

# A QUICK GUIDE TO RECURRING REVENUE BUSINESS MODELS



A guide to enable quick time-to-market and avoid costly monetization processes when introducing recurring revenue business models.

# WHAT IS RECURRING REVENUE?

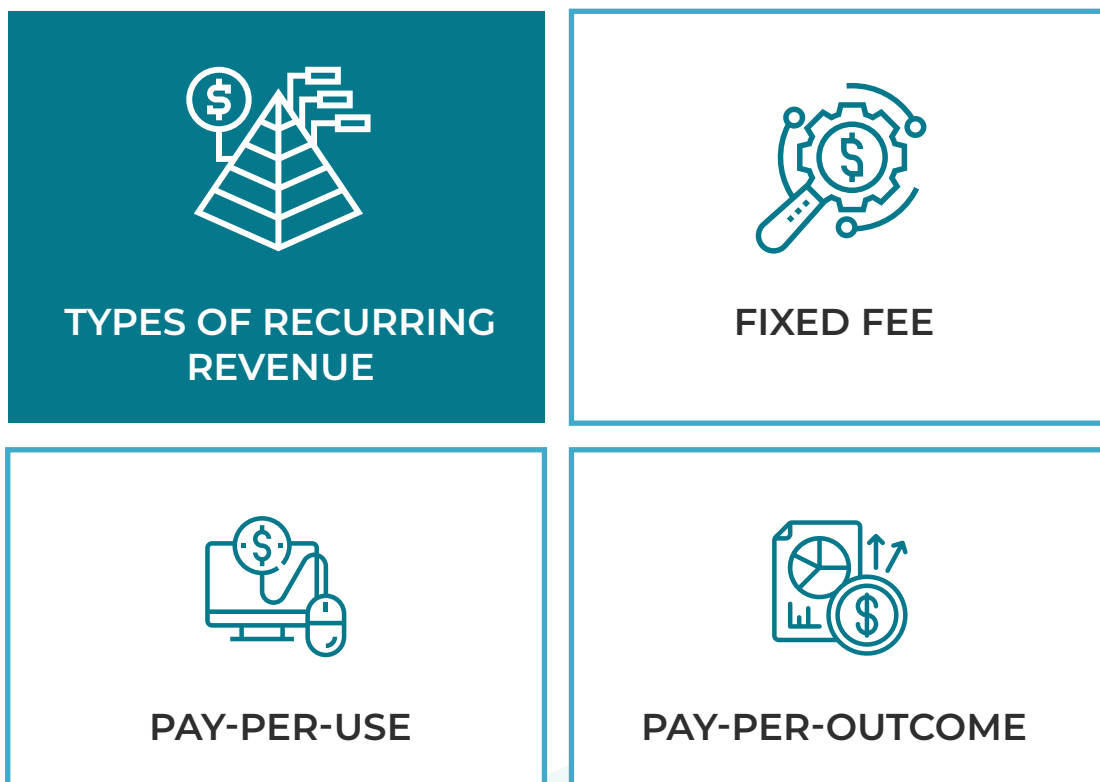
**TO PUT IT SIMPLY,** THERE ARE TWO MAIN TYPES OF REVENUES:

✔ One-time    ✔ Recurring

The most traditional source of one-time revenue is selling goods. When a store sells a pair of shoes it gets payment. The store owner is happy. The owner of the new shoes walks away happy as well. End of story.

Recurring revenue is not a new invention either. Your electricity has been billed at a recurring model, the same as your phone bill. Some goods have long been delivered at a recurring revenue model, such as books from a book club. In the recurring revenue model, there are several subsequent payments with subsequent deliveries of goods or services.

Recurring fees may be based on a fixed-fee model, a pay-per-use, or a pay-per-outcome model, or a combination of these.



**The recurring revenue model is often used when a customer and a service provider agree on:**

- ✔ a continuous subscription, or
- ✔ a frame of a service contract to include several elements, such as fixed and variable subscriptions and productized packages for professional services.

# WHY DOES RECURRING REVENUE MATTER?

An economic megatrend is that products will be more often be packaged as services. According to the World Economic Forum Global Future Council's expert forecast, all products will have become services by the year 2030.



## ANOTHER BIG TREND IS THAT A BORDER BETWEEN DIGITAL AND TANGIBLE WILL FADE:

Many goods include software, and the software is essential for the product to be functional. For example, in a modern car, the software is controlling almost everything, and modern electric cars can be seen as computers with wheels and motors attached. The same applies to many other devices from large industrial equipment to small consumer electronics. Features and options may be controlled through software, which is then managed as a subscription. Even if the product itself is not digital, a recurring model can apply.

## THE BUSINESS BENEFITS OF RECURRING REVENUE ARE OBVIOUS:

- ✔ A recurring model often enables higher cumulative revenue compared to a one-time sale
- ✔ The recurring model maintains customer contact with easy upsell opportunities and value upgrade opportunities
- ✔ Recurring revenue is easier to forecast than one-time sales
- ✔ Business planning is easier when revenue is more stable
- ✔ Resourcing is easier when the related income is known.

There are many examples of clever recurring revenue models that have made old business models fade away:

- ✔ Spotify with a monthly fee for premium subscription versus buying a CD now and then
- ✔ Cloud software with a monthly fee instead of buying hardware and software licenses
- ✔ Car leasing instead of buying a car.

And there is more to come: New mobility services offer all your needed transport for a monthly fee. This removes the need to buy separate tickets and make separate orders for a taxi. Manufacturing companies are preparing service packages which include remote monitoring and field service, as well as IoT data access and IoT applications, as variable subscriptions and usage-based pricing. Usage-based leasing is becoming more popular.

## THE FUTURE SEEMS TO BE OF SERVICES AND SUBSCRIPTIONS: A FUTURE OF RECURRING REVENUE.

# THE FOUR ELEMENTS OF BILLING AND MONETIZING RECURRING REVENUE

FOUR ELEMENTS ARE DRIVING THE NEEDED CAPABILITY FOR BILLING AND MONETIZING RECURRING REVENUE:



Variation in service delivery



Variation in pricing



Variation in customer agreements

In a very simple form, the service and the service pricing are the same for all customers. For example, billing 9.99 euros or dollars per month per customer is not a difficult task, even in high volumes.



## WHEN WE MOVE BEYOND THIS, THINGS WILL GET A BIT MORE COMPLICATED:

A business model will require price variations. Variation in service delivery may be designed to allow flexible options and add-on services. It may also be due to for example differences in a delivery partner model from region to region. A variation in customer agreements is often a result of customers perceiving value differently and the negotiation power of customers.

# ILLUSTRATION OF THE LEVELS OF MONETIZATION COMPLEXITY

	LOW VOLUME	HIGH VOLUME			
Variation in Pricing	ANY NUMBER OF THE VARIATIONS	NONE OF THE THREE VARIATIONS	ONE OF THE THREE VARIATIONS	TWO OF THE THREE VARIATIONS	ALL OF THE THREE VARIATIONS
Variations in Service Delivery	0-3	0	1	2	3
Variations in Customer Agreements	EASY	EASY	MEDIATE	DIFFICULT	HIGHLY DIFFICULT



If the volumes are low, it is easy or relatively easy to collect recurring revenue, even with a high variation in pricing, service delivery, and customer agreements.

If the volumes are high, any variation can quickly cause difficulties in collecting revenue, as legacy systems don't usually support recurring revenue business models in any industry outside telecommunications, utilities, and media.

Besides, even those industries long familiar with recurring revenue models are now facing new opportunities and challenges brought by the Internet of Things (IoT) enabled services and by the increasing demand for customer-specific services.

Volume and variation factors expose companies to revenue leakage and drive high processing costs in the form of manual work, customer complaints, and rework.

# THE CHALLENGE OF RECURRING REVENUE IN YOUR EXISTING SYSTEMS

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Introducing a recurring revenue business model may be an easy task if volumes are low. It can still be relatively easy to introduce a high volume recurring revenue offering if the variation of price/service/customer is low.

When variability is combined with high volumes or an anticipated need to scale the business, there is a definite need to adopt new capabilities with a purpose-built recurring revenue billing and monetization software.

Many of the current ERP systems and other operational legacy systems, and most of the current billing systems, cannot manage the complexity caused by variable elements.

- ✔ Many ERP's are still based on the traditional idea of producing or purchasing goods, selling and delivering goods, and having goods in stock. What is sold and delivered gets invoiced. This business model is quite far from a subscription-based monthly service.
- ✔ Many maintenance service systems are built for time and material-based services and at best capable of introducing some limited variation with standard service packages and levels such as gold/silver/bronze.
- ✔ Many service management systems excel in service operation but do not come with service business pricing and billing capabilities.

This is why many companies are looking for billing platforms that could cater to their current and future billing needs, as the world is quickly evolving, and new opportunities and new business models are appearing quickly.

# WHAT CAPABILITIES TO LOOK FOR IN RECURRING REVENUE BILLING AND MONETIZATION SOFTWARE?

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## THERE IS A RECURRING REVENUE BILLING SOFTWARE. PURPOSE-BUILT!

Make sure the software has the key features that are essential for your business so that it is truly supporting your evolving business and allowing the flexibility you need today and in the future:

### Flexibility to make your solution future-proof:

- ✔ Dynamic data structures that allow describing current and future services.
- ✔ The flexibility of products and services because it is likely that your products and services will change over time, as the pace of change will increase. Also look for customer-specific variation, as it is a growing trend.

### Flexibility to tackle complexity:

- ✔ A rule-based core engine that matches any and all business models as rules are the most flexible way to describe complex pricing and billing scenarios.
- ✔ The rules define what the billing engine should do, for example, if there is a price change in the contract after the customer has consumed a certain quantity of the product.

### Flexibility to capture IoT opportunities:

- ✔ Easy way to import usage data and to interface with other systems, platforms, and services builds a solid foundation for IoT-based business models.
- ✔ APIs and orchestrated imports are a must. You need a way to get IoT data automatically from the IoT devices or from the IoT platform. Efficiency is essential in the monetization of IoT.

# GROW YOUR BUSINESS WITH GOOD SIGN

We help our customers solve existing pain points in monetizing service contracts and managing subscriptions and pay-per-use services. Our software is for pricing, billing, and monetization of recurring revenue. We help companies freely grow scalable services.

Our customers are the service providers such as Fortum and Fujitsu.

If you feel your billing needs will outgrow your current billing solution, or if you are just curious to learn how Good Sign does things differently, feel free to take us to the test! We will gladly take on your challenge and prove to you it can be done.



## NO LOST REVENUE

Stop the usual 5-10% service revenue leakage. Book it to your EBIT instead.



## END OF MANUAL WORK

Eliminate 90% of manual work. Gain real-time data transparency.



## SHORT TIME TO MARKET

Strike 100% flexibility. Gain 70% quicker cash flow.



## IMPROVED CUSTOMER EXPERIENCE

Deliver clear and timely invoices and deal with fewer complaints.

Feel free to contact us and let's have a chat on how we can support your company.