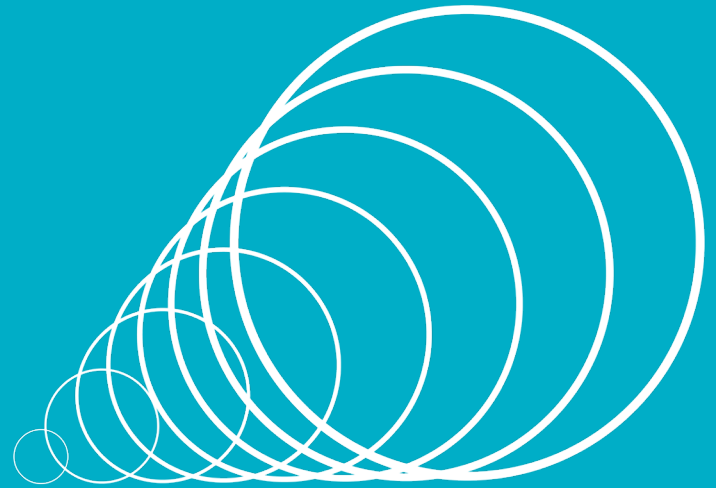


Subscription Management Playbook



A Guide for Understanding
Subscription Management as a Process

This playbook is designed for individuals
working with

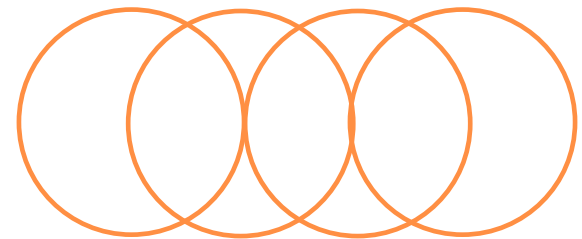
subscription management

or

revenue operations,

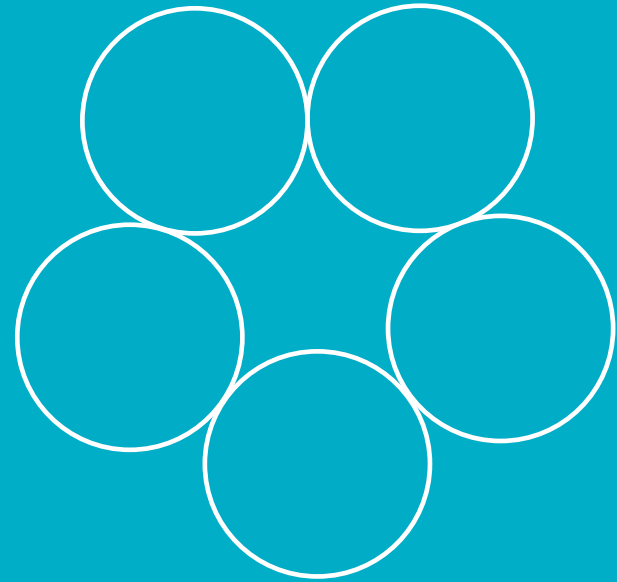
or otherwise dealing with company's
essential business tools in

- ✓ Sales
- ✓ Customer Success
- ✓ Product Management
- ✓ Finance
- ✓ Internal IT



CONTENT

- Introduction to Subscription Management
- Customer Lifecycle Management
- Subscriptions
- Pricing
- Reporting
- Connectivity
- Build it or buy it?
- Benefits of pricing and billing automation



INTRODUCTION TO SUBSCRIPTION MANAGEMENT

WHAT SUBSCRIPTION MANAGEMENT IS?

Subscription Management is the
process to
take care
of the
customer lifecycle
in a business, where
products and services
are
delivered repeatedly
with a
subscription-based business model.

SUBSCRIPTION MANAGEMENT PLAYGROUND

Subscription management can cover a wide functional area from quote to accounting, but typical core topics are

Customers and suppliers

- Customer and contact person information
- Terms
- Billing information

Subscriptions and contracts

- Plans and contracts
- Subscription terms
- Upsells, downgrades
- Renewals, cancellations

Pricing

- Products
- Product Packaging
- Price plans
- Discounts
- Price changes / indexation

Billing

- Billing channels and types
- Invoice creation and specification
- Invoice sending
- Payment processing - typically made by an integration to payment service provider or bank

Compliance

- Files or data for sales ledger
- Revenue Recognition
- Financial Reporting and KPIs

Connectivity

- Connectivity between systems from quote to cash

Metering

- Interfacing to usage data sources
- Data Mediation
- Usage Rating

KEY DRIVERS AFFECTING “HOW TO” IN SUBSCRIPTION MANAGEMENT

Customer Segments

Typically affects ARR per customer and Customer Acquisition Cost (CAC).

For B2C the aim is to keep pricing simple and go for “click to buy”.
For B2B usage-based pricing and personal sales is often needed

Number of products

The number of products has a relation to needed price plans and product packaging.

With a large number of products, a price plan may not be a preferable solution. Instead, a contract lifecycle management is needed

Pricing Models

Flat fees are typically easy but may have some negative effects on both profitability and also churn. For B2C, flat fees work nicely.

For B2B, typically hybrid models mixing flat fees and usage-based pricing are preferable.

Sales Process

Product led growth and “click to buy” typically is done with simple good-better-best pricing model. However, especially with B2B and a wide set of products, “specialist sales” is preferred and more flexibility in pricing.

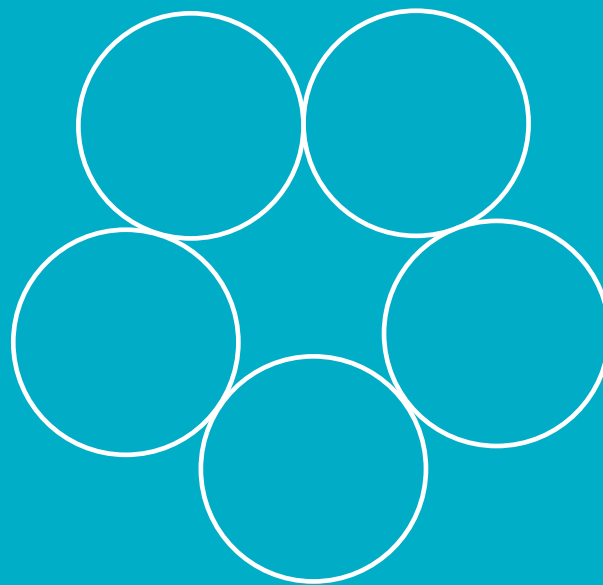
Company Lifecycle

The company lifecycle reflects several capabilities.

Reporting needs and KPIs may be different for investor-backed startups than for established large companies. Established companies typically also have products and pricing models on different life cycles, putting more pressure on pricing capabilities.

WHAT IS NEEDED FOR SUBSCRIPTION MANAGEMENT?

- Typically, a **purpose-made software** is needed to take care of all aspects of the **customer lifecycle**
- Otherwise, the **process will have gaps** and lots of manual work which leads to **revenue leakage** and **unexpected churn**.
- Especially when moving towards **usage (or consumption) – based pricing** models the role of automation will increase *a lot!*
- Subscription management software is not an isolated software in a company's business process - **connectivity** plays a significant part in the whole value chain.
- As any other business tool, **subscription management reflects business requirements**, and therefore it is crucial to keep it in best possible use.



CUSTOMER LIFECYCLE MANAGEMENT

CUSTOMERS

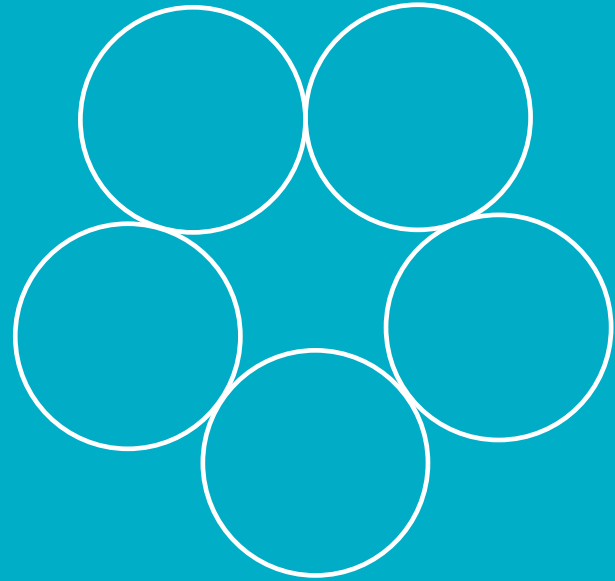
- Customers are the backbone of your business:
success comes from customer value
- In businesses with recurring revenue, **keeping track of the customer lifecycle** is essential to **prevent churn** and **maximize customer value**.
- Customers are typically maintained in a **subscription management system** or on other records from several points of view.
 - Customer basic information and contact management
 - Legal information for VAT and billing
 - Customer subscription and order status for operational transparency
 - Customer history for reporting and forecasts
 - Payment information for dunning

CUSTOMER LIFECYCLE

- Customer lifecycle typically starts from the **first order or subscription**
- Customer lifecycle ends by **cancellation of subscriptions**, done by the customer or by you
- There might be many changes during the customer lifecycle, like
 - Upsells, when the customer buys more
 - Downgrades, when the customer buys less
 - Pausing, when the subscriptions are on pause
 - Mergers, when the customer is merged with another company
 - Acquisitions, when the customer buys another business, that can already be your customer as well
 - Geographic expansions, when customer starts operations in a new country
 - Pivots, when a customer changes or adds a new business model

CUSTOMER LIFECYCLE MANAGEMENT

- During the customer lifecycle, you receive typically **many silent signals** on what the customer is going to do next
 - Downgrades may mean the value of your service is not balanced with the price
 - Upsells may mean the perceived value by the customer is high, or the customer is growing steadily
- In any case, you should have data to interpret these **signals to actions**
 - Consider pricing
 - Be even more active on upselling and finding out, if there is a need for even more
 - And so on
- Your processes and systems should also support **your customer's business changes** like
 - New geographies
 - Mergers and Acquisitions
 - New products or Business model
- That is why high flexibility with the processes and systems is very important



SUBSCRIPTIONS

SUBSCRIPTIONS

- Subscription is a **mutual agreement** with a customer to **deliver a service on a regularly basis**.
- Subscription **can be either free** or it **may have a price**
 - There might also be combinations, with free periods on otherwise paid subscription
- Subscriptions typically consist of:
 - Products and prices, often combined as a price plan
 - Service delivery terms, timespan and other information
 - Typical timespans may be "evergreen" that will run forever if not cancelled, and fixed term, typically a month or a year.
 - Billing frequency (annually, quarterly, monthly, weekly)
- The **pricing models** for subscriptions vary from simple flat monthly fees to more flexible usage models
 - The pricing model is typically defined in a price plan where a product, price and pricing model are coupled together
 - Hybrid model is a combination of a flat fee and usage-based fee(s)

SUBSCRIPTION LIFECYCLE

Typical **lifecycle changes** for subscriptions are

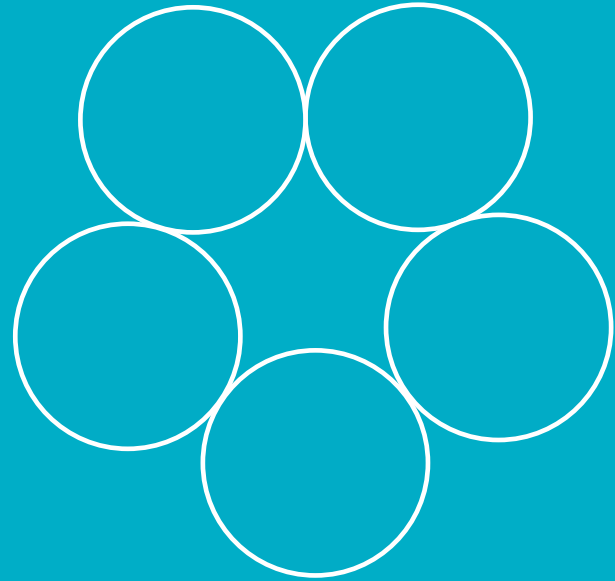
- Upsell
- Downgrade
- Renew
- Cancellation

To manage these, a **specific tool** is needed unless the number of subscriptions is very low

The lack of a **proper subscription management** tool is seen in many ways, for example:

- Revenue leakage as all possible revenue is not invoiced
- Customer churn as there are no reselling actions before a fixed term subscription will end
- With usage-based pricing models, the requirements are stricter as they combine usage data with various pricing models: tracking and recording usage is essential

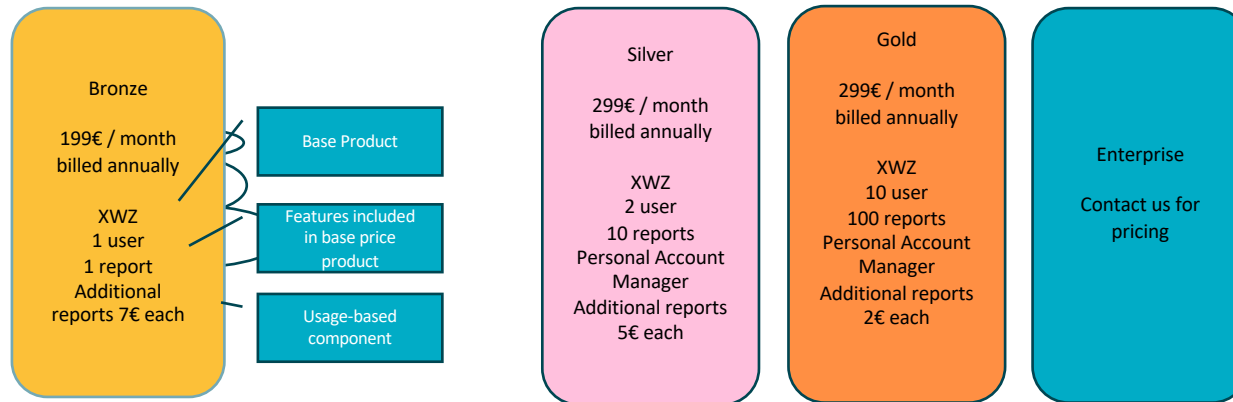
Note: a customer may have multiple subscriptions and customer lifecycle is not always equal to subscription lifecycle



PRICING

PRICE PLANS

- **Price plans** combine products, terms and prices together.
- The typical **price plan hierarchy** is “good-better-best”



- Price plans are an **easy way to package products** and thus indicate for the customer the optimal entity for the current need.
- Many SaaS companies **start with “good-better-best”-pricing**

PRICING

- "good-better-best" - price plans work **most efficiently for services with flat fees.**
 - No calculation of variable or consumption-based components
 - Discounts are rather easy if there is a need for them
 - Often used on "simple" B2C subscriptions
- **In B2B, "good-better-best" is not often the optimal solution.**
 - For product-led-growth and "click and buy", it is efficient.
 - In B2B SaaS, a common model is sales-led-growth
 - Salespeople, and maybe a technical team, are involved in sales
 - Customer has bargaining power
 - Customers want to negotiate or adjust some of the terms and prices
- **Usage-based pricing with various pricing models** need often specific capabilities:
 - Ability to manage discounts – discounts can also be divided into several tiers
 - Ability to configure the usage components based on the customer's needs
 - With a high number of services or product options, price plans lose their power as customers typically want to pick their purchases from a list rather than stick with the ready-made offering – can be a severe obstacle in certain sales conditions or product offerings

PRICING

- For **B2B Enterprise SaaS**, typically **Contract Lifecycle Management Capabilities** are needed to avoid manual work and revenue leakage
 - Price plans are often more complicated than “good-better-best”
 - Customer’s purchase, ie. contract may have special prices and terms
 - A specific functionality to manage diverse contract and terms are needed for
 - Single source of truth to the customer’s real-time status
 - Flexibility to add, delete and modify individual products without a need to change terms for the whole contract
- A very important ability is to **set discounts** and **manage customer specific pricing** as pricing is **one of the key elements in go-to-market strategies** and **competitiveness**.
- With a **higher number of products and options**, the typical challenge is
 - Large amount of price plans or products as a specific price plan or product is needed for a tailored customer need
 - If pricing is inflexible, each customer specific discount requires an individual price plan
- Currently, the **trend is towards usage-based and hybrid models**, so the ability to **manage usage -based pricing models** (and their variants) is important

PRICING STRATEGIES

The most common pricing strategies are

- Cost-plus pricing - analyze your costs and add a mark-up
- Competitive pricing - pricing is based on what the competition charges
- Price skimming - start with a high price and lower it as the market evolves
- Penetration pricing - start with a low price to enter a competitive market and raise it later
- Value-based pricing - base your price on the customer's perceived value

All these require analytics

- Ability to calculate your costs
- Market analysis
- Tracking and data on Customer behaviour

Value-based pricing is the most effective but requires good **capabilities** and in-depth **understanding** of the challenges in customers' value chain.

PRICING MODELS

- Typical SaaS pricing models are
 - Flat recurring fee - f.ex monthly/quarterly/yearly basis fee
 - One time fee - often used f.ex in onboarding or service activation
 - Usage-based fees:
 - Unit – pricing based f.ex on number of users
 - Tier – pricing splitted into several pricing levels
 - Volume – price based on f.ex highest level of tier
 - Overage – price contains the base price with basis of exceeding amount
 - Hybrid models, combining two or more pricing models to one
 - For example flat monthly fee + usage – based fee for active monthly users + usage based fee for some actions, like running a report

CONSUMPTION / USAGE-BASED - MODELS

Many SaaS companies have usage-based elements on their price plans

For example, additional features, transactions, number of users

The trend has been towards usage-based pricing models, and especially towards hybrid pricing models = flat fee in combination with usage - based elements.

The hybrid or usage-based pricing models will

- **Give wider possibilities for using different pricing models**
 - Different items can be priced with a great amount of flexibility
- **Lower churn**
 - Customers can use only what they need and value for money will increase
- **Increase revenue**
 - High-volume users generate lots of revenue

Note: Ensure your subscription management platform is flexible enough to support your growth.

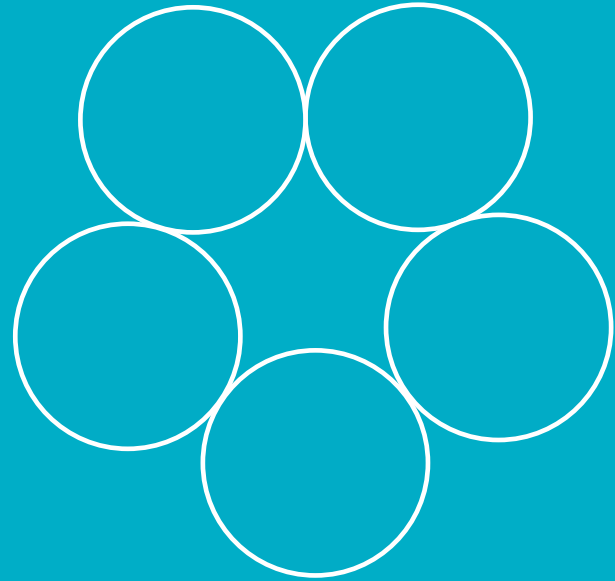
PRICING MODELS

FLAT FEES	
Pricing Model	Descriptions & Examples
One-time Fee	A fixed fee invoiced only once, with no recurrence.
Recurring Fixed Fee	A fixed fee for a predefined usage, billed periodically e.g., monthly, quarterly, or annually. For example, a SaaS subscription fee granting entitlement to 50 "professional plan" users.
Recurring Flat Fee	A fixed recurring fee that remains constant regardless of the quantity or level of services used. Billed periodically for a predefined term, such as monthly, quarterly, or annually. For example, service fee covers all remote support.

For the chosen or preferred pricing model one can pick one or several (hybrid) pricing models. The flexibility of creating and profiting pricing models can enhance the price plan offering.



STANDARD HYBRID OR USAGE-BASED FEES	
Pricing Model	Descriptions & Examples
Unit	Typical pay-as-you-go charging model. Fee is based on a standard unit of measurement, such as per user, per device, per hour, or another measurable quantity. For example, 20€ per user per month. Another example, \$50 per workstation per month.
Overage	Package of units is included in the base price, and overage fee is charged for any higher usage. For example, a SaaS subscription includes 10 "professional" users for 900 \$/month, overage fee for any additional users is 100€. Another example, SMS messages with a packet of 500 included in the subscription and 0,20€ to be charged for each SMS exceeding 500.
Mark-up	Charging based on unit cost and predefined markup, either % or monetary value.
Tiered Usage, Steps	Increments based on usage. For example, first 50 units of the service is included in tier 1 with a price of 0,50€ per unit. The second tier is for the next 100 units with a price of 0,40€ per unit, and the third from 151 units to 300 units with a price of 0,30€. A customer consumes 212 units and is billed $50 \times 0,50€ + 100 \times 0,40€ + 62 \times 0,30€ = 25€ + 40€ + 18,60€ = 83,60€$
Tiered Usage, Volume	Variation of tiered usage pricing: The customer pays according to the highest tier reached. Example: Using the numbers from the tiered usage pricing example, a customer pays $212 \times 0,30€ = 63,60€$
Block or Stairstep	Block pricing or stairstep pricing sets a flat rate for distinct pricing "blocks" or "steps".
	Distinction is sometimes made that in block pricing, each block size and fee may remain the same while in stairstep pricing different prices are set for different steps of usage and as customers move to higher levels, the pricing steps may increase or decrease.
	In both cases each step represents a tier of volume, with the price remaining the same within that tier, regardless of the exact consumption within the tier. Using the numbers from the tiered usage pricing example, a customer consuming 212 units, is billed also for the full third block/step, and the customer pays $50 \times 0,50€ + 100 \times 0,40€ + 150 \times 0,30€ = 25€ + 40€ + 45€ = 110€$. Another example where stairsteps are not used in the block pricing: Software SaaS subscription is sold in blocks of 10 users, where customers pay a fixed price for each block of 10 user entitlements.



REPORTING

REPORTING

There are some common **Key Performance Indicators** that practically everyone in the subscription business needs to follow

Reporting those should be **real-time and automatic**, especially for those affecting short-term business decisions

Some are important for the **board and investors** as they indicate the **performance against the plans** and also competition or peers

It is very important to be able to **report KPIs on many levels**

- For any customer
- For any customer segment
- For any product
- For different geographies

SUBSCRIPTION KPI'S

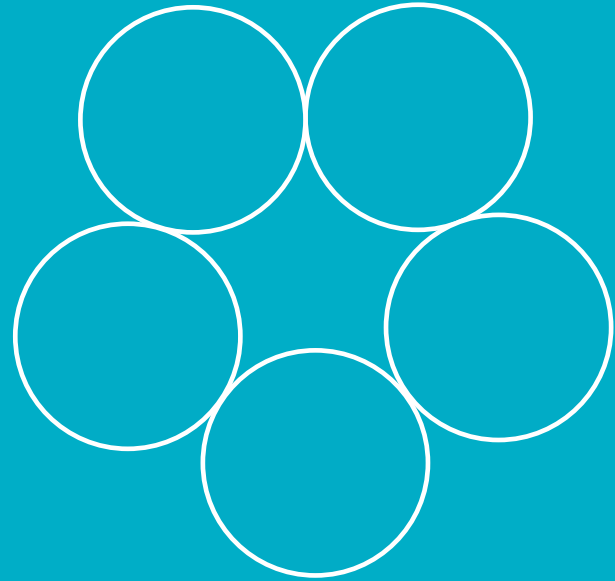
- **MRR**
 - A measure of predictable and recurring revenue components on a monthly basis.
- **ARR**
 - The value of recurring revenue normalized for a single calendar year.
- **Churn Rate**
 - The rate at which customers stop doing business with an entity over a given period.
- **Customer Lifetime Value (CLTV):**
 - The net profit contribution a customer makes over time.
- **Customer Acquisition Cost (CAC):**
 - CAC represents the total cost of acquiring a new customer from the sales and marketing efforts

Read more on our subscription management glossary!

<https://www.goodsign.com/blog/subscription-management-glossary>

REVENUE RECOGNITION AND COMPLIANCE

- Revenue Recognition and Compliance covers typically at least
 - Keeping accounting up-to-date with customer orders and service delivery
 - Being able to do proper Revenue Recognition, ie. what revenue to recognise and when.
 - There is a tight connection between accounting and subscription management
 - Every time an invoice is created, relevant information should be pulled out to the accounting system
 - This should happen *automatically* when creating an invoice, covering credit invoices as well
 - Files should include information for the period for proper revenue recognition
 - For anything invoiced quarterly, annually or other than monthly basis, the files should be split to cover each month
 - Easy to split into realized and deferred revenue on accounting



CONNECTIVITY

CONNECTIVITY

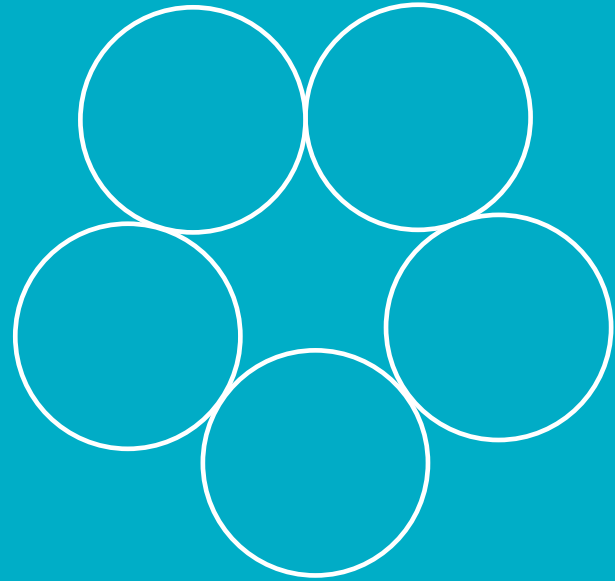
Connectivity, or data transfer, is needed to **get and update information** with

- CRM software like HubSpot, Salesforce, Pipedrive or D365 CRM
- ERP systems like SAP, Netsuite, MS Business Central, Odoo, Infor Cloudsuite
- Financial software like D365, NetSuite, Xero or SAP
- PSP software like Stripe or Nets
- E-invoicing software like Maventa, Opus Capita, Apix,
- Usage Data platforms like your SaaS platform
- Integrations for locally specified products like Avalara for sales tax handling
- Integrations with any other 3rd party software which contains the required information either for item pricing or invoice content.

USAGE DATA MANAGEMENT

- With **Usage-based and Hybrid pricing models**, usage data management is essential
- The process of reading the data and automatically modifying it to match the billing requirements is called **Data mediation**
- Too often the **focus on usage data is only on billing**: What data is needed for billing purposes
 - Do not to forget transparency: Offer sufficient information for the customer to validate the invoice, like detailed usage records.
- Need for mediation capabilities is **dependent on the number of data sources and data uniformity**
 - Single source and data with limited variability do not require sophisticated mediation
 - Use standard usage-data interface on subscription management tool
 - Changes in data structures may cause challenges
 - **Several data sources, high number of transactions** or transaction data, that includes rich data* requires more sophisticated data mediation.

**usage data streams contains information to be reported for customer, typically a feature subscription management software's standard interfaces does not support*







BUILD IT OR BUY IT

BUILD IT OR BUY IT

- There are several ways to build your **Subscription Management Capability**.
- Very often, a startup with limited number of customers, opts for a **“fake it until you make it”** – process. That means **fixing the process** with spreadsheets, sticky notes, calendar reminders and **whatever is needed for a minimum level of operation**
- After that, a typical consideration is, **should we build the capabilities** ourself? Maybe using low-code tools
- However, as the **challenge is quite big** in the end, it is wise to **concentrate on what you do the best:** your own business
 - Free resources from billing tools development to build your customer-facing capabilities
- Established SaaS companies have a different decision: they typically **have a set of tools already**, from homemade to purchased
 - The question for them is to consolidate to a tool flexible enough to serve current and future needs

YOU ARE NOT ALONE.

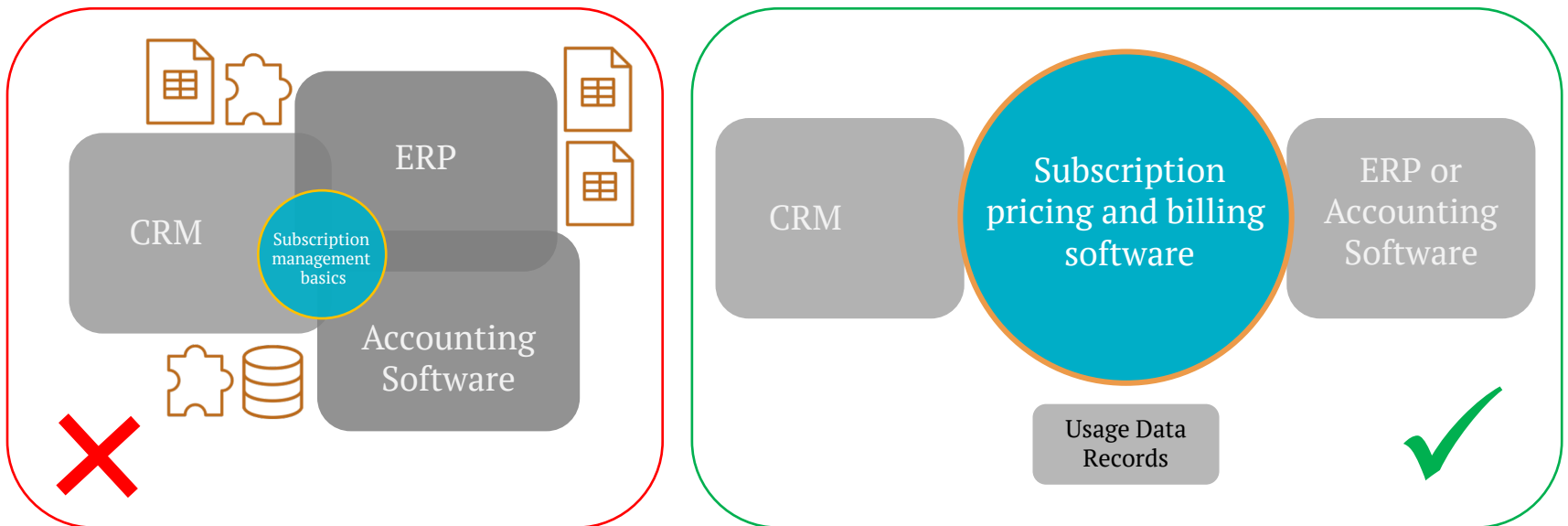
Most SaaS Companies have resorted to one of the following tactics to operate their pricing and billing today:

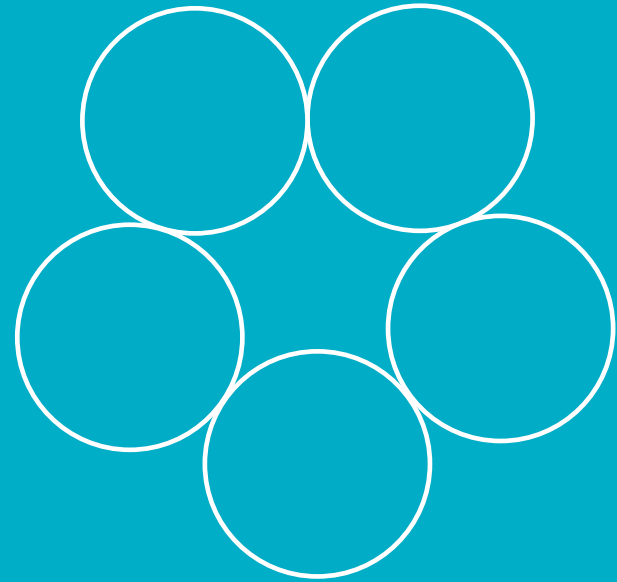
Approach	Example	Main Pros	Main Cons
Excel spreadsheets 	Collect data of new entitlements and service usage to spreadsheets. Consolidate billing data to factor in how volume affects pricing. Update any changes to fees. Split invoices as agreed. Provide for billing.	Flexibility to price and bill as required for winning and keeping customers.	Leads to errors causing revenue leakage and dissatisfied customers.
In-house tools 	Collect data on of new entitlements and service usage to a database. Earlier, e.g., in-house SQL database systems and procedures or RPA tools. Lately, e.g., Azure/ AWS cloud and low-code processes to mediate data and process raw billing data for verification.	Low investment to deliver quick improvements compared to manual processes.	Business professionals find difficult to operate. Requires constant development and maintenance resource with also the risk of knowledge loss.
Customized extensions 	The existing CRM, CPQ, ITSM, ERP, or FINANCIAL tools often offer basic elements related to services pricing or billing processes. If the system platform also contains process automation tools, partners may offer to build e.g., a CPQ extension, some billing data mediation, or enhancements to the inadequate recurring billing functionality.	Can utilize data within the current system. Trained development resources readily available, and likely an existing integration partner.	Extensions often hinder overall solution upgrades and new versions.
Subscription billing tools 	Subscription billing tools handle most subscription business pricing and billing requirements well as long as the usage-related elements are limited and there are no dependencies across contracts/ subscriptions.	Likely to address the specific limited problem area sufficiently, particularly if end-customer billing expectations are not a primary focus.	Weaknesses related to supporting pricing exceptions and improving the entire customer pricing, billing and accounting process.

YOUR PAIN IS RECOGNIZED. BUT YOU NEED MORE.

As the as-a-service business model becomes increasingly common in many industries, also most CRM, ERP, and accounting software have introduced capabilities to manage basic subscriptions, typically in a simple fixed and flat-fee style.

Enterprise SaaS companies usually discover such add-on capabilities restricting and inadequate. As the offering contains usage-based services and hybrid pricing, and pricing is influenced by customer purchasing power, you will find great value in introducing purpose-built capability.

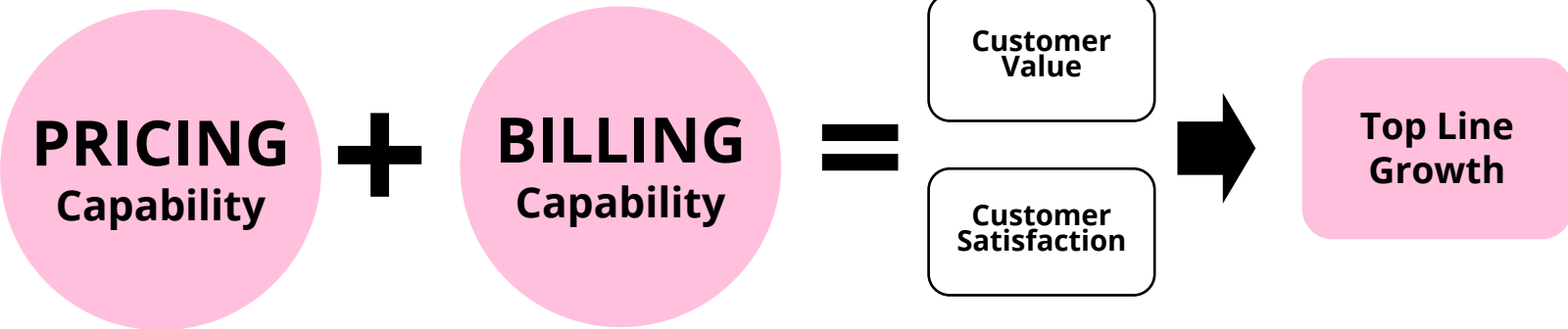




BENEFITS OF PRICING AND BILLING AUTOMATION

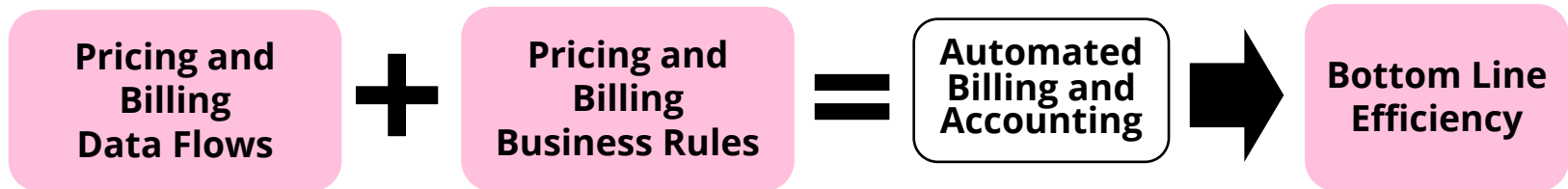
UNLOCKING A BUSINESS ADVANTAGE.

Pricing and billing capabilities **enhance customer value and satisfaction**, driving competitiveness and top-line growth.

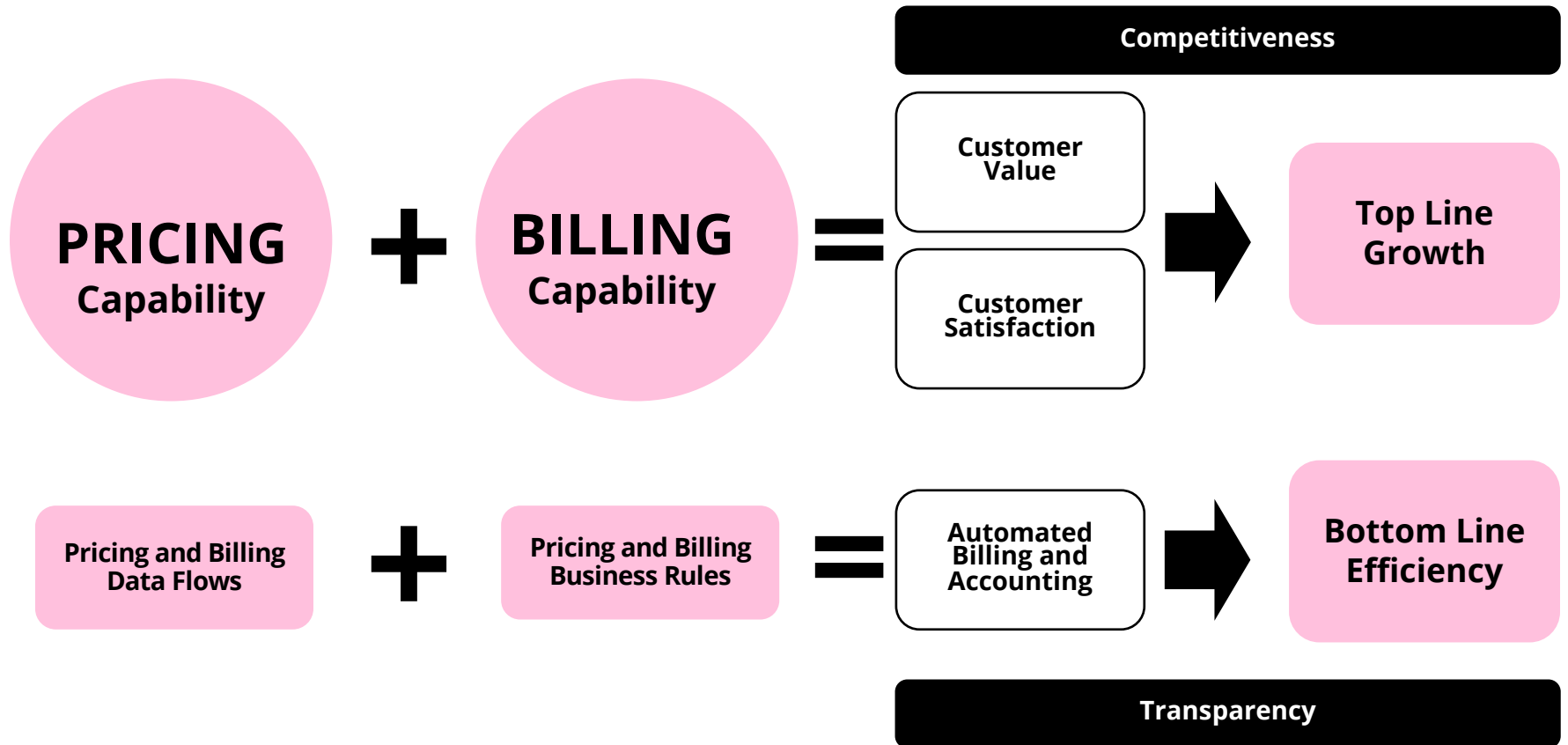


DATA-DRIVEN AUTOMATION IS A SUPERPOWER.

Pricing and billing capabilities not only enhance customer value and satisfaction, driving competitiveness and top-line growth, but **when described by data-driven business rule management, they lead to automated billing and accounting**, yielding bottom-line efficiency for a comprehensive business advantage.



THIS IS HOW THE EQUATION WORKS:



**THANK YOU FOR READING OUR
SAAS SUBSCRIPTION MANAGEMENT PLAYBOOK!**

ANY QUESTIONS?

PLEASE GIVE A CALL OR SEND AN EMAIL!

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