The Ultimate Guide to Revenue Management for SaaS Companies

chargify

Table of Contents

CHAPTER 1

Why SaaS Companies Are Leaving Money on the Table (And How to Win it Back)

If there's one issue that SaaS company leaders are constantly struggling to get a handle on, it's revenue. Revenue is the lifeblood of your business, but it can be frustratingly difficult to analyze and grow.

At any given moment, SaaS leaders need a clear idea of the following:

- How much money your business has
- How much you can expect to make in the future
- Where money tends to get lost
- What areas you can invest in to make more

If you don't have a clear understanding of those numbers, the odds are pretty high that you're leaving plenty of it on the table. And leaving too much money on the table puts your entire company at risk.

This is true for any business. But SaaS companies, in particular, have some unique challenges to overcome when it comes to managing revenue accurately.

If you're running a SaaS business now, you probably know about those challenges firsthand. Here are just a few of them.

Expensive and Complicated Customer Costs

SaaS companies need to make even more of an effort in the relationship-building department than businesses in other industries. Software is readily available and the subscription model makes it easy for customers to transition from one platform to another, meaning customer loyalty is low and potentially fleeting. Customer acquisition costs can skyrocket as your reps spend hours and make promises to land new clients — and then collect commissions afterward. Customer support expenses over time can be significant, too, and can vary a lot from one customer to the next.

A Variety in Pricing Structures

SaaS companies often give their customers a variety of pricing options, bundling pricing options together based on usage, features or support levels. And many SaaS companies offer enterprise tiers that result in custom pricing for custom functionality. Plus, it's super common for SaaS companies to experiment with different pricing structures. This adds even more complexity to understanding where revenue is coming from.

Subscriptions That Change Over Time

Unlike B2C subscription services that stick to a set monthly price for a set monthly service (whether it's morning smoothies, razors, or even magazines), B2B SaaS customers change their product choices over time — upgrading, downgrading and trying new add-on features throughout the course of their relationship with your business. These changes can make it a little more difficult for businesses to get a clear sense of progress over time.

In the past, SaaS owners could stay laser-focused on MRR and churn as their main — and sometimes only — KPIs. But in light of the complexities we just mentioned for rapidly-growing SaaS businesses, those metrics aren't enough.

As the industry matures and pricing options continue to evolve, it's becoming especially important for SaaS leaders to take a more holistic approach to analyzing their revenue.

At **Chargify**, we've worked with thousands of SaaS businesses over the last decade to manage their subscription billing. We've watched as the industry has changed, and we've drilled down to what we believe to be the three essential components for success for never leaving SaaS revenue on the table:

1. The ability to make complex financial offers
2. The ability to maximize revenue consistently throughout the customer lifecycle
3. The ability to analyze and measure the complexities inherent in making those complex and variable financial offers

Together, these make up the main components of revenue management for SaaS businesses.

"Revenue Management" is a term that has been traditionally used to describe the pricing needs of other industries with high fixed costs and high customer price sensitivity. Think about the prices for hotel rooms, rental cars and airline tickets. They change all the time based on a number of hidden factors that the consumer isn't exactly privy to.

These hospitality industries have been using "revenue management" systems for years to help them analyze customer behavior, predict demand and set prices accordingly.

You might think that SaaS companies have little in common with these industries.

But as Gametize academy points out in this piece, they have more in common than you'd think. SaaS companies can scale up easily, but only up until a point — and then they're limited by their number of employees or the capacity of their platform (just as hospitality companies are limited by their infrastructure).

Just like those hospitality-focused industries, SaaS companies' costs stay the same regardless of demand (there's no way to, say, stock up inventory or close up shop to help account for fluctuations). And SaaS demand can even be affected by seasonality, such as the end of the year when budgets have to be finalized.

The SaaS industry can make the term "revenue management" its own by embracing the right tools and mindsets to reach similar goals.

Specifically, they need the ability to manage, analyze and facilitate the entire customer journey together in one place.

Embracing revenue management for SaaS companies means leaving the traditional subscription-focused model behind and embracing a customer-relationship-focused mindset instead.

> In the rest of this eBook, we'll explain exactly how to do just that. Let's start with the importance of finding the right billing platform.

CHAPTER 2

Finding a Billing Solution That Meets SaaS Needs

There's a reason we're starting the conversation about revenue management for SaaS companies with the requirements for a billing platform. (And, it's not because we're a billing platform!)

The billing platform you choose for your SaaS business lays the foundation for the rest of your financial efforts, and it's a key component of the customer experience.

It starts off customer relationships the right way — with attention to their unique needs and a simple process that makes it easy for them to make payments.

For effective SaaS revenue management, you need a billing solution that does the following:

Offers the Ultimate Pricing Flexibility

As we mentioned earlier, SaaS businesses have more complicated pricing needs than typical subscription businesses, and their billing platform should reflect that.

Users should expect to change their pricing multiple times and continually try new pricing structures. For that, they'll need to find a billing platform that can:

- Process recurring billing for any timeframe (monthly, annual, etc.), and allow the same business to combine multiple recurring charges
- Allow usage-based billing for any value metric — either quantity-based (such as number of users) or metered (resets at the end of the month, such as data or minutes)
- Create add-on services or features and charge separately for them — one-time (such as a setup fee) or recurring
- Allow users to create "freemium" accounts and upgrade to paid accounts with extra features later
- Create "pricing tiers" that define the price at different quantity levels (for example, a customer will pay $50/unit for the first 10 units, $40 for units 11-20, etc.)
- Create "pricing brackets" where you can assign a single price to a range of products, such as the first 50 emails free and $99/month for 51 to 1,000
- Levee "tariff pricing," where you get paid a percentage or a flat rate from each transaction
- Execute minimum or maximum pricing (price changes based on whichever is greater or less, such as percentage of transactions vs a flat monthly fee)

The thing is, it's not enough to just offer all of these pricing options individually. Your billing platform should also allow users to combine any of these pricing structures any way they want — resulting in literally millions of pricing options. (At Chargify, we refer to this capability as "Elastic Billing.™")

Delivers Optimized Coupons and Discounts

There's plenty of complexity on the software end just to ensure that a SaaS company has all the pricing options it might need now or in the future.

But, of course, pricing gets even more complex with the introduction of special rates and discounts — and your pricing platform should be able to handle those, too.

Whether you want to start each user with a free trial, prorate users' fees for their first month or just offer targeted discounts and promotions, your software needs to be able to offer those specific discounts to customers and keep track of how much has been discounted over time.

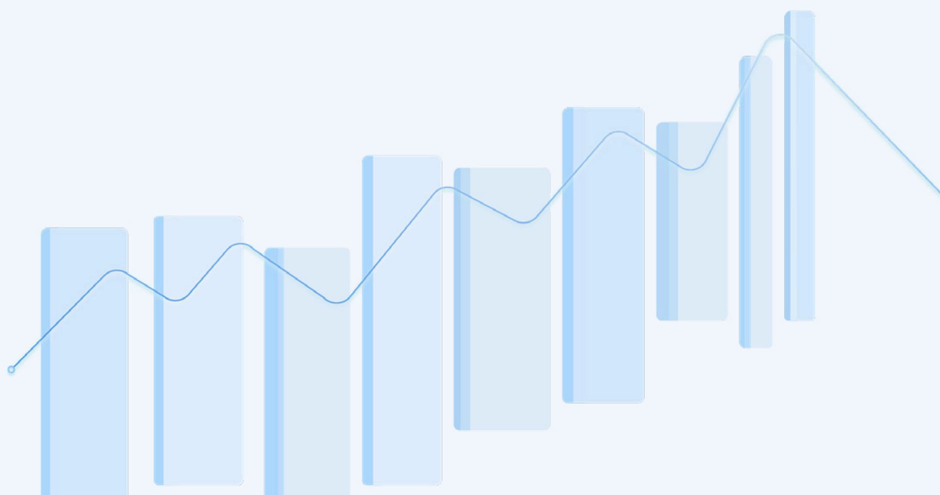
Launches New Offers Quickly and Easily

Although pricing and billing are cornerstones of a billing platform, it's also important to find a solution that's user-friendly on the customer-side.

After all, you likely only care so much about how powerful your billing platform is on the back end. What you really want (and need) is to be able to use your billing platform with ease and tangibly see the benefits it provides.

Look for a billing platform that makes it easy for customers to check out through your website (or even on the checkout page that they host) with standard pricing options, but also one that makes it easy for the sales team to create completely customized offers for individual customers.

Most SaaS companies will offer some kind of enterprise option at some point, if not right away. If a big client with special pricing needs comes knocking on your door, you want to be ready. The prospect of creating a custom billing plan shouldn't send your tech department asking for custom code — not when there are products on the market that can do it easily.



CHAPTER 3

Choosing Revenue-Maximizing Tools

The right billing platform is just the first piece of effective SaaS revenue management.

The second major component is ensuring you have the necessary tools and functionalities in place to execute what the industry is now calling Revenue Operations. "RevOps" refers to the alignment and optimization of all customer-facing, revenue-driven functions.

As we wrote in our post Think Relationships, Not Subscriptions: The Crucial Mindset Shift That Every SaaS Business Needs to Make, we believe that the most successful SaaS businesses will be the ones who look at their customers' journeys comprehensively rather than in the traditional siloes of marketing, sales and customer service.

RevOps is the tool that businesses are using to make that happen. Its goals are to:

- get insights into the entire customer journey, not just part of it
- remove any friction that exists as customers are handed off from one department to the next
- make sure all customer-facing efforts are on-brand and accountable to the same revenue goals

Your business needs the kinds of tools and processes that will allow you to maximize revenue, using tactics like these.

Calculate Customer Lifetime Cost and Value

Instead of just looking at monthly recurring revenue numbers and churn numbers, you need to get a more comprehensive picture of what those numbers say about your customer relationships.

One key metric that gives this kind of deeper insight is customer lifetime value.

To calculate customer lifetime value, you'll need to understand the total cost of acquisition — totaling commissions, discounts, and even appropriate marketing expenses — and understand the financial drain that they put on your customer service department.

Looking at metrics like these on a customer-by-customer basis instead of on a departmental basis gives you a much clearer idea of how to improve your operations.

It can help you see how certain expenses that have been traditionally limited to an entire department (such as sales commissions) affect things like how long customers stay and how much they spend over time.

Get Ahead of Failed Payments

We already mentioned the importance of being able to issue quotes and invoices quickly with your billing platform.

But you can also improve cash flow with tools that are dedicated to the task of keeping payments flowing in as smoothly as possible.

As you may know, revenue retention efforts are sometimes referred to as "dunning management" in the industry.

Dunning tools help businesses contact customers both before payments are likely to fail and after payments fail.

Before an anticipated failed payment (this is sometimes called "pre-dunning"), these tools can:

- Remind customers that their payment needs to be updated (and link to the update options)
- Remind customers that their free trial is about to expire or when their account is about to renew

Then, if payments do fail, dunning programs can:

- Retry credit cards based on the data that shows when retries will be the most successful
- Notify customers that their payment has failed and keep them updated on what's going to happen as a result (preferably using your own language and messages to re-engage these customers)
- Finally, cancel accounts if necessary

Doing all of that manually can be a huge drain, but the payoff is huge. At Chargify, we've found that recovered revenue from dunning averages **4 times the Chargify monthly fee for B2C merchants and over 10 times the fee for B2B merchants.**

Maximize Revenue Opportunities

For every SaaS business, certain "revenue-impacting events" occur regularly. For example, people upgrade and downgrade their plans, and big clients may sign on or leave.

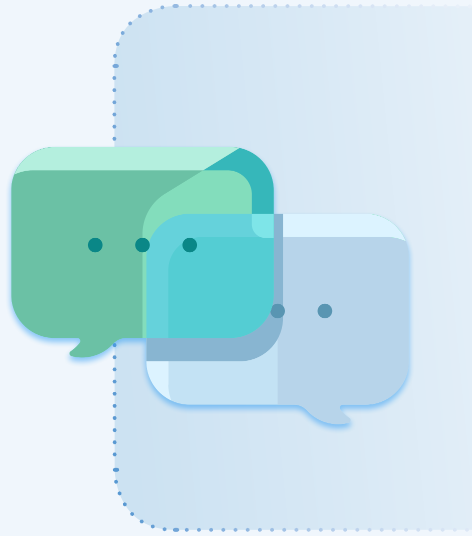
Without the right tools, these events can be difficult to monitor. But the right revenue management tools look for these kinds of meaningful shifts — and they predict behaviors and alert users accordingly.

Choose a program that lets you define the thresholds for alert triggers and sends real-time emails and in-app notifications when those thresholds are triggered.

For example, you might want to be alerted when a customer's revenue drops consistently month to month over a period of months, or when it drops by a certain percentage — factors that are likely to lead to cancellation.

This gives your support department a chance to proactively try to save the relationship.

Integrate with CRM Tools



A big part of successful revenue management is optimizing the customer journey as customers are handed off between the marketing, sales and customer support departments.

This is where the tools that connect your billing platform and analytics tools with customer relationship tools can create powerful solutions.

CRM tools like Salesforce and Hubspot specialize in creating workflows throughout the sales cycle. Users can all share data about each customer's history with your company, quickly see any outstanding issues and understand at a glance who is responsible for which tasks related to the customer.

Provide Accounting Certainty

Dynamic billing and customer lifecycle tracking can yield a lot of data. Your business needs a way to make sure those insights are translated into clear and helpful reports.

The best tools will deliver data in visual ways that make it easy for owners to distinguish where their revenue is coming from, how customers are moving from one plan to the next and why customers are canceling.

Your billing and subscription data should flow back and forth between your accounting software and your billing platform seamlessly, usually with the help of an integration.

You know you're on the right track if you can close your books easily every month and don't find yourself tracking and calculating important info manually in a spreadsheet.

CHAPTER 4

Getting SaaS-Tailored Data Insights

Again, simple subscription-based businesses (e.g. $5/month for toothbrush replacements) have relatively simple metrics for success.

But SaaS businesses, with their complicated bundles of features and enterprise plans, need much more in terms of analytics in order to get the insights they need.

That's why top-quality, SaaS-tailored analytics capabilities are the third essential component of effective revenue management.

Tools with SaaS-tailored metrics enable owners to accurately measure true revenue for SaaS, as well as forecast future revenue and help identify opportunities for growth.

Understanding True Revenue

One of the biggest stumbling blocks that SaaS businesses face when it comes to accounting and financial insights is measuring revenue.

That's because simple cash accounting (recording revenue as it's received) often isn't enough for growing SaaS businesses. The one-time-monthly payments they receive each month aren't for a single product, after all — but for an entire month's worth of services. And in the case of an annual contract, it's a single payment for an entire year of work.

Companies are often legally obligated thanks to regulations like ASC 606 and IFRS 15 to use accepted GAAP revenue recognition principles. That means that revenues should not necessarily be recognized by companies right when cash is received. Instead, it should be recognized when the money is actually earned. (In the accounting world, they call this "accrual accounting.")

In the case of SaaS, though, there's some room for interpretation. Annual payments shouldn't be recognized all at once. But what about monthly fees? Should you break them up into weekly increments? Daily? Hourly? What about if you have an outage — should you stop receiving revenue on those days since your clients technically didn't get their services? Should you accept all the revenue at the end of the service period and account for it going backward? What happens if the pricing is usage-based and the usage fluctuates throughout the payment period?

There's no one right way for SaaS companies to do RevRec. But you should use a program that enables you to account for revenue the way that works best for your business.

> Ideally, the same platform that's handling your billing and pricing structure can also handle RevRec — access to the original ledger data is key to solid analysis as your business changes.

Understanding Churn

A solid analytics program will help you get a deep understanding of churn well beyond just a simple cancellation number or rate.

SaaS businesses should also be able to quickly see statistics like MRR churn (how monthly revenue has been affected by cancellations) and contraction MRR (the amount revenue has decreased based on plan downgrades), in addition to how the total number of subscribers is affected.

Understanding Revenue Retention

We already mentioned the importance of dunning tools in the last chapter. Your revenue analytics capabilities also have an important role to play in this department.

Within your data, you should be able to see how effective your recovery strategy efforts have been, for example. A good program will quickly show the number of at-risk subscriptions that have entered the dunning cycle, then how much has been recovered or lost in the process

Predicting the Impact of Product Changes

When you make a change to your product or pricing, you take a real risk that your revenue will be impacted in a negative way.

SaaS-focused insights can help you minimize those risks. When metrics are clear and broken down according to all the complex ways people are paying you, you'll be able to understand exactly how changing pricing for a product or offering will affect revenue and the overall customer experience.

Many analytics tools also include the ability to run pricing experiments. This means that you can help gauge the impact of a potential new pricing change before you officially launch it — and especially before you roll it out to existing customers.

Identifying Customer Growth Opportunities

Seeing exactly how consumers compare to each other in terms of plans and behavior can give you a better idea of which opportunities each customer has to improve.

You can compare them to other customers of similar sizes and needs and see which features they're not using, for example. You can even compare when they decided to move from one plan to the next.

Understanding Business Trends

Modern B2B SaaS analytics also make it easier to see overall business trends.

You should be able to filter your data and break it down to see how individual products and pricing plans drive growth over time.

Forecasting tools can take existing data and help you project how things like your revenue, churn and subscriber numbers will behave in the near future under similar conditions.

Getting the Right Financial Data

The bells and whistles of a good analytics program are exciting, but the basics need to be in place, too.

For example, you need all the basic financial revenue information and records for tax purposes and compliance purposes. All financial reports should be easy to export and share.

CHAPTER 5

Putting it All Together

In the SaaS industry, speed is of the essence. The ability to adapt is critical.

SaaS companies are trying to scale quickly in a rapidly-evolving marketplace, and they're selling a product with a very complex pricing structure.

Under these conditions, it's likely not a surprise that, for many SaaS businesses, managing revenue and billing has become a business blocker.

A business blocker is something that keeps you from moving quickly. It causes headaches and takes up valuable time. It's something that you have to deal with, not something that you look forward to tackling.

In reality, managing your billing and revenue should be the opposite of headache-inducing. You should leverage tooling that gives you the functionalities and insights you need to actively solve problems for your business and anticipate other problems before they even arise. It should be a powerful tool that gives your business a competitive edge.

It can (and should) do this by offering:

- Ultra-flexible billing capabilities
- RevOps tools that streamline operations and maximize revenue
- SaaS-tailored insights through analytics

Looking at the market landscape today, providers are drilling down to focus on each of these areas, but not necessarily all of them at once. There are plenty of platforms that offer analytics, for example, and plenty that offer RevOps functionalities.

But what SaaS businesses should really be looking for when it comes to revenue management is a partner that offers the whole package. They need a billing and revenue management platform with the best billing engine, RevOps tools and analytics baked in.

The fact is that unless a billing platform was built with the unique needs of SaaS in mind, it will be unlikely to handle the billing needs we've described in the preceding chapters. And if you're trying to cobble together a powerful pricing tool with integrations between separate programs, it's going to be difficult to get the insights you need.

For example, because Chargify is the system of record for all recurring revenue transactions, we are uniquely positioned to better understand when, what and why charges happen more accurately than third-party reporting tools. We're the only program on the market that has consciously decided to approach revenue management in a holistic way.

In essence, Chargify is the only platform on the market obsessed with removing billing and revenue management as a business blocker.

If you still have questions about revenue management for SaaS, consider reaching out to one of our billing experts to learn more.

CHAPTER 6

Billing Platform Audit Guide

If your SaaS company is like most, you have likely already worked with one or more subscription billing platforms to power your business.

But is your current billing platform ready to move into the era of customer-relationship-focused, revenue-accountable, holistic revenue management practices?

Start by asking each of these questions to quickly get a sense of whether or not your billing platform is future-proofed to meet your revenue management needs.

Could I easily change the pricing structure if I wanted to?

As we mentioned in Chapter 2, pricing flexibility is everything. Changing your pricing models is a matter of when, not if. Make sure you have a capable billing platform before your SaaS enters a period of rapid growth that will make the change even more necessary (and much more difficult).

Is making custom offers easy for non-coders?

As we mentioned, custom plans (outside of the three to four shown on the website) are becoming the norm for advanced SaaS providers. The best billing platforms understand this and make it easy to launch new offers, then keep track of what was offered to various customers over time. Look for a platform with Configure, Price, Quote (CPQ) functionality, the industry term for the software's ability to quote complex and configurable products.

Does the platform handle the entire billing process, from quote-to-cash?

Initial invoices and quotes should be handled by the same platform that accepts those payments and then sets up recurring billing. This should be true for setup fees, one-off charges and custom discounts — all done on one platform.

Can I quickly get a sense of my customers' lifetime value?

Customer lifetime value is one of the more complicated metrics for billing platforms to calculate. If your platform gives you insight into how things like marketing expenses, accurate sales commissions and support costs factor into the revenue that each client brings in over the course of its lifetime, it's a good sign that it's taking a comprehensive approach to revenue management.

Do I know how to identify customers who are a churn risk?

As we mentioned in Chapter 3, the right billing platform will let you set up custom benchmarks and thresholds that can indicate when a customer is at risk of canceling. This gives your support department a chance to reach out to prevent cancellations before they happen, which can have a huge impact on your bottom line over time.

How am I notified of revenue-impacting events?

Again, you need to know right away when a big change will impact your revenue. Whether it's a big client canceling or making a big change to their monthly plan, you should be able to get informed right away with an email notification or a text message.

Is valuable customer data available to everyone who needs it on my team?

A cohesive customer experience relies on smooth interdepartmental handoffs between marketing, sales and customer service. All of your customer-facing employees should have access to the customer data they need to get the big picture of the customer's relationship with the company. In some cases, this will mean quality integrations with CRM software like Salesforce that can clarify who on your staff is responsible for meeting the customer's needs at any point in time.

Can I close my books relatively easily at the end of the month?

One of the easiest ways to tell that your revenue management tools and systems need improvement is that you're still trying to close your books manually or with spreadsheets. Any manual work signals a big opportunity for improvement in accuracy — and in time savings. In general, if closing the books is something that you dread — and something that takes a month or more — something is wrong.

Does the system recognize revenue according to my own standards reliably and quickly?

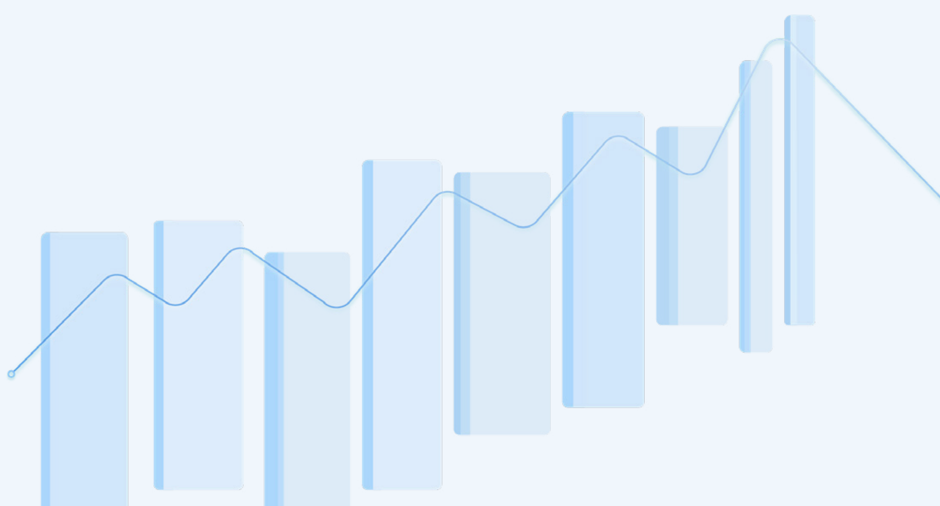
As we mentioned in Chapter 4, there's no one right way to do RevRec. But you should be able to choose whichever way makes sense for you, and also be able to change your mind and change your RevRec strategy without a huge overhaul to your procedures.

Can I quickly get a clear idea of how revenue is leaving the company?

Churn and revenue retention are huge components of success, but they're more than just numbers. Looking at your dashboards should give you insights into which types of customers are leaving, how long they're staying and other opportunities and signals that can help you retain more clients in the future.

Is it easy for me to see the future?

The best billing and revenue management platforms should be able to project where your company is headed financially in the near future, including business trends and opportunities for individual customers to grow or upgrade.



It's undeniable — the SaaS industry is changing. While subscriptions solved many challenges for businesses, they also created many new — and in some cases, more complex — challenges of their own. The SaaS businesses that succeed today will be the ones that can effectively manage their revenue by making complex offers, driving consistency between revenue-generating functions and analyzing and measuring key performance metrics. We hope this eBook helped shed light on what revenue management looks like in the SaaS world and how to find the right tools to help turn this business blocker into a revenue accelerator

Have more questions about billing and revenue management platforms for SaaS?

Reach out to our team today.