An inefficient lead-to-cash process can cripple a company’s ability to execute and prevent the adoption of new revenue streams. This can be turned around with a comprehensive plan that centers on customers and employees.

Lead-to-Cash Transformation

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Introduction

Nurturing a customer lead all the way to recognized revenue is a manual and complex process for most companies. The journey spans multiple departments using several business applications that must work in concert to do business efficiently. This complexity is even higher for companies that have grown by acquisition because they must merge this process with their standard operations, applications, and data. The result is a lead-to-cash process that is inefficient and patched together with spreadsheets to handle the customizations.

Inefficiency is compounded when a company changes personnel or product offerings because it becomes harder for the company to scale and maintain agility to offer new products. This leads to revenue leakage situations, such as when the company can’t bill for items that require special pricing or efficiently react to payment issues, which results in customer churn.

An inefficient lead-to-cash process greatly increases the cost of changing a quote or contract because it causes a cascade of recalculation down the process to account for the changes. This has become only more important when selling through new channels or complying with new revenue recognition standards (ASC606/IFRS15). Any dreams of leveraging the highly valuable operational and customer data are often dashed because the data is too dispersed and hard to manage.

Perhaps the biggest cost of a brittle and inefficient lead-to-cash process is the impact on business model agility. Over the past 15 years, the world has seen a massive change in business models from selling widgets to selling service-driven solutions. Outside of the efficiency gains, the main driver of the move toward subscriptions is the quest for durable recurring revenue because starting the year off knowing how much revenue the company has under contract is a wonderful thing that leads to higher company valuations and better financing terms. The following are some examples of how recurring business models are being implemented:

» Subscription box retail (e.g., StitchFix), which grew from $0 to a $12 billion segment in 16 years

AT A GLANCE

KEY TAKEAWAYS

» The lead-to-cash process is typically complex and manual as well as inefficient and inflexible to change.
» Many companies are moving to recurring revenue models to provide durable new streams of revenue.
» Automating the lead-to-cash process while enabling new business models is possible with technology but significantly impacts the organization and how it operates.
» Companies need to create and execute a comprehensive plan that focuses on the customer and includes both organizational and technology change.
» Automotive companies (e.g., Ford) offering subscriptions for a car + maintenance + insurance, infotainment, and mobility services

» Construction equipment companies (e.g., Komatsu) offering subscription-based remote monitoring for their equipment using the Internet of Things (IoT)

» Software and technology companies (e.g., Microsoft) moving from selling packaged software to selling as-a-service (SaaS, PaaS, IaaS) in a recurring business model (This has resulted in a massive revenue shift of the software industry to be 43% recurring "as-a-service" revenue in 2019, growing at a 17.5% CAGR.)

If your business is considering transforming or adding a recurring business model, understand that it is one of the most challenging endeavors for a company because it impacts business systems as well as the culture, roles, and operations across many departments of the company.

**Overall Game Plan**

Given the complexity and risk of changing models or business operations, it's very important to "begin with the end in mind" and create a comprehensive game plan that starts with customer engagement and includes the following best practices for both people and technology from an advisor who understands the big picture:

» **Clearly define and prioritize your business and operational goals.** During this change, how can you get closer to having a 360-degree view of your customers across systems? How can you leverage this combined intelligence to automate the lead-to-cash process so that your customers feel like they have a personalized relationship?

» **Leverage data streams to increase sales.** How can you leverage the streams of customer and order data to drive automated upsell and cross-sell opportunities to your sales teams and ecommerce platforms?

» **Define your company’s future state.** What will the future state look like, and how will it benefit your company? What is the best organizational structure for your future state? Should you keep new recurring business units separate or try to combine them with your legacy systems? How will it change your business processes?

» **Carefully consider how you will transition to new systems and integrate customer data.** Plan on being disrupted by something you didn’t consider and have a backup plan and train for it.

» **Prioritize change management.** Change management is extremely important to your game plan. Changing the lead-to-cash process or transitioning to a recurring business model can affect most departments in a company (including IT, finance, support, sales, marketing, product/R&D), change the way people work and how the business tracks performance, and impact sales incentives.

» **Access the best consulting and technical skills.** Does your company have access to the best consulting and technical skills?
**Lead-to-Cash Monetization Choices**

There is a large choice of SaaS-based monetization tools available to enable your business model and/or automate your lead-to-cash process. While it’s great to have choice, the hard part is choosing the best technology partner for your project to reach your short- and long-term goals. See Figure 1 for IDC’s Monetization Ecosystem for the key monetization functions, which are a reference for the subsections following the figure.

**FIGURE 1: IDC’s Monetization Ecosystem**

![Monetization Ecosystem Diagram]

Source: IDC, 2020

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**Subscription Management and Billing Automation**

If your company has moved or plans to move to a recurring business model, today’s subscription management applications enable a wide variety of business and pricing models and integrate with many upstream and downstream applications to provide a high degree of intelligent automation.

» What’s possible: Monetization of one-time, subscription, consumption, and outcome pricing models/contracts; near-real-time rating of consumption data; consolidated billing; partner settlement and management; automated revenue recognition; integrated configure, price, quote (CPQ); churn reduction; data mediation (aggregation of usage data)

» Some considerations:

  ■ Does the vendor have experience in your industry? Can it offer best practices and benchmarks?

  ■ What is the difficulty of integrating with your upstream and downstream systems? How long should you run in parallel with your old system?
Does the solution give you the agility you need to offer, bundle, and price? Will it allow you to consolidate billing systems? How can it make the offering structure definition and introduction a faster process?

Can the solution integrate with marketing systems to automate pricing campaigns?

Does the solution have offer/pricing simulation capabilities to see how an offer would behave over time with a set of assumptions?

Does the revenue recognition enable compliance with ASC606/IFRS15? Are automatic revenue recognition capabilities life cycle aware (i.e., automated updates based on amended contracts/subscriptions)?

**Guided Selling and Price Optimization**

Guided selling includes functions from CPQ applications, which are used to help a salesperson assemble complex orders with optimized pricing. Price guidance helps a salesperson understand the optimized target, floor, and maximum price customers should pay given their situation and suggest upsell/cross-sell opportunities. Price optimization applications analyze big data to determine the best price to offer target customers so that the company can reach revenue and/or margin goals.

» What's possible: Enabling less experienced salespeople to configure a complex product and offer it at the right price; enabling the company to easily manage all pricing to margin or revenue goals; dynamic pricing; centralized price controls and approvals; easy adaptation to tax and tariff changes

» Some considerations:

- Can your current or future business model benefit from price optimization? Does the vendor support your industry and channels? Does the vendor offer best practices and benchmarks?

- Can your current or future offerings benefit from a CPQ product to simplify quotes and improve quality? How easily can the CPQ product integrate with your customer relationship management (CRM), subscription management, pricing systems?

- What is the process for creating/updating the pricing model? Is it a rules-based, statistical, or machine learning/artificial intelligence (ML/AI)-driven model? Who updates the model? How often is the model updated? How much control do you have?

- Do you need dynamic pricing (variable change frequency or event-driven changes)?
Usage Intelligence and Provisioning Automation

Usage intelligence broadly describes applications that aggregate usage data to understand how much of a resource is being used by a customer, product, and/or feature so it can be leveraged in a consumption business model. Understanding the usage of a resource is critical if the company wants to find the best value metric. Provisioning represents the beginning of the delivery workflow, which includes creating, entitling, and auditing the customers' access to the product/service. Usage intelligence and provisioning work together to automate the delivery of the good and to understand customer usage for product feedback and consumption billing.

» What's possible: Automatic aggregation and analysis of customer usage data from devices, IoT, software, and application programming interfaces (APIs); integration with subscription management for consumption models; automated provisioning and onboarding; integration with supply chain management; churn and anomaly detection

» Some considerations:

■ If your business is examining the consumption business model, think about analyzing usage to find value metrics that can be used to dynamically price your offering.

■ Can your business benefit from aggregating usage data electronically versus via people, paper, and spreadsheets? How much faster could you invoice if you reduced data collection? Across partners?

■ Can your business benefit from analyzing usage data to predict when a customer might not be satisfied or churn? This data can be benchmarked to trigger customer success or training to attempt to address the situation.

■ Can your business benefit from automating the entitlement of digital assets, detecting and alerting on fraudulent use, and controlling access?

■ Be aware that while automation is possible, it creates massive dependencies between offer, usage, billing, and provisioning systems. Make sure you design with the end goal in mind, test significantly, and build in ongoing validation that the system is working as designed.
Analytics and Insights
A major benefit of digitizing the entire lead-to-cash process is the ability to leverage the data across systems to make the entire process more intelligent. While most monetization solutions include dashboarding, analytics, and reporting features, there is a growing market of analytics capabilities that can analyze across platforms for comprehensive business analytics and drive automation in no-code workflow tools.

» Some considerations:

- Adding a recurring business model involves new metrics that the company must carefully monitor and manage to benchmarks. You will need to track and manage to metrics such as monthly recurring revenue (MRR), churn (how quickly you lose customers), customer acquisition cost (CAC; how much it costs to gain a customer), and lifetime value (LTV).
- What are your customers buying, and how much are they utilizing it? How does this compare with other segments of customers?
- Can you get a single view of a customer’s history and value across all products and channels?
- What is a customer’s willingness to pay?
- Which customers are in jeopardy of not renewing, and what action should be taken?

Conclusion
Automating the lead-to-cash process and/or transforming your company to recurring business models is a challenging endeavor, which can lead to significant revenue, business agility, and efficiency benefits. While several capable technology solutions are available, the most challenging parts of deployment are creating a plan based on best practices and reengineering your organization to take advantage of the new capabilities. For most companies, technology is the easiest part of change compared with optimizing the workforce. Often, suboptimized change management slows the expected time to value of a project.

Given the complexity and risk of a poor implementation that impacts productivity and customer satisfaction, you should find a business and technology advisor that has significant and demonstrable experience in your business/industry. Ideally, look for a partner that can help you validate and focus your project goals, understand your offerings, propose combined technology and organizational solutions, and help your company adapt to the changes.

About the Analyst

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Mark Thomason is Research Director for IDC’s Digital Business Models and Monetization practice. Mr. Thomason’s research coverage monitors business model trends for digital products and services (e.g., product to "aaS" transformation, servicification, monetization of data) and tracks the technologies and best practices you need to monetize the digital economy, including subscription management, price management and optimization, and usage intelligence.
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About PricewaterhouseCoopers
The journey to straight-through lead-to-cash automation, the adoption of subscription-based revenue models and related accounting changes pose a major challenge for companies across their data, business processes, systems and internal control programs. To effectively navigate these challenges, executives must clearly define enterprise business and pricing model requirements in terms of present and future needs. This is a large transformational change. Thus, effective change management is extremely important. Transitioning to a recurring business model, for example, will affect many operational functions, change the way performance and incentives are measured, and lead to new reporting requirements. PwC’s phased approach to assess, convert, embed and optimize lead-to-cash transformation is designed to help companies through these challenges. This comprehensive strategy, along with structured procedures, project-enabling tools, accelerators and vendor knowledge are designed to assist clients in this transformation journey.