



Roadmap for Revenue Management—A Semiconductor Case Study

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Every year, AMR Research surveys approximately 200 companies with regard to their customer management priorities and plans. For the past three years processes related to revenue leakage have topped the list of gaps in performance. We measure performance gaps by asking respondents to prioritize customer management business process in terms of importance and current performance. While customer service management remains the largest gap, the two and three spots go to sales contract management and price management—areas that directly address revenue leakage.

While one might expect these pressing needs to generate interest from large enterprise software vendors, both contract management and price management remain the domain of smaller specialty vendors (see "Pricing and Profitability Management Landscape: Balanced Performance Improvement Is the Name of the Game"). Part of the challenge is that many companies expect their existing ERP or CRM applications to solve these problems. But the continued challenges companies face in stemming revenue leakage indicate otherwise. So in industries such as pharmaceuticals, chemicals, and high-tech manufacturing where pricing remains a key demand lever and contract-based business is the norm, leading-edge companies are seeing notable success with revenue management projects.

We recently spoke to the CIO at a large semiconductor company and heard about some unusually compelling business benefits from front-office software. While CRM-suite spending remains strong, many of the reference customers we hear from are recognizing more soft benefits around efficiency and process automation. This particular example certainly deviated from that pattern by going directly at revenue, which made it stand out from the crowd.

This company demonstrated a strong commitment to four foundational criteria that together ensure a successful deployment for front-office applications.

- Strong executive sponsorship and leadership
- Support from a software vendor with industry expertise
- Process change and change management practices
- Tracking via achievable and demonstrable metrics

This company's journey toward front-office transformation began in 2002 as the result of some organizational changes in sales and marketing management that quickly uncovered some serious shortcomings in the pricing strategy. In fact, the status-quo for the pricing group was described bluntly as "just giving away margin." It turned out that the prices quoted to customers had little to do with the volumes they were committing to buy, and virtually all price negotiation started with the strategic minimums regardless of volumes or customer segment. This ad hoc approach led to highly inconsistent price matrices across customer groupings and very lumpy demand—bad for margins and bad for forecasting.

The solution was anchored by some fairly aggressive goals and started right at the quoting process. The new team secured high-level executive commitment by claiming it could find nearly \$20M in additional margins through a more concerted pricing strategy. This grabbed attention at the executive level, since the semiconductor industry rewards companies reporting gross margins over 40% with nearly twice the valuation multiplier.

The company had a relatively low appetite for custom-built software and wanted a vendor with domain expertise in high-tech manufacturing. Because of the industry qualification, the company quickly narrowed its selection to the software vendor **Model N**. With its acquisition of **Azerity** in 2006, Model N also inherited a customer base, products, and domain expertise in high-tech and semiconductor manufacturing. While the product set spans price management, contract management, and revenue management, pricing remains a top priority in the semiconductor world. Many of the other price management software vendors in the market have made a name largely in process manufacturing, so Model N quickly became the logical choice.

The company implemented a number of Model N's products, including Opportunities, Design Registrations, Global Price Management, Direct Quoting, Channel Quoting, and OEM Contracts & Channel Contracts. Our conversation with the CIO focused on three key elements included in the first phase of this project.

- Determining optimal upfront pricing based on available market factors rather than starting from a point of heavy discount
- Employing an easier web interface for quoting that replaced a legacy mainframe system
- Generating reports and metrics to help determine true progress toward making the \$20M margin opportunity

To do this, the company took a before snapshot of tracked quote conversion rates, turnaround rates, and how frequently reps dropped to strategic minimums. In a very innovative fashion, the company then convinced Model

N to also use these metrics to establish a performance-based component to its own software pricing. In this model, thresholds were set to several key business metrics that when met would move the company to a higher pricing tier for the software. This was not a standard pricing model offered by the vendor, but showed a usual level of confidence from a software vendor that its product could derive measurable business benefit.

Since 2002 this semiconductor company has achieved some significant advantages from the project. Since the 2006 timeframe when the software project was put in production, the company has seen significant benefit. As anticipated, gross margins saw notable improvement. They began in the 27% to 28% range and now have improved substantially to 40% to 41%. This is a particularly important metric in an industry that rewards margins to such a strong degree.

But the benefits didn't stop at just revenue improvements. Prior quote conversion rates were in the low double digits, but have now climbed into the 25% to 30% range—an unexpected but welcome improvement. The company is also better at following up on escalation, so quotes aren't sitting around idle as they were in the past. And with better price curves, reps respond to quotes more quickly. In a business that sees roughly 25,000 line items quoted per month, even modest improvements in quote turnaround time have significant effect in higher volumes.

While the project began as an effort to plug margin leaks, this company discovered that it didn't need to compete almost exclusively on price. In fact, the prior team's strategy ultimately obscured the company's additional value proposition around on-time orders and supply chain efficiency.

Once the price problem was solved, management could refocus on these other strategic differentiators despite the commodity-status products. The next step is to really concentrate on driving new demand activities, which will rely less heavily on technology and more on broader change management. And the company is certainly on the right track; it has grown revenue almost 50% since the new management team came on board.

Perhaps even more notable than the specific business benefits, the custom software licensing arrangement showed that Model N has a high degree of faith in the ability of its software to directly impact top- and bottom-line growth—something lacking in the front-office software market today. If more vendors were willing to put their money where their mouth is, we would likely see improvements in success rates for front-office projects across the board.