Telzed

One page to manage a telecom business

How key measurements and business insights can be summarised to help decision makers

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Important note

Any ideas expressed need not represent views of Telzed Limited or any clients.

The purpose of this paper is show how a company's performance data can be summarised in a simple format that gives good insights to help with strategic decisions

Summary

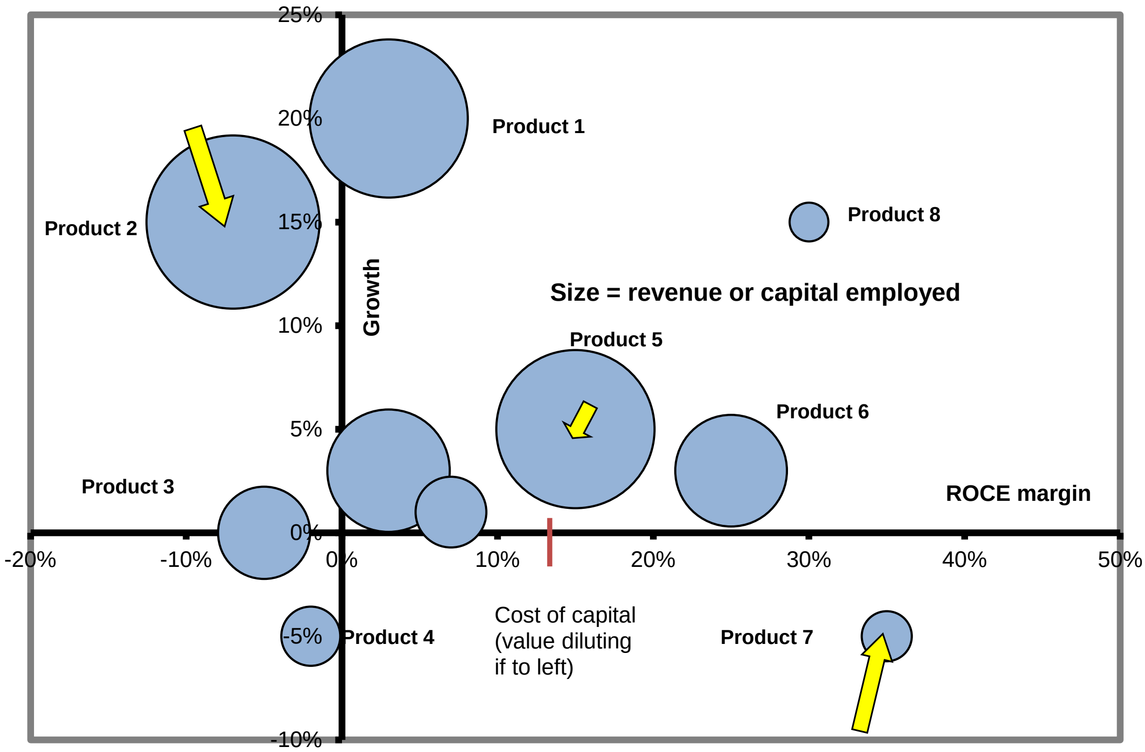
All telco managers need to understand their business and their markets to make decisions that enhance the company value and cash flows. Huge amounts of financial, market and technical data exist – all of which are relevant to different decisions. The need to understand the details of markets, products, technologies, financial data and regulatory issues will never go away, but most managers desire some simple views to help give an overall picture and can then use this as a basis for more detailed questions and then to probe into the details.

This paper shows one simple but powerful view of a telco business. This can form the basis of many summary reports. This “One Powerpoint slide” view is certainly not a panacea, but the capability of producing it is worth aiming for – if you could not produce this information then perhaps managers do not have the right controls and measures in place.

This “one slide” business report can be made. A number of systems have to be put in place, but it is quite possible.

The one slide high level company view

The diagram below shows an example of the type of performance report that can be produced.



This shows the products' performance. The y axis shows the growth in the last quarter. The x axis shows the return. If this is greater than the company cost of capital then the product is adding value. Value diluting products are to the left.

The bubble size shows the level of investment (capital employed). Some reports may use revenues.

The arrows show how some selected products have moved since the last quarter.

What information does this one-slide report provide?

The diagram shows:

- Products that are growing and making a loss (top left). This is a bad outcome. What can be done to reverse this? Why sell more of something that is loss making?
- Products that are loss making and being faded out (lower left). It is good to remove loss making products, but can we improve the margins?
- Profit making products, but are reducing in volume (lower right). How can these good products' volumes be increased?
- Profitable products (top right). Are they growing enough and should more investment be made to promote them further (e.g. Product 8)?

- The size indicates the products that have most impact
- Products 2 and 7 are moving in the right direction. Product 5 is not. This shows the need to ask why and to investigate what is being done well (or badly).

This high level view provides a lot of information of the overall company performance. Trends and critical areas are shown. New products can be shown and if their performance does not move rapidly towards the top right, then actions can be taken. Legacy products may have big investment but low return. Small changes in these can be monitored and their value-contribution understood. By including the return on capital and capital employed (bubble size), a good picture of the performance is easy see.

Variations are needed for different managers

Telcos often are not interested in basic products such as calls or messages. These are often not sold directly – they are part of a larger *bundled tariff package*. The same view can be set to show the performance of the tariff plans – what packages are making money?

Similarly, the same diagram can show:

- Performance of product portfolios: international voice: wholesale capacity services; data services etc.
- Dealer channels. Dealers have direct costs and revenues, but the overall profit depends on the customers and tariff plans that are sold, plus the traffic used by each plan. The overall profit combines one-off and on-going costs/revenues. A channel that only gets customers who make very few calls is probably worse that one who sells lower volumes of the same package, but to better customers
- Customer segments: are business customers really better than youth customers? This requires all costs and marketing and account management costs to be considered. The same diagram can show the segment profits and trends.

There are many variants to suit the different business needs. Size can be in terms of revenue or customer numbers (rather than capital investment). The profit margin can be measured in different ways (not just ROCE, as shown). EBIT or EBITDA are possible. A full cost view can be taken – including all of the businesses costs, including central costs and general marketing costs that are not specific to the product. Alternatively only the incremental costs can be included – only those costs that are directly caused by the product. Both are valid views:

- A product may be profitable on a directly incremental costs basis[1] (a good thing)
- Some products do not cover even the direct costs of additional sales of the product and so it does not cover the marginal cost[2] (not good)
- Some costs are profitable even after an inclusion of some of the central business[3] costs (definitely good).

[1] This is the sum of all costs that are caused by the entire product's volume
[2] This is the change in cost for a small increase in product volume
[3] These are costs that are not directly linked to any one product. Head office, license fees or company strategy teams must be paid for but *migh*t be considered as not incremental (not variable) to product's volumes

One cost view is not usually enough, but simple views of products based only on revenues, volumes sold or direct cost of sales are usually insufficient in a telco – there are many indirect costs and shared costs that are relevant, and most importantly - they must be paid for.

How can the information be used?

Information is nice to have but without any actions it is pointless. In some telcos, many measures exist and are then ignored. Quarterly and monthly reports need actions. Examples include:

- Price changes and reviews. Can poor products be increased in price? If price increases were carried out, has the performance increased? The results of changes can be seen and potential areas for price reviews can be easily seen. NB products do NOT need to cover their costs, of course. But cross subsidies still need to be understood and agreement is needed on which profitable products bear the loss of others. What if the loss making product triples in volume?
- Marketing strategies. Linking performance data to marketing plans is a powerful step. Why market loss making products? Can more focus be on growing the smaller, profitable products or customer segments? This type of information can be linked to marketing decisions and plans
- Sales bonuses and rewards. Selling often rewards revenues and volumes. Unless linked to margin analysis, it is easy to have bonuses for loss making products. Stories of loss making products in telecoms industry are common – some lead to the company failure
- Scenario analysis. If volumes, costs or prices were altered, then the impact may be seen in the summary diagram. This requires the underlying system to have a degree of flexibility to allow costs, etc. to be altered. This can be done.

Clearly, a company strategy does not rely on one slide! This type of view however can form a basis for discussion and for directing (and monitoring) other studies and programmes.

A common approach underpins any of the one slide reports

PowerPoint does not solve a business's problems[4]. Decisions and their resulting actions do. Decisions need to be based on information and knowledge. This slide provides information – managers still need to apply their knowledge. To produce the one slide report requires a lot of company data to be processed. Revenue and volume information is usually easy to relate to products or customers. Costs are less easy. Some direct costs are easy to assign to the product, but other costs are shared and therefore need a "cost model" to identify the cost drivers and give economically sound cost allocations. This cost model ensures each product has the costs that it causes.

[4] Facetious comment: the converse might be true. Has an impressive (but possibly incomprehensible or weak) PowerPoint presentation ever led managers to make the *wrong* decision?

Some costs are not directly related to any product and may have little evidence for any strong direct cost driver. Other cost assignment options can be considered, depending on the business and strategic needs. Ramsey pricing[5] and other techniques may be considered. The costs will need to be recovered, if the total company is to be profitable.

Such cost and profit systems make use of technical/network data, accounting data and business analysis (Activity Based Costing). This enables the underlying cost and profit data to be processed and so allows the one slide view to be made.

This cost model analysis can be done. Simple models are possible or very sophisticated ones can be made to have in-depth analysis with click-on probe-down capabilities to 1000s of products. There is a solution available to meet any telco's needs. This does not remove the need for existing measures and reports. These should remain, but by adding more insights, better KPIs can be made. Revenues are vital measures for all products. Profit levels for all products give *additional* information on where to reward sales managers – the best option is up to you.

Please contact Telzed for further advice and help.

[5] Ramsey pricing weights costs to those products that customers are less price-sensitive to