

VCs Become Believers In Billing Software

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Having seen firsthand the difficulties of building billing systems for online businesses, many venture capitalists are putting their money behind companies that provide this service.

The most recent to receive funding is Aria Systems Inc., a Media, Penn.-based company that is expected today to announce a \$10 million Series B round.

Billing systems are "the last thing a start-up works on but frequently becomes the tail that wags the dog," said Ray Rothrock, a managing general partner with Venrock, which led Aria Systems' latest round. Also participating in the round was Hummer Winblad Venture Partners, which led the company's \$4 million Series A round a year ago.

With a steady growth of goods and services that can be purchased online, the complexity of billing is also growing. "Customers are coming in 24 hours a day and 365 days a year, buying more, canceling services and upgrading," said Ed Sullivan, the company's chief executive and founder.

Two other companies that provide on-demand billing systems to companies that sell subscription-based services, such as software-as-a-service or online gaming, have recently taken in fresh venture capital. In March, Vindicia Inc. grabbed \$6.5 million in equity and debt financing from DCM and Leader Ventures, and Zuora Inc. scored a \$15 million Series B in October, less than a year after its first round.

Before leading the round for Zuora, Shasta Ventures had seen about 10 different SaaS companies in its portfolio have the same problems when it came time to put together a billing system. "Some things that sound simple aren't, like when a customer wants to add a new seat halfway through the month," said Jason Pressman, a partner with Shasta Ventures and member of Zuora's board.

One way Zuora hopes to build its success in this emerging market is by allowing developers to easily tie its service in with other software, for example, by linking billing with the systems that activate and deactivate customer accounts, said Tien Tzuo, the company's chief executive.

"As a vendor, you have to realize that your service isn't going to be accessed on its own little island," he said.

For Aria Systems, going beyond billing is also key. The company provides customer lifecycle management and marketing intelligence tools that are all built around the company's core billing platform, Sullivan said.

Although Aria Systems was not in the market for new funding when Venrock and other venture firms began calling, Sullivan said the company decided to take on new investors to show potential customers that the company is financially stable as it looks to add large, publicly traded companies as customers.

Aria Systems, which was founded in 2003, is approaching 100 customers, Sullivan said.

Difficulties in building a homegrown billing system are not the only thing that makes it an attractive market for SaaS companies.

"This is the perfect SaaS application because billing is absolutely critical to all companies, but is not core to any of them. If I'm playing World of Warcraft, I don't care who's doing the billing," said Tom Blaisdell, a general partner with DCM and member of Vindicia's board.

For Vindicia, the emphasis is on security. The company's software prescreens customers for fraud potential and automates the fighting of chargebacks, where the customer pays for a service and then tells their credit card company that they didn't ever order it.

Chargebacks can be a serious issue for online vendors, and not only for the lost revenue. If the rate of chargebacks crosses one percent, credit card companies put the company on a watch list and could potentially stop providing service, said Sanjay Sarathy, Vindicia's vice president of marketing.

With more companies regularly emerging with a subscription model and a lack of competition from established software companies, investors feel that there is room for more than one of these companies to be successful.

"I would estimate between half and two-thirds of our portfolio companies are built on having a subscription relationship with their customers," a figure that would have been less than 10% a few years ago, said Peter Fenton, a general partner with Zuora investor Benchmark Capital.

As a result of Aria Systems' financing, Rothrock of Venrock will be joining the company's board of directors.