

WHITEPAPER

# Automated Debt Management: A Modernized Approach to Minimizing Revenue Leakage



## The History of Debt Collection

Considered to be one of the oldest professions, debt collection got its start in Babylon in 3000 BC. When a debt became delinquent the debtor along with their family became slaves of the creditor until the debt was paid. During early colonial America days, the practice of debt collection by slavery was replaced by debtors' prisons. When a person didn't have adequate property to cover the debt, they were sent to prison—where they were forced to provide their own food and clothing. Unfortunately, providing for themselves was virtually impossible, leading to debtor's dying from the elements or lack of nutrition. This, of course, resulted in creditors being unable to recover outstanding debts.

Unsurprisingly, debtors' prisons were deemed a failure, and during the 19th century lenders began, when necessary, to rely on secured loans—which is still practiced today.

## Why Unpaid Debt Occurs

The processes of collecting revenue revolves around the revenue management lifecycle. It begins with the purchase of a product or service and ends when full payment is received. It's considered a journey that can start and conclude almost immediately, or one that can take place over numerous months—or even years.

Let's take a look at a few examples, beginning with the most simplistic revenue lifecycle scenario. We'll assume that cash was paid for office equipment.

The most recent addition to debt collection practices are collection agencies. They began to surface in the 1980's, providing a way for creditors to recoup at least a portion of the delinquent account.

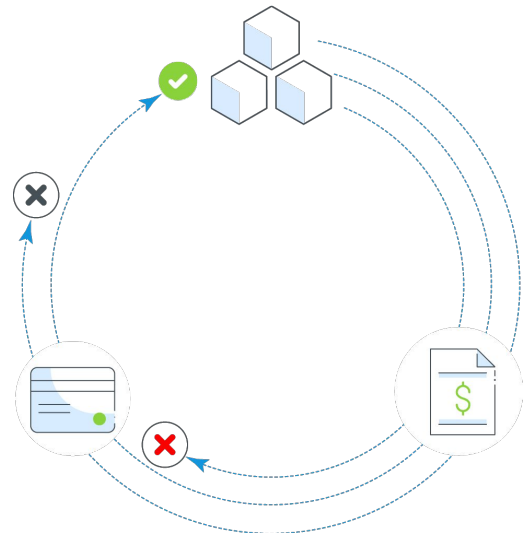
While we no longer enslave or imprison debtors, debt collections remains a universal problem for both small and medium-sized businesses (SMBs) and enterprises alike. Understanding the reasons for unpaid debt and the issues with traditional methods of collections management have led companies to search for a better way to address revenue collections. By streamlining and automating debt collections companies can significantly reduce revenue leakage and lessen customer churn, while improving customer relationships.

This type of revenue lifecycle is extremely short, ending almost as quickly as it began with cash paid at the time of purchase.

Let's use the same example, but instead of the office equipment being purchased for cash, the buyer opts to make payments over a 12-month period. This type of purchase is more complex, requiring monthly invoices and tracking of payments against the balance.

Our next example looks at a software as a service (SaaS) organization. We'll assume the client is on a 90-day billing cycle and pays in arrears. The invoice is sent and payment is expected, however the client decides to dispute a few hundred dollars of the charges. This results in revenue being delayed even longer and now you have to follow-up on the dispute before getting paid in full.

For our last example we'll take a look at professional services, specifically a managed service provider (MSP) that is responsible for securely operating the customers enterprise IT infrastructure and delivering application availability and support. We'll assume that an initial upfront charge is required, and that the client can pay monthly, semi-annually or annually for continued service. During the time that the MSP was providing services, their client encountered system downtime due to a manufacturer defect in the operating hardware. The client is now withholding payment due to a perceived violation of the service level agreement entered into as part of the contract, leaving the MSP with unpaid debt that needs to be resolved and collected.



In all of these scenarios, the businesses providing the products or services are left to collect on outstanding debts. As illustrated above, there are numerous reasons why delinquency happens, but the one thing that remains consistent is that recovering unpaid debt is problematic.

## The Trouble with Traditional Debt Collection Practices

When it comes to accounts receivables, managing outstanding balances is one of the biggest challenges businesses face. Whether that's understanding the total amount of revenue past due, accounts at risk, or losing track of aging balances, the complex nature of the receivables process can make this a highly difficult and time-consuming process.

Most organizations find themselves managing collections with manual processes but soon find these activities can't keep up and lead to revenue loss, frustrated customers and customer churn.

The steps taken are usually as simple as contacting customers with overdue balance, either by phone, email or letter. This relies on the company having accurate and complete contact information. Whether it's a phone number, physical address or email address, without correct details collecting on an outstanding debt can be extremely difficult, if not impossible.

This is an error prone process that typically fails and leads to wasted time and effort by the company.



### Enlisting the Assistance of a Collection Agency

When unpaid debt lingers, many companies turn to third-party collection agencies to help recover revenues owed. While there may be no other options, it's important to note that collection agencies typically take a cut of the money collected. In addition, when debt collection is handled by an agency, companies lose the ability to nurture the customer through the collections process.

Say that a loyal customer begins to consistently miss payments. After numerous attempts to collect, the account is turned over to a collection agency. It's only after the hand-off that it's realized that the reason for the growing debt is insufficient funds. Although a challenging situation, it isn't insurmountable when innovative and personal approaches are used. Approaches that only the business with a vested interest to work out, and a mutually agreeable solution will be able to accomplish. It's in their best interest to both recover the debt and build customer loyalty during the process.

We know collection agencies are necessary, but it's equally as important for the business to fully understand the situation for the unpaid debt. When they have all of the customer information needed, it's easier to make an informed decision as to whether to enlist the assistance of a collection agency. The question then becomes—why make collections a third-party afterthought when you can make it an integral part of your revenue management process?



## The Impact of Revenue Leakage

The processes of identifying, collecting and managing outstanding revenue is riddled with obstacles. A simple error, omission of information or mishandling of the customer can have a domino effect on the revenue lifecycle and result in customer churn and revenue leakage.

A survey conducted by [MGI Research](#) revealed that 42% of respondents experience revenue leakage, and 30% indicated that billing issues are impacting their financial results. (“Research Note: State of Monetization”) These figures alone are cause for concern, and when combined with the [Ernst & Young \(EY\)](#) estimate of 1 - 5% of earnings before interest, taxes and amortization (EBITA) leak out of companies; the amount of revenue that is flowing out of companies unnoticed is staggering. (“Revenue Leakage: How do you identify revenue leakages in your company and recoup them?”)

There are a variety of reasons for revenue leakage. Those out of your control and other reasons that are very much within the control of the business. As explained by **EY, there are two primary reasons for revenue leakage: 1) ineffective contract management and contract adherence, and 2) inefficient follow-up processes to secure repayment.**

The complexities of collections management only increase as the business grows. It's safe to assume that the more customers a business has, the more invoices that need to be generated. This can lead to a surge in unpaid debt, which means an increase in days sales outstanding (DSO), as well as revenue leakage.

Getting ahead of the bottlenecks contributing to revenue leakage requires a holistic approach, as well as continued improvements throughout the revenue management lifecycle. This is why smart businesses everywhere are saying the same thing—“there has to be a better way to manage the collections processes. A more efficient way to recover unpaid debt, while building customer trust.”

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## Re-inventing Revenue Collections

To reinvent revenue management, companies need to focus on how to increase cash flow, improve operational efficiency and boost collections productivity. To start, companies need to have an understanding of the accounts at risk, total amount of revenue past due and aging balances—all while having the ability to act on these factors with minimal involvement. They then need to be able to track collectors' progress. This ensures that collection processes and strategies are consistently applied. And finally, companies need tools to prioritize accounts that require attention, automate notifications and alerts, and streamline interactions with customers.

Fortunately the move to cloud-based technologies has given companies the opportunity to rethink collections management, one of the most critical components in the revenue chain.

With the right debt management and collections system (one that combines billing, dunning and collections in a single solution), businesses can proactively manage collections, reduce DSO and improve cash flow, while building positive customer relationships.

Aligning technology with staff, collection processes can be finely tuned to the needs of their customers and are able to keep outstanding debt to a minimum. To do this you need a collection management system that:

- Delivers a comprehensive view of all outstanding debt
- Prioritizes accounts that need attention
- Sends automatic payment reminders
- Provides the ability to track, review and action collection strategies
- Enables a mix of automated and manual tasks
- Ensures follow-through to minimize errors
- Links payments to invoices
- Automates credit card retries
- Maintains an audit trail of all activities

Isn't it time for a billing and collections system that knows what's due and when, so that collections become an integral part of the process?

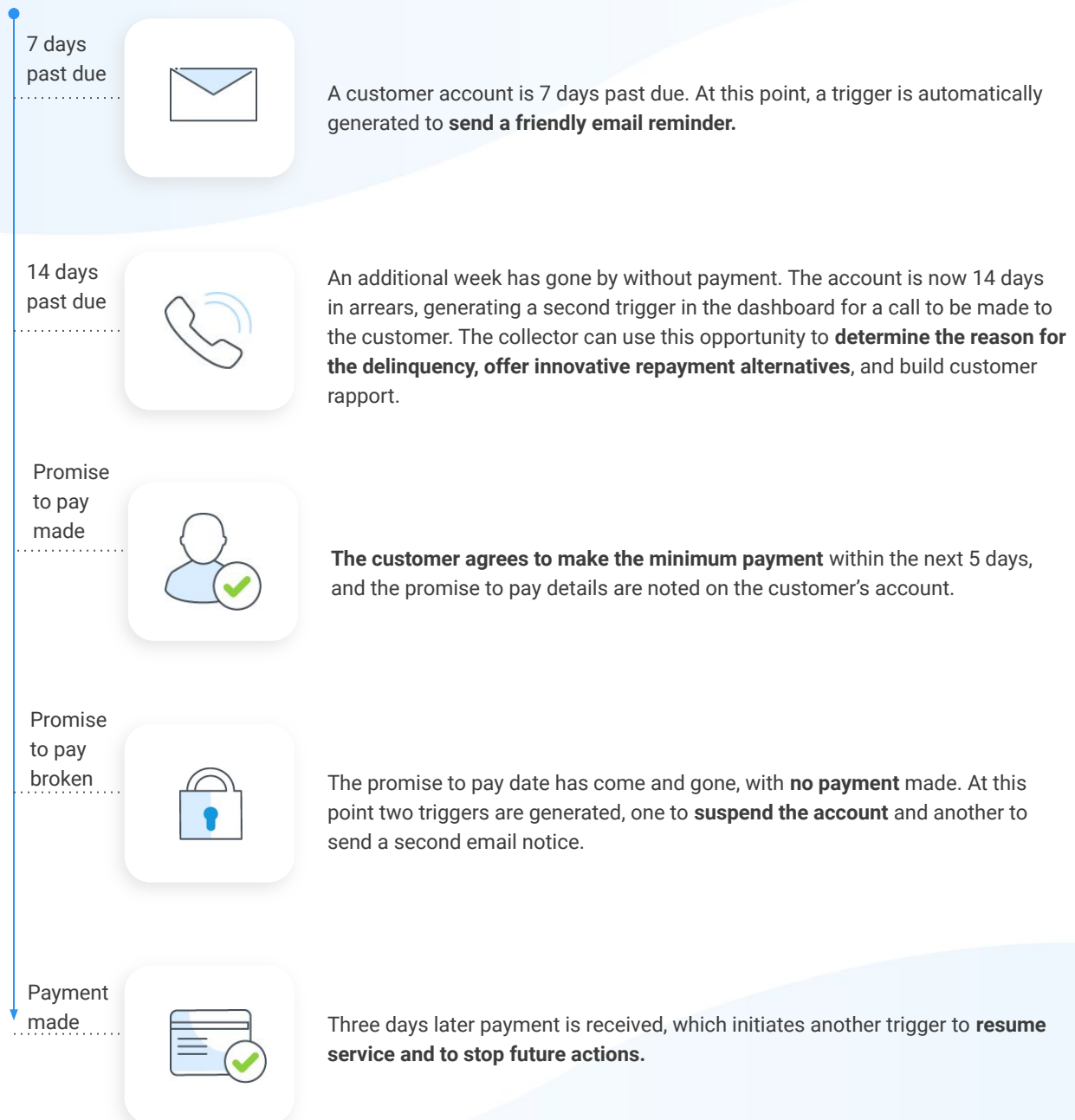
***“Using a modern, enterprise-grade software solution to automate collection activities based on risk, probability of success, and best practices, organizations can decrease DSO, reduce churn, and improve customer relations.”***

Andrew Dailey, Managing Director,  
MGI Research



## Close the Debt Gap and Build Customer Loyalty

CollectionsCloud from BillingPlatform is a cloud-based solution that automates the collections process with an easy-to-use and intuitive dashboard. To illustrate, we'll follow a typical collections scenario.



Purpose built to make smart decisions, CollectionsCloud gives organizations more control over outstanding invoices, enabling them to reduce DSO, lower churn rates and increase employee productivity.

**10-20%**

### Reduction in DSO

- Reduce overdue payments, minimizing bad debt write-off
- Automatically identify accounts that require attention
- Segment customers based on risk to address all levels of delinquency

**12-15%**

### Reduction in Churn

- Automate tasks & notifications when action is needed
- Deploy strategies for high touch or low touch interactions
- Analyze strategy performance and dynamically make changes to achieve the best results

**3X**

### Increased Productivity

- Prioritize daily collection activities in a comprehensive dashboard
- Track, review, and action strategies from the dashboard
- Optimize the productivity of your employees

The Collector Dashboard provides a comprehensive view of outstanding accounts, including a prioritized list of accounts that require attention. For customers who are delinquent, collection strategies can either be fully automated or have a mix of automated and manual strategies. In addition, strategies can be tailored to customer segments based on predefined parameters and performed at predetermined intervals after an account enters collections.

BillingPlatform's CollectionsCloud provides an innovative way to manage collections, improve employee productivity, reduce revenue leakage and enhance the customer experience. This automated software solution puts control of outstanding invoices where it belongs—in the hands of the company.

## Comprehensive Collections Management

Isn't it time to eliminate bad debt write offs, increase customer loyalty, and put your business on the path to long-term sustainability? A sophisticated, yet flexible billing and collections management system can easily automate invoicing and collection at high volumes, as well as execute time-savings activities. CollectionsCloud from BillingPlatform provides a comprehensive platform that adapts to meet the full scope of your needs today and into the future. Companies that have partnered with BillingPlatform are closing the debt gap, reducing operational costs, and enhancing the customer experience.



Contact a member of our team to learn more about CollectionsCloud and if it's the right solution for your business.

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## About BillingPlatform, Corp.

BillingPlatform's agile billing software solution gives innovative enterprises the freedom to effectively monetize and deliver products and services resulting in growth and competitive differentiation. Our industry-leading, cloud-based platform adapts to every unique business model and pricing structure. With global customers across multiple industries including communications, transportation, manufacturing, banking, technology, energy, media, and software, BillingPlatform processes billions of transactions and dollars every year, enabling enterprises to grow revenue, reduce costs, and improve overall customer experience. To learn more visit [billingplatform.com](http://billingplatform.com).