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Billing: the antidote to ASP blues

By Michel Floreani

While billing is critical in order for any service provider to stay in business, it is often perceived as simply generating an invoice. In reality, a behind-the-scenes look would reveal that there is a lot of work to be done before the invoice goes out - creating pricing structures, marketing the offerings, registering customers and provisioning the applications, to name a few. A flexible billing and customer management system will add value by streamlining management of the customer lifecycle, and enabling new business models to be launched very rapidly. In the hands of a savvy ASP, a billing system can turn into a serious competitive advantage.

Pricing for Profit

The predominant ASP pricing model has been a flat rate per user, mainly because it is easier to implement and attractive to end-users. But the bottom line is that in order to generate more revenue, ASPs need to continuously increase their customer base, and make sure that the new revenue offsets the incremental cost of delivering services to new customers.

It's a numbers game few service providers have successfully dealt with. The situation only worsens when flat fees do not balance end-users' soaring infrastructure consumption such as bandwidth and storage. The price they pay remains the same, yet they utilize more resource. With that in mind, it is clear to see that if ASPs are to stay in business, the one-price-fits-all approach has to go.

Enter the so-called "next-generation" billing systems. Developed specifically for Internet and



IP-based services, they are engineered around a rating engine, as well as other modules that enable customer lifecycle management, such as customer care, revenue collection, bill presentment, trouble-ticket management, marketing and other CRM-like processes. Note that while all billing vendors include the rating engine as the basis of their solutions, the depth of customer lifecycle-management tools greatly varies from one vendor to the next.

The rating engine usually represents the heart of a billing system, where pricing and discounting schemes are set up to create the final price of a service. A good rule of thumb is that the more flexible the rating engine, the more flexible and creative your pricing plans can be. A good rating engine should allow ASPs to price their offerings on a mixture of charges such as one-time charges, flat recurring charges, as well as usage-based fees like bandwidth, disk space, per transaction, per CPU cycle, per download, class of event, QoS and other attributes.

More and more, flexible billing systems are powering the emergence of new pricing models. Many ASPs are finding that pricing their services on a combination of flat and usage charges is gaining acceptance with their customer base as well. For example, users might pay a one-time set-up fee, and pay a monthly flat charge for usage up to a certain usage threshold (whether it is number of seats, time, disk space or any other metrics). Any usage beyond the threshold is charged on a pre-determined usage basis.

More complex rating capabilities allow the creation of usage-based pricing structures using several usage parameters instead of one. The final usage price can be a combination of multiple factors - bandwidth, storage and number of users for example. In essence, this allows service providers to capture revenue every time the cost of delivering the service increases. Trying to match this type of flexibility with spreadsheets or accounting packages like many ASPs do is simply impossible.



Developing customized offerings

Although the technology to capture and rate usage is becoming more available, it is by no means the universal remedy to pricing woes. Pricing must be simple enough to be understood by customers, and it must make sense on an itemized bill – a \$10 charge for 35,000 packets transmitted is hard to grasp. Finding the right combination of flat and usage pricing metrics that will be easily understood and accepted can be a balancing act. Still, with a flexible billing system in place, ASPs can not only create new pricing plans in a matter of minutes or hours, but also better market their services. Application bundles (where several applications are bundled to target specific market segments) can be created with their own set of pricing and discounting structures. To attract customers, the first 3 months might be free or discounted, then prices are automatically adjusted after that. Performing this process manually limits not only the way bundles may be priced, but also the scalability of the business as the customer base surges.

The ability to support one-to-one contracts is also an increasingly important marketing issue. Just like in any business, ASP customers often use their buying power to negotiate contract terms such as prices structures, service levels, service discounts, billable events and QoS for instance. While legacy telecommunications billing systems required heavy hard coding to support custom rating plans and custom contract terms (a costly time and labor investment), the more flexible billing applications of today allow service providers to rapidly design and maintain specific plans for each customer with no custom coding.

“Show me the money ”

Creating pricing plans and sending bills is only part of the billing equation. Actually getting paid is a different story. Billing systems can improve cash flow by automating collection processes, ensuring that revenue is collected accurately and on time.

Collection methods for ASPs often depend on their target market. The most popular collection methods for ASPs include credit card (mostly for small businesses), bank withdrawal (ACH) and Purchase Orders (POs). Today's billing applications can automate several collection processes, but PO support can be trickier. Ideally, multiple POs per customer should be possible, each with a specific balance and expiration date. As service charges increase, the



PO balance decreases in a similar fashion, and once the balance is zero, another PO kicks in without having to interrupt service and contact the company to issue new POs.

What happens if the money is not collected, the credit card declined, or there is no money on the bank account? Without an automated framework, customer service representatives (CSRs) must go over every account on a daily basis to see if payment was collected, and contact clients directly if they are past due. This approach is slow and costly, particularly with a large subscriber base.

With a billing system, late processing actions can be set according to business rules defined by the ASP itself. For example, if a credit card collection fails the first time, it can be retried a set number of times within a billing period. If that fails again, an automated e-mail can be sent to the customer notifying that he should supply a new credit card within X days or his account will be suspended. Automating late processing actions decreases the cost of collection on delinquent accounts, and prevents use of services when balances are unpaid.

The ASP value chain

Beyond pricing services for their own clients, ASPs must also track financial relationships with numerous partners in the value chain. These partners may include ISVs supplying the applications, VAR partners distributing and selling the applications, portals and aggregators, to name the major players.

The ability to accurately track what is owed to all partners in the value chain is becoming increasingly critical. Keeping tabs of partner relationships can be complicated since an ASP might have dozens of agreements concerning revenue sharing, commission terms, contract length, service packages and others. To complicate things, commissions must be paid on what the customer actually paid, not on the overall value of the contract. For example, the original contract might be for 20 users at \$150 per month, but before the end of the first month, 5 users have dropped. The billing system must then automatically pro-rate the amount owed by the 5 users, and the commission owed readjusted for the new dollar value paid at the end of the month.



Other issues arise between ASPs and their partners. VARs and distribution partners may have different commission structure depending on volume sold, seniority or contract length. ASPs may need to produce and present VAR-branded bills directly to the end-user if the partner doesn't have a billing infrastructure in place. And after that, who collects the money? Should services be suspended if payment is not received? Flexibility in the underlying business framework to is key to customize business rules.

Beyond the back-office

In recent years, billing systems have moved beyond the back-office realm and become a bridge to the front-office. Many of the next-generation billing applications offer extensive tools to manage the customer throughout the entire lifecycle – from initial registration to provisioning, ongoing billing, customer care, self-care, trouble ticket management and even marketing functions.

Provisioning capabilities are one of the strongest arguments for having a solid, well-integrated subscriber-management system. Extensible provisioning tools enable applications and services to be directly provisioned via the billing system. This is very important when ASPs want to expand their offering portfolio to remain ahead of the competition and quickly take advantage of new revenue opportunities. Direct, automated provisioning ensures that new applications and services can be rapidly rolled out and billed for in a matter of days.

Traditionally, having a new customer up-and-running with his service entails redundant data entry by the CSR, accounting department and IT staff, and loads of manual processes. Billing applications can actually reduce data entry via a single “point of entry” form where the CSR enters the relevant customer, billing and service information once, and has the service automatically provisioned in real-time. Better yet, ASPs whose offerings do not require customization effort, customers can self-register directly via the ASP's web site, and have access to the application once their payment is processed. ASPs can capitalize on revenue opportunities 24x7 while simultaneously reducing the cost of activating a new subscriber.



Many customer service operations can also be “offloaded” to the customers themselves. This includes routine service inquiries such as changing a password, a credit card number or contact information, and access present and past bills. More advanced functions allow customers to review detailed service history, service usage (if usage is associated with a services), order or suspend services, and create trouble tickets – anytime, without spending time on the phone.

Curiously, ASPs have in general failed to take advantage of these tools. The billing vendor community certainly did a poor job at communicating the benefits of integrated customer management, and the relative inexperience of most ASPs only compounded the problem. Services providers such as data centers and web hosting companies however, have long known of the virtues of an integrated business framework. Backed up by a solid infrastructure, they are now poised to take away business from the more “pure-plan” ASPs as they are launching their own application rental services.

Conclusion

In the long run, if an ASP has growth aspirations and wants to be successful, there is no doubt that integrated billing and customer management will be critical. Commercial packages available are increasingly including features designed specifically for the ASP space. But just like any purchase, do your homework. Purchasing and implementing a billing system can be costly. Make sure it fits your needs. Compare applications. Ask questions. Most billing vendors will be happy to go over your operations and help you figure how their solutions can help you better run your business.

Michel Floreani is director of business development for Honolulu-based Inovaware, a supplier of billing and customer-care solutions for providers of Internet and next-generation communications services.