

This IDC Spotlight focuses on revenue and margin management, a segment of revenue life-cycle management that many businesses grapple with and most supply chain partners fail to address fully in platform solutions.

Margin Management's Role in Revenue and Profit Optimization

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Introduction

Professionals engaged in revenue and margin optimization strategies face mounting complexity when overseeing activities across multiple physical and digital channels. Navigating intricate pricing, trade, royalty, and incentive programs is a significant challenge. Enterprise go-to-market (GTM) life-cycle management, a comprehensive set of processes for launching a new product and delivering commercial excellence for existing products, is crucial to ensure that the time invested and the money spent or earned drive growth. There's increasing pressure to optimize revenue across channels, protect margins, and minimize leakage. Aligning pricing with sales, marketing, and finance is important when adapting to market trends and business needs.

While much of the focus is on revenue life-cycle management and the purpose-built platforms designed to address the challenges stemming from siloed systems and disconnected data, the crucial role of revenue and margin management is often overlooked or underrepresented. These activities cover everything a company processes in the gross-to-net workflow, including market development funds (MDF), chargebacks, commissions, pricing, promotions, rebates, administration and/or distributor fees, and royalties — virtually all the monies exchanged between partners on both the buy and sell side in the supply chain outside the purchase order.

There are numerous factors to consider in an end-to-end margin management workflow. Most platforms focus on activities related to the cost of production or the cost of goods sold. This may suffice for simple go-to-market business models driven by cost and price alone. However, most industries are evolving to more complex revenue programs that attempt to intelligently drive channel partners to perform better with the expectation that trade-offs on margin should yield higher volumes and overall profits.

AT A GLANCE

KEY STATS

According to IDC's 2024 *SaaSPath Global Buyer Survey*, organizations need greater visibility into the revenue life-cycle and margin management workflows and to apply intelligent automation for scale and velocity. Furthermore:

- » 24.8% of survey respondents said there is not enough automation — too many touch points.
- » 41.6% wanted better customer and product insights driven by AI.
- » 40% sought price optimization features for pricing personalization.

For many businesses, spreadsheets have been the primary means of managing the complexities associated with revenue and margin optimization. Buyers seek more intelligent automation to reduce complexity and improve outcomes as enterprises invest in transforming the revenue optimization process. According to IDC's 2024 *SaaSPath Global Buyer Survey*, 24.8% of businesses cite the need for more automation to better manage the revenue life cycle.

Background

Many enterprises have modernized primary business processes. However, some revenue-related activities, including pricing, rebates, chargebacks, and trade promotions, continue to be managed with spreadsheets and custom applications, increasing risk and stifling data sharing. IDC research shows that 83% of CEOs want their organizations to be more data driven. Enterprise GTM life-cycle management continuously evolves as customers' needs change and businesses respond to mounting pressures to drive out inefficiencies. As a result, a holistic approach includes margin management workflows that connect finance, engineering, product marketing, operations, sales, and customer success. Notable challenges that businesses are investing in:

- » Lengthy enterprise sales cycles that can take six-plus months to complete, delaying revenue realization
- » Complex variable pricing and expanding product offerings
- » Lack of visibility into and control over total costs
- » Revenue leakage through inefficient or inaccurate processes
- » Time-intensive and error-prone manual processes
- » Ineffective targeting of B2B promotions leading to lower conversions
- » Challenging product line gross-to-net modeling

The velocity of change and the need to adapt in real time magnify these challenges and render decisions less impactful if they are not made in the moments that matter most. The implications of these actions or inactions ripple across the business. Revenue and profit targets are missed, costs are up, and margins are down. Program effectiveness and ROI are diminished, inventories are suboptimal, and customer acquisition cost and the cost of sales rise.

The Importance of Revenue and Margin Management

Revenue and margin management are pivotal in optimizing profitability across the product life cycle. Its integration in B2B involves figuring out how to incentivize buyers beyond price, factoring in discounts, rebates, and other incentives. In addition, it involves carefully monitoring and managing the cost of bringing a product to market while ensuring that the pricing strategy aligns with the market's willingness to pay. Visibility into the margin management workflow reveals the actual margin between the sale price and the net-net revenue after incentives are paid well after the sale.

Essential elements of the margin management workflow:

- » **Buy- and sell-side management:** On the sell side, solutions must reduce a seller's margin through discounts, rebates, and reimbursements. These costs should be more than offset by increased sales volume, market share, and profits. On the buy side, solutions must evaluate supplier offers and determine which offer best improves margins by controlling acquisition costs and maximizing reimbursements.
- » **Pricing strategy:** The focus here is on determining the optimal price point for an offering based on market analysis, competitive intelligence, and buyers' perceived value.
- » **Cost analysis, cost recovery, and discrepancy:** This set of activities identifies and manages all costs associated with designing, manufacturing, and distributing the offering, including R&D, production, marketing, and sales expenses. Surcharges include freight, credit, seasonal, regulatory, and convenience fees.
- » **Margin tracking, optimization, and financial settlement:** These activities require continuously monitoring the product's gross and net margins to ensure alignment with profitability goals as well as executing strategies to improve margins, such as lowering costs and improving efficiency. Relating, amortizing, and applying general incentive payments to specific sales transactions are vital for accurate margin analyses.
- » **Automation of labor-intensive tasks:** Automation reduces human error, frees up talent for elevated work, and allows for the analysis of program performance results for improved decision-making. Manual systems that are extremely labor intensive, error prone, inflexible, and costly often result in missed revenue opportunities, revenue leakage, poor visibility into pricing and net margins, and heightened compliance risks.
- » **Top-line and bottom-line performance:** This involves taking control of multiple complex programs and maximizing their performance to ensure these program investments deliver outstanding business and financial results.

The benefits of implementing a comprehensive margin management solution are transformative. By optimizing margins and reducing costs, a business can increase overall profitability, gain market share or improve margins, and ensure the company's long-term financial health. Effective revenue and margin management enables the business to price its products competitively while sustaining healthy profit margins. Additional benefits of a full-featured solution include:

- » **Informed decision-making:** Detailed margin data provides impactful insights that inform strategic decision-making throughout the product life cycle. Examples include when to introduce new features, expand into adjacent markets, or sunset underperforming products.
- » **Efficient resource allocation:** Businesses can allocate resources and prioritize investments in products and campaigns with the most significant return potential.
- » **Operational efficiencies:** Automating mission-critical, yet highly dispersed, sell-side revenue management programs and buy-side margin management programs increases operational efficiency. With integration into ERP systems, businesses are empowered with complete visibility into revenue and cost drivers spanning different corporate functions like finance, sales and marketing, supply chain, and HR, driving critical strategic decisions.
- » **Business goal alignment:** This helps ensure the GTM strategy is aligned with overall business objectives, including growth, volume, margins, market share, and customer retention. Organizations need a unified platform that

delivers a complete picture of their revenue and spend to enable faster, more informed decisions to improve business outcomes.

Insight-Driven Decisioning and the Value of Purpose-Built Platforms

Data-driven insights are essential for revenue and margin management. They enable businesses to optimize purchase costs and sales prices, improve operational efficiency, and adjust strategy in real time. Accurate and timely data is vital to successful GTM and margin management execution. Data enables businesses to make informed decisions about market entry, product positioning, pricing, and personalized promotions. Data-driven insights allow enterprises to adjust future activities in response to unfolding situations, adapt to the fast tempo of cloud GTM, and measure profitability.

Solutions, in the form of intelligent platforms, streamline integration across disparate systems, aggregate application and functional data, and use advanced analytics to provide a 360-degree view of margin management. Businesses must embrace rapid cycles of data-driven innovation and continuous improvement to redefine complex processes and effectively manage pricing, trade, royalty, and incentive programs. These platforms capture and feed critical market data (through claims and POS data submissions) to drive a supplier's analyses and decisions. New forms of analytics powered by advanced AI offer more efficient methods for examining data and generating contextualized insights across product performance, competitors, buyers, and supply chain partners.

Revenue and margin management are critical to operate, grow, and succeed in highly competitive and complex business environments.

Gathering all the required data in a single platform enables 360-degree visibility into revenue and spending activity, offering a single source of truth for enterprise data, improving transparency, and streamlining the tracing of data origins and transformations. According to IDC's *Digital Platform Survey*, 68% of respondents said that an underlying data repository was extremely or very important in the company's decision to purchase a digital platform, and 67% indicated that it is very important for the platform to include an intelligence layer.

A GTM platform streamlines execution and improves collaboration by acting as a single source of truth for all stakeholders, addressing the need for better alignment between sales and marketing, product development, and customer success. Most platforms include prebuilt workflows and intelligent automation capabilities explicitly optimized for GTM and revenue life-cycle management processes, driving greater efficiency by reducing manual intervention and ensuring greater consistency in execution across different activities. These advanced capabilities help mitigate risk by eliminating human error and avoiding revenue leakage due to inefficient, overly complex legacy processes and missed opportunities caused by poorly executed strategies. Using a purpose-built GTM platform removes the burden of building, maintaining, and updating different tools. This allows the team to focus on high-value strategic activities.

Generative AI-Enhanced Platforms

Generative AI (GenAI) ushers in the next generation of highly personalized experiences based on customer preferences, behavior, and past interactions. This form of advanced AI, when embedded in a purpose-built GTM platform, provides significant advantages including:

- » Hyper-personalization at scale to enhance customer engagement
- » Greater efficiency achieved through automating time-consuming, manual tasks

- » Increased agility, allowing for real-time adjustments to changing market conditions and performance metrics
- » Advanced analytics and predictive modeling to enable better decision-making
- » Process automation for faster time to market
- » Consistent messaging and branding across all GTM channels
- » Enhanced capacity for experimentation and innovation
- » Robust security and data protection

The many advantages of purpose-built platforms for executing a comprehensive GTM strategy, including revenue and margin management, offer a radical departure from the traditional resource-intensive and disconnected approach to creating, orchestrating, and implementing strategy. Enterprises should engage stakeholders from across the business, as well as customers and ecosystem partners, to collaborate on a business case that captures the total economic impact of implementing a comprehensive GTM and margin management platform.

Benefits

Benefits derived from a purpose-built platform for executing a comprehensive revenue and margin management strategy:

- » **Transparency:** Platforms are designed to provide 360-degree visibility into revenue and spending activity, eliminating costly, error-prone, and voluminous data transfers while also offering a single source of truth for enterprise data.
- » **Auditability and traceability:** Every financial posting needs to be auditable, providing an indelible statement of record for millions of transactions and billions of dollars.
- » **Increased profitability:** An approach that prioritizes profit margins and helps businesses identify opportunities to raise prices or reduce costs without compromising sales can improve profits.
- » **Enhanced pricing, trade, royalties, and incentive strategies:** Advanced data analytics can help produce insights into margin drivers.
- » **Improved data quality:** Integration from different sources, including ERP, spreadsheets, and other data repositories, means dealing with data that is inconsistent. These cannot facilitate complex or comprehensive GTM and margin management needs. Operational decisions require detailed, integrated, and real-time visibility into strategic priorities.

Challenges of Purpose-Built Platforms

There are several challenges related to using purpose-built platforms to execute a comprehensive GTM revenue and margin management solution:

- » **Program complexity:** Businesses run mission-critical processes with significant financial implications and rely on data to be transported into and out of the system of record.
- » **End-to-end management:** ERP cannot do it alone, and business systems of record cannot manage the scale and complexity of GTM and margin management needs.
- » **Implications of financial guesswork:** Due to the lack of sophistication in current systems, which are unable to tackle multifaceted program complexities, accruals and inaccurate financial postings are at heightened risk.
- » **Increasing volumes of data:** The ever-growing amount of enterprise data impedes the ability to process information expediently and insightfully.
- » **Regulatory compliance:** Increasingly, regulatory compliance inhibits productivity and diminishes the effectiveness of go-to-market activities, especially with pricing and government contracts.

Considering SAP and Vistex

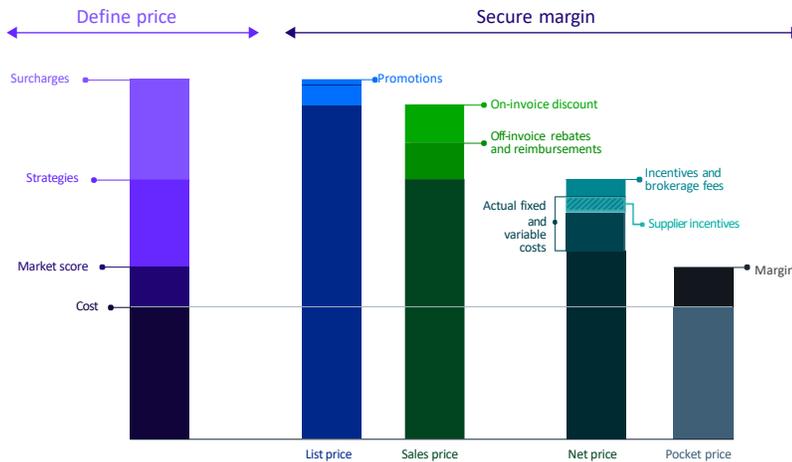
Vistex has a 20+ year and mutually beneficial partnership with SAP. Since the company's founding, Vistex has maintained a strategic relationship with SAP, offering several innovative solution extensions within the SAP ecosystem. Vistex solutions run in the core of SAP ERP or S/4HANA or alternatively in the cloud on the SAP Business Technology Platform. Vistex Solutions for SAP are branded, tested, licensed, and supported by SAP.

Global businesses have complex pricing, rebates, royalties, and incentives that drive significant financial impact. These require real-time visibility that customized ERPs, spreadsheets, and point solutions cannot facilitate. Such businesses need seamlessly integrated software and services to manage and analyze mission-critical functions to ensure investments deliver outstanding results.

With programs covering pricing, trade, royalties, and incentives, it can be complicated to see where all the money flows, let alone the impact on the top-line and bottom-line results. Vistex solutions help businesses take control of mission-critical processes. With Vistex, business stakeholders can see the numbers, see what really works, and understand what to do next to make sure every dollar spent or earned is driving growth. Vistex's platform optimizes profitability and protects margins by modeling intelligent pricing strategies that have a positive impact on a business' bottom line.

Revenue and margin management platforms leverage automation and a common data framework to provide accurate product pricing, price negotiation thresholds, and advanced analytics to win deals and protect margins. A data-driven approach helps establish true margin and gross-to-net information by evaluating pricing, incentives, and revenue-sharing programs. Users can manage pricing strategies across the spectrum of products and services at any stage of the life cycle. Figure 1 illustrates the factors included in an end-to-end margin management workflow.

FIGURE 1: **Core Capabilities of SAP Margin Optimization Solutions for Protecting Revenue and Margins**



Source: SAP, 2024

Challenges

Most businesses are burdened by legacy GTM tools and processes that often lack critical revenue and margin management capabilities. Transforming from the status quo to a modern end-to-end platform requires considerable change management and functional alignment that can be challenging for businesses that may not have a consensus on the need for change.

Conclusion

A revenue and margin management platform is essential for enterprises aiming to enhance financial performance and strategic decision-making. Such platforms facilitate the meticulous tracking and analysis of gross margins — critical indicators of a company's profitability and scalability. By providing insights into direct costs associated with product and service delivery, these platforms enable businesses to identify areas for cost optimization and revenue enhancement. A robust revenue and margin management platform empowers enterprises to make informed decisions, optimize pricing strategies, and enhance overall financial performance, ensuring long-term sustainability and growth in hypercompetitive markets.

About the Analyst



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Frank Della Rosa is the research vice president responsible for SaaS, Business Platforms, and Industry Cloud at IDC. Mr. Della Rosa's core research analyzes current market conditions and trends and provides strategic guidance to technology suppliers and midmarket and enterprise technology buyers. Ongoing research highlights various SaaS and cloud computing aspects, including hybrid cloud and multicloud application deployments, business platforms, cloud marketplaces, buyer behavior, and global trends across vertical and functional markets. Mr. Della Rosa's research covers emerging ISVs' journey to SaaS, SaaS management platforms, market forecasts, and supplier market shares.

MESSAGE FROM THE SPONSOR

About Vistex: Vistex solutions help businesses take control of their mission-critical processes. With a multitude of programs covering pricing, trade, royalties and incentives, it can be complicated to see where all the money is flowing, let alone how much difference it makes to the topline and the bottomline. With Vistex, business stakeholders can see the numbers, see what really works, and see what to do next – so they can make sure every dollar spent or earned is really driving growth, and not just additional costs.

SAP Partnership: Vistex has a 20+ year long relationship with SAP. Vistex offers a number of innovative solution extensions within the SAP ecosystem. Vistex solutions can run in core of SAP ERP or S/4HANA, or alternatively, in the cloud on SAP Business Technology Platform. Vistex Solutions for SAP are branded, tested, licensed and supported by SAP.



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