



# Enterprise performance management in the telecoms industry

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Can your performance  
management processes  
cope with the rapidly  
changing telecoms  
environment?





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Mobile network operators sit at the intersection of a set of emerging technologies that include big data analytics, location-based services and M2M (machine-to-machine) communications that are helping to redefine not only their own business operations, but also those of their customers.

Source: FinancialTimes

The European telecoms industry has been hit by a combination of sluggish economic conditions in mature mobile markets and a regulated fall in traditional revenues streams such as roaming charges.

Source: Daily Telegraph

Millions of mobile phone, broadband and landline customers will be able to switch suppliers without charge in the event their "fixed contract" goes up in price, Ofcom ruled.

Source: FinancialTimes

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# Key issues facing the telecoms industry

Fuelled by the rapidly growing demand for data, the telecommunication industry has seen an explosion of product and service convergence, coupled with industry consolidation across the market. Changing customer demands, greater access to mobile devices, evolving business models and regulatory requirements have all created a busy agenda for management to focus on:

## Regulatory Changes

Potential regulatory changes to roaming charges within the EU and to fixed line infrastructure provision in the UK, would both have an enormous impact on both mobile and fixed line service providers, challenging margins in such market product offerings.

- Do you have the skills, processes and tools in place to support management's understanding of the impact of regulatory changes?
- Do you use external data and predictive analytics to model potential scenarios, including the impact of regulatory changes?
- Do you fully understand how to incorporate risk and uncertainty in your forecasts?

## New Accounting Standard IFRS 15

The introduction of a single-revenue recognition model across all contracts will have significant impact on how revenue is accounted for. Several billion worth of revenue will need to be adjusted to reflect the changes brought about by the new standard.

- Are your systems and processes capable of collating the necessary information for such disclosures?
- Do you have the skills, processes and tools in place to support management's understanding of the impact of the accounting changes?

## Channel to Market

The telecommunications market is rapidly evolving into a more customer centric market, whereby customer preferences are at the forefront in delivering outstanding customer services. Customers are now expecting businesses to provide a consistent experience across multiple delivery channels.

- Do you have a clear understanding of the profitability, cost and revenue drivers of all channels?
- Do you have robust commercial insight to support product launch, retirement and bundling, and understand the impact on your portfolio products/services?
- Are you confident that your delivery platform portfolio is commercially optimised to serve the right products in order to maximise their utilisation and profitability?

## B2B Contract Accounting and Reporting

The convergence of telecommunication and media services has fostered increased B2B activity particularly due to the rise of big data, cloud, increased use of mobile and workforce mobility. Increasingly telecom providers need to be able to provide a managed and integrated network and infrastructure service.

- Are you focusing on long-term service contracts and do you have sufficient information to manage them?
- Are you able to re-engineer pricing models around integrated service offerings?
- Are you able to satisfy B2B customer reporting requirements, particularly around cost transparency?

## Product and service convergence/post-consolidation integration challenges

The drive to offer quad-play services and realise significant synergies through acquisitions has given rise to a new wave of telecommunication consolidations. However, business are facing several challenges post integration

- Do you manage product portfolio effectively, across the post integration organisation, to ensure costs are contained and recovered, and that you maximise your revenue?
- Do you allocate your resources to optimise your revenue position?
- Do you price bundled services appropriately?

## Security

With ground breaking advances in technological capabilities and rising costs to keep data secure, robust security measures are required.

- Do your pricing models reflect the costs incurred in keeping data secure?
- Is your product strategy aligned to the correct infrastructure investment decisions to deal with changing demands in capacity?
- Do you effectively utilise the vast amounts of financial and non-financial data?

### KPMG point of view

In the face of these intense challenges, pressure on prices and increasing competition, industry consolidation and technology led product innovation, the requirement for information to support business decisions has significantly increased across the industry.

At the same time, companies face a profound challenge in understanding and addressing issues within their own walls, which limits their ability to react to the rapidly changing landscape. These are often due to inefficient cost structures, rushed product introductions and legacy systems that can hinder the realisation of strategic goals. Integrated and consistent reporting and insight across the organisation will be key and this will call for a high degree of transparency that will fundamentally change how companies provide performance insight capability. This will impact several different areas of the business and tools, data structures and processes will need to be in place to enable such capability.

We believe that Enterprise Performance Management (EPM) is a key enabler in achieving a company's commercial and strategic goals and objectives, and organisations that are effective in this area have a competitive advantage over their rivals. This capability requires strong financial analysis and insight to help the business make better decisions, supported by effective business partnering.

We believe that to compete in this market, organisations need robust processes to gain insight using drivers of profit and cost to serve in order to offset the declining unit revenues, deal with technology advancement, make informed investment decisions in both products and infrastructure, build B2B coverage and be able to meet growing customer demands in areas such as 4G and content offerings.

# Enabling insight to address industry issues/challenges

## Exploitation of a performance management framework

In order to address the issues raised, it is imperative that you have a solid information delivery platform to provide the right information to the right people at the right time. To attain this requires focus on the deployment of a consistent performance management framework across the organisation.

We believe that an enterprise level framework is required to provide consistency, line of sight and control across the organisation and ability to flex to the changing business environment and requirements.

Increased focus on revenue and cost, concerns over the right investment decisions, a plethora of existing products, intense competition in the market and rapidly changing technology all highlight the need to develop a common performance management framework. This must be flexible, aligned and relevant to all parts of the organisation.

It is imperative that each organisation has a clear articulation of their performance framework journey and that enablement can be summarised into three key components: Planning, Budgeting and Forecasting, Performance Reporting and Dimensional Profitability/Cost insight.

The components of this framework, and their relevance to addressing the issues raised, are detailed to the right.

### Strategy

- High-level strategic goals have to take into account changes in technologies, competitor actions and consider alliances with complementary market players.

### Where can we help?

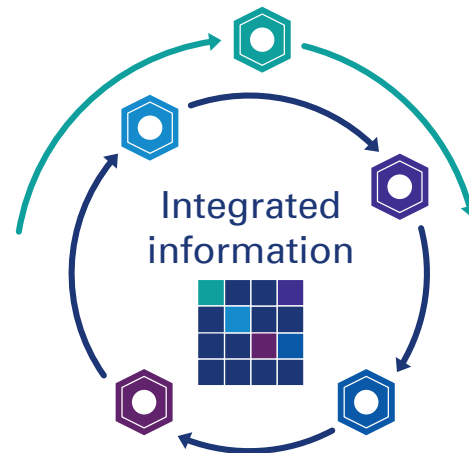
- Dynamic data and reporting model design and implementation.
- Data governance and management.

### Plan

- Alignment of operational and financial plans. This will include timely volumetric forecasts and consider probable impact of current investment cases in progress.
- Requires a model that ensures projections being modelled consistently to actuals (e.g. contract accounting methodology) as well as providing a view of cash flow.

### Where can we help?

- Value driver development and analysis.
- Bid model design.
- Case for change and roll out plan.



### Monitor and Review

- Analysis by product, channels to market, geography, etc. and performance against value drivers ensures costs are recovered through accurate pricing decisions and product introduction, with retirement effects captured.
- Focus on controllable costs and realistic projections facilitates investment decision and product performance tracking.

### Where can we help?

- Cost to serve analysis.
- Product portfolio analysis.
- Customer, channel to market analysis.

### Do

- Recording data and information right first time to the sufficient detail required.
- Efficient production of meaningful reports (aligned to accountabilities) to allow rapid timely review and decision making.

### Where can we help?

- Delivery model, realisation and roll out.
- Defining reporting requirements.

## The key elements and how we have helped Telecom companies

### Planning, Budgeting and Forecasting

We have supported a leading UK telecom by:

- Increasing transparency of risks and opportunities in forecasting.
- Driving consistency between bid models and contract accounts.
- Improving a complex interlock process to ensure consistent assumptions were applied.
- Driving business ownership of the planning process and improving forecast accuracy.

### Performance Reporting

We have assisted a global telecom company to overcome a slow and manual, resource intensive reporting process:

- Defining a common suite of reports agreed with the business.
- Defining a new group reporting process and tool.
- Facilitating the elimination of duplication and inefficiency in the process.
- Improving the interpretation and analysis of data.

### Dimensional Profitability

We have supported a leading telecom company struggling to get the right business insights by:

- Working with key business stakeholders to perform a deep-dive exercise into significant cost areas.
- Identifying opportunities to optimise cost allocations through revised cost allocation methodologies.
- Delivering greater visibility between the cost to serve and the real cost drivers, thereby providing greater accuracy of product costing.

# What can EPM deliver?

Increased profitability by providing insight relating to product bundles, partnering with complementary suppliers (e.g. content providers) and access charges to third parties.

Increased sensitivity through insight into external influences which will impact the telecoms industry including new entrants to the market, regulatory changes and changes to accounting standards.

The ability to identify and terminate activities that destroy value, such as unretired legacy platforms, inefficient pricing decisions and cost structures.

Optimisation and alignment of resource deployment, particularly around key business constraints such as capital investment in new products, infrastructure and systems.

Improving agility allowing responsiveness to changes in the telecoms industry, such as convergence of technologies (e.g. mobile and fixed), competition from complementary markets, M&A activities and new entrants to national markets.

Greater accuracy of projections, building increased market confidence.

Increased focus on the true drivers of value and controllable elements of performance. Graphical presentations of data will give insights via trend analysis, drill down capability and access to non-financial data from outside the organisation.

A dynamic model to validate possible outcomes based on internal and external data. This will improve the linkage between product development and sales processes.



Forward looking information (leveraging external data) to allow timely interventions to get performance on track, such as improving long-term contract performance, customer churn and retention.

Effective movement into complementary products e.g. long-term (B2B) contracts analysis to ensure consistency and comparability of recoverable costs from Bid through to Steady state.

Identification of the right tools to effectively unlock existing capabilities, skills and insights within the organisation.

**Our clients include large multinational telecommunication companies, internet providers and mobile technology companies.**



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