

# The Future of ERP EP3: Kicking Off Your Journey to Subscriptions and Recurring Revenues with Isabelle Roussin

**Richard Howells:** Welcome to the Future of ERP podcast from SAP. My name's Richard Howells. I'm the Vice President for Thought Leadership for SAP's ERP Finance and Supply Chain Solutions, and I'm joined by my co-host, Oyku. Oyku, over to you.

**Oyku Ilgar:** Hello everyone. My name is Oyku Ilgar. I'm a blogger, marketer and podcaster in the area of ERP and Supply Chain at SAP. And today we're going to discuss the increasingly popular subscription based business model and recurring revenue with our guest, Isabelle Roussin. Welcome Isabelle, would you like to introduce yourself?

**Isabelle Roussin:** Sure. And hello everyone. My name is Isabelle Roussin and I'm chief solution expert in charge of the strategy and the go to market of the SAP solutions for quote to cash. So I've been in the market now for more than 20 years, leaving and breathing business model transformation and I'm truly excited to be with you today to give you some light on the what's going on in this space and commenting on the growing popularity of subscriptions actually across industries.

**Oyku Ilgar:** Thank you Isabelle. We're also excited to have you here today. So let's start by gaining a common understanding of this term. What is subscription economy?

**Isabelle Roussin:** Thanks for starting with this question, Oyku, to set really a common understanding here. Literally the definition given is an arrangement to receive something, which can be a product or service regularly by paying in advance, and this is the term which now everybody's getting even more so with the surge of streaming services that most of us have been experiencing during the pandemic, from Netflix to Disney plus. So this notion of subscriptions started really with the services delivered first by our utility providers. So basically you would pay a monthly fee which would be revised based on real usage sometimes, like every six months or so. Then with the advance of internet and later mobile phones in the nineties, subscriptions became more sophisticated. You can think of introducing prepaid bundles of friends and

families as well as usage based needs based, for instance, on the number of gigabytes, which would be downloaded. So soon these companies realize that they were ill equipped to cope with this evolution. And let me tell you on that, a personal story to illustrate this. Bit more than 20 years ago, I was in product marketing at a French telecom service provider called Orange, and I was given the assignment of launching a creative offering of cloud managed services for enterprise messaging, and it was based on the Bluetooth messaging. So after three weeks of design hard work on my business plan and crunching numbers on my Excel, I went to IT and the verdict was, okay, it'll take us three months to implement this creative offering. And for a cost of 1 million frank will be equivalent of 1 million frank at that time was 150 k euros. So results, I went back to flat fee with obviously a big frustration and a pricing model which was finally not meeting the customer's expectation in terms of flexibility and adaptability.

**Richard Howells:** I love the fact that you gave the example of the telephone companies. The data usage in my family is a constant discussion about three quarters through the month, every month. And you also talked about, the business example that you gave. So let's fast forward to today, and we're seeing the Azure service and subscription model everywhere in our everyday lives as consumers. For example, I don't remember the last time I bought a CD or a DVD because myself and my family, we stream everything, which means, in fact, I'm paying for all of the DVDs and CDs by default. I'm also getting a shaving supplies on subscription. So there's so many things that we can get as a service; and I see the world of B2B catching up, but which industries are leading the way in this space? And which should be looking to see best practices from?

**Isabelle Roussin:** Richard, so you get your shaving supplies and I could get my beauty box, but actually I preferred subscribing to the wine club, maybe scape my French foods here. So, going back to your question, utilities and telecom have been definitely leading in this space. However, more and more industries are moving into it and. I think this is important to un to understand why this trend is becoming popular. So first, we are experiencing a move actually from an economy of abundance, which was at the top in the middle of the 20th century, to an economy of scarcity. And the consumer is conscious that products must be shared and optimized in this new world. And I think [00:05:00] it's even more true for the younger generation, ready to buy the service delivered by the product. This explains, why subscriptions and paper use are getting so popular and let's be frank, subscriptions bring recurring revenue, which please investors because of the predictability of a model. And finally, crisis are accelerating this move. And Pandemic has brought its lot of services such as streaming, gaming services of course, but also services such as e-learning and

online health services. And unfortunately, for the next five years we geopolitical, economical and Healthcare uncertainty to come ahead of us will continue to disrupt the established business models. So, let's illustrate by giving different ways or use cases as of adoption to subscriptions. And at the same time give some more illustration of industries. So you can think first of just adding subscriptions on top of core product. And this is the case for equipment providers in industrial as well as life science. We have these German customers selling individual items of a window to builders who are assembling these parts and what they have been doing, they developed an application to simplify the assemblage and the modeling of these windows, and they sell it as a service. So that's, the first type of use case, quite simple. You're just adding subscriptions on top of your core product. Second, A bit more complex, is to bundle, such a subscriptions with a product and a service. And we know that bundles, have, helps retaining the customers. So take printing as a service. For instance, you have a printer, you have the maintenance of a printer, you may have a replenishment of the ink cartridge, and after paying one of fee for the installation you have a subscription which may include X number of printed pages per month, and certainly applying a different price based on is it a black, black and white page or a color page. And you may even think of a silver and premium bundles based on the volume of pages. So that's the second use case that I wanted to highlight here. It's bundle of product, service, and subs. Then if you go further, then you have the everything as a service model. You are not selling individual items anymore. everything is included as a service. So famous example that I like to name is Adobe back in the 2012 actually. They've, they moved entirely their license model into software as a service. So here a about in Hightech, but take the example of Rolls Royce engine for plane. Not selling the engines to airlines, but they sell by number hours of usage. So it's powered by the power. And also you take, these very expensive machines, in the hospitals like, scanners or MRI, propose as well as as a service. and examples go on and on as creativity is unbridled now for this. So finally, you. These disruptive digital native companies as well. and they start directly with digital assets. And many of them have been disrupting the markets. The most famous ones that we like to name are Netflix, Spotify in the digital entertainment market, but you have also Amazon Prime, for instance in logistics Uber and transportation, and all this car sharing or multi-model transport examples for mobility as a service.

**Oyku Ilgar:** More and more companies benefit from the subscription economy by either moving entirely their business model to the subscription based model, or some of them are using the combination of the service and subscription and so on. So my question is, do you believe that the companies are ready to embrace this change, this world, and transform their business model? I mean, there has to be some shop stoppers, right?

**Isabelle Roussin:** Well, so Shop Stoppers are quite, numerous. In fact, companies are going through the same issues that Telecom had 20 years back. They are trying to tweak their existing order to cash process to handle these subscriptions and they are drowning in excuse pros with too many product catalogs, for instance .They are unable to create bundles or product service project sometimes in professional service, with these human resources and subscriptions, they have challenges in collecting the usage data from different equipments, to monetize this data. Some are even still using Excel as a pricing table. There's no single source of truth for the financial data of the customers. And as they build siloed business process, each time they launch a new service, then you know they can't provide a converge invoice. So they provide as many invoices that they have offerings. So all of this is ending in lack of reactivity to introduce new offerings. I was telling you my story, my personal story where it was taking three months to get this change request. But basically that's, we averaged time. It's 90 days to launch a new offering with I would say an incur burnt, quote to cash process, significant revenue leakage as well. So it's often around 3% but quite often also we hear about five to 10% when we have these siloed processes. We know some of the companies who have like 60 different billing processes. Brand damage as well due to high rates of dispute and actually it's been number one challenge named by 59% of the companies according to this analyst firm that we work with NGI research despite years of and billions of dollars invested in their ERP and billing systems and challenge as well with compliancy with revenue recognition rules.

**Richard Howells:** It's good that you mentioned some of the challenges because we recently had a session on this topic, on our other podcast series, the Future of Supply Chain. And in that one we had Patrick Crampton Thomas talking about it from a supply chain perspective. And one of the examples he gave is how we can leverage sensor data. If we put sensors on the equipment and the product we can capture data about usage from the supply chain, but this service economy and service management is an end-to-end business process that spans several business areas because it includes the sales, the finance, and the supply chain. but I would imagine the traditional accounting methods, the most, that most financial systems have were developed prior to sensitization of product. So they were probably more suited to a product-based economy rather than a service-based economy. So how were companies and their business systems adapting to these changes and what additional requirements are needed in the quote to cash process that can help overcome these challenges in the subscription world?

**Isabelle Roussin:** Yeah. I mean, who is better placed than SAP To understand and feel the pains of all these companies who wants to embrace the subscription world and economy and are stuck with the existing ERP system, which have

been built for products at the first place. So they, need to power these systems with an additional number of capabilities, such as, so for us creating offers that meet their financial targets. So what are these offers? modeling of these different pricing of subscriptions, which, spoke about usage, usage based all types of criteria for this usage, of course. And outcome based pricings now, the second , item here, it's being able to handle, quote and order management of any combination of product, service, projects and subscriptions. So, we often think that, okay, that's quoting for subscriptions because we go into the subscriptions but we don't. When you have to deal with bundles, then you still need to quote at the same time. Your product, and your service and potentially even your project. So all of this needs to be handled and orchestrated afterwards for the fulfillment part and for the provisioning of these orders. Okay? Then comes to the customer contract lifetime life cycle management. So what the customer is going to expect here is to be able to modify and change their subscription contract because to the country of the product it's one of order. The contract will last over maybe three years of the subscription contract and hopefully more. Because service providers want the customer to renew. They have to build a long lasting customer relationship. And in that case customer contract lifecycle management is key for that. There's also potentially also management of entitle. We use our rights of accessing the service, might also be important. You were talking about monetizing this data coming from sensors. So what about, usage or consumption plans? We must be able to collect the usage data. And when you start to think about data, then this can come in very high volume actually. And so you need the platform need to rate this high volume data, transactions. Provide a convergent voice or unified customer bill, settle partners for reshare agreements. It's the same when you think about these bundles of, product services and subscriptions, quite often, you may want to have, a partner providing one piece of this service. It can be a content, it can be application; iTunes, we know, we all know their main business model. So how are you going to share revenue with these partners, and so you need to settle partners as well. Then automating the whole subledger accounting and collection process with a full breadth of payment capabilities as well. And when I say payment capabilities, it goes from, okay, of course, cash management and credit card. But, you might want to put in place installment plans, defer payments, right? All of that needs to be also handled in that case. I spoke about handling complex revenue recognition rules that come from subscriptions such as for prepayment, for usage plans. And finally not forgetting, using the insights with the analytics from all this consumer, data and financial data actually to look back into more intelligent pricing models or offerings.

**Oyku Ilgar:** So Richard's question was from a business perspective, and mine is going to be from a consumer perspective. Over the last decade we have seen constant increase in the number of industries and companies adopting this

subscription-based business model. And my question is, how does this change the consumer behavior?

**Isabelle Roussin:** So actually that's an interesting question as you can actually look at it from different angles. As I already said more and more consumer wants to pay for what they use, so therefore their change in behaviors have led to introducing this usership behavior rather than ownership, okay? That's the first point. At the same time, the service provider needs to change their customer relationship, in their business model. So, When they were selling product, most of the time, they had an indirect model going through resellers. Now, most of them want to go direct to consumers, so they have to know how to handle this consumers. And they go from one of sale to long lasting relationship where the important case KPIs is customer lifetime. And also the consumer become actors of their subscriptions. I was telling how important it is for them to have full control on their contract change, to pose their subscriptions to adoptions, and they may want to put some alerts or some thresholds on the usage saying, if I'm getting to this amount of gigabyte used, please send me an alert because I want to stop that. And finally, service providers may influence and that's the interesting part. Actually, the way their consumers will consume with the pricing that they will proposed. So, what's happening with the energy shortage currently, or yet with the circular economy trend, consumers are adapting their behavior to pick an off pick period for instance to wash their dish or their clothes or their heating systems, right? And consumers also will lease products, or yet go for paper use starting with car sharing as well in big cities to reduce carbon footprint and also to contribute to this movement of reusing and recycling.

**Richard Howells:** It's clear that, this isn't just a fad and the service economy's here to stay. So as we see this, I believe here for the long term. How do you see this evolving? What are some of the predictions that you think that the service economy will go to in the future?

**Isabelle Roussin:** Yeah. So, you mentioned already Richard, the usage base with the growth of IoT. So all these data generated by sensors, on board of cars, machine coolers... So how are companies going to monetize them? You can take the example of your favorite connected watch. I don't know if you do sports, but might be associated with a sports subscription. Imagine how this data can be monetized by the provider and to whom it can be sold. If you have been registering all your local trails for instance, when you go running or your dietary habits. This can be sold back by your service provider to all, different types of companies. So that's, same with connected cars, reselling the behavioral usage data to the car insurance, right? So that's one trend here of inventing new

business models based on all these collected data. Then the trend we start to see is outcome-based model as well. So an extension of, IoT monetization possibilities, in fact. So customers, will pay for a guaranteed outcome serving their needs. Not for the usage, but for the guaranteed outcome of a usage. I was, talking about Royal Royce, so it's an engine, an engine guaranteeing to run for X number of hours, right? You can think about air conditioning as a service by Kaeser Compressor as well. So that's the servitization model you were mentioning previously and which definitely provides greater customer value. And finally, the last point I was mentioning the economy of scarcity we're getting into and the sector of business model is growing. And I said previously, new business will emerge with these evolutions.

**Oyku Ilgar:** Isabelle, as we come to the end of the podcast, maybe we can provide little advice to our listeners. So in your various roles at SAP, you must have worked with hundreds of companies that have transitioned to the subscription-based business model. What do you see as the key success criteria for companies that want to embark on subscription journey?

**Isabelle Roussin:** Yeah, so my first advice would be, okay, step back and look at all aspects of your business model. And for this, you can use, the great business model innovation framework from, Austral Builder, for instance. But first thing, who are my customers? Am I going direct to consumers? For instance, in that case, I may have to be careful about, yeah, contract management, of course, but also the high volume of transactions that I will, have to deal with, right for a second. What is my value prop for this segmentations that I've been working on, what type of customer relationship will I put in place? What is my use case? What are my channels? What are the partners that I'm going to work with? What are my pricing models based on this different offering and my cost structure with my new KPIs, I was mentioning, of course, customer lifetime value, but when you introduce subscription, then you have to deal with annual, regular recurring revenue, monthly regular recurring revenue, and all these new financial KPIs appearing so. Brainstorm on what are the key changes to make to deliver this new value prop and be on target with these new KPIs? First thing, the technical change. Rethink your code to cash process. So work on the best solution blueprint for your use case. And please don't underestimate the integration points such as, with a lead to code process. You have, leads coming from your preferred marketing platform or CRM, going into your quote to cash. What's the integration point? What's the integration point with your fulfillment, process? What's the orchestration of your order management? And don't underestimate as well this scalability need to grow with your business. So scalability also across geographies with, different taxation and regulatory needs in that case. So after this, looking at this technical. Changes and challenges looking at the organizational change,

executives should be involved because that's a strategic transformation, right? And which comes when you touch on your code to cash process. Actually you should have a organization because you touch different audience within the company. Quote to cash quote is sales organization, cash is finance. And in the middle you have it to deal with scalability, with integration and agility. And my last advice would be, be careful at the big bank in your transformation. I think we have been hearing a lot of customer cases and the success behind was to start small test with, your new subscriptions model, maybe on a new line of business or product line first and be ready to fail. It's fi it's fine, but fail fast and be agile to react right with your platform. And my last advice would be learned from best practices on. Even if it's across industries, because we have all these industries jumping into the subscriptions now and, there's a lot to share.

**Richard Howells:** Isabelle, I can't believe it, but we're 28 minutes into this discussion. it's flown by. So one final question. If you had to summarize in a sentence or two in your opinion, when you're take into account the subscription economy, what is the future of ERP?

**Isabelle Roussin:** Challenging one. So, maybe the key point in these periods of unprecedented change is that the speed is becoming the new black. So therefore, the future of ERP is giving companies the core foundation to embrace any combination of business models so they can adapt quickly, creativity, agility and scalability will be crucial to delivering greater customer value.

**Richard Howells:** Isabel I didn't expect anything less, but this has been a great conversation. So thank you very much. And thanks everyone for listening. Please mark us as a favorite and you can get regular update and information about future episodes. But until next time, from Oyku and I, thank you for discussing the future of ERP.