



# PRODUCT LINE & SERVICE DELIVERY

## REVENUE LEAKAGE



## Protecting Revenue & Improving Performance: A Comprehensive Approach to Revenue Leakage Reduction

### About Us

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With office locations in the US and UK, Synergetics operates internationally and employs over 150 professional analysts, consultants, project managers, and subject matter experts.

As one of the largest "Implementation Consulting" organizations, Synergetics has completed over 1,600 business process engagements across nine distinct verticals to build more than \$8B in bottom line profitability and improve overall operating efficiencies. Synergetics works with a diverse client portfolio of leading industrial and service corporations across Private Equity, Small and Medium Enterprises, and Fortune 500 Companies.

With customized services and solutions, Synergetics performs hands-on detailed management, financial, and operational assessments to develop and deliver specific cost savings and revenue enhancement initiatives.

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*"Synergetics is a trusted partner for implementing global 'get fit' programs and aligning enterprise-wide operational plans and actions in support of our long-term strategy. Synergetics is the best Implementing Consulting Firm on the Planet — I use them when I need to get things done!"*

Mike Lawrie, CEO  
Misys plc



### INTRODUCTION

In today's complex selling and systems environment, organizations must employ mature controls and visibility into revenue risk areas across the order-to-cash value stream. Our experience indicates that few companies fully understand the revenue erosion factors that can significantly impact margin. Common elements include:



- pricing & discounting practices
- defective billing or poor collection practices
- product or service give-away
- process and quality breakdowns
- impact of bundling
- complex contracting practices & compliance

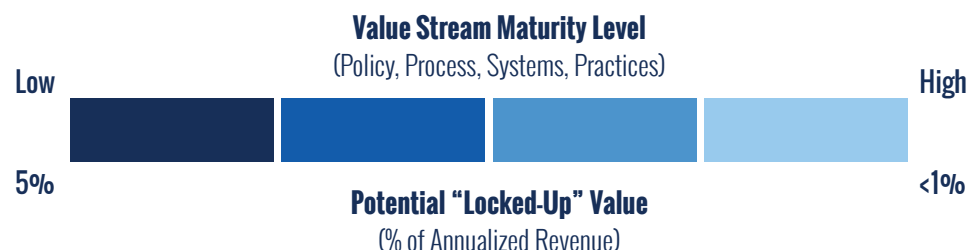
This lack of clarity into possible causes of revenue loss inhibits an organization's ability to deploy effective strategies to reduce risk. Through the identification and prioritization of risk factors using a formal Revenue Leakage reduction program, companies can develop and implement effective processes, policies and controls that mitigate revenue loss and greatly improve financial performance.

**Revenue Enhancement, particularly as it applies to Revenue Leakage Recovery, is a value-added performance driver to businesses and an area in which Synergetics specializes.** The causes of Revenue Leakage (also referred to as Revenue Assurance) can be extensive, and most companies do not have a clear view into all the factors contributing to this erosion of revenue and the overall impact on profitability. This article will address how and where Revenue Leakage occurs, the approach in which Synergetics uses to identify root causes, and the methods used to achieve positive results for both the company's top and bottom line.

### WHERE TO LOOK FOR LOST REVENUE

Traditional focus has loosely been placed on front-end functions such as Sales & Marketing without having a comprehensive view across the Business Value Stream. These challenges are more prevalent in businesses that have rapidly increased their revenue lines (through acquisition or organic growth), have large volumes of transactional activity, or have complex product / service pricing frameworks. **These areas of potential loss can ultimately determine a company's success. And this is where Synergetics can help.**

We have seen, especially over the last 10-12 years in leading Revenue Leakage engagements across wide ranging industries, that **clients have experienced an annualized financial benefit of 1-5% of total revenue.** In certain conditions, specific categories of revenue generation have experienced up to 15% reduction in Revenue Leakage.



Mature organizations have successfully implemented reporting and monitoring that provides a 360-degree view into factors that contribute to revenue loss. This insight provides the framework to continually assess internal controls, processes, systems and policies to ensure that they are effectively mitigating risk and protecting profitability. Ongoing prioritization of loss factors ensures that the organization's resources are effectively aligned and focused on high impact areas of return.

### Primary objectives of undertaking a Revenue Leakage initiative are 3-fold:

- 1) Create financial value through more effective business policies, processes and practices
- 2) Develop policy, process and system maturity across the Business Value Stream
  - pricing, marketing, selling, contracting, fulfillment, customer support, billing & collections
- 3) Institutionalize best practices & long-term capability through effective measures, metrics and competencies across the Business Value Stream

### Risk Factors Further Defined: One Example



Although contract pricing may have been set for a certain product, other factors can affect what the final realized price will be.

At right are a number of risk areas that typically determine (or have the potential to increase) the occurrence of Revenue Leakage.

#### Acquisitions

- Billing exceptions
- Multiple platforms, different counts for billing units

#### Non-standard Billing

- Manual processes
- Exception billing, services billing

#### System Deficiencies

- Lack of systems: contract management, data sources
- People-dependent processes

#### Opportunity Management

- Sales lifecycle, renewals
- Commissions

#### Process Breakdowns

- Inability to manage platform transitions
- People-dependent processes

#### Multiple Units of Measure

- Functions use different units of measure
- Translations not consistent

#### Production Processes

- Capacity planning
- Workforce management

## DETERMINING THE POINT WHEN A REVENUE ASSURANCE PROGRAM MAKES SENSE

One of the challenges that businesses face is not only maintaining but also enhancing customer experience and loyalty, while at the same time protecting the commercial interests of the enterprise. Further challenges exist for those companies that do not account for revenue risks affecting other functions or areas of loss. Corporate investments yielding minimal operational financial improvement are also areas to assess.

We have seen many organizations opt for cost take-out Initiatives at the expense of projects focused on the reduction of revenue loss. However, the two don't need to be mutually independent, as cross synergies can be created. **The focus on Revenue Assurance and areas of loss typically lead to more mature, streamlined processes and systems.** This focus not only enables cost efficiencies but also improves the internal and external customer experience, while driving profitability.

Revenue Assurance benchmarks indicate that organizations on average erode 5 to 8 % of their annual potential revenue. Through an RA program, clients typically recover 30-50% of their annual leakage, post implementation.

## AN APPROACH TO REVENUE LEAKAGE TAILORED TO THE BUSINESS CLIENT

Although Synergetics follows a similar 3-step framework for client engagements, each approach is custom tailored to that particular client.

### 1 Pre-Assessment

This initial phase is conducted at Synergetics' cost to understand the perceived sources of Revenue Leakage. It also assesses the potential root causes together with a high-level perspective of the overall Business Value Stream. This step typically takes 2 or 3 days, which is then followed by a proposal to move to the next step.

### 2 Business Analysis

During the Business Analysis phase, two major initiatives are performed:

- **Construct a Value Stream Map** to define all business process steps, system / practice gaps, policies, and opportunities
- **Conduct deep dive analyses** on prioritized Revenue Leakage areas to qualify and quantify areas and types, in addition to defining resources, organizational actions, and deliverables to present to the Management Team as a project proposal

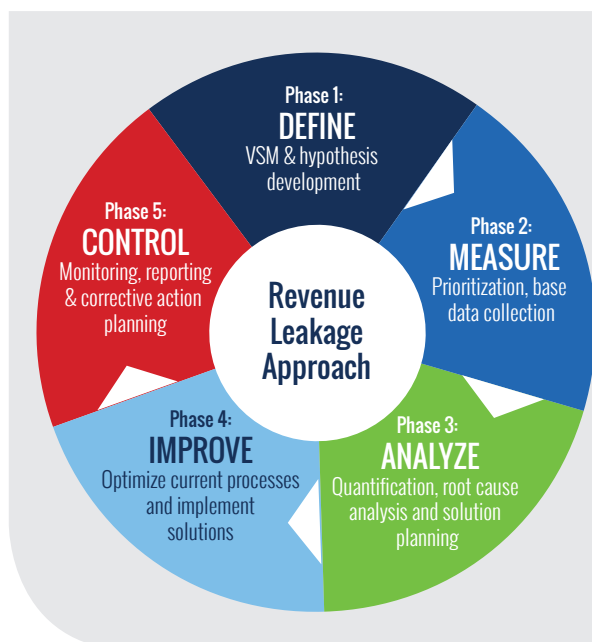
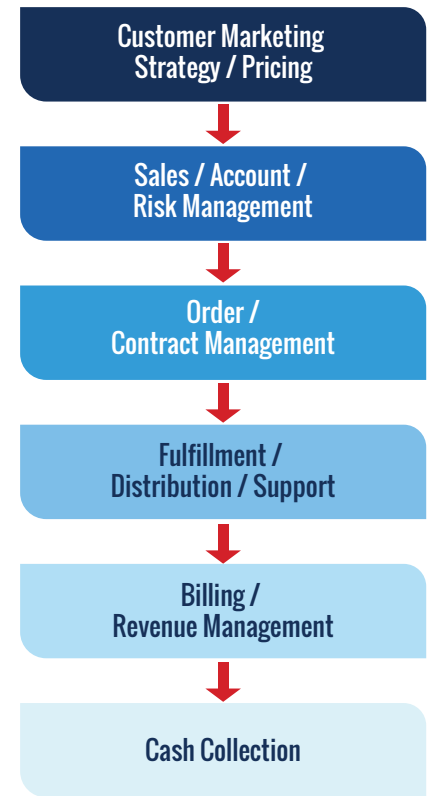
### 3 Project Implementation

The Implementation phase begins with client agreement for deliverables at a guaranteed ROI. A key differentiator through Synergetics' consulting approach is that **a client-consultant partnership is created** to deliver the benefits outlined during the Business Analysis phase. Initial Implementation activities are focused on informational and reporting requirements to support visibility and the monitoring of revenue risk areas.

Additionally, high risk and prioritized areas of revenue loss are targeted for near term improvement. Corrective action plans are executed to reduce or eliminate any points of Leakage. New processes, policies and workflow changes are documented, and playbooks outlining S&OPs are created. Plans are developed with ongoing monitoring and control following proven DMAIC methodologies, but specific to Revenue Leakage.

## Mapping the Value Stream for Revenue Leakage

To effectively capture and document all steps of the business process framework and develop a comprehensive view of the Value Stream, Synergetics works collaboratively with Management and staff to identify resource, process, and system gaps in putting together an initial hypothesis for leakage opportunities.



## The Business Impact of Taking a Revenue Leakage Approach

Synergetics consulting teams have implemented successful Revenue Leakage programs across many industries. Common sectors include Healthcare / Life Sciences, Technology / Software, Financial & Professional Services, Food / Beverage, and Transportation.

**Businesses on average see higher ROIs associated with Revenue Leakage projects (6:1) as compared to cost take out programs (3:1).**

They also experience upside cost efficiencies and increased customer and employee satisfaction. Visibility into critical hand-offs is established and process/system weaknesses contributing to leakage are addressed by company staff with a Revenue Leakage MOS and dashboards.

## DRIVING MARGIN WITH INCREASED REVENUE

**Synergetics is an implementation leader when it comes to Revenue Enhancement**, working with companies to improve efficiencies across finance, sales, and accounting departments. Synergetics' consulting teams with Revenue Leakage subject matter experts identify practical opportunities to enhance revenue profiles on a sustainable basis.

In defining the scope and objectives of an Implementation Project, the teams build and agree upon the ROI and key deliverables that often include:

- Completing the Opportunity-to-Cash value stream map
- Delivering a future-state road map to reduce Revenue Leakage
- Identifying, quantifying and prioritizing key contributors to Revenue Leakage and applying them to work streams, targets, timelines, and established baselines
- Installing / tracking measures and metrics to monitor actions and results
- Closing all gaps within Policies & Procedures, Systems, Practices, and Resources



## Revenue Leakage Implementation: Two Recent Client Engagements

### 1) Large International Software Provider

A leading supplier of banking, investment, and healthcare software products engaged Synergetics to implement a cost savings initiative and finalize the organizational design of an international cost takeout program. The company was in a turnaround situation with a new CEO and senior leadership team to address lagging sales, an eroding margin and customer base, and failure to compete in a complex market.

**Results Overview:** 2-month in-depth analysis identified 9 areas of opportunity to form basis of 3 named work streams, one being Revenue Leakage:

- Standardize processes within a 14 spend area reduction effort, divided into two 1-year implementation phases
- Areas of Revenue Leakage included Contract Renewals / Language, License Compliance, and Professional Services Billing & Systems Gaps
- Established goals to include: +30% savings in rebidding / renegotiating contracts and pricing, reconciling a 3% transfer loss between systems, and closely managing pricing floors and discount percentages

#### Summary of Project Benefits:

##### Revenue Enhancement

- 19:1 two-year ROI of £18M equaling 34% of the total project savings of £53M, or 5.2% of divisional annual business revenue

##### Profitability and Earnings Potential (greatly improved)

- System integration strategy in financial services now a solid process
- Re-established the company as the market leader in supplying investment / banking software programs

### 2) Large North American Security Services Provider

The leading provider of monitored security, interactive home and business automation, and related services in the US and Canada engaged Synergetics to drive value throughout the business. Synergetics worked with the new CFO who had been a previous client at several other large corporations. The focus was to identify and prioritize opportunities to drive customer quality / satisfaction, operational efficiencies, and overall financial performance.

**Results Overview:** The Business Assessment identified significant opportunities within the following areas:

- Improve the front-end sales and order entry processes to protect and improve the customer experience
- Deploy a standardized Management Operating System within scheduling and installation processes to reduce customer acquisition costs and drive first time quality
- Develop a cross-functional revenue assurance function to reduce risk and contain revenue leakage

#### Summary of Project Benefits:

##### Revenue Enhancement

- \$15M in annualized recovery due to reduction of missed charges and under billing (reduction of billing related defects)

##### Cost Efficiencies (with net reduction of customer attrition)

- \$10M in labor reductions due to automation of manual steps
- Reduction of inbound call volumes & support costs

**Organizations require enhanced visibility into those areas that contribute to revenue loss. Based upon specific conditions, options to consider include assessing costs, prioritizing areas of investment, developing effective mitigation strategies, and driving high impact operational and financial improvements. Helping clients address these critical issues in Revenue Enhancement is a Synergetics Core Competence.**

## FOR MORE INFORMATION

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