A powerful and effective answer to revenue leakage?

Building a better working world

Introduction

There is a risk of revenue leaking away in any business, regardless of size, sector or activity. This often happens unnoticed, which has important implications for the profitability of your business. This phenomenon is called **revenue leakage**.

Recent studies indicate that as much as 1 to 5 percent of the EBITDA of companies is subject to revenue leakage. **Revenue leakage program** is the business discipline that detects, repairs and recovers these revenue leaks. Moreover, future leaks can be avoided using a specialised approach.

Is revenue leakage program a consistent and effective part of your company's business processes? It can improve sales, cash flow and profits.

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> "With revenue leakage program, finance can fully assume its role within a company as business partner and profit centre."

What is revenue leakage?

Revenue leakage is exactly what the term suggests: the unnoticed leakage of money from your company. Despite extensive checks by in-house financial departments, ingenious ERP systems and strict internal and external audits, **1 to 5 percent of the anticipated EBITDA is still lost.**

These leaks occur on both the revenue and expenditure side:

- A simple but classic example is the double payment of invoices. Despite built-in control mechanisms, these often go unnoticed.

- Due to miscommunication or inadequate control in the enterprise software, goods or services are not, or only partially, billed.

- Inadequate communication between finance and the purchasing department is also a source of revenue leaks. For example, the buyer negotiates a nice discount but due to circumstances this important information does not find its way into the accounting. If the supplier then does not apply the discount or does so only partially, your company pays too much and the extra profit quickly disappears.

These simple examples might cause you to suspect that revenue leakage occurs mainly in transactional flows such as purchasing processes (procurement) and sales processes (contract compliance). Which is true, but money also often escapes undetected in other financial flows, inventory management, intercompany transactions, margin calculations and VAT handling.

Telecom plays pioneering role.

The principle of revenue leakage program is **not new.** Its basic principles were established many years ago in the telecom world, and implemented there with great success. What's more: today it is an **indispensable strategic part of the financial management** of just about all telecom companies.

The risk of revenue leakage becomes greater as the complexity of the processes increases. And complexity is a key characteristic of the telecom sector. Telecom companies usually manage a very large number of customers with a diversified range of subscriptions and payment formulas. In addition, they are responsible for a large distribution network and complex IT systems. The chance of money leakage in this environment and under these conditions is therefore particularly high.

Moreover, telecom operators are active in a highly competitive market where every cent counts. The combination of all these factors has placed the telecom sector at the forefront of revenue leakage program and it continues to play a leadership role today.

What are the causes of revenue leakage?

A common cause of revenue leakage is a **system error** in a process that is inherently linked to the ERP or business software being used. In addition, **human interventions** often inadvertently result in serious leaks. The greatest risk of revenue leakage lies in the combination of these two factors and **poor communication** between different departments. Because such errors are often involuntary and unintentional, the chances are great that the leak goes unnoticed and perhaps is never detected.

How big is the risk?

Revenue leakage usually happens outside the traditional control mechanisms. Therefore, it is often difficult to appreciate that there is a **real danger** threatening your business.

A recent survey shows that 40 percent of companies believe that leaks account for at most 0.5 per cent of realised EBITDA. 1 in 4 estimate the leak to be no more than 1 percent, and 1 in 5 of the companies surveyed estimate the potential loss at less than 2 percent.

These figures are in stark contrast with reality. According to various experts in the area, **every company** – regardless of size or sector – should assume a potential leak of 1 to 5 percent of realised EBITDA.

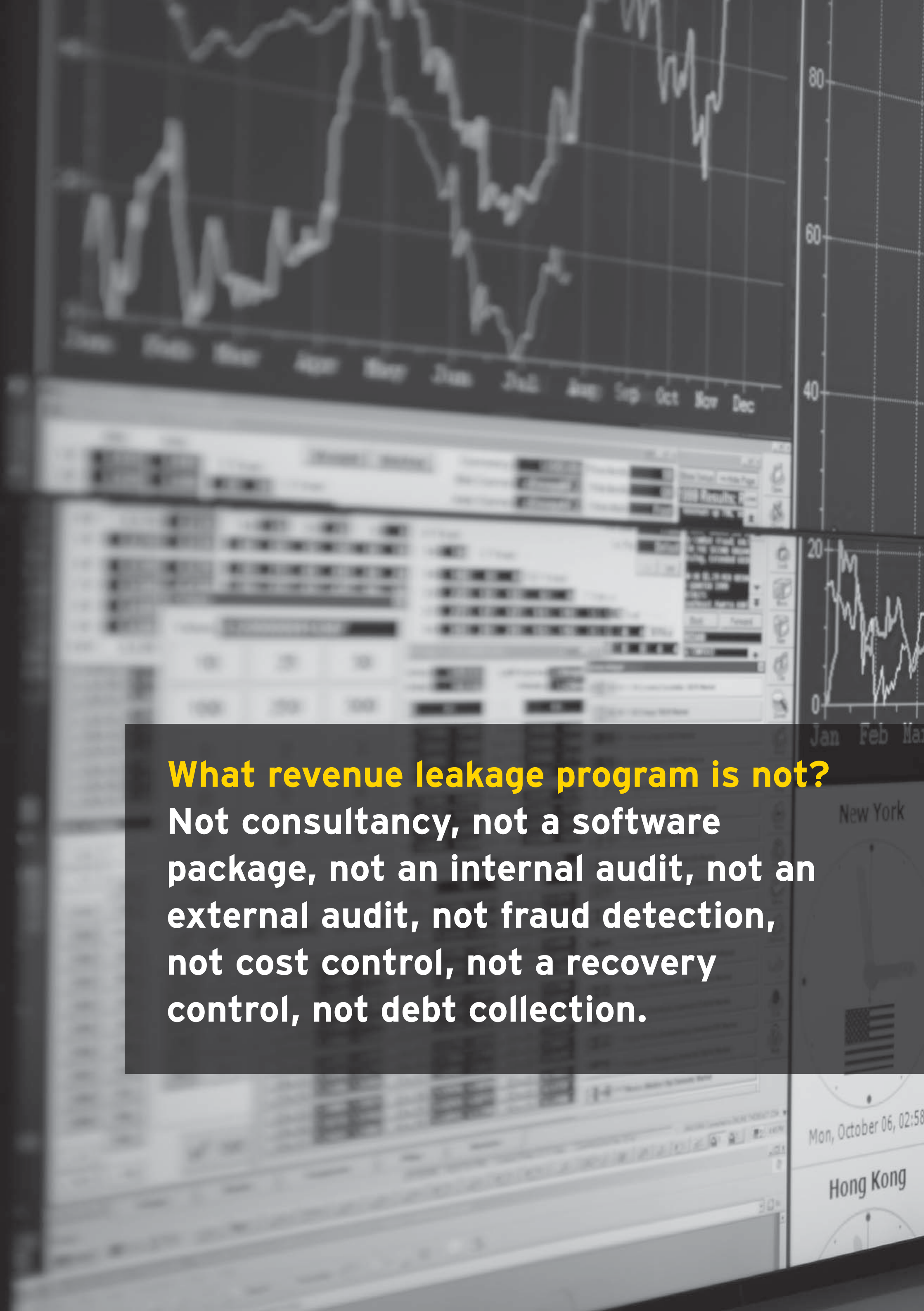
What is revenue leakage program?

Revenue leaks can best be counteracted with **revenue leakage program.** Put simply, this means that all business processes must be viewed with an additional critical eye.

Revenue leakage program consists of highly specialised exercises that are conducted alongside the existing control processes and internal and external audits. The leaks that are detected and the resulting amounts you can recover are often **very significant**.

Normally, a 1-percent improvement in EBITDA easily requires a 10-percent increase in revenue. Thus the money you can recover in a revenue leakage program process contributes directly to **improving your bottom line**, since it does not need to be offset by additional revenue. So your investment in revenue assurance is quickly paid back.

But here again, prevention is better than cure. Recovering money that has incorrectly leaked away is important. Even more important is the creation of a **new awareness** within your company concerning revenue leakage. Increasing your employees' knowledge concerning this problem will automatically result in processes being refined and optimised in various domains. This in turn leads to improved monitoring of revenues and costs, transparent and efficient business processes, balanced contract compliance, a healthy cash flow, optimal use of working capital and improved EBITDA: all of this sustainably, with a focus on the long term.



What revenue leakage program is not?

Not consultancy, not a software package, not an internal audit, not an external audit, not fraud detection, not cost control, not a recovery control, not debt collection.

What is the place of revenue leakage in the company?

In practice, a company's CEO and CFO are responsible for revenue leakage and revenue leakage program. Revenue leaks, however, can occur in any business process or system. Which is why it is imperative that revenue leakage program becomes an **integral part of your entire business culture**. It can even help your pursuit of **outstanding corporate governance**. At that moment, revenue leakage program becomes a deliberate strategic choice supported by your company's board of directors. It is possible that your company's management finds a certain form of revenue leakage acceptable. Such a decision often depends on the company's risk appetite. Even in this case, you can apply simple revenue leakage program processes to keep potential revenue leaks to an absolute minimum from the beginning.

Investing in revenue leakage is a textbook example of how finance can fully assume its role within a company as **business partner and profit centre**.

What is the task of the revenue leakage expert?

According to specialists, the success of **revenue leakage experts** depends on the combination of highly specialised insight into all business processes and a unique collection of very specific skills. A good revenue leakage expert is a stubborn researcher, a skilled craftsman, a seasoned diplomat and a dutiful process engineer. The **researcher** uses his or her expertise to detect unconventional leaks in the business processes. The **craftsman** – like an expert plumber – then repairs the leak immediately. The **diplomat** plays a central role in reconciling the two parties who are always involved in revenue leakage: the party who wants to recover the leaked money and the other party who must repay this amount. Often a long-standing relationship exists between the two parties that should not be jeopardised. Therefore in such circumstances, good revenue leakage experts often and rightly seek an honourable and workable compromise. Finally, there is an important role in revenue leakage service for the **process engineer** who specialises in root cause analysis. This often overlooked but essential function of revenue leakage program ensures that detected leaks can no longer occur in the future.

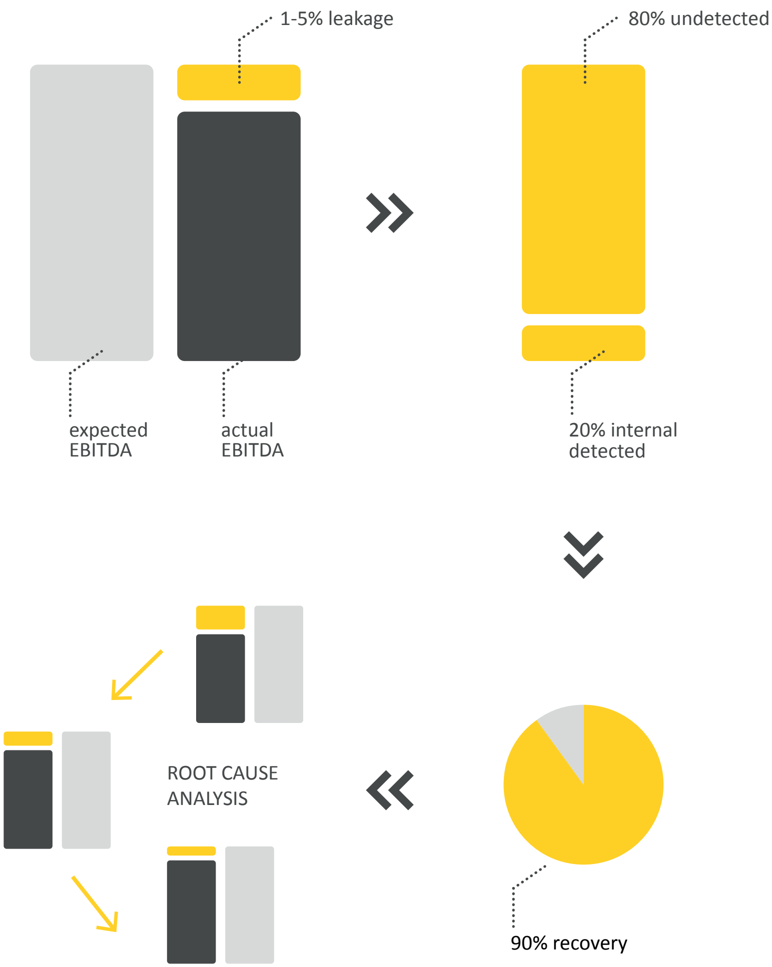
How best to approach revenue leakage?

When top management (board of directors, CEO and CFO) effectively accepts that potential revenue leaks exist in the company, you can begin to fight back. Each revenue leakage project requires a **very specific approach** built on a sophisticated and proven methodology:

Phase 1	The first step is to identify the leaks, name them and assign a specific monetary value to them. This exercise is performed by a specially assembled project team consisting of both internal and external specialists. Pooling their expertise is of vital importance here: the strength and success of revenue leakage program is defined by a unique grouping of information available across the various departments. Therefore, the project team consists not only of employees with a financial and technical background, but also of specialists with additional expertise in ERP, ICT, data and process analysis, procurement, legislation and compliance, marketing and sales.
Phase 2	Secondly, sources of leaks are carefully identified and definitively sealed. During this phase, the team is also responsible for recovering the leaked amounts.
Phase 3	Finally, the team ensures that the leak does not happen again in the future through comprehensive reporting and root cause analysis. Specific controls and monitoring prevent money from continuing to leak in the future.

The result is a **significantly improved EBITDA.** Furthermore, such a project usually has one additional positive effect: awareness of revenue leakage increases and the risk of wrongly leaked money decreases proportionately.

Revenue leakage is a strategic component of financial management.



There is an important difference between internal audits and revenue leakage. Internal audits are based on "spot checks" while revenue leakage addresses the entire process. Revenue leakage demands a specialised and systematic approach from the beginning that goes much deeper than the checks performed by traditional control mechanisms. It is therefore independent of the usual internal and external audits.

What are the benefits of revenue leakage program?

The motive for revenue leakage program is quite simple: 1 to 5 percent of your company's EBITDA may be leaking away. Therefore, revenue leakage program will significantly increase **your company's profitability**, in the short term, but also in the long term.

However, professionally detecting, sealing and preventing revenue leaks is not easy. The concrete search for and approach to a leak is usually very complex and requires specialists. Therefore, a wide range of **stakeholders** often are involved in the process.

Awareness of revenue leakage within a company is important. Revenue leaks frequently occur in **grey areas** within your company that are not sufficiently demarcated by guidelines and procedures. Employees then receive the freedom to carry out their own procedures, which increases the risk of leakage.

Unlike during a recovery audit for example, it is not enough to find the leaky tap, put a bucket under it and mop up the water. Revenue leakage program goes a step further by permanently sealing the leak and **proactively** avoiding new leaks within your company.

Revenue leakage program guarantees an improvement in your company's EBITDA. You directly improve the bottom line of your business, without additional revenue and without deploying extra resources.

"Did you know that between 1 and 5 percent of your company's expected EBITDA leaks away unnoticed?"

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