changes.

The BIG Picture

Chargeback management is often an afterthought, but it shouldn't be. Chargebacks have a direct impact on your billing efficiency and brand reputation. When you take an active role in the chargeback management process, you protect your brand.

Chargebacks may be frustrating, but it's important to consider the situation from your customer's point of view. If customers don't know how to cancel your service, they may simply file a chargeback to make their lives easier. In these cases, consider meeting these inquiries with refunds to reduce your headaches while you make product changes.

As you dive into your chargeback management process, consider protecting your company from future chargebacks by working with a solid payments solution like Revolv3 that provides meaningful chargeback support. Revolv3 offers consulting services to help companies strategize and develop a custom chargeback strategy.

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