

Why Portals will Replace Traditional Billing Approaches

Net Forecasts – Peter J. Sevcik

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Billing is the Achilles heel of the “new-age” network service providers (NSPs). It is the non-glamorous but essential side of the business.

A typical billing system consumes between 20 to 30 percent of operating costs – far more than switching infrastructure. Still, we often hear religious debates on the fine points of switching but little on the topic of billing. But since we all have to cope with billing, we should explore the ramifications of doing it well and the pitfalls of doing it poorly.

The “old-age” service providers *know* billing. In fact, a senior executive of an RBOC once told me, “We are first a billing company; the telephone service we provide is secondary.”

It’s true. How many companies know how make money selling services that only cost pennies? Most businesses would loose money on such micro-priced services, but the RBOCs don’t know how to *stop* providing detailed billing.

For example, I have what I consider to be essentially flat-rate cellular telephone service. For a fixed monthly fee I buy 1,000 minutes of calls anywhere within the United States with no roaming or long-distance charges. You’d think that this simple plan would warrant a simple one-page bill -- it only needs to tell me how close I came to the 1,000 minutes. Instead, I consistently get a 12-page bill that itemizes every call. The billing system is stuck on the old business model.

The new-age NSPs look with envy at that detailed billing machine. Billing for every little option is viewed as a way to start making profits. In fact, I have heard about plans for Internet usage billing that would be based on each URL you clicked. Of course, there would be a local service plan that bundles some URLs into a basic monthly fee. But overseas URLs would be billed by the hit and by the time of day (peak and off-peak hours). In keeping with the telephone 900-service model, any visits to pornographic sites would cost a premium, regardless of location or time of day.

Alternative Business Models

That kind of thinking, however, poses a real danger: The new-age networks will choke on old-age business models. Clearly, the contenders have to address a fundamental question: What is their business model?

The industry is moving between opposite poles of thought, and on several dimensions. You must understand where your NSP is planning to operate on these dimensions, because each will make dramatically different demands on the billing system.

Flat Rate vs. Usage: This is a well-understood issue. Consumers and businesses prefer flat-rate billing because it removes the surprises inherent in variable usage billing. Usage billing also is the preferred model of most sellers, who use a cheap entry price to capture new clients, which they then follow with lots of usage billing.

Customer Satisfaction vs. Cost Recovery: The much-touted service level agreement (SLA) approach is really about selling network services based on customer satisfaction. Imagine a service that provides a discount to the flat rate for each time that a Web page from the 20 most visited sites in a month exceeds 3 seconds. These discounts could apply to business transactions, sessions with business partners, etc. Of course, each list of partners has many common members that become core valued destinations.

At the other end of this dimension is cost recovery, a way of thinking that is fueled by scarcity. The high cost of building a global telecommunications infrastructure over the past 100 years left us with a legacy of cost-recovery thinking: Calls to another country costs more because the circuits and the interconnection between countries cost more. Therefore, long distance and peak-time periods are all designed to get the user to buy more carefully and pay in accordance to the precious resources consumed.

Value-Added Services vs. Transport Services: A long-established set of laws and regulations keep NSPs from looking at the information they transport. So, you pay for calls or bits, and the service provider is not even supposed to know which calls or bits were more important than others.

Over time, however, NSPs developed value-added services that were tangential to basic transport, such as voice mail, call forwarding, caller ID, etc. In the data world, the number of value added services will be much larger -- email, news feeds, VoIP, VPNs, unified messaging, caching, Internet roaming, multicast sessions, Web hosting, application hosting, etc. Hosted applications are likely to be a great marketing success that will provide truly valuable business services.

Bundled Services vs. Service Menu: The number of service options available from a traditional telephone NSP are staggering -- Bell Atlantic has about 20,000 individually tariffed services throughout its service area. The reason? Each new service proposed by a public utilities must be incrementally justified and tariffed.

However, every NSP has a story about one-stop shopping -- diverse services are bundled into attractive packages. My national cellular phone service mentioned earlier actually isn't flat-rate, but instead comprised of several basic services bundled with 1,000 minutes of usage. There are many ways to bundle services including usage, added services, advertising, frequent usage premiums, etc.

But despite all the hubbub about one-stop shopping, most consumers will buy network services from more than one vendor. Eventually, most of us will have three basic choices for network access: copper, cable and wireless. Most of us will continue to buy at least two access methods, which are connected to many parallel networks. So, when an NSP looks at the emerging choices, the natural reaction is to hedge its bets: Make sure that all the equipment can measure *everything*, that the management systems can track everything and billing systems can charge for anything.

This "safe" strategy, however, is the wrong strategy. The only outcome it insures is that the NSP will have the most expensive and least flexible service, and no strategic focus. In short, NSPs can't avoid having to make a stand -- focus in on a relatively narrow point on each of the four business dimensions above. Only then can a successful business strategy emerge that can be supported by a practical billing system.

The NSP Business Portal

Business portals should tame this out-of-control world of choice, and there's a model we're all familiar with: A business credit-card that is handed to employees for their own use but has a spending limit, and is good at only a few vendors. Dell Computer's client-customized Premier Pages and Cisco's Networking Products Marketplace are also early examples.

An NSP portal would permit customers to sign on for a variety of services, such as on-line expense report processing, outsourced accounts receivables or direct connection to the customer's medical plan. Each on-line vendor would pay the NSP for bringing and billing the client. The NSP portal will in essence become the home page for the client's employees -- a place where they can view their calendars, email and even get discount offers from local eateries.

The attraction to the client firm: Simplicity. The attraction to the employees: Convenience.

For example, an email service can forward important messages from my stockbroker or child's school to my digital cell-phone, even though the cellular service is not supplied by the NSP. But, once I start getting a lot of messages, I may be tempted to buy NSP's cellular service. International telephone calls over the Internet would another likely target. The key is for NSPs to keep track of individual preferences and tailor its services accordingly.

Abatis Systems Corporation in Burnaby, British Columbia, has this vision well thought out, and offers software and hardware NSPs can use to create business portals that can be the focal point for all services, "own" the customer and send a simple integrated bill for all services. Abatis' three-layer architecture has portals

selling applications services, and “talking” to a contracting layer that provisions services in the network layer. The key enabling element is an open Service Definition Language, which Abatis hopes many NSPs will adopt.

Two Basic Strategies

If you’re a carrier or carrier-wanna-be, there’s one sure road to extinction: Create a big menu of finely-sliced transport services that are billed by usage in order to recover slightly different costs. There are however, two reasonable sets of choices in each of the business dimensions that NSPs should consider.

1. Retail NSPs that own the primary customer interface and bill for services should adopt the portal model. This is, however, new and uncharted ground, and it may require that an NSP team with companies such as Yahoo and AOL/Netscape.

The retail NSP would deliver hosted applications, operated by partner firms. Each service would be sold on a flat rate, based on a customer site, employee or seat. Creatively bundled packages and strong SLAs would permit differentiation and discounts to make the bill cheaper. Think of this as an Amazon.com for simple business services, with a bill that only itemizes business services, never transport.

2. Wholesale NSPs, while selling basic transport to the retail NSPs, need to develop creative SLAs around bulk-pricing models. Given that the bulk transport unit that emerges is likely be traded on commodities markets, SLAs and global scale will be the only differentiators available.

However, the wholesaler should make sure that the SLAs support the emerging retail SLAs. Retailers will be looking for ways to ensure a user has a positive experience, and having enough bandwidth for underlying transport will be a given.

As the focus shifts from basic services to retail business services many more players will emerge. We really will get to see the power of the ‘Net to change how businesses do business. I can’t wait for the day when I can buy more business services on the ‘Net but receive a simple bill that I can actually understand.

Peter Sevcik is President of NetForecast in Waltham, MA, and is a leading authority on Internet traffic, performance and technology. He has contributed to the design of more than 100 networks, and led the project that divided the Arpanet into multiple networks in 1984, which was the beginning of today’s Internet. He can be reached at peter@netforecast.com.