CFGI

Beyond Revenue Recognition

Best Practices for Full Revenue Automation

From revenue recognition to revenue automation

The revenue recognition regulatory standards ASC 606 and IFRS 15 took businesses by storm in 2018 and triggered a massive amount of spending. While investments in data, systems, and processes helped achieve compliance, in most cases, they failed to truly automate revenue recognition or the broader revenue lifecycle.

> A surprising 48% of businesses with a recurring revenue model state they struggle to meet accounting and reporting challenges.

For organizations that get revenue automation right, it can equate to big cost savings and productivity gains. Studies show an estimated 75% of accounting activities can be automated. This can mean increased accuracy and reliability of data, better visibility into customer contracts and accounts receivable, improved forecasting, and reduced costs.[1]

The ability of companies to successfully package, price, collect, recognize, analyze, and report on revenue will play a role in their success. This starts with automating contract data capture, events, and performance obligations and continues through the lifecycle to include automatically applying rule-based revenue recognition policies against contracts and obligations, automating accounting, required calculations and generating reporting and analytics.[2]

Putting in place this level of automation allows businesses to reduce manual errors, gain real-time visibility into their contracts and accounts receivable (AR), and ensure compliance with accounting standards. Additionally, revenue activities provide a wealth of data that can be beneficial for the entire organization. If finance can provide this data, in an easily consumable format, to other areas of the business, it can shift the finance organization into a more strategic position. If you do not have full revenue automation in place today, you are not alone – but the time to start is now.

Revenue automation best practices

Drawing on our expertise from leading many revenue automation change programs at CFGI, we have pulled together a list of best practices for finance teams looking to automate revenue processes.

Understand your contracts and obligations

The simplest steps can also be the most challenging. To fully automate revenue processes, you must have a deep understanding of revenue contracts and associated performance obligations. This is key to fully understanding your requirements for any revenue automation solution. The more complex your contracts are, the more likely it is that you will need a specialized revenue management solution to account for those arrangements. Standard contracts and complex contracts will both include product description, service description, quantity, warranties, or guarantees offered by either party as well as conditions for returns and refunds, payment details, delivery dates, and more. Where we start to see companies enter that more complex realm when contracts include acceptance clauses and terms for convenience clauses. In cases where companies are looking to shift to a subscription model, this can introduce complex pricing models, tiered pricing, bundle pricing, and volume-based pricing. It is essential for businesses with these complex pricing models to have a standardized contracting process that outlines all the terms, conditions, and pricing essential for accurate revenue recognition.

Tracking changes in real time

Once you have a deep understanding of your contracts, you will need to automate data collection and plan to track the many changes that happen to those contracts over the contract lifecycle. This means capturing all the necessary customer data and usage information, including contract terms, product information, discounts, offered payment methods, and billing terms. Critically, you must also be able to track contract modifications like upgrades, pricing changes, product swaps, add-ons, and more. This is especially important in a subscription model economy. In most cases, contract management software tools that exist out there today can automate many of these activities.

Forecasting

One of the biggest challenges for revenue operations is forecasting.

> A recent survey from Prophix Software[3] indicates that only 20% of finance teams have the ability to forecast revenue and earnings beyond 12 months.

This is a critical area for organizations. Businesses need to have visibility into future customer payments and recurring revenues to accurately recognize revenue, invoice accordingly and better predict cash flows. The better you can predict cash flows, the more equipped you are to make strategic business decisions about how you structure contracts with customers. To help increase the reliability and predictability of customer payments, businesses should utilize an automated billing system that creates and sends invoices based on customer contract terms. For example, if you are coming up for renewal, sending in an invoice in advance before the payment is due can make it more likely to collect payments on time. Organizations should also look at offering multiple payment methods, providing more options for the customer. The goal is to switch to a more predictable revenue model, which eliminates the need for manual invoicing and billing and prioritizes recurring revenue.

Track fulfillment and usage

The next critical area to address is automating the tracking of customer fulfillment and usage. Businesses must keep track of any changes to customer contracts or usage - including license activations, services performed or the delivery of a product - that could affect revenue recognition. These elements will impact when you start recognizing revenue and your deferred revenue and balance sheet. This is a process that must be automated to ensure you are properly recognizing revenue, avoiding under- or over-invoicing customers, and cutting down on manual requirements on the part of the finance team and the subsequent risk of errors.

Revisit the standards and accounting guidance regularly

This goes without saying but it is important to regularly review your processes and procedures to ensure they comply with the latest accounting standards. The accounting standards governing revenue recognition are constantly changing, and businesses must ensure that they follow the latest regulations. Even if an organization has its own accounting department, having a third-party professional review its practices can help avoid potential compliance issues. A recent client was in the middle of a revenue management software project. They had been experiencing delays and brought us in to help mitigate the issue. One significant reason for the delay was a specific customization requested by the company to account for their contract arrangements. However, we quickly discovered that the process they were following was not in compliance with the guidance and these errors were reflected in the customization work that was requested. Time and money had been wasted on building a process that was not compliant. Automation doesn't address bad processes and it's critical to ensure processes and procedures are in compliance with GAAP or IFRS.

Automation of data for accuracy

Data entry or manually moving data from one system to another via spreadsheets or by hand is often the most error-prone element of the entire revenue recognition process. Having information flow automatically between systems is key to helping ensure accuracy, compliance, and risk mitigation – in addition to streamlining the entire process.

> Software that is compatible with existing ERP and CRM systems is especially helpful as it allows businesses to easily synchronize customer data and contract information across multiple business systems.

Know the limits of your ERP

One of the most common pitfalls we have seen in our past implementations and projects is believing current ERP systems are enough to handle your revenue contract arrangements. ERP systems are excellent for managing financial processes, including some aspects of revenue recognition, but companies should not assume that ERP systems are enough to ensure accurate revenue recognition and compliance with the accounting standards. One of the main limitations of ERP systems is that they do not function as a subledger and cannot provide the detailed customer data and usage information needed for accurate revenue recognition without some sort of cost or customization. Furthermore, ERP systems usually cannot track contract modifications and address changes in accordance with compliance guidelines. So, to ensure accuracy, businesses need software specifically designed for revenue recognition.

Conclusion

Successful revenue automation impacts a wide swath of the business. When pushing for change, it is important to involve stakeholders far beyond the revenue department, and even finance as a whole. It should involve procurement, sales operations, product teams, supply chain, and more. By illustrating the pain points across the entire revenue lifecycle, you can build a cross-departmental business case for change.

Sources:

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3. Tyson, Jim. “Only 20% of CFOs Can Forecast Revenue, Earnings beyond a Year: Survey.” CFO Dive, 11 May 2021, www.cfodive.com/news/only-20-percent-cfos-can-forecast-revenue-earnings-beyond-year-surve/599994/.

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