State of Revenue Report

March 2019
INTRODUCTION

In our increasingly connected global world, understanding and maximizing revenue is critical. From determining the right price in various interconnected markets to offering rebates and discounts to qualified partners and measuring program ROI, it is more important than ever to have robust revenue management capabilities. And those revenue management capabilities are changing, as well.

Next-generation technologies such as artificial intelligence (AI), a digitally transforming industry, and the changing nature of the global workforce are driving organizations to alter how they handle revenue management. As these shifts happen, what are the key considerations companies should pursue while modernizing their approach and what are some of the pitfalls they should avoid?

To find out, Model N commissioned ReRez Research of Dallas, Texas, to field a survey of 300 C-level executives across pharmaceutical, medical technology, semiconductor/electronic component manufacturers, and high tech companies.
UNDERSTANDING REVENUE MANAGEMENT

Survey Results

The State of Revenue Survey’s goal was to provide clear and concise insight into the primary factors that impact revenue. After conducting the survey and analyzing the results, our goal was reached, and we found that the three most important enterprise factors facing organizations today are profitability, revenue and customers. Organizations also highlighted reputation and brand as crucial components to prolonged success.

With revenue a clear factor for success, it’s critical for companies to have cutting-edge revenue management to maximize top-line revenue. So what trends are impacting revenue management, and in which areas do organizations seek to improve?

TOP MACRO TRENDS

- Artificial Intelligence
- Digital Transformation
- Aging Workforce/Emerging Millennial Workforce
Revenue Management Trends

Artificial intelligence (AI) and digital transformation are the top two trends impacting revenue management, with the generational change in the workforce coming in third.

**In fact, 78% of survey respondents identified AI as the top trend.**

While AI and digital disruption have been in the news for years, it is clear from this study that enterprises are still figuring out how to take advantage of AI and how to digitally transform their operations. By utilizing systems with automated, intelligent integrations throughout the revenue management process, organizations can avoid revenue leakage and ensure compliance. It’s critical for organizations to be fast, reactive, and designed around the user. This is especially important with the emerging millennial workforce and an up-tick in on-demand work, as ease of access and usability allow for optimal results.

After determining the key trends impacting revenue management, we then asked respondents about their organizations’ critical revenue management goals.

Goals

The survey identified three primary revenue management goals: improving profit margins, reducing revenue leakage, and growing top-line revenue. Most organizations are pursuing these goals; in fact, 88% identified improving profit margins as a focus in the near future. They also noted that reducing revenue leakage contributes to both profit margins and top-line growth.

Yet, organizations are facing challenges to achieve these goals. To better understand what difficulties they are currently experiencing, we asked respondents to identify their key roadblocks.
Challenges

The top three challenges life sciences and high tech companies face are controlling revenue leakage, managing global pricing and maintaining regulatory compliance.

Revenue leakage proves the most pressing and difficult revenue management challenge these organizations face. Respondents told us it requires attention in the near term. Given how many touchpoints there are throughout the revenue execution process, revenue leakage can happen at any of dozens or more moments throughout the lifecycle of a contract. From the first point of engagement to every step of the way through the fulfillment of the contract, to tracking regulatory requirements, it is critical that life sciences and high tech companies have a systematic, end-to-end way to manage their revenue. This is the best way to identify and prevent revenue leakage.

Managing global pricing came in as a close second. With large organizations spanning dozens, if not hundreds, of countries, markets, and regional and economic requirements, it is incredibly challenging for companies to manage their pricing holistically. Downward pricing pressure in one market can lead to pressures in other markets. Setting the best price can be incredibly complex and go beyond the capabilities of manual spreadsheets. Mistakes here can have a huge impact on a company’s top-line growth.

Last but certainly not least, regulatory compliance was scored as a major and growing challenge to achieving revenue goals. Life sciences organizations, and especially pharmaceutical companies, face increasing scrutiny and unpredictable regulatory changes that could massively impact the way they do business. High tech companies are also at the mercy of changes in tariffs and regulations that they may not be able to predict far in advance. Being nimble and able to adapt quickly with minimal disruption to their revenue systems is the best way these companies can prepare for unknown future changes.

All of these challenges can be significantly mitigated with a system of record to manage revenue end to end with software integrated into your CRM and ERP.

Now that we understand where revenue management is headed, the goals life sciences and high tech companies have, and the challenges they face, we looked at where organizations are currently doing well and where they are underperforming against their goals.
Current State of Revenue Management Performance

The three areas where respondents say they are doing the best include:

- Revenue visibility
- Customer retention
- Improving profit margins

Respondents also identified areas for improvement. While profit margins may be increasing, organizations are struggling to increase recurring revenue, and stock prices aren’t improving at the target rate. Organizations are also struggling with cross-selling other products and services. High tech respondents also identified revenue leakage as a crucial aspect contributing to sluggish top-line revenue growth.

Scale of Partner Impact on Revenue

The survey identified the large impact of partners on an organization’s revenue: over two-thirds of life sciences and high tech revenue comes from partners, generated either through managed channels or through joint partner deals.

The implications of this are significant. Without direct control of over half their revenue, companies can lose the ability to see and forecast their revenue in real-time. They may misunderstand their financial position and make strategic or operational errors as a result. In addition, they are reliant upon resources they do not directly control, making it harder to implement changes and roll out marketing and sales programs intended to drive revenue.

Not only is the majority of revenue coming through channels, but the number and complexity of channels continue to expand. 90% of respondents work with 20 or more partners, and 70% work with 40 or more, and respondents expect that number to increase. Automation is paramount in addressing this industry trend, and will likely separate the winners from the losers. Software gives revenue visibility and control back to the company which can then continue to reap the benefits of a deep partner ecosystem, while resting assured its revenue will be managed well.
Top-Tier Organizations Significantly Outperform

It is clear that some companies are performing much better than others in terms of revenue management.

**Top-tier organizations are 79% more likely to be doing well with stock price growth and 57% more likely to be doing well with reducing revenue leakage.**

Clearly the top tier has identified secrets to success. This study showed that companies that overcome their revenue challenges and meet their goals are best in class across several dimensions. These companies tend to:

- Manage their sales processes and contracts via systems
- Manage their channels and third parties using systems and data
- Proactively set strategies and systems to manage regulatory requirements and gain visibility into revenue at all stages.

Digging deeper, we found that certain revenue management practices, such as channel and rebate management, were common across industries. We also found unique revenue management challenges and solutions between industries. First, let’s examine the shared revenue management secrets.

**CALCULATING THE TIERS**

To determine which companies are top-tier performers, Model N asked specific questions about revenue management and graded each answer based on adherence to industry best practices. The survey then compared the relative differences between the top-tier organizations and the bottom-tier organizations to determine exactly how much better the best organizations are performing.

**TOP TIER**
Those with scores in the top 33 percent were placed in the “top” tier. These are the enterprises reporting the fewest problems with revenue management.

**MIDDLE TIER**
These are the enterprises that scored in the middle in terms of their revenue management results.

**BOTTOM TIER**
Those with scores in the bottom 33 percent were placed in the “bottom” tier. These are the enterprises reporting the most problems with revenue management.
Survey respondents identified key management practices that separated top-tier organizations from their peers. Across both the life sciences and high tech industries, there were some practices that were universally effective. These practices relate to four areas:

- Deal Management
- Channel Management
- Rebate Management
- Contract Management

## Deal Management

Top-tier organizations optimize deal management. Respondents noted the importance of deal analysis and intelligence when creating quotes. The most successful organizations utilize systems that allow them to quickly gather and process deal data — from incentives to the relevant product mix or customer. This reduces the quote turnaround time and centralizes the bid process, saving money and avoiding internal miscommunications. Additionally, these technologies allow for a post-mortem analysis of failed bids, learning and improving for subsequent cycles. Finally, top-tier high tech companies are faster and better at generating proposal documents, allowing for both more bids and more accepted bids.

## Channel Management

Successful organizations optimize channel management, which reduces costs and maximizes margins by combining the best inventory management and pricing processing, including price protection, accurate inventory aging, and channel sales data validation. Understanding inventory status allows organizations to respond to market changes more effectively.

Organizations can identify regions where they can move excess inventory, provide price protection to improve partner relationships when they introduce new products, and process claims more quickly to ensure that partners are made whole in a timely basis.
Rebate Management

Another distinction between top performers and average organizations is how well they manage rebates. Top organizations are able to track, evaluate, and automate rebate programs — from earning calculations to the ROI of specific campaigns. This allows these organizations to pinpoint effective partners and eliminate unsuccessful programs, avoiding unnecessary rebate waste. Further, intelligent payment processing leads to happier customers, upping retention and satisfaction.

While top-tier organizations are outperforming their peers in all rebate management processes, it’s worth noting that many organizations still struggle with high throughput automated earnings calculations. Only 50% of respondents reported doing well in this area.

Contract Management

Good contract management is a key piece of partner retention implemented by top organizations. Such organizations focus on providing collaboration tools to facilitate quick and simple negotiations with their partners.

Additionally, they offer support for third-party papers and can integrate with whatever their partners use. Through this integration, they can provide a detailed risk analysis based on critical terms and language derived directly from the contract.
LIFE SCIENCES MANAGEMENT SECRETS

For the purpose of this report, life sciences organizations are defined as pharmaceutical and medical technology companies. The survey identified one unique management secret that top-tier organizations are excelling at: price management.

Price Management

The most effective life sciences organizations seek to plan prices and discounts for various markets and countries without jeopardizing prices in other regions. It’s important to offer the best price available, but not have that price negatively drive down profitability elsewhere in the world.

Especially within medical technology companies, organizations want to keep sales reps within reasonable boundaries when applying discounts. It’s important to customer retention to work with the reps and offer discounts when applicable, but it is also critical to avoid over-compromising on price and missing out on revenue in other key areas.

Finally, top organizations seek to understand the impact their pricing decisions have on regulatory compliance in government price reporting.

For pharmaceutical companies, ensuring that they are compliant with Medicaid rules, for example, is very important in order to avoid fines and penalties.

In summary, managing global pricing is critical to the success of life sciences organizations, and the ones doing it well are substantially more successful than those that are not. Global pricing management software, as part of an end-to-end revenue management system, is what sets apart the top tier.
HIGH TECH MANAGEMENT SECRETS

For the purpose of this report, high tech organizations are defined as high tech and semiconductor/electronic component manufacturers (ECMs). The survey drilled into three unique tech management secrets: Channel Data, Market Development Fund (MDF), and CPQ.

Channel Data Management

In addition to channel management, it’s important for high tech organizations to improve channel data management. Automating and centralizing channel sales data (POS data) eliminates human error, improves data quality, and gives more-timely insights into market conditions, which makes organizations more responsive. Further, having detailed data information allows top-tier organizations to proactively identify and solve issues before they become critical. Notably, top-tier organizations are four times more likely to be doing well with highly-automated POS and inventory data. Without proper management, this data can become unwieldy. This data management allows organizations to seamlessly match partner data against their internal master data, avoiding confusion or mismatched errors. With up to daily access to accurate sales data, executives can analyze market conditions and quickly make strategic decisions around product inventory, pricing, and incentives. They are also able to match actual sales to contracted volumes and incentives, allowing them to dramatically reduce revenue leakage.
MDF Management

Top-tier high tech organizations also report being better at Market Development Fund (MDF) management. Without proper management, MDF programs are often money sinks. Poor partner reporting, lack of progress updates, and a failure to analyze how successful a program was all lead to inefficiencies. Top-tier organizations automate MDF management to improve the effectiveness of MDFs. From allocating funds to tracking task completion and evaluating success, good MDF management affords organizations visibility into their partners’ programs. This improves the efficiency of MDF programs, increasing profit margin and reducing wasted resources. These organizations are able to demonstrate ROI on MDF programs so executives can determine where to continue to invest and where to stop investing.

CPQ Management

Top-tier organizations emphasize a good CPQ process. By leveraging software to configure, price, and quote deals, these organizations allow for faster, more accurate, and better-priced quotes than their competitors. They can spend less time generating quotes and more time with customers. This results in a streamlined process, happier customers, and ultimately better revenue results.

CPQ software enables organizations to adopt digital-era pricing models like subscription or risk-share. In addition, the most successful high tech organizations are more effective at guided sales for products, software and services. Finally, they employ easy-to-use quote creations and management equipped with intuitive UI. This reduces the likelihood of human error leading to revenue leakage and inefficiencies.
RECOMMENDATIONS

The survey identified crucial trends surrounding revenue management for both life sciences and high tech organizations. So what steps can these organizations take today to improve their ability to maximize profitable revenue?

1) Adopt software solutions that bridge the gap between CRM and ERP

Each top-tier organization is using technology that sits between their CRM and ERP systems to reduce error, improve efficiency, and drive higher profit margins. For example, the top-tier organizations are able to match POS data in near real time with complex rebate program data to virtually eliminate overpayments.

2) Automate data collection and accurately track, evaluate, and automate rebate programs

One of the biggest issues organizations face is accessing accurate data on a timely basis to make improved decisions. The top tier is able to automate data collection and enhancement, which allows them to detect market conditions more quickly, making them more responsive than their competitors. They are also able to access channel inventory data more quickly, allowing them to make and implement incentive programs on the fly.

Top organizations are also able to track, evaluate, and automate their rebate programs – from earning calculations to the ROI of specific campaigns. This allows these organizations to pinpoint effective partners and eliminate unsuccessful programs, avoiding unnecessary rebate waste.

3) Modernize and integrate across the revenue execution lifecycle

To truly modernize the revenue execution process, organizations must integrate the entire revenue lifecycle, which includes quoting, contracting, incentive management, inventory management, pricing, and channel data management. By having an integrated lifecycle, top-tier organizations are able to improve margins, increase top-line revenue, and virtually eliminate leakage.