In the Telecommunications, Media and Entertainment sectors, products and services are sold on both pre-paid and post-paid (i.e. credit) terms. Where credit-terms are given, there are inherent risks to payment:

- Those who (unintentionally) cannot afford to pay (genuine bad-debt)
- Habitual late payment
- Those who can pay but refuse (maybe a dissatisfied customer)
- Those who have been deceptive and do not intend to pay (fraud)

It is important to differentiate between these types of payment risk as the way of dealing with them will be quite different. Treating all payment risks in a similar way is a common problem and will lead to increased costs, reduced effectiveness of operations and disgruntled customers. All types of customer might fall into any of these categories – Consumer, Corporate, SME etc. Identifying, preventing and managing exposure at the point of sale and throughout a customer lifecycle (through behavioural scoring/analytics) has to be constantly in focus for a Service Provider to maintain manageable debt levels.

Increasingly, it is not only the level of credit risk exposure or bad debt that is in focus, but also the efficiency and effectiveness of the business operations, directly affecting operating costs. A well-designed, thoughtful and innovative receivables management process and operating parameters will reduce credit risk, improve on-time payments and recover more from the bad-debt provision than the competition. In doing so, Service Providers create a distinct opportunity to allocate resources to other business needs, or simply reduce overall operating costs.

Various benchmarking exercises have demonstrated a common bad-debt to revenue ratio range of between 1-6%, with the ‘best-average’ position at around 2%. Some Service Providers can get to the magic 1% threshold with sophisticated and pragmatic approaches to credit management, but many jump between peaks and troughs as they fail to align marketing and product management activities with a sensible credit management policy and operational plans.

**Note:** Although pre-paid services are aimed at reducing credit-risk and targeted at certain market sectors, there are a number of issues with pre-paid services that need to be managed – see our separate document on Pre-paid Risks.

**The issues**

To grow market share of the higher-ARPU (Average Revenue Per User) post-paid customer segment, many Service Providers are aggressively targeting both business and consumer segments. The strategy has many potential benefits:

- Leveraging existing infrastructure such as mediation and billing systems, reducing average costs and improving margin (AMPU) potential.
- Reducing attrition rates, allowing longer-term relationships and efficiencies in managing known-customers (e.g. tailored collection treatment plans).
- Improved revenues through higher average usage and cross-selling of products and services that is easier with loyal customers and up-to-date contact information.
However, in many cases, aggressive acquisition has led to risk management best-practices being de-prioritised resulting in a substantial increase in bad-debt and fraud levels and the acquisition of more than expected lower-ARPU customers putting pressure on margins.

Aggressive acquisition will often expose issues in marketing, sales channels, credit-risk, collections, debt-management and fraud management operations that need to be addressed to reduce resultant bad-debt. Although the decline in the global and local economy will no doubt be affecting the underlying delinquency rate, part of this bad-debt will be also be ‘deliberate’, and may therefore be considered as fraud and dealt with differently.

Most Service Providers wish to balance debt control with growth in their ‘good’ customer base. Acquisition rates and customer experience need to be balanced with risk controls both at the point of sale and during the customer lifecycle. Although software systems will help automate operations and should improve efficiencies (if done well), the core policy, process, procedures and parameters applied will dictate how effective any operation is. In a worst-case scenario, new systems can simply make it easier to achieve higher bad-debt levels.

What are the problems leading to credit-risk exposure and bad debt?

A common problem is that of non-alignment of the marketing, product management and finance functions. Proactive cooperation is often neglected through various other operational pressures, departmental business goals may sometimes be at odds with each other, and the receivables-management function might feel they are left to suffer the consequences of an ill-conceived service launch or customer take-on strategy. For example, dealer or agent commissions might be paid on sale-only terms and not related to customer usage or bill-payment, and may even not be subject to claw-back conditions – a recipe for high bad-debt and fraud.

However, a second very common cause is data-centric - integrity, retention and use of data across the organisation. It is surprising how many organisations do not value the data they hold and preserve its integrity throughout the business and customer lifecycle. For example, customers can change contact details and this may not be passed through to the collections systems in time for collections activities to be correctly targeted. Errors in recording an address change might result in failure to deliver a bill, resulting in unwanted collections attention and quite possibly service
interruption. Retaining and intelligently using appropriate data to reduce risk is also a common failing; many Service Providers do not use their existing credit or debt data to identify potential debtors at the point of sale or fulfilment – such a waste.

The third common problem is that of ineffective receivables management practices. Often this is due to a failure to ‘keep up with the times’ and changing business conditions, not innovating within the end-to-end process or looking for more efficient or effective ways to manage the risk and collections tactics.

**How do you know if you have a problem?**

When the stakeholders or CXO’s of the business shout because of high-debt levels or operating costs, or when customers leave because they were terminated for non-payment even though they did not get a bill, or perhaps when your debt write-offs are accrued to avoid embarrassment creating even larger future problems. The fact is, most organisations will have room for improvement, and many know that they have problems but prioritise activities around market-share and increasing revenue over debt control. In reality, it is possible to balance all business objectives with careful strategic planning and the intelligent execution of plans that focus on truly aligned goals.

**Managing the problem**

Greater co-operation, aligned business objectives and inclusive service and customer management process design will help any organisation avoid the most dramatic issues. Some preventative and management measures can be readily deployed utilising the right mix of technology, operational and organisational enhancements. However, prevention cannot be total, so identifying and understanding the risk exposure in a timely manner is imperative to respond appropriately. Variable customer treatment plans, tried and tested through ‘test-and-learn’ customer or treatment segmentation is a good way to continually refresh approach, albeit structure and control within this mechanism are important to avoid unnecessary exposure.

Systems-automation should be considered to ensure consistent application of best practices, e.g. trawling through customer service application details, retained business data and external agency data to identify fraud or asses payment risk appropriately to set solid service conditions and treatment plans and give on-line credit decisions to customers and agents. Or perhaps to intelligently vary collections tactics based on behaviour of individual customers or customer groups and their changing risk profiles; a practice often referred to as ‘behavioural scoring’. The underlying policy, process, procedures and people administering the operations will really define how good the results are so must be considered in parallel to systems as part of the overall approach to reducing risk and controlling debt.

Please visit [www.assuringbusiness.com](http://www.assuringbusiness.com) for a more detailed perspective of the components that might be deployed within a strategic receivables management plan. Alternatively, [Contact Us](mailto:ask@assuringbusiness.com) to discuss your precise needs.