

A 3-Step Guide to Locating, Recovering, and Securing Hidden Revenues

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Empirical evidence shows that technology services businesses tend to lose up to five percentage points of their profit margin due to untapped revenue potential within their own customer base. A major part of this missed revenue opportunity is based on already performed services that have been overlooked or poorly invoiced. However, as hidden revenues are a common problem with similar causes among technology services firms, they can be addressed in a three-step approach to locate, recover, and secure them effectively and efficiently. In this guide, we'll show you how to positively impact your company's profit margin simply by identifying and recovering charges due for services rendered.

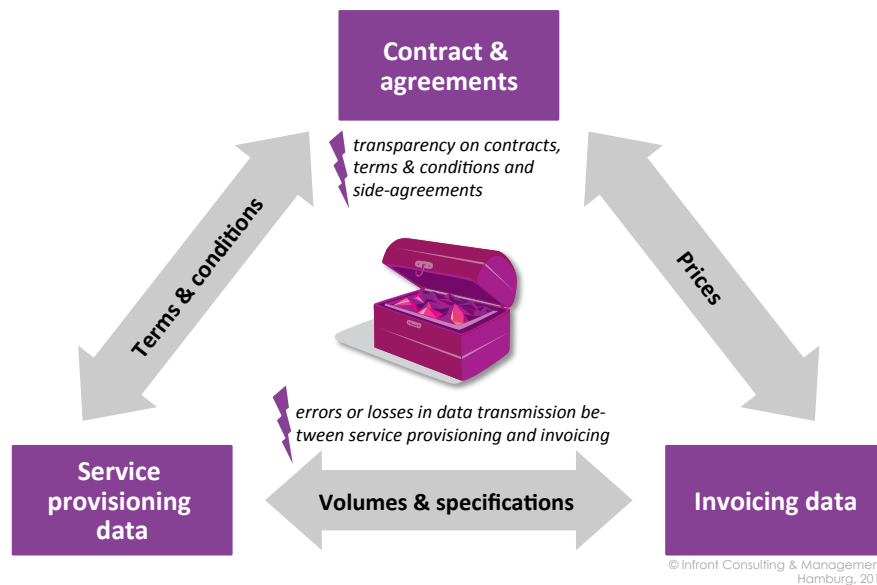


STEP 1: LOCATE WHERE TO FIND HIDDEN REVENUES IN YOUR TECHNOLOGY SERVICES FIRM

Hidden revenues have a number of common sources, which mainly appear in the triangle of the *customer contracts and agreements*, *service provisioning data* and *invoicing data*.

They can occur if technicians and consultants do not know the importance of complete and detailed service provisioning recording, if delivered services and the scope of service stated in the contract are not vigilantly matched, if internal data transmission is unclear or incomplete, or if services are not billed as a result of false customer warranty claims that are honored to accommodate the customer.

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These sources of hidden revenues might seem obvious, but unfortunately for these businesses, they are often never located or recovered. There are many factors that contribute to this phenomenon including: unclear responsibilities among the persons involved, low level of standardization of services and service level agreements (SLAs), low level of automation and continuity within the order-to-cash process chain, different perceptions and interpretations with regard to contractual rights, obligations and “customer orientation”, low management focus on the process details between contract, service provisioning recording and invoicing. Therefore, intensive deep-dive, data-driven and experience-based analysis is required to locate hidden revenue. The case of Freudenberg IT (FIT), an international IT service provider for the manufacturing industry, revealed these exact same characteristics of hidden revenue potentials.

“Interestingly, we found significant potentials within big and small customer deals, within complex and simple services in Germany as well as globally...just incredible!” says Olaf Herbig, Director Global Program Management & Global Internal IT at FIT. “Infront brought in a huge level of experience and creativity to locate hidden potentials at a variety of spots.”

STEP 2: RECOVER HOW TO EXPLOIT HIDDEN REVENUE POTENTIAL FOR QUICK PROJECT PAYBACK

In order to recover hidden revenue potentials, it’s not enough to just locate them, you must also understand their underlying weaknesses to find alternatives and act decisively when implementing the most appropriate solution.

Main drivers for quick project payback:

- ① Reasonable ex-post invoicing (one-time revenues)
- ② Gap-closing within existing process and system landscapes by changing behavior and refocusing attention of people involved (recurring revenues)
- ③ Design of higher automated processes and tools to handle complex and dynamic services businesses accurately

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“Locating hidden revenue potentials should be done with the help of external consultants, but recovering them requires the willingness and relentlessness of the organization and its management team,” explains Olaf Herbig. “Most important is stringent change management and consequent implementation of processes. This must include both, internal and customer-oriented processes.”

STEP 3: SECURE HOW TO MAXIMIZE POTENTIAL UTILIZATION IN THE LONG RUN

Shortly after the localization and recovery of hidden revenue potentials, technology services firms risk falling back into old patterns of behavior and consequently losing their newly reactivated forces. To prevent this backslide, three dimensions have to be kept in mind: *the understanding of root causes of hidden revenue potential, the elimination of barriers to change, and the optimization of supportive processes and IT applications.*



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“Together with Infront, we located and recovered hidden revenue potentials that led to an EBIT increase in nearly the same amount. Realizing more than fifty percent of those potentials continuously still today, the hidden revenue initiative boosted our profit margin significantly” states Herbig, who managed this project in 2013. “Securing the gains of the project was only possible through our structured and continuously monitored program management, which also included the initiation of a cultural change and a performance program ensuring that we stay profitable and therewith a reliable partner for our customers.”

ABOUT THE AUTHOR



Thomas Sindemann is Managing Partner of Infront Consulting & Management, an independent consultancy, located in Hamburg, Germany. Thomas has years of experience in distribution and marketing from working at a leading manufacturer of consumer goods and also as a Management Consultant with a major international consulting firm. With this foundation of extensive business experience, he is able to offer clients expert support in repositioning technology and service providers in their respective markets – as well as help them execute strategies until a client’s transformation is complete. Keep the conversation with Thomas going. He may be reached at t.sindemann@business-infront.com.

ABOUT FREUDENBERG IT



Freudenberg IT (FIT) is a well-established mid-sized IT service provider located in Germany, China, Mexico, and the United States. FIT offers professional and managed services based on SAP and Microsoft for its upper mid-market manufacturing clients worldwide. Infront supported the management team amongst others with corporate strategy advice and a three-year transformation program.

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