



# The better subscription billing bible

*Streamline your recurring revenue today*

# A word from our CEO, **Lak Chahal**



***Lak Chahal,***  
***CEO at Binary Stream***

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Finding innovative ways to improve the recurring billing and payments process is at the core of what we do. Over the years, our team has led the charge in streamlining and automating critical components of revenue recognition and deferral workflows so that companies can do more with less.

Modern billing doesn't have to be complicated, yet many make it so. Rather than invest in the automation needed to bolster billing operations for strategic pricing strategies, they scramble to make month-ends, often resulting in high subscriber churn.

When you struggle to bill effectively, it impacts every level of your organization. With the rise of subscription options across industries, many need help to keep up with the flood of administrative work in finance departments.

If you want to meet customer demand and relieve your finance team of unnecessary work, you've come to the right place. This guide will help you to improve your billing one step at a time.

# Contents

Choosing the right pricing strategy	4
3 critical steps to begin your modern billing journey	6
Overview of 8 modern pricing models	8
Choosing your billing frequency	13
Understanding revenue recognition and deferrals	14
Complying with global accounting standards	16
6 best practices when migrating to modern billing	17
The subscriber metrics you should be tracking	19
Mastering dunning management	20
Empowering customers with payment gateways	21
Critical subscription billing software features	23
Introducing our subscription billing solutions	24





# Choosing --- the right pricing strategy

Pricing a product is a tricky process that companies have struggled with since the beginning of commerce. Subscription billing only adds to the task's complexity as customer acquisition costs may initially rocket, and accurate forecasting may not be possible until your offering is tried and tested.

Although it can be hard to land on a strategy, the pros of recurring billing make it an inevitable avenue for many. Subscriptions encourage customers to build a relationship with your brand that will span years. You can rely on a steady stream of predictable recurring revenue if successful.

# Why billing is an integral part of your strategy

Billing is at the heart of any good subscription pricing strategy, and several core processes are critical for success. Though the anatomy of the ideal recurring billing process can vary from company to company, there are some universal expectations, and the average customer expects a lot of autonomy when managing payments.

## What customers expect from your billing processes

- Straightforward, transparent billing that clearly states the amount owed and the date payment is due
- Ability to automate the billing cycle so they can set and forget payment schedule
- Easy to make adjustments such as updating credit card payments or cancelling a payment
- Access to their transaction history and invoices when they need them
- A hassle-free interface that allows them to manage billing without assistance
- Accurate, consistent billing without the addition of surprises or hidden fees
- Clear communication before any changes take place to the billing
- A secure environment where they can store payment details safely
- Customer helplines to assist them if things do go wrong





3 critical steps to begin \_\_\_\_\_  
**your modern billing journey**

# 1

## Comprehensive market research

### Why

- Establish your competitive advantage
- Position your company in the market accurately
- Break down each competitors' pricing strategy

### Pay attention to

- Customer perception
- Marketing and collateral
- Market position
- Product features
- Product cost and billing strategies
- Any mentions of growth or expansion
- Competitors' terms of service

# 2

## Pay close attention to your metrics

### Why

- Need to base your pricing on substantial numbers
- Copying and pasting from competitors is too risky
- Make better predictions about required investment

### Pay attention to

- Customer acquisition cost
- Churn rate
- Average customer lifecycle value
- Your costs

# 3

## Familiarize yourself with modern pricing models and strategies

### Why

- Discover unique ways to position products/services
- Make an informed decision that fits your offering
- Create custom pricing that creates a competitive edge
- Understand how pricing strategy can impact conversion

### Pay attention to

- Pricing psychology tricks such as anchoring
- The pros and cons of modern pricing models
- Examples of the pricing models in action
- Effective marketing tactics of subscription billing companies
- Common payment methods and billing options



A man with grey hair and glasses, wearing a blue button-down shirt, is sitting in a large, plush orange armchair. He is looking out a large window on the left side of the frame. The room has a wooden ceiling and a wooden cabinet in the background. A potted plant is visible on the right. The floor is made of large, light-colored tiles. A semi-transparent white banner is overlaid on the bottom half of the image, containing the text "Overview of 8 modern pricing models".

# Overview of --- 8 modern pricing models



## Usage-based | Pay as you go

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, and minutes used. Pricing can also be changed based on the time-of-use so that peak hours of usage may have a different rate.

### Pros

- ✓ Customers don't need to pay much if 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 pricing

### 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
- ✗ May elongate the sales cycle if customers are unsure of their usage requirements

## Per-user | Per-seat

Simple to understand and implement, this 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 by 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.

### 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 features of the product

### Cons

- ✗ 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
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## Tiered

Tiered pricing is the most common model used by SaaS companies. It allows for flexibility in the offering while allowing customers to level up as they start to see the benefits of the features. Tiers combine well with other strategies, and companies will often base the levels on features, usage or users.

### Pros

- ✓ Attract 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 customers
- ✓ Gives customers more choice and flexibility

### 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
- ✗ Users may select the wrong tier resulting in a high churn rate

## Flat-rate

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. Usually, the value offering is very clear, and there's no confusion over which features will be available to customers.

### Pros

- ✓ It's simple to use and easy to understand
- ✓ Revenue projections are more accurate as there are fewer complications
- ✓ 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 off-putting to customers who want custom options
- ✗ Can have the side effect of making customers feel you won't go the extra mile
- ✗ No opportunities to upsell
- ✗ Scaling will be problematic as price will only appeal to a specific market/persona



## Bundling | Roll your own

Often a selection of bundles is the best way to cater to the many needs of a company, allowing you 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 and consulting services that will bolster their efforts.

### 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

### Cons

- ✗ Cost of management and accounting overhead may increase
- ✗ Bundling can introduce complications for revenue recognition
- ✗ 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

## Feature-based

The ideal way to price software that is jam-packed with impressive features, companies often combine this with tiers to create elegant packages that showcase and highlight specific features. The highest level offers considerably more functionality than the lower ones, and users pay more for the added features.

### Pros

- ✓ Upselling is more natural as the incentive to upgrade to the next tier is clear
  - ✓ Allows you to charge appropriately for complex functions only needed by select customers
  - ✓ Customers can trial your lower tiers to see if they like your software
- Customers can easily understand pricing

### Cons

- ✗ Too many features or tiers can lead to confusion
- ✗ It's challenging to divide features into the appropriate tiers
- ✗ Resentment can build if the customer feels locked out of too many features
- ✗ Redundant features are sometimes built to offer more functionality at every level

## Freemium | Ad-supported

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

### Pros

- ✓ Customer acquisition costs are lower
- ✓ Free trials tend to lower the barrier to entry
- ✓ Drives faster product adoption across companies as everyone can try the tools
- ✓ Ad-supporting your freemium plan can help you make money

### Cons

- ✗ Decrease the perceived value of your product
- ✗ Conversion rates from free to paying customers often lower
- ✗ Free users can become an operational burden
- ✗ Inflated churn rates at the end of free trial periods

## The hybrid approach

You may have noticed some cross-over between the different pricing models, and you may need help understanding the difference between tiered and bundling or usage and per user. That's normal.

The truth is that most companies will try a combination of these approaches. There's no one-size-fits-all pricing model, and it will take time and thorough customer and market research to figure out the best path forward.



# Choosing your billing frequency

Once you've decided on your pricing model, it's time to pay attention to billing cycles. Different frequencies can powerfully impact your team's capacity to manage the billing workload and the customers you attract.

The final decision comes down to the type of service you offer and the market you're targeting. Keep in mind that depending on the industry, many customers may now expect the option of annual or monthly at the very least. It may also be wise to step outside the annual vs monthly debate and embrace one of the other billing frequencies (i.e., super-frequent, bi-monthly, or quarterly).

Many B2B companies targeting corporations will find that annual billing may be a better choice as this suits the customers they want to attract. In contrast, a B2C or B2B company targeting smaller businesses may want to consider the monthly billing frequency as it may be more attractive to their customers.

## Annual billing

This cycle covers the cost of an entire year of the service in a single yearly payment. In subscription billing, customers are locked into an automated cycle, which will bill them once a year unless they cancel.

## Monthly billing

This cycle breaks the annual cost down into monthly recurring payments. Generally, customers can cancel anytime as it doesn't lock them into a year-long contract.

## Quarterly billing

This cycle breaks down the cost of the service in 90-day periods. It's not always aligned with quarterly calendars and can depend on sign-up periods or vary according to when a company accounts for year-ends.

## Bi-monthly billing

A high-frequency approach that bills users twice a month. It can be problematic as months vary in length, meaning payment dates might only sometimes align.

## Super-frequent billing

Bill customers more than twice a month; in some (unusual) cases, customers might be billed daily. It's highly variable and best suited to companies with a short user lifecycle.



# Understanding --- revenue recognition and deferrals

Understanding how to recognize revenue is critical to the success of newer billing models and feeds into every aspect of a company's financial health. It's a mistake to assume that only the finance teams must understand how it works. Most companies will need feedback from numerous departments to evaluate contracts, strategies, key performance metrics, planning, budgeting, pricing strategies, and IT requirements.



# What is revenue recognition?

It is a generally accepted accounting principle (GAAP) referring to how you recognize revenue.

Regardless of when money lands in an account, the revenue only counts when the product or service is delivered and accepted. It helps companies identify what is actual revenue and what is a liability, and what should be deferred revenue.

In more traditional business models, the difference between cash collection and revenue recognition is often subtle; product delivery happens at the time of the transaction. For modern billing models, it's not always so simple. Revenue should be recorded depending on how it accrues over time. You should only ever recognize revenue when the entire revenue-generating process is complete, i.e., you must not recognize revenue until the contract's performance obligation has been met and accepted.

## Deferred revenue is critical to financial health for subscription billing

You earn revenue for a service each day that you deliver that service. Deferring revenue appropriately makes it a liability and will protect your cash flow, preventing you from investing more than you earn. Claiming unearned income can lead to tricky situations if customers decide to complain, cancel, or ask for refunds.

Customers may pay for services or software in advance, but you can only recognize revenue as services are delivered. For instance, if a customer buys a yearlong subscription and pays upfront, you must defer most of that revenue (as it is a liability rather than an asset) and recognize the income throughout the year as it is earned.

# Complying with global accounting standards **ASC 606 and IFRS 15**

The growth of subscription services led to the introduction of ASC 606 and IFRS 15 by the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB). These standards help companies better manage their revenue recognition. As a result, enabling them to stay consistently compliant. They created a five-step approach that can be applied to any subscription billing structure. It outlines how to recognize revenue with any contract correctly.

## The 5-step process for revenue recognition for SaaS



Step 1 : identify the contracts with a customer



Step 2 : identify the performance obligations in the contracts



Step 3 : determine the transaction price



Step 4 : allocate the transaction price to the contract's obligations



Step 5 : recognize revenue as you satisfy the relevant obligations





## 6 best practices when --- migrating to modern billing

Reports state that 65% of companies transitioning to a recurring revenue model face operational challenges. This problem should not discourage those contemplating the change but instead introduce a degree of caution and emphasis on strategic planning. Steer clear of a one-size-fits-all template and follow this list of best practices to build a custom roadmap that covers the nuances of your solutions and best fits your industry.

1

### Assess the pros and cons of migrating before you start

Focusing on the pros is easy, but two-dimensional thinking fails to prepare your team for future challenges. In fully understanding what might occur, you can better align your teams to handle the transition without having them lose confidence at the first hurdle.

2

### Consider the migration model that works best for your customers

The best migration model will depend on your solutions and your customers. One of the central challenges of any transition is retaining customers as you change, which means considering their experience at every transition stage.

3

### Conduct customer surveys and market research before deciding on pricing models

One of the most significant shifts for any organization will be managing customer expectations and conducting thorough market research to back up any changes you need to make to products or services. With customer buy-in, building on your current reputation will be easier.

4

### Establish new KPIs to measure success and forecast profitability

Adjusting KPIs won't just be restricted to sales and marketing. They will need to be changed to reflect the changes in every department. You will need to work with each department to determine success based on new performance metrics.

5

### Prioritize change management to enable the internal shift

This change impacts every aspect of your business and is as much a cultural and financial transformation as anything else. Transitions like this start with leadership and require you to fully understand the digital maturity of your company before you can move forward.

6

### Invest in tools and automation to help you scale

Companies need to invest in tools that will help them automate manual processes at every level of the organization. Implementing a cloud-based CRM and subscription billing software will help you manage the complexity of high growth cycles.

# The subscriber metrics you should be tracking

Subscriber churn metrics are essential for any company hoping to scale as they give insight into where you're going wrong and how you can fix it. Traditionally, churn rates were hard to calculate. Considering the average bricks and mortar setup, it's easy to see that getting reliable data and churn metrics could be tricky.

In contrast, today, you're equipped with more than enough data to easily track churn metrics and use this information to make adjustments where needed. The benefit of knowing your churn rate is being able to try and reduce it.

**Voluntary subscriber churn** is when a customer chooses to end their subscription. Subscribers might decide to cancel a subscription in this manner for any number of reasons, perhaps their perception of the value of your product has changed, or they have experienced poor customer care. If possible, it's essential to try and find out why so that you can build a strategy to reduce voluntary churn.

**Involuntary subscriber churn** is when the subscription terminates without the customer's awareness. It may be a failed payment due to insufficient funds, expired credit card details, or the bank's fraud prevention system.

## The four subscriber churn metrics you need to track

Subscriber churn rate	=	$\frac{(\text{Subscribers at the beginning of a period} - \text{Subscribers at the end of a period})}{\text{Subscribers at the beginning of a period}}$
MRR churn rate	=	$\frac{\text{MRR lost over period}}{\text{MRR at beginning of period}}$
Gross MRR churn rate	=	$\frac{(\text{MRR churn rate} + \text{Contraction MRR})}{\text{MRR}}$
Net MRR churn rate	=	$\frac{(\text{MRR churn} + \text{Contraction MRR}) - \text{Expansion churn}}{\text{MRR}}$



# Mastering dunning management to reduce subscriber churn

Like any other form of payment, recurring billing has its unique challenges. Subscription services lose roughly 2% of customers each month due to expired credit cards that aren't updated. The involuntary churn rate accounts for a sizable revenue leak when you factor in failed payments caused by spending limits, insufficient funds, payment gateway glitches, or cancelled credit cards.

Dunning is the process of communicating with customers to recoup such losses. Despite a negative public perception, modern dunning management can contribute to a positive customer experience and significantly increase your monthly recurring revenue (MRR).



## Why should you optimize dunning management?

Subscriber churn is an unavoidable obstacle that every business must handle. Fortunately, effective dunning protocols can recover, on average, 9% of your MRR. Dunning management empowers you to proactively contact customers to update their payment method, prevent service disruptions, and facilitate a positive customer experience—reducing revenue lost through involuntary churn.



## What is automated dunning management?

Manually addressing every customer's declined or failed payments is an impossible task that would waste valuable time and resources. The only worse solution would be not to contact your customers at all. Automated dunning management (a.k.a. collections process automation) streamlines the process by performing actions like:

- Sends friendly reminders about outstanding dues from declined credit cards
- Completes smart retries for declined and failed payments
- Alerts subscribers with specific error messages when their last transaction did not go through
- Provides customers with step-by-step instructions for resolving their failed payment
- Requests customer consent to collect their credit card information for automatic card updates
- Records all declined and failed payments for customer retention strategy insights



# Empowering customers ---

## with payment gateways

Payment gateways have become necessary for recurring revenue. They offer a window through which customers can securely manage their recurring billing and update details. Those investing in modern subscription billing must ensure all the puzzle pieces are in place to reap the benefits of their efforts.

# The benefits of payment gateways for your billing process



## Safer, faster, smoother transactions that give customers peace of mind

From a customer experience point of view, this is a must. Payment gateways provide peace of mind, giving users a straightforward, familiar interface to manage their billing without waiting for customer care or wondering when their payment will be processed.



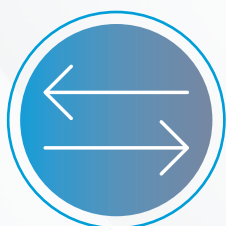
## Access to advanced security as the payment landscape shifts

With cyber crimes on the rise, protecting customers from data breaches is critical. One of the key advantages of payment gateways is that they come with teams dedicated to keeping their systems up to date with the most advanced features and security compliance.



## Improves user experience, saves time, and empowers your customers

The simplification of every stage of the payment process means that both the customer and your finance team save a considerable amount of time. By automating the process, you can easily meet customers' expectations, and they feel more in control when able to manage their payments effectively.



## Reduces declined payments with real-time transactions

If you add up the hours spent chasing down card details and trying to implement effective dunning processes, you might be surprised at how much energy your team could spend elsewhere. Payment gateways automate this process, checking the available funds in real-time and reducing the likelihood of a build-up of failed payments that your team needs to investigate.



# Critical subscription billing software features

Subscription management software (or recurring billing software) allows companies to implement complex subscription billing models effectively. This type of software has a wide range of features that enables companies to scale their subscription services through automating billing and invoicing, managing subscriber contracts, and facilitating comprehensive reporting and audits.

- 1 Actively tracks relevant subscriber churn metrics in reporting
- 2 Customizable reports and analytics in a centralized environment
- 3 Automates revenue recognition and deferrals for subscriptions
- 4 Comprehensive recurring billing and pricing management
- 5 Customizable billing options for unique customers and scenarios
- 6 Comprehensive dunning management to reduce revenue leakage
- 7 Enable compliance with global accounting standards ASC 606 and IFRS 15
- 8 Allows customers to manage payments through a portal/gateway
- 9 Seamlessly handles discounts, promotions and coupons
- 10 Easy to make and effectively communicate bulk updates to pricing
- 11 Integrates fully with existing accounting software

# Introducing our subscription management solutions

Comprehensive solutions for billing, deferrals, and recognition that streamline the entire quote-to-cash process from billing and invoicing to reporting and forecasting. Consistent and reliable invoicing for a wide range of pricing models empowers you to control your pricing and billing schedules at the line-item level within Microsoft Dynamics 365 Finance, Microsoft Dynamics 365 Business Central, and Microsoft Dynamics GP.



Microsoft preferred  
solution

Gold

Microsoft Partner



**30+**  
*countries across  
the globe*

**20+ years**  
*implementing  
scalable solutions*

**1900+**  
*customers  
successfully  
transformed*



I've long been a fan of Dynamics, and Subscription Billing Suite met and exceeded every feature of our previous solution. However, the factor that made this project a success is having a partner who augmented our internal integration efforts.

OTCMarkets



Since I have come on board, Subscription Billing Suite has paid for itself more than once over. Having this solution to help us manage over 10,000 deferred contracts is an essential part of our financial processing.



It makes things efficient for us because it's one upload that we have to do. We can set it and forget it for almost a year. The system manages itself. It's flawlessly integrated.

Sunshine811



Wonderful, wonderful, wonderful. A joy to work with Binary Stream. Everyone was super helpful and positive, which had a big impact on the success of the implementation.

MoxiWorks



**Start your subscription billing journey today**

Learn more by reading our complete guide to subscription management, offering insights into billing models, pricing page psychology, and plenty more.

Discover more

[www.binarystream.com](http://www.binarystream.com)