



The definitive guide to per-user billing

Booklet

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Introduction to per-user billing

Per-user, or per-seat, billing is a subscription billing model where the number of users with access to the solution determines the payment each billing cycle. It's easy for companies to understand the cost of growing their use of your services because they simply pay more when they add a new user. This means scaling occurs linearly and customers can predict the cost of using your services as they expand.

The model's biggest strength is its user-friendly nature for both the seller and buyer—providing standardization and simplicity to accounting teams.

41% of SaaS companies employ per-user pricing

Open View Partners | Pricing insights from 2,200 SaaS companies

A quick glance at the pros and cons



Easy to understand



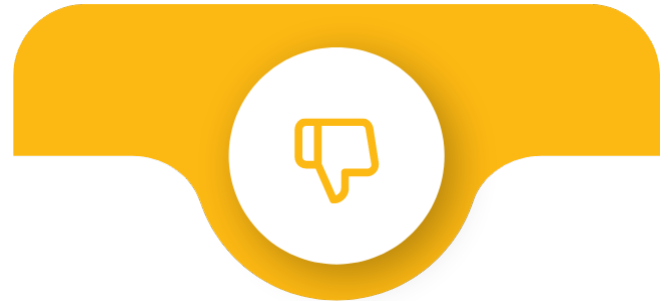
Users have complete access



Fast to implement



Streamlines budgeting and cash flow



Sticker shock



Login abuse



Struggle to understand value metric



Growth hindered by limited reach

Understanding the **pros** of per-user billing



Easy to understand

Calculating how much your customer will need to pay is a straightforward process based on headcount. For some customers, the complexities of other billing models are too much, and they will appreciate the simplicity of this model.



Users can have complete and equal access to the product

Each account can allow users the full functionality of the product or service, which means they don't need to worry about hidden fees for additional features.



Fast to implement across an organization

Unless you opt for a model that offers different access levels based on defined roles, each user's account should have the same permissions. Once a customer sets up user accounts, there is little else that needs to happen before they can start to use the solution—resulting in a quick deployment.



Streamlines budgeting and cash flow

Since it's relatively simple to calculate how much your customers owe, it's also easier to predict your cash inflow and budget accordingly.

Understanding the **cons** of per-user billing



Customers can experience sticker shock

As your customers outgrow their initial tier, they might be surprised by the increase in price, which may increase your churn rate.



Login abuse

Multiple individuals using a single account is a pervasive problem with this pricing strategy as many try to find a way to avoid paying more for the same product.



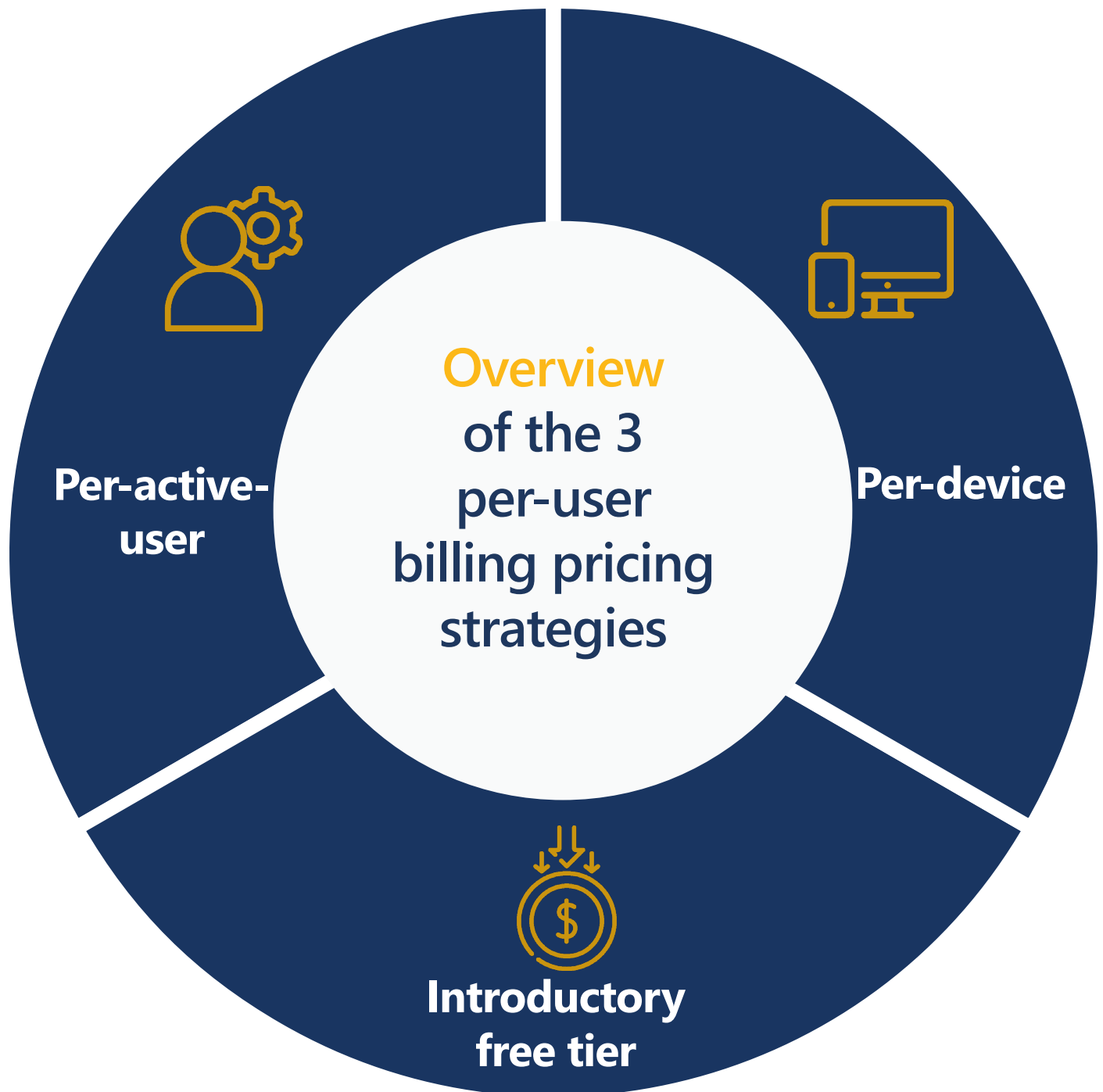
Number of users is not always a customer value metric

It can be difficult for companies to justify the costs of a solution if the number of users is not integral to defining its value.



May hinder long term growth

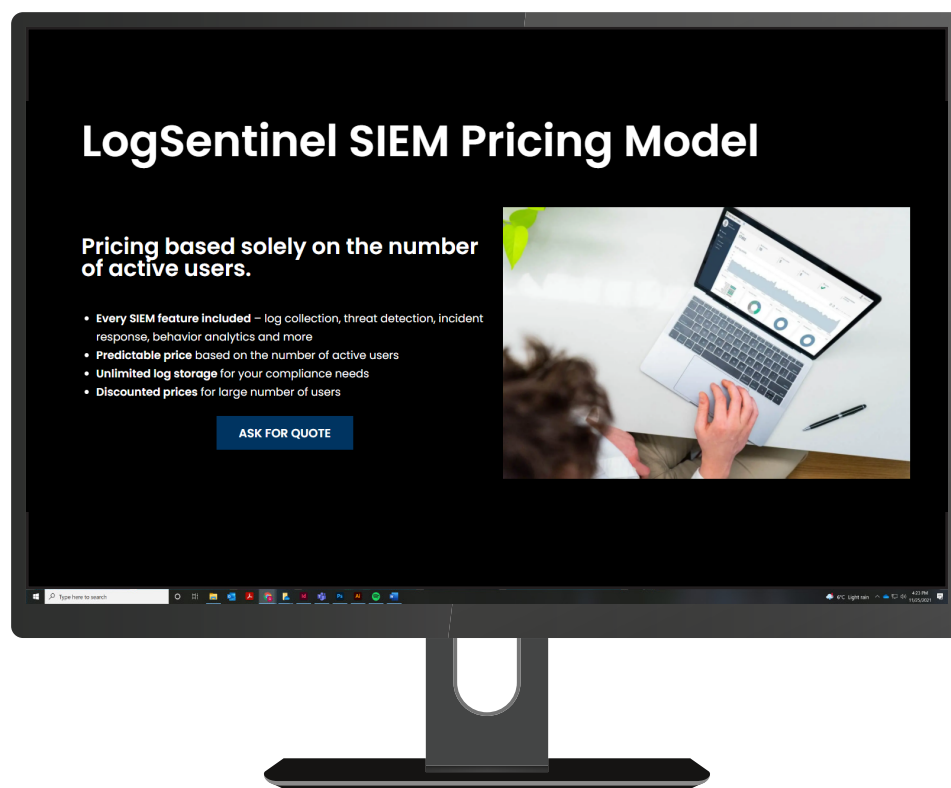
Customers experiencing rapid growth may feel like they are being penalized by a per-user model. Over time this can result in a high churn rate or poor customer retention.



Per-active-user pricing (with example)

Many companies take inspiration from usage-based billing models, modifying per-user pricing to charge per active user rather than the total number of users. A tactic that is particularly useful for large companies whose employees need access to the full functionality of a product, but not all the time or not all at once.

This approach enables your customer to keep track of Monthly Active Users (MAU), which could be a very valuable metric depending on their industry. For instance, LogSentinel is a security information and event management (SIEM) solution that base billing on active users. Given that the actual MAU will fluctuate, it's good practice to ask prospective clients to estimate their usage to provide them with a quote. Understanding expected use allows you to predict revenue better and help combat the confusion sometimes associated with flexible pricing.

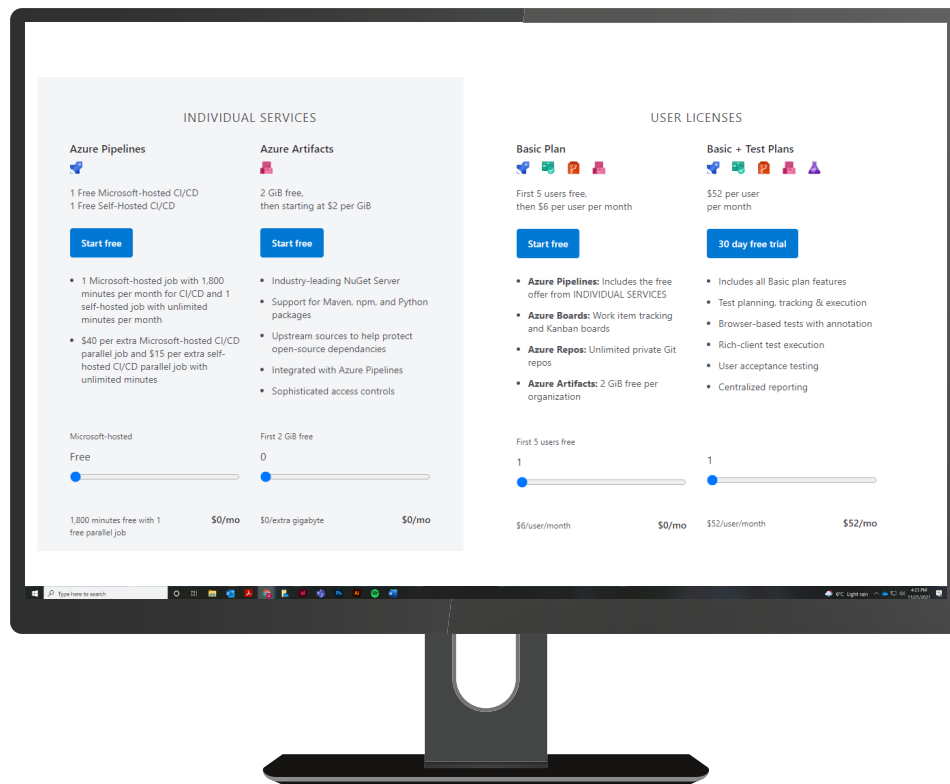


Introductory free tier pricing (with example)

Another strategy to consider is incorporating an unlimited free tier or the freemium model as your lowest tier. That way you offer customers an entry point to become familiar with the basics of your solution, potentially still earn revenue from ads, and ultimately, entice them to invest in your per-user or per-active-user tiers.

If you need to add extra incentive for your customers to upgrade, you can try applying some of the principles of subscription pricing psychology. By limiting the freemium tier's functionality or reducing the number of accessible features, you can nudge your customers towards choosing the next tier up. Just be careful not to water down your services too much or else your prospective customers may be left with a bad impression.

Azure DevOps Services is an example of a solution that utilizes free tiers as an introductory point. Their basic plan starts out free for the first five users and then is \$6 for each additional user and includes all the services except for the test plans.

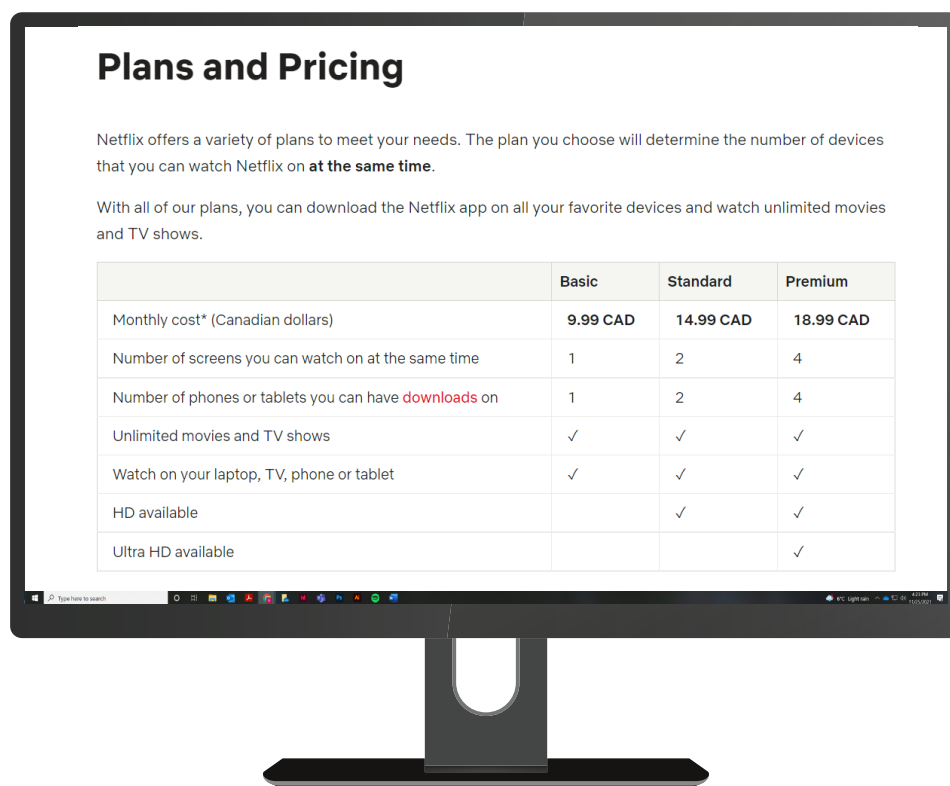


Per-device pricing (with example)

Rather than fighting the login abuse trend, some companies have redefined what “per-user” even means and have incorporated login abuse into their model. In today’s world, people who are ‘plugged in’ typically have more than one screen each. Recent research has shown that 85% of Americans own a smartphone and the average American household has more than ten devices.

The prevalence of multi-device users prompted some companies to move to a billing model that charges for each device using the product. Charging per device can allow your company to inflate its revenue by steering customers towards higher pricing tiers and it can work as a proxy for the number of people using the service.

Netflix allows for up to four user profiles per account, but the number of devices you can stream from at the same time depends on your pricing tier. It’s unlikely that one person would be streaming videos on multiple devices at the same time, so this model successfully combats login abuse.



Plans and Pricing

Netflix offers a variety of plans to meet your needs. The plan you choose will determine the number of devices that you can watch Netflix on **at the same time**.

With all of our plans, you can download the Netflix app on all your favorite devices and watch unlimited movies and TV shows.

	Basic	Standard	Premium
Monthly cost* (Canadian dollars)	9.99 CAD	14.99 CAD	18.99 CAD
Number of screens you can watch on at the same time	1	2	4
Number of phones or tablets you can have downloads on	1	2	4
Unlimited movies and TV shows	✓	✓	✓
Watch on your laptop, TV, phone or tablet	✓	✓	✓
HD available		✓	✓
Ultra HD available			✓

Revenue recognition for per-user billing

Understanding the process of revenue recognition is essential to managing per-user billing and retaining compliance with accounting standards like ASC 606 and IFRS 15. As with any subscription pricing strategy, you must only recognize the revenue after delivery of the service or product.



Suppose you charge a flat rate for a defined number of users each billing cycle and bill your client at the beginning of the period. In that case, you must count the revenue as deferred revenue until the delivery of the service is complete at the cycle end.

However, if you plan on charging per active user each billing cycle, you will need to calculate the number of active users by the end of the billing cycle. Still, you can recognize the revenue as soon as you receive it because the total depends on the service provided.

Managing the complexity of per-user billing

It perhaps comes as no surprise that companies will not implement per-user billing effectively if they rush it. Here are the three critical elements of the billing model that will aid your growth journey.

The 3 critical elements of your per-user billing strategy

1. Simplifying your offering

If you intend to use this billing strategy, ensure that it simplifies your offering overall. Per-user pricing has remained a popular strategy because it's easy to understand for customers and businesses alike—enabling easier management of the customer journey. You will lose the competitive advantage afforded by this billing model if your customers are confused.

2. Adopting advanced pricing strategies

For your company to achieve long term growth, it's crucial that your pricing strategy aligns with the customer perceived value. Regularly revisiting your billing model with insights from market research will allow you to adapt to better fulfill your customers' needs. To get you started, this blog covers three types of advanced per-user billing models that were created to account for more complex usage.

3. Managing deferred revenue

Without a powerful recurring billing solution that allows you to automate deferred revenue, even the most straightforward pricing strategies suffer. Maintaining compliance with accounting standards like ASC 606 and IFRS 15, as well as error-free invoicing are essential to avoiding penalties and providing excellent customer service. Subpar management of subscription services is guaranteed to increase your churn rate and reflect negatively on your brand.

Introducing Subscription Billing Suite

A comprehensive solution for billing, deferrals, and recognition that streamlines the entire quote to cash process at every step from billing and invoicing to reporting and forecasting. It provides consistent and reliable invoicing for a wide range of pricing models and allows you to take control of your pricing and billing schedules at the line-item level within Microsoft Dynamics 365 for Finance and Operations, Microsoft Dynamics 365 Business Central, and Microsoft Dynamics GP.

What our customers say

“ Wonderful, wonderful, wonderful. A joy to work with Binary Stream. Everyone was super helpful and positive, which had a big impact on the success of the implementation.



“ What makes Binary Stream different from other software companies we have worked with is their ability to truly listen to customer input and enhance their subscription solution to meet those needs.



“ Since I have come on board, Subscription Billing Suite has paid for itself more than once over. Having this solution to help us manage over 10,000 deferred contracts is an essential part of our financial processing.



“ I've long been a fan of Dynamics, and Subscription Billing Suite met and exceeded every feature of our previous solution. However, the factor that made this project a success is having a partner who augmented our internal integration efforts.





Start your financial transformation journey today

Learn more by reading our complete guide to subscription management, offering insights into billing models, pricing page psychology, and plenty more.

[Discover more](#)