

Companies from all industries are realizing the benefits of a subscription business model. However, being able to profitably manage and optimize a subscription business requires a platform that automates the complex quote-to-cash (Q2C) process and helps your company grow revenue.

Is Your Q2C Process Preventing Your Company from Recurring Business Model Innovation?

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Introduction

The COVID-19 pandemic emphasized the importance of the subscription model. Companies that moved to this model experienced the pandemic with lower business risk because they had contract-driven recurring revenue. Many companies offered short-term concessions (i.e., delay, pause, downgrade, credit service) to customers under financial stress. These concessions enabled companies to keep their customers, which is important given that acquiring a new customer is approximately two times more expensive than retaining an existing customer. The companies that understood their customers figured out how to expand the spend from their existing customers with add-ons, consumption pricing, and other adjacent offerings.

The success of the subscription model is evident across industries, including healthcare, publishing, and financial services. The subscription model, which is growing at 18%, has been particularly successful in the \$637 billion software industry where it accounts for 69% of revenue.

The internet has enabled any business offering digital and even associated physical goods (e.g., online meeting service with integrated conference room electronics) to sell and distribute their offerings "as a service" in a recurring business model.

This combination of service delivery and business model is successful because of long-term focus and vendor-customer synergy. Businesses are attracted to revenue models that enable a high percentage of recurring revenue under a longer contract. These models provide vendors with lower financial risk and higher company valuations (due to lower risk of missing growth targets) at the cost of higher customer engagement to ensure customers stay happy. Customers want the certainty of a viable company focused on delivering a competitive ongoing service with a recurring fee they can budget. The subscription business model forces businesses to know and serve their customers well or risk customer churn.

AT A GLANCE

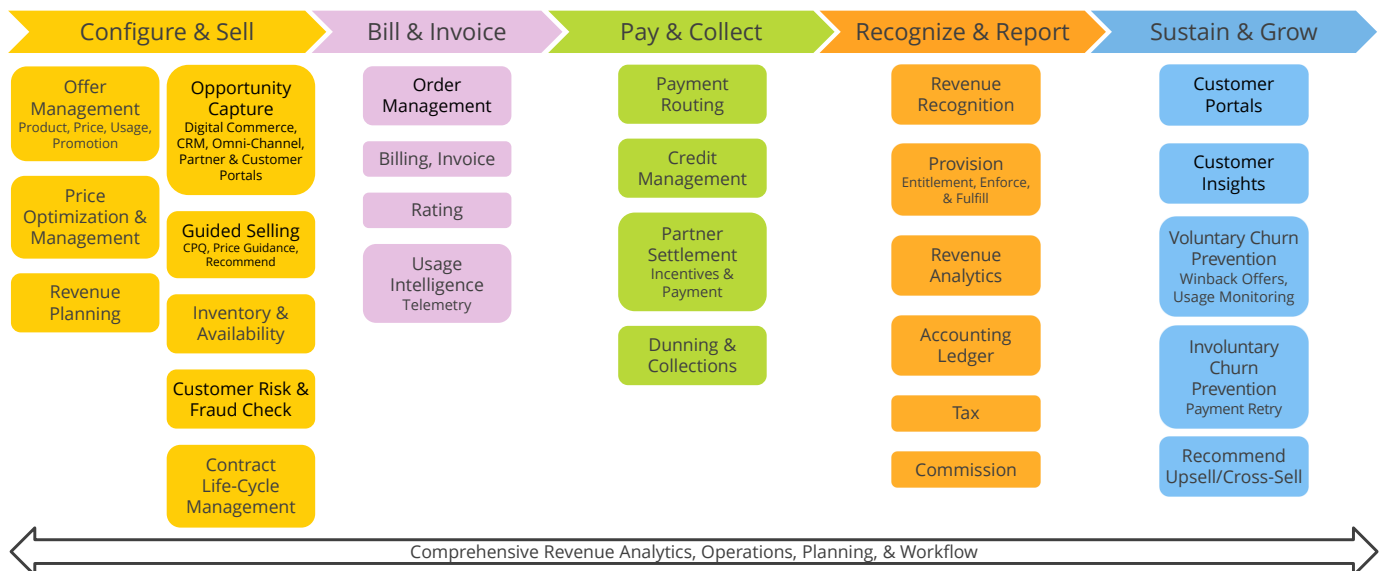
KEY TAKEAWAYS

- » The subscription business model offers businesses the potential for recurring revenue with a variety of bundling and pricing models that both vendors and customers prefer.
- » The challenges of the subscription business model are managing the additional complexity of the quote-to-cash (Q2C) process and being able to keep and grow customers.
- » Subscription and usage management platforms can greatly automate the Q2C process for recurring services and physical products while providing customer insights that drive, sustain, and grow initiatives.

The typical quote-to-cash (Q2C) process in most companies is complex (see Figure 1), passing through many applications, manual processes, and spreadsheets to reach its destination in the accounting ledger. This process complexity increases the chance for delays, errors, and audits — especially when changes are made to orders, which can delay closing sales and closing the books at the end of the quarter. In addition, this complexity makes it harder to transform the customer data into insights that can drive smart automation, achieve better price performance and, in particular, manage churn and improve renewals.

The more complex a process is, the greater the risk of change, which stifles business efficiency and business model innovation. This holds companies back from implementing new business models so they can effectively sell how their customers want to buy.

FIGURE 1: **Critical Q2C Capabilities for the Subscription/Recurring Business Model**



Source: IDC, 2022

Benefits

While the subscription model is more complicated to operationalize, the good news is that many of these capabilities and workflows are automated within SaaS-based subscription and usage management platforms. These solutions have modules to manage the entire quote-to-recurring-revenue process, from the Configure and Sell phase to the Sustain and Grow phase, while ensuring revenue is properly recognized over time (e.g., according to ASC 606/IFRS 15), regardless of the number of changes made to the subscription.

The following are important capabilities to highlight:

- » **Guided selling:** A configure, price, quote (CPQ) solution helps salespeople by guiding them through the order process, which can contain subscriptions, physical products, and/or services. This solution allows salespeople to deliver customer-specific pricing, generate branded proposals, and automate the approval process.

- » **Usage intelligence (mediation):** As the subscription model matures, companies will benefit from leveraging usage data to create valuable consumption pricing models. This data is aggregated to a customer account and rated for billing and can drive insights for churn prevention, renewals, and expansion.
- » **Dunning and collections:** Having an integrated and automated process to manage customers that fail to pay on time is critical to the process of keeping good customers, using pauses, extensions, or credits, while letting go of less desirable customers and terminating their service.
- » **Revenue recognition:** The recurring business model makes revenue recognition very challenging and important, especially when there are many changes to contracts. If revenue is recognized incorrectly, it can lead to expensive audits and delayed financials. Having an integrated revenue recognition module that can ensure ASC 606/IFRS 15 compliance and accurately forecast future revenue is another critical capability.
- » **Customer portals:** Customers prefer to use self-service portals if they are easy to use and provide value. Most solutions give customers the ability to easily update their payment information and control their account, but the best solutions offer customers expansion opportunities and help control voluntary churn by showing detailed account usage.

Having these capabilities within one platform enables comprehensive revenue insights to help companies improve their offerings, operations, and customer success.

Considerations

Companies that choose to adopt a subscription and usage management platform should look for the following traits:

- » **Prebuilt integrations:** According to IDC's 2021 *SaaSPath Survey* of subscription management users, the top need (55%) today is for products to be easier to integrate with upstream/downstream business systems. Therefore, look for vendors that have prebuilt integrations to your company's business systems.
- » **Configurability:** Every company's Q2C process is a bit different and needs to be flexible to change. Therefore, look for vendors that have workflow tools built in and that have templates for common processes that you can configure.
- » **Vendor experience and customer success:** Each vendor of subscription management solutions has its own experience base. Therefore, look for vendors that have experience solving diverse business requirements and can help you leverage their solution to get the best ROI at implementation time and every customer success check-in after implementation.

The main driver of subscriptions is the quest for durable recurring revenue, along with being able to quickly adapt and change an offering model based on customer demand.

Conclusion

Given the success of the subscription business model and the trend toward more companies offering ongoing services, it is a great investment to improve your Q2C process and future proof it with a commercial subscription and usage management platform that is constantly evolving.

The need for these platforms has exploded over the past 20 years as the world has seen a massive change in business models from selling widgets to selling service-driven solutions with physical goods. Outside of the efficiency and opportunity gains outlined in this paper, the main driver of subscriptions is the quest for durable recurring revenue, along with being able to quickly adapt and change an offering model based on customer demand.

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 examines traditional and emerging monetization models for digital products and services and identifies disruptive business models and technologies such as cloud services, product-to-"aaS" transformation, and monetization enabled by innovation accelerators such as IoT.

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About BillingPlatform

BillingPlatform is the only billing and revenue management solution on the market that enables enterprises to monetize any type of product offering, from simple subscriptions to sophisticated usage-based pricing models and everything in between. BillingPlatform provides full lifecycle support of the monetization process – from product setup, quoting, billing and invoicing, revenue recognition, through payment and collections – all on a secure, next-generation cloud platform. The unparalleled flexibility of the platform puts enterprises in control of how they differentiate in the market, maximize profitability, reduce operational costs and improve the customer experience.

To learn more, visit www.billingplatform.com or contact@billingplatform.com.



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