



# ELASTIC PRICING FOR DYNAMIC SUBSCRIPTION MODELS

ONEBILL

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## ABSTRACT

The universe is moving very fast towards a complete subscription based model for quite a number of goods and services we consume. This necessitates dynamic pricing for each of these products and services depending on either volume, velocity, time or any other identified factor which measures the utility of these services by the consumers.

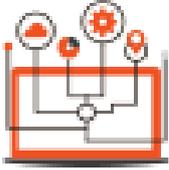
The elasticity requirements of different verticals vary based on the consumption of the service as well as the perceived value it provides. The complexity increases manifolds with the arrival of virtualisation, cloud and analytics using big data. The platforms and networks in the data centre are evolving to becoming stateless and one can opt for a change of vendors and suppliers of IT Service providers quite seamlessly. In such a scenario, one has to be agile and nimble to price services and products based on usage and also optimize the resources available to its maximum capacity.

A robust revenue management platform, available as a SaaS which can be customized very easily to cater to the elastic pricing rules of different industries is the need of the hour. It is quite challenging for traditional billing solutions to cater to this evolving business model as they were built around business rules of the eighties and nineties and are very difficult to change to cater to a mature pay per use model.

As per Gartner, *“the pay-per-use model can be applied to assets (such as industrial equipment), services (such as pay-as-you-drive insurance), people (such as movers), places (such as parking spots) and systems (such as cloud services). Enterprises from all industries can leverage these four models.”*

This White Paper delves into the changing scenarios of a few industry verticals in terms of dynamic subscription models and how evolving platforms are helping them to generate additional revenue.

## INSURANCE

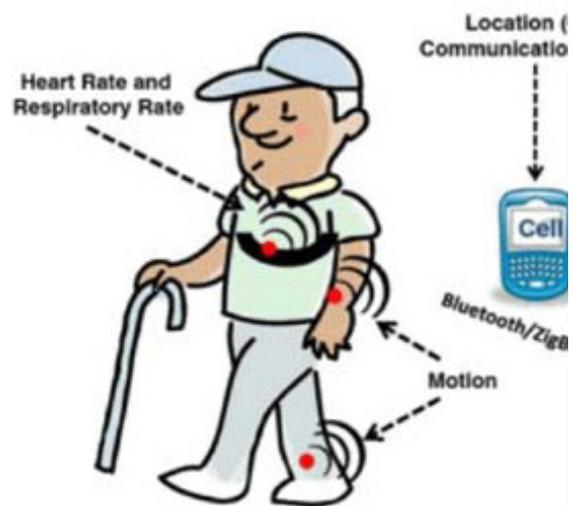


The insurance industry is going through a transformation wherein every dollar of outflow hits the bottom line and acquiring and retaining customers is becoming challenging every day. The advent of sensors and M2M communication as part of IoT is helping these companies to move to a dynamic premium pricing model. The elastic subscription (or premium) in the case of car insurance, for example, can be implemented using sensors fixed in individual cars which sends all type of data useful for computing the risk factors governing the insurance policy and using smart analytics and a robust revenue management platform these nuggets of information are becoming a potent tool in the hands of the product managers.

The sensor captures data such as the average and top speeds the car is driven at, the places it is normally parked, the time of day / night it is usually driven, the areas where the car is usually driven etc. These are fed to a central repository which can be accessed by authorized insurance personnel to determine the optimum premium for this car's insurance policy. The advantage is, each policy can be customized and priced based on several of these parameters and for the same car one might end up paying a lot less premium if the risk factors are neutralized.

Now let us look at another fledging sector - health insurance. Today, the premium plans are based on a few genetic factors, age and prevailing conditions determined by diagnostic test results. There could be a situation wherein the insured can be monitored real-time using devices such as micro heart beat monitors, temperature and pressure measuring IoT devices and fit-bit type bands for calories burnt.

The analytics from the captured data then becomes a tool for determining elastic pricing of the health policies. The premium can now go up and down – either monthly or quarterly – based on the trend of the overall health condition of the insured. This requires an engine which can read the mediated data from the sensors, and apply dynamic rate plans based on the conditions specified. A central repository organisation can hold all the data coming from the cars as well as the insured persons and this will enable portability of the policy across insurance companies without any hassles.



## CABLE

As with many other verticals, the cable industry worldwide is dealing with convergent services for Cable, broadband, Prepaid/Postpaid, Triple Play, Mobile TV and so on. This requires a solution that can offer convergent billing that is accurate and creates “one bill” for the subscriber.

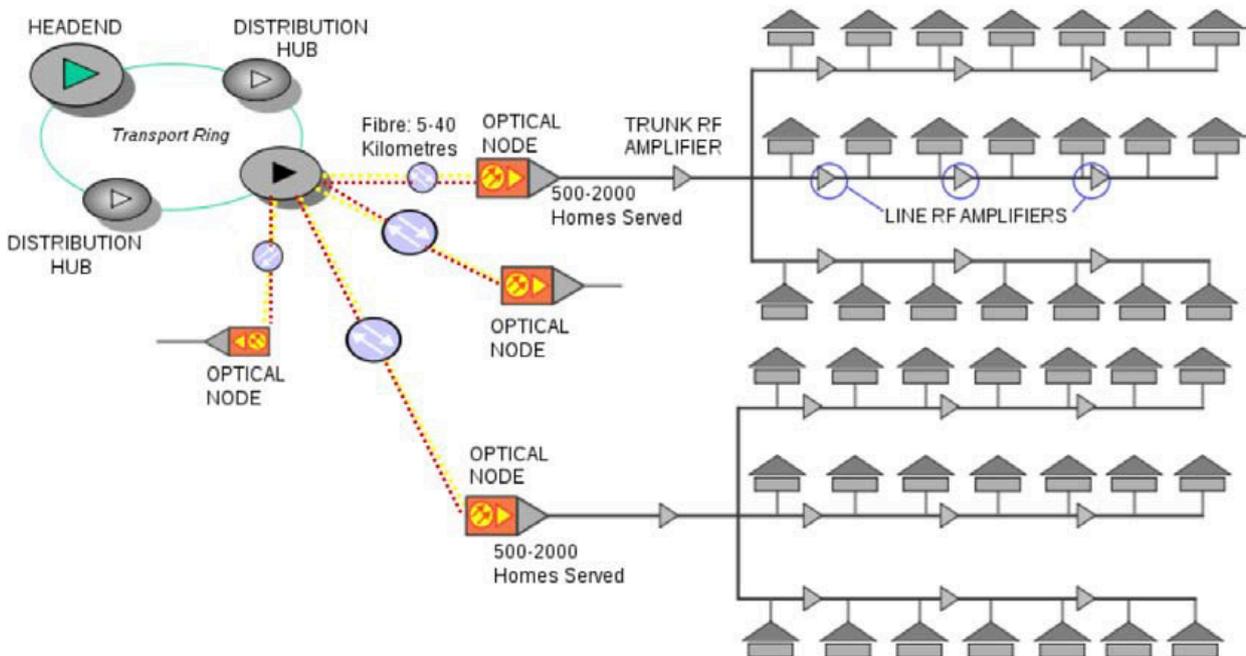


Dynamic pricing for cable was a distant dream and all the providers were billing a fixed charge per month for a specified amount of data, free calls and a bundle of video channels. The key Business Support Solution (BSS) requirements of a triple play cable provider can be categorized in the following areas:

- Advanced bundling and packaging of triple-play services based on individual user choices (non standard packages)
- Flexible and elastic pricing plans to compete in dynamic markets
- Support for prepaid video services so that users can have control on their spend which will entail real-time CDR processing
- Integrated service fulfilment linked to order management and work force management

Instead of a fixed package and payment plan per month, subscribers are changing the business model of the service providers to bring in elastic subscription based on the specific video channels they would like to watch, dynamic control of their data usage on the internet as well as voice calls. Subscribers also want their choice of payments methods, from the credit or bank card, check, Paypal or even cash.

That's not easy. It requires consolidated use of multiple systems, like 3rd party network elements, middleware, CAS, various other independent systems, through tight integration, to create that invoice and collect efficiently.



A robust revenue management platform that reduces complexity and allows for easy management of services from Customer/Subscribers through Distributors/ Resellers whether by the cable company or through online Self-Care is the need of the hour.

The platform needs to also cater to flexible and dynamic bundling for cooking up a very attractive package that will help retain customers and have them delighted as they would be paying for exactly what they need.

If you observe the current trends and pattern emerging in the retail business, there is a mad rush to get everyone aligned to Apps and ecommerce and push the consumer further and further away from the brick and mortar store. One of the advantages of moving consumers online is the enormous price elasticity the retailer can exhibit. Depending on the buying behavior of the online consumer, smart bundles can be created instantaneously with heavy discounts leading to impulsive buying and increased revenue. In a physical brick and mortar store, a consumer might be browsing a certain shelf which has the product he is looking for. There might be some add-on items which the consumer is not thinking of buying right now and is oblivious about its presence in the store as it is placed in another aisle. He will also not get the discounted price on the add-on product in the physical store as it is marked with the MRP.

Smart online selling entails bringing up the add-on product upfront when one is making the purchase of the primary product and then offering a good discount if both are bought together. The impulsive buyer will most definitely fall for it in 9 cases out of 10. One example is while buying an external disk drive, you will get visuals of disk drive carrying cases at one third the original price. Even though you don't require the case, you will buy one as the bundled offer is irresistible.

As Frost & Sullivan points out *"With an increasing number of retailers competing for customers' attention and loyalty, it has become critical to understand and cater to consumers' specific needs. This requirement has thrown the spotlight on big data analytics due to its ability to analyse large volumes of unstructured and structured data from a variety of sources. By offering valuable insights into customer behaviour, it is proving invaluable to retail businesses."*

The elastic pricing model helps in more inventory turns and overall benefit to the consumer as the perceived value of what he has bought goes up. This has added benefits downstream like customer loyalty and word of mouth promotion.



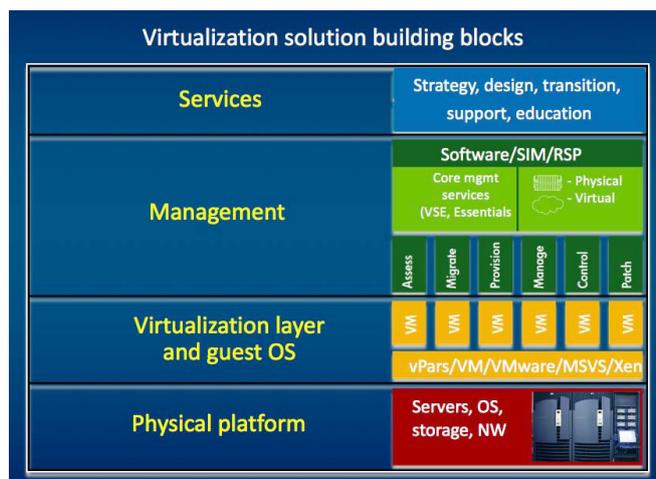
## IT INFRASTRUCTURE – IaaS & PaaS

Now let us turn our attention to the unique challenge of a CIO of any enterprise. He is always struggling to not only keep up with the technological enhancements but also have to deal with a decreasing IT budget every year. The ERP reconciliation every month end or the payroll in the third week of the month always require the short burst of additional compute power which remains unused for the rest of the days. The solution to this is to implement Virtualisation at the hardware level and then use orchestration environment to create virtual machines including storage and also bill the individual groups on a pay per use basis.

Virtualization is an approach to pooling and sharing IT resources so supply meets business demand. It's a key enabler of the transformation to an Adaptive Infrastructure.

According to Cisco, global data center IP traffic will more than double by 2018 and cloud data centers will be handling 78% of workloads.

Not only will all traditional in-house data centers gradually migrate to the cloud, but the Internet of Things will generate a whole new world of solutions and data that need nimble cloud-based infrastructure. To offer everything the customers want, the data centre provider or the CIO of the enterprise will need trusted partners that provide solutions and services that add value by dynamic pricing for managing the elastic demand. This situation will become even more complex as SaaS and IoT explode. A truly convergent revenue management platform will be required which will offer:



- Unlimited product/service types – hardware, software and other products, subscription services, professional services or any combination thereof. The sky's the limit.
- Highly flexible, customer/subscriber driven dynamic pricing models.
- Renewals, updates, additional services, reconfigurations – manage changes or allow customers to handle their own subscriptions – on any device they choose.
- Pro-rate based on service start date.
- Partner/reseller/agent management. How onboard partners can be added in a few clicks, making the services available to them to up-sell and manage multi-party settlements.

As the IT Infrastructure and applications slowly move to the cloud, the service providers have to morph their current business to cater to the elastic subscription model and the revenue management platform has to cater to multiple billing types based on usage, storage and compute power used, time of day billing etc. The end users will gain as now they can pay for their actual use and do not have to cater for technology obsolescence and sudden spurts in demands usually required by different groups during the lifecycle of the solution.

## CONCLUSION

The elastic pricing model is becoming the de jure standard that every organisation and business has to cater to in the new world. The efficient usage of goods and services increase manifolds when one caters for the dynamic subscription model. The resources need not be tied up permanently to one entity which has peaks and troughs during the day, week or month. Those can be directed towards the maximum revenue generating activities at any given point in time and the end user benefits significantly due to the pay per use pricing. Finally, as discussed earlier, the four key benefits of the pay-per-use pricing model are:

- (a) Flexibility – the client can avoid scaling up or scaling down any hardware capacity in response to demand peaks and valleys;
- (b) Efficiency – the hardware capabilities and solutions employed by the enterprise will handle workloads better than a typical client's in-house infrastructure;
- (c) Accessibility – the client can access the platform from any physical location; and
- (d) Security – each client's data is safely partitioned and stored in the Cloud. The key to manage this effectively is deployment of a robust revenue management engine which itself is available on the cloud in a pay per use mode.



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