I am excited about the opportunities a subscription-based business model presents. Whether you are a small, medium or large enterprise, this recurring revenue model has proven to be an appealing go-to-market strategy for industry leaders - and it’s easy to see why.

For businesses, recurring revenue means ‘predictability.’ Having consistent income from recurring sales enables you to forecast revenue more accurately which allows you to grow and expand with confidence.

The key to your success in this environment is a combination of the right pricing strategy, a strong focus on customer relationships and a smart back-end subscription billing management platform that will help you rapidly scale your business.

If you are considering adopting a recurring revenue model, this guide will help you better understand the strategic and tactical opportunities that you will want to take advantage of. It will also help you assess the current and future needs that your back-end billing platform will need to support. A feature-rich platform enables you to not only adapt to consumer buying behaviors, but also to react quickly to the ever-changing competitive landscape.

If your business relies on recurring revenue, you are in good hands with a robust subscription billing platform… Here is what to look for.

*Tyler Eyamie, CEO, Fusebill Inc*
Contents

Guide Overview 1
Pricing and Packaging 2
Rating and Billing 6
Payment Options 8
Account Management 11
Subscription Management 13
Customer Self-Service Portal 15
Reporting and Metrics 17
Accounting System Integration 18
In Summary 21
Guide Overview

What will I get out of this guide?

This guide will help you better understand the key elements and strategic considerations for your subscription billing.

Each chapter will explain a key aspect of subscription billing and discuss the corresponding features you will need within your billing platform to properly support it.

We’ve also provide a handy checklist to ensure you’ve asked yourself the right questions.

LET’S GET STARTED!
Pricing and Packaging

The ability to rapidly define and introduce new price packages is essential to drive growth within a subscription business model. Many companies stagnate in the market when their billing system becomes a barrier to the nimble delivery of pricing plans that address customer needs in a rapidly-changing market. Whether your goals are to better segment customers, improve cash flow, upsell additional offerings, or prevent abuse, pricing and packaging, when done effectively, can be a competitive advantage. This section outlines a variety of pricing and packaging approaches that your subscription billing system should support. Remember that while your business may use one pricing model today, future offerings and growth may require more pricing flexibility.

Price plans are built from three kinds of charges: one-time, recurring and usage-based charges.

One-Time Charges

Often used for a ‘setup’ fee, one-time charges are also frequently used during the customer lifecycle for professional services, training, access to support teams, etc. One-time charges are typically optional.

Recurring Charges

Recurring charges are charged on a defined time interval. Different time intervals for the recurring charges, such as weekly, monthly, quarterly, or yearly, should be supported by your billing platform. Your platform should also allow you to set when recurring charges are calculated (e.g., 1st of the month vs. anniversary date) and what proration rules apply (e.g., for partial months).
Fixed Recurring Charges

Recurring charges might be fixed, meaning a flat fee that gets charged each month to customers. This is commonly seen in consumer applications such as Netflix, which charges a set fee regardless of the number of movies you watch.

Usage-Based Recurring Charges

Usage-based recurring charges or pay-as-you-go charges are calculated based on the use or consumption of a service, and can vary from usage period to usage period.

In a usage-based pricing strategy, customers either pay in advance or pay in arrears. The appeal of this model to consumers is that it has been shown to lower consumption compared to when a flat rate is charged.

Generally, price plans include an allocation for usage, with incremental charges for usage above the allocation.

Variable Charges

Variable pricing can add great flexibility to your pricing strategy. You will need to make sure your billing system is agile enough to accommodate your price customizations.

There are three types of variable pricing options:

- **Tiered pricing** is where every quantity and price range appears on an invoice. It is ideal for incorporating initial free units or providing discounts at higher quantity ranges.

- **Volume pricing** is where bulk purchases can be made at a lower per unit price, with the price dropping further as more units are purchased. This method is ideal for encouraging customers to purchase higher amounts in order to benefit from a discount.

Let's talk strategy...

Since saving money can be a powerful motivator for consumers, usage-based pricing can be a convincing stand-alone differentiator for a subscription business. From a billing management perspective, you will need to be able to collect usage information over a period of time without initiating a charge. You’ll also need to be able to reset usage back to zero at the end of every period.
• **Stairstep pricing** is where all units are grouped into usage ranges and charged a single price. If a customer’s usage is greater than the range they are in, they are bumped up automatically to the next price range. This means the upsell takes care of itself. Companies typically charge a premium fee on the overages. To manage this type of billing, your system will need to distinguish the point at which overage starts, provide customizable pricing for different levels of overage and distinguish these charges on an invoice. This is also a very popular strategy used by mobile phone companies when billing for data usage.

### Free Trials

Particularly in SaaS (software-as-a-service) cloud businesses, you may offer customers a free trial to evaluate your service prior to converting to a paying account. However, you must ensure your billing system can support the following:

- If a credit card or other method of payment is provided before the free trial can begin.
- Customization of the free trial duration.
- Reminder notifications as the free trial is about to expire.
- Capability to switch to a paid plan.

### Discounts, Promotions and Coupons

To help convert prospects to customers, you may also choose to offer marketing promotions, which can be time-based (e.g., 50% discount for the first 3 months), volume-based (e.g., tiered pricing, whereby additional units become progressively cheaper), or both. Your billing platform must be able to support these functions.

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**The “multiple edition” pricing strategy** is one that may use a combination of fixed recurring and usage-based pricing. In this pricing strategy, different packages are offered at different price points. The packages are tailored to customer requirements and based on factors such as: number of customers, usage, features, volume, etc. To ensure success, your billing system will need to be able to create highly customizable product offerings and support bundling, as well as manage recurring and usage-based pricing editions. Cell phone companies commonly employ multiple edition pricing.
Usage Processing – Metering

Your subscription business must be able to track what has been consumed and by whom. Typically, this information can be obtained from the monitoring software of your underlying infrastructure, but you will need to structure usage records in a consistent manner for your billing system. Each usage record should minimally have the following:

- **Unit of Measure**: What was consumed?
- **Amount**: How much was used?

Usage Collection and Integration

Your billing platform will need to integrate with your infrastructure layer to pull the underlying usage data. Initially, a small-scale manual integration process can be used but it’s not long before automation is essential to avoid errors and bottlenecks.

Tip!

Did you know pricing strategies can be your greatest competitive advantage?

It may require that you experiment with different combinations to find which plans give you the best conversion rate.
Rating and Billing

Rating refers to the process of translating metering data for usage into invoice items for a customer, based upon the chosen pricing plan. Your platform will need to provide a rating engine that can calculate these charges based upon usage data over time. In some instances, you may need your platform to be configurable as to how the rating calculations are performed.

Billing is the process of creating an invoice for customers on a recurring basis as per the pricing plan they have selected, their usage during that time period, and any discounts that may apply. This section outlines the key requirements for billing and rating, and highlights what capabilities your platform must support.

DOWNLOAD THE COMPLETE VERSION OF THIS GUIDE
In Summary

In this guide, we’ve discussed the strategic and tactical approaches to operating a subscription-based business and how the right subscription billing and management platform can be a powerful tool to rapidly grow your business. As your subscription business matures, your billing and accounting requirements will increase. It is extremely important that, when choosing a billing platform, you consider your future billing management requirements and not only your current needs. Flexibility and scalability are two key platform must-haves for rapid growth businesses.

At Fusebill, we understand the billing challenges and opportunities that come with a subscription business model. Fusebill offers the only platform built specifically for rapid growth business combining powerful, flexible ledger-based billing capabilities without the need for Enterprise Platform pricing and resource requirements.

Ready To Get Started?

Create your test drive account to automate your subscription billing and empower your subscription business for growth.

More Fusebill Resources:

Visit our resource center
Fusebill Pricing – Full Featured across all plans
Fusebill’s feature-rich platform has given us a powerful way to seamlessly manage our entire subscription business from billing to account management. Fusebill is the Swiss Army Knife of billing.

*Chris Fowler, CoFounder and CEO ClearpathGPS*

Read the Case Study

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