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[Essentials of Software-as-a-Service \(SaaS\) Business.](#)

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## 3.4 Introduction to Subscription Models

As we have explored various pricing strategies and the factors that influence them, it's clear that setting the right price can significantly impact the success of our SaaS company. However, pricing is just one piece of the puzzle. To truly optimize our revenue and growth potential, we must also consider how we package and deliver our services. This is where subscription models come into play.

### **Subscription Models**

They are the frameworks that define how customers are billed for the product they purchase, reflecting the value they derive from it. The right subscription model is essential in meeting customer needs and balancing those against the company's revenue goals. In this and upcoming videos, we are going to learn about flat-rate, tiered and usage-based subscription models.

### **Flat-rate Subscription Model**

Offering one product at a single price point.



Decline in usage among SaaS companies due:

- Lack of Flexibility
- Underutilization and Overpricing
- Competitive Disadvantage

Let's start with the simplest one, both in terms of structure and ease of understanding for customers: the Flat-rate Subscription model. This model is ideally utilized by a company that offers only one product at a single price point. Such uniformity ensures that every user pays the same amount and receives the same level of access and service. Despite its

simplicity, the flat-rate subscription model has seen a decline in usage among SaaS companies. This shift can be attributed to several factors:

1. *Lack of Flexibility*

First, lack of flexibility. As the company's customer base grew and diversified, the one-size-fits-all flat-rate model became less appealing. Businesses sought pricing models that could adapt to their specific usage and evolving needs. The inflexibility of the flat-rate model failed to meet these requirements, prompting a shift towards more scalable and adaptable pricing strategies.

2. *Underutilized and Overpriced*

Then there is underutilization and overpricing. In the flat-rate model, smaller customers often found the fixed cost disproportionately high for their limited usage. Conversely, larger customers with extensive needs could consume resources well beyond their payment, leading to financial losses for the SaaS provider.

3. *Competitive Disadvantage*

And finally, there is a competitive disadvantage. As SaaS competitors adopted more complex pricing models, the flat-rate model grew less appealing. These flexible pricing structures enabled competitors to serve a wider customer base with entry-level price points and scaled options that accommodated varying budgets and needs.

The need for more flexible, scalable solutions led many companies to adopt more sophisticated subscription models that we will discuss in the upcoming lectures.