7 SUBSCRIPTION BILLING MISTAKES TO AVOID
While it’s a good thing to learn from your mistakes, it’s just as instructive (not to mention far less stressful) to learn from the mistakes of others.

We asked dozens of recurring revenue-based companies about their biggest subscription billing mistakes, and these were the ones that kept surfacing to the top. Some of them sound pretty obvious (credit cards can be problematic), but others are less so (consider billing in advance versus in arrears). If they share a common theme, it’s a lack of foresight in establishing a simple but flexible subscription billing structure before launch.
It’s an understandable mistake. Implementing a new business model is a fraught situation. Nerves are frayed. Thoughts are scattered. But the good news is that this hard-won knowledge comes straight from some of the most successful subscription-based businesses in the world.

So give them a moment of your thanks. These are the lessons that they wished they knew before they started out. They stumbled so that you might run.
Before you go to market, you’ll make an educated guess to set a price point and a pricing model. A lot of this will probably be based on what your competition is doing, along with some wishful back-of-the-envelope assumptions. You have to start somewhere, right? Chances are you’ll be wrong.

Don’t worry about it. Think of your pricing structure as a range intended to spark customer activity, rather than a fixed point. Once the data starts flowing, you’ll learn and adapt. You’re probably better off focusing on turning your first fifty customers into evangelists for your product.

At the end of your first month, you should have a wealth of critical information about your customers: adoption rates, locations, referring sites, bounce rates, etc. You’ll also have much more visibility on your products, such as relative popularity, usage volume, and installations.
As a result, you’ll be better equipped to understand how your customers view your value proposition. This will help you make smarter pricing decisions.

Note that while offering your product as a free trial might sound attractive right out of the gate, lots of users without associated revenue can lead to costly overhead. Healthy freemium conversion rates hover in the two to three percent range.

You need to think about pricing as a living process. Have a system in place that enables the flexibility to change pricing on a dime as you start to discover the trends in the data.
In the rush to launch, lots of companies wind up hard-coding the details of their pricing scheme directly into their product. They tie together a series of transactional prompts and call it a recurring revenue solution. In other words, they kludge it, thinking that they’re saving themselves the time and expense of some imaginary horrendous third-party installation. Do not do this.

Not only will you lack the flexibility to change pricing quickly to meet market demand, but your product will suffer as you shift engineering resources from your core product to build a billing system. Now you not only get to develop and iterate a world-class product, but you also get to develop responsive billing system to go with it! Lucky you.
For example, what happens when a client on a usage-based plan suffers an outage and disputes a charge? How would you handle credits, charge-backs, and refunds? Do you really want to deal with issues like these on a case-by-case basis? A comprehensive billing solution is much more than a merchant account.

You may be tempted to offshore issues like these to your payment platforms and gateways, but then you’re completely sacrificing the recurring revenue relationship with your customer. You do not want a major credit card company making your customer service calls for you.

Just imagine asking your best engineers to stop building a killer product and start building a billing system that is at least as complex as the product itself. They will quit. We’ve seen it happen. Hang on to your best people, keep the focus on your product, and leave billing to someone else.
We talk to a lot of B2B companies. When we ask about self-service, or simple and intuitive customer-facing pricing and sign-up pages, they tend to scoff and reply “Self-service is for the little guys. That’s B2C stuff. We’re not B2C.” This is a grievous mistake.

In the same way that B2C companies should think about enterprise solutions, don’t assume that you’re only B2B. You should be B2Anything. One of your biggest customers may come to you one day to test a license with a credit card and a gmail account.

Many CIOs use credit cards to manage their AdWords accounts, for example (AdWords has a simple, intuitive upselling opportunity built into its product with the “Opportunities” tab). They are looking for the same modularity, flexibility, and ease of use that they experience as ordinary online consumers.
Shifting to a recurring revenue model increases your customer interactions by an order of magnitude. Manual processing results in missed revenue opportunities, dissatisfied customers and higher administrative costs. It also prevents you from pricing and upselling more effectively.

A sleek, Adwords-like self-service model, alongside your direct sales solution, is just one more opportunity to acquire a customer with minimal effort.
ISSUING GENERIC INVOICES & RECEIPTS

Receipts and invoices may sound mundane, but they are actually the primary way you communicate with your customers. Don’t issue generic invoices, and don’t send bland emails just to notify your customers that their credit card has been charged. Make your invoices as transparent as possible, and look at them as branding opportunities. Feel free to add polite reminders of upgrade opportunities and special offers.

Like all relationships, subscription customer relationships can grow (through renewals and upgrades) and evolve (through plan changes and add-ons) over time. Of course they can also end – either on relatively good terms (“It’s not you, it’s me”) or bad ones (“I just said some stuff about you on Facebook”). Give your customers happy surprises! Offer them gifts. Only raise prices on future customers. You get the idea. If your customer value is growing and evolving, so is your annual recurring revenue. Start looking at robust customer service platforms early (we’re very happy with Zendesk), and have a customer success program waiting in the wings.
Maybe you don’t have a CFO or Controller yet. You’ll deal with the money when it comes – that will be a nice problem to have! That’s fine, somebody will eventually need to reconcile the cash that comes in – whether it’s in credit cards, invoices, bitcoin, or all of the above. You have to think about the entire “order to cash to renewal” process from the very beginning.

First, the bad news: finance as you know it is broken. Double-entry bookkeeping – the cornerstone of accounting for 500 years – cannot capture the dynamic, ongoing revenue relationships that are the foundation for the subscription business model. Luca Pacioli’s great invention just doesn’t work anymore.
The most meaningful metrics for your business are not addressed by GAAP standards. For example:

- You need to value one-time revenue very differently than recurring revenue.
- You need to measure your business across multiple dimensions of time – not just the past, but also the future.
- You need to manage complex changes that can create chaos in downstream processes. For example, mid-month subscription cancellations can result in credits or refunds, which impacts revenue recognition.

And by the way, doing this manually will not scale with your growing business. Fair warning.

Now, the good news: getting ahead of your subscription finances is well worth the effort if done right. Recurring revenue business models deliver greater financial predictability, greater insight into what your customers like, and greater flexibility to adapt to your customers’ evolving needs. Upsells, cross-sells, and upgrades become entirely new revenue streams. Start thinking about these issues now to set yourself up for rapid growth.
BILLING IN ARREARS VERSUS IN ADVANCE

It’s often assumed that pay-as-you-go, or in arrears, is the status quo way to go for billing. In other words, payments are made after a service has been provided. That’s how you pay down the interest on a mortgage, and that’s how you generally get paid as an employee. It has a “fair and square” quality to it.

But it’s not the smartest strategy for a boot-strapped company. Getting a customer to commit by paying in advance empowers you to invest internally. Think more R&D to strengthen your product or more advertising to permeate the market faster. And remember, the more capital you can get from your customers, the less you have to borrow.

Subscription businesses are essentially forward-looking enterprises. They are built around future long-term recurring revenue relationships, rather than past single-purchase transactions.

Knowing how to allocate future projected revenue puts you in a proactive stance, rather than a reactive one. Look to the horizon.