WHITEPAPER: Key Trends in Subscription Billing and Payments

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The subscription model has been transforming the way businesses and consumers buy products and services for several years now. Even the strongest businesses are looking for ways to compliment their traditional business with a subscription model. There was no lack of press when Adobe announced in 2013 they would be shifting their software to a 100% subscription-based model. According to Adobe, this allows them to push out new features much quicker, therefore staying on the cutting edge of the latest technologies and standards.

With the current pace of growth in subscription offerings, business and consumers are demanding more and more of subscription services. Here are the trends we see for 2015:

1. Increased Automation
2. Event-Based Communication
3. Customer Self Service
4. Mobile goes Employee Facing
5. Complex Pricing Models
6. Tracking Customer Metrics
7. Revenue Recognition
8. Freemium
9. Social Media Logins
10. Commission Management
11. Compliance (PCI/DSS 3.0)
12. Visibility to Billing and Payments
13. Referrals

INCREASED AUTOMATION

Automation applies to many areas of the subscription model. From the established, must-have features to the nice-to-have, successful businesses have figured out what is applicable for their business model. The best approach is to take the high level requirements and break them down into granular components.

For example, if you're in the B2B space and customers are billed automatically, that may imply sending out invoices, whereas for a consumer-oriented enterprise, that may mean processing a payment and sending a thank you note.

The shift we're seeing is that leaders are moving further along in their automation capabilities.

- Send automated invoices to customers that require Net 30 type billing
- Process payments automatically
- Message customers based on their preferred communication model. From the "we're going to debit your bank account in 3 days" advance notice to the "thanks for your payment" after-event messaging to the notify-only-on-decline, each approach has its strong points and business reasons
- Automated contract renewal processes
- Dunning and soft-collections

Increasing use of automation can lead to improved customer satisfaction, increases in renewals and product sales, a decrease in days-sales-outstanding (DSO), and a reduction in errors.

- Automated synchronization with accounting and financial systems like NetSuite, Dynamics, QuickBooks, etc.
- Real-time updates with CRM systems like Salesforce or Oracle Sales Cloud
- Integrating order-entry systems, especially customer-facing systems
- Automatically checking for credit-card chargebacks or ACH returns and reversing payment entries
- Fetching replacements for expired credit cards from the card brands like Visa, MasterCard, etc.
- Intelligently retrying declined payments
- Automating sales tax processes depending on customer billing address and nexus

How far along a business is will contribute to a more efficient and effective approach to business, which has proven to:

- Increase customer satisfaction
- Improve renewals and product sales
- Decrease days-sales-outstanding (DSO)
- Reduce errors

Leaders have mastered their ability to hook into any business or financial event to trigger personalized and branded messages.

EVENT-BASED COMMUNICATION

Open and transparent communication with customers goes a long way to building customer loyalty. Advance notifications of an upcoming auto payment, due date reminders, progressively stiffer overdue messaging, alerting to expiring credit cards, upcoming license renewals, along with “thank you for your payment” receipts all contribute to that level of satisfaction. So what’s the underlying trend? Leaders have mastered their ability to hook into any business or financial event to trigger personalized and branded messages.

CUSTOMER SELF SERVICE

What used to be a predominantly consumer-targeted practice of mobile-friendly self-service websites, and automatic payments, has migrated over to the business (B2B) side. Today's customers, whether business customers or individual consumers, expect the payment process to be quick, easy and seamless. They want to pay their bill when and where it is convenient for them and in some cases are even choosing to establish auto-pay to completely eliminate any effort on their part.

They also want to have payment options, whether that be check, e-check, wire, credit card, PayPal, etc. The more choices they have, the more apt they are to be comfortable with that auto-pay function.

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Given this push for anytime, anywhere access, the most compelling change for B2B self-service users, is the deployment of customer-facing portals that aggregate information ranging from contracts to support tickets, partner activity to workflow approvals, and of course, billing and payment functions. If you're in the B2B space and have a recurring revenue model, your customers likely have an ongoing engagement with multiple overlapping business processes in play, so it makes for a compelling argument to locate your billing and payment self-service functions here as well.

The Salesforce Service Cloud platform has been a major driver for this and their market share and technology leadership have established an eco-system analogous to what Apple did on the consumer side. Other industry giants have gotten into this game as well and Oracle's Sales Cloud is a new and fast moving entrant in the space.

MOBILE GOES EMPLOYEE FACING

Keeping with the theme of anywhere, anytime access, both businesses and their customers are demanding mobile access to key account information. Employees are on-the-go more now than ever. Sales and customer service teams need to be able to access and manage opportunities, accounts, and contacts whether they're in the office, in their home, or in the airport.

For customers, mobile access to review account status, pay bills, and change payment or contact information is on the rise. Not only does it improve customer satisfaction, it can also improve time-to-pay metrics.

So the mobile focus is primarily on the customer facing self-service side, right? Wrong! There is a current a movement underway towards employee-facing mobile functions instead of just customer-facing. The Salesforce Mobile platform is a game-changer in this arena, and now that sales staff can provide quotes and close contracts on the go, shouldn't they also be able to create an invoice or accept a payment on the road?

Sales and customer service teams need to be able to access and manage opportunities, accounts, and contacts whether they're in the office, in their home, or in the airport.

COMPLEX PRICING MODELS

One-size-fits-all pricing rarely works in a subscription billing model. Customers are demanding more options and more flexibility. As a result, fine-tuning and customizing pricing models to meet the needs of different customers is a key competitive advantage in this new environment.

Essentials	Deluxe Sales	Deluxe E-Commerce	Complete
$199/mo.	$299/mo.	$299/mo.	$379/mo.
Best for: Companies with basic marketing automation needs.	Best for: Companies with sales teams that need advanced CRM tools.	Best for: Companies with an online store.	Best for: Companies with both an online store and a sales team.
2,500 Contacts	5,000 Contacts	5,000 Contacts	10,000 Contacts
12,500 Emails/mo.	25,000 Emails/mo.	25,000 Emails/mo.	50,000 Emails/mo.
3 Users	4 Users	4 Users	5 Users

The shift we're observing is towards a combination of the following approaches:

- Offering the choice of a month-to-month subscription plan with a setup fee or annual contracts without any setup fee
- An increased shift from all-you-can-eat-buffet style fixed pricing to variable price plan options including tiered pricing, surcharges, overage pricing and transaction based metered pricing
- Upsells with bundled products and add-on options
- Flexible billing periods such as discounted quarterly and annual plans instead of just monthly plans
- Business-to-business enterprises are increasingly using incentives with discounts and promotions that were traditionally consumer oriented

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TRACKING CUSTOMER METRICS

Monitoring and understanding key customer metrics is vital for taking a business to the next level and measuring the RIGHT metrics can not only provide an understanding of the impact of business efforts but also uncover new opportunities. We see more clients prioritizing these subscription-specific metrics over traditional P&L metrics for the recurring billing space.

Customer Lifetime Value

80% of a company's future profits come from 20% of its customers. Determining CLV is vital in the subscription economy, because it's now a more complex function of their monthly spend, length of service, and monthly variances. Once the CLV patterns are determined, better decisions can be made as to how to allocate resources for customer retention programs.

Monthly Recurring Revenue (MRR)

Understanding recurring revenue normalized into a monthly amount is vital for subscription billing companies. It allows the business to average a multitude of different pricing plans and billing periods into a single, consistent number that can be tracked over time.

Customer Churn

Understanding the rate at which customers discontinue their service is just as, if not more, important than understanding the rate new customers are coming on board. For subscription billers, churn is even more critical because every lost customer is lost recurring revenue. Just as a business would investigate any drop in growth rate, they must also understand their churn rate and investigate what is causing any changes. Once that is understood, you can create a plan to slow attrition, retain more customers, and eventually increase revenue. They key to doing that is measuring and understand the right metrics.

REVENUE RECOGNITION

Late in 2015, in an effort to standardize international accounting standards, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) will be implementing a new standard for revenue recognition.

This new standard will involve a five-step process of identifying the contract with a customer, identifying the performance obligation, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when the entity satisfies a performance obligation.

> *"It will eliminate a major source of inconsistency in GAAP, which currently consists of numerous disparate, industry-specific pieces of revenue recognition guidance."*

Having systems in place with robust reporting and integration will be key to meeting the new standards.

> *The key is to find the right balance – offer enough to show prospects the value without giving away so much that no one upgrades to premium.*

FREEMIUM

Freemium is the idea of giving your core product away for free while selling premium products to a smaller user base. This is an ideal way to give people access to a product or service without a financial commitment. Then, once they've seen the value, they can upgrade to gain access to additional features. The key is to find the right balance – offer enough to show prospects the value without giving away so much that no one upgrades to premium.

With 200 million users sharing more than a billion files everyday, Dropbox is a stellar example of leveraging the Freemium model to its fullest potential. All a user has to do is enter their username and password and they automatically gain access to 2 GB of space. The free account is adequate for anyone wanting to share a few basic documents. It's only when larger files are being shared that the need for an upgrade becomes necessary. By that time, the user is hooked on how easy it is to share files quickly with anyone, anywhere.

Much of what we have discussed so far has been applicable for both business-to-business and business-to-consumer, but here are a few important trends to relate exclusively to the B2C space:

SOCIAL MEDIA LOGINS

According to a report from Janrain, a pioneer in the social login technology space, 90% of people have come across social login on a website they frequent, and more than half of those people use it. Facebook and Google continue to be the dominant players in the B2C space, but in B2B, both Facebook and Google are losing ground while LinkedIn has grown from 29% to 35% of market share.

Image Source: Janrain

This will continue to be an ever-changing space as businesses and consumers continue to become more aware of privacy concerns and demand more control over what information is being shared when using social media logins.

COMMISSION MANAGEMENT

Keeping your team motivated and aligned with your revenue models is central to your business growth and must remain at the forefront when implementing a subscription sales model.

The rise of subscription billing has many benefits for both the seller and the consumer, but it also adds a great deal of complexity to the management of commissions. Just like the recurring income stream, commissions too have morphed to a recurring schedule, typically with declining percentages over the years. Sales have become multi-channel with a direct sales team, VAR's, affiliations, agents, etc., all on different commission structures, making it very difficult and time consuming to manage.

Despite this complexity, keeping your team motivated and aligned with your revenue models is central to your business growth and must remain at the forefront when implementing a subscription sales model. As your business model evolves, businesses must not only have the ability to implement a variety of different commission models, but also the flexibility to change those models quickly when necessary.

COMPLIANCE

This may seem obvious, but in order for subscription billing to work, companies must keep records of customer data, including credit card information. The PCI Security Standards Council provides a framework of specifications, tools, measurements and resources to help organizations ensure the safe handling of cardholder information at every step. With the abundance of data breaches in the last

several years, it is critical that businesses follow all PCI Data Security Standards (DSS) to ensure the security of customer data. Consumers will NOT give you a second chance if their data - especially credit card information - is involved in a breech.

NOTE: As of January 1, 2015, PCI standards have been updated from DSS 2.0 to DSS 3.0 making it even more critical that merchants are staying aware and staying compliant.

VISIBILITY TO BILLING AND PAYMENTS

No information is more vital than the financial standing of your customer. Salespeople, CSR's, and Finance all need to know in real-time if the customer is "current" on their bill.

One of the best places to connect all staff to A/R information is inside your CRM platform, putting everyone on the same page.

No business wants salespeople extending new credit and selling more products/services to a customer who already is grossly in arrears; and they also do not want CSR's going "out of their way" extending above and beyond customer service to a customer who is not current when good customers are waiting on hold for customer service.

One of the best places to connect all staff to A/R information is inside your CRM platform, putting everyone on the same page. This gives staff the ability to view customer balances, new billing detail, complete payment history, and accept payments right inside the CRM. For more efficiency it could even be taken a step further by synchronizing all billing and payment info with the Accounting System.

REFERRALS

For consumer-oriented organizations, leveraging existing customers to garner additional sales via trusted referrals can be a tremendous method for increasing sales. This is especially relevant for subscriptions that are trendy in nature and monetized on the Freemium model mentioned above.

Businesses can engage customers as Brand Agents, asking them to recommend their product via social media, or as Sales Agent, rewarding them for a successful referral. Rewards can include anything from discounted services (free or discounted month of service) to an increase in service level (ie. additional storage).

About BluSynergy

BluSynergy is a provider of subscription billing and electronic bill pay systems that streamlines complex billing and payment processes. Its product suite encompasses recurring billing, customer self-service portals, and commission management. We simplify and automate order-to-cash processes for our clients with comprehensive integration into leading CRM platforms (such as Salesforce and Oracle Sales Cloud) and accounting/ERP systems (like NetSuite, Microsoft Dynamics, or QuickBooks).

With innovative products like social media referrals for consumer-oriented cloud enterprises and commission management for SaaS companies, the BluSynergy solution offers a unique blend of technical expertise, deep domain knowledge and custom services.

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