The New Dawn of Revenue Management & Why You’re Not Prepared

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Manufacturing has reached a state of complexity that threatens many manufacturers’ revenue — to a tune of more than $15 million per year. As the number of markets, channel partners, and locations continues to expand, many companies are watching their sales incentives spin out of control. They’re struggling to manage rebates, bill-backs, and brand promotions, and to keep track of channel partner performance criteria like sales volume, percent of floor space, sell-by dates, and more. Mismanagement of these promotions can result in overpayments, underpayments, and duplicate payments that undermine a company’s bottom line.

But this doesn’t have to be the case. The reason so many manufacturers struggle with this complexity is that they’re using outdated tools to manage their revenue. By examining the reasons why manufacturing has grown more complex and why traditional revenue management tools are no longer effective, we can uncover solutions that will help manufacturing and technology companies keep more revenue in their pockets. First, let’s look at four reasons why manufacturing has grown more complex.

1. **Location, location, location.** Finding optimum manufacturing locations is an endless struggle. Locations might appear profitable one day, then become an expense as new, more appealing locations emerge seemingly overnight. Because demand and resources can shift on a dime, manufacturers’ short- and long-term success hinges on selecting the right partnership and insourcing strategies, and requires a modern, data-driven system.
2. **Fragmented demand.** Emerging markets are growing so fast that they’ll

soon lose their "emerging" status. Additionally, manufacturers of everything from automobiles to aircraft to electronics are watching the fragmentation of demand that's driving more models, greater customization, and shorter lifecycles. As more products and SKUs are introduced into the market, the management of in-market and obsolete products becomes more critical than ever.

3. **Value chain complexity.** From a supply-side perspective, most manufacturers source from across the globe and, as noted above, are constantly evaluating their portfolio of subcontractors and suppliers based on location, specialization, quality, speed, and other factors. However, the sell-side of the value chain is equally complex. Studies have shown that manufacturers might use more than 5,000 channel partners to bring their products to market and derive 25 percent, 50 percent, and sometimes as much as 75 percent of their revenue from these partners. [1]
4. **Weak analytics.** It's hard to discuss the management of suppliers, channels, and demand without mentioning the role of analytics. Most manufacturers lack the systems, processes, and talent to truly harness the data they collect about their products, markets, and customers. Without these capabilities, these organizations are at a competitive disadvantage, since they can't effectively respond to market changes without more granular insight into their market and customers.

These powerful industry forces have left major manufacturers at risk, since many revenue management tools are no longer fit for the job. Manufacturers require greater analytical precision, tighter spending control, and deeper market and customer insight to profitably react to changing market conditions and local demand.

Both traditional contract management software and enterprise resource planning (ERP) solutions fall short when used to manage contracts and pricing, especially involving multiple, overlapping, tiered incentives that cut across product lines. Here are three ways that many companies are managing their revenue and why these methods fall short:

1. **Error-prone spreadsheets.** Many organizations have dozens or hundreds of complex, macro-driven, and inter-dependent spreadsheet models that perform mission-critical calculations and move data between enterprise applications. Unfortunately, the probability of error in spreadsheets with more than 200 line items approaches 100 percent [2]. With little control and a high probability of error, these tools are now more of a liability than an asset.
2. **Unreconciled incentive programs.** Most manufacturers spend hundreds of millions of dollars per year on channel incentives. Unfortunately, companies often have little insight into the performance of these programs. Worse yet, a 2011 study by the nonprofit organization Alliance for Gray Market and Counterfeit Abatement, in partnership with accounting and consulting firm Deloitte, found that 5 to 10 percent of incentive spend is paid to partners who haven't met the performance criteria [3]. The same

report found that many companies don't even know the actual volume and amount of incentives they pay, since various disconnected groups within the company all individually manage different incentives. In order to minimize revenue exposure and maximize profitability, manufacturers need to reconcile incentive and channel performance against the the original contract or agreement.

3. **Uncontrolled contract authoring and management.** According to a study conducted by the International Association for Contract and Commercial Management (IACCM) [4], poor contract management costs the average IT/Telecom company over $15 million per year. The most frequently cited issues are project delays and cost overruns, but other problems included claims or dispute settlements, liquidated damages, and lost or cancelled business.

As the sun sets on spreadsheet-based revenue management, inscrutable incentive programs, and disjointed contract management, a number of new tools have risen to meet the increased complexity of the manufacturing space. New automated pricing tools remove the risk of error that lurks in every spreadsheet. Contract management solutions automatically track and execute milestones [5] to manage any number of partners, products, or locations. Central data repositories offer greater visibility into trade spend and contracts.

To remain competitive, companies should consider a comprehensive approach known as Enterprise Revenue Dynamics (ERD) [6] that integrates the traditional silos of contract management, pricing and incentive management, and analytics to deliver an end-to-end solution. This enables manufacturers to generate revenue growth, maximize channel and incentive effectiveness, improve and accelerate pricing and channel relationship decisions, and mitigate revenue-related exposure.

If your company is still managing revenue with spreadsheets [7], or if your company doesn't know how much money it pays in incentives, or if your company depends on thousands of channel partners, start looking for an automated, integrated contract and revenue management solution now. As the manufacturing industry grows more complex, businesses need to keep pace, and yesterday's tools can't help you with tomorrow's challenges.

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