Complete Billing and Revenue Management Solutions

WHITEPAPER

Improving Billing and Revenue Management: A Guide for Getting Off Spreadsheets

What's Inside

> *"When efficiency and accuracy are top priorities, identifying the right tool for the job is an absolute necessity in business."*

Spreadsheet applications like Excel and its many imitators are invaluable in the business world. Their robust features allow businesspeople to perform numerical operations and analyses with a level of efficiency that would have been inconceivable in an earlier era. But even spreadsheets have their limits. When efficiency and accuracy are top priorities, identifying the right tool for the job is an absolute necessity in business. When companies continue to use spreadsheets and other non-specialized tools for managing their revenue and performing complex billing functions, despite reaching sizes and levels of complexity that make that approach impractical, are they using the right tool for the job?

In this white paper, we'll explore why some companies continue to use spreadsheet-based, makeshift accounting systems despite their complex needs for billing and revenue recognition. We'll discuss the pain points that emerge with using such a system and discuss the pros and cons of the various alternatives available. Finally, we'll arrive at the conclusion that an ideal solution is a billing and revenue management system designed to handle the accounting challenges of companies with complex revenue streams and billing requirements.

What We Mean by 'Complex'

If you're seeking out the solutions discussed in this document, you probably hold one of several different titles: chief financial officer, director of finance, director of compliance, controller, revenue manager, auditor, director of revenue recognition, billing and renewals manager. The list goes on, but the one commonality is that you work for a company whose business model is complex and likely becoming even more so. You are starting to realize that you are reaching—or already have reached—the limits of your spreadsheet-based accounting system.

What do we mean by "complex"? In our experience, many companies in the software and internet industries routinely encounter revenue and billing headaches as their businesses grow. Software as a service (SaaS) providers, business services and business process outsourcing (BPO) companies, e-commerce companies, and information providers often deal with these challenges. What businesses in these industries have in common is that they must be able to handle the complexities that arise in both the order-to-cash process (the progression from when a customer makes an order to when a company receives and records payment) and the order-to-revenue process, and must maintain the

option of handling these complexities independent of one another. . In accounting models like these, the challenge is revenue management: accurately determining when and what to bill and when income can be realized as revenue.

Revenue management becomes difficult when companies (these are just a few examples):

- Need to generate multi-element invoices upfront or on a milestone basis.
- Have custom invoice formats for each line of business, customer type, location, etc.
- Generate renewal invoices according to contractually stipulated pricing terms and conditions, particularly when these vary among clients.
- Have to support varied pricing models such as fixed-fee, tiers, break points, minimums, discounts, etc., and particularly those that can change in value or term over the course of the contract.
- Establish recurring schedule for invoices on a perpetual, renewable, or one-time basis according to contract requirements.
- Have to bill and account for deferred revenue several different ways, including, for example, milestone or percent complete, and handle associated changes or adjustments.
- Have to handle multiple-element arrangements and perform complex revenue reallocation or carve-outs, potentially dealing with both billed and unbilled revenue.
- Have to maintain fair value (VSOE, TPE, ESP).

In other words, these companies have living, ongoing contracts with their customers.

The Anatomy of a Problematic Accounting System

If you're reading this document, your company probably falls into one of these categories and you're most likely having problems with your accounting system. Typically, companies with these types of billing and revenue arrangements handle their accounting with systems that are:

1. **Spreadsheet based or homegrown.** Dependent on software like Microsoft Excel, which wasn't designed with complex billing and revenue recognition capabilities.
2. **Manual.** Revenue and billing information does not flow automatically between departments, locations, and sales roles. Human involvement in the transfer of information is necessary, and human involvement brings with it the opportunity of human error brought on by overworked, negligent, or improperly trained employees.
3. **Fragmented.** Multiple spreadsheets, created by people in different roles with different work styles, are used in combination with software systems that were not necessarily designed to "talk" to each other.

The Risks of Spreadsheet-Based Accounting

When your company's accounting system is based on spreadsheets and manual, fragmented workflows, what can go wrong? Manual systems that require "human touches" will require more human touches as they grow, and therefore the likelihood of human error will increase. Meanwhile, the possibility of detecting errors and enforcing proper procedure will decrease, because the CFO or other authority figure will lack insight into who is doing what within the spreadsheets. The CFO can't "dummy-proof" the processes.

As your business grows in size and complexity, the risks associated with an error-prone accounting system increase. Here are a few of those risks:

- **Misstating revenues.** This is especially important for public companies that are required to provide accurate revenue reports to investors.
- **Missing billing opportunities.**
- **A decrease in cash flow and earned revenue.**
- **Increased operating expenses.**

- **Unproductive employees.** The manual component of a spreadsheet-based accounting system takes time away from your company's employees, time they could be using for more strategic tasks.
- **Mismanagement of customer base.** Billing customers when they don't owe money risks upsetting them. Not billing them when they do risks missing opportunities to realize revenue.
- **No audit trail.** When processes and data are spread through several different spreadsheets, systems, and personnel, documentation of the overall order-to-revenue process will not be readily available.

The primary risk is this: **Without a robust billing and revenue management system, a true evaluation of your company's financial standing cannot be made.** If you can't access reliable information on your company's revenue, you can't gauge your company's performance and identify areas for improvement.

Consider this example:

The employee tasked with revenue management at a medium-sized software firm spends so much of his time performing manual processes, such as responding to day-to-day problems with the spreadsheet-based system or processing credits, that he is not able to perform more strategic tasks such as business planning, and analysis.

In business, increased levels of risk result from increased levels of uncertainty. That's why it's critically important to have accurate information. Without accurate information on your company's revenue, the overall level of risk is raised. There is a material effect on the ability to show your company's financial performance, which could jeopardize your company's standing with its investors and your personal performance in front of your CFO.

Alternatives to Spreadsheet-Based Revenue Management

We have seen companies take several different strategies when faced with the problems and increased risk caused by their spreadsheet-based accounting systems. Some are more successful than others, depending on the size of the enterprise, its rate of growth, and the complexity of its business model. Here are a few of the most common:

Strategy #1: Continue to use spreadsheets, but try to improve them

Some companies reason that, because spreadsheets have worked for them in the past, they will continue to work in the future—with just a few tweaks. The thinking here is that the least amount of change is the surest path to a reliable system with a minimal amount of retraining and business interruption. It's certainly true there are spreadsheet wizards who can work wonders integrating even the most complicated business models into a spreadsheet-based system, but:

- **The human-error factor remains.** A mistyped formula or a faulty macro in a spreadsheet can spread inaccuracies throughout multiple workbooks. Besides that, what would happen if the person who designed the spreadsheets left the company? There has to be a backup plan.
- **Spreadsheets are not infinitely scalable.** As a business grows, it will have to make its spreadsheets more and more complex to meet its increasingly complex business needs and to comply with changing regulations. "Tribal knowledge" will become a problem. Spreadsheets will become so complex that only a few people (or a single person) will know how to use them properly. It's also possible to "max out" spreadsheet applications like Excel. Remember, spreadsheet applications—however powerful they may be as productivity tools—were not designed for complex billing and revenue recognition tasks.

- **Not everyone uses the same spreadsheets.** With different employees and different departments using different spreadsheets, there is no consistency in processing.

Strategy #2: Bring more people into the process

Along with improving their spreadsheets, some businesses figure that bringing more people into the billing and revenue process will solve their problems. But adding more people not only adds more chances for human error, but it will either require hiring more employees or diverting employees from their current responsibilities—both of which will cost a company in money and productivity. In addition, different people approach the same problems different ways. This introduces more complexity to an already-complex system.

Strategy #3: The patch or Band-Aid approach

Instead of pursuing a packaged solution or purchasing software to fix their needs, some companies attempt to address each problem with its own patch or Band-Aid. This approach results in a patchwork accounting system comprised of parts that weren't designed to communicate with each other. As discussed above, when information doesn't flow smoothly between systems, gaining a clear understanding of your company's financial performance requires considerable and tedious manual effort—and even then, it might not be accurate.

This is an example of a piecemeal accounting system:

A company uses a quoting system like BigMachines (system 1) to generate quotes for prospects. Once a quote is finalized, it goes into a CRM like Salesforce (system 2). When a deal is closed, the information is logged into a financial package system for order processing and invoicing (system 3). Then the revenue is recognized on a spreadsheet (system 4) and the information from the spreadsheet has to be manually entered back into the financial package.

The problems with this type of system are obvious. When you customize and make do with the functionality of your existing systems, the result is brittle because your company won't be able to respond to changing rules and regulations and the system won't be able to grow with your business. With this approach, you aren't finding a solution; you are just making do with what your company already has in each department, each with its own processes that do not connect.

Strategy #4: 'Off-the-shelf' enterprise resource planning (ERP) system or other generic financial package

For companies with less challenging revenue recognition needs or standard billing methods, "off-the-shelf" financial software—or enterprise resource planning (ERP) systems—like Microsoft Dynamics often includes all the functionality needed for a comprehensive understanding of their financial performance.

This type of software includes standard general ledger accounting functions like accounts receivable and accounts payable. What it usually lacks, however, is functionality to address the specific needs of companies with complex billing models. Basic ERP systems go miles wide, but go inches deep and do not meet the greater needs for complexity.

Off-the-shelf ERP solutions cannot:

- Handle complex pricing.
- Automate pricing modifications.
- Automate recurring invoicing, milestone schedules, renewal processing quotes, and pricing calculations.
- Handle unbilled vs. billed or deferred revenue.

If your company needs to manage complex processes, such as complex billing or revenue management, and it isn't handled by your off-the-shelf financials package, what can you do? You can go back to spreadsheets, but we have already discussed the problems you will encounter with that solution. You can implement Band-

Aid solutions, but then you will run into the problems we identified in strategy #3. This one-size-fits-all solution does not work for all types of companies. Technology companies with their complex, subscription-based customer relationships should not have to fit their accounting practices into the same format as McDonalds or Walmart. It's just not the right tool for the job.

Best of Breed: Augment Your ERP with a Revenue Management System

When revenue recognition and complex billing are challenges, staying with a spreadsheet-based, makeshift accounting system will only continue to cause problems as your enterprise grows. The best way to avoid missing billing opportunities, misstating revenue, annoying your customers, and wasting your employees' time is to seek out a complex billing and revenue management solution that was specifically designed to meet the needs of businesses like yours. This can take the form of a "best of breed" solution you can plug into your existing ERP that will solve these complex issues. With this approach, your company will not be locked into an ERP that does not do everything you need.

What are the characteristics of such a solution? Your complete billing and revenue management system should be an engine that removes complexity from your accounting system. It's an intelligent machine. You feed it the information; it runs; you pull reports.

A complete billing and revenue management system:

- Can handle all the types of complex billing and revenue recognition difficulties discussed in this paper:
  - Subscription arrangements
  - Renewals processing
  - Deferred revenue
  - Multiple-element arrangements
  - Unbilled revenue
  - Milestone billing
  - Percent completion billing
  - Contract renewals
  - Complex invoices
  - Fair value calculation
- Can manage complex pricing, including the need to make pricing modifications, recurring invoice or milestone schedules, renewal processing quotes, and pricing calculations.
- Enables companies to automate and simplify their billing and revenue recognition processes.
- Helps companies comply with financial regulations (and prove their compliance easily).
- Enforces the processes dictated by the CFO. It can control who can access certain items so that regulations and processes are handled the same way every time and can be proven to auditors.

What to Look for in a Complete Billing and Revenue Management System

Do you have any of the requirements above, and if so, have you considered any of the solutions discussed in this paper? Best practices dictate that you look for the following from a complex billing and revenue management solution:

- **Designed "from the ground up" with complex billing and revenue management as an integral component.** Complex billing and revenue management capabilities should not be managed by adding spreadsheets to your off-the-shelf financial software. It should be a fully-integrated, core component of your system.
- **The core of the software creator's business.** Because of the complexity of your business model, your billing and revenue recognition needs are unique. Only a software designer with deep knowledge of your industry can meet them. When a business software vendor offers a wide range of products, its focus shifts constantly in an attempt to please the largest number

of customers. Vendors that are zeroed-in on only one segment of the marketplace, on the other hand, are committed to understanding the challenges faced by that segment and perfecting their solutions.

- **Backed by an experienced implementation team.** Enterprise software solutions are most effective when they are implemented correctly. That means the software is implemented in accordance with your company's structure and objectives. Your vendor's implementation team should know the right questions to ask about your company to implement its software seamlessly alongside your other business systems.

Industry Leading Billing and Revenue Recognition Management Solutions from Softrax

Softrax 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.
- Gain unprecedented visibility into their business performance.

If you're interested in seeing how a complex billing and revenue recognition solution like Softrax will benefit your company, click on the image below to take a free online product tour.

SOFTRAX
45 Shawmut Road
Canton, MA 02021

For Sales and General Inquiries:
972-715-4028

Customer Support:
972-715-4040

Fax: 781-830-9345

Email: info@SOFTRAX.com