

# Thinking Outside the Box in Agile Monetization

What are the innovation directions in Agile Monetization · Spring, 2020

## Key Issues

- How will advances in micro-services impact innovation in finance automation?
- What are the new disruptive product capabilities that can help finance improve strategic outcomes?

Increased emphasis on agility in finance and sales operations is often seen strictly through the prism of increased speed metrics such as time to market and time to revenue. Yet, equally important in this context are the ability to rapidly create new capabilities from existing functions. This requires that organizations unpack the capabilities contained in the traditional “functional boxes”. In this research report we discuss how creating new capabilities of components of existing finance automation solutions can help organizations create proactive revenue management capability with a direct and immediate impact on both topline growth and bottom line profitability.

The automated revenue management (ARM), a.k.a. Revenue Recognition or RevRec, has for the longest time been viewed as a standalone component in the finance cycle, squeezed in-between CPQ and Billing on one end and Reconciliation and Disclosure on the other (see Fig.1 below).

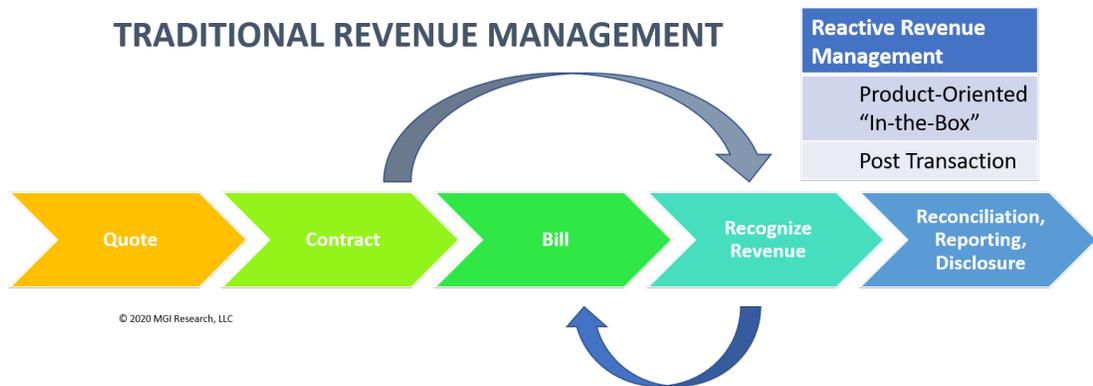


Figure 1 - Traditional Revenue Management

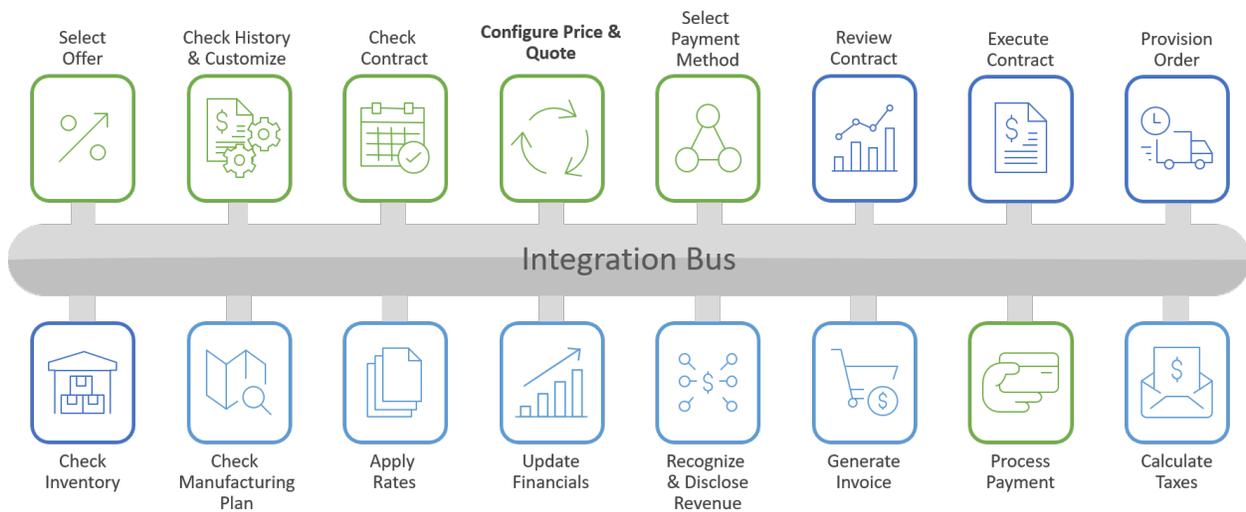
This approach was well understood and predictable but also completely passive. It did nothing to improve the ability of an organization to optimize quoted transactions based on recognizable revenue. It heavily relied on what was contained in the functional boxes acquired to meet the specific requirements such as RevRec.

Innovation in finance automation has allowed many progressive organizations to reduce or eliminate the dependency on serial, batch-oriented processing concepts.

We often emphasize in our research, that products should not be viewed as equivalents for a core capability or the overall process. Doing so limits the capabilities of the core business processes to what is contained in the functional box, hence, the origin of the “in-the-box” thinking and process design.

The Agile Monetization Platform (AMP) reference model attempts to deviate from the coarsely-grained serial processing capability by assigning a business capability rather than a single product to each component (See Fig.2 below).

## AMP-BASED MONETIZATION CAPABILITY



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AMP = Agile Monetization Platform

Figure 2 - Agile Monetization Platform Reference Model

Strategically, it is more productive to think about modern business software products to combine a set of off-the-shelf capabilities, workflows and best practices but also support an API-first modular access to functional microservices. A modern software product contains functions what can be woven into a core capability such as for example calculation of revenue that can be recognized in a given cycle and several key capabilities can be tied together in a cohesive workflow to enable the overall process.

With the increasing adoption of microservices, companies have the opportunity to re-design and re-optimize key financial processes by thinking “outside the box”. It is a chance to conceive new business practices that can be constructed by combining microservices into new capabilities used in innovative ways. Often times, such new services will rely on capabilities of various products – CPQ, Billing, Automated Revenue Management and others. An example application of this concept is illustrated in Fig.3 below.

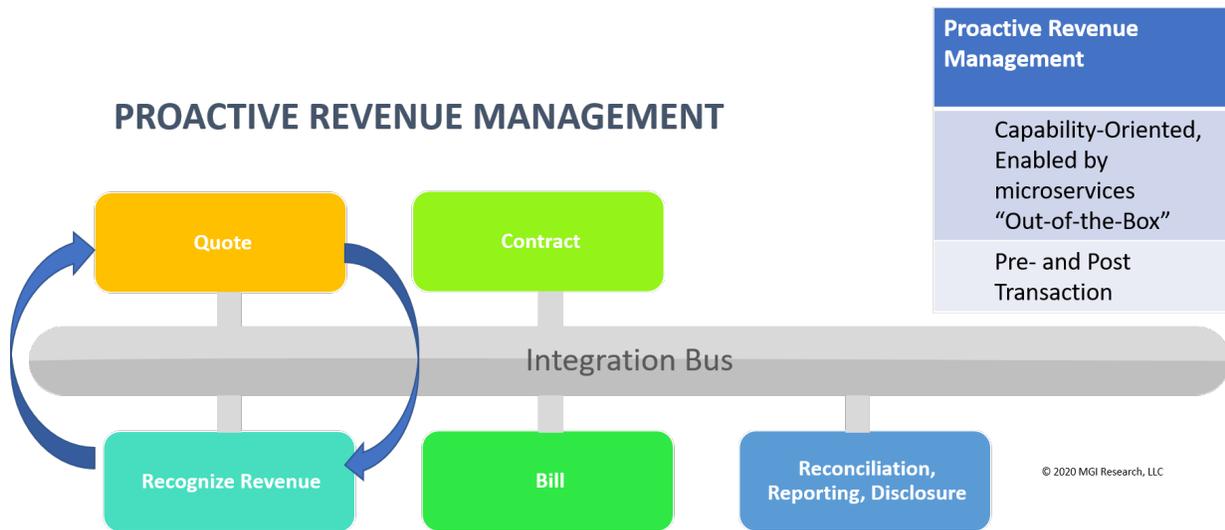


Figure 3 - Proactive Revenue Management

In this instance, the Quoting component, typically contained within a CPQ (Configure-Price-Quote) functional package, is connected with a function within Revenue Recognition product that can calculate revenue allocation and recognition for a pro-forma order. Such capability would enable companies to optimize their quoting

process so as to optimize revenue recognition before quotes are accepted, turned into contracts, invoiced and recognized. This is a proactive approach that can generate a direct impact on the company topline and bottomline – all by using product components already acquired. One way to think of these “new” capabilities is as Revenue Radar and Margin Radar - functions used to bring revenue and margin management into the real time.

### Revenue Radar

With the advent of Automated Revenue Management (ARM) companies gained an important capability of largely automatically translating the results of billing into revenue that can be recognized under ASC 606 rules. This an important advance that eliminates a considerable amount of labor and financial reporting stress, errors and audit risks. In most implementations this capability brings the world of invoices and the world of revenue into harmony once per reporting cycle – quarterly and annually and in some organizations on an interim monthly period. But ARM systems allow the revenue recognition calculation be executed for every invoice so technically a company could simulate revenue recognition not only in a testing sandbox, but in real-time production systems. Such a capability would provide companies with an ability to preview a quote for revenue recognition before it is sent to the client. Moreover, automated rules can be set up to control quote approval based on revenue recognition parameters. Over the last six to twelve months we have heard the need for a Revenue Radar capability verbalized by several sophisticated client firms, especially companies that sell through a global channel ecosystem.

Technically, this idea is not new and several companies have been talking about it at least theoretically, but the underlying technology to turn this into reality exists in the form of microservices inside several commercial monetization products. There have also been some attempts to marry up pricing simulation with Billing, CPQ, and ARM modules as well as a large in-memory database implementation, albeit at a cost that was largely impractical.

The business impact of having this revenue simulation function be integrated directly into the sales motion is hard to overstate. It would allow for a direct link between sales activity and company revenue objectives in near real time and provide early adopters with an important strategic advantage.

In theory, in order to implement such a capability, a user would need to have its sales automation, CPQ, ARM and billing products work in tight coordination. One way to approach this challenge would be to source all of the functional components from a single software supplier.

At present there few if any vendors that have all of these capabilities in equal strength. Salesforce can provide sales automation, CPQ and billing but not ARM, while someone like Zuora can provide billing, cpQ and ARM but not sales automation. We believe that a way to approach this problem is to set vendor packaging aside, create an internal vendor-independent architecture and evaluate the capabilities at the microservices level to see which headless components provide the best fit.

At present, aside from some of the headless-first products such as Stripe, it is not easy to convince vendors to license just a function with an API and because of the level of pre-configuration required it may not be practical near term anyway. Longer term though we expect to see an emergence of a true microservices marketplace where individual functions would be available for a price as a web service.

The revenue simulation capability could also be an important tool for companies selling through multi-level channel partner structures – a context where it is often difficult to exercise precise control over pricing and order composition. Yet, there is not technical reason why a monetization tool with sophisticated controls over product and organizational hierarchy could not handle revenue simulation.

Revenue simulation can also be a strategic tool when used for price planning. In this context the same technical capability as described above (Revenue Radar) could be integrated with pricing and packaging planning functions to help product managers decide on an optimum combination of package elements and pricing approaches.

Right now, most revenue simulation capability would be provided as a semi-custom add-on to traditional monetization products. As companies battle the fall-out from COVID-19 economic crisis, many will look for tools that can help optimize revenue recognition and improve gross and net margins. In this context, revenue simulation can be the Tomahawk missile that can produce asymmetric outcomes. Over the next 12 to 24 months we expect to see vendors such as BillingPlatform, BluLogix, Gotransverse, Salesforce.com, SAP and Zuora add this capability to their portfolios.

### **Margin Radar**

The concept of the Revenue Radar, can in certain product classes be also extended to gross margin calculations – at least on a trial or an approximate basis.

In a small business, - say in a restaurant or a small services organization, an owner can eyeball day's receipts or an invoice or a quote and mentally calculate its attractiveness from a margin standpoint. But take this idea to a midsize or a large diverse multi-national, multi-channel business and this "eyeball check" becomes impossible.

If the idea of a Revenue Radar can help companies optimize their sales mix from a revenue recognition standpoint, the concept of a Margin Radar can help companies protect themselves from deals that are financial sink holes or at the very least do not meet minimum margin standards.

When a quote is constructed and revenue recognition is simulated, a Margin Radar could use known direct and indirect costs to calculate a preliminary gross margin or at least

a large portion of the margin. Quotes that do not meet company objectives can be rejected or flagged for review.

In a global multi-channel context, such a capability can generate huge pricing and packaging advantage. Some CPQ products attempt to do this but often times fall short on ability to integrate cost data. Most lack the ability to simulate revenue recognition and thus resort to calculating cash margins instead.

In addition to enforcing the pricing and packaging discipline, a Margin Radar can give organizations an ability to preview their gross margin and to a limited extent their EBITDA capability on a nearly real-time or at least a daily basis. This would give business and finance leaders important lead time to adjust strategy, change sales mix or review pricing – way before the typical financial close. It could also enable sales organizations not only to calculate incentive compensation (as some do now on a periodic basis), but tie sales commissions to recognized revenue, margin and profitability objectives.

## **BOTTOM LINE**

In order to create real competitive differentiation with monetization, organizations will need to think in terms of combining atomic functions of individual services from a variety of products into new, often proactive capabilities to simulate and predict revenue and profitability before a proposal is submitted and order is accepted. Revenue Radar and Margin Radar are two conceptual capabilities that leverage elements of CPQ, Agile Billing, Automated Revenue Management, Financials.