Failing to look after the pennies

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The shareholders meeting begins and the chief executive nonchalantly explains that the company has lost more than 10 per cent of revenues to billing errors, as it does most years. “But we’ll get someone to look into it,” he says. “Good. Next agenda item?” chirps the chairman.

It sounds absurd. How can anyone accept such a senseless loss of revenues?

And yet nearly every telecommunications operator worldwide has been tolerating it for years. The large incumbents have tended to be the worst losers, but it appears that all are guilty, whether large or small operators, wireline or wireless.

On average, service providers are leaking between 10 and 12 per cent of their revenues each year. With complex data services, the rate of loss can be as high as 20 per cent – a vast sum in a $1,000bn industry

Revenue leakage occurs through dripping along the seams rather than gushing from an obvious hole. Antiquated back-end systems, coding errors, bad internal processes are some of the causes. Sometimes the loss is malicious, through internal or external fraud, though this is comparatively small. Either way, services are delivered but not paid for.

The fact that everyone in the industry is in the same boat is one reason it has been accepted. “The operators would benchmark against each other, but not against Dell or Wal-Mart,” points out Keith Willetts, chairman of the TeleManagement Forum, a telecoms industry group.

The monopolistic heritage of many telcos, for whom accountability was a low priority, was also to blame. Market liberalisation changed this but because the money kept pouring in, a few dollars lost here and there did not matter.

Falling margins have changed things again and operators have spent the past few years seeking ways to reduce costs. Which makes their inattention to revenue leakage all the more confounding.

“Revenue assurance is one of the few tools for improving ebitda [earnings before interest, tax, depreciation and amortisation],” says Alon Aginsky, president and chief executive of cVidya, a revenue assurance provider. “To improve ebitda by 1 per cent, you have to sell $150m in additional services for an average operator. But revenue assurance is net-net, so $100m recovered is $100m on ebitda,” he explains.

But the truth gets uglier. While telcos have each been losing many millions of dollars (if not billions), the fix costs a mere million or two. Much leakage can be stopped quickly. And yet many operators still have no revenue assurance department or even a dedicated budget, says Mr Aginsky.

How could this happen?

One problem is that responsibility for identifying revenue leakage has usually fallen to middle managers, hidden somewhere in the engineering division, and who lack a full understanding of its business implications. Inexplicably, C-level executives have mostly ignored the problem.

“When I point to revenue leakage, I’m saying your baby is ugly. People say it’s not their fault and point the finger at someone else,” explains Ted Fadick, director of professional services at Convergys, the systems integrator. “The problem is really people and processes. Technology would be so much easier to fix,” he adds.

Fortunately, some operators are now willing to admit they have a problem, though usually only after they have plugged the hole.

“We lost a significant amount of money [in data revenues] – but my press department has kept me from discussing figures,” a Telecom Italia engineer told a conference last year.

Kuwaiti mobile operator MTC disclosed last month it had recovered $15m in lost revenues, or 2.5 per cent of total revenues, after hiring a revenue assurance manager and installing a $2m off-the-shelf revenue assurance solution.

Israeli incumbent Bezeq says it recovered millions last year after it discovered mismatches between DSL services delivered and billed. The fix generated a net increase of more than 500 terabytes of billable traffic over its broadband network.

So the telcos seem to be getting a grip. But service providers need to make revenue assurance a part of the company's business risk management. The chief financial officer needs to take over and fix this problem. "There is more visibility, but revenue leakage is still handled as a problem to be solved by middle management. The difficulty is getting top management to look at revenue assurance as a corporate issue," says Yoel Arditi, financial management services lead IBM Consulting.

He also believes that ignoring the problem could become a regulatory risk. "In the US, [operators] are so focused on implementing Sarbanes-Oxley compliance that they don't even see the connection between SOX and revenue assurance," he says.

The bottom line is simple: telecoms operators need to stop throwing away their shareholders' money. Otherwise, investors need to price this risk into the telcos' valuations or move their money elsewhere.