Binary Stream

Annual vs monthly billing cycles

Studies show that only one-fifth of SaaS companies let their customers choose between monthly and annual payments. A surprising number for an industry built on customer-centric innovations. Options are essential at most stages of a customer journey and never more so than when it comes to payment. Check out three of the main advantages and disadvantages of each below.

Annual

✓
- Improves cash flow be cause payment is in one lump sum.
- Increases the predictability of revenue as customers commit to a full year.
- Easier to offer discounted rates as you can afford to offer a lower overall price for a longer contract.

✗
- Reduces revenue if using discounts to entice customers to sign up for an entire year.
- Increases the cost of customer acquisition as it requires more marketing to convince buyers.
- Customers who prefer to pay in increments may not be able to afford the lump sum.

Monthly

✓
- Lowers the barrier to entry for new customers who may find it less daunting than a lump sum.
- Shortens the sales cycle so that the cost of customer acquisition is often lower.
- Customers feel less "trapped" as they can usually cancel at any time.

✗
- Cash flow may be less as you receive smaller payments in increments.
- Increases churn rate as cancelling a subscription has little cost implications for the customer.
- Costs more to implement if your payment provider charges based on the frequency of transactions.

Increase subscriptions with the power of choice

Most SaaS companies find that a hybrid approach is best. Given the diversity of the pros and cons of each frequency, there's no reason not to offer both. Each billing cycle frequency will appeal to a different target market. Offering a hybrid of the two allows you to lower the barriers of entry and increase customer conversion by merely giving users more choice.

Still unsure about whether to choose a monthly or annual billing cycle?

Check out our blog that covers the advantages and disadvantages in even more detail.

Read the article