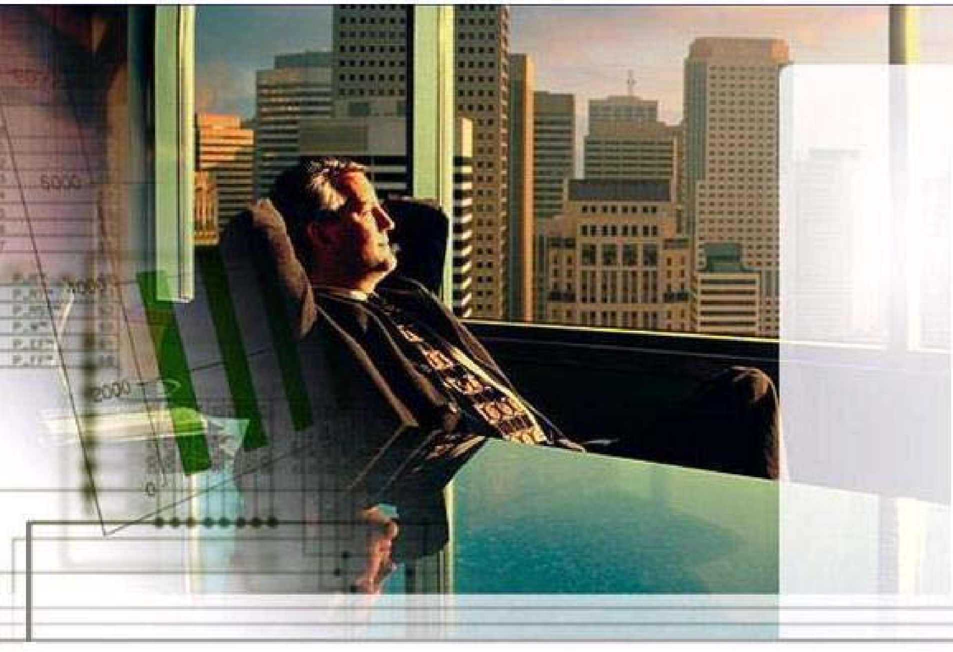
Billing Strategies for

Innovative Business Models

How Boring Old Billing Could Be the

Competitive Advantage You Never Knew You Had



SOFTRAX®

Introduction

Business models that have complex billing requirements include business process outsourcing (BPO) services, information providers, e-learning and research, e-commerce and Internet, high tech, telecom, utilities, and other business services. Companies in these segments are under constant pressure to increase market share and profit margins by offering new services.

Companies faced with competitors that have more sophisticated billing capabilities will find it difficult to respond quickly, because it's too late to start fixing the financial infrastructure once they've begun losing market share.

Billing processes are one of the most underrated competitive assets in business. They are fundamental to bringing innovative ways of delivering products and services to market. No matter how good your marketing strategy may be or how obvious customer demand appears, if you can't bill the customer, you can't go to market. There are many examples of how billing capabilities can create competitive advantage. Most notably perhaps is the telecommunications industry where key marketing initiatives such as friends and family plans, free weekend minutes, and roll-over minutes depend entirely on the ability of the provider to accurately reflect customers' use of the services on their bill.

Customer relationships based on how the customer uses a product or service are becoming increasingly common, particularly when the offering includes the delivery of products and services over a period of time or as part of an ongoing contractual relationship. And when multiple pricing and payment plans are available across multiple offerings for each customer, the billing challenge can be daunting.

To incorporate high-margin add-on service opportunities into traditional business models, billing processes must be capable of accurately reflecting the whole relationship for potentially thousands of unique customer arrangements. Monetizing this volume of dynamic customer relationships every month requires a robust, scalable, and flexible platform. A platform that is capable of handling multiple sources of complex data and simultaneously billing for transactions in arrears, subscriptions in advance, and custom services as delivered—all on the same bill. In addition, unique pricing may have to be applied at the line item level on an account by account basis. In some cases, accounts may have multiple billing entities with different relationships to the parent contract. And it only gets more complicated from there.

Companies faced with competitors that have more sophisticated billing capabilities will find it difficult to respond quickly, because it's too late to start fixing the financial infrastructure once they've begun losing market share. The bottom line is smart companies that truly understand their customers and competitors will increasingly expose billing as a point of market leverage.

However, to describe the challenge solely as a billing issue would be too simplistic. Billing is not a monolithic function. There are several related processes that must deliver the right information to the billing system in order for it to be truly optimized. These include contract management, pricing, metering, service delivery, and revenue management. None of these mission-critical financial activities can be optimized independently—they are interdependent and should be addressed as an enterprise system. Unfortunately, very few companies have implemented their enterprise systems so that contract data flows directly into their core financial processes.

There are a number of reasons for this:

- Systems are deployed departmentally
- Generic ERP systems are not designed for the specifics and requirements of business models with recurring contracts and services
- Business models continue to evolve and change which makes it virtually impossible to keep up with generic systems
- Contract management, billing, metering, and revenue functionality are not well integrated

As a result, processes cannot be streamlined. Instead, ad hoc interventions are needed to gather and reconcile order information from sales, pricing updates from marketing, and recurring revenue schedules from service and support. This makes finance operations inefficient and introduces risks into key financial reporting processes.

With an integrated approach to managing billing and related processes, the financial infrastructure can deliver a competitive advantage. The following sections explore key issues within each process and offer guides to help you rapidly assess where to start and how far you have to go to make billing a strategic asset.

Contracts

Focus on BPOs

Business process outsourcing (BPO) providers have evolved from the need of companies to focus on their core competencies. The typical BPO specializes in and provides an entire process such as human resources or marketing to multiple customers. These businesses typically offer customers a choice of services and payment options, with pricing dependencies unique to their selection and usage.

Fee structures can incorporate recurring, variable, and one-time charges that create complex billing, expensing, and revenue recognition issues. Unless contract data is integrated with billing and accounting processes, new offerings may be restricted or delayed in getting to market.

Contracts determine how and when you can bill your customers and recognize revenue on your financial statements. Charges from upfront deliverables, ongoing services, as well as event and usage based consumption, are all determined by the agreement with the customer. Many companies negotiate these terms on an account-by-account basis to provide maximum sales opportunities, creating complicated and extensive data sets that should, but frequently do not, drive all downstream accounting processes.

The problem becomes especially acute when the volume and complexity of contracts increases. The larger your customer base, the greater the financial risk, the more likely it is that billing opportunities are being missed and customers are being sent inaccurate bills, causing payment delays and dissatisfaction. Tracking all the dimensions of contracts across hundreds or even thousands of current customers is typically beyond the scope of spreadsheets and customized applications. There are many ongoing challenges, such as synchronizing all the contract additions or amendments that customers request; as well as incorporating changes in product and services strategy, licensing and royalty arrangements or pricing practices that the company makes on its own.

Key questions for assessing contract management requirements for billing:

- Do you have multiple points of data entry for contract information?
- Do you have multiple repositories for contract and customer information?
- Do you have multiple definitions for customer information?
- Can you track all changes to the terms of a contract in one place?
- Are the latest changes sometimes not reflected in the bill?
- Are a significant number of contracts managed through manual processes?
- Is all the contract information for each customer accessible and usable by billing and revenue accounting staff?
- Is customer support involved in the correction of bills?

If you answered “yes” to any of these questions, your contract management processes are not optimized. You must first address these issues otherwise any work on downstream billing and accounting processes will be wasted.

Pricing

Offerings that include the delivery of products and services on an ongoing basis over a long period of time typically have complex pricing arrangements. This may include tiered pricing, variable pricing bands, volume and usage based pricing, tiered discounts, future price arrangement, customer specific pricing and much more. There may be multiple departments and systems responsible for pricing. Product management may set pricing schedules, sales may determine discounts, marketing may initiate promotional programs, services may track their own incentives and discount programs. As a result, price books are difficult to maintain. It can be time and labor intensive to complete pricing updates and keep the billing system synchronized. These requirements put enormous pressure on the financial infrastructure to efficiently integrate complex pricing data with complex billing requirements.

Pricing flexibility has rapidly become a marketing advantage in order to reach multiple segments of the market with the same or similar product offerings. For example, the ability to bill "rollover minutes" correctly is a clear advantage for the consumer who may have peak phone activity along with quiet usage periods.

Key questions for assessing pricing requirements for billing:

- Do you have different pricing tiers?
- Do you have multiple pricing levels or rates?
- Do multiple functional areas "own" pricing?
- Are there multiple systems for price data (spreadsheets, databases, etc.)?
- Are there delays in getting price changes into the billing system?
- Is it difficult to consolidate pricing data?
- Are pricing discussions hindered by the challenges of implementation?

If you answered "yes" to any of these questions, you have a complex pricing challenge that must be streamlined and managed in a central repository to be fully optimized for billing. This is a critical area that can potentially affect many different departments, making it vital that senior executives be involved in the project.

Metering

Focus on Information Providers

Information providers, research organizations, e-learning companies, content aggregators and other publishers thrive on multiple revenue models and require robust customer tracking, usage, and billing capabilities. Subscriber relationships and usage patterns must be fully integrated into the billing system to keep up with the constant stream of new products, services and customers.

Large multi-year contracts require extensive expense tracking and reporting capabilities. Subscribers to licensed content can have unique pricing and entitlements. Royalty revenues can also complicate the accounting picture.

Typically, these business models are managed separately with dedicated systems and spreadsheets, an approach that can adversely impact the accuracy of billing, revenue accounting, and key business performance information.

Complicating the operational picture is the need to monitor customers' usage or consumption of services. Usage rates and conditions drive pricing based on complex schedules that may include criteria by time period, volume, customer type, service type, and more—sometimes incorporating multiple criteria to calculate a wholly unique price point. Without a systematic enterprise process that seamlessly integrates metering and billing data, cash flow and revenue will be at risk.

Businesses frequently bill for a variety of transactions such as online services, information access and feeds, downloaded content, telecommunication services, utility usage, business processing information, and access to applications and database information. The technical issues involved in capturing and tracking these transactions usually mandate that the metering system be a component of the company's production system. While it is optimized to capture and store transactional and usage information, metering systems do not support the rest of the financial workflow. The key requirement is to get metering data formatted and synchronized with the billing cycle so that customer usage can be properly billed and all accounting processes can be accurately completed. This can be especially complicated when charge and bill periods are different, even more so if they differ by product or account.

Key questions for assessing metering requirements for billing:

- Do contracts include different criteria for monetizing customer transactions?
- Do metering transactions need to be validated?
- Is metering data processed off line to reformat and consolidate it for the billing system?
- Is transaction data being generated from multiple systems?
- Is there an effective audit between the metering system and the billing system?
- Do meter periods differ from billing periods?

If you answered "yes" to any of these questions, chances are that you will have to manage complex output from the metering system in order to get your billing right.

Billing

Once the primary sources of customer charges are able to reliably deliver the necessary data to the billing system, there are still a number of challenges that must be met. Three key areas are:

- Bill Generation
- Bill Presentation
- Bill Splitting and Aggregation

> **Focus on e-Commerce**
>
> E-commerce providers and Internet companies also have multiple revenue streams and pricing structures that create complex billing challenges. The combination of usage fees, subscriptions, product sales, services, with commissions, royalties or advertising increase the complexity and the demands on billing capabilities.
>
> If providers are unable to streamline web metering data into the financial workflows, billing can be a competitive inhibitor.

Bill Generation

In order to efficiently generate customized bills for large numbers of transactions and customers, an automated recurring billing and revenue recognition process is essential. Factors that are critical to generating accurate and timely bills for recurring services include:

- The ability to automatically calculate periodic charges and consolidate activities into a single bill that lists all of the customer's subscription and transaction fees.
- The flexibility to separate a service's charge frequency with the contract's billing frequency.
- The ability to control which charges appear on the bill.
- A seamless transition from the information that was metered into the system placed up against complex price book calculations.
- The flexibility to preview and modify bills prior to generation and delivery.

When and how you deliver bills to your customers typically depends on the schedule you define when you set up a contract. It is also essential to provide delivery options to your customers. In some cases your customers will require bills be delivered via standard mail, in other cases they may request to be emailed or faxed each period. Your bill generation options must be flexible, not only to accommodate various presentation styles but also various delivery channels, including online customer access.

Bill Presentation

Ideally, customers want to receive a single bill that reflects the whole relationship, and different types of customers may require different information on their bills. This creates the need for sophisticated bill presentation capabilities. Current, past, and future charges must be priced and processed by product, service, account, and delivered on a single invoice. Some customers may even have the power to demand custom billing terms involving unique charge periods, date of bill, and multiple internal sub-accounts. For example, a company with multiple subsidiaries may want different levels of detail to appear on bills depending on the location. The flexibility to have multiple bill presentation styles allows you to customize the content and layout of the bill. The results include better communication with your customers, reduced errors, and faster payments.

Bill Splitting and Aggregation

When the relationship exists across different contacts within the same account, or when multiple providers are involved in delivering services, managing pricing and billing hierarchies becomes critical. The billing system must be able to apply different pricing to the same transaction over multiple parties associated with a contract. For example, in a three-party relationship different parties may be responsible for paying differing parts of the bill, as in soft dollar arrangements in the financial services industry. In wholesale/retail arrangements a company may need to bill two different rates for the same service. The wholesale rate is charged to the direct customer who charges a different rate to the retail customers. This can be contrasted with the need to aggregate billing information, often from multiple locations or other grouping parameters.

This is typically beyond the scope of traditional billing systems and as a result, off-line processing of billing amounts is required, introducing risk of errors, delays, and creating an inefficient reporting and analysis environment. Inefficient bill splitting can cause significant delays in payment as well as burdening the customer services area. It is no wonder that customer support departments have been renamed customer care and billing.

Key questions for assessing billing processes:

- Is my re-bill rate above an acceptable level?
- Do my customers require different pricing for the same transaction for different users?
- Is there a delay between charge cycles and billing dates?
- Must the layout of bills be customized by account or customer type?
- Does my billing system accurately reflect past due amounts?
- Can the customer easily reconcile the transactions with their usage?

If you answered yes to any of these questions, then you are at increased risk of mistakes in billing, and your level of customer satisfaction is not at the highest possible level.

Revenue Management

For complex business models that involve future obligations to the customer, billing and cash flow do not equate to reportable revenue. As a result, it would be remiss to streamline the entire billing process without attention to the revenue management processes that must operate in parallel. Many of the same data sources are required to accurately determine the timing and amounts of revenue to be recognized as customer commitments are fulfilled. Contract data is the key, but it must be consolidated with usage and service data, and processed against a myriad of accounting guidelines. Unfortunately, any changes that occur to the value of services or timing of services directly impacts the management of revenue. This activity is typically relegated to multiple spreadsheets that open companies up for audit concerns and lack of compliance.

Key questions for assessing revenue management requirements:

- Is the system for managing revenue disparate from the billing system?
- Are manual processes required to correct revenue when changes are made to the billing process?
- Does the value of contract revenue need to be captured prior to billing events?
- Is it necessary to provide revenue forecasts that differ from the cash flow billing forecasts?
- Is the revenue being managed on spreadsheets, custom systems or an ineffective enterprise system?

If the answer to any of these questions is yes, there is significant exposure during the audit process, and a strong likelihood that the revenue numbers do not agree accurately with billing.

Closing Thoughts

The idea that billing is on the critical path to market leadership is well known by those who have successfully met the challenge of integrating billing into their enterprise financial processes. For those who haven't, it is easy to underestimate the impact a new marketing idea or strategic initiative may have for the company's core accounting processes. Unfortunately, companies with outmoded billing capabilities are vulnerable to innovation from competitors, and there are no quick fixes.

The last thing a marketing executive or CEO wants to hear is that their new market strategy won't work because "we can't bill that way."

The most important take- away from this white paper should be that the billing process, and the financial infrastructure as a whole, is a strategic asset and should be managed accordingly. It must be able to grow with the business and also be adept at supporting unanticipated changes. The last thing a marketing executive or CEO wants to hear is that their new market strategy won't work because "we can't bill that way."

A strategic approach to managing the financial infrastructure so that it supports the whole customer relationship results in more accurate and timely billing and thus improved cash flow. It also helps improve customer relationships as the right bill is sent to the right person at the right time. In addition, by integrating the contract, metering, services, and billing systems with revenue recognition, scheduling, reporting, and forecasting, new levels of strategic analysis can be accomplished to better understand key business drivers and more quickly unveil market opportunities that lie ahead.

About Softrax

Softrax Corporation is a leading provider of enterprise billing and revenue management solutions that fundamentally enhance the way companies manage, analyze, report and forecast their revenue streams. Hundreds of companies manage billions of dollars in revenue with Softrax billing and revenue management solutions. Softrax enables customers to maximize their revenue, reduce operating expenses, and comply with revenue recognition regulations and Sarbanes-Oxley requirements.

SOFTRAX CORPORATION
45 SHAWMUT ROAD
CANTON, MA 02021
WWW.SOFTRAX.COM
1 888 4SOFTRAX

NOTE: This document is provided by Softrax Corporation for education and informational purposes only and is not intended and should not be construed as providing legal or accounting advice. Your organization may be subject to additional or different rules depending on state and local laws, court decisions, agency regulations and your organization's internal business practices and structure.