The state of subscription and billing management

Introduction

As the world economy now grapples with inflation and a possible recession, customer behaviour is changing and buying patterns are in flux. Subscribers are cutting back on their subscription services, with consumers reducing their discretionary spending and businesses consolidating their enterprise software services with fewer providers.

To understand how businesses plan to navigate the changes that 2023 will bring, we have worked with Milltown Partners to survey **1,500 executives, founders and leaders** across payments, finance and product teams. The surveyed businesses ranged from small startups to large enterprises and had all earned a portion of their revenue from recurring streams. Overwhelmingly, we heard that businesses are continuing to invest in their recurring revenue streams, which offer something rare in the midst of unstable economic conditions: predictability. Due to the risk of recession, 81% of survey participants agreed that stable recurring revenue is more important now than before.

> The key benefit of recurring revenue is the regular cash flow that generates sustainable profit margins for the company.
>
> **– Product leader at an Australian travel and hospitality startup**

How will businesses grow predictable recurring revenue at a time when subscribers are cutting back? To answer this question, this report covers the four biggest trends that will shape subscriptions and billing management in the coming year, with commentary from survey respondents and Stripe **partners**.

Executive summary

The biggest trends shaping subscriptions and billing management in 2023

40%
plan to optimise pricing

43%
expect an increase in churn

71%
will add payment methods

36%
plan to replace home-grown billing

1. **Recurring revenue businesses will evolve their pricing.** To maximise their revenue potential, 40% of the subscription businesses surveyed plan to optimise and update their pricing in 2023.
2. **Churn reduction will become a bigger priority.** In fact, 43% of the businesses surveyed expect customer churn to increase in 2023. As a result, businesses are customising their retention strategies to recover more failed payments and retain their existing customer base.
3. **Recurring revenue businesses will offer more local payment methods.** Out of the surveyed businesses, 71% are looking to add at least one new payment method in the hopes of reaching new international subscribers, retaining existing domestic subscribers and lowering transaction costs.
4. **Interoperable billing systems will outperform home-grown solutions.** To scale more easily, reduce maintenance costs and increase financial clarity, 36% of the businesses surveyed plan to replace their home-grown billing solutions with third-party systems.

The most successful businesses will build upon these trends to drive and maximise their recurring revenue, increasing the predictability of their cash flows and driving outsized financial returns.

Recurring-revenue businesses will experiment with pricing models to support revenue growth

As inflation continues to squeeze consumer and business budgets, a growing share of subscribers have become price sensitive. Globally, our survey found that price was the most cited reason for users to end their subscriptions. In spite of this, only 25% of the business leaders surveyed said that they're considering lowering their prices to combat customer churn. Instead, they're focusing on structuring their pricing to better demonstrate the value of their product or service.

> If we could change one thing about our business, we'd modify our existing pricing structures to increase the flexibility of customer subscriptions.
>
> **– CEO of a B2C tech company in Germany**

Making it easier for customers to try before they buy

To attract price-sensitive prospects, recurring-revenue businesses are looking to reduce the friction involved in trying their product or service. Across all verticals, 74% of business-to-consumer (B2C) business leaders agree that free trials are an effective way to gain new subscribers.

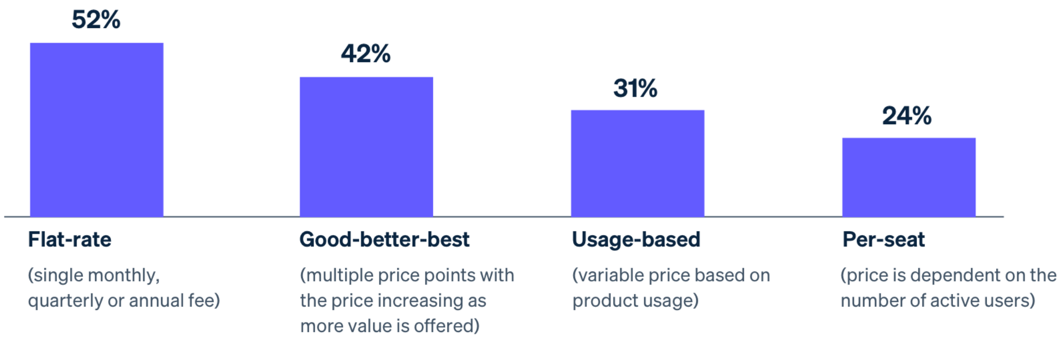
Although free trials remain most popular among B2C companies, 57% of B2B businesses also agree that trials are an effective way to convert customers. B2B businesses are exploring other tools to make it easier for potential enterprise clients to appreciate the value of their product or service as well. For example, some of the businesses surveyed set their subscriptions to start on a future date, while others apply a discount for the first few months of usage, so that they're only charging the full price once the customer is able to get the full value out of the product or service. Choosing the right pricing model can also boost the conversion of trial users to paid users.

Shifting from flat-rate to usage-based pricing to reach price-sensitive subscribers

We asked respondents how they're pricing their subscriptions today and how they expect their pricing to change in the future.

The majority of businesses surveyed currently use simple flat-rate pricing, where pricing doesn't change from month to month or year over year. However, 40% plan to try a new pricing approach in the next 12 months. Usage-based pricing – for example, where pricing changes depending on how many gigabytes of storage subscribers use – is projected to grow considerably. We found that 67% of business leaders believe that usage-based pricing will gain in popularity – a trend driven by price-sensitive subscribers who want to pay only for the value they receive.

Today's most popular pricing models (multiselect)



Percentage of respondents that are using each pricing model.

Partner insight

> Now that it's easier to track product usage accurately and in real time, more businesses are offering usage-based pricing as a way to build a competitive edge and appeal to a wider customer base. Dynamic pricing models also help businesses to better manage cash flows by leveraging AI and automation to adjust pricing based on demand fluctuations.
>
> **– Tim Reed, Technical Executive Partner | Financial Services NA, Thoughtworks**

Launching premium offerings to increase profit margins

Many recurring revenue businesses increased their prices over the past couple of years to keep up with inflation and maintain their margins, but broad price increases are becoming harder to rationalise. Premium plans that limit access to advanced or exclusive features can provide that justification. In total, 38% of recurring-revenue businesses are planning to launch a higher-priced subscription plan to appeal to subscribers who are willing to spend more in 2023. Premiumisation is especially popular in sectors that sell to customers who are less price sensitive. We found that 52% of the financial services firms and 42% of the tech companies surveyed plan to create higher-priced plans, whereas only 28% of travel and hospitality businesses are planning to do so.

Best practices for optimising pricing

- Give subscribers a discount if they pay annually versus paying monthly.
- Offer a discounted introductory rate so that customers can try your product without paying full price.
- Lower the barrier to subscribing by allowing customers to sign up for a free trial without providing a payment method, so that they won't be charged automatically if they choose not to continue with a service after the trial ends.

- Experiment with usage-based pricing to give subscribers a chance to pay for only how much of your product or service they use.
- Identify which advanced features a minority of subscribers will pay more for and reserve those features for a higher-priced tier.

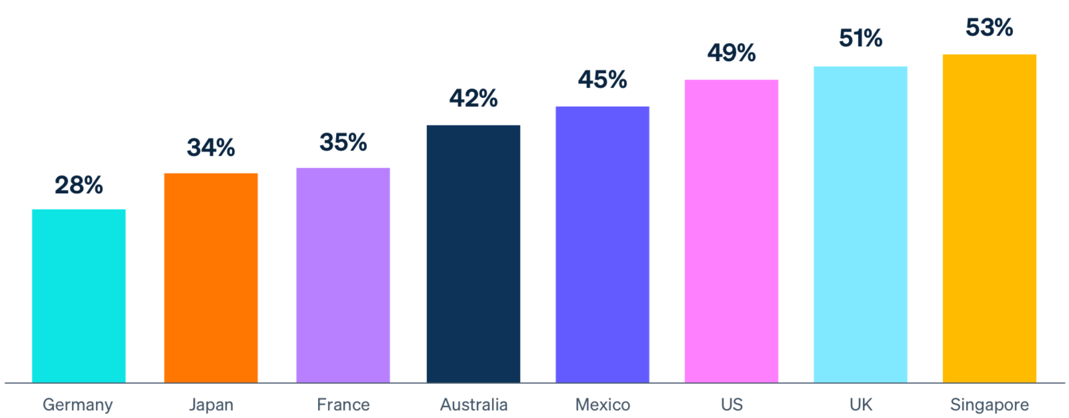
Tango implemented free trials without requiring a payment method

Although free trials helped the SaaS startup Tango to grow its subscriber base initially, managing payments and trial cancellations was costly and burdensome. Subscribers would often forget to cancel their subscriptions before their trials ended, resulting in support tickets for cancellations and refunds. With Stripe's help, Tango now offers free trials without requiring a payment method, fulfilling its goal of converting prospective subscribers by letting them experience the product's value, without having to manage refund support.

Recurring-revenue businesses will invest more in churn minimisation

Virtually all SaaS and subscription companies face churn issues, whether voluntary (where a customer plans to end their subscription) or involuntary (where a customer intends to pay but their payment attempt fails). Over the past year, recurring-revenue businesses around the world have struggled to manage customer attrition, regardless of its cause. Many of the business leaders we surveyed expect this trend to continue throughout 2023.

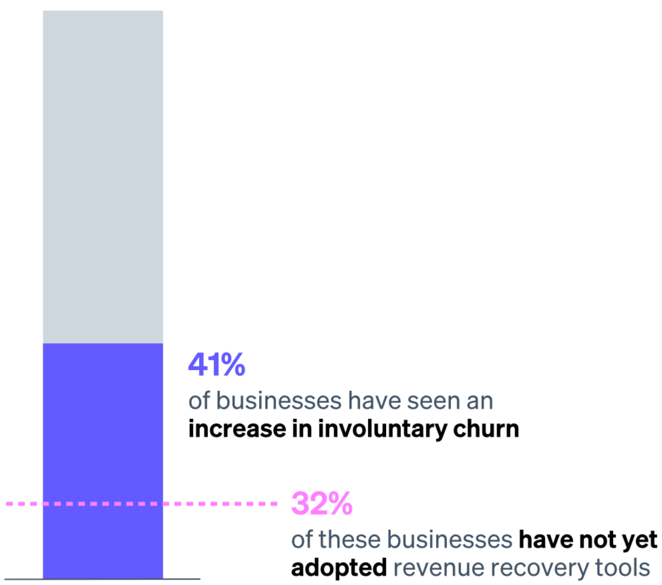
Percentage of businesses that expect an increase in customer churn in 2023



Increasing rates of involuntary churn

We found that 44% of the businesses surveyed have seen an increase in voluntary churn. With customers cutting back on spending, this increase was to be expected. Surprisingly, however, 41% of the businesses surveyed reported an increase in involuntary churn, too. Among subscription businesses that have experienced an increase in unintentional cancellations, 32% have not yet adopted tools that are designed to increase the chances of a successful payment. For example, they're not following up with their customers when a card expires or a payment is declined, nor are they updating expired cards or retrying failed transactions. These businesses are losing money needlessly and they have a huge opportunity to significantly increase their revenue by addressing involuntary churn.

Many businesses that have seen an increase in involuntary churn have not yet adopted revenue recovery tools



B2C businesses experiencing higher voluntary churn rates

The rate of voluntary churn varies meaningfully depending on a company's business model. Because B2B purchase cycles are more complex and contracts are longer, B2B businesses have seen a lower rate of voluntary churn than B2C businesses. In 2022, 48% of subscription B2C businesses and 34% of B2B businesses saw an increase in the number of subscribers ending their subscriptions.

B2C subscription businesses are experiencing higher voluntary churn rates

48%
of B2C businesses saw an increase in voluntary churn in 2022

34%
of B2B businesses saw an increase in voluntary churn in 2022

As discretionary spending declines, consumers are ending their B2C subscriptions to fit their tighter budgets. Similarly, businesses are consolidating the number of software programs that they use in order to simplify their tech stacks and cut costs. As a result, B2B software vendors offering a broader range of services tend to be more resilient to customer churn than narrow-point solutions.

Personalising recovery tactics to stem churn

To tackle these new challenges, subscription businesses have started to customise the various steps in their customer-retention funnels. Some vary when and how often they retry failed payment methods depending on the customer segment or product purchased. Other survey participants tweak how they notify subscribers about declined payments based on the value of the subscriber and their preferred communication channel: email, in-product alerts, SMS or telephone calls. Other businesses offer tailored win-back offers, such as a discount on next month's payment.

Best practices for reducing churn

- Make sure that you use a billing provider that **automatically updates expired cards** and **retries** failed transactions to increase the chances of a successful payment.
- If automatic retries fail, send **automated messages** to your customer whenever a card is about to expire or when a payment is declined. The message should include a link to **a portal** where they can easily update their payment method and manage their subscription.
- If subscribers cancel their subscriptions, ask why. This understanding can help you improve your product and pricing, and can also help you to come up with personalised win-back offers.

Postmates

Postmates earned more revenue by minimising involuntary churn

Postmates, an online delivery marketplace, added more than US$63 million in revenue by working with Stripe to reduce involuntary churn. With Stripe's **card account updater**, more than 2 million expired or replaced customer cards were updated automatically on Postmates, which translated into US$60 million in revenue. Stripe Billing's **Smart Retries** also recovered more than 200,000 payments that had originally failed, adding US$3 million in additional revenue.

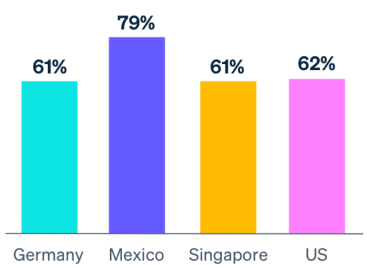
Recurring-revenue businesses will add local payment methods to better serve subscribers and cut costs

Offering local payment methods to reach international buyers

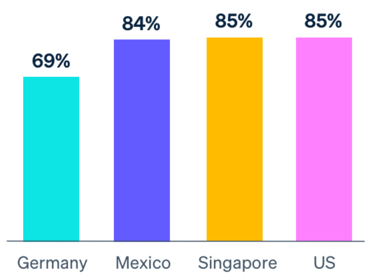
Global expansion is a powerful way in which businesses can accelerate growth. To increase their target audience, many subscription businesses will look beyond saturated domestic markets to new, international ones. Among our survey participants, business leaders from Mexico, Germany, the US and Singapore were the most interested in expanding their businesses abroad.

Business leaders in the following countries are most interested in international expansion and adding payment methods

Percentage of business leaders planning to **invest in global expansion** in the next 12 months



Percentage of business leaders planning to **add at least one payment method** in the next 12 months



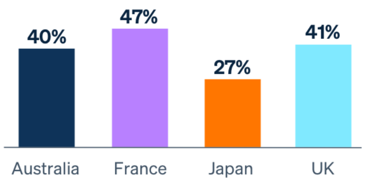
A separate Stripe study found that 85% of online shoppers would abandon a purchase if their preferred payment method was not accepted, underscoring the importance of offering local payment methods to reach new international subscribers. In this sense, 87% of the businesses that are planning to invest in global expansion will add at least one payment method in 2023, and our survey indicated that business leaders from the US and European markets were especially interested in reaching Chinese consumers. These subscription businesses should invest in adding these preferred local payment methods to help boost conversion. In China, for example, 54% of online transactions involve wallets such as Alipay or WeChat Pay, and 20% use the card network China UnionPay.

Offering local payment methods to lower costs

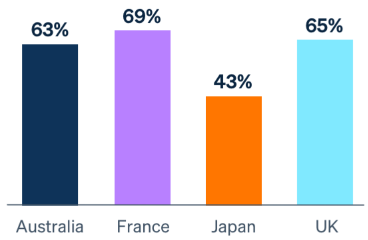
While companies in bigger Asian markets and some parts of Europe are less interested in international growth than their counterparts in Mexico, Germany, the US and Singapore, they're still adding new payment methods at high rates. One key driver is lower cost structures. For example, ACH Direct Debit in the US, SEPA Direct Debit in Europe, BACs Direct Debit in the UK and BECS Direct Debit in Australia typically have lower transaction pricing than cards. Other payment methods with multi-factor customer authentication, such as Apple Pay and Google Pay, see fewer chargebacks and less fraud, helping protect recurring-revenue businesses against the costs associated with each of these.

Adding new payment methods is popular for reasons beyond international expansion

Percentage of business leaders planning to **invest in global expansion** in the next 12 months



Percentage of business leaders planning to **add at least one payment method** in the next 12 months



Offering local payment methods to improve retention

Recurring-revenue businesses are also motivated to offer new payment methods in order to better serve and retain domestic subscribers. Out of all the businesses we surveyed, 71% plan to add at least one new payment method in the next year. Out of the businesses whose churn rates rose in the past year, 82% plan to add a new payment method to reduce attrition.

Accounting for compliance and costs when rolling out new payment methods

Whatever the reason motivating businesses to add local payment methods – international expansion, lower costs or retention – business leaders are mindful of the risks, regulations and costs associated with different payment options. Among the business leaders surveyed, finance leaders and CFOs are most concerned with the increased regulatory and compliance complexity involved in adding local payment methods. For example, to accept online payments in Europe, Strong Customer Authentication (SCA) requires that businesses use two-factor authentication, such as 3D Secure, to verify transactions, and businesses that offer subscriptions in India must comply with the Reserve Bank of India's rules surrounding e-mandates. In comparison to finance leaders, payments leaders are more focused on the additional costs involved in developing, launching and maintaining new payment methods.

Best practices for adding new payment methods

- Payment methods have inherently different cost structures, so it's important to verify which payment methods may or may not be relevant depending on your business model and where your subscribers are located.
- Evaluate payment methods that match your business's risk preferences. Choosing payment methods with higher levels of customer authentication helps to prevent fraudulent and disputed payments.

- Stay ahead of shifting regulatory requirements governing recurring payments. These standards vary based on where your subscribers are located and which payment method is used.
- Allow subscribers to use payment methods that can be stored on file and reused upon their request, such as digital wallets and bank debit payments. This way, your subscribers only have to provide their payment information once.
- Consider local expectations surrounding recurring billing. For example, in markets such as Brazil and Japan, it's common to send recurring invoices or reminders for subscribers to initiate each payment.

noom

Noom reached more international subscribers with local payment methods

Noom, a consumer-led digital health platform, discovered that direct debit was a higher priority for its German subscribers than credit cards. With Stripe, Noom could easily accept this popular payment method, test different local payment methods and offer more payment flexibility to its subscribers around the world.

Growth-oriented, recurring-revenue businesses will increasingly opt for scalable, interoperable billing systems instead of home-grown solutions

Building a home-grown billing system starts with good intentions. Recurring-revenue businesses have a clear idea of how their billing should work based on their particular needs, and many think it's easier to do it themselves than to try to influence a third party's roadmap. Plus, using a mix of point solutions and home-grown tools means that a business can avoid overreliance on one provider, thus potentially mitigating business risk and reducing costs. For larger enterprises, building around existing legacy systems and adding on tools brought in through acquisitions can seem like less of a headache than replacing an entire system outright.

Home-grown billing solutions limit interoperability and tie up resources

Over time, as their businesses grow in complexity, most billing experts find that disjointed billing solutions become too unwieldy, resulting in mounting technical debt and ongoing overhead. Among business leaders looking to replace their home-grown billing solutions, 45% agree that their current systems divert engineering resources from their core subscription business and 34% believe that their existing systems are too expensive to maintain.

Key reasons recurring revenue businesses are considering replacing their home-grown billing systems

45%

agree that their home-grown billing systems divert engineering from their core business

34%

agree that their home-grown billing systems are too expensive to maintain

> If we could gain one hour of our engineers' time per week, we could streamline our processes to attract new customers, and implement new payment systems and loyalty rewards.
>
> **– CEO of a B2C tech startup in Australia**

As the financial costs of home-grown solutions increase, so too does the operational complexity. When money flows in and out of different tools that sync at different times, business leaders struggle to access up-to-date data, measure their business's financial health and make accurate decisions that are grounded in facts. Because of these issues, 88% of the business leaders surveyed agree that interoperability is crucial for billing systems.

Shifting from home-grown billing solutions to third-party billing solutions

As a result of the complexity and resourcing requirements of home-grown systems, 36% of the subscription businesses surveyed plan to replace their existing systems with third-party systems in 2023. Among business leaders looking to replace their home-grown billing solutions, 36% say it takes too long to take new products to market and 35% find it difficult to test new pricing models. Business leaders recognise that billing is the core of their revenue lifecycle and are shifting away from home-grown billing systems in order to respond more quickly to rapidly changing market conditions.

Partner insight

> Implementing home-grown solutions may look appealing at the outset because businesses have unique needs and don't want to be constrained by the capabilities of a third-party vendor, nor do they want to invest in a licensed or SaaS solution. However, it's easy to underestimate the complexity of business systems and the initial build cost is just the tip of the iceberg. Over time, subscription businesses find themselves grappling with ongoing expenses relating to feature enhancements, performance optimisation, IT infrastructure upgrades, security improvements and more.
>
> **– Ben Brown, Managing Director, Strategy & Consulting, Financial Services, Accenture**

Best practices for revamping a billing system

- Ensure that your business's basic billing requirements are met, but also keep potential future needs in mind. Scalable systems reduce overhead costs, limit fraud risks and simplify regulatory complexities.
- Prioritise interoperability and ease of integration when designing a finance and revenue stack – one where billing, subscriptions, tax, revenue recognition and data services all work together.
- Consider outsourcing any business activities that are required to keep your business running but are not central to your business. By outsourcing non-core business functions, you can ensure that your valuable resources are dedicated to growing your business's core competency and benefit from the expertise of the third-party provider.

simple practice

SimplePractice saved time by unifying its billing system

SimplePractice provides booking, billing and client communications software for health and wellness practitioners. Before implementing Stripe to support its internal operations teams, SimplePractice relied on several third-party platforms to manage its finances. Because these platforms were disjointed, SimplePractice spent time and resources on reviewing data manually instead of focusing on growing its core business. By unifying its invoicing and financial tracking processes with Stripe, SimplePractice has improved decision-making, become more agile and flexible, and increased its top-line revenue by approximately 50% over the last year.

How Stripe can help

More than 200,000 businesses, from startups such as Songbox to enterprises such as Atlassian, use Stripe Billing to collect one-off or recurring payments via card, ACH and other popular payment methods.

Stripe Billing also makes it easier for businesses to:

- **Offer new pricing models:** Stripe Billing offers flexible billing logic for everything from per-seat pricing to metered billing out of the box. In addition, support for discounts, free trials, prorations and instalments is built in.
- **Expand into new markets:** Use a single API integration to deploy faster and offer subscribers the payment options that are available in their local currencies.

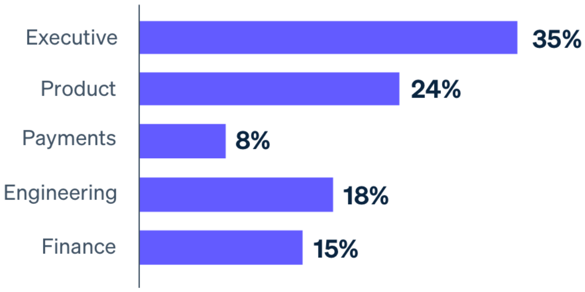
- **Minimise churn:** Stripe uses millions of data signals from across the Stripe network to retry failed payments when they're most likely to succeed. Stripe also has direct relationships with card networks to update payment details with new card numbers or expiry dates. Stripe's recovery and retention automations allow you to create custom dunning processes without a single line of code.
- **Minimise accounting errors and reporting oversights:** Reduce costs and risk with a single platform for unified reporting and accurate accounting. Revenue recognition and reconciliation, as well as robust analytics capabilities, are built into Stripe Billing.
- **Enable your customers to self-manage their subscriptions:** With Stripe Billing's customer portal, you can enable your customers to self-manage their payment and subscription details. In the customer portal, customers can update their payment methods and upgrade, downgrade or cancel their subscriptions with ease.
- **Automate tax collection on your recurring transactions:** Tax calculation and collection is also built into Stripe Billing. Know where to register, collect the right amount of tax automatically and access the reports that you need to file returns.
- **Integrate with your existing systems:** Stripe Billing fits into the middle of your order-to-revenue workflow by connecting to CRM systems such as Salesforce and ERP, in addition to accounting systems such as NetSuite and more.

To learn about how you can accelerate your growth by capturing recurring revenue, contact our Sales team or sign up for an account.

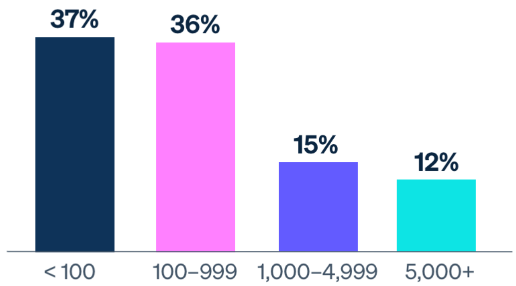
Methodology

We worked with Milltown Partners to survey 1,500 business leaders in eight markets around the world (Australia, France, Germany, Japan, Mexico, Singapore, the UK and the US) who offer recurring subscriptions. Below, you can see a breakdown of all respondents by current role, industry, number of employees, total revenue over the past 12 months, source of revenue and percentage of annual recurring revenue.

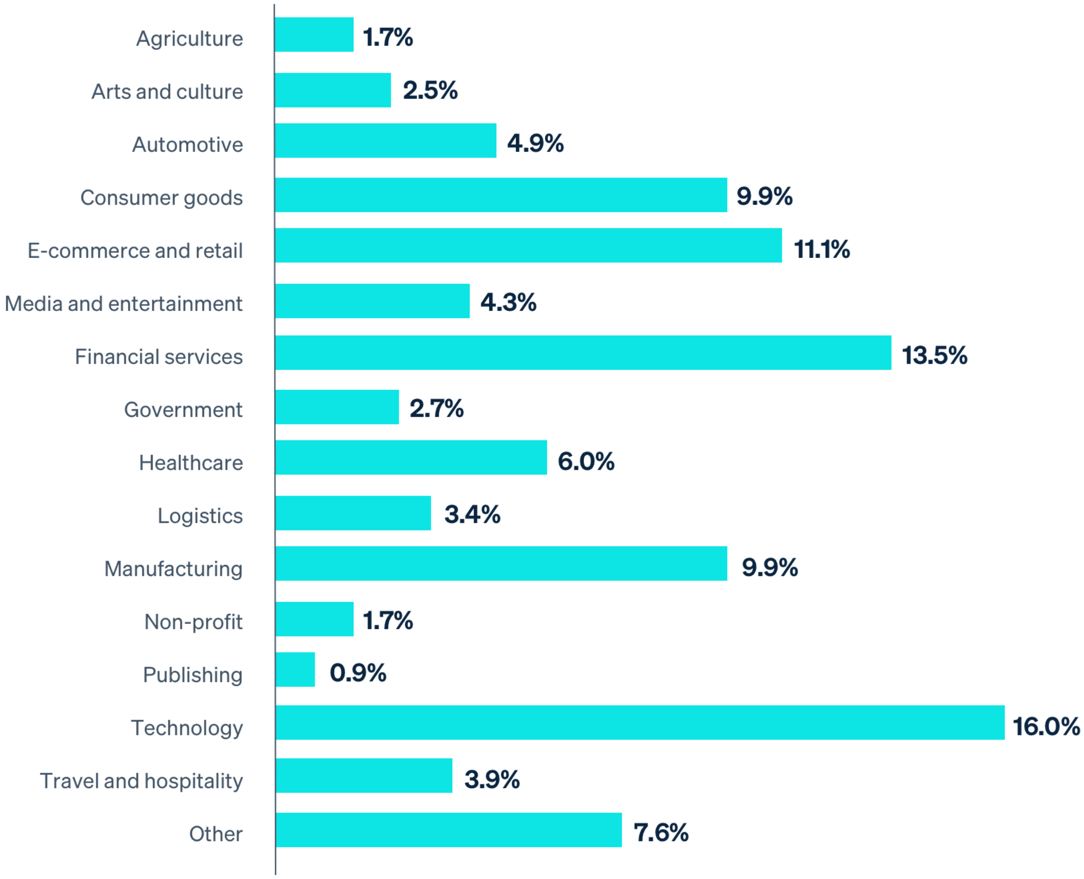
Current role



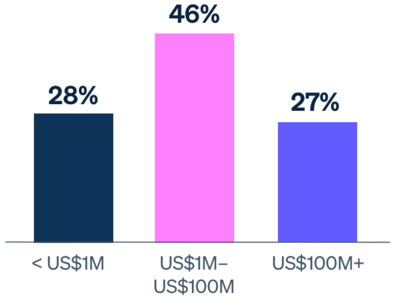
Number of employees



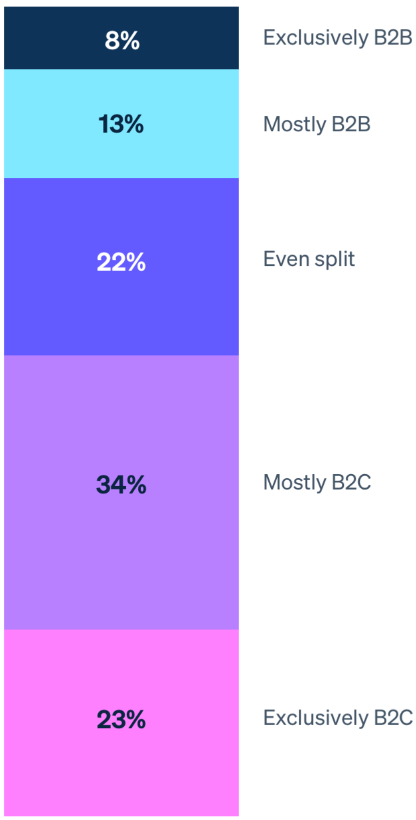
Core industry



Total revenue over the past 12 months



Source of revenue



Percentage of annual recurring revenue