



SEE MORE RESOURCES

THE NEXT GENERATION OF SERVICE:

*Capturing Recurring Revenue
With Usage Based Pricing*



“In an era of business model disruption, perhaps one of the most profound developments in the technology, media, and telecommunications world is the shift away from a model based on outright purchase or licensing to one based on consumption.” - Deloitte

Momentum is building towards adoption of **usage based pricing** - a business model where products and services are monetized under unit consumption rather than flat fees. What was once reserved for certain industries is now exploding into virtually every area of business, opening up new streams of revenue and endless opportunities for service providers.

In this ebook, we will explore the model that is disrupting the norm and, in turn, the way services companies are charging and billing for services rendered. We will then explore the benefits of adoption and offer actionable tips for a smoother transition.

Disruption Is Here - Are You Ready?

“Few things are more critical to your efforts in increasing your revenue growth and corporate sustainability than understanding the value of disruptive innovation.” - Mike Myatt, NHub

What constitutes true disruptive innovation? A disruptive **business model** is one that focuses on “creating, disintermediating, refining, reengineering or optimizing a product/service, role/function/practice, category, market, sector or industry.” Rather than fighting to survive, disruptive businesses enjoy the peace of mind that comes with true **sustainability**. Companies like Netflix, Amazon, and Uber broke the mold to claim their spots in otherwise saturated markets, maximizing revenue opportunities.

So, how disruptive is your business? And, more specifically, how disruptive is your business model?

Perhaps you’ve been doing the same thing, the same way, for so long that you shy away from disruption. Or, maybe you lack the tools and expertise necessary to aim for true innovation. Regardless of what’s holding you back - there’s no denying the fact that change is hard, and many companies struggle with disruptive innovation. It’s easier (in the short term, that is) to stick with what you know. A word of warning?

Complacency kills companies.

For those stuck in an outdated business model, know that there are other options. Many organizations are shifting away from pay-per-product to subscription based models. Consumers’ consumption preferences are shifting, opting for pricing that better aligns with the value of services rendered, and smart businesses are rising to the challenge.

The Rise of Recurring Revenue

Though the concept of aligning price with use is far from new, technology is presenting unprecedented opportunities for service providers to connect to their customers on-demand.

According to the [Economist](#), “80% of companies are seeing a change in how their customers want to access and pay for goods and services, and 50% of these same companies are changing their pricing models as a result.” Today, nearly half of all U.S. businesses already have or are currently considering adopting recurring revenue models.

If your organization is looking to improve top line, enhance customer experience, increase customer loyalty, expand into new markets, and sustain customer satisfaction, a recurring revenue model can offer enormous short term and long term benefits. [Forester & Ventana Research](#) identified **other drivers fueling the shift to recurring revenue:**

- To generate immediate income
- A desire for “stickier” customer relationships
- A thirst for customer insights
- An eagerness to capitalize on the cloud
- An inclination to experience connected products
- To create strategic business opportunities
- To sustain a long-term income stream by offering services of ongoing value

This shift is especially apparent in the communications industry, where hardware sales are rapidly declining and the need for dynamic and flexible pricing is on the rise. “With telecom service providers’ revenue per bit falling at 50% or more per year, network operators are clearly being forced to consider expanding their repertoire of services to something beyond basic voice connectivity.”

This slowing spend on hardware is affecting businesses of all sizes, including key players in the communications industry. According to [first-quarter 2017 earning reports](#), AT&T’s consolidated revenues were \$39.4 billion - down from \$40.5 billion a year ago thanks to record-low equipment sales in wireless. And in 2016, Cisco reported a [12% decrease](#) in switch orders from telecommunications service providers.

Traditional hardware and one-time sales revenue is declining, data consumption is growing, and communications companies are searching for monetizable solutions to replace what once dominated their revenue streams.

Shifting Towards a Usage-Based Pricing Model

For service providers navigating a rapidly evolving communications landscape, the rise of the subscription economy could not come at a better time. Usage-based pricing is empowering service providers to launch consumption-based products and services, sparking new and improved lines of revenue.

Technological trends like the Internet of Things (IoT) and Over the Top (OTT) are making it easier to shift towards this growing trend. Now, businesses have the technology necessary to move beyond basic subscription and into a mix of both fixed recurring and usage-based fees.

Add example of successful usage-based pricing adoption.

Benefits of Adoption:

By making the switch to a recurring, usage-based model, organizations can:

- Capture new lines of revenue
- Increase product/service demand
- Gain scalability and improve monetization
- Offer customers a way to pay that matches their needs
- Mitigates the risk of usage variability
- Better forecast supply, demand and revenue
- Improve visibility for fiscal planning
- Replace outdated streams of revenue
- Improve relationships with their customers

Service providers aren't the only ones benefitting from the shift towards usage-based pricing models. For consumers, a pricing structure based on consumption:

- Offers a wider range of choices in the marketplace
- Provides affordable flexibility
- Enables consumers to pay for what they use
- Offers greater transparency and fairness (end-users aren't charged for more than they consume)
- Increases satisfaction and relationship with their service provider
- Provides consumers with a greater level of control
- Alleviates wasted time on maintenance and upgrades

Like any major change, adopting a recurring revenue usage model is no walk in the park. In order to successfully shift towards a fundamentally different way of doing business, you'll need to prioritize a sound strategy and thoughtful execution.

10 Tips for a Smoother Transition

Whether you're rolling out a new offering or completely uprooting your business model, here are a few universal tips for a smoother transition towards usage-based pricing:

- 1 First and foremost, determine whether or not a usage-based pricing model is a good fit for your business
- 2 Define your price metric (how cost is measured for your end users)
- 3 Define your price structure (how the price changes over time - variable, flat fee, tiered, etc.)
- 4 Deploy a technology to track usage and upgrade your billing process
- 5 Implement a threshold model where pricing changes based on usage
- 6 Leverage rollover where whatever isn't used in one service period rolls over to the next
- 7 Offer pay-as-you-go pricing where the customer pays as they consume
- 8 Consider having customers pre-pay for usage units to provide some level of commitment
- 9 Deploy rated/metered pricing based on business logic and event combinations
- 10 Consider utilizing a fixed recurring fee for service access and a usage-based fee for additional transactions

Are You Ready to Future-Proof Your Business Model?

There is a clear, disruptive shift towards usage-based pricing models - so why are 50% of companies lagging behind? In many cases, it's the technological investment. In order to accommodate a usage-based pricing model, organizations will need to find a way to collect and analyze massive amounts of consumer data, a task that legacy systems are unable to accommodate.

Tracking and charging customers based on exactly what they use requires some way to accurately monitor their information. And, unless you're willing to knock out these efforts manually, you'll need a platform that can meter usage and apply charges automatically. To embrace a usage-based pricing model, you'll need a strong ecosystem (from billing to customer management) to help you monetize each product and service offering with ease.

So, is it worth it? That completely depends on your unique business goals. However, the shift towards usage-based is happening - with or without you.

By partnering with right technology partners, you'll greatly increase your chances of successful adoption. Rev.io's all-in-one-solution can tackle Billing, Customer Management, Tax Calculations, New Orders and Services Tracking, and more. We would love to help you take advantage of disruption in your market by helping you deploy new business models while delivering a superior customer experience. Get in touch with our team of experts at info@rev.io or (866) 470-5502. For more information, see how we can help you dominate the [subscription landscape](#).