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Migrating to Subscription Pricing?

Transformational tips to help CFOs succeed



CFOs are leading CX transformation with bold moves to subscriptions

Business innovation cycles across all industries have moved into hyperdrive. In the next decade, more businesses will move to subscription models to stabilize/extend company revenue streams, meet customer demand, and solidify stronger competitive positions. These subscription models will put you and your finance team front-and-center in business and customer experience (CX) transformation.

But with this move comes the risk of complicating and inaccurately reporting company financials. Therefore, the migration to/addition of a subscription pricing model has to balance the needs of financial discipline and strategic flexibility.

The end of ownership—the benefits

Your role of CFO is typically responsible for leading business transformation therefore, you recognize the countless advantages of subscription models. Subscriptions mark the end of ownership—for both sellers and buyers. A subscription agreement is the first step to building a recurring customer relationship—one that is mutually beneficial to both parties. Rather than transferring ownership rights to the buyer upon sale, subscription models grant buyers the right to access products, services, or experiences.



The advantages of subscription models for buyers and sellers

- Buyers can spread costs and payments over time rather than shell out large upfront cash payments.
- There are new metrics for business success—customer satisfaction and retention. Lowering subscriber churn becomes a larger focus, and chasing new business is emphasized less.
- Subscriptions provide new opportunities for ongoing upselling and cross-selling to increase share of wallet within the existing customer base.
- Revenue and cash flow become more predictable, and the cost-of-goods-sold (COGS) is spread out over time. Financial planning and reporting become easier.
- More asset-light firms become possible because businesses hold fewer fixed and intangible assets on their balance sheets, which manifests in higher return-on-asset ratios.

5 REASONS TO EMBRACE SUBSCRIPTION PRICING MODELS

**Reduce
cost of
ownership**

**Retention is
new metric
for success**

**Predictable
financial
planning**

**Additional
cross & upsell
opportunities**

**Higher return
on assets
(ROA)**

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Subscriptions provide better entry-level pricing and the ability to add features as customers mature and gain value from the initial experience

Source: Smarter With Gartner, May 2011 .

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Subscription model challenges require head-to-toe change

The challenge in shifting to a subscription model is the disruption that can occur in a variety of areas, from culture to sales to technology to finance.

Culturally, the successful management of subscription renewal cycles requires as much attention and investment as new sales. Suddenly, non-revenue generating functions are customer facing. Marketing, sales, service, and finance are collaboratively and intimately involved throughout the customer lifecycle.

Go-to-market and sales approaches also change. Sales and marketing incentive schemes move the focus away from closing new business to developing long-term customer relationships. Product development becomes a series of ongoing improvements and is laser-focused on customer satisfaction.

Overcoming these challenges requires the full integration of a finance system with the right revenue management

system, since it's now necessary to support recurring revenue models and real-time, flexible billing. As businesses transition to a recurring revenue model, many CFOs decide to utilize their existing CRM and ERP systems. Issues arise because, at their core, ERP systems were designed to support traditional pricing models and don't have the revenue management component to manage the complexity and dynamic nature of modern subscription models and the customer-facing aspects of the revenue lifecycle like billing, renewals, or changes. This lack of integration and functionality puts pressure on the ERP system to be the single source of financial truth and the backbone of sales and financial reporting. Additionally, the lack of integration between ERP and CRM at critical points in the reporting pipeline result in data inaccuracies, accurate forecasting, revenue leakage, and the improper recording of revenue.

5 CHANGES RECURRING REVENUE MODELS BRING TO A BUSINESS


Reduce
cost of
ownership

Incremental
product
development

180°
change in
go-to-
market
strategy

Real-time
flexible billing

Sales
incentives that
focus on long
term



To get around this challenge, most CFOs end up inserting manual processes and purchasing external systems to support subscription billing and management and spread out revenue recognition across multiple periods. At this point, data siloes have formed.

But, over the long-run, none of these workarounds completely solve the financial reporting requirements of a more dynamic and agile subscription business. The lack of integration leaves many CFOs feeling that their only option is to custom build a layer onto their legacy ERP to manage and record revenue. Going outside the ERP obscures visibility into the success of the subscription business in terms of reporting and tracking.

Understandably, most CFOs are nervous at the prospect of moving reporting and revenue recognition out of the ERP general ledger. But when it comes to subscription pricing, many feel they have little choice but to endure the difficulties and headaches.

So why the massive headaches? Because recording and managing revenue outside ERP means that invoices are passed as a single, collapsed line item with no detail. Finance teams cannot see the granular details of the invoices. For example, a \$10,000 complex order from ACME Corp. that contains a mix of assets like hardware, maintenance, service guarantees, etc. would pass from an external system as just \$10,000 from ACME—with no detail on what ACME ordered or now owns.



And when the finance team later wants to run reports on what customers own and where revenues originated? Bundling, reporting, and accurately recording revenue on complicated bill of materials becomes impossible. If finance cannot see the invoice details at a granular, line-item level, the team cannot report against the individual components of the order or understand the customer's full history. More importantly, recognizing and reporting revenue outside of core ERP/finance systems open new compliance nightmares with ASC 6060 and IFRS 15 compliance.

Without a clear and detailed line-level view of the metrics needed to track progress within a subscription model, CFOs will struggle to effectively manage the transition period from traditional pricing models to future subscription pricing or support mixed-mode pricing models.

Read the [SmarterCX](#) article for tips on how to best measure the success of your subscription business model. (HINT: all points to data)

KEY FINANCIAL CHALLENGES WHEN TRANSITIONING TO SUBSCRIPTION MODEL

Complex BOMs (mixing hard goods & subscriptions)

Revenue leakage

Revenue recognition

Accurate reporting & forecasting

Omnichannel sales system integrations

Meeting accounting standards (ASC 6060/ IFRS 15)

Time-consuming product launches

Line-level reporting & analytics

ERP: the reporting backbone of omnichannel subscription sales

There are no quick fixes and long-term, seamless workarounds when implementing and supporting subscription pricing models. Clear views of financials are needed to comply with the financial tracking regulations required by investors. With an additional system—separate from the main ledger—this becomes problematic quickly. ERP was designed to serve as the one vetted, trusted source of data used across the business from marketing, sales, finance, and customer success.

So what to do? How can CFOs avoid making company financials complex and cumbersome when moving to a subscription model? How can they maintain their general ledger **and** get that line-level detail into the core ERP so it can be utilized in other customer-facing functions like sales, marketing, and customer success?

5 STEPS TO TAKE WHEN MIGRATING/ADDING SUBSCRIPTION PRICING MODEL

Resist moving revenue recognition outside ERP

Establish ruthless KPIs to measure success

Focus on customer retention and lifetime value

Take the long view on reporting and analytics

Fight urge to track and monitor offline

Learn more on how subscription management impacts CFOs' day-to-day. We'll give you three hints:

1. ERP and revenue recognition.
2. New value models.
3. New levels of complexity.

Oracle's solution to subscription management tightly integrates our front office customer experience applications with the ERP's critical back-office data. Oracle Subscription Management links all your order-to-revenue processes to:

- Automate recurring billing, payments, and revenue processes
- Support thousands of customer touchpoints, pricing, delivery, and billing models
- Maintain revenue recognition in your core ERP systems
- Easily connect various applications in your order-to-revenue ecosystem with an API-first approach

Oracle's fully integration subscription management/ERP/revenue management solution gives CFOs a clear picture of their subscription business throughout the customer lifecycle and through all customer touchpoints: sales, service, marketing, and ecommerce. Business teams can select and price recurring products, set up contract and term duration, create coverage service and warranty for service plans, modify and quote configurable subscriptions and mixed orders, and create recurring and consumption-based billing.



CONCLUSION

To maximize subscription revenue and, ultimately, long term financial growth, CFOs need to understand what financial levers optimize the value of goods and services in the same way they do in a traditional sales model. By understanding churn and CLV, finance executives are better set to lead the business by establishing the pricing and contract terms that provide the most customer value in the long run. Similarly, financial reports will need to encompass more than what's closed this month (or quarter) and focus on the long view in terms of company profitability and revenue health.

Taking the long view means avoiding the temptation to ramp up manual processes for tracking and monitoring the evolution and health of the subscription business.

For keeping information across multiple systems will make it impossible to manage mid-term cancellations and changes. CFOs should avoid putting subscription management in its own basket and tracking revenue outside of core ERP.

Rather than going for a quick fix and layering on outside subscription systems and in an attempt to outpace the competition, successful CFOs define the key metrics they will use to track progress toward a subscription business model and ruthlessly determine processes to track these metrics continuously. Then they focus on building the fully integrated system—with the right functionality—to get the job done, at scale.

Learn more

Go to oracle.com/subscription-management

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