VENTANA RESEARCH

Recurring Revenue

Innovation in Billing through Subscription-Based Invoicing

Research Report

Executive Summary

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Ventana Research performed this research to determine attitudes toward and utilization of recurring revenue as a business model. This document is based on our research and analysis of information provided by organizations that we deemed qualified to participate in this benchmark research.

This research was designed to investigate recurring revenue practices and needs and potential benefits. It is not intended for use outside of this context and does not imply that organizations are guaranteed success by relying on these results to improve recurring revenue. Moreover, gaining the most benefit from recurring revenue requires an assessment of your organization's unique needs to identify gaps and priorities for improvement.

The full report with detailed analysis is available for purchase. We can provide detailed insights on this benchmark research and advice on its relevance through the Ventana On-Demand research and advisory service. Assessment Services based on this benchmark research also are available.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our experience with and knowledge of customer relationships and recurring revenue strategies and processes, and that the analysis and conclusions are entirely our own.

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Executive Summary

The term "recurring revenue" refers primarily to three types of selling and billing: a one-time transaction plus a periodic service charge; subscription-based services involving periodic charges; and a contractual relationship that charges periodically for goods and services. Pioneered by telecommunications service providers, the recurring revenue model has in recent years gained broader popularity – for example, among vendors of software or hardware technology accessed as a service through cloud computing and in entertainment, as customers subscribe to rent movies, music and other digital products instead of owning them.

For both businesses and consumers, renting such assets may be easier and less expensive than buying them. For providers, recurring revenue establishes a regular income stream as long as the customer continues to use the service. To ensure that, though, they must build an ongoing relationship in which they handle interactions smoothly and maintain customer engagement throughout the life cycle.

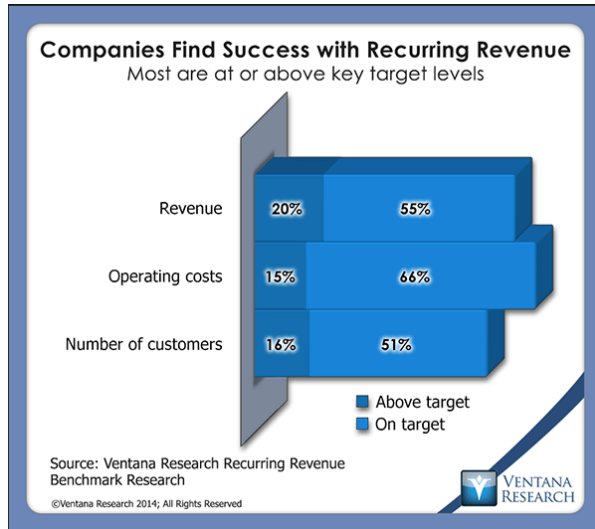Ventana Research undertook this benchmark research to determine the attitudes, requirements and future plans of those who embrace the recurring revenue model and to iden-tify the best practices of organizations that are most mature in it. We set out to examine both the commonalities among and the qualities specific to major industry sectors and across sizes of organizations. We considered how organizations implement and maintain recurring revenue, issues they encounter in the process and the information technology they use to support it.

Why Companies Use Recurring Revenue
Increasing sales and satisfying customers lead list

Increase revenue	51%
Improve customer experience	51%
Increase customer loyalty	46%
Expand into new markets	44%
Improve customer satisfaction scores	41%

Source: Ventana Research Recurring Revenue Benchmark Research
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The research shows that in addition to generating income, participating organizations also see enhancing the customer experience (said 51%), increasing customer loyalty (46%) and expanding into new markets (44%) as drivers for using recurring revenue. A well-managed system can provide an ongoing series of satisfying interactions that promote customer loyalty.

The research also finds that in most organizations the program is performing well. Two-thirds reported having numbers of customers at or above their objective, three-fourths said revenues met or exceeded their targets, and an even higher percentage (81%) had operating costs that were on or below budget. The last finding is of particular note in that it reflects an advantage of recurring revenue: In most cases costs are fixed and thus controllable. It appears to be more difficult to accurately forecast customer count: One in three were unable to attract as many new ones or lost more than anticipated.

Companies Find Success with Recurring Revenue
Most are at or above key target levels

	Above target	On target
Revenue	20%	55%
Operating costs	15%	66%
Number of customers	16%	51%

Source: Ventana Research Recurring Revenue Benchmark Research
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As well as successes, the research reveals challenges that companies encounter in executing their recurring revenue strategies. Most of these involve customer relationships. The most common, cited by 55 percent, is to maintain customer engagement. The next-most frequent difficulty, in cross-selling and up-selling (46%), often results from failure to engage with existing customers; the same can be said of impediments to customer retention (39%) and customer renewal (36%). Thus we see the critical importance of connecting with, understanding and satisfying customers.

An increasingly popular technology tool in such efforts is analytics, which the largest percentage of participants (82%) identified as an innovative technology that's important for improving their recurring revenue business. Analytics enables users to develop metrics to track trends and discover insights into customer behavior and preferences. Currently, however, the most common metrics, each used by at least two-thirds of participants, focus on bookkeeping: total revenue, number of customers, number of new sales and average revenue per customer. Fewer use advanced metrics such as customer satisfaction scores (45%) and net promoter scores (24%) that can reveal more about what customers want.
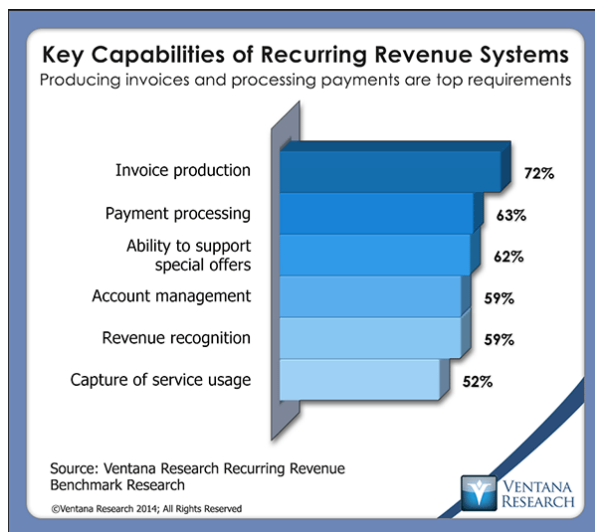
Of course information is essential for understanding customers and business processes, and the information needed to manage recurring

revenue often resides in disparate systems, including sales force automation, customer relationship management (CRM), service provisioning, usage tracking, and invoicing and billing. Collecting it all is the technology challenge research participants cited most frequently (64%), and it ranked first as a challenge (for 27%) by 10 percentage points more than any other problem. Ensuring that all data is accurate, complete and up-to-date is essential for successful customer engagement, a key part of which is correct billing. When the data going into the invoicing process is not reliable, it will at least generate additional work to reconcile data across multiple systems and at worst alienate customers who receive inaccurate bills.

A further complication is the use of multiple invoicing methods. Two-thirds of companies that have a recurring revenue business use three or more types of invoicing for their services. The most common are subscription-based charges, an annual service fee coupled with a support charge and a fixed-price service charge. Integrating these processes is necessary not only for accurate billing but also for understanding the success of the business.

Key Capabilities of Recurring Revenue Systems
Producing invoices and processing payments are top requirements

Invoice production	72%
Payment processing	63%
Ability to support special offers	62%
Account management	59%
Revenue recognition	59%
Capture of service usage	52%

Source: Ventana Research Recurring Revenue Benchmark Research
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To handle these complex tasks, the research finds, a majority (58%) of companies use a single system to produce recurring revenue invoices, while one in four use two systems. The two most common types are a third-party dedicated billing system (used by 52%) and a general-purpose ERP system (42%). Whatever the type, users on average expect it to perform eight tasks, the most promi-nent being to produce invoices and process payments. Assessing their systems, 85 percent that use a dedicated billing system said they are satisfied or somewhat satisfied with the system, compared to 70 percent that use their ERP system.
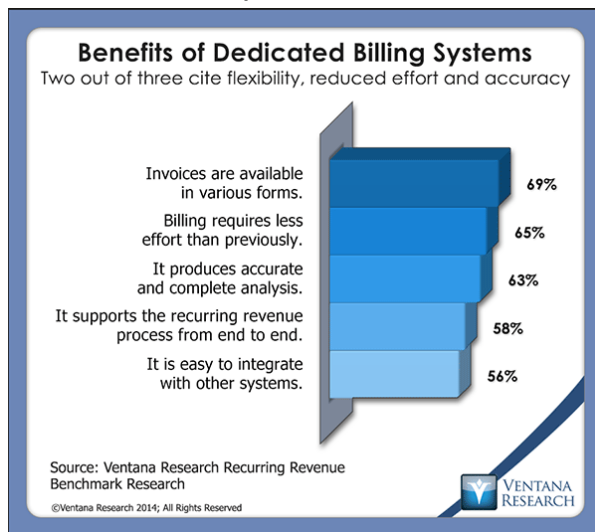
Integrating data and systems is a central challenge, but the people aspects of recurring revenue business should not be overlooked. Invoicing is a case in point. The research finds disagreement between accounting professionals and other functional roles as to their

company's ability to produce invoices for recurring charges. Nearly half (47%) of participants working outside of Finance and Accounting said they are satisfied with their company's ability to produce these invoices, but only 29 percent of those in accounting roles are satisfied. A similar discrepancy exists between those in IT, 58 percent of whom are satisfied with invoicing, and in the lines of business, who may give the invoices closer scrutiny – only 40 percent of them are satisfied.

Company leaders should be aware of such contrasting opinions and make sure that they don't impede the functioning of the recurring revenue process. Yet even here we find some disconnect: Executives (47%) are notably more often satisfied with invoicing than are the vice presidents (38%) just below them who likely have more direct responsibility for it.

Benefits of Dedicated Billing Systems
Two out of three cite flexibility, reduced effort and accuracy

Invoices are available in various forms.	69%
Billing requires less effort than previously.	65%
It produces accurate and complete analysis.	63%
It supports the recurring revenue process from end to end.	58%
It is easy to integrate with other systems.	56%

Source: Ventana Research Recurring Revenue Benchmark Research

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Of those not satisfied with their invoicing, four out of five (79%) said it requires too much effort, two-thirds (68%) said it involves too many resources, and more than half (54%) said it takes too long. We note that users of dedicated billing s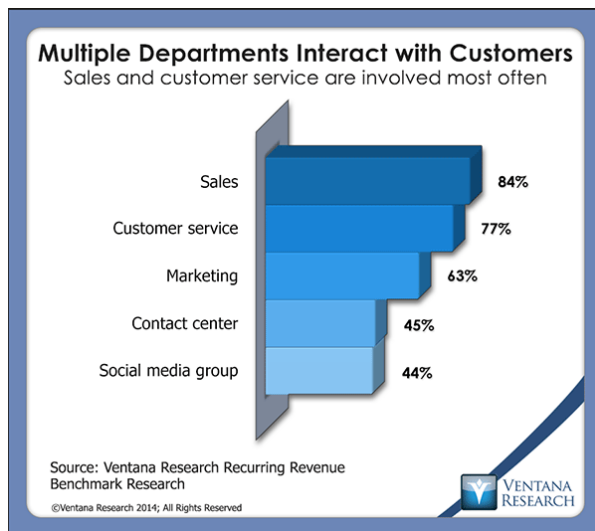ystems indirectly addressed these and other concerns in the benefits they attributed to those tools. More than half said that they are able to create invoices in multiple formats, that billing is less effortful than before, that the tool produces accurate analysis and supports their recurring revenue structures, and that it is easy to integrate with other systems.

Another people factor originates from changes in the ways customers and companies interact. The explosion of Internet sites, new social media and mobile devices obliges businesses to communicate with customers through new channels as well as the established ones. The research shows that on average companies use 6.4 separate channels to engage with customers. Seamlessly supporting them all is another important technology issue, affecting more than half (57%) of participants. This requirement also makes it essential to have a single source of uniform, accurate and timely information at each point of contact; inconsistency across channels can be a source of customer

frustration that undermines satisfaction and willingness to engage. Among newer channels more than half (55%) said they have difficulty in supporting customer self-service; this is a critical capability that when effective enhances satisfaction and reduces the cost to serve a customer.

A complementary trend is involving more business units in customer contacts. Four out of five (79%) organizations in this research reported that three or more business units interact proactively with customers, most often Sales, Customer Service and Marketing. Here again each group must be able to supply the customer with the same correct, up-to-date information as all the others.

Multiple Departments Interact with Customers
Sales and customer service are involved most often

Department	Percent
Sales	84%
Customer service	77%
Marketing	63%
Contact center	45%
Social media group	44%

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Our Performance Index analysis of the research confirms the prevalence of people-related issues in recurring revenue businesses. Nearly three in five (59%) participating organizations rank at the two lowest of the four levels of performance overall, and in the four dimensions into which we segment performance they do least well in People, with 73 percent at the two lowest levels, only somewhat better in Information (61% at the two lowest levels) and best in the Technology and Process dimensions. Tools are rapidly evolving, and channels of communication are proliferating. But collecting and integrating information and providing it to knowledgeable employees to interact with customers haven't kept up with these advances.

Recurring revenue holds many potential benefits for companies. Done well it can increase revenue, decrease costs, stabilize cash flow and ultimately enhance profitability. But organizations cannot afford to take it for granted. We recommend that they invest in dedicated systems and training to make the most of this opportunity.

About Ventana Research

Ventana Research is the most authoritative and respected benchmark business technology research and advisory services firm. We provide insight and expert guidance on mainstream and disruptive technologies through a unique set of research-based offerings including benchmark research and technology evaluation assessments, education workshops and our research and advisory services, Ventana On-Demand. Our unparalleled understanding of the role of technology in optimizing business processes and performance and our best practices guidance are rooted in our rigorous research-based benchmarking of people, processes, information and technology across business and IT functions in every industry. This benchmark research plus our market coverage and in-depth knowledge of hundreds of technology providers means we can deliver education and expertise to our clients to increase the value they derive from technology investments while reducing time, cost and risk.

Ventana Research provides the most comprehensive analyst and research coverage in the industry; business and IT professionals worldwide are members of our community and benefit from Ventana Research's insights, as do highly regarded media and association partners around the globe. Our views and analyses are distributed daily through blogs and social media channels including Twitter, Facebook, LinkedIn and Google+.

To learn how Ventana Research advances the maturity of organizations' use of information and technology through benchmark research, education and advisory services, visit www.ventanaresearch.com.

Appendix: About This Benchmark Research

Ventana Research designed this benchmark research for business and IT managers using or considering a recurring revenue model or involved with the purchasing of technology for this area. The research was conducted in July and August 2014. Applying our standard methodology and quality assurance criteria, we identified 161 qualified participants. They represent a range of organization sizes: 24 percent from very large companies (having 10,000 or more employees), 19 percent from large companies (with 1,000 to 9,999 employees), 27 percent from midsize companies (with 100 to 999 employees), and 30 percent from small companies (with fewer than 100 employees). A large majority (93%) of these companies are located or headquartered in North America, although many of these are global organizations operating worldwide. Among industry categories, companies that provide services accounted for 42 percent, those in manufacturing also for 42 percent, those in finance, insurance and real estate for 9 percent and those in government, education and nonprofits for 7 percent. Categorized by their job title, 41 percent are executives, 12 percent are in management, and the most (44%) are what we term users in the lines of business. By functional area, 22 percent work in IT, 20 percent are in accounting or finance, and 16 percent are executives or in management. (More demographic detail about the participants is available in the full research report.)

This Executive Summary is drawn from the full Ventana Research Benchmark Research report. The full report is available for purchase, payable by check or credit card. Advice and focused guidance based on this benchmark research can be purchased through our Ventana On-Demand service. For more information about the full Benchmark Research report or assessment of your organization using our Performance Index methodology, please contact us at sales@ventanaresearch.com.