

Revenue Assurance: 'How Much Are You Leaving on the Table'?

One to three percent of revenues; that small percentage represents \$10-\$30 million for a \$1 billion business. Most companies we work with pursue savings opportunity like this with a vengeance. Entire departments (tax, G&A reduction, procurement initiatives, etc.) might be set up to focus on and capture this value. Yet many companies in transaction-intensive businesses have billing and financial systems that regularly leak revenue and are a source of irritation and confusion for customers.

If a company were going to give up one to three percent of revenues on a regular basis, across all customers, it might as well make the invoices less complex and just give customers a discount; everyone would probably be happier!

The alternative, of course, is to implement a revenue assurance model—the business system that ensures earned revenues from all delivered products and services is actually billed, booked and received. Practiced well, revenue assurance is a combination of initiatives to find and recover revenue leakage and a discipline of metrics and controls designed to reduce ongoing risk and raise flags should leaks occur. It requires an end-to-end focus on revenue and an authority that crosses functional and organizational boundaries.

Players in the telecommunications industry have been focusing on revenue assurance for the last decade—and payments companies may be able to learn a lot from their telecom cousins. Both collect and store large amounts of customer information; both process extremely high volumes of transaction data; and both have complex billing systems that require multiple data feeds (particularly when multiple platforms are involved). In both of these businesses, some revenue leakage is almost a certainty—payments companies should at least measure the opportunity.

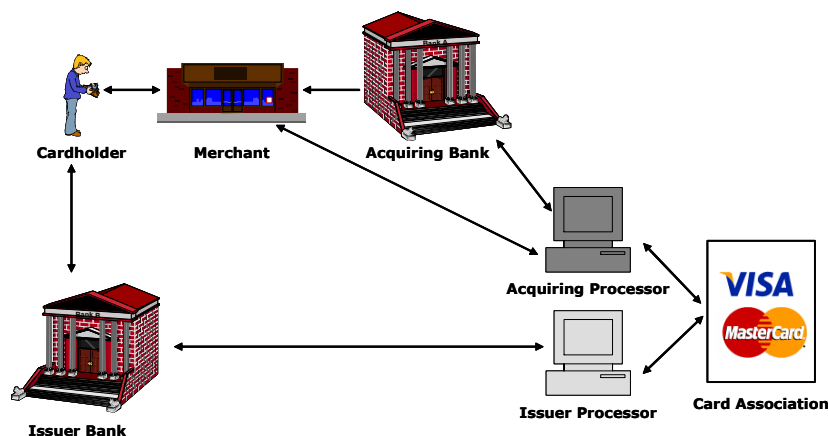
Revenue Leakage Sources

Revenue leakage is influenced by many factors, but two factors typically stand out above all others:

1. High transaction volume. When billions of electronic transactions occur over widely dispersed networks and multiple processes, the risk of something going wrong without being detected increases significantly.
2. Large arrays of customer information. When millions of customer account records are stored and maintained, and billing processes must draw on these records for accurate information, the opportunity for revenue leakage increases dramatically. Multiple platforms and/or outsourcing just magnify this.

In a typical credit card transaction, as many as 24 exchanges of data occur during authorization, clearing and settlement for a single transaction (see below). Each exchange runs the risk of data corruption or loss resulting from network or network interface breakdown, system or system interface breakdown, or incorrect business rules (processing logic/exceptions).

Credit Card Transaction Path



Although high transaction volumes and information-intensive systems create the context and opportunity for revenue leakage, actual drivers of actual leaks can extend from systems interfaces to the way in which organizational boundaries and authorities cross. Several common drivers of revenue leakage are outlined below.

Common Drivers of Revenue Leakage

- Functional boundaries
- Manual intervention/steps in processes
- Lack of visibility into data streams
- Outsourced functions
- Inadequate process documentation
- Inadequate change management control processes
- Shifting product/service mix
- Multiple, diverse revenue streams
- Technology updates/evolution
- System/network interfaces
- Loosely controlled processes
- Complex business/data processing rules
- Data consolidation/migration initiatives
- System/network outages
- Lack of revenue focused process controls/metrics
- Promotions/discounts/rebates/variable rates
- Prolific government and/or association regulations
- Acquisitions and mergers

A clear understanding of potential leakage sources is a good starting point for determining where to look. Other useful tactics include examining the current state of processes and controls, as well as analyzing dropped data and error files. Finally, less direct factors such as the amount of revenue involved, visibility into processes, complexity and discovery and recovery, time to recover, etc., should come into play when making decisions on which initiatives to pursue and in what order.

What Revenue Assurance Looks Like When Practiced Well

Establishing the right revenue assurance model involves several steps, but the first requirement is recognition by senior management that the risk is real and is, in all likelihood, already impacting the bottom line. Senior management must also understand that revenue assurance does not align with major business functions, but instead follows the revenue stream from end-to-end, across functional and organizational boundaries.

Organizations with well practiced revenue assurance capabilities:

- Create a new view of the business through an end-to-end revenue lens.
- Create specific responsibility for revenue assurance and resource it appropriately. When the opportunity is high, there is nothing like specific organizational accountability to ensure that it is captured.
- Establish metrics and controls that complement current business processes and metrics. The revenue assurance group is not an audit organization with separate metrics and controls so much as an integral part of the business system.
- Leverage resources and processes in other disciplines such as internal auditing, continuous process improvement, fraud prevention and quality assurance.
- Establish annual revenue discovery and recovery objectives as well as areas of focus to eliminate leaks. Revenue assurance initiatives should be carefully scoped and executed to ensure that resources are appropriately focused.
- Are led by a dedicated program and project management team with additional resources provided by process owners where actual initiatives are being worked. This helps to leverage the RA expertise of the core team while also providing an opportunity for process owners and operators to become educated and involved in revenue assurance work.
- Are self-funding. The ROI is at least as attractive as any other investment the company might make.

The likelihood of revenue leakage in a business characterized by high transaction volume across multiple interfaces combined with massive amounts of customer and financial information requiring frequent updates is almost a certainty. You should at least measure the opportunity.

Gary Ross is a Manager in the Denver office of Hitachi Consulting and David Dove is a Managing Vice President with Dove Consulting, a division of Hitachi Consulting. Gary can be reached at 303-813-6041 or gross@hitachiconsulting.com; David can be reached at 617-753-9200 or ddove@doveconsulting.com.

Hitachi Consulting has been working with companies in the Telco and Financial Services space for more than a decade, implementing a proprietary revenue

assurance mode—the Hitachi Consulting Revenue Driver—that has delivered one to three percent of revenues.