


Q&A
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Modernize Lead to Cash Without Pausing the Business

Why are vendors and customers increasingly looking at subscription, usage or milestone pricing for products and services?



Major trends continue to reflect the changing ways that customers want to buy and engage with vendors: growth in digital products and services; the expansion of multi-channel and remote selling; and the familiarity and expressed desire customers have for a digital buying experience that takes place when and where they want.

Alongside these customer trends, many vendors are looking to create new ways to drive revenue growth by offering additional complementary digital services to further monetize physical deliveries. Examples include harnessing device-generated data for monitoring and preemptive maintenance or introducing software to manage product usage. One important characteristic of these offerings is the ability to bundle products and services into tiered packages that match customer needs.

These subscription and usage pricing methods represent an opportunity for customers to spread costs more predictably over time and avoid the risk of large upfront payments. For vendors, subscriptions provide a more consistent and predictable revenue stream, though they do increase the need for sustained engagement if the customer is going to be profitable.

What are key considerations for the office of the CFO when adding subscription, usage or milestone pricing?



For many vendors, adding subscription and usage pricing will be new for the organization and potentially not well supported by existing systems. To ensure a sustained and profitable relationship, customers should be able to see detailed, consolidated invoices that show all the products and services they have purchased in addition to in-period changes that inevitably will arise. Systems should be flexible enough to ensure that customers are seeing a unified view of charges across all the products and services they are using, regardless of the type of pricing model used or the resulting billing schedule.

When it comes to subscription, usage and milestone models, additional revenue recognition rules and accounting needs should be automated and process-driven from billing schedules. Manual adjustments after the fact can lead to errors and unwanted surprises.



And finally, moving to a mixed pricing and revenue model puts additional emphasis on the need for understanding and predicting churn while also enabling upsell and cross-sell opportunities beyond new sales. Usage-based revenue is dependent on being able to forecast customer activity and on the automated auditing of usage-based invoices, which can be a labor intensive and expensive manual process.

Do we need to replace our existing systems?



Older systems, whether developed in-house or ERP-based, are not architected to be agile and responsive enough to effectively support the dynamic lead-to-cash process without high maintenance and unresponsive customizations.

The core of a modern lead-to-cash system is a dynamic and performant configure, price and quote capability that enables agreed-to orders to directly integrate with fulfillment and processing, subscription management and billing systems. This requires that all relevant product, pricing and customer information is synced across accounting, order processing, fulfillment, manufacturing, delivery, and customer accounts. For many organizations, the data already exists to modernize lead to cash. But identifying the right approach and choosing applications that can easily integrate with adjacent systems is more sustainable and cost effective than trying to extend existing tools or doing custom in-house development.

What are more advantages of a modern lead-to-cash process and system?



Customers expect that changes to their product and service mix can be frequent, and they expect that the effects of these changes should be reflected on billing in near real time. In a modern lead-to-cash process, amendments to orders should automatically flow through to allow in-period changes and prorated adjustments for the invoice. This is important to meet customer experience expectations and to drive sustained growth and revenue.

Orchestration and automation of these capabilities should support “straight through processing” as the norm, with automated support for handling exceptions. This should lead to the automatic updating of accounting systems with relevant information, including revenue recognition. Ideally, order management and fulfillment are automatically triggered with order processing and future billing events used as part of revenue projections.

In addition, the modern lead-to-cash system and process will also surface data that can be used to identify and address bottlenecks and inefficiencies. When harnessed effectively, this allows for constantly improving internal delivery against customer expectations as part of continuing efforts to enhance the customer experience in a cost-effective manner.



How can organizations invest strategically in improving systems that deliver timely value while containing costs?



We recommend seeking out expertise and guidance from vendors and consultants with experience in deploying these capabilities, and specifically in doing so for organizations with existing systems making the transition from predominant use of a traditional one-time sales model.

Technology choices based on immediate needs have the potential to scale poorly and impede further roll-out, potentially impacting competitiveness and market share. While sometimes attractive in the short term, these point solutions can prove to be an obstacle to growth and responsiveness to customer and market needs. A trusted third-party partner can identify and raise awareness of future needs, and help avoid costly mistakes or dead-end initiatives.



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Stephen Hurrell is responsible for the overall research direction for the Office of Revenue at Ventana Research, including the areas of digital commerce, price and revenue management, product information management, sales enablement, revenue performance management and subscription management. His focus areas include product and CS leadership, data-driven applications in sales enablement, financial reporting and planning, and billing and monetization platforms.