

20 Questions

Industry Thought Leader Interview



September 13, 2016

Enabling the Digital Business Platform Conversation with Adam Kleinberg, CEO of ChikPea

Summary: The demand for cloud-based billing and order management systems is accelerating as more and more businesses large and small recognize the critical importance of offering a much wider range of pricing/business models to their customers. The earliest adopter of the Salesforce.com platform, ChikPea is benefiting from this shift to cloud-based solutions. To give us insight into the dynamics of monetization on the Force.com platform, we invited ChikPea CEO Adam Kleinberg to join us for 20 Questions – an MGI Research Interview Series with leading technology industry executives, innovators, and investors.

Key Issues

- What new business models are enabled by the cloud?
- What are the economics of Agile Monetization Platforms?
- Who are the emerging leaders in AMP?
- What are the hidden benefits and unforeseen risks of AMP?

Andrew Dailey: *Welcome to MGI Research's 20 Questions – interviews with leading CEOs, investors, and innovators. Today's guest is ChikPea CEO and co-founder Adam Kleinberg. We're delighted to have you join us, Adam.*

Adam Kleinberg: Thank you, Andrew.

Andrew Dailey: *As CEO, give us a quantitative sense of ChikPea's business today?*

Adam Kleinberg: Since the day it was founded, ChikPea has been growing exponentially. Today we operate across multiple verticals and have created a name for ourselves in the areas of telecom and general billing. We operate in three continents with customers in Europe, North America and Asia. We have a development office in India with sales and marketing offices in the US and in Asia.

Andrew Dailey: *ChikPea is one of the few companies that is in the subscription billing market and also has both quoting and an in-depth order management solution. What is the genesis of this combination?*

Adam Kleinberg: We didn't start in billing. In fact, when Bhaskar Roy, our co-founder, approached me and said I have this idea, it's because both of us were in telecom. I was a telecom project manager at Bank of America for many years and knew a lot about the in-depth nature of telecommunication networking. Bhaskar had been in companies like Teleco and Fiji Telecom, deploying Siebel and Oracle solutions.

The idea was a way to replace the two order management choices the SMB had, the ubiquitous Excel spreadsheet or the extremely expensive Siebel/Oracle option. The market needed an affordable - and more adaptable - quoting and order system. So, we built a telecom order system. We named it TOM, using the industry's acronym to emphasize that ours is a focused telecom industry order management process. While we started as a telecom order management solution, things evolved quickly. In one of our early sales, we found ourselves in the same room with Zuora and Salesforce, - all trying to sell to a single customer, a large internet provider. The client said, "Wait a second. I have to buy Zuora for billing, Salesforce for CRM, and ChikPea for

order management? That’s insane!” We left that meeting with a new idea: we could use all the data we had from the order and install base capture, to send out the invoices and perform recurring billing. We combined our order management knowledge with our billing expertise in the telecom industry and created a billing system that could be added onto the order management product. That’s what makes us unique. Whether it takes one click or three months to complete the required order fulfillment process, the output is a subscription that begins with an order request. The bill is the output of an order. The subscription is the output of a provisioning exercise. So that’s what we do today and that’s how we got here.

Andrew Dailey: *How do you define the markets you are trying to address? What are the key growth drivers in these markets?*

Adam Kleinberg: The key growth driver for us has been the incredible growth in subscription billing. Almost every sector is recognizing the value recurring revenue and need recurring/subscription pricing models (what we call rate codes)—a demand we are well positioned to meet. The industry could be software, healthcare, life sciences, telecom, or a physical asset that has support contracts or training contracts or leasing contracts. We handle everybody from small and midsize businesses up to the enterprise class —any company that realizes it has been leaving money on the table all these years from not taking advantage of varying rate codes and new pricing models. When companies come against the limitations of their normal billing system, when they want to move toward comparative billing, comparative pricing with volume or tiered or hierarchical pricing, or when they face billing challenges that have stymied our competitors, that’s when come to us. These are our markets, companies that have been told they need to scale back to change their price modeling goals because the systems they have or are reviewing cant meet their goals.

Andrew Dailey: *What’s the typical use case for a ChikPea customer?*

Adam Kleinberg: A typically use case for us is a company that has a usage-based billing challenge that exceeds the capacity of its present billing system. For instance, the company wants its billing system to consume usage from various sources (click counts, orders placed, megabytes consumed, insured family members, etc.), consolidate those amounts by client, calculate the rated values for each one of those amounts, and produce a single invoice. In some cases, a calculated subscriber’s invoice needs to roll up from the child level at a regional office or department to the central office level, and combining with others into a single bill.

When they try our competitors systems, they discover they are still not able to diversify and unitize the subscription to the lowest trackable level. A customer will say: “Out of the 12

About MGI Research

MGI Research is an independent industry research and advisory firm focused on disruptive trends in the technology industry.

The firm was founded in 2008 by a group of senior analysts and executives from firms such as Gartner, Soundview and Morgan Stanley.

MGI is the only firm with a dedicated practice around agile monetization, including billing, CPQ, financials, and revenue recognition.

Through its research, ratings, forecasts, advisory engagements, industry studies and conferences, MGI Research helps clients identify opportunities for reducing IT costs and minimize technology risks.

Most MGI Research analysts have over twenty-five years of tech industry experience as IT and/or vendor executives, CIOs, Wall Street professionals, management consultants, and academics.

MGI Research emphasizes the application of highly quantitative and structured methods in creating decision support frameworks for its clients. MGI has built a number of proprietary industry metrics, benchmarks, and indices such as the MGI 10KScore, MGI Cloud30 Index, and the MGI 360 Ratings.

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

buildings that my office consists of, I want to know about one particular building's recurring costs. What is its utilization? What's its billable value? And I want to know how these change over the next three months." That's just not something normal billing systems can do. Some companies may have already tried to convert into what people are promoting as the modern billing system, but the conversion didn't capture the complexity required. Many of our competitors that come from supply chain or accounting are not experienced in meeting intricate requirements. What is worse (and very common) is the need to perform a fulfillment activity on one line item in an order which, until finished, prevents the ability to invoice the client. Sometime the requirement includes capturing an upfront amount that is applied to the remaining subscription after the order is complete. These examples are more the rule than the exception. Because we come from telecom, we see complexity all the time. We are used to it. That's why companies come to us. Every ChikPea customer and reviewer says the same "ChikPea gets it."

Andrew Dailey: What are the essential components of a modern billing, order management, configuration and how do you define that platform?

Adam Kleinberg: Let me approach this historically. Back in the early days of Sales Force Automation (SFA), people like Thom Siebel built Customer Relationship Management applications. Since then these solutions have been designed for one purpose--to sell a one time, high priced asset to a customer. All the tools served that purpose. They were made to detail the customer, to sell to them, take capture service requests, and to market to the same customer the next model.

The new subscribership onboarding model is vastly different. It must allow for a multitude of variables that one time sales don't need to entertain. A business must now negotiate and work with the client at every level of the subscription. You have to create unique pricing options to meet the subscriber's ability to pay. That means quoting and using pricing catalogs like they are products themselves. A person may want solution X but needs it in a pay-as-you-go model while his peer wants to pay a flat quarterly price. Next, is the provisioning stage, convert to an order, and the order could be unique, based not only on the product but also on the location of deployment, if there is a trial associated, and the uniqueness of the configuration. You may have to take an upfront payment. You may have charge as you go with milestones, and/or you may have to set a close-out payment and overages. The conclusion is the conversion into the subscription and ongoing billing. At the subscription level, you now have a live client utilizing the service. It's a bi-directional relationship. The customer may call because the consumption expectations change: "We overuse this monthly, we've overused for the last three quarters, please do something for me." Marketing or sales may see under utilization or over utilization and needs to pre-emptively contact the subscriber directly: "You

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

are not using it the way we contracted. We should do something because you are paying more than you need to. Maybe you are not using the right product or the right price model.” These exchanges require change management. There is now a real need to alter the subscription frequently while keeping it co-terminus to the end of the contract or maybe extending the contract as part of the courtesy of changing. These are the requirements of the new monetization—bidirectional communication and frequent adjustments between the producer and the utilizer. It is what we call SRM, Subscriber Relations Management, a system that focuses on all aspects of subscriber relations—quote, order, service, delivery, billing, subscription management, and collections. The organizations served could be anyone - a university, church, a software company, a telecom firm, a health care firm, or a biosciences product. Medical devices are a great example--anything that requires constant monitoring both by the user and supplier. That’s the new monetization, that’s what we call SRM, and that’s where we focus. The funny part is, telecom has been doing it since Bell Telephone.

Andrew Dailey: What do you see as the business, finance, and IT challenges for organization grappling with this shift to subscription and new pricing models—the new monetization models?

Adam Kleinberg: IT departments respond to requests. The largest request is always coming from the sales department. The second largest is coming from the backend finance department. The sales department wants something that their people can quickly use to write and monitor contracts but finance doesn't want anyone touching their toys. Sales says to IT, “Take the tools we have and build something better. I need to be able to write any type of quote it takes to sell.” IT may take it upon themselves to write the quote in one system and paste the information to another. Then the data has to be synchronized with accounting who has not been included in the new pricing option the sales team chose to close the deal. The content of the pricing lists, the product line versions and names, the terms and delivery methods may not be synchronized. So the IT department is responsible for finding a way to synchronize what the sales department does with what the accounting needs to collect on those orders in the way the contract was committed. Between those two, the operations department (deployment, provisioning, orchestration, and activation) has to oversee everything to make sure the commitments can be fulfilled. So, to do its job the IT department is faced with three choices:

1. Custom designing connectors and tools that reach the three groups--sales, operations, and finance.
2. Buying systems that may communicate with each other but don't allow for advanced agility configuration, or
3. Trying to find a single system that answers the needs of all three departments.

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

And whatever they find, they need to make sure they have the ability internally technically to not only support the purchase but the ongoing changes. That means having the resources on staff. Now if they are going to get a system like ours, since we are built completely on Salesforce, they will need to learn only one technology. There are a lot of other competitive systems that are just as powerful in some ways but they will require training in multiple technologies. The mistake is trying to replicate the manual workaround each group has been doing instead of applying best practices and automation. Bhaskar likes to call that “Putting the same old wine in a new bottle.” I call it chasing the rabbit. In either case, nobody is happy.

Andrew Dailey: *What are the critical skills and resources missing in most organizations today?*

Adam Kleinberg: Actually a company may already have the necessary skills and/or resources, but those resources are busy working with customers instead of solving the problems internally in the operation. They just need to be able to verbalize the reason for their process and not the process itself. Then a few Salesforce admin can make it happen using tools like ours. We find that the fastest projects happen when we ask, “Why do you do that?” When the answer comes back “Good question, we really don't need to since your tool will do it.” Then we are off to the races. The doing of the thing is usually the easiest. To answer your question, people need to remember to question “why” more often. That is the missing skill. For us, it's the fun part of the project. The rest is Salesforce admin and maybe if need be a little java.

Andrew Dailey: *What are the unique benefits of moving to a cloud-based billing and monetization solution?*

Adam Kleinberg: Ubiquitous access from deal to collection. Cloud billing isn't about moving one server into a 1000 other servers and no longer caring about the MacOS vs Windows debate, it's about being able to commit to the deal written by sales. It is about having one source of truth and change for the company that is instantly available to internal staff, operations, partners, subscribers, and management - from anywhere and in a secure manner. The fear of the cloud came from security concerns. In the past, you had to worry about access, about intrusion, about secured data management, about server uptime and infrastructure processes. When you move to cloud billing, you relieve the need to oversee all those layers of security. This is a huge benefit and it's liberating. Now, a company just has to log-in to the infrastructure and configure the product, add the new items to the catalog, configure the pricing model, make the availability structure the right way, and manipulate the look and feel of the customer-facing bill.

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

Andrew Dailey: Let's talk little bit about ChikPea. What would you say is the unique value-add that ChikPea brings to its customers?

Adam Kleinberg: We bring two things: our tool, which is arguably the most powerful product catalog out there, and the experience / creative response needed to apply it to challenges. Earlier I mentioned we cut our teeth in telecom. The telecom industry created all of these functionalities back in the days of Ma Bell. That's where we learned the strategies of different pricing, different usage consumptions, and the techniques of customer retention through billing. This foundation experience has enabled us to respond creatively to our customers. We produce what the customer wants right then and there and without having to give promises of later releases. Our system is so agile, our product catalog so flexible that we can institute and write work flows and work processes around almost any request.

Andrew Dailey: Which competitors do you see in every deal?

Adam Kleinberg: We tend to see Zuora. We're usually the first call after Zuora. After the client works with them, puts it through their paces, but there is usually something about it that gives them pause and so they will test us out. Being that moving to a billing system is a serious choice, the company wants to make sure nobody else could do it better. We also get those clients who come to us at the end of their Zuora contract because there was an attribute that Zuora could not achieve. They'll say, "ChikPea, can you do better?"

Andrew Dailey: For your billing system, what differentiates ChikPea from its competitors?

Adam Kleinberg: Number 1 is our price catalog. Number 2 is that we can deliver a demo within 48 hours of a request and show the customer what they are looking for, regardless of the challenge. The fact that we are completely 100% native on the Salesforce platform means that if the client gives us an onsite, on-demand challenge right there we can do it whether it is creating an additional field, creating additional connections between one object and another -- we can do that onsite, live during the demonstration. Number 3 is that customers do not have to change their business to use our product. We listen for the business need behind the request, recognize it, and show how it can be accomplished.

Andrew Dailey: For companies that are evaluating ChikPea, what are their primary concerns?

Adam Kleinberg: One concern is size, though this was more a past concern when we were just beginning with only 5 or 10 employees. We competed very well then, and now with our present size and with the references of Fortune 500 companies, we don't get a lot of pushback on that issue. I think a second

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

concern is not unique to us. It is the normal concern any company might have when it contemplates a major change.

Adopting an enterprise grade cloud billing system is a consequential decision that requires being willing to devote adequate time to understand the company's needs and wants.

Andrew Dailey: *Where is the growth in your business? Where do you see it in terms of which vertical industries, by geography, by product line? Where do you see the most demand for ChikPea?*

Adam Kleinberg: Life sciences is picking up significantly, specifically healthcare. We are not necessarily part of the healthcare life cycle. That's a completely other billing model because it includes insurance, but we are part of a secondary layer, the B2B billing. Telecom is also consistently a large growth area because you've got companies that are now realizing that they could be relinquishing a lot of their own development investments to purchase SaaS. The software industry itself has always been a strong area and now that it is recognizing the value of recurring billing models, it's even stronger. And of course digital streaming media is always there.

Andrew Dailey: *When implementing new order management, billing, CPQ (Configure, Price, Quote) what are some of the stumbling blocks that people commonly encounter that they hadn't adequately prepared for?*

Adam Kleinberg: Companies have organizations that have very distinctive requirements whether it's the sales department, operations and order management department, or the finance and accounting team, and when we have to deal with these different groups you need an advocate centralized to a PMO (Project Management Office) to keep internal communications clear so that the end product meets ALL the needs of all the different departments. It's a terrible thing when the project manager is at the final stages of releasing your testing and some users feel that their requirements were not taken into account. A project advocate could have prevented this. It is a shame because had we known we could have our system could do it. We could easily adopt things like--multicurrency, hierarchy requirements, product hierarchy, account hierarchy requirements, premises-based bills, or trial order processing--but when the groups aren't communicating among themselves, we can't get accurate information, and we have to roll out what we've been told. Luckily, we pride ourselves in being able to adapt and not stop the show

Andrew Dailey: *What are the key ingredients for a successful implementation?*

Adam Kleinberg: The key ingredient is for a company to understand the underlying *business* purpose of a requirement.

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

“Because we’ve always done it this way” is the worst possible justification for a deployment decision. If you do not have a valid business reason for a methodology, a pricing, or a purpose, then you are putting bad wine in new bottles.

Andrew Dailey: What’s the business case for a solution like ChikPea? How do you justify an investment and cloud-based monetization solution?

Adam Kleinberg: Firstly, the movement is or should be considered a cost savings effort. One business case is outstanding bills-- working in arrears and scrambling to get invoices out on time without leaving money on the table. Related to this is what happens after that -- dunning and collections. I once told one of the largest companies in the U.S., “with the amount of money you’re losing in collections, we’ll just take 10% of whatever we help you get.” It was that bad. We don’t price that way, of course, but did make the case for our service. Another case for us is smooth operations. Companies come to us and say we just purchased a new business and we need a way to bill on time and have it happen without messing things up in the backend. Also companies value the discipline that comes with our system. Some sales departments have top performers who are also cowboys when it comes to standard deals. The sales rep is allowed to write contracts based on what it takes to close the deal as opposed to what it may take to actually bill. We can rein this in, reduce the overhead and management without removing the creativity and the flexibility sales departments need to perform.

Andrew Dailey: And, so speaking of pricing, how do customers license your product and what’s the rationale for your licensing and pricing approach?

Adam Kleinberg: We’re a software company. It is not our place to take advantage of a company’s growth and revenue. If a customer does very well and is able to bill a million dollars, we have no right to a percentage of that revenue. We sell based on software licensing, similar to the way Salesforce does. Companies buy our product based on the number of licenses and usage of the system. We sell on a tiered pricing model; the more sales we see, the more users of our system that need it, the cheaper the product gets per user.

Andrew Dailey: ChikPea is one of the few vendors that built exclusively on the Force.com platform. In your experience, what are the benefits and challenges that Salesforce.com and the Force.com bring to your business?

Adam Kleinberg: Being on the Force.com platform allows a company to become expert in a single technology--the Salesforce product line. A company can then hire resources from all over the world who can just log-in and work on their Salesforce instance, which would include the ChikPea objects, and tools such as report writers, work flow engineers, integrators, and the

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

like. Another benefit is reliability. With 70,000 servers, Force.com has a robust uptime history. There is very little chance of downtime. Utilization, reporting engines, access and security controls, the fact that you really have a mobile solution and portalization—all these are strong benefits. As for challenges, there are some. Over the years Salesforce has transferred product support from themselves to its partners. I don't necessarily think that's a terrible thing because they at one point were reduced to a platform, which is where they excel. However, it is now a hybrid situation where companies like ours have to advocate for our clients for resolution of needs in the back—a situation that is sometimes disconcerting. Finally there is cost. Salesforce understands its value and prices its product accordingly. Because Salesforce is a very flexible company, they also have some things they have to grow with.

Andrew Dailey: Where do you see ChikPea in three years?

Adam Kleinberg: The statistics indicate the billing business can grow to over 6 billion dollars in the next three to five years. This consistent growth will allow our billing section to add the new feature sets we have on our road map. This growth will make us unique in some areas because we will be focusing on consolidating features sets that companies must now seek elsewhere. I think telecom or management groups will see ChikPea as one of the most successful players in downstream order processing. We want to be the company people use not just for writing quotes or sending out bills, but also the company people use to oversee the deployment and implementation of their services. This means having tools that integrate with third party suppliers, legal departments, and offering features that expand our core business.

Andrew Dailey: What is your vision for billing and monetization going forward?

Adam Kleinberg: Right now billing and monetization are approached from the finance department only. That's wrong. Finance knows accounting and revenue management. Billing belongs in marketing, sales, and operations. Billing is customer-facing, which means marketing. It means customer retention, renewals. It means communicating back to the sales department and product development. I look at billing as a way of showing subscribers "This is what we've done for you. We hope you agree and can see how it is reflected on this invoice. If you don't agree, we want to know, and maybe why we should consider a different pricing model." I view billing in the context of subscriber relationship management (SRM) and not only part of the finance department.

Andrew Dailey: In closing, Adam, share a prediction with us. What do you think is the biggest hidden opportunity for organizations in 2016/2017?

Enabling the Digital Business – Perspectives with Adam Kleinberg, CEO of ChikPea

September 13, 2016

Adam Kleinberg: Realizing that some businesses have been doing it right all along—that’s the hidden opportunity. I have no qualms in saying we should learn from how Gevalia coffee and Netflix send marketing materials inside their bills. In 2016 and 2017, using the invoice as a promotional tool will only grow as companies realize that just sending out e-mails to everybody who signs up is wrong. It is far more effective to take advantage of a captured audience by including marketing communications with the bill. So within the next year I see a marriage between products for marketing and products for billing. In the second half of the year I also see a narrowing of the gap between the big billing tools, like Amdocs and Ericsson, and secondary-class billing products that focus on a consolidated bill—companies like ChikPea, Zuora, and Aria.
