

SaaS & the Subscription Landscape



INTRODUCTION

The story of success in the software market today—and tomorrow—is the story of SaaS. As Gartner puts it, in their [Moving to a Software Subscription Model](#) blog:

“SaaS has not killed the software market, but is growing rapidly and pressuring legacy providers to include SaaS options or risk losing market traction,” explains Laurie Wurster, research director at Gartner. And the momentum isn’t slowing any time soon. According to OpenView’s [2018 Expansion SaaS Benchmarks](#), “Despite a crowded market, it’s clear from our findings that we’ve yet to hit peak SaaS.”

Gartner predicts that by 2020, all new entrants and 80% of historical vendors will offer subscription-based business models, regardless of where the software resides. “What began as a trickle a few years ago has become a stampede of vendors wanting to make a move to a subscription business model,” Wurster says.



When SaaS is monetized through the subscription model, it creates significant additional benefits for a business. First, the subscription model delivers consistent, predictable revenue. And critically, it also fosters an ongoing relationship with subscribers, yielding multiple touchpoints. Every one of those touchpoints yields data that drives unique insights that inform strategy.

But to secure these benefits, you need the right subscription management platform. And that platform can actually be a competitive advantage when it meets these requirements:

Flexibility to Test, Learn, and Iterate

Streamlined Integrations

Subscriber Retention Capabilities

Ability to Scale



Flexibility to Test, Learn, and Iterate

As a SaaS enterprise, your company already competes against entrenched Goliaths and upstart Davids. And while your company works to outmaneuver them, it needs to respond to new trends in your industry, new behaviors and expectations from your subscribers, and new customer segments and new markets that open up regularly. New opportunities abound. Your business must capitalize on them more effectively than your competition.





Maximizing opportunities and minimizing threats requires flexibility to adjust critical elements of your business. With a subscription model, you have the unique advantage of gaining new data every month from your subscribers' and prospects' activities—meaningful, actionable data on trends and patterns.

For instance, you may need to experiment with different pricing, packaging, and plans to uncover optimal business models—whether fixed cost, seat- or usage-based, or even hybrid models with one-time add-ons to your core service or product.

Another common scenario: your marketing department needs to test different customer acquisition methods, using special offers or promotions, different channels or marketing strategies. The long-term nature of the subscriber relationship is ideally suited to giving you insights to determine the optimal mix of promotions, pricing, and plans that results in the greatest subscriber LTV.

And your sales team needs flexibility to negotiate business terms separately from prices or plans according to your company guidelines.

Data and analytics are key. These capabilities are essential in a strong subscription management platform, allowing you to rapidly change plans and promotions, improving time to market as well as maximizing both acquisition and retention. And a flexible subscription management platform allows your business the freedom to iterate and optimize, producing improved results each cycle.



Recurlly Research has published an extensive analysis of subscriber acquisition methods and found a median trial conversion rate of 59.9% for all the businesses included in our study.

Rates were higher for B2B businesses compared to B2C (66.0% vs. 56.8%) and slightly lower for those offering annual subscription plans (54.4%). The full analysis also includes the use of coupons as an acquisition tool.

[VIEW THE RESEARCH](#)



Streamlined Integrations

Modern enterprises require a variety of critical front- and back-end systems. They're all specialized point-to-point solutions, built by best-of-breed vendors to fill specific roles: CRM, accounting, ERP, and so on. And your subscription management platform needs to integrate seamlessly with all of them. Otherwise, if the integration work is too complex, engineering resources will be diverted away from other more strategic initiatives that would help your company grow.



Your subscription management platform must be lightweight and easily embedded into your existing architecture, facilitating streamlined interactions with other solutions.

Customer service, for example, depends on a CRM like Salesforce to provide quality service to subscribers. Updated billing and subscriber information is crucial. Due to the long-term nature of the subscription model, there will be changes to the subscriber relationship over time as they experience events like upgrades, downgrades, one-time purchases, and add-ons. These subscriber events often trigger new, updated, or prorated charges, which need to be accurately reflected in billing.

And every one of those billing events also has to be documented, with full audit trails, by the enterprise's finance organization and its system of record, such as NetSuite. Accurate billing data is critical, and it must flow smoothly to support time-sensitive responsibilities like preparing financial statements, performing the monthly close, and generating revenue recognition reports. You can only realize these benefits when your subscriber management platform is efficiently integrated with your accounting software.





Subscriber Retention Capabilities

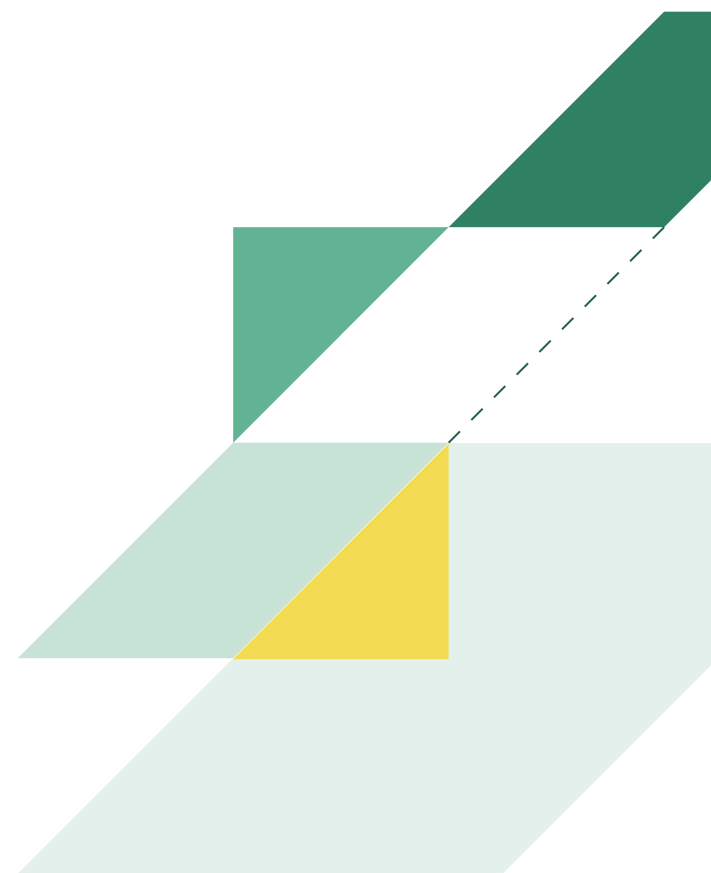
For subscription businesses, success is predicated on long-term subscriber relationships. Churn, or subscriber loss, threatens retention. And, the impact of losing subscribers has a compounding effect: your business loses not just current revenue but future recurring revenue as well.



As a result, subscriber churn is a critical metric that you monitor very closely. Even slight changes in your churn rate can significantly affect revenue growth, making churn a key indicator of the overall health of your business.

There are two types of churn—voluntary and involuntary. The total subscriber churn rate is an aggregate of both types. Understanding how voluntary and involuntary churn differ is vital to minimizing their impact. Voluntary churn occurs when a subscriber actively cancels their subscription, whether due to dissatisfaction or changed circumstances. By contrast, involuntary churn occurs as a result of a failed recurring payment rather than a deliberate action by the subscriber.

Because voluntary churn indicates an active subscriber's desire to discontinue paying for your product or service, you address this type of churn through efforts focusing on improving customer satisfaction.





Involuntary churn, however, is passive and happens through card declines and invoice failures. According to research, an average of 12% of recurring transactions are declined each month. Repairing these transaction failures is critical to reducing your involuntary churn rate.

You must mitigate this type of churn with tools that minimize transaction failures and improve collections, such as account updater, dynamic retry logic, and dunning. Dunning refers to automated emails sent to a subscriber when their payment fails. Effective dunning requires planning, testing, and iteration. When your goal is maximizing revenue, you use a longer dunning cycle, which increases the number of invoices you can collect. When your goal is minimizing your cost of goods sold, you use a shorter dunning cycle to limit your exposure.



To learn more about the most effective ways to mitigate voluntary and involuntary churn and how a dynamic retry logic works to recover more revenue for subscription businesses, download **Minimize Churn and Maximize Revenue.**

This e-book also details best practices to follow and the metrics you need to measure to track your results.

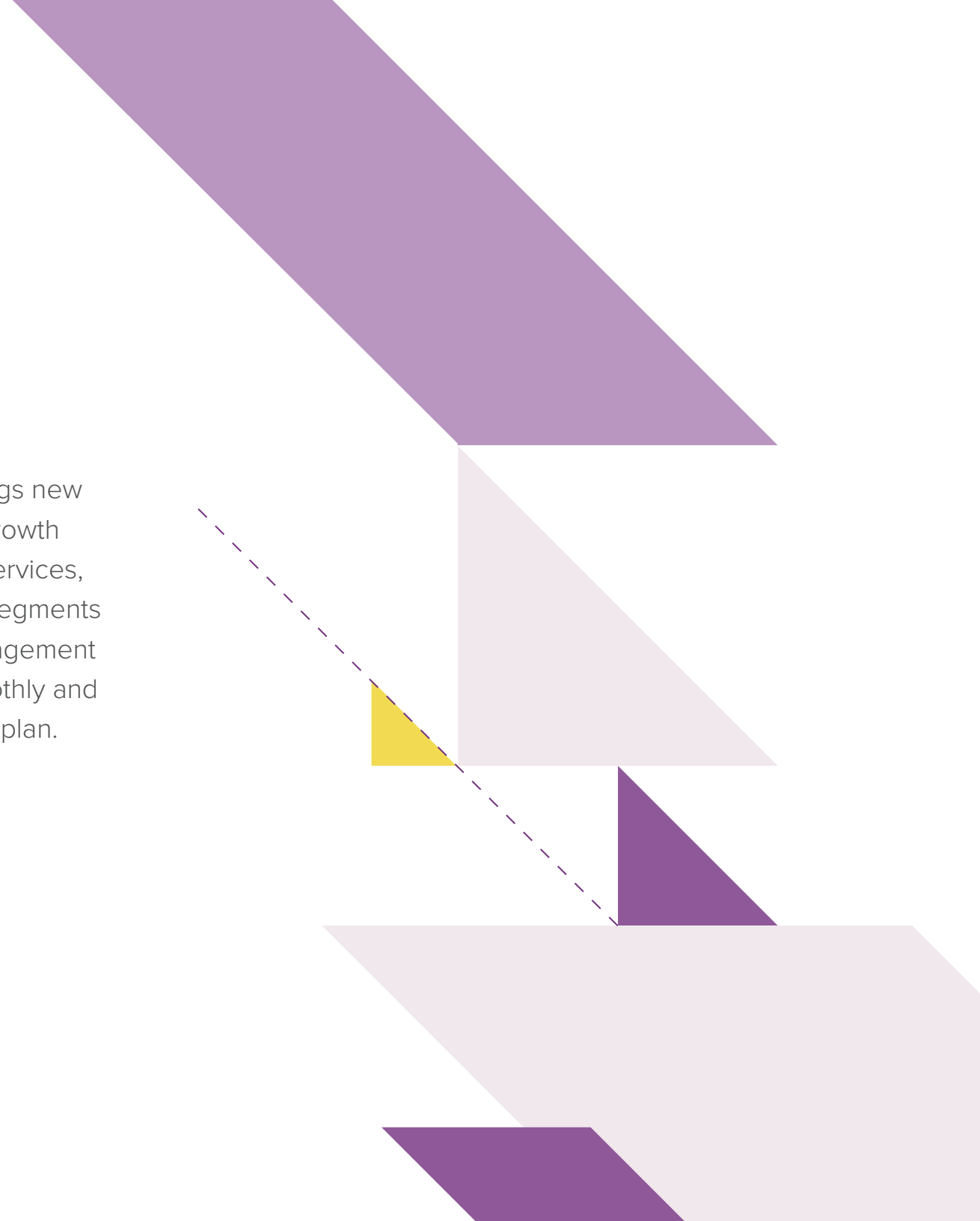
[VIEW THE E-BOOK](#)

Mitigating voluntary and involuntary churn requires very different strategies, so it's important to monitor each type of churn separately to measure the effectiveness of the strategies you employ. When powered by the right subscription management platform, those strategies will reward you with higher subscriber retention and greater revenue.



Ability to Scale

Growth is a sign of success—and it brings new challenges. Whether your company’s growth comes from offering new products or services, or from expanding into new customer segments or geographies, your subscription management platform is critical. It must function smoothly and efficiently and scale with your business plan.





To grow effectively, you need to monitor and manage every stage of the subscriber lifecycle. This type of analysis helps ensure that your business is not just meeting the subscribers' current needs but is positioned for sustainable growth, with future subscriber ROI in mind. This is another instance of the importance of a strong analytics capability in your subscriber management platform.

Analytics inform you, for example, as you determine whether an annual plan is a better offering for your business than a monthly or quarterly plan. Plan performance is calculated on several KPIs, including subscriber lifetime value (LTV), churn, movements into and out of the plan, and revenue growth. These metrics should tell you which plan is the most profitable and how changes in price affect retention rates. And you need the ability to view the data for a single plan's performance over time.

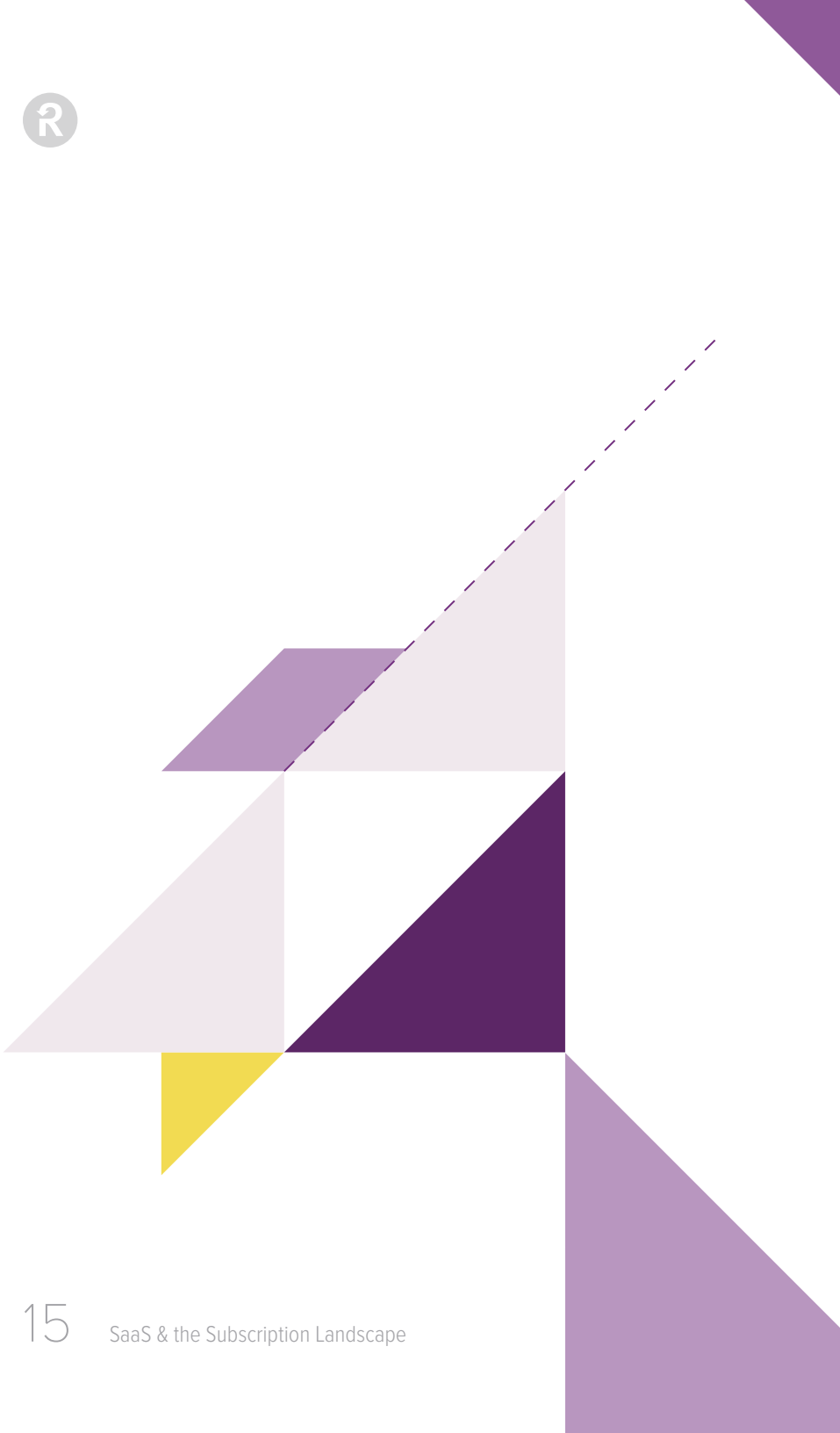
Actionable analytics are also key when you experiment with different customer acquisition tactics. KPIs like conversions tell you which plans to match to various customer segments, and trial conversions reveal which offers are the most compelling. Testing and iterating with different variables like requiring credit cards allows you to optimize acquisition and thus the growth of your business.

Critically, your subscriber management platform must scale to accommodate these periods of high subscriber load or acquisition activities. Your platform needs to offer high uptime and availability; the wrong time to learn of scalability shortcomings is during major marketing campaigns and expansion initiatives.



To power your company's international expansion strategy, your subscription platform must support numerous international currencies and payment methods. Your platform also needs to work with the most cost-effective gateway for each market, optimizing your subscriber acquisition efforts. And localized billing and communications not only boost retention—they are essential for success as you expand into new regions. Similarly, in some countries, the shopping experience is heavily weighted toward mobile, requiring that you optimize smooth checkout flows to increase engagement and conversions.

You also need tools to help streamline tax compliance. Taxation is complicated across multiple jurisdictions, especially internationally, with different rules for different types of services and various triggers for levying the tax. All of this results in a patchwork of tax laws by which your SaaS enterprise must abide. Integrating a tax system with your subscription billing platform makes compliance much less time-consuming and onerous, allowing your enterprise to remain efficient.



With international expansion come other critical regulations, especially around privacy, security, and data protection. Your billing platform must accommodate the new demands of GDPR in Europe and the requirements of other regions as they change. Of course, regardless of whether your enterprise does business in one country or one hundred, your billing platform is a fundamental enabler of any growth. It must be rock-solid in its reliability and security. As a critical element of your highly secure infrastructure, your platform must support additional safeguards like two-factor authentication, varying levels of user permissions, and single sign-on. And of course, the platform must adhere to the highest PCI-compliance standards.

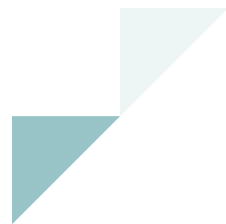


SUMMARY

As [ComputerWorld](#) reports, “Apple’s subscription push is a lesson for every enterprise. When Apple says it is time to develop services and subscription-based revenues, enterprises in every industry should probably listen.”

Your enterprise competes in this fast-moving, demanding market. Crucially, the right subscription management platform gives you the flexibility to seize opportunities and out-manuever your competition. Each of the four major requirements of your platform must support your business strategies and accelerate recurring revenue

growth. With flexibility to test, streamlined integrations—especially with financial systems—sophisticated subscriber retention capabilities, and ability to scale, your subscription management platform becomes a competitive advantage.





“We knew that when it came to scaling our burgeoning fin-ops processes, we would need to choose and implement workflows and technologies that would grow with us.”

John Iparraguirre, Controller



Contact Recurly to learn how to seize this advantage in your enterprise by visiting **Recurly.com** or calling us at 1.844.732.8759.

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