Recurring Revenue Success:

The Million Dollar Decision - Build vs. Buy?

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Recent Gartner research indicates that roughly half of U.S. businesses currently have or are considering adopting a recurring revenue model. If you're reading this paper, then chances are that half includes you. Gartner estimates the revenue opportunity at greater than $300 billion per year and growing. Even a small piece of that pie would look good on your bottom line.

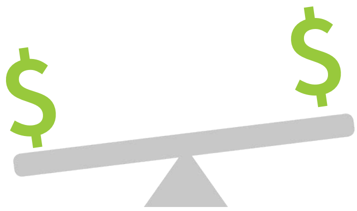
This growing trend toward recurring revenue monetization strategies presents both opportunities and challenges for your company. Opportunities include reaching new customers and markets, and creating reliable and predictable revenue streams.

New capabilities are required to manage the complexities of an effective recurring revenue business. Generally the first place this shows up is in your billing infrastructure, where existing platforms often don't support the complexities of recurring revenue models. To move forward, there's a good chance you'll need to either reinvest in your existing solution or look for something new. Which choice to make can be a multi-million dollar decision.

The Million Dollar Decision

Regardless of what 'billing' solution you have in place today (whether it be a home-grown, custom-built, an off-the-shelf software package, a function within your ERP solution or all of the above), the focus is on making sales, delivering products and collecting cash. These things are important and obviously need to continue, but in the recurring revenue world, they're not enough.

You've made substantial investments in the processes and systems used to run your business, and you need to continue to realize maximum value from those investments. That being said, you can't afford to let an old billing system derail your business growth. Chances are your old system was built for the way you did business 5-10 years ago, not for the way you will be doing business a year from now.



At this point you have a choice to make. You can continue investing in your current billing solution and hope it will keep pace; you can rip out your current billing solution and replace it; or you can extend/ augment your existing infrastructure with a new solution to support your recurring revenue business. If you choose to go with a new solution or extension, you will have additional choices to make between building or buying, and on-premise vs. Cloud.

Beyond Billing

In the brave new world of recurring revenue, billing is the first place companies go to support their new initiatives. But beware, most traditional billing systems are built and configured to handle traditional "one-and-done" sales models. You receive an order, you ship an order, you generate an invoice for the order and you receive payment.

Recurring revenue introduces new monetization models: subscription, usage, freemium, tiered - the list goes on. It's not just one-time orders anymore. Most existing systems probably won't support complex recurring revenue models.

Recurring revenue will add new requirements that are probably not supported by your billing system. You may need to reconfigure, re-code, and create major extensions or customizations to existing functionality in order to fully support a growing recurring revenue product line. And most billing systems just can't manage that.

You most likely have a multi-million dollar question in front of you. How do you move forward to enable a recurring revenue business? How do you balance the four key factors of functionality, cost, risk and time-to-market? Do you continue to invest in your current solution, or do you go in a new direction? How do you make the right decision?

Which One of These Are You?

There are at least five common billing scenarios for businesses looking at expanding into the recurring revenue world.

Scenario 1: The 'ERP scenario' – you're using your ERP solution to drive billing
Scenario 2: The 'on-premise' scenario – you're using a commercial package Scenario 3: The 'home-grown' scenario – you've built your own from scratch Scenario 4: The 'rapid growth' scenario – you've outgrown your solution Scenario 5: The 'green field' scenario – you're working from a blank slate

There are specific considerations for each of these scenarios. What are the challenges and opportunities? When is it a good decision to continue investing in your current solution? When might it be a good time to move in a new direction? We'll take a look at each of these scenarios and what you can do.

The ERP Scenario

If you're in an established enterprise, chances are your company has an ERP platform. You've made a 7 or 8-figure investment (or even 9 figures in larger companies) and you're a (*fill in vendor name*) company. In this scenario you're doing everything from your ERP package, including generating

Your IT team might even view it as heresy that you would dare to consider looking at any other solution.

There's a reason why ERP systems are popular. The established packages are pretty good at what they're designed to do: manage your order-fulfillment and financials. However, ERP packages are generally built - for an order-fulfillment business model and are not designed to support capabilities like usage loading and aggregation, or real-time client provisioning and syncing across platforms. They also may not have the ability to support the evolution of products, packaging and pricing necessary for success in dynamic recurring revenue markets.

The Cost of Building

Beware some of the costs of building, or continuing to build, your recurring revenue management solution:
- Time and cost required to code, test, QA a new capability; e.g. pooled volume tiered pricing
- Time required to use/apply/code this new capability to an offering
- Number of times a quarter the business will want to make changes requiring IT involvement
- Cost of underlying hardware, support, software
  Yearly cost of PCI compliance (which a Cloud Billing provider would absorb)

There's one other consideration. Your ERP solution is a corporate resource. At a minimum you'll need configuration changes, and you might also need some customizations to make things work. Your IT team has limited resources. Where do you sit on the priority list? Will your changes get done in the time frame you need?

When should you consider reinvesting in your current ERP solution?

- When your business model is highly specialized, requires extensive customization, and there is not a good on-premise or Cloud alternative
- When heavy regulatory and compliance requirements limit your options
- When usage-based billing is not and will not be a factor – ERP packages are generally poor at loading and aggregating usage data

When should you consider moving in a new direction?

- When your ERP solution cannot support the recurring revenue monetization model you desire either now or in the future
- When time-to-market is critical
- When scalability becomes a factor (especially in high-volume usage scenarios)

In terms of new directions, you actually have two options. The first is to leverage the existing invoicing capabilities while adding a new billing/rating solution. Use the new solution to manage subscriptions and usage, rating, etc., and at invoice time ship invoice line items to your ERP package for invoice presentment. The other option is to use the new solution for the entire billing process, including presentment. In either case, integration between your new billing solution and your ERP platform will be critical.

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When vendors tell you they can integrate with anything, don't believe it's easy or straightforward. Make them show you how they'll do it and ask for references.

Bottom Line: You'll likely need to add functionality. You'll reduce your risk and get faster (and probably lower cost) results by augmenting and integrating your existing ERP platform with a new recurring revenue billing solution than by trying to make ERP do something it wasn't designed to do.

The On-Premise Scenario

Perhaps you've already invested in a stand-alone on-premise billing package. These are expensive to deploy (usually 8 figures for "best-of-breed" solutions) and come with a high cost of ownership over time (including software license fees, support staff, change management, etc.). The upside is that the functionality is usually much more robust than what is available in an ERP package. Many of these on-premise solutions are sold by ERP vendors, but aren't easily integrated. You have the option to customize when needed, although that also carries the risk that your custom changes won't be compatible with future releases. If you've heavily invested in one of these, politics may become a factor in your decision.

Because of the cost of initial deployment, you probably only configured the package to support existing-use cases. If the system is extensible to support your new monetization models, that could still mean a substantial investment of money and time to get the changes you need. Assuming you have the money, time becomes the issue, as wasted time can mean lost market opportunities. Like the ERP scenario above, the billing system is a shared resource, and there is usually a queue of change requests. Again, where do you sit on the priority list? How long will you have to wait?

When should you consider reinvesting in your current on-premise solution?

- When you've invested in a "best-of-breed" solution and the business needs/politics dictate that you continue to invest in your best-of-breed solution
- When your business model is highly specialized, requiring extensive customization
- When heavy regulatory and compliance requirements limit your options

When should you consider moving in a new direction?

- When time-to-market is critical and your existing solution takes too long to launch new offerings
- When the TCO of your existing solution is just too high
- When alternative monetization models are part of your business plan and your existing system can't support them (usage, tiered, volume, etc.)
- When your existing package would require reconfiguration, extensions and/or customizations to support new use cases
- When scalability is an issue – recurring revenue is a volume business

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Bottom Line: If your billing solution supports recurring revenue models as is, that's great! If you need to add functionality, it might be faster and cheaper to deploy a SaaS alternative to support your recurring revenue business than to try to extend or customize your existing package.

Home-Grown Billing Systems

If your company has been around for a while, chances are about 50-50 that at some point you've built a billing solution from scratch. Years ago, building your own was common as market offerings were limited. Today, that's not the case.

If you are Amazon or Netflix and have seemingly unlimited technological resources, it might make sense to build your own solution. For the rest of us, here's the harsh reality: programmers with domain knowledge in billing are expensive and hard to come by. Plus, supporting recurring revenue models is relatively new. You may view coding as a commodity skill, but when it comes to billing or recurring revenue management, that view will lead to an epic failure. Billing projects average 18-24 months, and you don't have that much time.

If you already have a home-grown solution in place, you face some of the same challenges as the ERP and package solutions already discussed. You have coded for existing-use cases but will need to create new code for new monetization models, pricing capabilities, usage aggregation, etc. Plus you will have the same issue with your requests for new extensions and customizations going into a queue with other business requests.

When should you consider reinvesting in your current home-grown solution?

- When your business model is highly specialized and requires extensive customization
- When competition is limited, resulting in less pressure on agility and time-to-market

When should you consider moving in a new direction?

- When your existing solution does not support recurring revenue monetization models
- When your current system lacks the agility to support rapid deployment of new products, packages and price plans
- When time-to-market is critical and you can deploy a new solution faster or at a lower cost than you could by modifying the home-grown solution

One other thought, depending on your situation. If you're already feeling pain from an existing legacy solution, might this be a good opportunity to replace that solution altogether?

Programmers with domain knowledge in billing are hard to come by. And they're expensive.

Bottom Line: Similar to a packaged solution, if you can already do it, great! If not, it becomes a balancing act between functionality, cost and time-to-market, with time-to-market probably being the most important factor.

Outgrown Current Solution

You could be using an ERP solution, an on-premise billing solution, or a Cloud billing solution, and you find that you've reached the limits of your current solution's capabilities. This is both good and bad news. The good news is that this is almost always a result of rapid growth. The bad news is, your system could constrain further growth or even fail.

Your solution has worked with your original-use cases, but you're finding it doesn't support new products or plans that you want to deploy. For example, your system supports simple subscriptions and possibly simple overage charges, but when your marketing department wants to deploy new plans with complex usage scenarios, you find that your system won't support these. Or you might find that your current system doesn't scale, and that as your business grows the customer experience suffers, causing you to lose customers and thus revenue.

When should you consider reinvesting in your current solution?

- When the problem is scalability and it can it be solved, at least temporarily, by adding hardware
- When competition is limited, resulting in less pressure on upgrading your system

When should you consider moving in a new direction?

- When your current system won't support all the recurring revenue models you want to use
- When your vendor starts suggesting customization to support new-use cases
- When scalability is an architectural problem, not a hardware issue

Bottom Line: In this scenario there is substantial business risk with continuing to use your current solution. To mitigate the costs of delaying new products and services, functionality becomes the first selection factor with time-to-market a close second.

The Green Field Scenario

The green field scenario comes about for one of two reasons: you're either in a new business startup, or you're starting a new product line within an established enterprise and executive leadership has allowed you the freedom to move forward unconstrained by current business practice.

The 'green field' scenario comes about for one of two reasons.

In either case, the primary challenge is getting to market quickly. You're probably willing to sacrifice some functionality for speed, but be careful about constraining future growth by choosing a solution that's not flexible enough to grow with you. There will be a tendency to gloss over integration as something you can worry about later – if you fall into this trap, you will be worrying about it a lot, and later might not be very far away.

Can You Do This?

When asked "Can you do this?" vendors will almost invariably say "Yes." Instead, ask "How will you do this?" If the word 'customization' comes up too often, you're talking to the wrong vendor.

In a true green field scenario, you'll be looking for an end-to-end solution (e.g., CRM to billing to financials). The need for speed will dictate finding solutions where the deployment timelines can be measured in weeks and months, not months and years. That means Cloud solutions should be at the top of your list. Cloud solutions will also provide lower deployment costs, predictable costs over time, and should easily scale as your business scales. If you can, choose a billing solution that includes workflow processing to support integration across systems.

Bottom line: In the green field scenario, the question of when to reinvest vs. when to go in a new direction is a moot point. It's all a new direction. Your focus is on time-to-market and cost, which should point you toward a Cloud-based solution.

How Do I Choose a New Solution?

This is a topic that could fill a book, and there isn't room for an exhaustive review here, but there are a few simple guidelines that will help you through your selection process.

Large companies tend to produce large RFPs for billing solutions. The vendor responses come back in sets of 3-ring binders, composed mostly of boilerplate verbiage designed to induce a catatonic state in the buyer. Too often, it works. Massive RFP's are a great way to find out which vendor has the most robust RFP response team, but it's not always the best way to find the best solution. That's not to say that there isn't value to a well-written RFI or RFP; they can be valuable tools in separating the contenders from the pretenders. But there is more to a successful deployment than producing a professional-looking stack of 3-ring binders.

You need to get to know the vendors, and they need to get to know you. You need to meet the people who will work on your project. In addition to answering the important questions about security, compliance, integration methods and functionality, you need to have the vendor explain to you, face-to-face, how they will meet your specific-use cases. Make them show you.

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Make sure to talk to reference clients. If you can afford the time and cost, ask your top-tier vendors to deliver a small proof-of-concept. Their ability to deliver here could teach you valuable lessons about their ability to deliver a finished solution that works. In the end, you need to establish that the vendor understands your business, that their solution can functionally support your business, and perhaps most importantly, that they are people who you feel comfortable working with. A good vendor will be making the same assessment of you.

Always have a fallback plan. At the end of your search, you should have at least a first and second choice, and you should enter into contract negotiations with both. Your vendor should never be allowed to take your business for granted. A competitive process will always get you the best deal, and if your first choice can't seal the deal, you won't lose any time falling back to your second choice.

The 100% Solution

A final word to the wise…

If you're looking for the 100% solution, it doesn't exist unless you have unlimited resources to build it yourself. And even if you have the resources, you probably don't have the time. And even if you have the time, by the time you're finished your needs will change.

Think about the other software that you're using. Did you find a 100% fit in your HRMS or Financial or ERP solutions? Chances are you found an 80-90% fit and adjusted business processes or built work-arounds for the rest. Adopting the same approach to recurring revenue will save considerable heartburn and dollars.

Conclusion

Recurring revenue monetization models provide great opportunities and great challenges. One of the key challenges is ensuring that you have systems in place to monetize new products and services while providing great customer experiences, and the system that most often comes up short is billing. Do you reinvest in your existing solution, augment existing solutions, or do you go in a completely new direction? That's a question only you can answer.

In the end, the million dollar decision is a balancing act. You're balancing four factors: functionality, cost, time-to-market and risk. The perfect solution does everything, costs nothing, can be deployed tomorrow and carries zero risk. Unfortunately, that solution doesn't exist. What you're left with is a balance of factors that expresses the unique requirements and characteristics of your business.

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