E-Book 01

The Instant 2020 – 2021 Guide on Subscription Billing for SaaS and Subscription Businesses

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1.1 Introduction

After the outbreak of the COVID-19, the landscapes of the economy, finance, industry, and businesses are changing drastically. The sudden occurrence of the pandemic shut down the whole world and made people confined in their abode. Of all the significant reasons, unpredictability and uncertainty exposed the fragility of the existing revenue models all over the world.

The business across the globe need robust support for revenue building and revenue growth. Today, to meet the demands and deal with the existing crisis, businesses had to come up with a solution that can not only strengthen the weakening economy all over the world and run the windmill of the growth and success, they also need firm sustenance that can peddle predictability, stability, reliability, and to quite an extent, certainty.

Recent economical mayhem helped businesses of all sizes to explore the advantages of the subscription economy.

The onset of the eCommerce and SaaS played quite a role in paving the ways for the subscription economy based on subscription-based business or revenue model. The edifice of the subscription business stands on the foundation of the subscription billing.

After a huge setback, not only eCommerce and SaaS but also industries like automobiles, education, health, transportation, consulting and services, and many more bigwigs are reevaluating and reshaping their revenue models to make ways for the subscription billing model.

Understanding the subscription billing model requires to explore its dynamics that induce the predictable and certainty factors to favor businesses, regardless of their size, niche, and resources?

In this quick guide, let us walk you through the different aspects of the subscription billing. Let's explore together what is the subscription billing and how has it remodeled the present state of the economy, finance, commerce, and industry across the verticals.

1.2 What is the Subscription Billing Model?

So, the Subscription billing model is a business model based on charging a customer in a way that enables a subscription services provider or subscription-based product's merchant to bill customers on a recurring basis with a fixed schedule for a term.

Subscription billing models are sometimes also referred to as subscription pricing, recurring billing, or recurring revenue model.

Subscription billing or recurring billing can be defined as;

"The process of charging their customers on a recurring basis for a pre-defined term after a definite period in order to gain an access to a product or service, available as a subscription."

These subscriptions are flexible, scalable, and extensible.

These qualities of the subscriptions allow subscription merchants or vendors or SaaS services providers to bill their customers with multiple ways.

The extensibility and variability properties of the subscription billing leverage the subscription businesses to keep the lead or customer onboard and process them for upsells, re-sells, or cross-sells.

Subscription billing is shifting the investment focus from acquiring a customer to retaining a customer.

Subscription products or services merchants can charge their customers repeatedly using multiple types of recurring billing methods or sticking to any billing model that brings more flow of income into their recurring revenue stream by simply varying pricing as per the seasons.

1.3 Types of the Subscription Billing

Do you know subscription billing can maximize monetization and revenue retention for your SaaS or subscription business to its fullest capacity simply be providing the ways to keep the customers onboard?

Here are the several subscription billing models that work differently for different SaaS or subscription-based products or services and allow vendors one thing—the [experimentation with pricing](#). It is the only condition that can help the subscription-based merchants to learn in-depth the pricing preferences of their customers as well as the billing comforts of their own.

Following are the most successful subscription billing models that are used across the industry as a stand-alone solution or in combination to retain customers by providing them flexibility and reliability as much as possible:

1.3.1   Freemium or Free-Trial Model

In the SaaS business, freemium is a term especially coined to give access to the website or SaaS visitor to explore the potential and opportunities of saving the time, effort, and resources by using the basic version of the online or cloud software.

Ecommerce businesses or online store often attracts traffic by alluring them with the free trial of their product or services. The traffic after experiencing the free-trial is more likely to convert into a prospective customer or lead for the paid services or the product available on a recurring basis.

This subscription billing model allows users to use a basic or primary version or try a product or services based on the subscription, usually, for a limited time and for free. Later, the vendor can charge them if they want to continue using the subscription or they want to upgrade to access more features.

1.3.2   Flat Recurring Fee

As the name refers, the flat-fee subscription model helps SaaS and subscription businesses to offer their customers access to the product or services as a one-flat fee whenever the billing cycle hits.

The flat fee is a type of billing where the customer is required to pay fixed charges, regardless of the fact how much they have consumed or have not consumed. They pay for what they have got the access, not what they have used or utilized.

This recurrence in the billing might draw a fixed and bordered income but it also streams a surety in the recurring revenue.

1.3.3   Pay-As-You-Go

Pay-As-You-Go reflects a [usage-based pricing model](#) where the customer can be charged for only what he or she consumes. It is often called metered billing or consumption-based billing.

It can be charged as:

- **Pay-Per-User:** This is the charging a company or an entity to have an access to the product or service based on the number of users.
  For instance, a club membership allowing three more members of the family in addition to the member or subscriber to access the amenities at the place.

Or, a subscription of the broadband device that charges $20.00 a month to connect up to 3 devices, and $29.99 to connect up to 5 users.

- **Pay-Per-Feature or Service**: Here customers can be charged based on how many features they want to subscribe to.
  For example, a basic data connection subscription worth $5 allows users to avail 5GB a week, whereas bundling it with 500 voice minutes and 500 text messages adds more features and increase the cost, accordingly.
- **Pay-Per-Days:** It refers to charging a customer on the basis of access to the service for a limited number of days, minutes, or any defined time period.
- Or in any form of consumption

1.3.4 Tiered Charges

It can be called the advanced version of the subscription billing. Flat fee or metered billing, subscription plans can be tiered into multiple levels that can be charged as you advance the levels. In this model, the merchants can charge their customers to access their products or services at flat or metered fees but in multiple tiers. For instance, the basic plan costs flat $5.99/month, whereas advanced is available in flat $9.99/month, so on and so forth. Or, the plan with basic services usages costs $4, whereas with the advanced services usages costs $8, etc.

1.3.5 Hybrid

The hybrid subscription billing model is the most workable billing model for SaaS businesses. It is the combination of multiple fermium, flat, tiered, or pay-as-you-go model. Based on their customers' needs, SaaS merchants can offer their customers some of the following billing plans:

- **Freemium + Flat Pricing:** Here you may offer fermium and access to the basic services plan with a flat fee rate.
- **Freemium + Usage-Based Billing:** Here customers can avail of a freemium subscription and get access to one, two, or as many as features or services in combination.
- **Freemium + Tiered Billing:** It refers to the billing where freemium is available free of cost but the subscriber can go for basic or advanced level of subscription plan based on his or her needs.
- **Flat + Usage-Based Billing:** It is the billing where the basic version of any subscription plan to access to a product or service is available at fixed rates, whereas they can add more features and services to their plans based on their requirements and they will be charged as metered or consumption billing.

1.4 Subscription vs. Pay-Per-Use

The business history is known to be recorded since the barter system disseminated the idea of accessing a service, feature, or product against some valuables that later advanced from the exchange of valuable items and precious stones to the metal coins and paper currency. It is the age where the currency exists in the non-physical world.

Today, paying or receiving revenue for a service or product doesn't require businesses or customers to have physical access to the currency nor they are required to pay all in once.

Technology advancement has also changed the purchasing trends and behaviors. Today, customers are reluctant to pay hefty amounts for a product or services no matter how valuable it is or how much resources are used to build it. It occurred because everything that was invented or discovered in the morning is getting obsolete by the evening and the investment seems to drown for an individual.

To deal with the present situation of the rapidly transforming purchasing patterns in today's economy, the subscription-based model is quite a choice that allows multiple businesses to gain access to the latest physical or digital product or service without claiming the ownership and keep the charge of updating and maintenance whenever it is required without waiting for the customers to pay hefty upfront costs that minimize the margin of buying more and bringing in more revenue.

The subscription model is swiftly replacing the pay-per-use model from across the industries. Rentals, monthly tuition fees, daily, weekly, or monthly wedges, and others are a few of the forms of the subscriptions existing in our society for so long. Their advanced form is the subscription fee.

Statistics suggest that the subscription economy grows 5x faster. From foods & beverages to automobiles and telecommunication to health & education, all the leading businesses, and organizations across the industries are shifting or planning to shift their unreliable business models with relatedly reliable & secured subscription-based business models following the changing shopping preferences of customers.

like automobiles, health, education, services, construction, boarding, lodging, and traveling, in addition to many small-scale industries and the IT industry are also finding ways to stepping into the subscription economy.

The subscription model is showing impeccable progress as the revenue model for eCommerce and SaaS. The online payment systems further help them to streamline their all billing operation—from invoicing to billing and taxation adjustments to online payment processing to revenue management—on one platform.

The software industry a decade earlier suffered the loss of revenue due to privacy infringement and license violation as a result of the revenue model of pay-per-use where the software is sold to one user with restricted access to others. Besides, the update, maintenance, and infrastructure were also the responsibility of the user. It paved the way for the piracy and the industry incurred huge losses, but the cloud computing coupled with online payments helped them to build a revenue model that not only mints them more money but also bestows them with more customers and brand loyalty.

1.5 Need and Impact of the Subscription Billing

1.5.1 Recurring Billing

Subscription Billing is a complex system of creating and customizing the billing invoices that include sales tax adjustments, coupons, vouchers, and tax adjustments, subscription plan mid-cycle changes such as upgradation, downgradation, cancelation, postponement, pausing, reactivating, and others in the billing, or managing multiple subscriptions in one invoice and charge it to the customer on a recurring basis.

1.5.2 Predictability with Recurrence in Demand

Subscription billing means recurring billing; recurring billing means the predictable and periodic inflow of cash, and recurring payments means recurring revenue. It maximizes the potential of the revenue while expanding the customer lifecycle which can also be curated at the beginning of the cycle.

1.5.3   Cost-Effective Billing Model

Subscription-based business models instead of one-time billing and payments and an addition to a chunk in the revenue also support the stability of minting money for a definite term. As the studies suggest that customer acquisition costs way more than retaining the customers and minting the recurring revenue over a time length.

1.5.4   Reliability and Convenience

Subscription Billing allows customers and merchants, both, with the convenience of auto-invoicing, charging, and payment deduction with reliable data-driven automation. It eases the operations of recurring billing by feeding the customer's information and permission for once only. Subscription Billing is also known as Recurring Billing, Subscription Management, Automated Billing, or Recurring Revenue Management.

1.6 Industrial Verticals for Subscription Billing

From razors to car rentals, the businesses of all sizes are hopping for the subscription bandwagon for an obvious and extremely important reason—Businesses want to bring stability and predictability in their revenue along with the convenience and ease of retaining the customers—in every way.

Today, subscription billing is a suitable model for every business and every vertical across the industries. It has the elements of operations management flexibility and business development extensibility.

Study shows that more than 78% of the businesses and services will adopt the subscription model by the end of 2025. And, those who will not convert their business models into subscription may not survive for long as the subscriptions will capture the market with customer loyalty, shopping convenience, and subscribed product or services timely availability in the budget.

Here are the few of the sectors that are scoring great recurring revenue by offering their products and services on a subscription basis:

- Self-Care and Hair & Beauty Salons
- Clubs, Resorts, Hotels, & Motels
- Restaurants & Food Services
- Telemedicine & Telehealth
- Sports & ESports
- SaaS, IaaS, & PaaS Service Providers
- Automotive & Transport Industry
- Telecommunications
- Online Education & Other Services Providers
- Mental Health Counsellors
- Finance & Law Consultants
- OTT—Over-the-Top Media Services Providers
- Print & Publications
- Online Multimedia Magazines
- Broadcast & Streaming Services
- Traditional & Digital Marketing Services Providers
- Gated-Content Providers
- Event Management Companies
- Manufacturers & Resellers
- Online Retailers & Traders
- Online Membership Services Providers
- Grocery, Shopping, Stationery, Books, Toys, Garments, Cosmetics, Hardware, IT equipment, and all niches Stores
- Subscription Boxes Services Providers
- Real Estate
- Non-Profit Organizations
- And Many More

1.7 Challenges of the Subscription Billing

Subscription economy dynamics are getting multipurpose, complex, and, to some extent, unpredictable as the volume of the market is increasing. With the diversified needs and interests, financial backgrounds and goals of the subscription services providers and users, and marketing influence over the market, it has become more significant to find the advanced ways of managing the recurring billing processing and provide other subscription management solutions to deal with following two key challenges:

1.7.1 Ownership vs. Subscription

Ownership is a product of pay-per-use ages. Millennial and Gen Z have already abandoned the trend of possessing physical goods or digital services for so long. The advancement of technology changes the purchasing behaviors of customers.

Maintenance, clutter, upgrade hassles, declining value, are a few of the reasons that encourage the customer to go for subscriptions, so, they can avail the services or products as long as they need and then switch to some other interests.

This has brought two challenges:

Maintenance and Upgrade Pressures—as soon as the subscribers find a better solution, they can switch to other services so there is a lot of pressure to stay maintained, updated, and flexible.

The other challenge itself is no ownership, in the case of physical goods, some customers still find it comfortable to not having ownership of the product they have been paying for months and months.

1.7.2 Customer Acquisition vs. Customer Retention

Earlier, the rapid growth of the subscription businesses was made possible with the strategies to acquiring more customers and facilitates them with subscription-based products or services depending on their recurring needs. Customer acquisition requires more marketing that increases the overhead. It does not meet the requirements of the profit and expense balance. It is inevitable for businesses to reduce their per-customer cost by increasing the [Expansion of Monthly Recurring Revenue](#).

Subscription businesses grow well when they strive to serve the onboard customer more for upsells, cross-sells, and resells instead of efforts to acquire new customers.

But retention requires giving special attention to the upgraded services, optimized pricing, and instant as well as secure online payment solutions.

1.8 Managing the Subscription Billing

As more businesses are exploring the new avenues in the realm of subscriptions, the needs and requirements of managing the subscription billing, secure payment processing, and recurring revenue are diversifying as well. This also increases the risks and threats associated with online subscription billing and payment operations management also become progressively real.

Mitigating all these hassles and hurdles, a highly functional, reliable, and secure subscription billing and management software is an unavoidable necessity that could facilitate the businesses as per their business or services size and their digital needs.

The SaaS subscription management platform is the need of the hour of all the SaaS and subscription businesses, regardless of their sizes, niches, and resources.

1.9 **What is the Subscription Management System?**

A subscription management system is a set up of the tools with features of automated recurring invoicing, billing, and payment processing. A subscription management system or platform is the combination of one, two, or more modules. These are:

- Recurring Billing
- Subscription Handling
- Payment Gateways
- Analytics
- Revenue Management
- Reporting
- Integrations

The Must-Have Features of the Subscription Billing and Management Software

Selecting suitable subscription billing and management platform requires the following must-have functionalities:

1.9.1 **Automated Recurring Billing and Payment Processing**

Using the data of the customer. Subscription billing software automates the process of recurring billing and payment processing whenever the billing cycle hits. It lessens human intervention and cuts the chances of manual billing errors, corruption, or a waste of resources.

1.9.2 **Subscription and Database Handling**

Subscription management software is equipped with dedicated CRM and allows seamless management of the customer details in proper fields and categories. This software often facilitates the user with the self-service portal to manage their personal, payment, billing, or shipping information that can easily and automatically be synced with the merchant's client portal. The whole update can be witnessed in real-time.

1.9.3 **AI-mediated Recommendation, Suggestions, Risks Detections, Pattern and Behaviors Identifications, and other Assistances**

Subscription Management software like SubscriptionFlow with the help of artificial intelligence and machine learning allows the platform to interpret the data sets and helps managers with the AI-fueled recommendation, suggestions, and actions.

1.9.4 **Extensibility for Flexible Integration**

Integrations are the most significant factor in any subscription billing software. It allows the platform to extend and accommodate various revenue operations by connecting with it and sharing data across the applications to produce enhanced personalized experience and streamlined workflows.

The integration of secure payment gateways is also the most important part of any integrations in subscription management. A well-aligned subscription software with the payment gateway helps businesses to manage the concerns of online payments from supporting a range of currencies to detecting and mitigating online payment frauds and other financial risks.

1.9.5 [Mid-Of-The-Cycle Changes Adjustment](#)

Subscription software must have the ability to prorate or adjust the mid-of-the-cycle changes in the subscription plans in the billing. In the metered billing, it plays a huge role to provide customers with satisfied billing and invoicing experience.

1.9.6 [Automated Revenue Recovery](#) and Reduced Churn

By using the process of dunning, subscription software allows the merchants to deal with the payment failures effectively. By setting the dunning rules, the system can automate retries until the payment is recovered. For various reasons, often the churn is involuntary and is a result of any of the technical glitch or system's error from the card issuer's side. A good subscription management software allows merchants to never lose a single of their penny or any of their customer for some technical reasons.

1.9.7 [Real-Time SaaS Analytics and Reporting](#)

Get the in-detailed insights into your subscriber base, subscription health, and recurring revenue growth in the real-time. SaaS analytics plays a huge role in identifying the risks, losses, revenue leakages, churn, as well as opportunities for revenue growth and product development. With the KPI monitoring, merchants can monitor, measure, and manage their [monthly and annual recurring revenue](#), churn rate, customer lifetime value, customer acquisition cost, subscription health, and more simply in highly customized dashboards.