

8 subscription billing models

A comprehensive guide



Introduction

Binary Stream's Subscription Billing Suite (SBS) is a comprehensive solution to complex pricing, billing, and recognition that enables compliance with ASC 606 and IFRS 15. SBS introduces consistent and reliable automation for a wide range of pricing and billing models, and provides organizations with the flexibility necessary to succeed in a rapidly changing economy.

Aside from enabling compliance with the latest revenue recognition standards, SBS facilitates the entire quote-to-cash process at every step from billing and invoicing to reporting and forecasting. As a direct extension, Subscription Billing Suite gives organizations control of their processes and schedules at the line item level within Microsoft Dynamics 365 Business Central.

Looking to explore a specific pricing model?

- 1. Pay as you go/usage-based**
- 2. Per-user**
- 3. Tiered**
- 4. Flat-rate**
- 5. Feature-based**
- 6. Roll your own/bundling**
- 7. Freemium/ad-supported**
- 8. Hybrid**

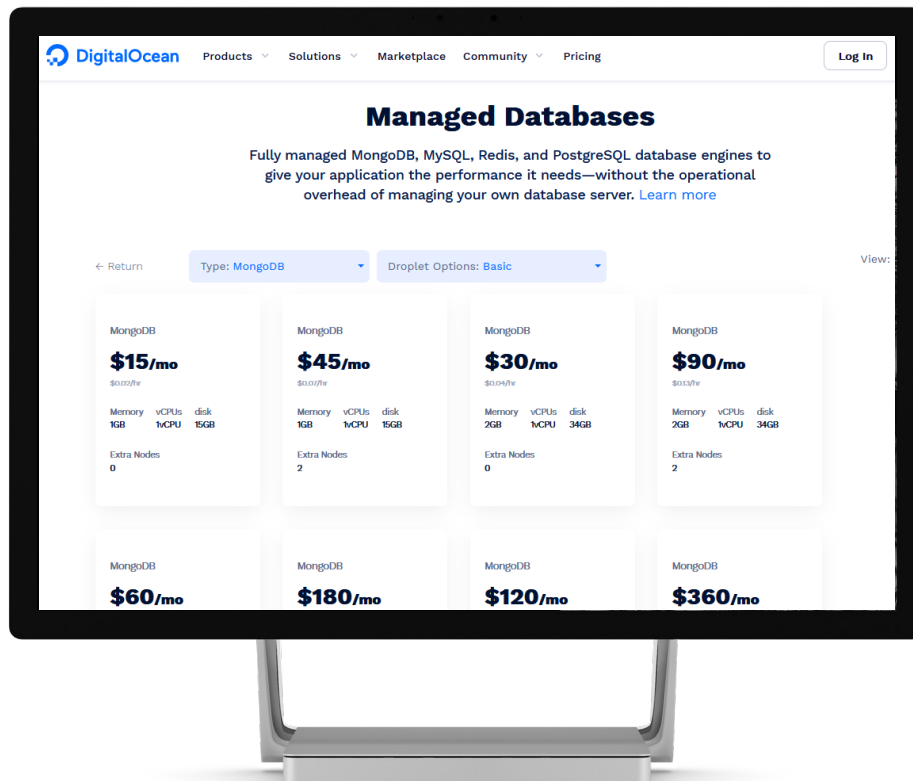


Pay as you go or usage-based pricing

A pricing strategy based on how much customers use the service. It can use one or several different metrics. For instance, phone companies often use this billing model and break it down into different subsets, e.g. the number of texts sent, data used, minutes used. Pricing can also be changed based on time of use so that peak hours of usage may have a different rate.

Many companies use this SaaS pricing model to appeal to a wide range of customers with different needs. It's important to note that it can be a complex system, and you need to think about how to implement the pay as you go strategy in a way that transparently shows customers the value of your service. Some companies will charge a recurring monthly fee with add-on charges for extra usage outside of the proposed plan. Others may only have customers pay for that they use.

Pay as you go is often a cheaper and more flexible option from the customer's perspective, and you may find that the people most interested in this option see it as a means to save money and stick to their budget more consistently.



An example of pay as you go pricing

Digital Ocean, a hosting company who simplify cloud computing for developers and their teams, have perfected the transparency of usage-based billing, allowing potential customers to easily see what their usage will cost for any of the services on offer. Not only do they clearly display the monthly rate, but they clearly show memory, CPU and disk usage, as well as the hourly spend.

Pay as you go pricing

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Pros

- Customers don't need to pay a lot of money if they are using only several features.
- Flexibility allows users to try out your service and increase payments as they build it into their lifestyle.
- Heavy users are charged appropriately for the services they're utilizing.
- Less friction at sign-up as it's easy for potential subscribers to understand.
- Possible to give access to more customers by introducing lower usage rates.
- Recurring billing is straightforward and easy to manage.
- Conveying the value of discounts and special offers is usually simple.

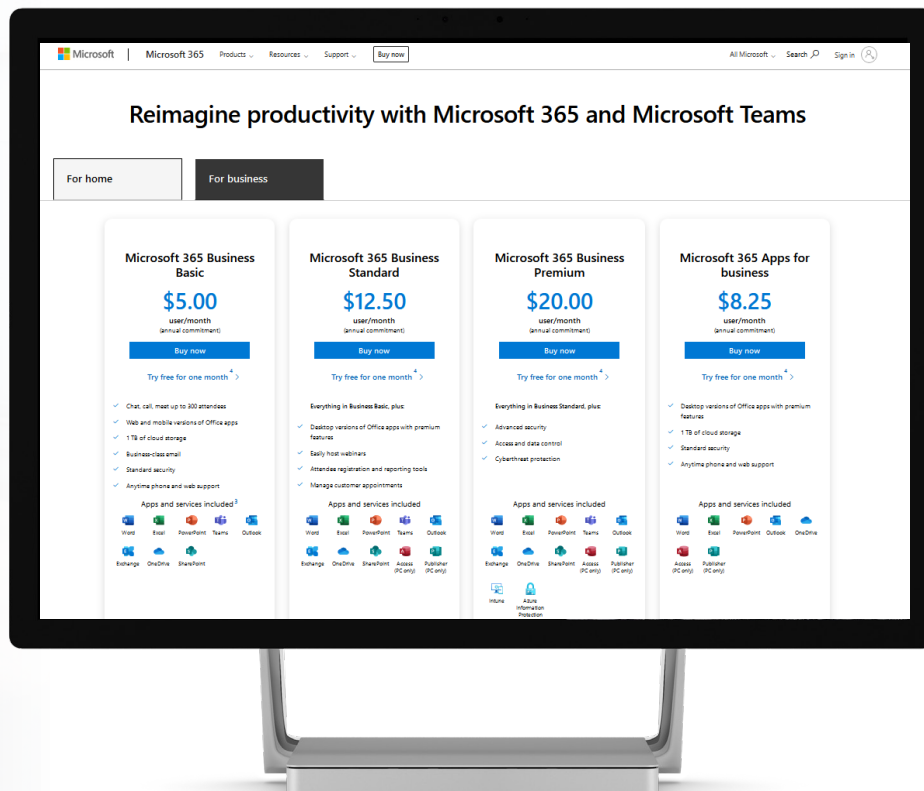
Cons

- It can be complicated to set up and difficult for customers to calculate their costs accurately.
- More usage may not correlate to more perceived value from the customer's perspective.
- Your expenses and revenue may fluctuate more dramatically from month to month.
- Has been shown to lower overall consumption as customers change their habits to avail of off-peak pricing.
- May elongate the sales cycle if customers are unsure of their usage requirements.
- Customers may not necessarily understand hikes in their billing as they scale.

Per-user or per-seat pricing

Per-user billing is simple to understand and implement for both the customer and the SaaS company. It also reduces the complications that come when a company onboards multiple team members.

This SaaS pricing model allows the customer to pay for each user that uses the software. One thing to be aware of is that people often try to cheat the system, using one login for multiple users. If the fees are exorbitant, it's common to find companies trying to lower the number of accounts they need.



An example of per-user pricing

Microsoft is an example of user-based pricing that is familiar to most. They have successfully implemented this billing model for their Microsoft 365 solutions. Their pricing page is a good example of knowing how to explain the service offered as well as highlighting and making clear what products customers will be able to access.

Per-user pricing

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Pros

- Both you and your customer can implement the system hassle-free.
- Set easy and tangible growth targets as your revenue scales in line with adoption.
- Forecast revenue with accuracy and ease.
- Users have equal access to the products features.
- Streamlines budgeting and cash flow as calculations are relatively simple.

Cons

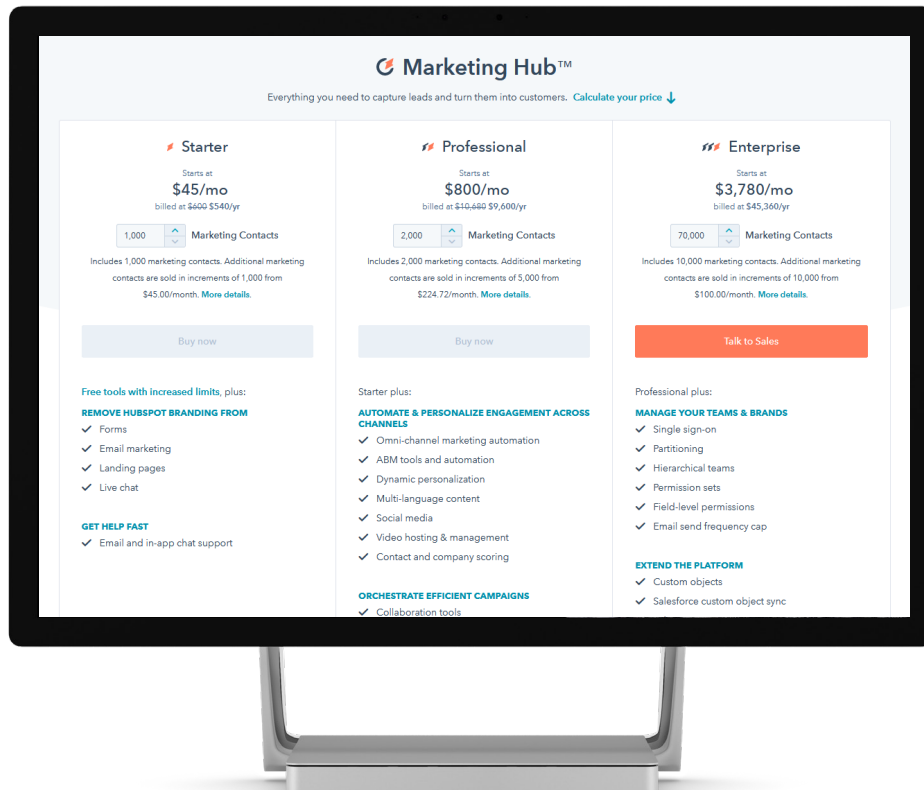
- Limits adoption as customers only add seats they need.
- Incentivises companies to cheat the system with multiple users logging in to the same account.
- Susceptible to a high churn rate as only a few people use the tool.
- Customers can be surprised by the increase in price when adding new users during high growth periods.

Tiered pricing

Tiered pricing is the most common billing model used by SaaS companies. It allows for a lot of flexibility in the software's offering while giving customers the opportunity to level-up as they start to see the benefits of the features. The tiered SaaS pricing model combines well with other strategies. Companies will often base the tiers on features, usage or users.

On average, there should be between three to four tiers to prevent confusion, but anything up to five is reasonable. The only issue with too many options is that it can be hard for customers to know which one they need. They may be overwhelmed and go elsewhere.

The most significant advantage of tiered pricing for SaaS companies is the ability to upsell and build their recurring revenue. Tiered pricing must be strategic, with obvious benefits and advantages made available at each tier, so that customers know what value they are currently getting and what other features or usage they can benefit from if they unlock features as they scale.



An example of tiered pricing

Hubspot is an example of feature-based tiered pricing laid out intelligently. As you can see from the landing page below, they've carefully mapped out the benefits. One interesting thing to note is that they don't merely list features at each level, each tier has a distinctly different list of business advantages.

Tiered pricing

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Pros

- Attracts a wide range of personas and scale with companies as they grow.
- Easier to increase revenue through upselling customers once they've trialed more basic tiers.
- Tailor your tiers to meet the needs of a variety of businesses from small mom-and-pop shops to more prominent corporations.
- Gives customers more choice and flexibility.
- Boosts overall conversion rates as your pricing page can appeal to a wider range of audiences.
- Marketing can focus efforts on specific target audiences for each tier.

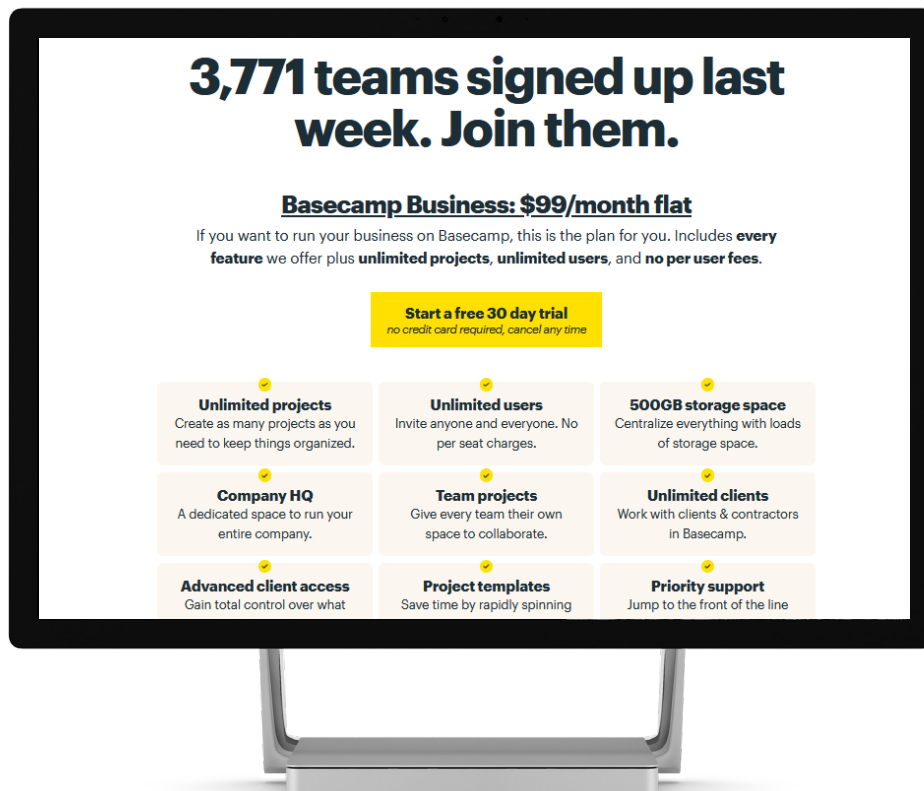
Cons

- Confusion over too many tiers can leave customers feeling overwhelmed and unsure about your product.
- Top tier users may take advantage of the system with heavy usage.
- Can attract the wrong customers by being an "everyman" solution and offering options which are not necessarily profitable for your company to maintain in an attempt to widen the appeal of the product. Sometimes catering to a specific, niche audience can reap better results.
- Users may select the wrong tier resulting in a high churn rate.
- Requires a deeper understanding of potential audiences and price points to execute effectively.

Flat-rate pricing

A one-size-fits-all strategy that cuts down the possibility of confusion for your customers. Companies charge all customers the same amount regardless of usage, users or features needed.

This strategy means that companies can make their value offering very clear, and there's no confusion over which features will be available to customers. Sometimes, more complicated pricing and tiers can lead companies to misunderstand what they're paying for at the lower price points.



An example of flat-rate pricing

Flat-rate billing is best used by companies who have a clear picture of who their ideal persona is as their landing page is likely to appeal to a specific audience. Basecamp is an example of a tool that uses this particular billing type effectively.

Flat-rate pricing

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Pros

- It's simple to use and easy to understand.
- Revenue projections are more accurate as there are fewer complications.
- Easier to create landing pages and marketing collateral as you're only conveying the value of one price point.
- Cuts down the decision-making time and can increase conversions for new customers as there's less to consider.
- Simplifies revenue recognition for recurring billing.

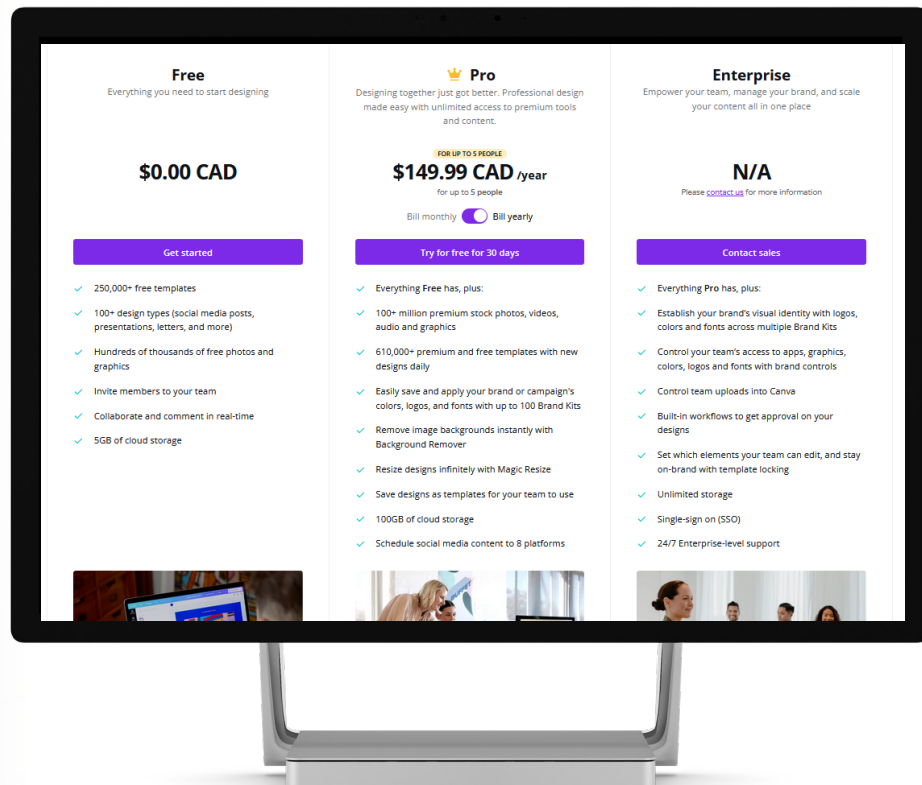
Cons

- One-size-fits-all may be immediately off-putting to customers who want custom options.
- Lack of choice can cause some customers not to take your offering seriously, as it feels as if customers are all treated with a blanket approach.
- Companies want to know you care, and sometimes flat-rate pricing has the negative (and unintended) side effect of making them feel you won't go the extra mile.
- No opportunities to upsell. If companies scale and use your product more, you don't make any additional revenue.
- Scaling will be problematic as your flat rate price will only appeal to a specific market/persona.

Feature-based pricing model

For software that comes jam-packed with impressive features, it may be best to build tiers based on those features. Users pay more when they extend the functionality. The highest tier usually offers considerably more functionality than the lower ones.

One reason this can work well is that users get used to using your product, building trust and a customer relationship. Often growth will mean that companies will face new challenges that your solution can manage. Companies strategically make sure each new tier is a natural progression.



An example of feature-based pricing

Canva uses feature-based pricing, and below you can see how they've laid it out to make it quite clear what problems each tier solves.

Feature-based pricing

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Pros

- Upselling is more natural as the incentive to upgrade to the next tier is clear.
- Allows you to charge appropriately for complex functions that are only needed by select customers.
- Customers can trial your lower tiers to see if they like your software, without having to invest large amounts of money when still unsure.
- Customers can easily understand pricing.
- Ideal for hybrid pricing strategies such as combo of tiered and featured models.

Cons

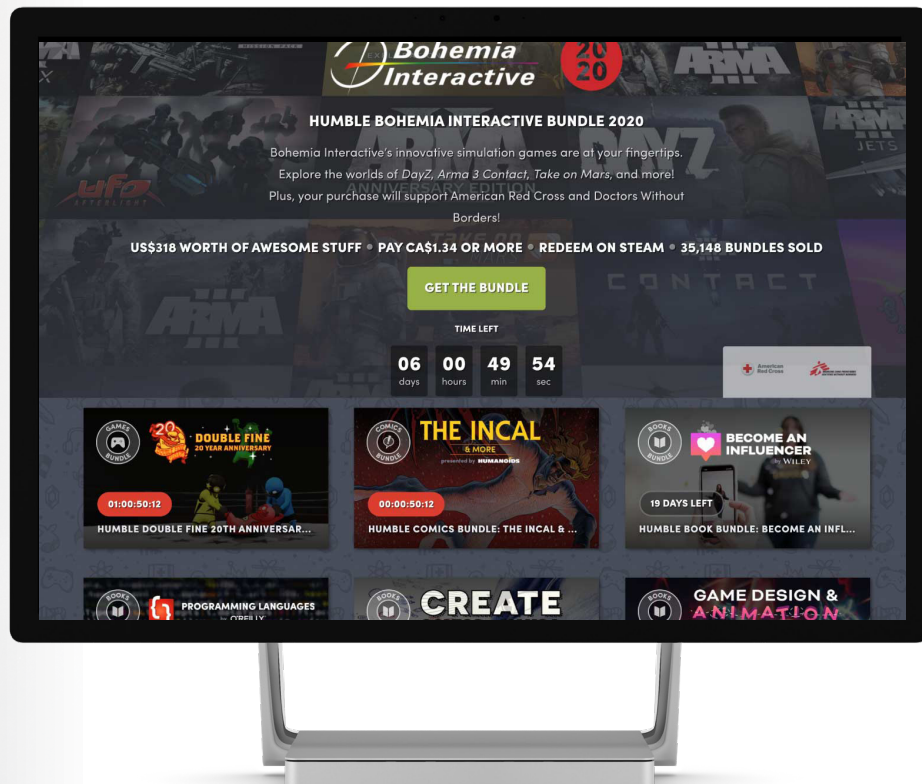
- Too many features or tiers can lead to confusion.
- It's challenging to divide features into the appropriate tiers.
- Some basic features need to be in lower tiers, while still putting enough important features in higher levels to incentivize upgrades. It can be a tricky balancing act!
- Resentment can build if the customer feels locked out of too many features despite their monthly fee.
- Redundant features built to offer more functionality at every level. Make sure each feature solves a distinct issue and is not just built to sound good on a landing page.

Bundling or roll your own pricing model

Sometimes feature-based or usage-based pricing can neglect the expenses incurred on the human-facing side of your enterprise. It may not be easy to break your product's features down into tiers or usage-based categories. Maybe it's the case that some functionality will be necessary to one set of users, but not another, and there's no simple way to cater to a more nuanced audience. Perhaps you also find that you spend a lot of money on training new users, and consulting with them on business issues.

Often a selection of bundles is the best way to cater to the many needs of a SaaS company, allowing them to appeal to more of the market with strategic packages built for specific targets. Sometimes, premium customers want the option to roll their own by creating a bundle with the features and functionality they require, as well as consulting services that will help them make the most of the new software.

Many would argue that price bundling should be a part of any SaaS company's strategy. A breakdown of the pros and cons for feature-based pricing there will always be users who want tools catered to their industry and by packaging bundles for various markets, you can increase your sales.



An example of bundling pricing

One innovative use of a bundling strategy can be seen on Humble (a game streaming subscription site) that sells time-sensitive bundles, including stats for each one like how many sold, and when it will expire. This creates a sense of urgency and it's also easy to see the value of each bundle as they display the total cost of the bundled games.

Bundling pricing

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Pros

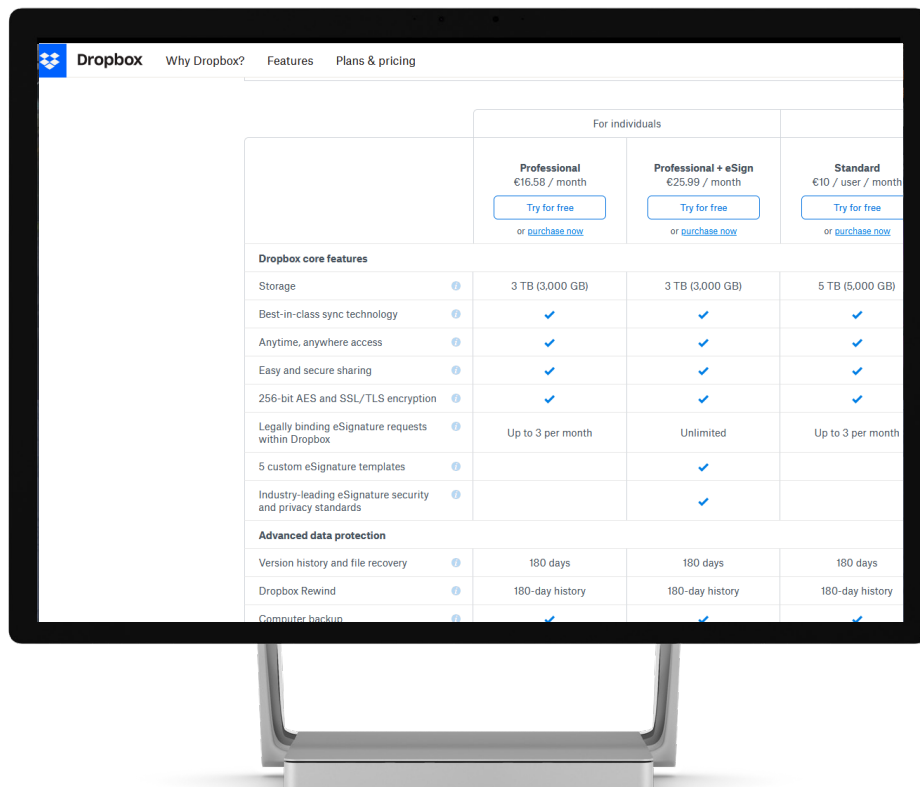
- Customers feel they get better value with bundled services.
- Speeds up the sales and implementation process.
- Easy to show overall value by listing bundled services in marketing collateral.
- Adds value without having to add new functionality or features.
- Increases revenue from each customer.
- Opportunity to build partnerships in order to enhance bundles with new features.

Cons

- Cost of management and accounting overhead may increase as the accounting team has to create different line items for bundles or have a more robust system that can manage bundles.
- Bundling can introduce complications for revenue recognition. It may be hard to perform margin analysis on different revenue streams.
- Confusing if there are too many bundles and limiting if there are too few.
- Customers may be unable to pick the exact option they want or feel a bundle includes features they don't desire.
- Partnerships with other brands to add features to your bundles may be distracting and cause you to lose sight of your value offering.

Freemium or ad-supported pricing model

The freemium pricing model is widely used by SaaS companies who want to give people a taste of a limited version of their product. This strategy allows them to attract new users and gives those customers the opportunity to upgrade to the paid version. Free-versions are often ad-supported.



An example of freemium pricing

Dropbox uses its free trial to lure in customers. Users can avail of premium features and see if they're happy with the performance. This has been a successful strategy for Dropbox who've seen high adoption of their services over time.

Freemium pricing

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Pros

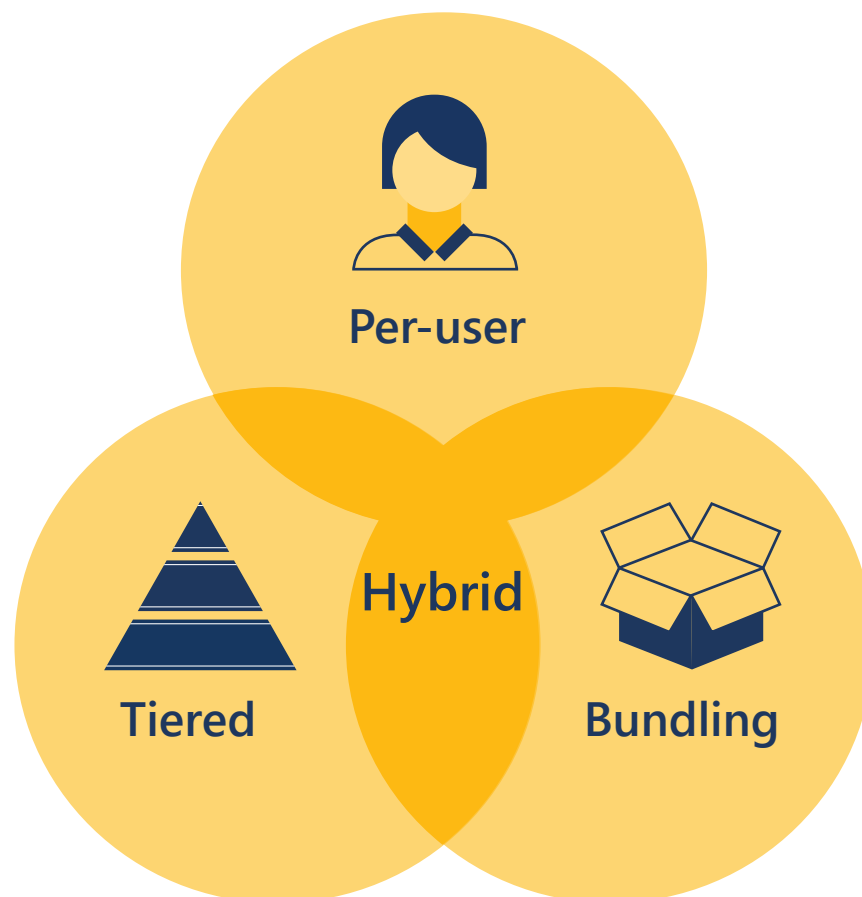
- Customer acquisition costs are lower.
- Free trials tend to lower the barrier to entry.
- Drives faster product adoption across companies as anyone can try the tools and it's not confined to one or two people on a team.
- Ad-supporting your premium plan can help you make money even when customers are using the service for free.
- Free trials are likely to spread faster by word-of-mouth, reducing the amount you need to spend on marketing efforts.
- Free versions can be an ideal place to experiment with new features.

Cons

- Decrease the perceived value of your product.
- Conversion rates from free to paying customers is often lower than it would be from lower priced tiers to premium ones.
- Free users can become an operational burden that requires support without having paid for any services.
- Inflated churn rates at the end of free trial periods.
- Enormous volume of customers required to recuperate costs.

Hybrid pricing model

You may have noticed that there's a lot of cross over between the different pricing models, and you may be struggling to understand the difference between tiered and bundling or usage and per user. That's normal. The truth is that most SaaS companies will try a combination of these approaches. Using a hybrid billing model helps you better price your subscription services. There's no one-size-fits-all billing model, and it will take time, as well as thorough customer and market research, to figure out the best path forward.



Implementing your pricing model

Once you've considered all the SaaS pricing models, it's time to decide what works best for your company. It will make sense not only to choose the right strategy but the right tools to help implement it. Generally, you're going to need to partner with a company that has experience handling more complicated pricing and billing models.



If you find yourself moving towards the subscription billing model, you may have noticed some gaps that your current installation of Microsoft Dynamics does not bridge. Your system is not designed to manage the value of your recurring customer relationships. As a result, excessive manual work required to manage monthly invoicing is starting to strain the organization.



Your goals should include doing more with fewer systems and fewer points of failure, so you can decrease the risk of incorrect data entry and errors. You'll want to achieve financial clarity and forecast revenue accurately to make better decisions by analyzing the profitability of different revenue streams. Consider generating quicker quote-to-cash cycle to facilitate strategic growth targets.



Finally, with new US GAAP and IFRS standards, you'll want a system that ensures compliance. Until now, you were able to get by using spreadsheets and separate systems. However, if your business is growing with complexity, you could be losing potential revenue due to missed billing.

Closing the gaps in your billing operations

Although there are multiple approaches to achieve your new goals, only one solution is fully integrated into your Microsoft Dynamics system, reducing the time and effort required by your accounting or billing staff. This solution is Binary Stream's Advanced Recurring Contract Billing Subscription Billing Suite. It allows you to:

- ✓ Eliminate manual processes and spreadsheets
- ✓ Empower customer self-serve with payment methods leading to faster cash
- ✓ Extend your existing Microsoft Dynamics system, rather than adding an additional billing system
- ✓ Retain your current business process and allow the solution to adapt to it
- ✓ Reduce the length of the quote-to-cash cycle
- ✓ Forecast future revenue streams and analyze which streams are successful and which are not (profit ability of business lines)
- ✓ Record revenue in period in which it is earned
- ✓ Complete month-end tasks (invoicing and recognizing revenue) in shorter time period

Subscription Billing Suite from Binary Stream enables you to meet all of your complex billing scenarios and grow your business through improved decision making based on accurate revenue data.

A photograph of a city street corner with modern high-rise buildings. The buildings have glass facades and balconies. In the foreground, there are traffic lights and street signs. One sign reads 'EDMONDS ST'. The sky is overcast.

About Binary Stream

Our Microsoft Dynamics ERP solutions are designed to simplify your various accounting procedures for Multi-Entity Management, Subscription Billing, Property Management, and more. These enterprise-grade ERP add-ons work seamlessly with your Dynamics ecosystem to help your organization improve productivity and propel growth.

We are an award-winning non-selling Microsoft Gold Certified ISV with 20+ years of experience creating scalable solutions for over 1900 customers across 30+ countries in the finance, healthcare, hospitality, real estate, manufacturing and software industries.

Start enhancing your on-premise or cloud-based Microsoft Dynamics 365 platform to do more with Binary Stream. Ask your ERP service provider for more information or visit binarystream.com to learn more.



Want to learn more about subscription management?

Read our complete guide for insights into recurring billing, subscription page psychology, and plenty more.

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