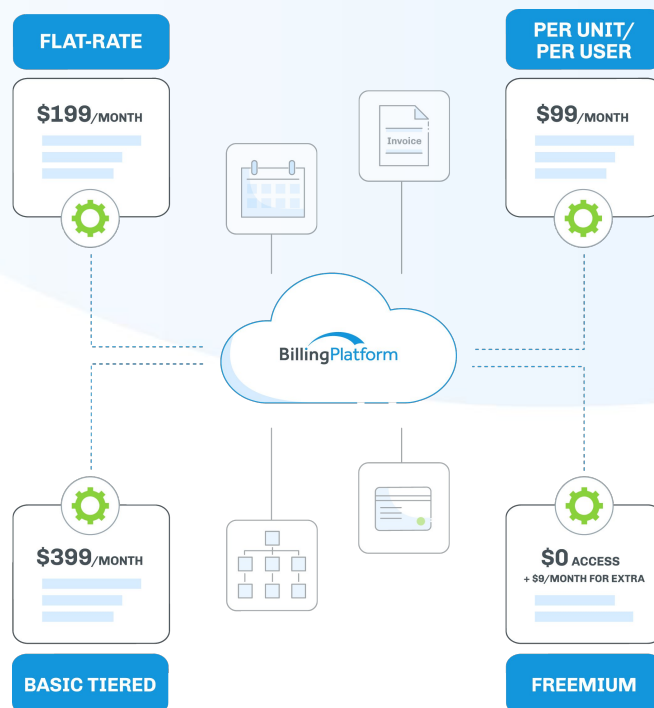


WHITEPAPER

Subscription Billing Primer: What You Need To Know

It may not exactly be a new term, but we still get asked, “What is subscription billing,” fairly often. **Subscription billing** is a charging method that enables merchants to bill customers automatically on a fixed schedule for a specific product or service.

Although the subscription billing model has its roots in earlier times, the ability to bill clients on a consistent basis fits well within our increasingly digital, as-a-service-driven world. Today, people and organizations subscribe to online platforms, entertainment, news outlets, and more. They choose to pay for access to the most up-to-date content rather than purchase products that may be soon outdated. For both businesses and consumers, subscription billing offers many benefits, including the simplicity and predictability of knowing the amount of receivables for a business and the amount of the bill for consumers each period. Because of this, subscription billing models have flourished.



Today, companies in every industry and market use subscriptions to draw customers in and keep them over the long run.

What Is Subscription Billing?

Also known as “recurring billing,” subscription billing provides businesses with near-guaranteed income, as they can automatically collect payment from clients at set intervals. This requires the customers to sign up for ‘auto-pay’, providing their payment information and approving vendors to charge their accounts.

Subscription billing applies to both enterprise customers and individual consumers. For example, a SaaS technology company, like [Salesforce](#), charges enterprise customers and small businesses each month for use of its CRM and related features. A streaming platform, like Netflix, charges individual consumers each month in exchange for access to its vast library of content.

Under subscription arrangements, businesses can charge however they need to maintain consistent cash flows and fulfill customer needs. They can invoice annually, quarterly, or monthly depending on the type of service or product being offered. Most subscription billing occurs via automatic online payments, which can make billing cycles incredibly easy to manage for all stakeholders.

Subscription billing has allowed a new generation of business models to thrive. Before the prevalence of subscriptions, companies had to charge high fees to justify upfront development costs, which hindered growth in many areas. Now, businesses can pass on lower prices to customers and attract a larger market.

The History of Subscription Billing

Some businesses have been using the subscription billing model for hundreds of years. Dating back to the 17th century, English book publishers and periodicals pioneered subscription billing when they collected “sponsorships” from readers. In the late 1800s, AT&T charged users for monthly access to its telephone services. Throughout the 20th century, magazines, news publications, and milk delivery companies also collected payment for their products and services at set frequencies.

These are a few isolated examples of how different types of businesses have deployed subscription billing in the past. With current technology, subscription billing is easier to execute than ever before. Ecommerce and SaaS helped bring subscription billing into the mainstream over the last few decades. Now, we are seeing it spread across numerous sectors and markets.

What Subscription Billing Models Are in Use Today?

Subscription billing is everywhere. According to Forbes, subscription-based eCommerce grew over 100% year-over-year between 2013 and 2018, with fifteen percent of online shoppers signing up for one or more subscriptions so they receive products regularly from their favorite brands.

In 2019, seven in ten American households had at least one video subscription service. On average, people in the U.S. subscribe to 3.4 different platforms and pay nearly \$10 per month for each. Thanks to Netflix and Hulu, the layman is very familiar with how subscription billing works, which has helped pave the way for other types of businesses.

Business-to-Consumer (B2C) Subscription Pricing

In a typical B2C subscription model, the customer initiates a relationship by making an initial payment for a product or service, understanding that they will be automatically charged at regular intervals going forward. After the first payment is processed, the business provides access to the platform or sends whatever products are included at a given price tier.

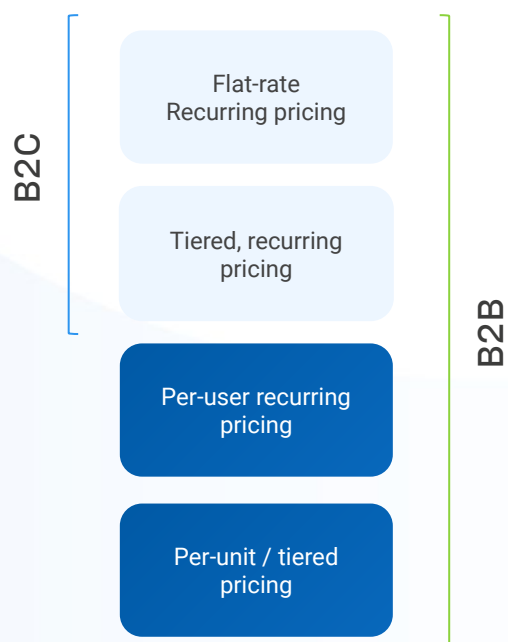
Businesses that deploy the tiered subscription model aim to prove their value proposition through lower-priced offerings. Then, they encourage customers to upgrade to higher-value packages to drive additional revenue.

Most B2C businesses deploy one of two subscription pricing models:

- Flat-rate, recurring pricing for a fixed set of features
- Tiered, recurring pricing for the purchase of multiple product packages or multiple units of an offer

The flat-rate subscription model is easy for customers to understand and for businesses to manage. Over time, businesses can add new features or additional products to keep consumers engaged. To increase revenue, companies simply need to raise the price of the recurring subscription.

With tiered pricing, businesses generally offer two or three packages or combinations of products that target different user levels. As packages go up in price, customers gain access to additional functionality, more products, or better customer support.



Business-to-Business (B2B) Subscription Pricing

Although it is more widely known in the consumer market, subscription models are also booming in business-to-business (B2B) companies [according to Forbes](#). Increasingly, many B2B companies realize that the subscription model helps them build long-term, profitable and sticky relationships with clients. Typical examples include subscription memberships for marketing automation tools, cloud computing platforms, accounting software, creative design services, and more.

In addition to the B2C pricing models highlighted above, B2B subscriptions can also fall under:

- Per-user recurring pricing
- Per-unit / tiered pricing

On the per-user pricing side, companies pay depending on the number of employees they want to be able to access a product or platform. For example, the social media management site, Hootsuite, offers four different pricing tiers that differ on several fronts, including the number of users allowed. The Professional tier allows for one user while the Business tier allows up to 10.

Rather than set user limits, Salesforce takes a more simple approach. The company charges enterprise clients per user depending on the functionality users get. For example, the Essentials product for [Small Business Solutions](#) is priced at \$25 per user, per month. Versus the Service Professional tier costs \$75 per user, per month and comes as a complete customer service solution.

In many cases, B2B companies offer free trials for every tier, giving potential enterprises the opportunity to test services for a limited time. It's also common to see companies offer enterprise-level tiers without pre-defined pricing. Organizations like Dropbox ask potential heavy users to contact them to discuss usage requirements in order to determine specific subscription pricing.

Similar to B2C pricing, B2B businesses drive additional revenue for per-user models by convincing customers to upgrade from lower-priced tiers to higher-priced tiers.

Many companies also charge enterprise clients on a tiered basis. Clients pay each month based on how much they "consume." For example, the marketing data firm, Clearbit, charges \$99 per month for 1,000 API requests or \$199 per month for 2,500 API requests. Mailchimp offers different tiers that begin at certain price points and increase based on how many contacts businesses plan to email. The company's Premium tier starts at \$299 per month for 10,000 contacts but increases \$100 per month for each additional 10,000 contacts.

B2B businesses drive additional revenue under the tiered model by encouraging enterprise customers to increase their consumption, which is easier to achieve when the advantages of doing so are clear.

What Are The **Key Requirements** of Subscription Billing?

There are several key requirements and capabilities organizations must have to implement subscription billing successfully. Otherwise, they can't take full advantage without adding complexity to their billing operations.



Businesses should **offer choices** around what features are included

Companies should offer choices around what services or products are available with different subscription tiers. When clients select a specific subscription plan, the platform should automatically provide or deny access to features depending on the chosen tier. Because so many businesses are offering subscription services today, companies need to offer choices to remain competitive.



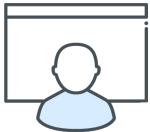
Businesses must have capabilities to **charge on a recurring basis**

After customers select their tiers and initiate their subscriptions, businesses must be able to follow through with recurring charges. They will need to invoice and bill customers according to the specific schedule agreed to and also have access to payment processing platforms that can accept a wide range of digital payments, from credit cards to wire transfers.



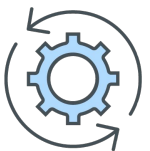
Businesses must have **customer management capabilities**

Businesses must be able to **manage individual subscribers** based on their preferences and history with the product or service. Subscription billing solutions should store information about customers, including the products they subscribe to, price, payment types, billing cycle, add-ons, and more. Companies need this information to provide customer service and respond to requests from clients about their subscription levels.



Customers must have **access to self-service capabilities**

Customers must have the ability to initiate subscription billing on their own for a particular product or service. In practice, this means that potential **users or clients should have the ability** to browse features, input payment information, and begin a subscription without needing to engage with anyone.



Businesses must be able to **automate billing workflows**

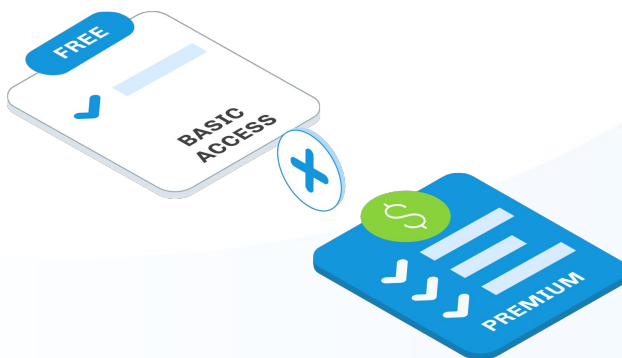
To reap the benefits of subscription billing, companies should be able to **automate workflows**, including invoicing, revenue recognition, and dunning, based on individual user accounts. By converting manual processes into automated workflows, companies can improve billing accuracy and increase billing efficiency across the board.



Businesses should be able to **analyze billing performance**

Finally, subscription billing performance data should be available for business intelligence. Finance teams must be able to **analyze real-time billing productivity** and generate reports to understand the effectiveness of their subscriptions. With sophisticated reporting capabilities, organizations can refine their models over time and maximize the lifetime value of their customers.

What Are the **Different Types of Subscription Pricing Models?**



Freemium to Subscription

Through the freemium subscription model, companies offer free access to a limited set of features. Customers can use these features indefinitely at no charge. If they want to upgrade for more, they can do so at any time.

Businesses use the freemium model to prove the value of their service or platform to a large base of potential customers. Users can explore features and capabilities risk-free until they are ready for a paid membership.

Examples: Dropbox, >[Mailchimp](#)

Limited Promotion to Subscription

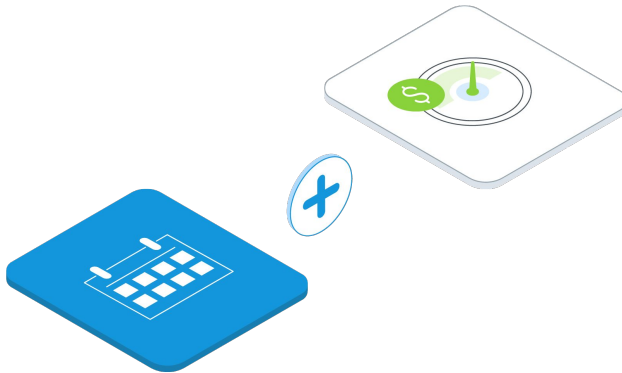
Many companies allow users to test their services for free for a limited time before they automatically roll over into a paid subscription. The promotion-to-subscription approach is similar to the freemium strategy in that it provides a way for businesses to prove their value to customers before they have to pay. Examples: [Netflix](#), [Hulu](#)



Overage Subscriptions

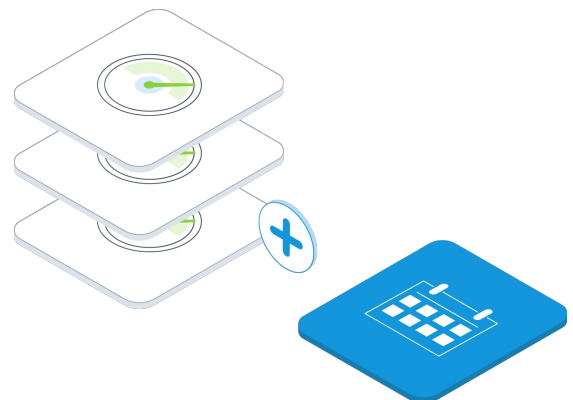
The overage variation of the subscription billing model means that companies charge a consistent base fee for limited feature access. Customers incur extra charges for using more than is allocated at the base fee price.

This model typically requires advanced billing capabilities of the billing engine, the ability to calculate the amount of usage over the set access. This is not a standard feature of traditional subscription billing providers. Within SaaS businesses, this type of pricing is dependent upon a [mediation engine](#). Examples: [eFax](#)



Pay-as-you-go Subscriptions

Those with advanced billing capabilities can also deploy pay-as-you-go subscription pricing. Under this arrangement, customers expect to get charged regularly, but the specific amount they pay depends on how much they use the service or product. Pay-as-you-go subscription models are also called usage, or consumption-based, pricing models. Examples: [Amazon Web Services](#)



How Does BillingPlatform Enable Subscription Billing?

BillingPlatform is a [cloud-based billing solution](#) that enables companies to deploy and manage complex subscription models at scale. Our agile and customizable platform can adapt to any business model and pricing model and adapt as needed.

Thanks to our platform architecture, enterprises can extend BillingPlatform's custom data model to build a fully integrated financial ecosystem for any subscription service. With our sophisticated workflow engine, finance teams can automate billing tasks and create triggers, autoresponders, and outbound communications that execute without any human intervention.

BillingPlatform clients can deploy and [manage multiple subscription pricing models](#) simultaneously and easily define custom billing cadences, invoicing cycles, and pricing models. Additionally, our highly configurable rules engine can automate upgrades, downgrades, and early terminations, which are essential for well-designed subscription models.

To learn more about how BillingPlatform facilitates robust subscription billing, [contact our team today](#).