



Before You Buy!

Ten Questions to Ask About Billing and Subscription Services

Abstract

Global business models are changing from simple one time revenue streams to more complex billing arrangements - this is occurring not only in software but also in a wide range of different industries.

All of these changes create highly increased complexity for vendors and heightened demands on their business systems - especially when it comes to billing and payment processes. In this paper, we will articulate ten questions that companies should ask of themselves and their prospective providers of subscription and billing services in order to accurately determine which solution will meet their needs, now and into the future.

The ten questions can broadly be separated across two main axes - one axis being operational and the other being revenue generation.

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The operational questions

How long will the billing product take to implement?

The rate of change in business is rapidly increasing. Customers demand new products, new product mixes and new ways of purchasing those products on an almost daily basis. At the same time, in many industries the barriers to entry for new companies are falling which also increases the demands on subscription and billing services to keep up with changing dynamics.

Given this situation, we can see that whatever billing and subscription system a company uses, it needs to be able to be implemented rapidly and readily within the organisation.

Part of this implementation is the ease of integration between an organization's existing systems (website, back office systems, customer relationship management system etc) and the billing system. A billing system that includes application programming interfaces (APIs) and client libraries to enable interaction with other software will allow much more rapid implementation.

Another reason to consider outsourcing subscription and billing functionality to an external party is one of cost. By outsourcing a billing system the business is able to to "pay as they go" and they therefore amortize the cost of this part of their business over time.

Is my billing system a core competency or will it shift my focus from what is important?

Organizations need to honestly assess whether billing and subscription management is a core competency for their business or merely a necessary, but peripheral, module. This assessment should also take into account the resource availability within the organisation for both the initial implementation phase and also ongoing maintenance. There is a tendency in new businesses to create all systems internally - regardless of whether external options exist. Often this is caused by both an unrealistic assessment of what the true costs of building a solution are, and also an unrealistic assessment of the time taken to build a solution.

This assessment is made even more stark when we view it in light of the rapidly changing business environment as discussed above - any resource diverted from product differentiation and competitive advantage and instead utilized in a back office system is contrary to the best interests of the organization and may have an impact on market share, ability to react to the competitive landscape and ultimately, viability.

The shift in focus from building a non-core system in-house isn't merely a one time impact however. As the nature of the business, and the way it bills its customers, changes over time as a reaction to the competitive landscape and new product developments, this again creates a drag on internal resources - diverting time and effort from core operations to non-core "housekeeping".

Is the system flexible enough for my needs - today and into the future?

The rate of change in business is ever accelerating - the methods by which customers acquire their products and services is changing also. When deciding on a subscription and billing system, it is important to factor in the possibility of major changes in the way revenue is acquired and maintained. The subscription and billing system should never be an impediment to a new product approach and if a prospective system of choice puts limits on the ability to rapidly change direction, it should be avoided.

Businesses often make the mistake of underestimating the ongoing complexity of their charging strategy. They might start with a very simple monthly billing package but given growth and changing promotional strategies the business may wish to offer new packages and/or broaden their customer base geographically. The need to be able to react to international taxation rates and laws, international currency issues, diverse payment methods and multiple languages are all factors that need to be taken into account.

Having the ability to experiment with different options when it comes to billing is a competitive advantage and businesses whose systems make this sort of experimentation difficult or impossible are at a distinct disadvantage. Businesses should look for a solution that allows them to change customer plans at will, to add products and product groupings easily and one that gives them the ability to easily manage their usage based transactions.

If someone else provides my solution, is their business viable?

As a new organisation builds its business case, one question that should be answered to save both time and resources, is one that asks how viable is the business model of the prospective subscription and billing vendor?

Specifically do they have examples of working with many types of organizations, in the particular space the business is involved with and beyond, helping them implement subscription and billing solutions? While it may be tempting to decide on a slightly cheaper service, or one that has some particular piece of functionality, the viability of the business is perhaps the most important aspect to look at.

Modern software development techniques along with cloud development and infrastructure services have resulted in a plethora of vendors being created in many functional areas - subscription and billing services is no exception to this trend. Prospective customers should assess the ongoing viability of the provider as part of their initial due-diligence work.

Customers need to seek information about the vendor's other customers, if possible recommendations should be obtained from those customers and assessment made as to whether those customers are continuing to innovate with their billing on top of the vendors system.

Will the system truly scale to meet my needs?

Most new businesses have ambitions to grow significantly. Given this fact it is important that, from the outset, they adopt tools and methodologies that enable this growth. While it may be tempting in the initial stages to adopt manual systems, with only a moderate level of growth these systems become clogged and an impediment to growth.

Many businesses use paper or spreadsheet based systems to manage their subscriptions in the initial stage of their operation. While this may be viable in the very initial stages, it rapidly becomes a significant barrier to growth. With the move to subscription selling, the sheer number of invoices and customer contacts increases. Even for a simple monthly subscription, a company with 1000 customers will generate 12000 invoices a year, in a business to consumer (B2C) operations, it is entirely possible that a business may have hundreds of thousands of customers and hence millions of billing transactions - scaling for subscription billing is therefore far more complex and time consuming than for traditional product companies who generally invoice on a one-time basis. Subscription services also tend to offer their users the ability to add users on-demand, managing this complexity with a manual system becomes almost impossible.

Business scaling also includes geographical growth - if the business has the intention of broadening its geographic base, the subscription and billing service it chooses should not impose limitations on this. Multi-language, multi-currency, international payment flexibility and the ability to use various different taxation models should all be possible with the solution of choice.

With the move to the "long tail", vendors are tending to offer a far higher number of discrete offerings packaged in many different ways - again this increases the complexity of billing and creates problems in terms of ongoing subscription maintenance.

In the event that businesses are considering third party vendors, they should ascertain the largest production implementation the vendor has made to ensure the product can scale within the business' requirements.

Will the system meet all the requirement for legal compliance?

The compliance requirements in any industry are becoming increasingly stringent and so compliance raises all the more issues, especially for a service that touches both personal and financial data. Depending on the kind of data stored a billing solution may be required to comply with many different regulations such as IFRS, GAAP, SOX, PCI, etc..

Of all these regulations, it is most critical that the billing solution is compliant with PCI. It is important that not only the infrastructure housing the billing solution is secure but also the flow of financial data, thereby ensuring data security standards. One of the top things in a business' compliance checklist should be whether the billing solution is PCI DSS compliant or not. In addition, some businesses, depending on the transaction volume, might require a compliance validation in addition to PCI DSS adherence. So, it is vital to get the billing solution validated for PCI DSS compliance. Depending on the industry and accounting needs, it may be necessary for the billing system to be compliant with SAS 70 Type II Certification.

In the case where the business and its billing data is under the requirements of PCI, some chose to outsource the billing data storage to a third party PCI DSS compliant SaaS provider rather than implementing it in-house. Such an outsourced solution will not only offer better economics but also better security. All the hard work needed for compliance will be done by the SaaS vendor leaving the business to focus on core operations. If the business is outsourcing the billing solution to a third party provider or a SaaS vendor, it is important to ensure that the vendor will offer continuity in all the compliance requirements of the business.

Depending on the nature of the business, international legal compliance may be an issue. Sometimes these requirements might rapidly change and the billing solution should be flexible enough to accommodate these changes. It is advisable to talk to prospective billing solutions vendors about any such needs related to international compliance requirements.

What third-party security standards or certifications does the product meet?

Even though compliance takes care of many of the security and privacy headaches, it is not an end in itself. Even though adherence to compliance will cover off some of the issues considered below, it is important that the business also focuses on some of these issues independently to ensure data security. Security should be one of the most important factors when considering subscription and billing solutions.

Another important factor in the case of a business where more than one person is involved in the management of the billing process, is to consider if all the processes in the billing system are completely automated. Any need for manual intervention, e.g.. manually managing the monthly subscription, adds to any potential security problems. Also, when more than one person handles billing data, it is important to have fine grained access control to ensure that data is protected from unwanted access. Even though these suggestions doesn't completely eliminate the threat to billing data, this will help in mitigating many of the risks.

The revenue generation questions

Does the system truly add value to my business? Or just create a cost?

It is important when evaluating billing options to look at the total cost of ownership of a product. While it may be attractive to avoid external expenditure by using a manual system or building something in-house there may be a significant opportunity cost in that approach. Specialist and comprehensive billing systems are built to automate many part of the billing and subscription process and in doing so both save money (in terms of time savings) and drive extra value (in terms of increased customer retention).

A billing system should ideally be automated for customer self-service and subscription management to allow for automatic notifications to be sent to customers as they near the end of their subscription period and also allow the customer to resubscribe in a low-touch (or preferably no-touch) manner.

Businesses also have the option of utilizing a payment processor as their subscription service. This is attractive at first glance as it combines two parts of the billing and subscription life cycle, subscriptions and billing automation, with one vendor. It is, however a sub-optimal approach for all but the very simplest of businesses.

In the case of chargebacks, passing control of the subscription management to the payment processor can cause real problems. By allowing these service providers to take care of the billing, the business is no longer in control of the relationship with their customer. A situation may arise where the payment processor contacts the customer directly, resulting in a breakdown of the tight connection between the vendor and the customer. Even worse, payment processors may be unable to handle specific types of business. For example, if the host company offers a usage based service and the customer has a dispute about payment, the payment processor may contact them and try to refund the entire invoice when the customer only expected a partial refund.

Finally an effective subscription and billing service will add value to a business that creates payable invoices by helping ensure timely collection of accounts receivable - a good billing solution will automate dunning, the process of methodically communicating with customers to ensure the collection of monies owing, and therefore improve cashflow.

Will the system add value and become a core part of my sales and reporting systems?

A subscription and billing system should ideally be seen as more than just an accounts service but rather as an integral part of a businesses sales channel and it should help increase customer retention. The solution chosen should give the business visibility over their performance and allow them to make rapid and well thought out decisions.

There are many additional metrics that subscription vendors need to track beyond revenue - in a subscription service customer churn, users numbers within a particular customer, renewal periods and other data needs to be captured and reported so a business can react to changes. For this reason a good subscription and billing service forms a tool to manage an entire revenue lifecycle - not just the initial touchpoints between a business and its customer.

Similarly a billing and subscription service should be seen as a core part of the customer relationship management operation. It should give the business sufficient visibility into a customers needs to enable targeted marketing by way of up-selling or cross-selling.

Will the system work with my evolving channel strategy?

Subscription vendors frequently work with channel partners who re-sell their products. Often these channel partners will combine products from different vendors. It is therefore important that any subscription and billing service is sufficiently flexible to handle changes in channel strategy. The solution should be able to be customized to work in situations where the business white labels their product for others to on-sell but should still allow visibility over subscriptions and billing by the business. It should also be able to deal with complex commission scenarios, while maintaining consistency for the customer.

Similarly the solution should be flexible enough to allow for both business-to-business and business-to-consumer channels and should allow for customer self-service for both of those situations.



Recommended Subscription and Billing Vendors

Vindicia CashBox is an on-demand strategic billing solution designed for online merchants to manage subscription and one-time payments, support multiple business models, and maximize customer lifetime value. Vindicia works with some of the best-known brands on the Internet, including Symantec, Activision Blizzard, Intuit, and Atari/Cryptic. As an externally audited PCI Service Provider and a SAS 70 Type II company, Vindicia securely handles online revenue of over a billion dollars annually. For more information, visit <http://www.vindicia.com>.

Aria Systems provides on-demand billing and subscription management software for organizations who are developing or utilizing subscription and usage-based billing models. Aria provides a complete solution for the subscriber lifecycle from acquisition to service activation, bill calculation, invoicing and payment tracking, customer service, and analytics. Aria's clients span a wide range of industries including SaaS b2b, telecommunications, gaming, digital publishing, green energy, social networking, application stores, and more. For more information visit <http://www.ariasystems.com/>

Monexa offers a flexible on-demand subscription billing solution that provides a fast and scalable environment for accelerating the launch of products, services and applications online. Monexa pioneered the on-demand subscription billing space and has worked with hundreds of businesses to help monetize their subscription services. Monexa's customers range in size from high growth SaaS and Cloud Infrastructure companies like Untangle and ActiveState to large household name companies like AOL Canada, Sprint, Amway and Bell Mobility. See <http://www.monexa.com>

Zuora's subscription billing and payments platform changes the way subscription businesses manage and sell to customers, allowing them to bring new products to market in less time, with more flexibility and less hassle. Zuora's customers are up and running on Z-Billing within 90 days and generally recognize 200% ROI within weeks. Zuora is built from the ground up by SaaS industry visionaries and veterans from salesforce.com, WebEx, Accenture, Google, eBay, Oracle and Vitria. The company is based in Redwood City, California. To learn more about Zuora, please visit <http://www.zuora.com>.

About Diversity Analysis

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Our Offerings: We offer both analysis and consultancy in the areas related to SaaS and Cloud Computing. Our focus is on technology, business strategy, mergers and acquisitions. Our methodology is structured as follows:

- Research Alerts
- Research Briefings
- Whitepapers
- Case Studies

We also participate in various conferences and are available for vendor briefings through Telephone and/or Voice Over IP.

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