



SERVING UP FOR SUCCESS



What was the world's first service based model? In the United Kingdom, customers were able to sign up for milk subscriptions almost two hundred years ago. By the end of the 19th century, publishers were offering newspaper and magazine subscriptions. The model has since been widely adopted by utilities, mail order businesses, telecom, media and technology companies. More recently, service and outcome based models are finding wider acceptance across industries globally as brands seek deeper and long-lasting mind and wallet share and new ways to reach customers. Newer adoptions include mobility solutions of auto companies, consumer subscription models of CPG companies and outcome based offerings of aircraft manufacturers who bill on aircraft uptime rather than product sales.

The transition from a product based to a services based model is happening on the coattails of technologies like IoT, but the shift also requires new order and revenue management and billing capabilities. Therefore, as more enterprises embrace the new paradigm, important questions arise:

- **What are the various monetization models that can be tapped for growth?**
- **How are these different from the traditional sales and distribution based billing scenarios?**
- **How can we tap into past investments in billing applications?**

A shift is underway

IDC notes that there has been an upsurge in the number of companies embracing the recurring business model since 2018. Companies are offering new technology-enabled services (e.g., SaaS, data, connectivity) while others are packaging software license and maintenance into a subscription (e.g., Microsoft Office365). At the retail level, this is seen through re-order programs of online retailers and subscription boxes. The shift towards recurring business models is driven by the need within businesses (and their investors) for predictable revenue streams. In addition, the shift can be directly correlated to the COVID-19 pandemic, which broke out in 2020, as it "zoomed" businesses and customers into using a wide range of subscription services faster. This is corroborated by insights from IDC's Worldwide CEO Survey (January 2022), which indicated that 'as a service' digital business models are a high priority for CEOs and boards of companies, along with data monetization and data-as-a-service plays.

The shift is not true just of technology companies – traditional manufacturing, retail, healthcare, life sciences and education enterprises are also jumping on the recurring revenue bandwagon. IDC's Future Enterprise Resiliency & Spending Survey (October 2021)[IDC Future Enterprise Resiliency and Spending Survey Highlights Key Findings in the Areas of Customer Experience, Enterprise Intelligence, and Digital Sovereignty] found that over a third of traditional enterprises surveyed had adopted recurring models. This may not be on a uniformly large scale, but it certainly indicates the interest in moving from distribution to

consumption models. Some of the traditional business segments making moves into the recurring revenue model include heavy machinery maker John Deere (billing based on consumption metrics of usage and features), aircraft engine maker Rolls Royce (aircraft uptime) and automotive companies (based on features, distance and kilowatt consumption for EVs).

Pricing it right

As companies make the shift and go up the value chain of recurring business models, they deal with greater and greater complexity in pricing. Moving past the 'Pay to own' and 'Pay to use' models, companies enter the murkier realm of 'Pay what I use' and 'Pay on success.' Managing customer expectations and finely calibrating the value metric on which the outcome is based become essential. Creating a combination of fixed+variable pricing is one way of managing the increased risk, while detailed pricing research and customer intelligence are key for getting the outcome model right. In businesses like BPO, outcomes could be linked to revenue under management. Here, IoT data may be useful to provide automated feeds on fulfillment success and timing. The hardest part of the pricing strategy is getting it to reflect what customers value in an offering. The second challenge is scaling pricing and discounts to ensure that the model achieves corporate expectations. Finally, the enduring challenge of this business model is tuning that pricing model to keep it on point for market/enterprise realities.

Is it worth it to make the shift? First, let's look at a simple comparison of tiered pricing models – simple tiered pricing (like Gold, Silver and Bronze, for example, for a service) has few price points. However, when married with consumption, the price points increase. More variable price points allow the customer to start at a low cost, increase with need, and link the price paid with the value received. This strategy expands the market by making a product more accessible with an up/down price range.

Gearing up to make the shift

A big part of making a move to a recurring revenue model is getting the technology piece ready to manage subscriptions, billing and customer management. Platforms like SAP Billing and Revenue Innovation Management (BRIM) cover the entire lifecycle of activities in this model, starting with product configuration, sales, invoicing, provisioning through to reporting, churn management, cross-selling and support. A key piece of these systems is the 'learning' features – with the marriage of automation and machine learning, companies can learn a lot more about what happens during selling and fulfillment. They can use this data and insights to do better, smarter automation, more personalized outreaches to customers, churn mitigation and bundle offers.

A platform like SAP BRIM is purpose-built for subscription and consumption based models, order-to-cash. It offers comprehensive functionality for the five key stages of this life cycle:





Business Model Design & Pricing Configuration: Traditional pricing and monetization platforms don't map to subscription, usage and consumption models. SAP BRIM has been designed ground up with the flexibility to provide sophisticated subscription and consumption-based monetization models for virtually any service offering. Take for example, a forklift manufacturer using the platform that began with a simple lease of machines to customers but has since graduated to hybrid contracts that include a base number of machines deployed full-time plus a certain number that are billed based on usage. SAP BRIM supports such customer pricing journeys that become more complex as more monetization opportunities emerge.

Customer & Partner Contract Management:

Customer relationships in this paradigm are based on contracts, not orders, resulting in contract management challenges, such as add-ons and co-termining. With BRIM, businesses have rich customer and partner billing contract management capabilities to allow for service additions, changes, as well as customer-specific pricing and terms. For a vehicle telematics and fleet management solution deployed for an automotive company in Sweden that deals with trucks, BRIM supports variable price contracts based on different parameters, including fixed subscription, fuel consumption and driver times.

Usage metering and transaction pricing: Usage and consumption based models lead to challenges with high-volume transactional data quality, pricing, and metering. Every usage event, every read on a meter for telematics, every time the vehicle moves - that's data with monetization potential. And as monetization potential grows, volumes follow. The BRIM solution is geared for very high-volume data mediation and pricing in both real-time and batch modes. The system has been benchmarked for supporting a billion events processed for 20 million customers over ten hours. BRIM can also be scaled for extremely high IoT level volumes, allowing businesses to capture the monetization potential that comes with that level of insight and granularity.

Automation of B2B and B2C Billing, Invoicing and A/R: Older billing and AR/AP processes and systems do not scale to increased billing frequencies and bill-to parties. In contrast, BRIM is engineered for robust and highly automated high-volume AR/AP processes. For example, for a manufacturing and IoT software company in the USA, BRIM handles automated revenue recognition for any type of bundle (multi-element arrangement), including 'Device as-a-service for ASC 606 compliance.

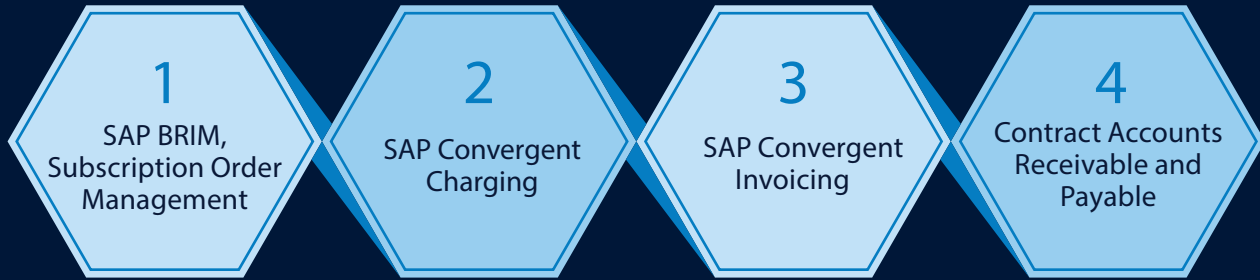
Partner Revenue Share: The emergence of the platform, revenue-share, royalty and other multi-sided business models cannot be supported with existing systems. BRIM comes with sophisticated account relationship capabilities to support complex, multi-party receivable and payable relationships within multi-sided platform business models

Coupled with this rich functionality is SAP's cross-industry expertise. As a company, SAP not only understands the process associated with subscription and consumption but also has expertise across many industries. This allows the assimilation of learnings from multiple sectors – for example, as companies move into subscription based products, they might have to borrow ideas from businesses like utilities that have been consumption-led for a very long time. SAP BRIM is a repository of such intelligence that has filtered through from decades of partnership between SAP and utilities, telcos and ISPs – all of whom have worked in the recurring revenue paradigm for a long time.



Deployment Framework

The solution comprises four core components:



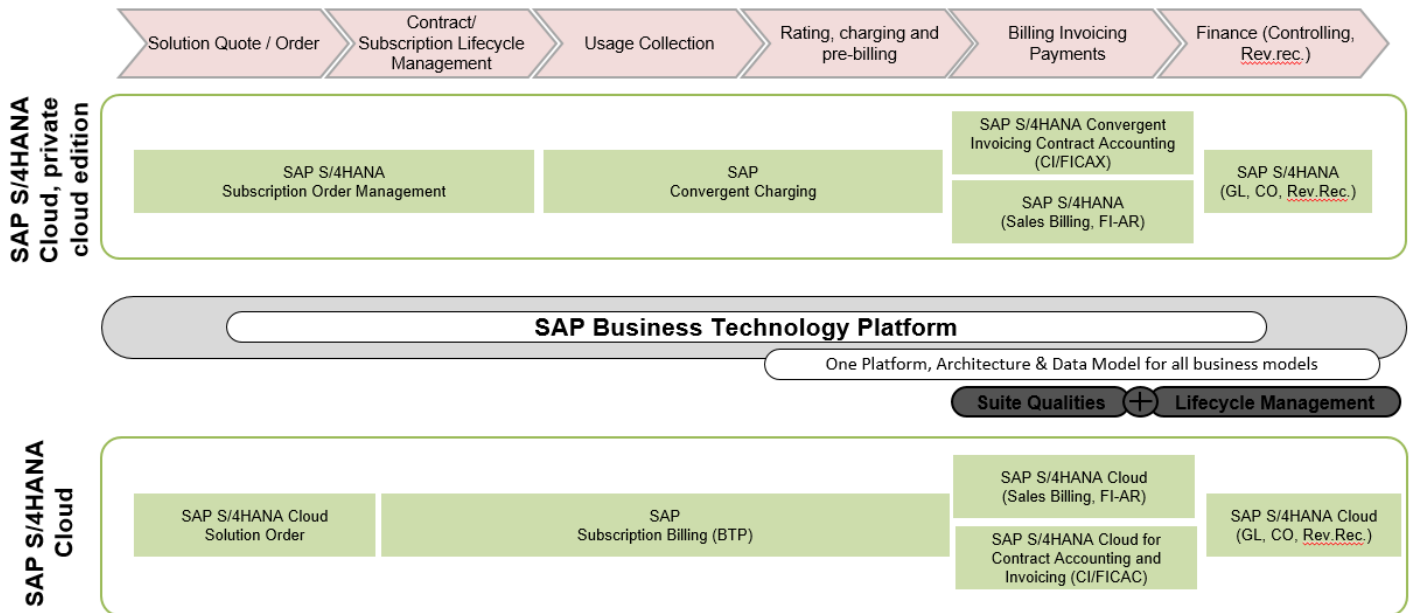
Together these components help manage the business model design, perform order management, track usage metering and transaction pricing, billing, and invoice processing, manage receivables, payables, royalties, and commissions, as well as provide support for financial customer care.

SAP BRIM also offers peripheral solutions such as SAP Convergent Mediation by DigitalRoute, SAP Flexible Solution Billing, SAP Revenue Accounting and Reporting, and SAP Entitlement Management, which are implemented as needed per business requirements and complement the core SAP BRIM solution. [<https://blog.sap-press.com/what-is-sap-brim>]

SAP offers BRIM on both private cloud and traditional SaaS cloud deployment options. The former supports customized deployments for an enterprise, while the latter offers BRIM functionality in a SaaS cloud package which is more off-the-shelf.

SAP BRIM solution components reside both as areas within SAP S/4HANA and as standalone modules that integrate with SAP S/4HANA. As a result, enterprises have one platform that can manage projects, services, traditional sales, manageable boosted devices and subscriptions. Why is this important? For example, a technology company that sells hardware and software bundles as a service cannot start the subscription until the installation is complete. But installation cannot be done until the equipment's been delivered. So the challenge is orchestrating equipment delivery with service delivery, followed by subscription activation and monetization. That's what is possible on an integrated platform. But having said that, SAP BRIM is also designed to work in a modular fashion with existing components within the enterprise IT architecture, such as third-party order management systems.





Case Study: A Drive to Succeed

When a leading American automotive company decided to design and launch innovative products in the mobility space, a key consideration was building a business model for speed and scale. Launched as a start-up within the enterprise ecosystem, the new mobility business encompassed autonomous vehicles (AV), commercial solutions encompassing telematics, data services, fleet management, and Electric Vehicle (EV) charging. A subscription-based business model, which allows long-term connect with customers, seemed like the right fit, especially given the auto major's ambitious go-to-market timeline and desire to build a customer-facing, high volume business

To support this business strategy, the company implemented the S/4HANA 1909 SAP BRIM Implementation Program for its Mobility business. Implemented as a global solution for multiple business units, the scope of SAP BRIM included Subscription Order Mgt (SOM), Convergent Charging (CC), Convergent Invoicing (CI) and Contract Accounting (FICA). These modules, which communicate with existing SAP systems through middleware, support the configuration of multiple products through a catalog and dynamic pricing. A convergent charging system for pricing and rating plugs into a legacy rating engine, while a convergent invoicing component presents bills to customers and third parties through multiple channels.

A key challenge for the SAP BRIM implementation was supporting multiple business models (EV, AV, ride share and bike rentals)

in high volume segments that serviced business entities, end customers and governments worldwide without creating unique solutions for each. Instead, the team at the auto major was clear that they wanted a solution that could scale and meet the needs of any customer across any business model and in any region. As a result, in meeting the brief, the implementation was able to deliver the following benefits:

- No-Touch processing design of end-to-end subscription business process: from usage data to consumption item creation, pricing and rating through to billing and invoice generation – each step is enabled without intervention.
- The system supports complex pricing – for instance, transportation services can be billed on different parameters based on a trip, package, or variable cost.
- Reconciliation of usage data, invoices, credit and debit memos has been simplified through an end-to-end single operations report
- High volume data processing capability for usage data delivered using parallelism
- Innovation in error reduction: Errors in usage data processing, rating and invoicing are filtered in pre-processing through an ALL or NONE capability - before any usage record is processed, the entire billing cycle up to invoicing is simulated, line by line to find and correct errors upfront

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