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Improving the Predictability of Wholesale Costs & Revenues—An Executive Brief

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EXECUTIVE SUMMARY

Economic events of late have constricted available credit around the world, making ongoing operations more challenging, to say nothing of expansion. While some recent bellwethers indicate there may be a measure of relief in sight, the circumstances do tell us one of the greatest threats to business planners and managers is the uncertainty this environment causes, due to a lack of visibility into future cash flows.

In this brief, Frost & Sullivan/Stratecast evaluates the business of network cost management in the communications industry. Billing errors and disputed invoicing present challenges for both wholesale network operators and their retail service provider customers. While no one answer exists to solve all issues, there are solutions that will help communications executives achieve more certainty around wholesale payables and receivables as a way to mitigate cash flow risks and improve work flow and operational efficiency.

WHOLESALE MARKET DYNAMICS FRUSTRATE ITS PARTICIPANTS

The privatization of communications markets that has occurred to varying degrees for the last 25 years has resulted in what can best be described as an "accidental" market. PTTs, with the exclusive right to sell network access, leased line transport and services in a given area, were thrust by regulation into reselling their wares at a discount to a new batch of competitors.

Reluctant to make significant investments to serve the wholesale market, network operators tended to reuse their retail platforms, applications and processes. While this was certainly an expedient choice, it wasn't necessarily the best one. Retail systems and processes were not really designed to accommodate wholesale business arrangements, resulting in significant, chronic problems. Consider the following 'pain points':

- For retail service providers, network costs may be as high as 60 percent of revenues. Additional costs to reconcile erroneous supplier invoices compromise margins.
- For wholesale network operators, net margins may already be only 2 or 3 percent. Additional time and cost to collect receivables may compromise overall solvency.
- OSS/BSS infrastructure was not designed for constant inventory changes (moves, adds, changes, deletes) in a single account. Account status must often be tracked manually and reconciled to wholesale billing records.
- Country-specific regulations around what must be offered to service provider customers changes, requiring updates to ordering, provisioning, inventory, billing and payment systems.
- Network operator suppliers often have custom contract arrangements with service provider customers using OSS/BSS systems meant for standardized tariff arrangements. There is often no automated contract management capability.
- Disputes and reconciliations are generally handled manually or with only limited automation support.
- Timely dispute resolution requires experienced (and expensive) financial managers with deep backgrounds in wholesale markets, tariffs, and contracts.
- In many countries there are no invoice file format standards or billing interval standards, adding complexity to automation initiatives.
- 'Next gen' services add a new level of complexity to systems built for a TDM[1] world.

[1] 'TDM' is used colloquially to refer to traditional circuit-switched networks, in contrast to the more recent IP (Internet Protocol) or packet-based networks. The actual term is 'time-division multiplexing' which is a transmission standard.

Financially speaking, billing errors result in woefully uneven cash flow as represented in Figure 1 below.

Figure 1 – Financial Impacts of Wholesale Cost Management Issues

Issue	***Network Operator 'Supplier'***	***Service Provider 'Customer'***
Circuits are connected, but records do not make it to the bill	Accounts Receivable are understated	Accounts Payable are understated
Circuits are disconnected, but records do not make it to the bill	Accounts Receivable are overstated	Accounts Payable are overstated
Customers dispute entire bill	One small error may hold up receipt of payment for millions of £, $ or € over several months or even years.	Uneven payments make for uneven cash flow, potentially disrupting other aspects of the business.

Source: Stratecast

Finally, the lack of automation support contributes to impaired visibility into these issues. This prevents financial executives (on both sides) from making proper accruals and understanding the magnitude of the risk they face, including that emanating from legislation such as Sarbanes-Oxley and the like. Needless to say, this set of conditions makes for a frustrating, contentious and risky environment.

UNCOVERING OPPORTUNITIES FOR WHOLESALE REVENUE ASSURANCE & RECAPTURE

Since the late 1990s, software vendors and consultants have aided service providers worldwide in the quest to recover the billions of dollars, pounds and Euro stranded across a variety of possible "leakage" areas. Early estimates of retail leakage for established services ranged from 3 to 11 percent of revenues, but newer offers reached as high as 15 percent. In wholesale, estimates of at-risk revenues are in the range of 3 to 5 percent for traditional voice products, but in the range of 7 – 11 percent for broadband products. While not as large as retail, it is still a noteworthy error rate, one that Stratecast estimates could cost the industry worldwide in excess of $US 15 Billion. Further, by factoring in the lower margins associated with wholesale revenue for the network operator and the high cost of network services for the retail service provider, it has an even more pronounced effect on one's working capital ratio.

To be truly useful, products need to recreate the evidentiary trail that led to the network operator's invoice in the first place. For example, service provider orders must be reconciled against fulfillment and inventory records to ensure that not only were the facilities installed, but done so on the correct date and with the features and attributes specified in the service provider's order. At the same time, the orders must be compared to contract terms and conditions and/or relevant tariffs to ensure alignment. This audit trail can then be used to create a 'mock invoice' of the charges that should be assessed, which can then be compared to the actual invoice. Discrepancies resulting from the comparison can then be investigated.

To complement this forensic analysis, case management helps to manage the actual dispute process and provide insight to both buyers and sellers and hasten resolution. This function would likely provide the following:

- Establish a case for each dispute
- Link the dispute to the underlying orders, provisioning records and invoices
- Verify compliance to the relevant contract terms/conditions
- Capture the team's activity around case resolution.

Beyond this case management approach, products today provide dashboards to give wholesale executives a view into their total cash flow risk. Product users can select from pre-configured reports and graphical displays or configure their own using today's complement of 'drag and drop' reporting and visualization capabilities.

Recently, revenue assurance vendor cVidya announced the availability of a unique B2B platform to address the specifics of inter-carrier reconciliation. This platform, called EZTrust, is designed to gather the data associated with the transactions between buyer and seller, manage the invoice dispute process between network operators and their service provider customers, and provide executive insight for dispute managers and their financial executives. There are other inter-carrier products on the market; most are associated with the concerns of either the buyer or seller. cVidya's EZTrust aims to bring both parties together in a unified settlement ecosystem. Company executives say the software product is available for license or via a SaaS interface. cVidya also offers a full managed/outsourced service to customers, including the expert staffing to resolve disputes.

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The Last Word

The fallout in the world's financial system caused a ripple effect in neighboring economies, tightening credit availability and driving up its cost. And while there are signs of recovery for most mature economies on the horizon, these so-called "green shoots" of improved consumer confidence and less restrictive financial flows also foretell a long road back to economic health and well-being.

There's no doubt about it: cash flow management rises in prominence when sources of credit become scarcer and more expensive. Companies that would ordinarily extend liberal credit terms to customers are now poring over receivables detail in search of improved liquidity. At the same time, customers are examining supplier invoices with more rigor, challenging presumed errors.

The business of revenue assurance (RA) and cost management for the wholesale markets will likely be with the communications industry for many years to come, but it is today's constrained economic circumstances that thrust it into such sharp relief. The need for better cash flow visibility and predictability has likely never been as pronounced as it is now. At the same time, it is unlikely that the wholesale operating platforms will be completely transformed to better serve the unique needs of this 'accidental market'. That's simply not a realistic short term goal.

Stratecast believes it is this visibility into cash flow risk that is the single most compelling reason to consider a revenue assurance activity for wholesale markets. To accelerate the 'time to results', revenue assurance and cost management software applications are one path to speedier resolution of disputed invoices. Of course, there is no getting around the need to provide experienced financial managers who understand the contract, tariff and operational details needed to get to resolution, but the tools allow them to spend their time on the important work of resolving disputes and leave the data gathering, aggregation and comparison chores to the software. More importantly, the tools give network operator and service provider executives a full view of the cash flow risks in play, giving them the insight to mitigate these risks and reduce overall operating costs at the same time.

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