CFO & CONTROLLER Alert

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Small drip, big price tag: Where revenue leaks lurk

Contract management issues costing your peers a mint

Leaky faucet? A plumber visit will set you back a couple hundred bucks.

Leaky revenue? That could be costing you thousands – or even millions – each year.

And it all comes down to poor contracting.

So asserts Praful Saklani, CEO of Pramata, a tech company with the first B2B platform that helps locate and manage data trapped in contracts and business systems.

There's plenty of it trapped. On average 3%-5% of a company's revenue is leaked annually due to errors and process gaps.

That's too high a price for any business to pay.

Fortunately, Pramata has devised a series of best practices to help you plug those leaks.

Where you're most vulnerable

The tricky thing is, there are no shortage of ways for money to leak out. In fact, Pramata has ID'd seven areas and their costly results:

1. Entitlement and billing reconciliation. Result: overcharged or undercharged customers
2. Contracted pricing variables. Result: missed revenue growth
3. Sales process productivity. Result: fewer deals processed
4. Renewal management. Result: excess customer churn
5. Service obligations. Result: unnecessary service penalties
6. Expansion opportunities. Result: suboptimal expansion offers, and
7. Deferred revenue. Result: delayed and even lost revenue.

Take some time to consider where your two or three biggest exposures appear on this list. Those are your best targets for plugging these leaks.

Getting – and keeping – the ball rolling

Pramata advocates four other best practices to make sure you get revenue leaks under control:

Best Practice #1: Check your contract data. Whether you have a fully automated system or you simply record key data in a spreadsheet, you want to make sure you have access to accurate and up-to-date contract and terms info.

Of course it will take some time to read through contracts, but the potential savings more than set that off.

Best Practice #2: Focus on upcoming contract renewals. Pramata advises focusing on customer renewals coming up in the next quarter or two.

Your goal: To make sure you have the most current relationship and billing info for all of them to see if there are any opportunities to increase prices.

Then take it one step further. Pull out your most "high-risk" customers up for renewal – maybe those who have recently had some M&A activity, for example. You'll want to do a full evaluation of all their terms.

Best Practice #3: Zero in on a "low-hanging" lever. Take another look at that original list of seven revenue leak sources.

By selecting one to focus on for all existing customers, you can nab some quick wins, without it seeming like such a major undertaking.

Of course once you look at one, you can move to the next on the list.

Best Practice #4: Make it an on-going pursuit. This can't be a one-and-done undertaking. After this initial exercise, you want to work with other top execs (as well as reps from the people on the front lines in A/P and Purchasing) to develop a revenue leakage strategy.

That will include everything from how often you're going to look for potential leaks to what you're going to do to keep them from happening again.

Info: *To learn more about revenue leakage and how to stop it, contact Pramata, at www.pramata.com or 415-963-3544.*