

Pay-As-You-Go Billing is way Forward

The ongoing development of risk-based billing for software is set to shake-up corporate IT budgets.

Corporates have become accustomed to forking out vast amounts of money for software, and even larger amounts for implementation, and then being forced to make regular payments for licences, upgrades and maintenance fees - all without a single guarantee that the software will actually do the job in terms of meeting business requirements.

Anyone who has watched the IT market over a period of time will attest to the vast number of failed implementations they have witnessed. Projects that were to take 15 months run to three, five or seven years, and into millions of rand. The Standish Group's Chaos Report shows that 66% of all IT projects fail, which means they are more than 20% over budget, 20% or more late, and fail to meet 20% or more of the business requirements for the system. The average cost overrun is 43%.

However, the ongoing development of risk-based billing is set to change all that - and to make a significant dent in corporate IT budgets. As a model of IT services provision, risk-based billing shares the risk between customer and IT provider, introducing the concept of fairness into the IT arena for the first time.

In very simple terms risk-based billing means the customer is billed for a software service based on an agreed metric that measures the success of the customer's business. The risk here is that if a customer's business goes through a bad patch then the software supplier is paid less, but the converse applies when the customer's business is booming. It makes sense, therefore, that the software service provider will make every effort to ensure the software works in the interests of the business.

The model ensures both parties win when technology behaves as it should, and that both feel the pain when something goes awry.

From the customer perspective, risk-based billing provides a guarantee that the service provider has an in-depth understanding of the customer's business and technology needs, and is able to meet them exactly through the provision of IT as a service.

The customer does not pay a cent until he is actually deriving benefit from the service; only when the solution goes live and he is able to use it does he have to begin paying for it. And there are no surprise charges for hardware, software, networking or services. There is simply a monthly fee, thus providing users with full use of an application for a set cost per annum, which includes all updates and maintenance done on the software over this period.

This differs significantly from the traditional billing model which requires clients to pay for applications upfront, at the time of purchase, regardless of when they are able to start using it. The customer also has to pay fixed licence and maintenance fees that are not linked to the actual performance of the software and its value to the business.

For the software service provider, risk-based billing provides an annuity revenue stream for as long as it supplies the service according to the service level agreement. It also has the benefit of creating competitive advantage - a customer which has to make a choice between two or more competitors is far more likely to go for the shared risk option than to go for the one where he has to hand over millions for software that may only start functioning in 12 months' time.

Risk-based billing forms the basis of the software as a service (SaaS) model discussed in my previous Industry Insight. It has been designed to provide a win-win outsourcing partnership. While the software provider is assured of an annuity income, the customer no longer has to take care of his technical infrastructure and can rather focus on improving revenues and profits with the support of the technology service provided.

While the market still has much to learn about SaaS, the reality today is that no one cares any longer about where their software resides. And with the increasing understanding of usage-based

models, we are bound to see relatively rapid adoption of risk-based billing in the next few years. Customers such as pension fund administrators and retailers are not interested in technology - they want services that enable them to run their businesses. The simple truth is that risk-based billing makes absolute business sense, and that the only barrier that remains is resistance to change.