

Recurring Revenue Sharing for IoT Service Providers



Master Recurring Revenue Sharing in the Age of IoT

A primer for IoT service providers

From automotive to telecom, any business that seeks to maximize revenues from the Internet of Things (IoT) will need to become much more adept at revenue sharing, because in the realm of IoT, everything is connected, including revenues. Delivering IoT-based services is typically a team effort involving multiple third parties. Businesses must share IoT revenues among device makers, application developers, data storage providers, analytics experts, and dozens of other vendors. Adding to this challenge is that a significant portion of these revenues will not only be shared, they'll be recurring.

As a result, new IoT entrants will be on the hook to ensure that recurring revenues in IoT engagements are properly reconciled and distributed to third parties. Companies that lack the digital agility to pull this off will be at a significant disadvantage as IoT ramps into high gear. For these organizations, cloud-based monetization capabilities can enable them to keep pace with more technologically proficient competitors.

Introduction: The Rise of a Familiar Business Model

Revenue sharing is already well established. It's been used for decades in the telecommunications industry, for example, with roaming agreements existing between different carriers. It is also the mechanism at work between a mobile virtual network operator (MVNO) that doesn't own its own network and a telecom that does. For example, revenue sharing agreements enable CREDO Mobile to run its services on Verizon's network.

But with the expansion of IoT and new connectivity technologies like 5G, revenue sharing is expected to expand dramatically across the board. This poses a significant challenge for organizations that are not prepared to support the intricacies and dynamic changes that revenue sharing entails.

Keeping track of who gets compensated for which services is a far more complex endeavor than the billing scenarios many companies are used to. As a consequence, they are under growing pressure to acquire digital dexterity in billing, fulfillment, finance, and other back end systems—capabilities that legacy operations and business systems may lack.

Key Drivers in Revenue Sharing Trends

Multiple forces are behind the rise of revenue sharing in the IoT. Chief among them are the continued growth in cloud-connected services, related technologies like machine-to-machine (M2M) computing, and fifth-generation wireless, or 5G. And new IoT service providers are at the center of it all. They have a vested interest in expanding connected services that make them more valuable to their customers while capturing a larger slice of revenues. Yet, recurring revenue from the IoT will not come from devices, but their related services. Many companies do not have the resources to develop supporting technologies, opening up an opportunity for XaaS providers and the need for revenue sharing agreements.

What CSPs Say High-Speed Services Will Require*

- Third-party collaboration: 93%
- New revenue sharing business models: 86%

*Source: Ericsson 5G Readiness Survey, Nov. 2016
<http://crmweb.ericsson.net/cn/ar0ma/5GReadiness>

What will it take to monetize these new hyper-connected services? Third-party collaboration and revenue sharing business models. That's among the key findings of a November 2016 Ericsson survey of leading telecoms that are already investing in ultra-high-speed technologies.

What might these new revenue sharing models look like? For an example, consider new smart home services that cable operators are rolling out. In many instances, providers lack key IoT development and implementation expertise needed to run the many sensor-enhanced appliances, door locks, thermostats, and security cameras connected home services provide. An effective way to acquire that expertise is to partner with IoT specialists that provide IoT enablement services in return for a share of revenues that the companies garner from connected home subscriptions. Those revenues may be divided up in a number of different ways, including by percentage, as micropayments per transaction, or through other consumption-based mechanisms.

Wanted: IoT Partner Specialization

It's likely that revenue sharing arrangements will mushroom as companies continue to deploy new cloud-connected services outside their traditional core competencies. They'll need partner expertise to help with everything from connected homes and cars to wearables, connected retail, smart cities, factory automation, and connected healthcare.

For many service providers, shared revenue arrangements with IoT specialists offer the fastest time to market. The services these partners provide span the gamut of IoT enablement. Examples include IoT device provisioning and management, mobile application development, M2M systems management, application integration, API interoperability, device security, big data storage, real-time analytics, and countless others. In many cases, companies may need to share revenues with a multitude of different partners who provide and enable different aspects of IoT services.

IoT Services You May Need to Acquire through Revenue Sharing

- Application APIs and API calls
- Big data storage
- Data mining
- IoT development and management platforms
- Mobile application development
- M2M device platforms and management
- Network access and management (WiFi, cellular, M2M)
- Predictive and behavioral analytics
- Sponsored data services

Revenue Management Challenges

Managing shared revenues in highly convoluted, multi-party IoT engagements is not for the faint of heart. Companies must be able to stay on top of who gets paid what for which IoT service component. That's a tall order. But tracking shared revenues is not the only challenge.

A significant complication is that in many cases, those shared revenues are also recurring. IoT services are typically ongoing and paid for by end-customers through subscriptions, consumption, or per-use fees. In turn, many of the enabling IoT capabilities that partners furnish are likewise paid for on an incremental, recurring basis.

Subscription, usage, or micropayments—the mechanisms vary. But keeping tabs on these recurring charges adds considerable difficulty to managing revenues in partner-dependent IoT scenarios. As if that weren't enough, the billing process must be seamless, painless, and transparent to the end customer.

For many organizations, it's an overwhelming prospect. A key reason why is that their legacy operating and business systems, commonly known as OSS/BSS, lack the agility to manage shared revenues in recurring IoT transactions.

Limitations of Legacy OSS/BSS Infrastructure

The operations support systems (OSS) and business support systems (BSS) commonly used in years past were initially designed for high-volume efficiency supporting a limited set of services. In the era of the Internet of Things (IoT), these creaky systems are woefully outdated.

For example, they lack real-time capabilities for fulfillment, provisioning, and customer self-service—essential functionality for any IoT service. They are also too rigid to support dynamic transactions involving a byzantine mix of shared revenues, subscriptions, metered usage, one-time charges, overages, sponsored data, and many other aspects found in emerging IoT services.

Managing Multi-party IoT Revenues from the Cloud

Real-time OSS/BSS may someday simplify things for IoT service providers. In the meantime, the shortcomings of these systems may well cause many of them to lose market share to more digitally adept competitors. To seize new revenue opportunities from IoT, companies can acquire the agility they need by enlisting cloud-based solutions to help them run critical OSS/BSS functions, and do so without disrupting or ripping out existing infrastructure.

With cloud-based capabilities, IoT service providers can:

- Price, package, and launch new partner IoT services rapidly and dynamically
- Support complex, multi-layered, many-to-many billing models
- Coordinate customer data and revenue reconciliation across diverse lines of business and partner relationships
- Automatically port real-time data from M2M systems to external business systems
- Provide accurate invoices and statements regardless of plan complexity or dynamic changes
- Efficiently expand business without adding headcount to handle billing
- Achieve truly automated, lights-out, no-touch billing across customer management functions

Conclusion

Companies looking to seize IoT monetization opportunities will need to accommodate the significant demands of distributing recurring revenues with their IoT enablement partners. It's a challenge that many organizations are not prepared to undertake. Cloud-based capabilities layered on top of existing business and operational systems can provide the digital agility needed to efficiently support highly complex and dynamic, global revenue sharing scenarios in the age of IoT.

About Aria Systems

Aria Systems cloud-based monetization platform is the consensus analysts' choice, top ranked by leading research firms. Innovative enterprises like Verizon, Adobe, and Audi depend on Aria to accelerate time to market and increase flexibility, enabling them to maximize customer value and grow recurring revenue through subscription and usage-based offerings.

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