Enterprise Research Report

Benchmarks for Billing Processes

How Complex Business Models Impact Quality, Accuracy and Efficiency

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Executive Summary

A recent survey questioned professionals at 267 corporations about their billing organization and their billing processes. The main industries represented include: High Technology, Business Services, Manufacturing, Financial Services and Telecom. Survey questions focused on business models, staffing levels, quantity of invoices processed and customer requirements. The survey was conducted in March 2007 by email. The respondents are in financial and operational roles at companies with revenue from $1M to over $5B.

Key Findings:
Billing processes can range from simple to complex depending on the number of business models supported, the method used to calculate the invoice amount and company size. These factors impact efficiency, resource requirements, ability to deliver customer requirements and most importantly: billing quality.

- Companies struggle with the complexities and inefficiencies of the billing process and report significant errors:
    - 8.3% of invoices are sent late
    - 5.6% of invoices need to be re-billed
    - 3.3% of invoices are sent with incorrect amounts
- Billing issues are compounded at companies with over $100M in revenue. When comparing to the smaller size companies:
    - 40% more invoices need to be re-billed
    - 51% more invoices are sent with incorrect amounts
- The efficiency of the billing process is impacted by complexity and company size:
    - Companies using three or more billing methods require 49% more FTEs per 1,000 invoices
    - Small companies require 23% more FTEs per 1,000 invoices as larger companies
- 27% of the respondents say they cannot produce their bills the way their customers would like, exposing them to considerable customer satisfaction issues.

Business Model Determines Billing

Companies today need to offer their products and services through a variety of different business models to stay competitive. Each business model presents unique challenges for billing. Even within business models, each product or service a company offers can have its own billing requirements. Increasingly, these business models are being combined with subscriptions, royalties, and other innovative customer relationships adding substantial complexity to the billing process.

As Figure 2 shows, more than half of the companies in the survey employ more than one business model. For example, the business model of an Information Services company may be structured to include a yearly cost for a subscription, a usage charge each time a document is downloaded and a license fee for proprietary software. When business models are combined and the volume of bills escalates, the number of factors the billing process must accommodate can quickly degrade efficiency and quality.

Business Models Supported

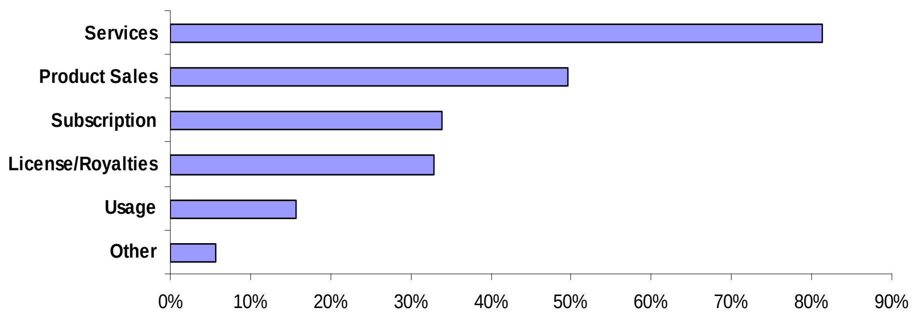


Figure 1
What is your business model?
(Multiple responses accepted, n=267)

Number of Business Models

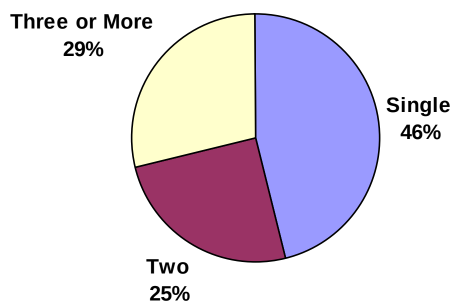


Figure 2
What is your business model?
(Multiple responses accepted, n=267)

Billing Complexity

The relatively simple process of creating an invoice becomes more complex as companies use different methods to compute the invoice.

The timing and frequency of the billing cycle adds another level of complexity to the billing process.

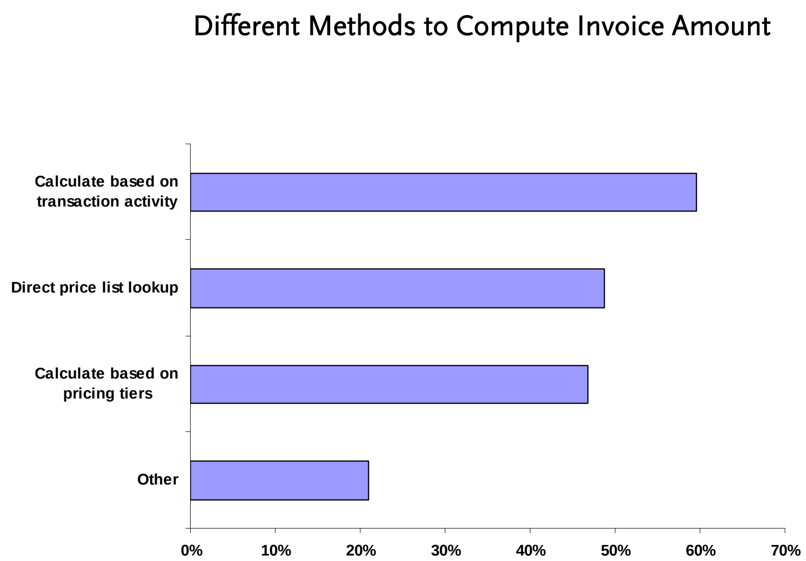


Figure 3
How do you compute the invoice amount?
(Multiple responses accepted, n=267)

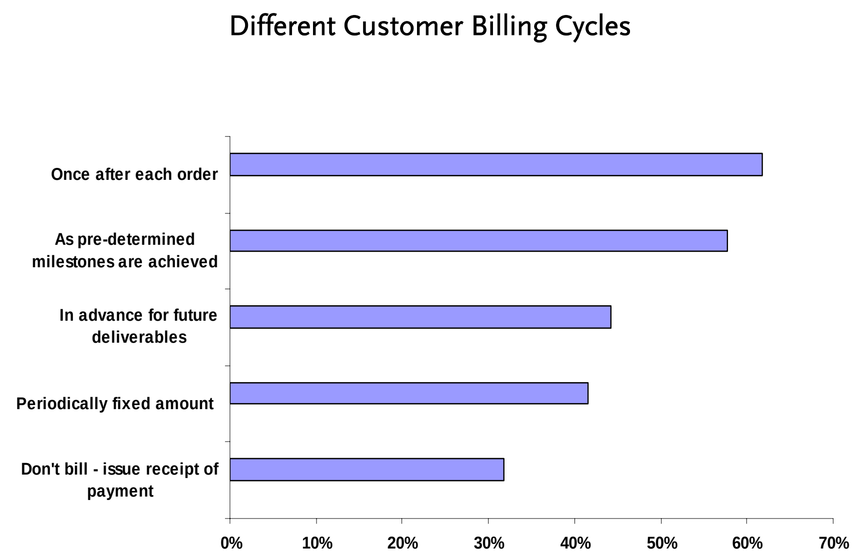


Figure 4
How do you bill your customers?
(Multiple responses accepted, n=267)

Frequency and timing of invoices, multiple sources of billable activity and different ways of pricing billable activity combine to measure: *Billing Complexity.*

Complexity Reduces Billing Quality

Transaction Activity

Billing for transaction activity, e.g. amount of product usage or web site hits is challenging because the price charged to the customer is calculated across a mix of transaction types which may be bundled together but priced discretely.

Error Rates for Bills Including Transaction Activity

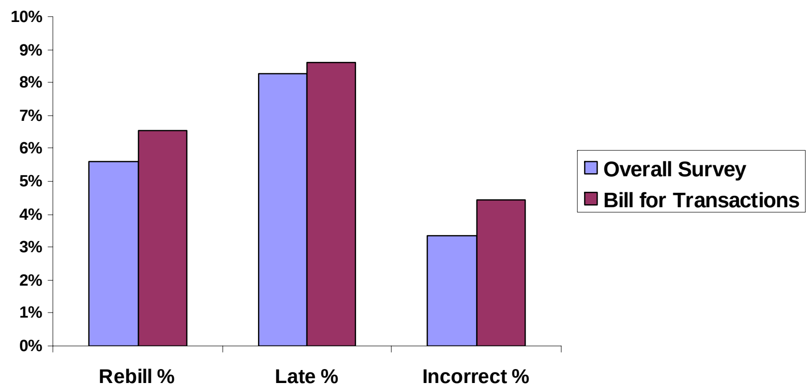


Figure 5
How do you compute the invoice amount?
(Calculate based on transaction activity n=267, 159)

Pricing Tiers

As companies offer more pricing options to support various business models, billing complexity increases and billing quality decreases. Especially when pricing tiers are used to determine the invoice amount, mistakes appear to dramatically increase.

Error Rates for Bills Including Pricing Tiers

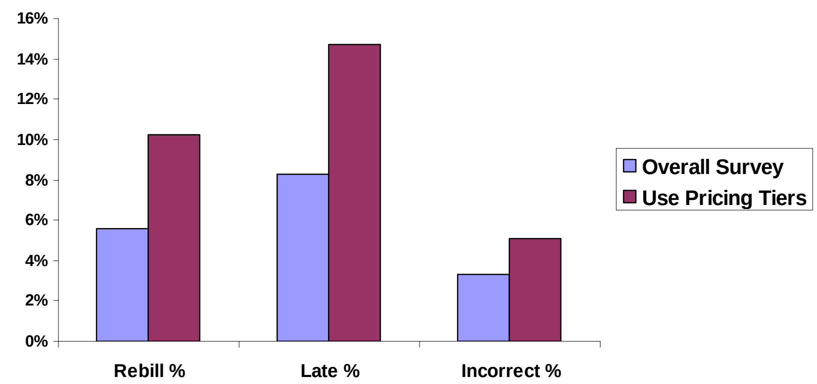


Figure 6
How do you compute the invoice amount?
(Calculate based on pricing tiers, n=267, 125)

Billing Impacts the Order to Cash Cycle

The Order to Cash cycle begins when an order is taken and ends when payment is received. The billing process is a critical link and impacts invoicing and accounts receivable - often increasing aging and reducing collectibles. Invoices sent late, or revised and resent will delay the order to cash cycle.

Invoice accuracy has a clear impact on financial results. An inaccurate invoice has a lower chance of receiving payment.

Many of these negative impacts are avoidable and preventable with a solid billing process.

What Percent of Your Invoices are Sent Late?

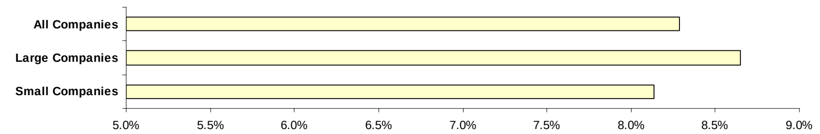


Figure 7

What Percent of Your Invoices Need to be Re-billed?

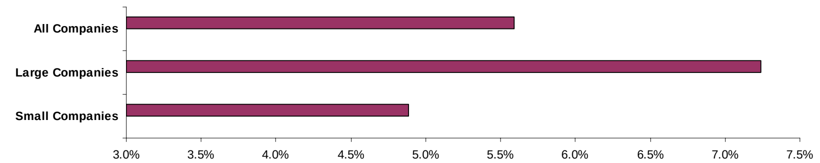


Figure 8

What Percent of Your Invoices are Inaccurate?

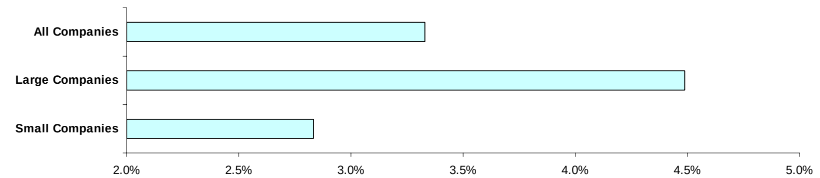


Figure 9

Large companies report revenue >$100M

Small companies report revenue <$100M

For figures 7-9, n=267

Billing Process Efficiency

As the number of billing methods is increased, there is an increase in billing complexity and as a result, companies require a higher number of FTEs for each 1,000.

Required FTE Increase with More Billing Methods

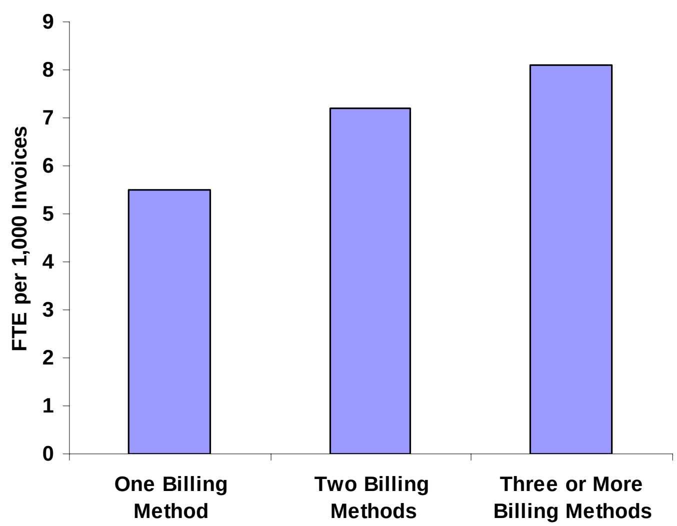


Figure 10
Avg. FTEs per 1,000 invoices based on billing methods used, (n=267)

Small companies seem to have less efficient billing processes than large companies. Surprisingly, even though large companies are more efficient, they have lower quality. (See figures 7-9)

Smaller Companies Have Less Efficient Billing Processes

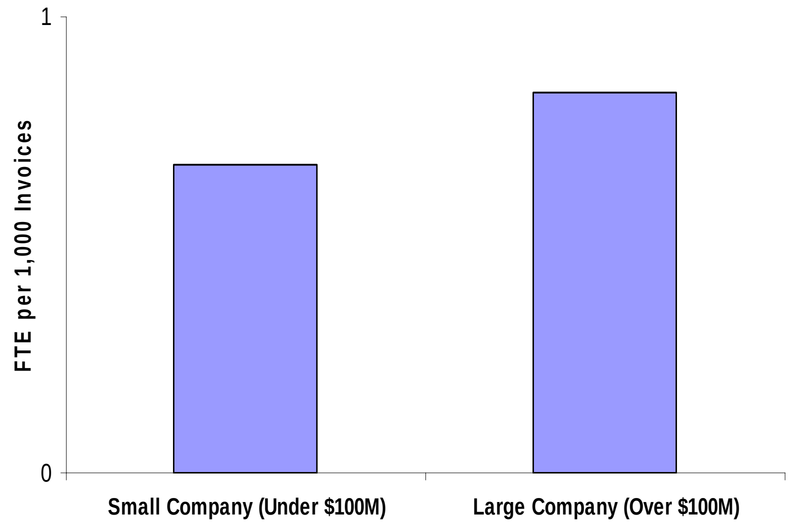


Figure 11
Avg. FTEs per 1,000 invoices based on company size, (n=267)

The Impact of Billing on Customer Satisfaction

Many companies include billing in their measure of customer satisfaction and there are numerous studies linking customer satisfaction to profits. Survey responses indicate that there are a variety of different requirements related to bill presentation.

Although there are a variety of different requirements related to bill formatting and presentation, a significant percentage of them can not be met by current billing systems.

Customer Requirements for Bill Presentation

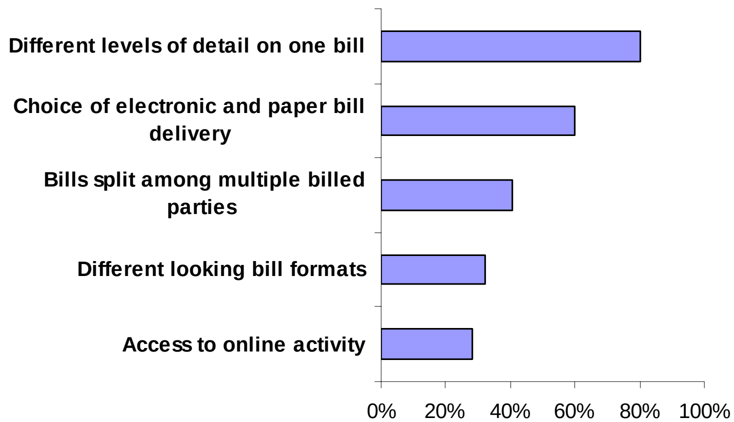


Figure 12
Do your customers require?
(Multiple responses accepted, n=267)

Ability to Deliver Customer Required Formats

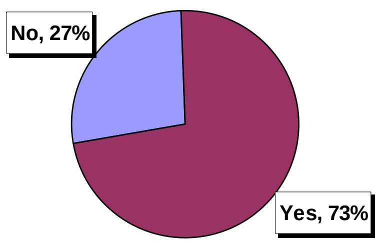


Figure 13
Can you reproduce all of the required invoice formats?
(Yes or No, n=267)

Conclusion

Ultimately, billing must support the business model. However, the result of adding more business models, more methods to compute the invoice and more pricing models is an increase in billing complexity. There is a point where the increased complexity overwhelms the billing process and the support systems and quality begins to suffer.

A reduction in billing quality is measured by increases in re-billing rates, inaccurate invoices and invoices sent late. The occurrences can lengthen the order to cash cycle and create customer satisfaction issues.

The research presented in this whitepaper provides benchmark data about the operational metrics that measure the billing processes of an organization. Especially for organizations with high billing complexity, there is room for improvement.

Survey Metrics

Operational Metrics by Company Size

	Small company (*Revenue <$100M*) *n=187*	Large Company (*Revenue $100M+*) *n=80*
Average # of FTEs dedicated to billing	2.49	14.9
Average # of invoices processed per FTE per month	350	1,480
FTE per 1,000 invoices	2.9	.68

The main business models used by companies in the survey:

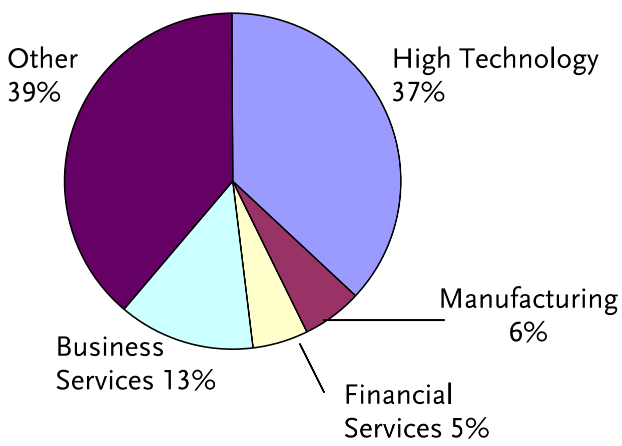
• Services	81%
• Licenses/Royalties	50%
• Subscriptions	34%

The top methods to bill customers are:

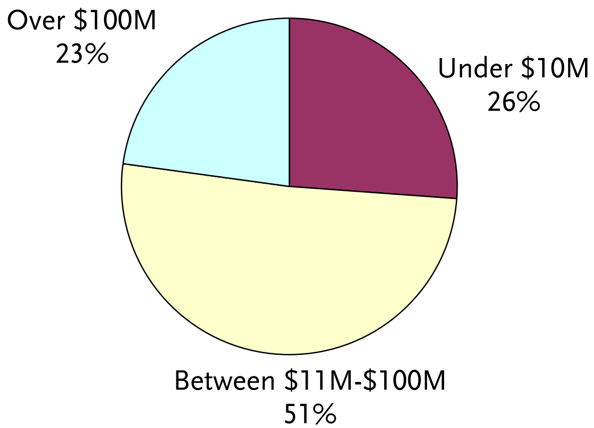
• Once after each order (Billed as shipped)	62%
• As milestones are achieved	58%
• In advance for future deliverables	44%

Demographic Data

Industries Represented



Company Size



About Softrax

Softrax Corporation is a leading provider of enterprise revenue management and billing software solutions that fundamentally change the way companies manage, analyze, report, and forecast their revenue. Softrax solutions automate the entire revenue cycle, from revenue recognition, reporting and forecasting, through complex billing and contract renewals. Hundreds of corporations benefit from using Softrax to optimize their revenue, reduce operating expenses, comply with revenue recognition regulations and Sarbanes-Oxley requirements, and gain unprecedented visibility into their business performance. Softrax Corporation, headquartered in Canton, MA, is privately held. More information can be found at www.softrax.com, at www.RevenueRecognition.com, or by calling 1.888.4SOFTRAX.