CFO Coordination with Sales Is Essential to Delivering Improved Results

THE CFO SERIES:
CHALLENGES IN ADAPTING TO RECURRING REVENUE BUSINESS MODELS

Recurring-revenue business models are spreading to companies across all industries and are augmenting, or in some cases replacing, existing transaction-based models. As companies transition to recurring-revenue, also known as subscription or usage-based models, they are benefiting from the increased revenue opportunities and smoother revenue streams. CFOs and their financial teams can benefit from the data produced under the new models with

salesforce

CFO

improved planning and analytics, but in many cases need to change the way they operate by breaking down silos with other departments. More specifically, improved coordination between sales and finance teams can help solve many of the challenges that arise under recurring-revenue/subscription models.

A recent survey of senior finance executives by CFO Research and Salesforce confirmed that:

- The top "pain points" for CFOs are: renewals forecasting and management, inaccurate sales or financial forecasting, inaccurate reporting, manual processes to create or manage orders or invoicing, and collections difficulties due to invoice disputes. It is clear that better coordination between finance and sales leadership can help improve these all of these issues.
- Companies should consider adding recurring-revenue/subscription models, which may require adding new systems to handle the quoting, billing, bundling, and revenue-tracking challenges. In addition, most companies would benefit from a dedicated pricing and quoting system supporting multi-channel commerce.

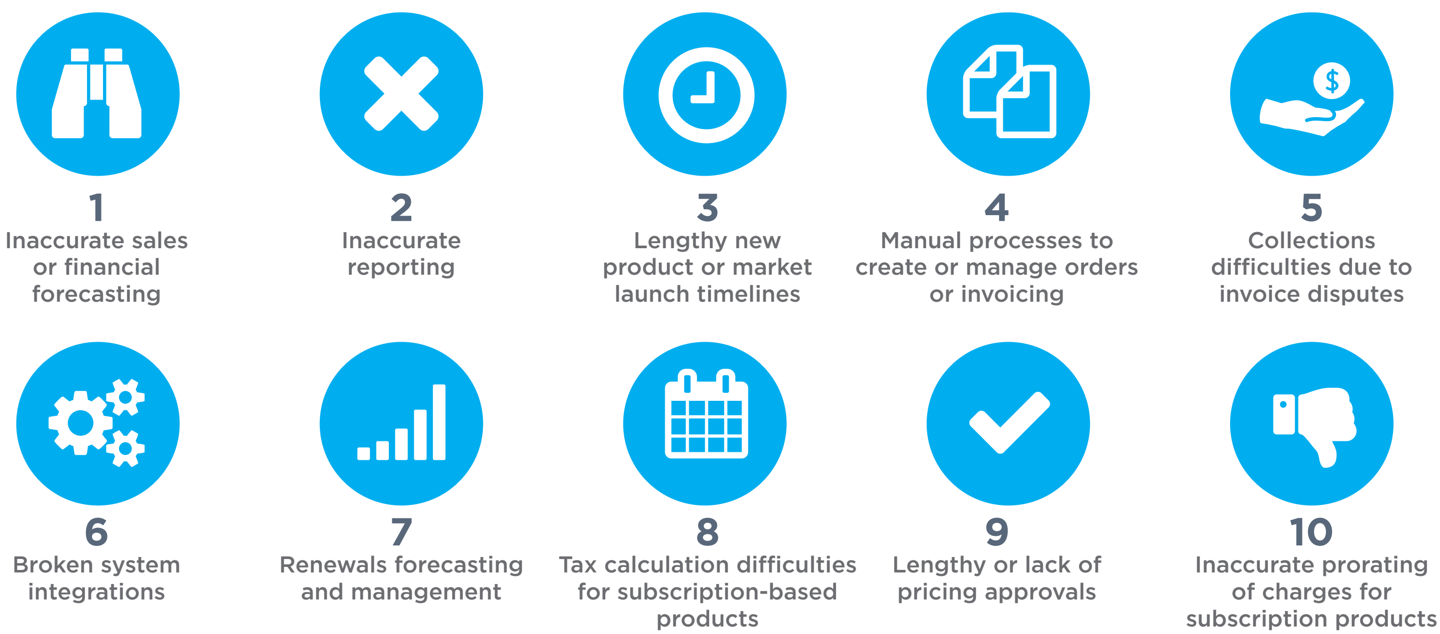
Pain Points

The CFO Research/Salesforce survey shows that recurring-revenue business models are increasing the pressure felt by CFOs and their finance groups. The survey asked the CFOs and other senior finance executives to **identify the pain points that are their highest priority to solve.** This list was led by inaccurate sales or financial forecasting, inaccurate reporting, lengthy new product or market launch timelines, manual processes to create or manage orders or invoicing, and collections difficulties due to invoice disputes. See Figure 1.

Better coordination between sales and finance can address each of these pain points for the

FIGURE 1

The Top 10 "Pain Points" that Are a Priority for My Organization to Solve



CFO while also boosting corporate results. The surveyed executives agree with this assessment: **Two-thirds** (67%) of respondents believe that finance leadership should better align itself with sales leadership to improve forecasting and maximize revenue growth. **More than eight in ten** (81%) say that sales and finance would benefit from improved collaboration and better communication about customers and contracts.

CFOs are typically responsible for leading business model transition and must properly plan for how it can affect other departments. The change of business models demands a culture shift, with nearly every group in the company effectively becoming "customer-facing" as every customer interaction contributes to the overall experience and success. In addition to understanding how to work together to drive growth, CFOs must set and leverage new key performance indicators, including building a framework to capture accurate performance data, for financial planning and analysis purposes.

With these transitions, collaboration with sales (and sales leadership) is crucial. Under a recurring-revenue/subscription model, sales becomes involved with the customer from the initial subscription through the lifetime of the customer relationship, with opportunities to sell through renewals, upgrades, and add-ons

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Coordinating with Sales

Many substantial opportunities are created by better coordination between sales and finance. **Most** (57%) of the surveyed finance executives believe that solving their "quote-to-cash" pain points would decrease finance and sales costs by at least 5%. A similar majority (55%) also believe that it would increase enterprise revenue by at least 5%. And **nearly three-quarters** of respondents (73%) say that sales and finance would benefit from a solution that supports dynamic and recurring contracts.

More than seven in ten of the surveyed finance executives (71%) think that a more efficient pricing and approval process would substantially improve their organizations' profitability. And **nearly two-thirds** (66%) say that their organizations would benefit from a dedicated pricing and quoting system that supports multi-channel commerce.

Unfortunately, many sales and finance teams live in separate CRM and ERP systems are designed for transactional businesses. Recurring-revenue business models introduce the element of selling over time, which changes how sales and finance leverage their systems and information.

Typically, companies that transition to a recurring-revenue model try to make do with their existing systems as they grow. But when they reach $75 million to $100 million of annual recurring revenue, the problems with the old systems start becoming insurmountable. **Nearly two-thirds** (67%) of respondents are actively exploring new processes or systems to support recurring-revenue business models.

Bundles of Joy

One example of a problem that arises when traditional systems try to handle a recurring-revenue model is with bundling. When a subscription product or service is bundled with upgrades or add-ons, a traditional system can create a new SKU with every change to the bundle, over a dizzying number of possible combinations of pricing, bundling, and distribution options. This can lead directly to some of the pain points identified in the survey: inaccurate forecasts and reporting based on confused tracking of existing sales, and manual processes required to clear up confusion with orders and invoicing, and collections disputes over confusing or conflicting invoices and billing.

This can also create chaos with a traditional order and invoicing approach, with multiple cancelled invoices and new invoices produced with every change, leading to frustrated customers, subscription terminations, and collections difficulties.

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To remedy these challenges, finance and sales must look at their current systems to determine the best way to maintain financial controls while also supporting dynamic contracts and maintaining sales speed and agility. As recurring business models require collaboration between multiple departments, it's important to leverage systems and processes that work seamlessly together. When making a transition to recurring revenue models, if businesses simply optimize each individual step in the customer lifecycle they will create silos, complex integrations, or redundancies that limit scale and effectiveness.

CONCLUSION

CFOs typically lead their companies' transitions to recurring-revenue/subscription-based business models, and finance enjoys several advantages under the new model. More financial controls, and better controls, are possible, along with compliance improvements, more reliable and real-time data for decision making, more predictable revenue, and improved valuations because investors like the model. It is critical for CFOs and their finance teams to coordinate with sales and sales leadership to solve the challenges that arise under recurring-revenue/subscription models.