The Usage Economy – Building the Bottom Line with Usage Rating

Overview

Today's service provider marketplace is complex, and grows more convoluted every day. Twenty years ago, different service providers each offered one service—a local exchange carrier provided local telephony service, a nationwide provider offered long distance services, cable companies offered television services and wireless service providers came on the scene with mobile telephony services. Today, each has tread on the other's territory and offers a mix of voice, data and in some cases mobile services.

The service provider market doesn't end there; over the top (OTT) players have jumped into the fray, offering a broad base of video, audio and even text messaging services without owning the network over which the packets travel. In the same way, cloud providers like Amazon Web Services (AWS) are offering thousands of different services over the Internet that allow businesses and individual users to reduce costs and increase productivity. Mobile providers are stirring things up by adding advanced data services such as LTE into their service mix.

Machine-to-machine (M2M) communications has also changed the face of the industry by connecting machines, devices and appliances wirelessly to the Internet, turning them into intelligent assets that share vast amounts of data. These tiny bytes of data, in turn, help companies better run their businesses, communicate with their customers and track everything from vending machine inventory to logistics performance to cargo containers to heavy machinery.

While the variety of providers offering a wealth of competitive services can seem mind-boggling, the marketplace is actually quite straightforward—until you look at the OSS/BSS systems that need to support such services. Legacy systems that were generally designed for a handful of services and a few different ways to bundle packages can't keep up with the landslide of new services being rolled out. Traditional ecommerce / ERP platforms from Fortune 500 companies aren't making the grade either because they can't adjust to the volume of rules and exceptions that communications services require to deliver the right services to the right customer at the right location at the right price.

The bottom line for providers:

- It has become too difficult to be creative with service offerings, tiered offerings and bundles
- It's taking too long to roll out new services that can help them remain competitive
- Customer fallout is heading in the wrong direction
- Services like M2M and cloud don't fit into the same OSS/BSS mold as legacy services

In today's Usage Economy, providers require a much higher degree of granularity and flexibility in their usage rating and billing systems to offer any combination of services at any price point to any customer.

Many of these new services that providers need to offer are no longer just based on an "all you can eat" subscription billing model made popular over the last decade, yet that's exactly what many OSS /BSS and traditional ERP systems were constructed to support.

However, the Subscription Economy isn't dead; in fact, many providers are finding great success offering subscription-based services. But the breadth of new services coming online is making way for the revival of the Usage Economy. However, these usage models aren't your grandfather's "pay for what you use" model. AWS, for example, is selling operating systems by the hour. Verizon recently announced it is selling Oracle in the cloud by the hour—not the month or year. Things are changing dramatically. In today's Usage

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A Transition is Underway

Let's take a quick look at how subscription-based and usage-based billing models work:

- In a subscription-based billing model, users are charged a flat rate for a subscription to a particular service or bundle, generally in periods of some length such as one month, one year or two years (a great example is the traditional two-year commitment to a mobile phone contract). Within that bundle you get what you pay for and if you exceed limits (data, minutes, messaging, etc.), you pay a premium, generally at a higher incremental rate than you would under the plan's limits.

  After the time frame specified in the agreement expires, the user can continue, choose a new plan, or cancel service altogether. Under this model, the provider receives a consistent and balanced cash flow and is thought to have high customer retention.

- In a usage-based billing model, the user pays for the service they consume in increments determined by the service provider. For example, data used on a mobile phone is measured in kilobytes, texting is measured in number sent/received, and movies, videos and music downloaded is measured in number of size. Pricing tiers can be created, such as 1 GB of broadband data for $69.99 per month, 1.5 GB for $89.99, and so on, with any additional services the provider wants to offer bundled in as well. Usage contracts between users and providers are generally still in play, but are becoming more flexible. A usage-based billing model can increase average revenue per user (ARPU) over the lifetime of the relationship. A usage model is also good for billing for services such as asset tracking and monitoring in the fleet management industry, for example, where traffic is high volume but low value.

Rating Takes Center Stage

In both models, but especially in usage-based billing, a robust rating engine is critical. Rating determines the cost of a service, whether it's a call, a data transfer, a video download, or some other type of event. The rating process involves converting call- or data-related information into a "dollar value." Rating can include hundreds of characteristics defined by the provider, including these common ones:

- Time, such as time of day or day of week
- Usage amount, such as length of a call, amount of data, number of songs downloaded, etc.
- Destination of a call
- Origin of a call (in mobile scenarios)
- Third-party charges, such as taxes, user fees, etc.

Flexible usage rating allows providers to create packages, bundles and roll out new services with greater ease and in ways never seen before.

Given that today's services are highly complex, with new types of packaging , bundling and billing scenarios emerging daily, the billing software that manages them needs to be highly flexible. Choosing a billing software solution with a powerful rating engine, such as LogiSense's EngageIP Usage Rating and Billing Solution, is critical to the real-time processing requirements of today's service providers as they process hundreds of millions of records per month across various mediums. Real-time usage-based rating allows service providers that own their networks to see a clear ROI from the services that utilize that network, and allows competitive and OTT providers to bundle and price services competitively to drive maximum revenue. Operators that don't have their own networks can ensure their rates are profitable by rating twice; once for their cost and once for their sell price.

Having extreme flexibility allows providers to create packages and bundles and roll out new services across mediums with great ease and in ways never seen before. For example, a provider could consider rolling out a bundle of 1,000 minutes per month across any medium, including landline, mobile and VoIP, or any other medium, for that matter. Or tiered packages that include different levels of music, video and data downloads across any device the user has. It becomes less about what current services the provider offers and more about what combinations of services the provider can imagine, bundle and tier in ways that are highly attractive to end users.

Let's take a look at some of the capabilities a flexible usage rating engine such as EngageIP enables:

- Easy creation of highly complex rate plans, including tiers, multiple keys, service bundles and discounts
- Support for frequent and rapid change of rate plans, which is critical in competitive pricing scenarios.
- Scheduling of call detail records (CDRs), event detail records (EDRs) or usage detail records (UDRs) pulling from network sources or selecting a pre-defined time to drop off CDR/EDR/UDRs to the processing engine
- Categorizing call records as local, regional, national, or international, as needed
- Definition of regional and national minute buckets at the service level and individually adjusted for each phone line as warranted
- Rating for prepaid, spending control or pre-delivery charging deployment
- Manual entering or batch importing of call detection configuration
- Rating in real time with an integrated API

The flexibility, openness and extensibility of this powerful rating engine make EngageIP the most flexible billing platform on the market.

Complementary Models

The Subscription Economy ushered in an age of "all you can eat" for one price, but it never took into account the dramatic evolution of the industry as two factors emerged:

- New players such as OTT content providers coming on the scene that are driving competitive pressures to new heights
- The dramatic and rapid emergence of new services such as advanced data, cloud and M2M services that are breaking the mold on the way services have traditionally been sold

The Usage Economy takes these two factors into consideration and maximizes their potential for providers who need the flexibility to offer complicated tiered and bundling scenarios to their users.

The Subscription Economy isn't going to disappear, however; there's considerable room for both subscription-based billing and usage-based billing to operate as the market continues to expand dramatically. What's taking place for many providers is actually the best of both worlds: the ability to layer usage-based billing capabilities atop an existing platform that is designed more for services launched for the Subscription Economy. A platform such as EngageIP can be used as a standalone usage-based or subscription-based solution or layered with a solution that is subscription based.

In the end, it's all about flexibility.

Service providers—regardless of what solutions they offer over what medium—are facing intense competitive pressure to roll out new services quickly, price them competitively and offer new types of bundles and pricing tiers that make sense for today's consumer. A solution that offers a powerful usage rating engine at its core provides the flexibility and extensibility they need to be competitive in today's Usage Economy.

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