The Subscription Economy. What is it and what does it mean for the Online World? Part 2 of 3: Second Order Effects of SaaS

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A major benefit conferred by the Internet has been the innovations brought by Software as a Service or SaaS. Much of the attention has been on the technology and benefits such as democratisation of IT through bring your own device (BYOD) etc. where there are now evident second order effects on both the business model and resulting technology infrastructure.

Looking at <http://www.forbes.com/sites/danwoods/2012/01/20/how-the-subscription-economy-will-change-your-business-applications/> we see Tien Tzuo, CEO and Co-Founder of Zuora <http://www.zuora.com/> detail these second order effects.

Firstly, SaaS requires user configurability which in turn demands that the software be as configurable by the lowest skilled member of the target market in order to reduce support costs as a far as possible.

SaaS confers self-provisioning on the client organisation and by extension on all members of their staff. Presuming for a moment said client organisation has addressed issues raised by free access to all corporate data by all its staff, the capacity for all staff to be self-provisioning their own services means they may turn things on and off as they see fit. Consequently, the vendor has a relationship with all staff as individuals in addition to the central entity i.e. the organisation they both serve. The issue this raises is they supply service products without purchase orders, invoices etc. or any of the other bookkeeping items of the traditional double entry accounting systems.

SaaS enables many employees install their own solutions based on their own assessments of their requirements bypassing existing IT conventions, staff and infrastructures. These may include applications such as <https://www.dropbox.com/> or their choice of CRM etc. This process sometimes called the “stealth cloud” create significant issues around data security and have generated considerable concern in some circles: <http://www.cioupdate.com/trends/article.php/3915441/The-Rise-of-the-Stealth-Cloud.htm> and <http://www.businesscomputingworld.co.uk/stealth-cloud-is-a-major-issue-for-data-security/>. The ultimate challenge for the provider is understanding how to reconcile the billing processes and ensure they are able to recognise and realise the revenues for all services being delivered and here lies the problem with traditional business models. Basically, are they getting paid for what they deliver and is the traditional double entry accounting system fit for purpose?

To recoup development costs, multi-tenant systems need to be large scale and as we know this raises issues with the basic underlying algorithms, for details on this issue see <http://www.managedserviceexpert.com/blog/scaling-applications-and-cloudwashing>. In addition they also usually have highly complex pricing models. A good example here would be use restrictions and surcharges for use over a given billing period. The Subscription Economy ready business application must accommodate all of these factors.

Until now, accounting systems have focussed on capturing small amounts of highly accurate data about individual transactions. Online applications give the capacity to routinely log all aspects of the transaction creating information superabundance. In turn this confers this allows the development of a high-resolution image of the world (and indeed of transactions) delivering far greater granularity of customer segmentation along with more sophisticated automation.

Web applications are always on and so, by extension are the billing systems. Users demand to know exact costs instantaneously and the customer-centric nature of the Intention Economy (see <http://www.managedserviceexpert.com/blog/the-subscription-economy-what-is-it-and-what-does-it-mean-for-the-online-world-part-1-of-3-the-basics>) requires we know exactly what customers are demanding at any point in time so that we can best respond to those demands which in turn creates a requirement for the way these new Subscription Economy business applications must perform.

That customer centric approach also means clients choose the means by which they make their purchases; i.e. what devices they use, the channel through which the services are delivered etc. All of which means the Subscription Economy ready business applications must accept and process data through this plethora of streams.

So our Subscription Economy ready business applications are highly complex, multi-dimensional and must perform in real time all the time.

All of which leads to the conclusion that double entry bookkeeping and traditional accounting are no longer fit for purpose in Subscription Economy ready business applications. This is because “sales” are kept in a general ledger file which in turn is reconciled monthly for a billing cycle, so without any of the mechanics of this process the systems cannot operate.

So, how do we deal with this? See part 3.