REVENUE MANAGEMENT AND THE WIDENING RESPONSIBILITY OF TODAY'S CFO

Overcoming the sales team and CFO disparity can be achieved through Revenue Management Cloud solutions, which provide the end-to-end strategic approach of managing every dollar that impacts the top line of the business.

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There is a sea change underway in the role of the chief financial officer. Economic uncertainty, increased regulatory and compliance requirements, and ongoing investor scrutiny have contributed to a growing mandate for today's CFO. Alongside the traditional focus to provide financial insights and analysis, CFOs face relentless pressures for greater involvement in supporting and developing strategy, guiding key business initiatives, and growing the business.

Yet while industry analysis and commentary has focused on the importance of the CFO in understanding the "big picture," the current economic environment has created wider responsibilities for the CFO than ever before. Gone are the days of the CFOs cloistered in their offices crunching financial numbers. Today CFOs are expected to weigh in on the strategic responsibilities and decisions involving the organization as well as serve as executives who can oversee sales transactions, regulatory reporting, compliance, tax functions, and other operational aspects of the business.

From a sales perspective, CFOs are becoming more actively involved in designing and managing the cost of sales, compensation, product pricing, partnerships, and forecasting. Companies have realized that a more-strategic sales organization and sales productivity are critical for growth. However, the need for the sales team to impress existing and

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prospective clients is often at loggerheads with a CFO's mandate to maximize return on investment — and sales executives have typically cast a wary eye on the CFO who may see the sales team as an income statement.

One reason for this cautious dynamic is that sales and marketing expenses can constitute a significant part of a company's profit and loss statement, often contributing to the customer acquisition cost ratio.[1] There can be tenuous links between sales initiatives and revenue outcomes. Often CFOs do not always have the right tools to better understand the sales cycle to strike the right balance between understanding sales teams' efforts and expenses against their effectiveness and ability to drive growth. In addition, sales cycles are cordoned off from finance due to a lack of understanding in how each department can benefit from one another.

The sales conversation and conundrum

In a recent survey of 300 C-level executives, 94 percent agreed that the CFO is one of the most important positions for companies today, with 54 percent of respondents noting that this is because managing the financial risk of the corporation is more important than ever before.[2] Sales teams can be optimistic, often with pie-in-the-sky forecasts that can lead their companies to get spend curves ahead of revenue. While most organizations with recurring revenues can forecast quarterly sales with a high degree of accuracy, companies with long sales cycles need more sophisticated predictive analyses to make a more accurate estimate. Simply put, the notion of sales teams adding up prospects in the pipeline, making an instinctive adjustment, and finalizing a number to then impart to the CFO is not only unacceptable, but it could have dire consequences for the business.

While CFOs should not take control of the sales or marketing function, they should play a central role in helping to ensure that a structure is in place to maximize sales and marketing expenses against ROI and profitability. Marketing customer acquisition cost and sales customer acquisition cost (mCAC and sCAC) are two examples of the many metrics that can be tracked. In the same survey, 74 percent of executives admitted that their CFOs are not currently involved in the sales conversation because they have no direct experience leading sales organizations or are unfamiliar with a standard set of metrics for evaluating sales and marketing performance. Meanwhile, one in five executives noted their CFOs are not currently involved in sales because no solution exists to help them understand it.

As any CFO knows, what impacts the company's top line — whether it is contracts, pricing, rebates, incentives, or gross-to-net initiatives — eventually affects the bottom line as well, so visibility into the sales cycle is paramount. The consequences of poor analytics and visibility can be monumental. For example, poor management of contracts can result in revenue leakage, and within the pharmaceuticals industry alone, an estimated $11 billion is lost every year due to a lack of centralized and automated solutions for managing revenue.[3] Model N estimates that, in the high-tech industry, issues relating to revenue leakage caused by commitments and inaccurate reconciliation of point-of-sale data can cost semiconductor and electronic component companies up to $30 million in margin erosion on every $1 billion in sales.

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Revenue Management in action

Overcoming the sales team and CFO disparity can be achieved through Revenue Management solutions, which is the end-to-end strategic approach of managing every dollar that impacts the top line of the business. For years, finance departments have struggled with time-consuming, error-prone spreadsheets to handle complicated and critical revenue recognition tasks. These outdated spreadsheets and inefficient legacy business processes often result in price erosion and revenue leakage, which impacts business growth. An overwhelming majority (95 percent) of the 300 survey respondents agreed that Revenue Management is critical to the growth and success of the company and believe that it is critical for CFOs to be included in the sales cycle.

A customer of ours, a major semiconductor company, faced the challenge of inconsistent data and manual processes that led to untraceable opportunities and lacked metrics. With a Revenue Management Cloud from Model N,[4] their team was able to capture close to $20 million back to the company, track and link opportunities and registrations to quotes, and create the transparency that was needed to drive the highest value-added transactions.

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Another customer, a major medical device company, had previously used manual processes that were fraught with risk and inaccuracy. Pricing was determined on a case-by-case basis and the deal lifecycle was manually tracked in spreadsheets. It was clear that the company needed a mechanism to take risk out of the business and grant more visibility to the CFO while simultaneously driving value to the customer. This led them to seek an effective Revenue Management solution.

With Model N's end-to-end Revenue Management Cloud solution,[5] the company can now make better and quicker contracting decisions while gaining the flexibility and control needed to implement differentiated pricing strategies from a single source of truth for all pricing decisions. It is able to better analyze customer and contract performance through timely insights, financial accuracy, and the seamless integration of pricing, rebating, and other financial programs with the existing enterprise resource planning (ERP) system. Quote turnaround times have accelerated, going from weeks to minutes, and have provided the field sales force with a much better sense of customer performance and sales force effectiveness in contract execution.

A strategic business transformation

As Mark Garrett, EVP and CFO at Adobe and board member of Model N, said, "Revolutionary transformation requires keen insights into how the business will react to strategy shifts, and well-integrated financial systems and processes play a critical role."

For most organizations, the quagmire of loosely defined regulations, evolving interpretations, and stiff penalties for noncompliance creates levels of complexity and variability that outstrip the ability of CFOs to stay on top of Revenue Management. As this article has discussed, many organizations still use manual, legacy spreadsheets that reduce productivity, increase the chance for errors, obviate visibility into future revenue, and complicate audits and compliance. The process of invoicing for a specific product or service is often too closely tied to revenue recognition in many accounting systems today. This means that companies have limited flexibility to accommodate products and services with increasingly complex revenue recognition rules. For example, an organization may bill a customer annually in advance for a subscription-based service, but it might recognize revenue monthly over the lifetime of the subscription term. This asynchronous approach outside of existing legacy systems can lead to inefficient manual workarounds — preventing the CFO from receiving an accurate forecast for future revenue, renewals, and regulatory compliance.

Revenue Management helps maximize revenues

Based on these challenges, companies are looking to break free from the nightmares associated with outdated spreadsheets and turn instead to automated Revenue Management processes to achieve better compliance, improve visibility, and lower their costs. An enterprise Revenue Management solution can produce clear and tangible benefits from a variety of measures, including greater accuracy levels and lower costs. However, the real improvements come from Revenue Management Cloud platforms where a single solution can handle a list of requirements, including pricing processes, contract creation, rebate management, regulatory compliance, integration with customer relationship management (CRM), etc.

For many CFOs and finance executives, using Revenue Management software can not only help to establish a single, comprehensive platform that integrates people, process, technology, and data, but it can also intrinsically bring together and support sales, marketing, legal, and finance channels.

With Revenue Management solutions, today's CFO can ensure he or she has a single end-to-end view of revenue, what influences it, and the information necessary to improve sales productivity, maximize revenues, and decrease drag on profits — effectively balancing the ability to drive the company's strategy and manage the operational aspects of the business. ■

NOTES

[1] Kellogg, D., "The customer acquisition cost (CAC) ratio: Another subtle SaaS metric." Available at: http://kellblog.com/2013/12/01/the-customer-acquisition-cost-cac-ratio-another-subtle-saas-metric/.

[2] "Model N Revenue Management Survey," Model N (Dec 2014) (press release). Available at: http://www.modeln.com/press-releases/2015/model-n-revenue-management-survey-apples-cfo-luca-maestri-is-most-admired-fortune-500-cfo/.

[3] Newmark, E., "Revenue leakage: Pharma's $11 billion problem," IDC (Nov 2009). Available at: https://idc-community.com/health/life-sciences/revenue-leakage-pharmas-11-billion-problem.

[4] "Revenue management cloud," Model N (2015). Additional information available at: http://www.modeln.com/revenue-management-cloud/.

[5] *Ibid.*