

# Why recurring subscription billing is better than a one-time fee

*Are you unsure of the billing model to adopt for your SaaS business? Should you charge a one-time fee or should you offer subscription billing?* Tech startups face different customer behavior patterns over time and may need to change their product features over their product development cycle. As a result, most business owners agree that it makes better sense to adopt a [recurrent subscription billing](#) rather than a one-time set-up fee.

Recurrent subscription makes most sense to a SaaS startup because of its benefits to both customers and the business. The benefits of recurrent subscription include:

A lower price point benefits the customer as much as your business.

- You can fly under the budget radar in enterprises and you will be surprised by how much adoption is possible by avoiding long-winded negotiations with procurement team.
- No long term contracts; month-on-month / yearly billing.
- Operational expense instead of capital expense. This is a big win especially if your product is priced upwards of few hundred dollars.

## 1. Steady Revenue Stream

Recurring billing has the potential to drive more revenue than one-time billing. This can be attributed to:

- No gaps between billing cycles. As soon as one cycle comes to an end, the next cycle is started immediately thanks to automatic billing.
- Cloud based startups may offer different service plans to cater for the diverse needs of their customers. The diverse choices and more flexible billing options may mean more customers.
- Companies can also offer their services at a lower price thus attracting many subscribers. The pricing can be customized to monthly, quarterly, semi-annual or annual payments. This lower entry barrier and flexible payment options make more customers prefer the billing model.

## 2. Cash Flow and Revenue Projection

Recurring billing allows SaaS companies to forecast future revenue patterns more accurately based on the number of customers that they have, the services they are using, subscription period, etc. The model also leads to a better distributed cash flow and more accurate stats on usage and payments.

## 3. Potential up-sell and cross-sell options to increase revenue stream

Cloud services companies using recurring billing can improve their bottom lines through up-sells

and cross-selling opportunities. Buyers can upgrade their subscriptions to get more services or take advantage of discounts, all to the benefit of the company.

#### **4. Cost**

Most customers consider subscription billing to be more suitable for them because users can choose the plan that they want based on their needs. They can upgrade or downgrade their subscription or cancel subscription if the service does not match their expectations.

A one-time payment may be cheaper but its entry cost may be a barrier to many customers. A monthly subscription enables customers to use your service through convenient monthly payments.

#### **5. Easy Setup and Management**

If you have your application ready and have worked on your delivery channel, [setting up subscription billing](#) is easier. You can use third party payment gateways or get your own merchant account to take care of the payments. **Note:** Please read the blog post from [37 Signals](#) on “Why Merchants prefer a start-up business to charge their customers on a monthly basis rather than a yearly fee”.

#### **6. Custom Pricing and Discount Plans**

Your customers may not feel that your range of services, in their entirety, will be useful to them. With a subscription based model, you can have custom price plans for different levels of services. Another benefit is the ability to offer discount plans for customers who would like to pay for extended usage.

#### **7. No Contracts = Higher Sales**

A subscription model does not have to lock customers with contracts. As a result, this can increase sales as users know they do not have to pay for the service for months that they may not need it. A one-time set up fee is like a yearly contract and users feel they will be losing out in case they may not be using the service at a particular period.

Are you selling your product through recurring subscription or one-time set up fee? What are the pros and cons of the model you are using? Share your thoughts on the comment section below.