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Subscriptions are replacing the traditional product sales models, and are fundamentally changing the face of businesses, industries, and the job of the CFO in the process. I should know because I've gone through this transformation myself. CFOs long-accustomed to product-centric, single-purchase transaction businesses need to get smart on the shift to businesses built around long-term recurring revenue relationships that are becoming the hallmark of the 21st century.

At Zuora, we call this phenomenon the [Subscription Economy](#). You can see evidence of this movement across multiple industries: ZipCar in automotive, Netflix in entertainment, Amazon, HP and Dell in IT and more.

The Subscription Economy is becoming pervasive for a variety of reasons. Customers are demanding a more flexible consumption model. General Managers have the flexibility to test pricing and bring new functionality to consumers at an accelerated pace. Executives are realizing this allows for a longer lasting relationship with their customers. And investors recognize that, if executed well, Subscription Economy companies have fantastic revenue and return models.

As a finance professional, if you haven't already participated in the shift to subscription, you need to know that you will soon. When you do, you need to be aware of a critical difference: finance as you know it is broken. Double-entry bookkeeping – the [cornerstone of accounting for 500 years](#) – cannot capture the dynamic, ongoing revenue relationships that are the foundation for the subscription business model.

The fact is that a company with a subscription business model is fundamentally different than a product company. As a CFO of a Subscription Economy company, I've found that the most meaningful metrics for my business are not addressed by GAAP standards. For example:

- You need to value one-time revenue very differently than recurring revenue.
- You need to measure your business across multiple dimensions of time - not just the past, but the future as well.
- You need to manage complex changes that can create chaos in downstream processes, such as mid-month subscription cancellations that can result in credits or refunds thereby impacting revenue recognition.

As a result, the shift to the Subscription Economy can wreak havoc on finance departments that are not prepared. Why? Because every accounting system in existence today – including ERP – was built around the rules of double-entry bookkeeping. That means your accounting system is still great as a general ledger, but nothing more than that.

I've talked to many Subscription Economy CFOs who are struggling with the current systems they have in place. CFOs and their teams are in pain because it takes longer for them to close the books. My revenue team, like many, was drowning in spreadsheets with a row for every customer – spreading revenue across a multitude of columns. I know this has forced some CFOs to maintain one set of GAAP books to please auditors and another to run their business.

On the executive side, CEO and board members demand insights into more than just balance sheets and income statements; they need insights into forward looking metrics, like ARR, Churn, and ACV. I don't know about you, but at Zuora we have to rely more and more on non-GAAP off-balance sheet accounts to explain our success. In addition, many Wall Street investors don't fully understand the subscription business model and often fail to value subscription businesses correctly.

As I said, I know what it's like to go through this transformation, and it's is well worth the work involved if done right. Recurring revenue business models deliver greater financial predictability, grant greater insight into what your customers' like, and give much greater flexibility to adapt to your customers' evolving needs. Upsells, cross-sells and upgrades become entirely new revenue streams.

But recognize that making this shift may not be by choice. The Subscription Economy is here to stay, and you need to adapt. Customers from all walks want more control over their relationships with vendors, brands and service providers. With widespread internet access and the proliferation of mobile devices and social networks, more and more customers are taking

charge. The customers want you to serve them how, where and when they want. Will your company be ready?