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
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.

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**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.

Creating Invoices

Your billing platform will need to generate invoices for customers, indicating the payment that is due. Invoices should include your corporate branding, and it should be itemized to show one-time charges, recurring charges, and line-by-line usage-based charges. In some situations, you may decide not to present an invoice to certain customers, particularly ones that are billed automatically each month and automatically pay via a credit card. Even for such customers, it is important to create an invoice for your records, to present to customers if requested, and for legal requirements.

Adjustments

Your platform should permit you to adjust invoices. There are two types of adjustments that you will typically make:

- **Invoice-level adjustments**: These allow you to credit (e.g., for customer service reasons) or debit (e.g., for added late fees) an invoice after it has been created.

- **Line-item-level adjustments**: These allow you to credit or debit against a specific line item charge on an invoice (e.g., to reverse out a charge that was not incurred).
Billing Automation

Revenue leakage occurs in manual systems when recurring charges get missed – for example, when an annual service charge is not applied properly. Automating invoicing and billing makes this an ‘always on’ process which automates account charging, communication and collections on a pre-determined cycle. For companies moving from a manual system to automated subscription billing, reduction of revenue leakage provides an immediate and often significant return on investment.

Multi-Channel Delivery

Invoices need to be delivered to customers by email, and posted to a web self-service portal. They also need to be readily available to support agents who deal with customer inquiries.

Tip!

It’s important that your billing system allows you to create invoices that are professional, itemized and that includes your corporate branding.
Payment Options

This section outlines the key items your commerce system will need to accommodate in order to process payments and accelerate your cash collection.

Multiple Payment Types

Your customers will likely have different payment method preferences, so it is important that your commerce system supports the key payment types:

- **Electronic**: These payments are typically electronic bank transfers (e.g., ACH) or credit card transactions that are made with a direct connection between your billing system and the electronic payment processor.

- **External**: These payments, such as paper checks or wire transfers, are processed outside of your accounting engine and must be recorded against an invoice back in the billing system.

Ad-Hoc Payments

Generally, customers remit an invoiced amount on a regular basis. However, your system should still support the processing of ad-hoc payments that customers may make. For example, if a customer did not pay you the full invoice amount in a previous statement period, you may need to process an ad-hoc payment to cover the outstanding balance.

Scheduled Payment Runs

For customers that pay electronically, your platform should accommodate the scheduling of automated payment runs that charge their accounts or credit cards at a regular, recurring time interval.
Payment Gateway Integration

To accept credit cards and electronic cheques, you will need a relationship with a payment gateway (e.g., PayPal, Authorize.net, Moneris) to authorize transactions. You will want your billing system to be able to integrate with multiple payment gateways in order to automatically charge your customers’ credit cards on a recurring basis. Equally important is the ability to change gateways seamlessly, so your customers do not need to re-enter their credit card information when you add or change a gateway contract.

PCI Compliance

If you intend to process credit cards as a method of payment, best practices will dictate that your billing platform be compliant, thereby achieving a level of security that meets the standard of the Payment Card Industry (PCI) and assures your customers that their credit card information is protected. PCI compliance involves satisfying network and system security approaches, as well as rigorous adherence to processes.

Failed Payments

When you schedule automated payment runs, your system should allow you to define how many times you want to retry failed transactions on a specific credit card. For example, you may define up to three additional attempts, and designate that a specific amount of time (e.g., 12 or 24 hours) must pass between retry attempts. In addition, your system should provide you and your customer with automated notifications should all retry attempts ultimately fail.

Tip!

It’s important to offer popular payment options so your customers will always find their preferred method of payment.

Let’s talk strategy...

From a strategic pricing perspective, when a company offers a free version of their product or service, this is the hook. Once the customer is engaged, it offers a paid version with more features and customization. This is the upsell. The key to making this strategy work is to provide a positive experience and demonstrate value with the free version while allowing the user to envision the additional benefits they’d receive with the paid version.
Overpayments and Credit Balance

Customers will sometimes overpay the amount due, for example, by rounding up a cheque or erroneously paying more than the current invoice amount. In these situations, your billing platform should allow you to accept these overpayments and hold them as credits for the customer that can be automatically applied against future usage of your service. With support for credit balances, your business can avoid time-consuming refund processes.

Refunds and Chargebacks

Customer refunds are sometimes needed – for example, for overpayments or perhaps for unmet service level agreements. Your platform should be able to support chargebacks, which are funds to be returned to customers for contested charges. Customers typically request chargebacks for fraudulent purchases made on their credit cards, clerical errors (e.g., duplicate billing), or services purchased but never received.

What is dunning management?

Dunning is a process of automatically sending reminder notifications to your customers about past due accounts (aka dunning letters). With a subscription billing platform, you are able to set up the dunning management rules that suit you.

An advantage of having a subscription billing platform is that it integrates with multiple payment gateways. This means you are able to shop around for the lowest payment gateway rate and minimize your transaction costs.

Tip!

Working with a subscription billing platform that is PCI compliant means you don’t have to be. Certification for PCI compliance is a rigorous standardization process and can be time-consuming and costly.
Account Management

Customer Account Creation

When creating a new customer account, your system should only collect information you absolutely need to keep the process short and minimize customer abandonment. Information typically required will be: name, password, key contact and billing information, and payment information.

Free Trial Accounts

If your business offers a free trial period, you will need to decide whether your system will collect credit card information prior to starting the free trial.

Customer Account Maintenance

Your platform should allow your service agents and customers to access a customer account and modify its details. In addition to the information entered during account creation, your system should also allow for the editing of the following customer account details:

- **Locale**: information about the customer’s time zone and date format preference
- **Currency**: the currency that is used to charge the customer
- **Tax Exemption**: a customer’s tax exemption status (typically not editable directly by a customer)
- **Payment Terms**: you may want the flexibility to offer both net 15 or net 30 terms (typically not editable directly by a customer)
- **Payment Methods**: your system should ideally support entry of multiple payment methods, in addition to selecting one default payment method
- **Additional Contacts**: for example, you may want to store different “bill to” and “sold to” contacts for a customer.

Let’s talk strategy...

Moving to a recurring, subscription, or automated payment model will save you time better spent on other aspects of your business. It will reduce bookkeeping and administration costs and help customers who frequently forget to pay. An automated billing system ensures you receive payments on time, significantly reduces passive churn, automatically implements dunning management rules, and notifies you of missed payments.

Prior collection of credit card information may lower your free trial customer acquisition rate but increase your conversion rate from free to paying customers downstream. Testing both approaches is a good way to measure which approach works best for your business.
Updating Credit Cards

Subscription charges typically require that a credit card be maintained on file for the duration of a subscription. Once a credit card is on file, there is the possibility that the credit card will expire or the cardholder will cancel the credit card. Proactive notifications to customers via email and alerts on your web portal are needed when their credit cards are about to expire. This proactive, automated approach will reduce the number of failed payments and ultimately improve your cash flow.

Cancelling Accounts

Your platform will need to support cancellation of customer accounts. Organizations may wish to allow customers to cancel accounts in a self-service manner. Your support representatives will also need to be able to cancel accounts, either at a customer’s request or for other business reasons, such as non-payment or fraudulent use.

To reduce revenue leakage, you should ensure your platform is able to:

- Cancel all the customer’s subscriptions and verify that all due invoices have been paid or adjusted before canceling an account.
- Prohibit further subscriptions from being added to a cancelled account.
- Ensure that any remaining usage prior to account cancellation gets billed to the customer in the next billing cycle. Optionally, you may consider having your system cancel all of a customer’s subscriptions but keep the customer account active, so the customer can re-engage without friction later, with the existing account information still intact.

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What is churn rate?

The churn rate is the percentage of subscribers who discontinue their subscriptions to a service within a given time period. For a company to expand its customer-base, its growth rate, as measured by the number of new customers, must exceed its churn rate.

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Tip!

Let’s talk strategy...

Being able to manage your customer accounts easily and efficiently will help you stay on top of your customer activity, foster customer relationships and maximize your revenue.
Subscription Management

When a customer purchases one of your cloud offerings, your platform will need to create a subscription for that customer, defining what has been purchased, by whom, over what time period, and at what price. This section outlines the various requirements your billing platform will need to support both in creating subscriptions and in managing changes against it throughout a customer’s lifecycle with you.

Creating a Subscription

Your subscription billing platform should create a subscription when a customer makes a purchase from you. Some key information that should be captured in a subscription includes:

- **Customer Name and ID**: identifying the customer who made the purchase.
- **Initial Term**: the duration of the subscription.
- **Auto Renew**: whether the subscription should automatically renew at the end of the term.
- **Renewal Term**: the duration for a subscription renewal.
- **Products Purchased**: the products that comprise the subscription.
- **Product Pricing**: the amount to be charged for each product purchased, which can purchased.
- **Billing Interval**: the interval (e.g., monthly, quarterly, etc.) over which recurring charges are billed.

Let’s talk strategy...

Since customers leaving your subscription business have a huge impact on your revenue and diminishes your profits, it is important to understand the reasons why customers have unsubscribed or were churned from your services. Some churn trends include the following:

1. Poor customer service
2. Too few features
3. Too many features
4. Pricing

Tip!
Flexible and easy-to-use subscription models will help you manage the entire lifecycle of your customer.
**Adding Products**

To upsell more products or services to an existing customer, your platform should support the addition of those items to an existing customer subscription.

**Removing Products**

If a customer decides to downgrade from what he originally purchased (e.g., remove a promotional product after its “teaser rate” has expired), your system needs to support the removal of specific products from that customer’s subscription.

**Changing Subscription Terms and Conditions**

In some cases, your system will need to support the ability to change the terms and conditions outlined in a customer’s original contract. For example, rather than issuing a refund to a customer, you may both agree to simply provide that customer with a credit, extending the length of her contract.

**Suspending Subscriptions**

Your subscription billing platform may need to permit a customer to suspend his subscription to your service for a certain period. This is common for seasonal businesses and services.

**Cancelling Subscriptions**

Your system must allow customers to cancel subscriptions to services that are no longer needed. For example, a customer may cancel the trial subscription at the end of the free promotional period, without converting into a paying customer. Since a customer can have more than one subscription, your system must allow a customer to cancel one subscription while keeping others active.
Customer Self-Service Portal

A customer self-service portal allows your customers to place orders independently, which in turn reduces your operating costs.

Account Creation and Initial Purchase

Your web storefront should allow a new customer to create an account and make an initial purchase online.

The storefront should be:

- Configurable, to rapidly add new price packages and offerings without coding
- Brandable, to match the rest of your website
- Secure and PCI compliant

Viewing Information

Returning customers should be provided with a login and password to access your customer self-service portal. From the web, a customer should be able to view the following information:

- **Account Profile**: customer’s contact and billing information
- **Payment Method**: the payment method used for any recurring billing. For credit card details, only the last four digits and the expiration date should be displayed for security purposes.
- **Subscription Details**: information related to the products and services that a customer has purchased from you, along with their corresponding rate plans
- **Invoices**: a record of the invoices you’ve generated for that customer
- **Payments and Adjustments**: the history of payments that a customer has made and any billing adjustments you have made on the account
Updating Information

Your system should also allow customers to make changes to their accounts from your self-service portal, thereby saving you from significant customer support costs. Common self-service updates that your system should support are:

- Changing account username and password
- Changing contact information for that account
- Updating the payment information for an account (e.g., adding a different credit card or changing a card’s expiration date)
- Adding, removing, or updating products in a subscription
- Creating, suspending, or cancelling a subscription

Tip!

Providing a self-service customer portal allows customers to manage their subscriptions by themselves. This helps with scalability and can reduce management costs to you.
Reporting and Metrics

Your platform should provide you with real-time access to reports and subscription metrics, appropriate for the cloud. Some important metrics to consider include:

- Total Customer Value (TCV)
- Monthly Recurring Revenue (MRR)
- Cash Flow
- Churn
- Customer Lifetime Value
- Customer acquisition rates
- Product / Subscription sales
- Earned Revenues

It is important to keep an eye on key subscription metrics as they are important indicators of your business’s health.

You will want to have a single pane that shows you how your business performed yesterday, last week, last month or last year.

You will also benefit from insight into your customer base so your platform should track churn and acquisition rates. This information will help you fine-tune your service offerings and maximize subscription revenue.

Subscription reporting also provides valuable insight into which services are most popular within your customer base. You will want to see how different products and services are performing.

Tip!
There is so much that can be learned from analyzing SaaS metrics. Use this information to advise your efforts, be more efficient and continuously improve your customer service.
Accounting System Integration

Integration Options

Your billing platform will need to integrate with an accounting system to create your company’s financial statements. There are two common approaches to integrating billing data:

- **General Ledger (GL) Integration:** The benefit of this approach is to unburden the accounting system. Customer accounts, usage, invoices, and accounts receivable (A/R) are managed in the billing system, and a summarization of this data by GL accounting code is loaded into the accounting system as journal entries.

- **Invoice Integration:** This approach passes customer information, invoice line details, payments, and adjustments to your accounting system. The accounting system then aggregates the information into the general ledger.

Accounting Close Process

Regardless of the accounting integration approach, your billing platform should be able to lock down the data as part of an accounting close process. Your platform should allow for extensive flexibility to create invoices, payments, and other financial transactions during the month. When the accounting books are closed, however, there should be no ability to change transactions or create new ones in the closed period.

Revenue Recognition

The driving force behind **revenue recognition** is that you can only earn revenue as the service is delivered. With arrears-based usage models, where you invoice after the service is used, revenue recognition is not a challenge. However, if your pricing model includes cycle-forward billing, where you bill ahead for a specified period (e.g., a quarter or a year), you will need to recognize this revenue as it is earned.
Your billing platform should have the ability to invoice charges and trigger revenue recognition at a different time.

For instance, you may want to invoice a one-time setup fee as soon as the contract is signed, but not start revenue recognition until the service is activated. Another common complication for cloud businesses is in recognizing a one-time charge over the length of a contract, or even the average customer lifetime. Your billing platform will need to be able to invoice for these one-time charges, but enable revenue to be recognized over these longer service periods.

Revenue recognition reflects the true extent of revenue earned during a specific period. It allows you to see what your outstanding liabilities (deferred revenues) are at any given point. In a subscription business, revenue is counted as either earned or deferred. Depending on the billing frequency, it can be very hard to keep track of deferred to earned revenue manually. It requires a tremendous amount of processes and it is extremely cumbersome to accomplish manually without incurring errors. It’s important to choose a platform that can do this automatically.
The platform has the flexibility to change pricing plans easily and when I need to.

The platform handles multi-currency billing.

The platform handles discounts, promotions and coupons.

The platform support bulk operations (e.g., usage meter updates across entire customer lists).

The platform allows me to add my corporate branding on invoices.

Finance has been a part of my selection process.

The platform allows my customers to choose their preferred payment method.

The platform is PCI compliant.

The platform will automatically retry failed transactions.

The platform handles deferred and earned revenue. A powerful ledger-based platform will allow one to control revenue recognition at the product level, earn one-time fees immediately or over a period of time, etc.

The platform can implement dunning management best practices.

The platform provides the option for me to offer a customer self-service portal.

The platform allows for multiple payment types.

There is a hand-held approach to onboarding.

Customer support is readily available.

The cost of the platform enables me to predict my expense for the year. No hidden costs.

The platform has the flexibility to add, remove, change products on subscriptions.

There is flexibility to customize payment and billing plans for my customers.

Reports are readily exportable in CSV full data.

The reports provide valuable insights on customer activity, sales, churn, and other metrics that you need to grow your business.

Key SaaS metrics can be tracked and reported.
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.

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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