# Mastering the Complexity of Revenue Management

An Intacct White Paper

Intacct

Preferred Provider of
Financial Applications for
AICPA business solutions

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## Executive Summary

For many finance professionals, *revenue management* is among the top challenges today. With its combination of loosely defined regulations, evolving interpretations, and stiff penalties for non-compliance, revenue management creates unacceptable levels of complexity and variability that often overmatch the resources and expertise of many finance teams. Faced with these hurdles, companies are looking to automate revenue management processes to gain efficiency, strengthen compliance, and improve visibility.

The two-pronged strategy for successfully streamlining revenue management starts with processes designed from the top down, based on input from multiple stakeholders and functions. The other key is the ability to deploy technology that further streamlines, centralizes, and automates the revenue management process.

Intacct Revenue Management automates and optimizes the financial processes associated with complex revenue recognition. Intacct is the cloud-based technology that allows your finance team to connect systems, automate processes, and analyze the business. This solution frees your staff from the intricacies and headaches of managing revenue with manual processes and complicated spreadsheets, while providing greater insight into the current and future health of your business.

## Introduction

The complexity of revenue management continues to challenge finance professionals. Only recently, companies could remain competitive by developing and delivering new products and services to meet diverse customer demands. But to keep a competitive edge today, companies must also find innovative ways to generate revenue, which, in turn, leads to a multitude of ways to account for that revenue. Simultaneously, regulatory frameworks are placing greater compliance demands on companies of all sizes and across all industries. As a result, corporate financial professionals must deal with revenue from transactions, subscriptions, and contracts that are dramatically more complicated as they navigate an evolving maze of nuances, rules, and requirements for revenue accounting.

To date, finance has struggled with time-consuming, error-prone spreadsheets to handle these increasingly complicated — and critical — revenue recognition tasks, while gathering data from an ever-increasing variety of sources. At the same time, executives want a better sense of the business by seeing real-time results for the current quarter and accurate revenue forecasts for upcoming quarters. Unfortunately, those outdated methods of spreadsheets and manual data reconciliation are no longer sufficient to handle the greater complexity and scale of contemporary revenue recognition and management-reporting challenges.

In this paper, Intacct examines revenue recognition challenges and pinpoints how the proper blend of process and technology can help improve compliance and ease the burden on finance departments. The paper also discusses the key features and functionality to consider when choosing software solutions to automate revenue management.

## The Four Key Complexities of Revenue Management

1. **Regulatory Compliance —** Guidance from the American Institute of Certified Public Accountants (AICPA) Statements of Position (SOP) 97-2, 98-9, and 81-1; Securities Exchange Commission (SEC) Staff Accounting Bulletins (SAB) 101 and 104; and the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) 08-01 and 09-03 can make revenue managers feel like they're trying to hit a moving target — blindfolded. These regulations are challenging to interpret and apply consistently, particularly since many companies execute so many non-standard agreements with customers. To add to the complexity, the International Accounting Standards Board and FASB are set to issue a new revenue recognition standard that will replace most of the current U.S. industry standards beginning on or after Jan. 1, 2017. Today, only 38 percent of executives at small and medium-sized businesses are aware of the forthcoming revenue recognition standard,[1] and fewer are prepared for it.

2. **Internal Controls —** Research from California State University, Fullerton found that revenue recognition is the second-most frequent Sarbanes-Oxley Act Section 404 internal control weakness noted by auditors.[2] CFOs can't afford complacency in this area as the SEC has announced the creation of a new Financial Reporting task force that will focus on investigating accounting problem areas such as revenue recognition.[3] Already, the most frequent explanation that companies gave for financial restatements in 2011-2012 was revenue recognition.[4]

3. **Forecast Visibility —** For many companies, revenue forecasting is more art than science. There is often confusion as to whether sales or finance owns the revenue forecast. Furthermore, since a traditional income statement does not distinguish between one-time and recurring revenue, companies fail to properly manage the impact of deferred revenue and recurring business. This translates into more than just failures of predictability — it also represents tremendous potential for lost opportunities in renewals, upsells, and cross-sells.

4. **Staff Productivity —** Today, too many companies are using simple spreadsheets for critical revenue-accounting tasks. Fragile and complex single-user spreadsheets require extraordinary manual effort to build and maintain. Even with all that effort, almost all sophisticated spreadsheets contain errors, which can lead to wasted time spent investigating those errors, and, in the worst cases, material financial reporting errors. Complex revenue recognition spreadsheets are a chief cause of monthly close delays and revenue leakage. What's more, they lack the easy auditability and strong security that are required for such a heavily regulated function.

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[1] "Accounting and Auditing: Selected results from the CFO Survey Spring 2013 http://www.grantthornton.com/staticfiles/GTCom/Grant%20Thornton%20Thinking/Surveys/2013%20GT%20Spring%20CFO%20Survey%20-%20White%20Paper%20Accounting%20and%20Auditing%20FINAL.pdf. Small and medium-sized businesses are defined as having annual revenue below $100 million.

[2] "Material Weakness in Internal Controls" - http://www.accountingtoday.com/news/material-weaknesses-internal-controls-sarbanes-oxley-63369-1.html?zkPrintable=1&nopagination=1

[3] " New Fraud Crackdown Looms" - http://blogs.wsj.com/cfo/2013/07/09/new-fraud-crackdown-looms/

[4] "Revenue Recognition Leading Cause of Restatements" http://blogs.wsj.com/cfo/2012/09/11/revenue-recognition-leading-cause-of-restatements/

[5] "What We Know About Spreadsheet Errors" http://panko.shidler.hawaii.edu/SSR/Mypapers/whatknow.htm

## Evolving Industry-Specific Requirements Increase the Complexity

In industries like software and professional services, revenue management is one of the most challenging issues for financial executives because of the complexity involved in revenue allocation among elements and the timing of revenue recognition.

Traditionally, software companies have licensed their software for on-premises installation at a customer's location. Annual maintenance fees typically range from 15-20 percent and include free upgrades and technical support. For these software companies — and other organizations that sell bundled offerings — establishing the fair value to allocate to each element in the bundle using Vendor Specific Objective Evidence (VSOE) is a compliance challenge.

VSOE (defined in AICPA SOP 97-2) directs companies to bring greater clarity and accuracy to how they recognize revenue for multiple-element arrangements where software and services (such as implementation, migration, training, and technical support) are bundled into a single contract. Instead of rolling complex multiple-element arrangements into a single topline figure or treating certain elements in the arrangement as having no value, VSOE requires businesses to allocate the total revenue for the bundle based on objective, vendor-specific evidence of the value of each element. Absent VSOE for certain elements, companies have a more difficult time justifying revenue recognition prior to delivery of the entire contract, effectively delaying recognition for months or years, or risking incorrect calculations and timing of all subsequent revenue.[6]

Today, vendors and buyers alike are embracing software as a service (SaaS). This is essentially a month-to-month subscription to use software that the vendor manages in its own data center. Revenue recognition challenges occur when multiple elements and discounting are involved in a SaaS contract, which is quite common. SaaS and subscription-based businesses rely on recurring revenues that can be earned and recognized in a variety of pricing and billing models, which places even greater importance on the accurate allocation, calculation, and forecast of revenue. To forecast and measure the health of their businesses, SaaS companies rely on metrics such as monthly recurring revenue and churn that differ from traditional software businesses, which creates greater burdens and complexities for finance professionals managing a subscription business.

In service-based businesses, such as technology implementation, law and accounting firms, and consultancies, revenue management and recognition are predicated on specific contracts and unique terms. Here, project-delivery milestones, whether contractually agreed upon or based on percentage of completion, are the elements tied to recognizing revenue.

Revenue recognition processes in these organizations require firms to capture all billable time and expenses and to track project statuses to tie events back to contract terms. From a tracking perspective, this introduces challenges in terms of time, complexity, and cost because few companies have integrated systems that connect timesheets with revenue recognition systems.

[6] Under SOP 97-2 if post-contract customer support (PCS) services are the only undelivered element and there is no VSOE, then the entire bundle of revenue is recognized ratably over the PCS contract period. This is still the case for enterprise software companies, but SaaS companies are guided by EITF 08-01. Under that guidance, you will always get to fair value of the element (VSOE, third-party evidence, or estimated selling price).

Once again, spreadsheets emerge as the tool of last resort to track this complex, fast-changing, but business-critical data.

## Start with a Better Process

Faced with these hurdles, companies are looking to automate revenue management to achieve better compliance, improve visibility, and lower their costs. Somewhat counter-intuitively, automating the process doesn't start with technology. Since revenue management touches virtually every area of the organization, streamlining starts with thoughtful processes designed from the top down based on input from senior executives across multiple disciplines and functions.

- Define the revenue recognition foundation. Executives across the organization — finance, sales, product development, customer support, and operations — must play central roles in defining revenue management and revenue recognition policies. Without their involvement, ambiguities can make it more difficult for finance to implement consistent and defensible procedures and rules. Determine in advance:
    - » What is a subscription?
    - » What falls under "maintenance" or "support"?
    - » Will fees be predetermined, based on the number of users, based on usage or transactions, or based on project milestones?
    - » What discounts will you permit and how will those discounts be allocated?
- Establish VSOE criteria using market-tested parameters and centralized data.
- Get auditors involved in these process designs and policy definitions. Their agreement will pay huge dividends during audit time.
- Use standard contracts with defined terms. These contracts must be flexible enough to adapt to your business needs but standardized enough to prevent revenue management variances that create problems down the road. While exceptions and one-offs will always be a factor, standard contracts enable revenue managers to apply rules more consistently and document, track, and defend the exceptions granted to specific customers. Minimize the use of side agreements that only create headaches for long-term revenue management.
- Avoid information conflicts and gaps by enabling your organization to collaborate and share information across sales, services, and finance. In most organizations, these are considered separate functions that are managed with different processes and systems.

## The Technology for Revenue Management: Key Criteria

Automating the management of revenue accounting can yield significant tangible benefits from a variety of perspectives and sources — from faster period closes to greater accuracy and lower costs. To streamline and centralize revenue management, businesses must deploy technology that allows the finance team to connect systems, automate processes, and analyze the business in a timely manner.

1. **Connect Systems**

   Streamlining the quote-to-cash process by integrating front- and back-office systems eliminates duplicate data entry between finance and the rest of the business, which saves time and reduces errors. The best accounting systems connect to critical business systems within the organization, such as CRM, services management, and subscription management to create a complete ecosystem for revenue management. In this model, all stakeholders in the company have access to the latest customer data when they need it, in the applications that they use most. This is possible because modern software, especially cloud-based software, is built with open application programming interfaces (APIs) as a central part of its architecture, making it a simple and straightforward task to create integrations among disparate software products.

   *Customer Relationship Management*

   A common revenue management weakness lies in the disconnect between sales and finance. The sales rep manages and completes sales in the CRM system, then sends the agreement over to finance, which is responsible for billing, collections, revenue recognition, and accounting.

   Better alignment between sales and finance means the sales team has a better understanding of the impact and timing of revenue, renewals, and upgrades, and that finance is no longer hostage to side-deals and one-off agreements that create unnecessary compliance issues and added manual effort. Since sales and finance have a 360-degree view of each customer, the company benefits from enhanced control of the sales process, improved customer service, and more accurate and timely reporting and forecasting.

   *Project Management*

   The lifeblood of a services organization is the ability to accurately and timely capture all project-related time and expenses. Yet reporting on and accounting for this services data is often a patchwork of multiple systems, data silos, and spreadsheets that results in rekeying, manual steps, errors, workarounds, and cumbersome reporting. Furthermore, services revenue is almost always recognized on different schedules than product and subscription revenue.

   Strong integration between the project management system and the general ledger streamlines revenue recognition on project milestones, reduces errors, and avoids the "double-vision" of having different project information in two systems. For example, a strong integration enables billing and revenue recognition take place automatically as project milestones are completed. A system that allows you to track services projects within the CRM application offers even greater visibility and automation.

*Subscription Management*

Subscription-based businesses use a variety of pricing and billing models, which requires the finance team to manage the accurate allocation, calculation, and forecasting of recurring revenue. If you use a standalone subscription management solution, connecting it to your accounting system lets you eliminate duplicate data entry, save time, reduce errors, and process a higher volume of transactions without adding headcount. This efficiency lets companies grow revenue by rapidly bringing to market new subscription services with creative subscription pricing models that also align with financial processes.

**2. Automate Processes**

Each company's revenue recognition process varies according to its unique business model, products, and markets. To automate this complex process, revenue managers need the ability to codify the applicable rules through flexible templates and schedules that reflect the nuances of their business. The process must drive the automated calculation of both recognized and deferred revenue schedules and forecasts based on contract terms, subscription length, project milestone, and more and integrate with the general ledger. Automation of the revenue recognition process can dramatically cut staff workload, reduce spreadsheet errors, improve accuracy, eliminate cumbersome calculations and reviews that delay closings, and provide a single point of audit and reconciliation.

In addition to automating revenue recognition calculations and compliance, a financial system should also automate other related processes that include:

*Billing*

The best financial systems let you separate billing schedules from revenue recognition schedules. For instance, a company may choose to bill quarterly for a one-year contract, but recognize the revenue on a monthly basis as the service is delivered. This frees the firm to negotiate billing and payment terms with customers that are decoupled from revenue recognition requirements. By automating the process and reducing inaccuracies, you can ensure that all appropriate revenue is captured through accurate and timely billing, in a form that the customer expects.

*Subsequent Modifications*

These are events that affect your deferred revenue schedule "midstream." For instance, suppose a customer with a standard 12-month contract unexpectedly delays its implementation by two months. You can't simply tack on two months at the end. You must make a subsequent modification that recalculates your revenue schedule to recognize the remaining deferred revenue over the extended period. As the frequency of subsequent modifications grows, they become a nightmare to manually enter, calculate, and audit in a simple spreadsheet. This is one area where automation can deliver enormous benefits in efficiency and accuracy.

*Add-ons*

Suppose you sell software to 10 users for one year. But six months later, that customer adds five more users for a year — users whose term expires six months later than the original order. The right solution lets you adjust and "co-terminate" so that all users end their current terms at the same time. Flexible, simple add-ons and co-terminations streamline the renewal process for you and your customers, drive additional revenue, increase long-term customer satisfaction, improve accuracy and consistency, and increase efficiency.

*Renewals*
The best revenue management solutions use reporting tools that automatically forecast upcoming renewals and include scheduled price markups or discounts. With this clearer visibility into contracts and expirations, finance can automatically alert sales reps to proactively cross-sell and upsell customers with additional products and services in a timely and appropriate fashion that reduces customer churn. This automation creates more accurate revenue and cash-flow forecasts from consistent subscription renewals, which increases profitability because it costs less to retain a customer than to find a new one.

3. **Analyze the Business**
Leading revenue management systems provide more than connections and automation. They provide a solid picture of both current and deferred revenue by showing a real-time picture of future revenues, projected renewals, and total deferred revenue stretching months or years into the future. Furthermore, they allow you to analyze the impact that changes to products and pricing can have on revenue, improving your forecast accuracy.
The best financial systems let finance teams dig deeper to understand the true dynamics of their business, with visibility into both financial and operating data, and flexibility to view the business through multiple lenses — for example, understanding data and metrics by customer, vendor, employee, item, or project — to make better long-term, strategic decisions.

### SevOne Streamlines Revenue Management with Intacct

SevOne helps hundreds of companies manage the performance of their critical IT infrastructures. In addition to multi-entity and multi-currency management, SevOne also needs to maintain VSOE compliance for deferred revenue recognition. Intacct's ability to define specific templates, rules, and schedules helps SevOne meet its VSOE revenue recognition requirements for perpetual licenses and annual maintenance, simplifies its deferred revenue forecasts, and reduces human error.

*"As a software company, we need to comply with VSOE revenue recognition requirements for deferred revenue forecasts, perpetual licenses, and annual maintenance revenues," said Gina Keller, director of accounting at SevOne. "And as we signed on more large customers, we wanted the ability to configure invoices easily so we could meet their specific requirements."*

## Intacct for Revenue Management

Intacct Revenue Management automates and optimizes the financial processes associated with complex contractual relationships. The solution eliminates complicated spreadsheets that inevitably lead to errors, lost revenue, and compliance risks.

With Intacct Revenue Management, you can maximize billing and collections, automate revenue deferral and revenue recognition, and optimize contract renewals. Intacct Revenue Management includes a wide variety of built-in reports to help forecast deferred and recognized revenue and ensure compliance with the SEC, FASB, and Sarbanes-Oxley.

As your business grows and adds complexity, Intacct can meet your needs as you add products and services, increase revenue, acquire or partner, expand internationally, or even go public. Intacct's flexible architecture was built for the cloud and is infinitely scalable and adaptable to meet your needs. Intacct allows your finance team to connect systems, automate processes, and analyze the business to achieve superior revenue management.

- **Connect with CRM —** Intacct offers a preconfigured cloud connector to Salesforce CRM that ensures the two systems automatically share information. That means both systems are always up to date with product and price lists, customer data, and more. This integration optimizes the revenue recognition process by automatically triggering invoicing and revenue recognition when a sale is completed in Salesforce. Intacct also lets you configure transactional flows to meet unique quote-to-cash process needs that are typically predefined and customized with code in other systems.
- **Connect with Project Management —** Intacct's project-management capabilities are fully integrated with Intacct's financials, ensuring all financial data is contained in the financial system of record and providing cohesive, streamlined financial management. Only Intacct connects project accounting to revenue recognition, using timesheets and completed milestones to automatically recognize revenue, while maintaining a separate billing schedule.
- **Connect with Subscription Management —** Intacct offers a preconfigured cloud connector with Zuora that enables subscription businesses to manage orders and transactions while simultaneously automating revenue recognition based on bookings data. This connector gives you the flexibility to amend subscriptions midstream and have those changes reflected in your financials and metrics.
- **Automate Revenue Deferral and Revenue Recognition —** Intacct Revenue Management allows you to set up revenue recognition rules for different types of products and services and allows you to post revenue automatically, based on flexible revenue recognition schedules. This automation reduces the errors and revenue leakage associated with manual spreadsheets, and accelerates the closing process by providing accurate, auditable revenue recognition journal entries. Intacct Revenue Management also maintains detailed information about customer contracts within a centralized repository.
- **Automate Billing —** Intacct Revenue Management automatically generates billing schedules from contractual billing rules, leading to accurate, timely, and justifiable bills. The system is unique in that it also consolidates multiple billing types into a single bill and presents bills in multiple custom formats.
- **Automate Subsequent Modifications —** Intacct Revenue Management automatically calculates deferred revenue and recognized revenue without tedious manual workarounds so you can control changes as they occur: hold and resume scheduled entries and project milestones, manage subscription upgrades and downgrades, cancel further revenue recognition for an item, or edit the posting date or amount of a transaction.
- **Automate Add-ons —** Intacct Revenue Management allows for flexible subscription and license add-ons and co-terminations that streamline the renewal process for you and your customers.

- **Automate Renewals —** Intacct Revenue Management streamlines the contract renewal process and increases renewal revenue by automatically scheduling, managing, and providing visibility into contract renewals. The system automatically notifies customers or salespeople before renewal dates, reducing the risk of churn.
- **Gain Visibility Into Deferred and Recognized Revenue —** Intacct Revenue Management allows you to quickly and easily forecast deferred, recognized, and renewal revenue so you have instant access to reliable, accurate business forecasts.

## Conclusion

Mastering the complexity of revenue management starts with thoughtful, top-down processes. Only with those in place should you add technology to automate revenue management. Intacct is the cloud-based technology that allows your finance team to connect systems, automate processes, and analyze the business. This solution frees your staff from manual processes and complicated spreadsheets, improves compliance with complex regulations, and provides you greater insight into the current and future health of your business.

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