



An Executive Guide to Quote-to-Cash

The following report is a featured chapter in **Monetization A-Z**, an executive guide created to help business and finance leaders navigate the increasingly complex agile monetization landscape.

Understanding Usage: Three Prerequisites for Success

A conversation with Jonathan Brown, Head of Market Intelligence at Zuora

INTRODUCTION

Usage-based business models brought “pay-as-you-go” out of telecom and into a growing number of industries, where it has gained popularity over the last five years. The attraction to this model is understandable: it reduces barriers to entry and enables businesses to penetrate new markets without established pricing structures. It also offers valuable directional insights into the price/value equation. Sellers and buyers can align the value of the service consumed with price, improving the customer experience for buyers and providing sellers with keen insights into what features are being used – and what customers are willing to pay for them.

However, there are hidden barriers to successfully supporting this model: namely, lack of built-in system support to track usage metrics and convert that data into billable

Jonathan Brown is the Head of Market Intelligence at **Zuora**.

He has been at Zuora for a decade, where he has helped hundreds of companies implement new billing and monetization processes and tools.

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events. These events can be highly granular, often need to be captured in real-time or near-real-time, and can produce massive data volumes. The data captured can be incomplete, inaccurate, or in need of enrichment, and connecting and formatting usage data to billing systems strains traditional data management approaches.

To overcome these challenges and successfully leverage a usage-based pricing and billing model, Zuora's **Jonathan Brown** explains that companies must ensure data maturity and cleanliness, deploy effective mediation tools, and maintain a flexible, experimental approach.

THREE PREREQUISITES FOR SUCCESS

1. Data Maturity and Cleanliness

For most companies, adoption of consumption-based models is not possible without first undertaking a thorough and clear-eyed reevaluation of their data management systems. If an organization doesn't already have data teams, chief data officers, and data engineering capabilities in place, it is not ready to take advantage of usage billing. (Realistically, some companies will experiment with usage billing prior to investing in classic data management resources. Mediation tools can compensate for this lack of maturity; however, best practices dictate an ounce of prevention over a pound of cure). Mature data management enables accurate billing, metering, and revenue recognition; without these systems in place, revenue leakage and friction are inevitable.

Jonathan Brown: "CIOs and CTOs need to understand that when adopting consumption-based models, the systems requirements often change significantly. For example, a product manager might decide to start

ETL vs. Mediation

Extract, Transform, Load (ETL) tools were introduced in the 80's and 90's to handle large batches of data by extracting it from various sources, transforming it into a standardized format, and loading it into a destination database. These tools were constrained by bandwidth limitations and a relatively inflexible architecture. ETL processes typically involved predefined, static workflows that could handle only specific types of data and transformation rules, resulting in a system that, though powerful, was also rigid and slow.

Modern mediation tools are a significant leap in capability and flexibility – akin to upgrading from a 4-track tape to a 16-track recording studio. Mediation tools not only perform the core functions of ETL but also incorporate advanced data analysis to assess data quality, identify inaccuracies or missing information, and determine whether data is in the correct format. This enables real-time and quick-time data processing, which is crucial for contemporary applications requiring instant data updates and analytics.

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measuring the user's [customer's] number of clicks. The next day, they might measure based on the completion rate of users' tasks. These data might exist in two different systems – which is not conducive to generating a billable metric. Successfully capturing usage data and translating it into billable events requires major changes to billing, and even the overall monetization capability of the organization. The good news is that if you can track and manage the usage data, it can be used in many different ways – and gives the business a new competitive weapon.”

2. Mediation

ETL tools may have once been sufficient for companies who needed to ingest data from multiple different sources, but they don't come close to meeting the agility requirements for modern usage billing. Homegrown data pipelines and custom SQL flows also don't cut it when the metric the organization is monetizing can change from one day to the next.

Mediation involves not only extracting and transforming data but also analyzing it to determine accuracy, identifying missing elements, and enriching its quality when necessary. Effective mediation tools know when and how to integrate this data into other systems, providing a comprehensive and dynamic approach to data management. Mediation tools also enhance visibility into usage metrics, enabling everyone from finance users to sales to customer success teams to easily see which features customers are using and articulate the true value of their offerings.

Mediation tools also minimize errors and discrepancies, which reduces incidences of billing disputes and revenue leakage and enhances customer satisfaction. The only way for organizations that offer consumption-based pricing to generate reliably transparent and accurate bills for their clients is to invest in agile, seamlessly integrated mediation tools.

JB: “Billing disputes are a big deal in consumption business. Mediation tools give access to the details of usage calculations to the entire team. If a customer is surprised by a larger-than-expected invoice and you can't defend where that calculation came from, they're just not going to pay you. We have so many customers who sheepishly

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admit the pain of trying to prove the accuracy of a charge is too much, and they opt not to collect disputed payments rather than spend the FTE time to get to the bottom of the charge.

Organizations that do mediation correctly enable users to dig in quickly, self-serve, and easily validate the accuracy of metric calculations to auditors. A robust mediation capability unlocks successful consumption-based business models.”

3. Experimentation and Flexibility

The dynamic nature of AI and SaaS platforms requires a flexible, experimental approach. Companies should be prepared to iterate and respond to new data and customer behaviors as they develop – and that requires a very agile platform, clean data, and tightly integrated mediation capabilities.

Companies like Box, for instance, deploy experimental AI features for free to gauge customer response and how these offerings deliver value.

JB: “One of the other big themes we're seeing driving adoption is the advent of Gen AI – particularly the fact that OpenAI and Microsoft themselves bill on a consumption basis. Companies are now trying to figure out if they can align their monetization models to the cost of goods sold (COGS).

On one end of the spectrum, some companies are launching pure, pay-as-you-go AI offerings. Intercom and LivePerson can charge based on the number of tickets resolved by the AI ‘agents,’ or bots, and the pricing varies based on that. On the other end, there are the pure-play SaaS companies like Asana and HubSpot who are deploying AI into their products.

We're in this fog of war moment with AI and SaaS platforms: everybody's feeling their way through blindly. Having an experimental, iterative approach is really important while the industry determines how to monetize these new capabilities.

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Be ready to respond. It's not uncommon to see companies adopt a consumption model before the sales team understands how much of the offering to sell. The customer will either use too much way too soon, and the sales team isn't ready to upsell them – or the customer doesn't use enough and is left unsatisfied. Are unused commitments rolled over? Do they expire? Is this communicated clearly to the customer? What is the customer's level of satisfaction with this approach? How is the revenue recognized? Being experimental and iterative is the best way to stay ahead of these issues."

A LITMUS TEST FOR USAGE TOOLS

For cautious executives sifting through the claims of various software suppliers, finding a capable solution to support usage business models is challenging. A short checklist to assess the viability of a prospective new solution is useful:

- Can all the necessary data be connected?
- Can it scale?
- Can it handle data at volume and in real time?
- Are the calculations accurate and transparent?

JB: "Next-gen usage and consumption tools will enable finance teams to dig into disputes and easily find the calculations behind usage metrics. They will be able to expose all that data to an API so customers can find the answers they're looking for through self-service portals. I think that we're really into that next level now with mediation solutions. Some companies can deliver these capabilities already. They have very capable data teams and innovative business intelligence strategies already in place. But most companies are not there yet. Most companies considering adopting consumption-based pricing models should take a detailed look at what's available in the field, and then figure out what's best for them."

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CONCLUSION

Usage-based business models offer compelling benefits such as attracting new customers by lowering cost barriers and enabling entry into new markets where price discovery is needed. However, proper data management is essential to success with consumption pricing. Getting the data in clean shape, combined with an open approach to experimentation and rapid iteration, can smooth the path to expanding pricing options and enhancing packaging flexibility. This ultimately yields a stronger competitive edge.



This report is featured in Monetization A-Z, the who's who of thought leaders and high-performing brands throughout the quote-to-cash landscape. This definitive executive guide serves the needs of decision makers across a spectrum of industries, business models, and company sizes. CEOs, finance, business, sales, legal, and IT executives rely on its content to learn from trusted sources, get inspired by new ideas, and engage in a conversation with well-known brands as well as rising stars.

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