8 Key Elements Of A Successful Subscription Billing System

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Many times I’ve worked with high technology, start-up, and eCommerce companies that are looking for a way to successfully implement a Subscription Billing System. They often seek a solution that does subscription billing (a.k.a. recurring billing) or already have a separate application, but are not sure how to manage other pertinent functions, such as deferred revenue and accurate financial reporting.

So how can you achieve the solution you need?

A Typical Business Scenario
Let’s say you are a start-up company and are providing a variety of products and services which have one or more of the following as a basis for revenue generation:

- SaaS (Software as a Service, sometimes referred to as Cloud Computing)
- Web-based lead generation or advertising
- Usage-based billing
- Annual maintenance agreements - software and/or hardware
- Subscription-based services

The Limping-Along Process
In order to meet the typical needs of a start-up company you may be using an industry specific, line-of-business software, or a series of spreadsheets for billing and tracking revenue. Recognizing this revenue requires manual journal entries into a disconnected financial system. You may have chosen to use QuickBooks™ or a similar product that only meets basic accounting needs, but manual entries are still required. Does this sound familiar to you? What if you could get rid of the “limp-along process” for efficiency and accuracy?
8 Key Concerns Companies Face when Selecting a Subscription Billing System
From our 23 years of experience, we’ve found that the following 8 concerns are universal throughout industries and companies:

1. **Agility** - Your software system makes it difficult to handle the ever-changing direction of the company, the customers, and new and evolving business models. You don’t want to tell upper management their latest idea cannot be implemented because your solution is inflexible.

2. **End to End Processing** - Subscription billing may be your primary concern but you also have many other needs which revolve around billing. Examples are: cash receipts, collections, sales analysis and financial reporting, and credit card processing. These functions are standard accounting processes and your software system should be strong enough to handle all these needs.

3. **Line-of-Business Application (LOB)** - You may already have an industry specific, in-house application – everyone needs access to it and it is essential to tracking your unique business offerings. It works quite well and you don’t want to completely replace it. BUT, perhaps it was not designed as a billing, invoicing and collections solution and you have high internal costs to make your LOB application work with your other accounting application.

4. **Revenue Recognition** - If you are selling subscriptions you probably have to track deferred revenue and recognize revenue over time. Most custom LOB applications and off-the-shelf subscription billing systems won’t do these complex calculations or update your general ledger for accurate, up-to-date financial reporting. It is time consuming and carries a high internal cost to manually do these functions properly.

5. **Royalty Tracking** - If you are reselling published material you may also have a need for calculating and paying royalties. It is not uncommon to have multiple royalty methods within one company, determined by product type. If royalties are calculated manually, errors are inevitable and information is not readily available putting limits on your company’s growth.
6. **High Transaction Volume** - Your business deals with a high volume of transactions. You need an efficient method for processing all transactions quickly and accurately in order to be profitable and maintain customer satisfaction.

7. **Consolidated Information** - You don’t have the business insight you want because data is in several, disconnected systems. Getting relevant, consolidated information is difficult, if not impossible.

8. **Cost** – You want to have a cost-effective solution - one that won’t break the bank.

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**An Engineered Look at the Fully Integrated Subscription Billing Solution from The Resource Group**

These are the key concerns we have addressed as a business solution company. Our experience has shown that a strong, flexible, mid-market financial management system needs to be the foundation. This piece must not only provide strong accounting functions like invoicing, collections, and financial reporting, but must also have the ability to do recurring billings, credit card processing and deferred revenue. You want to make sure that what you choose comes with a suite of powerful tools for both integrating and enhancing the out-of-the-box system.

My team at The Resource Group uses an engineering approach to designing a system that is cost-effective, flexible, easy to maintain and rock-solid. We have also developed additional functionality to complement the way your system incorporates unique business rules, improved usability for high volume recurring billings, enhanced functionality of the deferred revenue module, integrating with numerous outside applications, and capturing of data specific for each business’ reporting purposes. A typical processing scenario we would deploy is shown on the following page.
A Typical Processing Scenario

1. The Line of Business application or eCommerce site receives a new subscription.
   a. A new customer is created, if necessary, and a sales order with the necessary subscription information is created in the ERP system. Typical information stored is:
      - Customer ID
      - Subscription start date
      - Subscription expiration date
      - Next billing date
      - Subscription billing frequency (e.g. monthly, quarterly, annually)
      - Cancellation date (to be used when cancelled)
      - Cancellation reason
      - Credit card information (if applicable)
      - Contract Number (if applicable)
      - General Ledger revenue accounts
      - If not already done so, the customer will be billed via credit card or invoiced for on-account customers
   b. If revenue recognition is required, the appropriate calculations are performed and the general ledger is updated
   c. If proration is required, the system calculates the amount to be prorated and bills accordingly

2. When it is time to renew the subscriptions, the user selects the specific group of transactions to be processed.
   a. Invoices are generated
   b. Credit cards are charged
   c. Expired subscriptions are closed, and non-expired subscriptions are retained and the next billing date is calculated based upon the frequency

3. Email reminders are sent automatically for credit cards which are about to expire.

4. The subscription is cancelled manually or automatically via an external application or eCommerce site if the user chooses to cancel or the credit card is repeatedly declined.

5. History is maintained within the ERP solution for all transactions for analysis and customer service.

Since this is an integrated solution your normal accounting processes such as invoicing customers, updating the General Ledger, collecting on past due accounts, maintaining credit card information, and analyzing sales and revenue data is all out of the box functionality. Your unique business rules are handled using the development tools, providing unlimited flexibility to meet ever-changing business and market needs. See Figure 1 on the following page for a diagram of the typical architecture.
Figure 1 – Typical Architecture
8 Key Elements of a Successful Subscription Billing System

Over the years, my team and I have taken an out-of-the-box system and have enhanced it to address those 8 concerns for many past clients.

1. **Agility** – Use the out-of-the-box functionality of a strong accounting management system for 80% - 90% of the functionality you need. Then, have the right tools to customize the solution to meet your unique business needs and have all of the agility you need to meet the demands of a changing marketplace.

2. **End to End Processing** – Integrate your billing information directly into your system to leverage the normal accounting functions and reporting tools it provides.

3. **LOB Application** – If you have a LOB application don’t be quick to discard it. Rather, see first if you can use integration tools to build one-way or two-way integrations and don’t lose the competitive advantage it provides you.

4. **Revenue Recognition** – With your billing data readily available you can manage your revenue recognition rules within your system and have it automatically tied to your general ledger for immediate, accurate business reporting and audit purposes.

5. **Royalty Tracking** – Calculate royalties with ease – no matter how many calculating methods you have. We’ve developed a way to track royalties based on product type – reducing errors significantly. The best part, all that royalty payment data is right there in your system, ready for any of your reporting needs.

6. **High Transaction Volume** – We use MS SQL Server™ to combat high transaction volume performance issues. It has the horsepower for those demanding situations.

7. **Consolidated Information** – Once your billing is integrated into your accounting system information is easily accessed with a variety of standard tools such as MS SQL Server Reporting Services and Microsoft Excel™.
8. **Cost** – Think about long-term costs versus total cost of ownership. We’ve discovered that solutions which seem inexpensive to implement initially will to continue to cost over time due to manpower expenses. An integrated solution will cost less than having multiple disconnected applications or manual processes.

The right solution is out there; don’t settle for less. Solving these 8 concerns can boost your competitive advantage and add potential to your company.

**Learn More**
If you would like to learn more about how our clients are achieving a fully integrated and successful subscription billing system, please contact The Resource Group at 425.277.4760 or email info@resgroup.com.

**About The Resource Group**
The Resource Group is a seasoned team of business professionals that help companies gain valuable business insight from their financial systems, enabling customers to manage their business more efficiently and effectively.

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