THE CFO’S ROLE IN TRANSFORMING REVENUE MANAGEMENT

THE NEW REVENUE RECOGNITION STANDARD OPENS THE DOOR TO EVALUATING TOOLS AND PROCESSES TO OPTIMIZE REVENUE
CFOs and finance organizations are grappling with the dramatic upheaval from the ASC 606 / IFRS 15 revenue recognition standard. As they proceed to comply with the standard, they also want to advance the goal of becoming a more agile and effective partner to the business.

While compliance is an immediate focus, strategic CFOs are viewing the revenue recognition changes as an opportunity to leverage modern cloud financial systems to gain keen insight into their revenue recognition process. One key goal for CFOs is to utilize the information to further advance the customer-centric approach to business.

By utilizing cloud revenue recognition software, organizations can both streamline the revenue recognition process, and extract historical valuation information of goods and services. This information can be used by sophisticated cloud modeling solutions to evaluate sales, pricing and revenue results. This insight can be used to, for example, realign pricing models to maximize profit.
Setting Revenue Management Goals

The new revenue recognition standard is certainly shaking things up in the accounting world. Compliance deadlines for the new ASC 606 / IFRS 15 revenue recognition rules start with fiscal years that begin after December 15, 2017 for public companies, and a year later for private ones.

Obviously compliance has been a key driver behind some broader changes in revenue recognition management, as companies can face stiff fines, damage to their reputations, and an enormous amount of catch-up work if they don’t prepare for the new standard.

An error-free, fast, seamless, and compliant revenue recognition process is essential to a well-run company. But those are just table stakes that every company should be able to execute.

More strategic revenue management — such as being able to recognize trends early and adjust revenue targets as needed — is essential to growth. Progressive CFOs recognize that the impact of revenue management goes beyond finance, including sales, operations, IT, legal, and even HR.

For example, a company may have a goal of boosting overall revenue by 10% in a quarter. With real-time insight into the revenue performance of various business units, products, and services, the company can shift resources to underperforming areas to meet revenue projections.
“Many organizations are discovering that, by embracing the standard to re-imagine their revenue recognition process, they can gain invaluable insights how to maximize revenue,” said Steve Dalton, Senior Director, ERP Product Marketing, Oracle.

When it comes to revenue, you want to avoid any surprises when it comes to the expectations of both the investor community and senior management, said Eric Knachel, Senior Consultation Partner, Deloitte. “If you can forecast better and streamline operations, you can steer resources and revenue to growth opportunities.”

The new revenue recognition standards require a number of adjustments — including substantial impacts from evaluating and gathering data from source systems, changes to internal controls, and new and extensive disclosures. However, most companies are finding that the new standard is not resulting in material impact to their reported revenue.
Business Benefits: More Dynamic Pricing and Better Relationships

One of the interesting aspects of the new revenue recognition standard is the requirements for determining stand-alone selling prices. The old standard was more restrictive when it came to variations in the pricing of products and services. Previously, if there was a narrow band of pricing across all of a company’s geographic locations, there generally wasn’t a need to delay recognizing the revenue. However, if the variances were more significant, revenue had to be delayed in some instances.

“The result was that companies often avoided significant variations in the pricing of products and services because of the accounting implications, even if they made business sense,” said Knachel. “They felt handcuffed in how they went to market.”

The new revenue recognition standard essentially decouples the revenue recognition function from the invoicing process. “You have to focus on not just delivering and billing, but also on how you are managing, processing, and evaluating data to improve revenue recognition and forecasts,” said Oracle’s Dalton.

To illustrate, if contracts have variable consideration such as discounts, unknowns, rebates, and refunds, the new accounting standard requires companies to estimate how much they expect to receive and use that amount as the basis for pricing performance obligations eventually recognizing revenue. Then, as actual events necessitate, companies must re-allocate and re-account for any differences from what was estimated. In the past, companies did not have to account for unknowns.

Under the new rules, companies will have better information to do “what-if” calculations to determine how pricing changes might impact revenue. They can look at how a pricing change may boost revenue 30% in one geography and slow growth in another area by 20%. Under the old rules, they might not have had as effective insight.
Companies have also been hampered by some of the industry-specific revenue recognition guidance. To resolve these and other issues, the standard provides a common framework for all industries that improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets.

Improving revenue management can have a positive impact on relationships with investors and other stakeholders. “The old standard had very few disclosure requirements,” Dalton said. “The new standard requires a substantial number of new disclosures that, if used effectively, will provide investors with much more insight and confidence in a company’s reported revenue,” added Dalton.

A fresh approach to revenue management provides an opportunity to examine all of the products and services that a company brings to market, and how those solutions are priced and packaged.

Better revenue management results in more accurate forecasts, which can build better partnerships with vendors and customers. A company with fine-tuned revenue management practices can be more agile when deploying their resources and inventory. Partners, in turn, can focus their attention on developing the products that are in demand, and those products can be shipped to where there is an immediate need.

Compensation and bonus plans also need to be reviewed in light of the new revenue recognition standards. This can have a large impact on both the company overall and on individuals. Companies can either change their compensation practices to match the new recognition standards, or they can continue to provide compensation as if under the old standard (not a viable long-term solution).
The Tools to Enhance Revenue Management

Revenue management doesn’t take place in a vacuum. It involves a comprehensive look at the company’s digital journey and how the organization as a whole will benefit from technology investments. Changes in revenue recognition standards are an impetus for change, providing a springboard to examine the tools and processes that will benefit not just finance, but the entire company.

The new revenue recognition standard is fueling the move to cloud-based platforms, which provide the agility, flexibility, and visibility needed in all aspects of managing the business.

“Once companies embrace that digital journey, finance chiefs can find a multitude of opportunities to examine how technology can play a central role in improving revenue management,” Knachel said.

Breaking down the data silos is important to improving revenue management, because sales, operations, and marketing all have information that is central to revenue forecasting.

With a view of the company’s financial position as well as strategic initiatives, the finance chief is the natural leader of the digital transformation.
Technology investments need to not only yield a return, but also position the company to better manage revenue to take advantage of growth opportunities and provide a competitive advantage. Top performing companies have world-class revenue management tools and practices.

Increasingly, modern financial reporting tools are cloud-based, as the platform provides the necessary ability to collaborate and share data in real time to optimize revenue management. The cloud also typically provides advantages in both implementing a solution and delivering future upgrades.

Cloud-based contract data, for example, can provide valuable business data to inform all areas of the business about the best ways to optimize the revenue of their current business relationships and how they can further maximize revenue going forward.

“It is all about knowing your business and underlying trends, and taking a strategic approach to taking risks when risks needs to be taken to move the business forward,” Dalton said.
COMPLIANCE AS A SPRINGBOARD FOR FINE-TUNING REVENUE MANAGEMENT

The right tools and processes are instrumental to ensuring revenue recognition compliance, thus avoiding fines and dodging the pain involved with having to restate earnings.

The new revenue recognition standard offers an opportunity to modernize monetization of revenue to not just comply with the standard but improve the overall operation, i.e., driving value.

The data to improve revenue management exists, but often in silos throughout the organization. But at the end of the day, the new standard provides the push to develop a central repository that provides an accurate, real-time snapshot of revenue trends.

KEY TAKEAWAYS OF THIS EBOOK INCLUDE:

➢ The new revenue recognition standard can provide a forum for a broader discussion and examination of current management practices. As more data flows in from various business units, the ability to accurately forecast revenue trends will improve overall revenue performance.

➢ Organizations that leverage the standard to improve their revenue management processes will see greater agility and visibility and better business relationships.

➢ Strategic CFOs are investing in modern cloud financial systems to gain keen insight into their revenue recognition process. One key goal for CFOs is to enable a streamlined and customer-centric approach to business.
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