The CFO's role in driving revenue resilience

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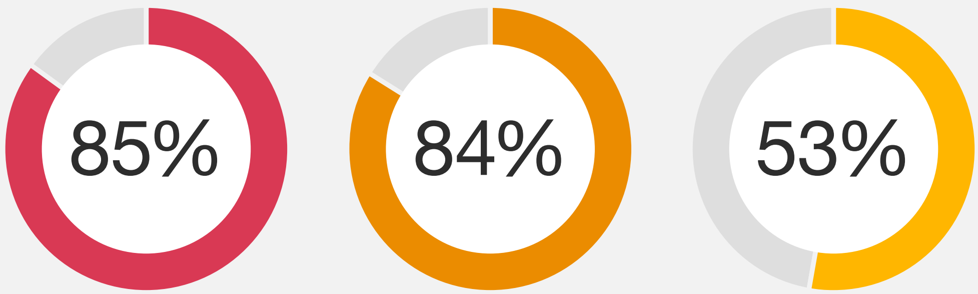
Bracing for a possible recession, CEOs are looking to the finance organization to build resilience into the business

As the world faces the most challenging collision of macroeconomic risks in decades—looming recession, elevated inflation, rising interest rates, geopolitical uncertainty—CEOs are looking to CFOs to provide valuable insights around building revenue resilience into the business.

According to PwC's 26th annual global CEO survey, CEOs share a sense of urgency about the future, with 73% of CEOs expecting a drop in growth in 2023 and 40% thinking their company may not be economically viable in 10 years if they continue with business as usual.



focusing business strategy on growth

transforming business processes

planning to accelerate digital transformation using cloud solutions and AI automation

CEOs are turning to their finance leaders to help guide the way as they strive to manage the tension between short term economic pain and a long term mandate to transform to help stay competitive. The same survey shows that CFOs are taking action to keep their companies productive.

Amid all these factors, CFOs are readying their companies to address the toll of slowing global demand on their bottom line. Finance leaders continue to prioritize building predictive models and strengthening scenario analysis capabilities to gauge the impact of the volatile business environment on performance.

Rather than hunkering down to weather the economic storm, they're taking action around margin improvement, new sales initiatives and digital transformation. In short, CFOs are working to fortify the business by building revenue resilience.

What is revenue resilience?

Revenue resilience is the ability to protect existing revenue streams during unexpected events while at the same time creating new sources of sustainable revenue. By increasing revenue resilience, businesses can be better equipped to weather economic storms and help emerge stronger when the market bounces back.

For recurring revenue businesses, resilience is often defined by Net Revenue Retention (NRR), which measures revenue growth from existing customers within a given period and helps businesses understand the extent to which upgrades can be outweighed by downgrades or churn. A healthy business operates with an NRR above 100%. According to Crunchbase, the average NRR of companies that have successfully gone public is 107%. Anything over 120% is considered excellent. A high NRR measures the growth in your existing customer base relative to any losses from that customer base, which correlates to the resilience of your revenue streams.

An effective revenue resilience approach requires establishing renewal and expansion strategies that protect your revenue streams and simultaneously positions them to grow. This is known as a "secure and sustain" approach.

Secure your revenue base

Securing and protecting the base focuses on renewals, revenue erosion and customer churn. Recurring revenue business models are viewed to be resilient since they help retain customers with a long-term commitment; however they cannot help lower churn rates or prevent customers from downgrading. This requires managing your customers' perception of the value they receive from your products and services and the ease of doing business with you.

Sustain your revenue base

Sustaining the base is focused on expansion strategies and removing friction in the upsell and cross-sell actions for existing customers. Sustaining the revenue base requires knowing your customer archetypes, reading their demand signals and placing tailored offers at the right time. Leveraging technology like embedded AI can help create loyalty, reduce churn and increase the tail of deferred revenue streams.

5 actions that can help boost revenue resilience

The most reliable way to strengthen revenue resilience is to reduce or eliminate friction, create connections between key data (how bookings will impact sales commissions, how churn rate will impact NRR), while leaning into predictive analysis and scenario planning across functional areas. By connecting customer health to revenue outcomes, strategies can be adjusted iteratively to help maximize customer success, retention and ultimately revenue.

The best actions you can take to boost revenue resilience include:

1. Baseline your business

Determine your starting point by taking a baseline of your key performance metrics, including:

- **Average Revenue per Account and Attach Rates**—Measures how the average price point is evolving for new versus existing customers and determines which products create the most successful cross sell and expansion opportunities. This metric helps you determine your "stickiness" with your customers.
- **Expansion Revenue**—Measures the additional revenue from existing customers. High expansion revenue allows your business to earn more recurring revenue without incurring additional customer acquisition costs.
- **Net Revenue Retention**—Measures revenue growth from existing customers within a given period and helps businesses understand the extent to which upgrades are outweighed by downgrades or churn.
- **Renewal Rate and Forecast**—Measures the percentage of customers who actively choose to renew their contracts at the end of a subscription period.
- **Churn**—Measures the number/percentage of paying customers who fail to become repeat customers. The ability to predict that a customer is at a very high risk of churning while there is still time to take preventative actions represents a potential revenue source for your business.

2. Set up direct feedback loops

Your sales, customer success and operations teams can tell you more than you think. Reach out to each group to gather input on the following questions:

- What are the top 3 reasons for customer churn?
- What deal types cause the most friction—for example price and quantity ramps, enterprise agreements?
- What operational terms are most often redlined?
- Is our termination policy driving customers away?
- Where do you see revenue erosion?
- How often are our customers asking for contract rewrites?

3. Refresh your policies

Your feedback loops will point to areas of friction in the revenue lifecycle. You have the opportunity to address some of this friction by updating your standard procedures and policies. Typical policies that need to be refined are:

- Pricing floors tailored to the customer—e.g., customer segment/product mix/
- Standard contracting terms and alternate fallbacks for frequently negotiated terms
- Policies to protect revenue erosion—accommodating swaps, offering cross-sell and/or upsell options to offset revenue erosion
- Re-looking at cancellation fees and offering guidance on when these can be waived

4. Assess your technology stack

Identify where you have technology in place and where you have gaps:

- Map your revenue use cases (from quote through contracting, orders, invoicing and revenue automation) end to end across your technology stack
- Determine where you have the most gaps in your technology stack enabling Quote to Cash, Renewal and Expansions
- Determine where you have the most manual intervention and why across Quote to Cash, Renewal and Expansions

5. Embed intelligence in your revenue streams

Predictive analytics can use customer signals to analyze and evaluate risks in your revenue resilience. Addressing these questions will keep your teams focused on actionable insights:

- Which deals are most likely to close?
- Where are your best opportunities to cross-sell and upsell?
- Which offerings drive the most cross-sell/upsell and are most profitable?
- How healthy is your renewal business based on account health?
- Which customers are likely to churn? If they churn, what is the impact on NRR?
- What account actions most reliably boost customer engagement, success and expansion?

Get ready to talk to the board about revenue resilience

Once you have your business baseline and know where you need to go, the final step is to tie these initiatives to stakeholder value. When it comes to the board, CFOs are moving beyond the traditional approach of simply reporting out on financial performance; reflecting the increasingly strategic role of the finance function, finance leaders are now highlighting forward-looking insights that can drive the enterprise growth agenda and build resilience in the business.

During these volatile times, boards are leaning in to help executive teams hone response plans, scenario analyses and ways in which the company needs to transform to manage ongoing economic shocks. Finance leaders can prepare for their next board meeting by sparking a few thoughtful topics:

Response

- How is the company responding to uncertainty?
- Is the response fast enough and effective?

Insights

- What is the spread of scenarios and their implications?
- What are the early warning signals?
- What decisions are needed?

Evolution

What long term changes must we invest in today to position for growth and advantage tomorrow?

To begin making progress on the journey to build revenue resilience, CFOs should team with other C-suite peers to share an integrated perspective on the following themes:

How is the company securing and sustaining revenue streams?

Are we retaining the right customers and selling more to the highest value customers?

What moves do our competitors hope we don't make in the next 12 months and what threats do we anticipate from them?

Is our strategy bold enough to win in the market?

How can we measure if the strategy is working?

Do not underestimate the need to collaborate across the business. A CFO's collaboration with other key executives such as the CRO, COO, and CIO/CTO will be critical to execute a successful revenue resilience strategy to help your organization thrive and ultimately create competitive advantage on the other side of the business cycle.

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