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Top 11 Sources of Revenue Leakage in SaaS and Subscription Businesses

The new four letter word that organizations hate is "Leak." No organization wants to see hard-earned money—or the money on the table—leaking. It seems that companies, based on their size, are losing anywhere between 4% to 58% of their revenues due to inadequate leakage controls.

One thing that is disheartening to see is that most of the companies are not even able to articulate the percentage of their revenue leakage. This point of view aims to highlight the top 11 sources of revenue leakage in SaaS companies and help them plug whatever is in their control.

The authors of this article are experts in revenue assurance and the subscription industry. The team has created a beta-stage Revenue Assurance solution (named Revssurance) to reveal leaking areas and provide 100% visibility into a company's revenue leakage. The Revenue Assurance practice includes organizational consulting to ensure that the revenue leakage is proactively addressed as part of the design.

Revenue assurance is not an afterthought

Before we get into the top 11 sources of revenue leakage, first thing's first:

Revenue leakage is not and can never be an afterthought. Plugging revenue leakage areas once a product is launched is a bad strategy. A proper plan is to be aware of potential revenue leakage areas beforehand, and then build those controls into the product design. We want to state this upfront so that you can look at this article from two different viewpoints – 1) How do I plug my current leakage areas? 2) How can I ensure that the new ones are handled better?

With that, we can jump into some common sources of revenue leakage.

#1: Entitlements and billing reconciliation

Self-service is a crucial attribute in the Subscription business, and customers tend to use this service very often to get the best benefits. Hence, organizations might find it challenging to accurately track service entitlements. This can result in either overcharging the customer and leading to a decline in customer experience or undercharging a customer and losing out on revenues.

E.g., Imagine your customer has signed up for a storage package of 2GB, and then later upgraded it to 3GB based on their usage. If you miss that minor adjustment in the system, you will be billing for 2GB, whereas the customer is using 3GB while still enjoying at the 2GB pricing.

#2: Renewal management

Automatic Contract Renewal depends on several factors, such as the correct configuration of the system, customer configuration, status of the customer in terms of payment default and due, and so on. Renewal is an essential input for ARR and MRR computation. However, missing contract renewals is a considerable source of revenue leakage. At the same time, renewing contracts where the customer has defaulted payments can also lead to leakage.

E.g., Assume that your customer has cancelled a subscription for your on-demand video service, but your provisioning system failed to record the transaction. The customer then may still be getting access to the videos, but you aren't earning any revenues.

#3: Upgrade and downgrade accuracy

The SaaS and Subscription companies are known for their eye-catching offers/discounts to woo customers. Add to this the chaos that customers can change the configuration between quote to cash or within a billing period—at any time. These discounts and offers are applicable based on the level of subscription and services consumed. However, once the customer downgrades the subscription, the discounts also cease to exist. If the system does not record these frequent changes, there is a possibility that the customers can benefit from the discounts even after downgrading their subscriptions.

E.g., Imagine that you are offering a 20% discount on 5 or more subscriptions. The customer signs up for six licenses, uses them for a few months, and then downgrades it to 3 licenses. The billing system did not record this change, and no discounts were removed. Right off the bat, you would start losing 20% of your revenues.

#4: Pricing variables including discounting based on period or commitment

Companies often provide unstructured discounts and credit to increase subscription sales or to satisfy an unhappy customer. Usually, these discounts/credits have an expiry date. These credits and rebates, resulting in customer attraction or service issue correction, should have a limit or eligibility condition. In some instances, these discounts are not automatically deactivated and lead to revenue leakage. This is just one type of discount, but your organization might be offering other kinds of discounts too, which ultimately need visibility as well.

E.g., Imagine you've offered a 30% discount on the month's billing, as the customer was unhappy with the availability of the on-demand video service. The discount was provided by the support executive to retain the customer. This record either remains unchanged in the billing or the customer support executive missed marking the expiry date and results in revenue leakage until noticed and fixed.

#5: Service obligations failure and revenue impact- ASC606

The transaction price is determined and allocated based on the performance obligation of the contract. Service obligation failure or non-monitoring of a trend of failure will have a direct impact on the revenue.

E.g., This is a situation where the clients pay when the service standards are met. Imagine that the service standard is 99% availability of the product, however, the product could only achieve 98%. Non-monitoring of these service levels will lead to disputes during billing, and eventually, revenue leakage.

#6: Deferring revenue and cash flow hit

Individual customer records may have been provided with a preferential credit period or may not have been configured with payment due dates. The cash flows are hit when this keeps increasing. Also, the monthly recurring costs applied cannot be realized until and unless the service obligations are met. Lack of credit analysis and deferred revenue balance may lead to leakages.

E.g. Similar to a bank overdraft, you might offer specific credit terms to your clients. If the system is not configured properly, the client is never going to get the payment notification, nor are they going to pay on time.

#7: Unlimited or lifetime plans for existing users cost is more than revenue

The unlimited plans are great to attract new customers and retain the churn, but not always so for the companies. The unforeseen costs can eat into profitability and lead to revenue leakage, such that if you spend more money in managing the customer than the money you are receiving from the subscription, this is going to be a leakage for life.

E.g., This is simple and happens due to the over-enthusiasm to get initial clients. Imagine you've offered an unlimited plan to a company with 20 employees assuming that the usage will not go beyond 40 to 50 employees. However, the client had a rapid growth spurt and now has 500 employees. The lack of foresight will lead to revenues that are worth 20 licenses for costs worth of 500 licenses.

#8: Failed Payment cost and involuntary churn

When the credit card transactions are declined (hard/soft), the payment gateways still levy a charge. Even worse is that it can result in involuntary churn. Handling the hard declines through the dunning process also includes a cost. Overall, lack of automated control to verify card status not only results in payment default and bad debt related leakages, but also costly overheads.

E.g., Imagine your customer has a card expiring next month, yet the system did not send an alert to the customer requesting update information. During the subsequent month, the transaction will be processed, but no payment will be made. Instead, the payment gateway charges you for a failed transaction.

#9: Free trials unprofitability and long periods

A free trial does not necessarily mean that a customer will be converted into a paid user. When the system is not configured to manage the patterns of usage, this can lead to the customer taking multiple trails month after month and not converting into a paid subscriber. Overlooked product configuration may also extend trial product over a valid period, whereby the customer can continue using services without paying for it.

E.g., Imagine you have a 3-month trial offer for your product. The customer promptly takes the offer and starts using the fully configured product. However, the team setting the instance left out the 3-month expiry. This means that the customer gets access to a fully-configured product and without expiry date — all at no cost.

#10: System integration issues like manual posting of revenue

Lack of proper system integration among the billing, provisioning, and CRMs—and add to it the intervention of critical manual process within the quote to cash process—may result in frauds and severed revenue leakage. The irregularities in revenue reporting or the manual interventions means that the leakage is identified only after the damage is done.

E.g., Imagine a situation where you've offered a ten-license subscription package to your customer with a discount of 30% for the first three months. The offer details are promptly entered into a CRM by the sales team and have been carried forward to the service provisioning system. However, the billing system is not integrated, and the sales team had to put in the numbers manually. An error here has a direct impact on revenue leakage.

#11: Quote offered and agreed vs price configured

Certain large SaaS-based offerings still need interactions with the marketing/sales before the deal is closed. During this sales cycle and negotiation process, the sales teams offer several packages with discounts. It is natural that the salesperson to have multiple such calls in a day. However, the trouble starts when the salesperson enters a different price than the one agreed with the customer. A lower price straight leads to immediate revenue leakage. Even worse, a higher rate leads to customer churn.

E.g., Assume you have three different custom packages, and the negotiations went on for three weeks. The salesperson, instead of entering the $1000/month package, mistakenly configures $450/month details into the system. The result is a $550/month leakage, which in most cases, the customer would refuse to pay even after it is realized after a few months.

Are these the only sources of revenue leakage? Absolutely not. There are at least another 60 to 70 minor and major sources. You will notice that the issues range from product design to order entry to pricing to configuration issues to billing to integration between systems and more.

What is your revenue leakage percentage again? Not sure how to find the total revenue leakage and control them? Do contact our experts and we will help you sort it out and ensure that hard-earned money doesn't leave your company.

Get a demo and talk to our experts

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