EcoOnline – Revenue Leakage & ARR Enhancements

EcoOnline Limited

To Identify Revenue Leakage by analyzing different datasets.
Evaluate existing ARR models as per industry standard definitions.

© 2024 Accordion CONFIDENTIAL

Software company needs to Analyze Revenue Leakage

EcoOnline – Revenue Leakage & ARR Enhancements

Picture this…

You need to analyze the potential revenue leakage that may have occurred during the migrations resulting from multiple mergers and acquisitions in the past or due to the manual processes that are setup in the smaller entities. Additionally, the current ARR model requires manual adjustments to reflect true ARR and hence you want suggestions for building a robust and automated ARR model which is more aligned with the industry standards.

You turn to Accordion.

We partnered with the client to identify revenue leakage across different sources and evaluate the existing ARR models including:

1) Analyzing the operational and financial datasets to identify possible revenue leakage
2) Examining the contracts to understand price update terms and verify if prices are updated on renewals/anniversary accordingly
3) Assessing the product usage dataset for different products to recognize revenue leakage cases at customer level.
4) Evaluating the existing ARR models and aligning on the industry standard approach.
5) Bridging Recognized Revenue to reported ARR based on subscriptions.

Your value is enhanced.

- You were able to identify ~130k GBP revenue leakage cases while comparing operational and financial datasets, and additional ~40k GBP revenue leakage from assessing the product usage data.
- You identified five broad categories of gaps that exists currently in the ARR model such as Under Reporting of ARR, Over Reporting of ARR, dependance on invoice date, inconsistent logic to categorize contraction/expansion and data gaps i.e., inconsistency in the subscriptions data.
- Leveraging the findings from revenue leakage analysis and evaluation of existing ARR models, you were able to bridge the recognized revenue from GL to existing model's reported ARR.

KEY RESULT

- ~ £170k confirmed leakage identified
- Highlighted logical and data gaps in existing ARR model to identify ~ £2M of inaccurate ARR reporting
- Bridged Recognized Revenue to Subscriptions ARR for 14 business entities

VALUE LEVERS PULLED

- Datasets reconciliation
- Existing Dataset assessment
- Evaluation of existing Power BI ARR model

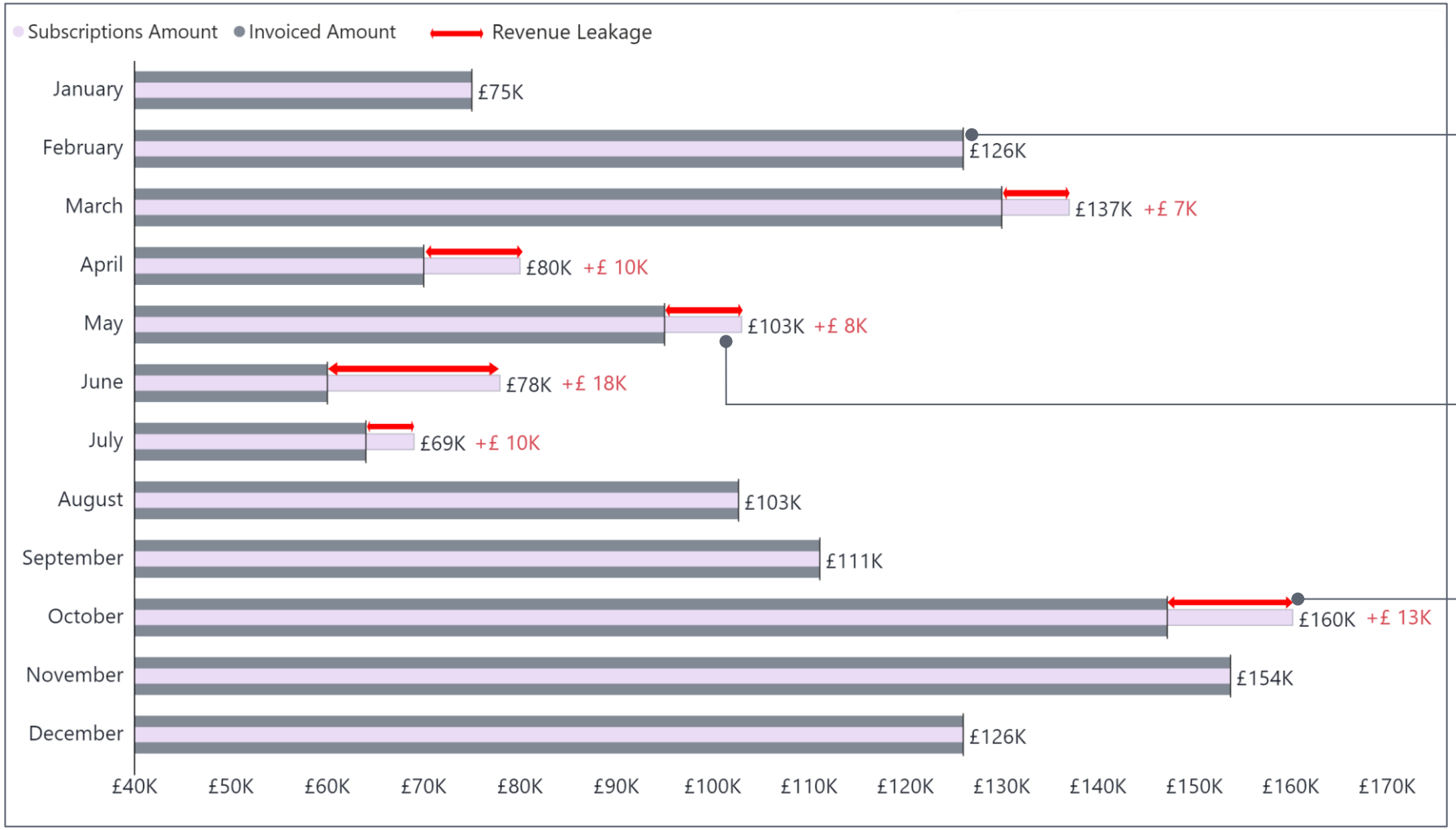
© 2024 Accordion CONFIDENTIAL

Methodology/Approach

Analysis	Methodology/ Approach Description
Revenue Leakage Customers with Login Activity after Churning	• Company had three main entity groups. The dataset structure and sources for these three entities varied widely. Therefore, we decided to analyze each Entity group separately. • As a first step in identifying potential revenue leakage, we wanted to ensure that all subscriptions are being invoiced accurately. We then compared Subscriptions/Bookings data with Invoices data at each customer level to identify revenue leakage. • Next step was to ascertain that the price updates in the contracts were implemented appropriately. Since, the pricing terms data available in the subscription dataset was not reliable, we examined the digital copies of Contracts to get correct pricing terms. We then checked if these terms were implemented as mentioned, at the time of renewals. • Finally, we leveraged product usage data to look for potential revenue leakage. While assessing product usage date we worked on two approaches • Revenue Upside – Cases where the usage metric (example- no. of licenses) exceeded the subscribed limit • Active Customer Check – Cases where the customer has churned but we observed evidence of software after switch-off date.
Revenue Upside Active Customers with Overutilization	• We aligned with client to focus on evaluating the data for Dec 2023 to achieve the true Closing ARR for FY23. • To evaluate the existing ARR model, we calculated the ARR opening balance and closing balance at a customer level and compared it with the output from ARR model. Identified gaps after comparison were highlighted. • While bridging the recognized revenue to reported ARR, we compared the data at customer and entity.

© 2024 Accordion CONFIDENTIAL

Revenue Leakage – Subscriptions vs Invoices



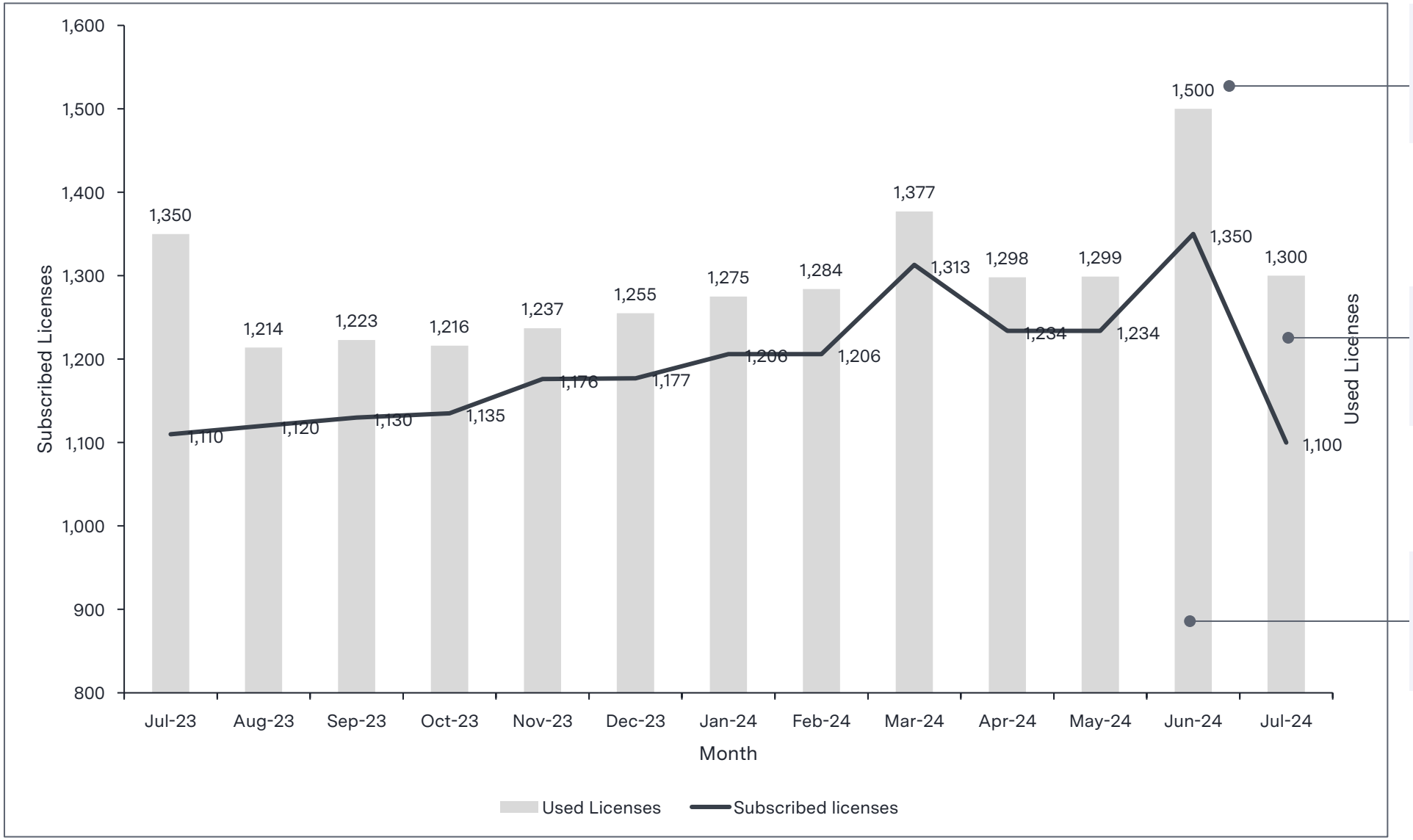
Total amount of invoices sent during the month

Annual amount of renewed / new subscriptions

Includes cases of under-invoicing as well as missing invoices

© 2024 Accordion CONFIDENTIAL

Product Usage - Revenue Upside



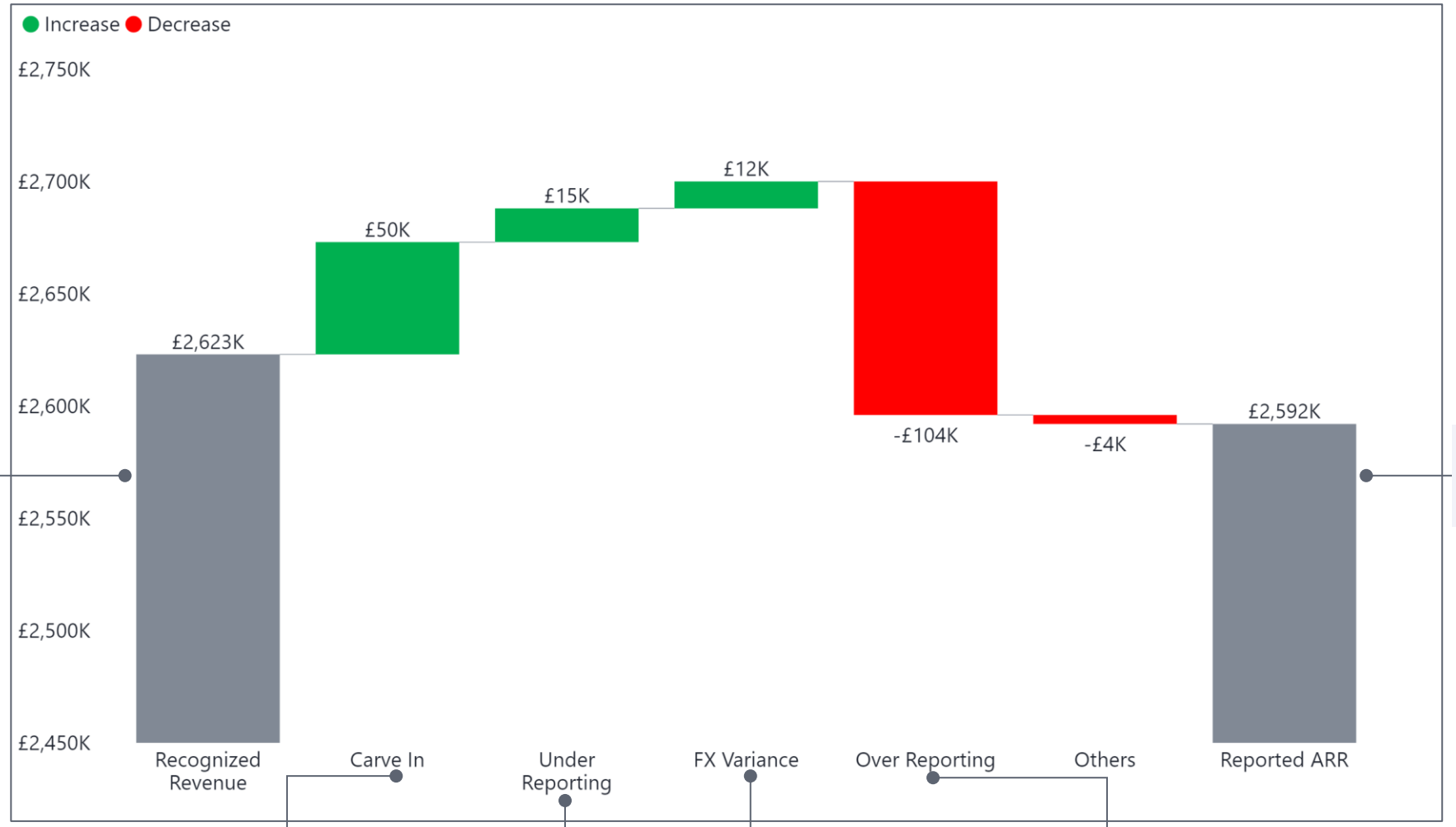
Actual license count used by customers where additional usage was identified

We calculated revenue leakage by prorating the per-license cost for extra licenses used each month.

Number of subscribed licenses for customers where additional usage was identified

© 2024 Accordion CONFIDENTIAL

Recognized Revenue to Reported ARR Bridge



Recognised revenue for a month annualized to compare with ARR

ARR reported by Financial ARR model

Invoiced amount shifted to ARR balance of a different entity

Delay in capturing Upsells

Variance due to different FX rates used across two sources

Inflated ARR – ARR reported for Churned customers

© 2024 Accordion CONFIDENTIAL

Learnings

1) While identifying the revenue leakage, an exhaustive list of areas which could lead to revenue leakage should be considered (few examples listed below)
    1) Bookings/Subscriptions vs Invoices – Reconciling bookings to the invoiced data
    2) Contract Details – Pricing, Usage terms, Product Downtime terms
    3) Product Usage – Monitoring usage metric vs thresholds, Login activity of customers
2) It is essential to verify the credibility of the data and trace it back to its original source to ensure accuracy. In our case, we observed that some of the fields related to contract information were not reliable and hence we connected with various stakeholders for respective entities to get the digital copies of the contracts.
3) Product usage data and customer login data could be useful to track/monitor customer activities especially in cases of churned customers.
4) Aligning with the industry standards while building/evaluating and ARR model is key to build a model which is more reliable. For our client, we observed that ARR model is based on invoice dates in some cases instead of subscription period which led to delay in reflecting ARR movements in case of delayed invoicing.
5) ARR movements for a given period should reconcile with the accrued and deferred income plan.

© 2024 Accordion CONFIDENTIAL