The Complete Guide to **Doing Billing Better**

staxbill

A Word from Our General Manager, Tj Carlson

There's a reason we consider the automation of recurring billing and payments to be a superpower.

As more forward-thinking businesses come to rely on recurring revenue, the competition in the subscription space becomes tighter. To stand out, you'll need to take advantage of strategic and tactical opportunities—which this guide will help you better understand.

And believe it or not, your billing process plays a key role here.

Once you start to automate the repetitive, you won't believe how much time and energy is left to redirect to more strategic efforts that will scale your business. The key to success is finding a solution that enables you to do more than just bill better.

So, if automation is a business superpower, let's start your origin story.

Tj Carlson,
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Guide Overview

What will I get out of this guide?

This guide will help you better understand the key elements and strategic considerations for your subscription billing.

Each chapter will explain a key aspect of subscription billing and discuss the corresponding features you will need within your billing platform to properly support it.

We've also provided a handy checklist to ensure you've asked yourself the right questions.

LET'S GET STARTED!

Pricing and Packaging

The ability to rapidly define and introduce new price packages is essential to drive growth within a subscription business model. Many companies stagnate in the market when their billing system becomes a barrier to the nimble delivery of pricing plans that address customer needs in a rapidly changing market.

Whether your goals are to better segment customers, improve cash flow, upsell additional offerings, or prevent abuse; pricing and packaging, when done effectively, can be a competitive advantage. This section outlines a variety of pricing and packaging approaches that your subscription billing system should support. Remember, while your business may use one pricing model today, future offerings and growth may require more pricing flexibility.

Price plans are built from three kinds of charges: one-time, recurring and usage-based charges.

One-Time Charges

Often used for a setup or implementation fee, one-time charges are also frequently used during the customer lifecycle for professional services, training, access to support teams, etc. One-time charges are typically optional.

Recurring Charges

Recurring charges are charged on a defined time interval. Different time intervals for the recurring charges, such as weekly, monthly, quarterly, or yearly, should be supported by your billing platform. Your platform should also allow you to set when recurring charges are calculated (e.g., first of the month vs. anniversary date) and what proration rules apply (e.g., for partial months).

Fixed Recurring Charges

Recurring charges might be fixed, meaning a flat fee that gets charged each month to customers. This is commonly seen in consumer applications such as Netflix, which charges a set fee regardless of the number of movies you watch.

Usage-Based Recurring Charges

Usage-based recurring charges or pay-as-you-go charges are calculated based on the use or consumption of a service and can vary from usage period to usage period.

In a usage-based pricing strategy, customers either pay in advance or pay in arrears. The appeal of this model to consumers is that it has been shown to lower consumption compared to when a flat rate is charged.

Generally, price plans include an allocation for usage, with incremental charges for usage above the allocation.

Variable Charges

Variable pricing can add great flexibility to your pricing strategy. You will need to make sure your billing system is agile enough to accommodate your price customizations.

Let's talk Strategy

Since saving money can be a powerful motivator for customers, usage-based pricing can be a convincing stand-alone differentiator for a subscription business. From a billing management perspective, you will need to be able to collect usage information over a period of time without initiating a charge. You'll also need to be able to reset usage back to zero at the end of every period.

There are three types of variable pricing options:

- **Tiered pricing** is where every quantity and price range appears on an invoice. It's ideal for incorporating initial free units or providing discounts at higher quantity ranges.
- **Volume pricing** is where bulk purchases can be made at a lower per-unit price, with the price dropping further as more units are purchased. This method is ideal for encouraging customers to purchase higher amounts to benefit from a discount.
- **Stairstep pricing** is where all units are grouped into usage ranges and charged a single price. If a customer's usage is greater than the range they are in, they're bumped up automatically to the next price range. This means the upsell takes care of itself. Companies typically charge a premium fee on the overages.

To manage this type of billing, your system will need to distinguish the point at which overage starts, provide customizable pricing for different levels of overage and distinguish these charges on an invoice. This is also a very popular strategy used by mobile phone companies when billing for data usage.

Free Trials

Particularly in SaaS cloud businesses, you may offer customers a free trial to evaluate your service prior to converting to a paying account. However, you must ensure your billing system can support the following:

- Recording of a payment method before the free trial can begin.
- Customization of the free trial duration.
- Reminder notifications as the free trial is about to expire.
- Capability to switch to a paid plan.

Discounts, Promotions and Coupons

To help convert prospects to customers, you may also choose to offer marketing promotions, which can be time-based (e.g., 50% discount for the first 3 months), volume-based (e.g., tiered pricing, whereby additional units become progressively cheaper), or both. Your billing platform must be able to support these functions.

Usage Processing – Metering

Your subscription business must be able to track what has been consumed and by whom. Typically, this information can be obtained from the monitoring software of your underlying infrastructure, but you will need to structure usage records in a consistent manner for your billing system. Each usage record should, at a minimum, have the following:

- Unit of Measure: What was consumed?
- Amount: How much was used?

Usage Collection and Integration

Your billing platform will need to integrate with your infrastructure layer to pull the underlying usage data. Initially, a small-scale manual integration process can be used, but it won't be long before automation is essential to avoid errors and bottlenecks.

Let's talk Strategy

The **"multiple edition"** *pricing strategy is one that may use a combination of fixed recurring and usage-based pricing. In this pricing strategy, different packages are offered at different price points. The packages are tailored to customer requirements and based on factors such as number of customers, usage, features, volume, etc. To ensure success, your billing system will need to be able to create highly customizable product offerings and support bundling, as well as manage recurring and usage-based pricing editions. Mobile network providers commonly employ multiple edition pricing.*

Rating and Billing

If you choose a usage-based pricing strategy, you'll need to translate the recorded usage data into invoice items for your customer based on their pricing plan. This process is referred to as rating. Your billing platform will need to provide a rating engine that can calculate these charges based on usage data over time. In some instances, you may need to configure how the rating calculations are performed within the platform.

Billing, on the other hand, is the process of creating an invoice for customers on a recurring basis as per the pricing plan they have selected, their usage during that period, and any discounts that may apply.

This section outlines the key requirements for billing and rating and highlights the capabilities your billing platform must support.

Creating Invoices

Your billing platform will need to generate invoices for customers, indicating the payment due. Invoices should include your corporate branding, and it should be itemized to show one-time charges, recurring charges, and line-by-line usage-based charges as applicable.

Some auto-billing customers may opt out of having invoices emailed to them. Even for such customers, it's important to create an invoice for your records, to present to customers if requested, and to have ready in case of an audit.

Adjustments

Your platform should allow you to adjust invoices.

There are two types of adjustments that businesses typically make:

- Invoice-level adjustments: allow you to credit (e.g., for customer service reasons) or debit (e.g., for added late fees) an invoice after it has been created.
- Line item-level adjustments: allow you to credit or debit against a specific line item charge on an invoice (e.g., to reverse out a charge that was not incurred).

Billing Automation

Revenue leakage occurs in manual systems when recurring charges get missed—for example, when an annual service charge is not applied properly. Automating invoicing and billing makes this an 'always on' process. That means account charging, communication and collections are automated according to a schedule you set in advance.

For companies moving from a manual system to automated subscription billing, the elimination of manual errors and amount of time saved result in an immediate and often significant return on investment.

Multi-Channel Delivery

Invoices need to be delivered to customers by email and posted to an online self-service portal. They also need to be readily available to your support reps who deal with customer inquiries.

Tip!

It's important that your billing system allows you to create invoices that are professional, itemized and include your corporate branding.

Payment Options

Every business needs a way to get paid. This section outlines some of the features your subscription billing solution should have to enable an easy payment process.

Multiple Payment Types

Your customers will likely have different payment method preferences, so it is important that your commerce system support the key payment types:

- Electronic: These payments are typically electronic bank transfers (e.g., ACH) or credit card transactions that are made with a direct connection between your billing system and the electronic payment processor.
- External: These payments, such as paper checks or wire transfers, are processed outside of your accounting engine and must be recorded against an invoice back in the billing system.

Ad-Hoc Payments

In the subscription world, customers usually make their recurring payments on a regular schedule. However, your system should still support the processing of ad-hoc payments. For example, if a customer didn't pay the full invoice amount in a previous statement period, you may need to process an ad-hoc payment to cover the outstanding balance.

Scheduled Payment Runs

For customers that pay electronically, your platform should accommodate automated payment runs that are scheduled at a regular, recurring interval.

Payment Gateway Integration

To accept credit cards, you'll need a payment gateway to authorize transactions. You'll want your billing system to integrate with multiple payment gateways in order to automatically charge your customers' cards—even better if your billing system comes with a built-in payment gateway. Equally important is the ability to change gateways seamlessly, so your customers don't need to re-enter their credit card information when you add or change a gateway contract.

PCI Compliance

If you intend to process credit cards as a method of payment, best practices will dictate that your billing platform offers a level of security that meets the standard of the Payment Card Industry (PCI) to reassure customers that their credit card information is safe. PCI compliance involves satisfying network and system security approaches, as well as rigorous adherence to process.

Failed Payments

When you schedule automated payment runs, your system should allow you to define how many times you want to retry failed transactions on a specific credit card. For example, you may define up to three additional attempts, and designate a specific amount of time that must pass between retry attempts—for example, 12 or 24 hours. In addition, your system should provide you and your customers with automated notifications should all retry attempts ultimately fail.

Tip!

Certification for PCI compliance is a rigorous standardization process and can be time-consuming and costly. Working with a subscription billing platform that is PCI compliant means you can offload some of the tougher requirements for certification.

Overpayments and Credit Balance

Customers will sometimes overpay the amount due, for example, by rounding up a check or erroneously paying more than the current invoice amount. Your billing platform should allow you to accept these overpayments and hold them as credits for the customer that can be automatically applied against future invoices. With support for credit balances, your business can avoid time-consuming refund processes.

Refunds and Chargebacks

Customer refunds are sometimes needed—perhaps for unmet service level agreements. Your platform should be able to support not only refunds but also chargebacks. Customers typically request chargebacks for fraudulent purchases made on their credit cards, clerical errors (e.g., duplicate billing), or services purchased but never received.

Tip!

It's important to offer popular payment options to accommodate customers' preferred method of payment. This helps remove barriers for the customer and increases your likelihood of getting paid on time.

Account Management

Customer Account Creation

When creating a new customer account, your system should only collect information you absolutely need to keep the process short and minimize customer abandonment. Typically, information required will include name, password, key contact and billing information, and payment information.

Free Trial Accounts

If your business offers a free trial period, you will need to decide whether your system will collect credit card information prior to starting the free trial.

Customer Account Maintenance

Your platform should allow your service agents and customers to access a customer account and modify its details. In addition to the information entered during account creation, your system should also allow for the editing of the following customer account details:

- Locale: information about the customer's time zone and date format preference.
- Currency: the currency that is used to charge the customer.
- Tax Exemption: a customer's tax exemption status (typically not editable directly by a customer)
- Payment Terms: you may want the flexibility to offer both net 15 or net 30 terms (typically not editable directly by a customer).
- Payment Methods: ideally, your system should support entry of multiple payment methods in addition to selecting one default payment method.
- Additional Contacts: for example, you may want to store different "bill to" and "sold to" contacts for a customer.

Updating Credit Cards

- Subscription charges typically require that a credit card be maintained on file for the duration of a subscription. Once a credit card is on file, there's the possibility that the credit card will expire, or the cardholder will cancel the credit card. Proactive notifications to customers via email and alerts on your web portal are needed when their credit cards are about to expire. This proactive, automated approach will reduce the number of failed payments and ultimately improve your cash flow.

Let's talk Strategy

Moving to a recurring, subscription, or automated payment model will save you time better spent on other aspects of your business. It'll reduce bookkeeping and administration costs and help customers who frequently forget to pay. An automated billing system ensures you receive payments on time, significantly reduces passive churn, automatically implements dunning management rules, and notifies you of missed payments. Prior collection of credit card information may lower your free trial customer acquisition rate but increase your conversion rate from free to paying customers downstream. Testing both approaches is a good way to measure which approach works best for your business.

Canceling Accounts

Your platform will need to support cancelation of customer accounts. Organizations may wish to allow customers to cancel accounts in a self-service manner. Your support representatives will also need to be able to cancel accounts, either at a customer's request or for other business reasons, such as non-payment or fraudulent use.

To reduce revenue leakage, you should ensure your platform is able to:

- Cancel all the customer's subscriptions and verify that all invoices have been paid or adjusted before canceling an account.
- Prohibit further subscriptions from being added to a canceled account.
- Ensure any remaining usage prior to account cancelation gets billed to the customer in the next billing cycle.
- You may also consider having your system cancel all of a customer's subscriptions but keep the customer account active, so the customer can re-engage without friction later with the existing account information still intact.

Let's talk Strategy

From a strategic pricing perspective, when a company offers a free version of its product or service, this is the hook. Once the customer is engaged, it offers a paid version with more features and customization, this is the upsell. The key to making this strategy work is to provide a positive experience and demonstrate value with the free version while allowing the user to envision the further benefits they'd receive with the paid version.

Tip!

Being able to manage your customer accounts easily and efficiently will help you stay on top of your customer activity, foster customer relationships, and maximize your revenue.

Subscription Management

When a customer purchases one of your cloud offerings, your platform will need to create a subscription for that customer, defining what has been purchased, by whom, over what time period, and at what price.

This section outlines the various requirements your billing platform will need to support, both in creating subscriptions and in managing changes against it throughout a customer's lifecycle. Bonus points if the software offers a self-service portal that empowers the customer to make these changes on their own.

Creating a Subscription

Your subscription billing platform should create a subscription when a customer makes a purchase from you. Some key information that should be captured in a subscription includes:

- Customer Name and ID: identifying the customer who made the purchase.
- Initial Term: the duration of the subscription.
- Auto Renew: whether the subscription should automatically renew at the end of the term.
- Renewal Term: the duration for a subscription renewal.
- Products Purchased: the products that comprise the subscription.
- Product Pricing: the amount to be charged for each product purchased.
- Billing Interval: the interval (e.g., monthly, quarterly, etc.) over which recurring charges are billed.

Adding Products

To upsell more products or services to an existing customer, your platform should make it easy to add extra items to an existing customer subscription.

Removing Products

If a customer decides to downgrade from what they originally purchased (e.g., remove a promotional product after its "teaser rate" has expired), your system needs to support the removal of specific products from that customer's subscription.

Changing Subscription Terms and Conditions

In some cases, your system will need to support the ability to change the terms and conditions outlined in a customer's original contract. For example, rather than issuing a refund to a customer, you may both agree to simply provide that customer with a credit, extending the length of the contract.

Let's talk Strategy

Since customers leaving your subscription business have a huge impact on your revenue and diminishes your profits, it's important to understand the reasons why customers have unsubscribed or churned from your services. Some churn trends include the following:

1. ***Poor customer service***
2. ***Too few features***
3. ***Too many features***
4. ***Pricing***

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Suspending Subscriptions

Your subscription billing platform may need to allow a customer to suspend their subscription to your service for a certain period. This is common for seasonal businesses and services.

Canceling Subscriptions

Your system must allow customers to cancel subscriptions to services that are no longer needed. For example, a customer may cancel the trial subscription at the end of the free promotional period, without converting into a paying customer. Since a customer can have more than one subscription, your system must allow a customer to cancel one subscription while keeping others active.

Tip!

Flexible and easy-to-use subscription models will help you manage the entire lifecycle of your customer.

Customer Self-Service Portal

A customer self-service portal allows your customers to place orders independently, which in turn reduces your operating costs.

Account Creation and Initial Purchase

Your web storefront should allow a new customer to create an account and make an initial purchase online.

The storefront should be:

- Configurable, to rapidly add new price packages and offerings without coding
- Brandable, to match the rest of your website
- Secure and PCI compliant

Viewing Information

Returning customers should be provided with a login and password to access your customer self-service portal. A customer should be able to view the following information:

- Account Profile: customer's contact and billing information
- Payment Method: the payment method used for any recurring billing. Only the last four digits of a payment card and its expiration date should be displayed for security purposes.
- Subscription Details: information related to the products and services a customer has purchased from you, along with the corresponding rate plans
- Invoices: a record of the invoices you've generated for that customer
- Payments and Adjustments: the history of payments that a customer has made and any billing adjustments you have made on the account

Updating Information

Your system should also allow customers to make changes to their accounts from your self-service portal, saving you from significant customer support costs.

Common self-service updates that your system should support are:

- Changing account username and password
- Changing contact information for that account
- Updating the payment information for an account (e.g., adding a different credit card or changing a card's expiration date)
- Adding, removing, or updating products in a subscription
- Creating, suspending, or canceling a subscription

Let's talk Strategy

Providing a self-service customer portal allows customers to manage their subscriptions by themselves. This helps with scalability and frees up time for your customer service team to tackle bigger issues.

Reporting and Metrics

Your platform should provide you with real-time access to reports and subscription metrics, appropriate for the cloud. Some important metrics to consider include:

- Total Customer Value (TCV)
- Monthly Recurring Revenue (MRR)
- Cash Flow
- Churn
- Customer Lifetime Value (LTV)
- Customer Acquisition Rates
- Product / Subscription Sales
- Earned Revenues

These key subscription metrics are important indicators of your business's health, so you'll want to keep an eye on them.

You'll want to have a single pane that shows you how your business performed yesterday, last week, last month or last year. You'll also benefit from insight into your customer base—so your platform should track churn and acquisition rates. This information will help you fine-tune your service offerings and maximize subscription revenue.

Subscription reporting also provides valuable insight into which services are most popular within your customer base. You'll want to see how different products and services are performing.

Let's talk Strategy

You can learn so much from analyzing SaaS metrics! Use this info to advise your efforts, be more efficient and continuously improve your customer service.

Accounting System Integration

Integration Options

Your billing platform will need to integrate with an accounting system to create your company's financial statements. There are two common approaches to integrating billing data:

- General Ledger (GL) Integration: The benefit of this approach is to unburden the accounting system. Customer accounts, usage, invoices, and accounts receivable (AR) are managed in the billing system, and a summarization of this data by GL accounting code is loaded into the accounting system as journal entries.
- Invoice Integration: This approach passes customer information, invoice line details, payments, and adjustments to your accounting system. The accounting system then aggregates the information into the general ledger.

Accounting Close Process

Regardless of the accounting integration approach, your billing platform should be able to lock down the data as part of an accounting close process. Your platform should allow for extensive flexibility to create invoices, payments, and other financial transactions during the month. When the accounting books are closed, however, there should be no ability to change transactions or create new ones in the closed period.

Revenue Recognition

The tricky thing about ASC 606 revenue recognition is that you can only earn revenue as the service is delivered. With arrears-based usage models, where you invoice after the service is used, revenue recognition is not a challenge. However, if your pricing model includes cycle-forward billing, where you bill ahead for a specified period (e.g., a quarter or a year), you'll need to recognize this revenue as it's earned.

Your billing platform should have the ability to invoice charges and trigger revenue recognition at different times.

For instance, you may want to invoice a one-time setup fee as soon as the contract is signed, but not start revenue recognition until the service is activated. Another common complication for cloud businesses is in recognizing a one-time charge over the length of a contract, or even the average customer lifetime. Your billing platform will need to be able to invoice for these one-time charges but enable revenue to be recognized over these longer service periods.

Let's talk Strategy

Revenue recognition reflects the true extent of revenue earned during a specific period. It allows you to see what your outstanding liabilities (deferred revenues) are at any given point. In a subscription business, revenue is counted as either earned or deferred. Depending on the billing frequency, it can be very hard to keep track of deferred and earned revenue manually. It requires a tremendous number of processes and is extremely cumbersome to accomplish manually without making errors. It's important to choose a platform that can do this for you automatically.

The Complete Checklist to Doing Billing Better

- [ ] The platform has the flexibility to change pricing plans easily and when needed.
- [ ] The platform handles multi-currency billing.
- [ ] The platform handles discounts, promotions and coupons.
- [ ] The platform supports bulk operations (e.g., usage meter updates across entire lists).
- [ ] The platform allows me to add my corporate branding on invoices.
- [ ] Finance has been a part of my selection process.
- [ ] The platform allows my customers to choose their preferred payment method.
- [ ] The platform is PCI compliant.
- [ ] The platform will automatically retry failed transactions.
- [ ] The platform not only handles deferred and earned revenue but also automatically recognizes revenue according to ASC 606.
- [ ] The platform can implement dunning management best practices.
- [ ] The platform provides the option for me to offer self-service portals to my customers.
- [ ] The platform allows for multiple payment types.
- [ ] There is a hand-held approach to onboarding.
- [ ] Customer support is readily available.
- [ ] The cost of the platform enables me to predict my expense for the year.
- [ ] No hidden costs.
- [ ] The platform has the flexibility to add, remove, change products on subscriptions.
- [ ] There is flexibility to customize payment and billing plans for my customers.
- [ ] Reports are readily exportable in CSV full data.
- [ ] The reports provide valuable insights on customer activity, sales, churn, and other metrics that you need to grow your business.
- [ ] Key SaaS metrics can be tracked and reported.
- [ ] A payment gateway is included

In Summary

In this guide, we've discussed the strategic and tactical approaches to operating a subscription-based business and how the right subscription billing and management platform can be a powerful tool to rapidly grow your business. As your subscription business matures, your billing and accounting requirements will increase. It's extremely important that, when choosing a billing platform, you consider your future billing requirements in addition to your current needs. Flexibility and scalability are two key platform must-haves for rapid growth businesses.

At Stax Bill, we automate the repetitive so you can focus on the bigger picture. Stax Bill combines powerful, flexible ledger-based billing capabilities with flat pricing and no overages. To us, automation is a business superpower.

Are you ready to do billing better?

Schedule a Call

Any software purchase is a big deal.
Connect with a billing expert to see if we might be a fit.

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