THINK ACT

BEYOND MAINSTREAM

BUILDING AND MANAGING A VALUE-CENTRIC NETWORK

An innovative view for telecom operators on prudent CAPEX investments

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Roland Berger Strategy Consultants

THE BIG 3

20%

of a telecom operator's top customers create 60% of profit by using only 40% of the network sites.

30–40%

of all network sites are typically not profitable and over 20% don't even recover direct running cost.

2–5%

increase in return on capital expenditures can be achieved by value-based CAPEX planning.

Tiers of a Value-Centric Network p. 5

Telecom operators are under pressure. The golden days of "build a network and customers will come" are over.

Telecom operators find it increasingly challenging to maintain historical profit levels. This is mostly due to the combination of intensifying competition, saturating mobile penetration and the rising demand for data consumption that does not necessarily reflect in proportionately higher revenues. The message behind this story is clear: Every penny to be invested in networks and infrastructure counts.

For telecom operators around the world, this situation is becoming a challenge where they need to overcome several issues, particularly as revenues are not growing in line with the data demand and the traffic it creates. The escalating appetite for mobile consumer data is putting tremendous pressure on telecom operators to keep investing even as returns on incremental CAPEX keep shrinking.

As a result, many telecom operators are experiencing declining profitability and ROIC (return on invested capital).

Despite declining margins, delivering a good customer experience is not a choice, it is a necessity. To remain viable in their respective markets, telecom operators must therefore gain scale and serve at low cost. However, that alone is not enough. They must also implement a framework to ensure smarter decisions are being made. This includes value-based investment decisions and how to transform them into bottom-line profitability.

As the rules of the game change, there will be winners and losers. Telecom operators would do well by comprehensively understanding the revenue potential in the market for future growth, their current value creation spots, managing customer expectations in each segment, and focusing on where they can take advantage over competition.

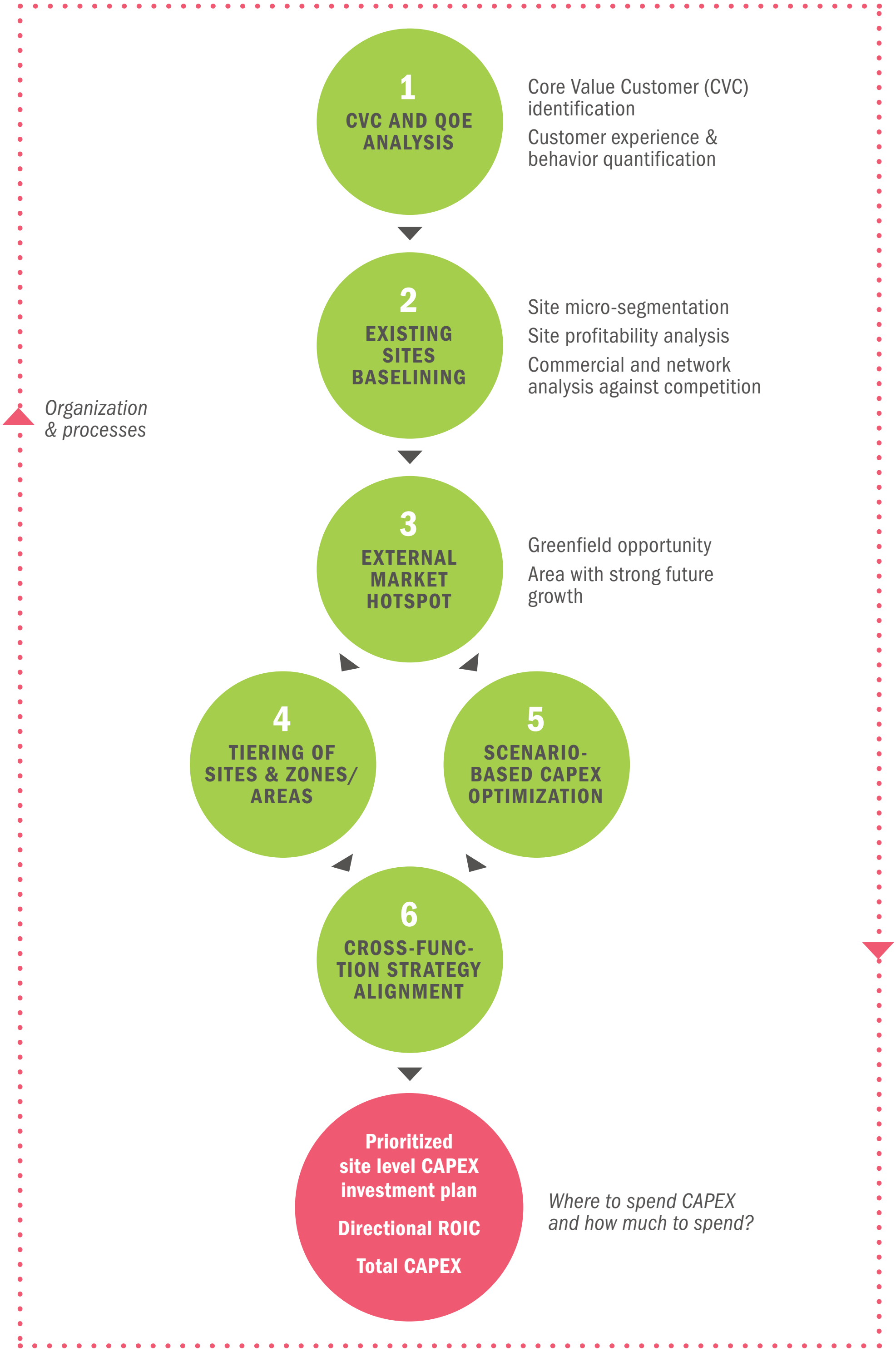
That said, it is far from easy to create a value-optimizing investment plan as it requires Big Data-driven strategic decisions that finely balance CAPEX trade-offs to achieve revenue growth, subscriber acquisition and traffic growth, whilst maintaining Quality of Experience (QoE). If done well, then CAPEX (a scarce resource) can in fact become a tool to align marketing, sales and the network on action items in each territory and finally, determine what a justified tangible customer experience actually means.

To succeed, telecom operators need to address detailed questions such as:

1. What are the key segments that contribute the most to a telecom operator's current profit? What drives consumer experience (in each segment they want to win in)? For example, a telecom operator with a cash-generating youth customer segment should have very different geographical and service quality requirements compared to another telecom operator that focuses on the corporate segment.
2. Which mobile sites do the targeted segments use and for what level of usage? Given tight CAPEX resources, how do telecom operators best serve these segments over and above others?
3. How do competitors target each segment/region? Where are the places that a telecom operator has better chances to win over competition?
4. What are the corresponding investments required and will it generate sufficient ROIC?
5. How should resources be allocated to balance investments in "core customer areas" to retain valuable customers versus investments in new areas to generate incremental revenues and future growth?

SIX-STEP PROCESS TO BUILDING A VALUE-CENTRIC NETWORK

Roland Berger's approach to allocating CAPEX to the high value areas



VALUE-CENTRIC NETWORK TIERING

A FRAMEWORK FOR TELECOM OPERATORS TO MAKE VALUE-BASED INVESTMENT DECISIONS

1

HIGH-PRIORITY CLUSTERS

High-value clusters/sites which are either core to the current profit or pose a high growth opportunity in the future

2

MEDIUM-PRIORITY CLUSTERS

Medium-value clusters/sites which are contributing to operator's profit moderately and with moderate future outlook

3

LOW-PRIORITY CLUSTERS

Low-value clusters/sites which are mostly break-even or unprofitable

Leveraging limited resources. How a Value-Centric Network approach makes investment decisions smarter and smoother.

As competition intensifies, consumer demands and expectations rise, and as discretionary investment dollars become scarcer, the management will face tough decisions trying to obtain the maximal value from their investments. A value-centric approach with respect to investments into mobile networks, driven by a solid data-based investment decision engine, can greatly support telecom operators in making these decisions.

Roland Berger's approach has been proven with several telecom operators successfully adopting this cutting-edge methodology. A recurring lesson learnt from our project experience is that the difference between success and failure is often how well integrated the methodologies are in the organization. This integration can only happen with sufficient time and with top management support to make methodologies truly transversal. Decision-makers must be convinced that "exceptions to methodology will be truly exceptional". Furthermore, processes must be revised and data on site performance be made transparent to all parties involved, so that they realize that a Value-Centric Network approach actually makes things more efficient and smoother in their planning process.

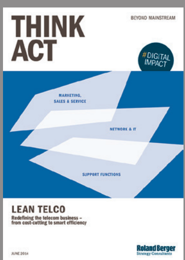
Today, leading telecom operators can turn a challenge into a blessing. Ambitious management teams now have the ability to leverage limited investment resources into a key asset to motivate, incentivize, and align all departments toward a common and shared goal. After all, every penny counts and every penny well-spent is by far the biggest driver of value creation! ◆

ABOUT US

Roland Berger Strategy Consultants

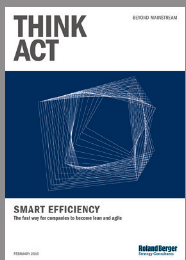
Roland Berger Strategy Consultants, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working from 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. The consultancy is an independent partnership owned exclusively by 220 Partners. **WWW.ROLANDBERGER.COM**

Further reading



LEAN TELCO
Redefining the telecom business

New challenges await telecommunication companies in Europe: The cost-cutting strategies that have boosted growth and profits in the past have long since exhausted their potential. To return to profitable growth, they must alter their strategies and create leaner corporate structures. At its core, our approach is all about enabling companies to respond flexibly to the market conditions around them – and to cut operating costs by up to 20% in the process.



SMART EFFICIENCY
The best way for companies to become lean an agile

Many companies are wrestling with the question of how ambiguous developments are going to affect their bottom line. Whether business will ultimately be up or down as a result depends on the company's individual business model. "Smart efficiency" is an approach we have developed to enable companies to gear up for uncertainty as the new state of affairs and to give themselves more breathing space. They can do this by increasing their elasticity and efficiency concurrently.

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