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Achieving Competitive Agility

End-to-end cost optimization unleashes CSPs' future growth potential

By pursuing end-to-end cost management strategies, CSPs can free up funds to invest in new areas and realign their businesses for long-term growth.

Introduction

The COVID-19 pandemic has seen the telecoms industry respond exceptionally well by maintaining essential connectivity, extending communications to those that need it most and supporting vulnerable customers. And now, as economies reopen and the world returns to a new normality, CSPs will play an integral role in that recovery. Major economic contraction is inevitable, but how long it will last remains open to question. But there are likely to be severe constraints on consumer and enterprise spending as recessionary impacts bite.

However, even before the pandemic, the scale of the challenge confronting CSPs was substantial. The significant investments required to roll-out 5G and satisfy consumer and business needs for new and innovative digital services were straining CSPs' balance sheets and P&Ls. In the post-COVID-19 world, those pressures will only intensify.

Changes in consumer behavior and new ways of working post-COVID-19 will also present opportunities for CSPs to address cost pressures. Customer care will migrate from physical stores to automated digital channels. Remote working is likely to increase. These shifts will create opportunities for CSPs to lower their own office costs while also introducing new solutions to help their business customers support remote workers.

As they move forward, CSPs will need to understand their cost drivers in more detail than ever in order to support the strategic choices they must make to compete and thrive in the new environment. This paper sets out the cost-benchmarking analysis carried out by Accenture and Ovum which highlights the criticality of end-to-end cost optimization for achieving competitive agility. The insights and recommendations it contains have acquired even greater urgency and relevance for CSPs developing their roadmap to success in the post-COVID-19 communications market.

01

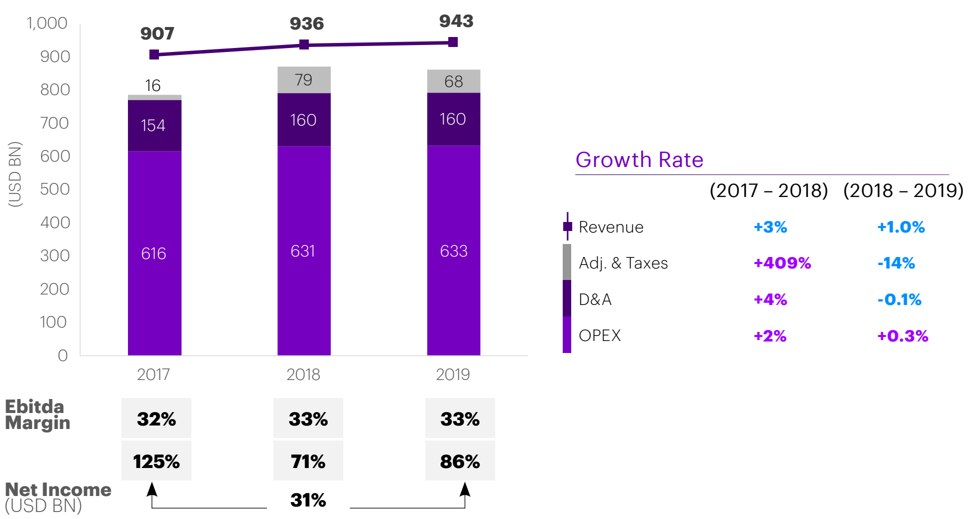
CSP cost benchmarking

In late 2019, before communications service providers (CSPs) were tasked to address the current challenges of the global pandemic, Accenture partnered with Ovum to complete a cost-benchmarking assessment of 27 CSPs worldwide. Our goal was to help CSP clients make the right strategic decisions on costs, investment and growth. The research uncovered deep insights into the cost bases of CSPs. This enabled us to identify the key cost drivers in Network and IT, Enablement, Sales and Marketing, and Admin and Overhead. Preparing for what comes next, as the market conditions eventually return to a new normal, CSPs will be challenged once more to drive and sustain high rates of growth, and will need to leverage their investments to their fullest potential.

A burning platform

CSPs are under pressure to improve their top-line growth. And they're facing calls to revamp cost management. In 2019, CSP revenue was projected to rise by a paltry 1 percent (Figure 1). This was noticeably lower than the 3 percent of growth that was achieved in 2018. And just 11 CSPs from our sample of 27 predicted a positive revenue forecast for the period in question. Operating expenditure (opex)

Figure 1: CSP financial metrics, 2017-2019
Source: Ovum CSP Opex Study 2019, Accenture analysis



increased by a total of 2 percent in 2018. It was predicted to increase by a further total of 0.3 percent in 2019. And EBITDA margins are projected to rise from 32 percent in 2017 to 33 percent in 2019.

The absence of significant growth in these financials raises serious concerns for CSPs. It underlines the need to maintain a strong focus on cost optimization. CSPs must continue to release opex spend to increase capital expenditure (capex) investment for the next wave of technologies. And they should do this specifically to fund 5G rollouts.

This situation is worsened by the capital-intensive nature of telecommunications. A high level of borrowing is required to fund network rollout. Because of this, CSPs typically have net debt-to-EBITDA ratios in the range 3.0 to 5.0. In some cases it's even higher. These high levels of debt place significant pressure on CSPs' short-term finances. So, to meet their repayment schedules, CSPs should manage their cashflow carefully. This is a further reason why they need to optimize costs in every area of the business and ensure sufficient funds are released to invest in new growth areas.

Cost to compete

A deeper dive into the structure of opex costs reveals an important trend: CSPs have been actively shifting their spend from indirect to direct costs (Figure 2). As a result, direct costs including Network and IT, and Enablement (interconnect, content and devices) now represent nearly 70 percent of all opex costs. We refer to this as the "cost to compete". And it's rising. More and more CSPs are compelled to spend big on content and network to differentiate their offerings and maintain competitiveness. As the chart illustrates, Network and IT costs are up marginally (by 0.2 percentage points), but there is a significant increase of 1.4 percentage points in enablement costs.

Figure 2: CSP opex as a share of total revenues

Source: Ovum CSP Opex Study 2019, Accenture analysis

Overview of OPEX changes from 2017 to 2019 (as % of revenue) | Total OPEX share (2017 to 2019)

						Total OPEX share (2017 to 2019)
DIRECT COSTS	Network & IT	16.3% to 16.1% Network Ops	=3.5% Leased network	= 5.1% IT Ops	= 2.1% Regulatory	▲ 39.7% to 39.9%
	Enablement	4.1% to 3.9% Interconnect	10.1% to 10.3% Devices	5.4% to 6.1% Content		▲ 28.8% to 30.2%
SG&A	Sales & MKTG	12.5% to 11.6% Sales	2.8% to 2.6% Marketing			▼ 22.4% to 21.1%
	Admin & Overhead	6.1% to 5.8% G&A				▼ 9% to 8.66%

In light of these challenges, CSPs are seeking out new strategies. They want to reduce costs and start a new wave of growth. The good news for CSPs is that customer demand for connectivity is set to grow strongly. And CSPs have opportunities to capitalize on rising demand for new enterprise and consumer digital services. These include the internet of things (IoT) and other emerging 5G-based applications. According to IDC, by 2025 there will be 41.6 billion IoT devices generating 79.4 zettabytes (ZB) of data.[1]

The primary focus for this paper is opex. But we also examine the impact of how CSPs optimize capex cost. CSPs must understand the interplay between opex and capex. This is important for taking an end-to-end approach to cost optimization. They should also realize the benefits of addressing both simultaneously.

02

> ***... CSPs must constantly juggle the need to manage their cost bases with the risk of reducing investment in areas that will have a negative impact on customers. This requires an end-to-end, enterprise-wide approach to cost management.***

End-to-end opex cost optimization: three key focus areas

CSPs generally take a broad-based approach to cost management. No single area dominates their cost reduction efforts. But some CSPs are reluctant to cut back on customer-facing areas. For example, our findings indicate that spending on areas like retail footprint and dealer commissions remains relatively stable. However, CSPs must constantly juggle the need to manage their cost bases with the risk of reducing investment in areas that will have a negative impact on customers. This requires an end-to-end, enterprise-wide approach to cost management. They must focus on cost optimization rather than cost reduction and ensure they get the maximum value for dollars spent. In this section we highlight three specific areas where cost optimization can be achieved.

1. Supply chain and procurement

CSPs are advised to adopt a zero-based approach (ZBx) to procurement and supply chain. And they should focus on the highest-spend opex categories. Examples of high-spend categories at an Accenture client were: IT hardware; software and services; leased network real estate; leased access and interconnection; CPE (television, high speed data, and mobile devices and accessories); and device service and repair. The zero-based approach to each cost category included: the appointment of a senior executive category owner; the assignment of a cross-functional team to set targets and execute change initiatives to reset the cost baseline; and the tracking of overall progress via a centralized program office.

The initiatives might involve traditional approaches. An example of this is direct vendor negotiations in the case of CPE. Or they may call for more creative and industry-specific moves. One example is changing device service and repair from like-for-like exchanges to on-site repair of the customer's device. But there are several critical parts to achieve step-change impacts on opex. This is underlined by the customer experience. They include: executive-level category ownership and sponsorship; disciplined evaluation of the basis for current spend and all options available, to provide the same outcomes in a more cost-effective manner; and a centralized focus on outcomes.

Accenture Case Study

Latin American mobile network operator: category cost management to reduce opex

Objective

The company was a challenger brand in its home market. It occupied the number three position in market share. Opex cost benchmarking revealed a large gap in cost competitiveness. This hampered the company's ability to grow through aggressive marketing and customer acquisition. The newly appointed senior management team set a goal to be at parity or better on cost metrics compared to direct competitors within 24 months.

How

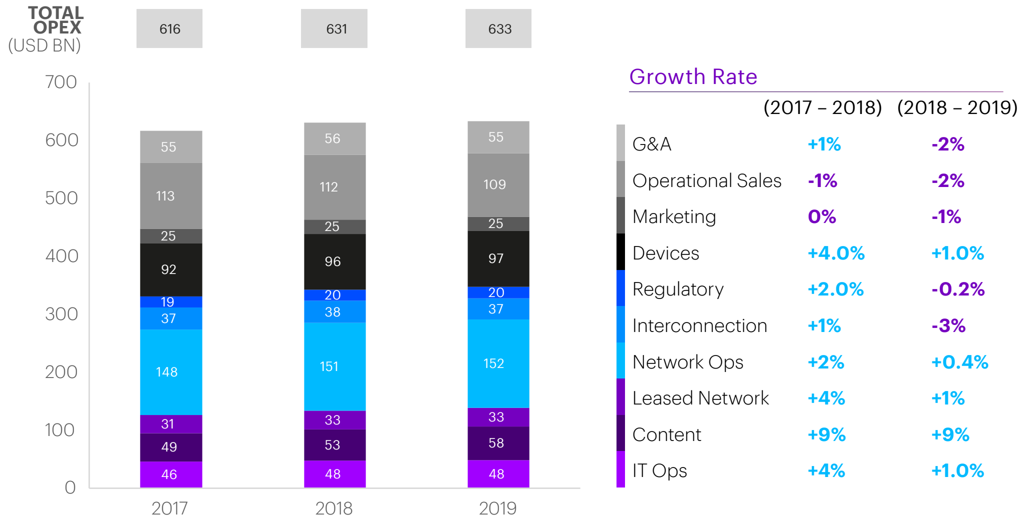
Accenture worked with the client to establish category owners and teams. The owners and teams then defined opportunities and initiatives to address the largest cost gaps. One example category addressed was mobile devices. The category team developed a playbook to address benchmark gaps. This featured initiatives that were defined for both internal processes and device OEM agreements.

Impact

The client first restructured the internal management of its relationships with mobile device suppliers. It then centrally coordinated the renegotiation of its relationships with suppliers. In the end, the company was able to eliminate more than 10 percent of its total landed costs of the single largest opex spend category.

2. Automating network operations
CSP spend on network operations accounts for 25 percent of the overall opex. This spend is forecast to grow by a further 0.4 percent in 2019 (Figure 3). The rise comes on top of an increase of 2 percent that occurred from 2017 and 2018. Network-related operational costs include planning, procurement, rollout and maintenance. They feature a labor cost component. And they also cover a portion of utilities and land/property expenses that are calculated on a pro-rata basis.

Figure 3: CSP opex breakdown by spend category
Source: Ovum CSP Opex Study 2019, Accenture analysis



Artificial intelligence (AI) technologies can help to improve network operations. For example, predictive analytics can boost network maintenance with service and repair. And network automation can help to transform the workforce. This may include the reskilling of network engineers. This is due to skill requirements continuing to shift from network engineering to data center engineering. People-related costs will also be impacted by implementations of 5G/NFV. The intense competition for talent from webscale companies is likely to drive CSPs' wage bills higher. And staff retention could be a major challenge as we see CSP engineers move to the webscale players.

CSPs should leverage new AI, automation and analytics capabilities to drive efficiency in their network operations. Doing so will enable them to positively impact the overall network opex.

Accenture Case Study

US-based communications service provider: automation for network cost savings

Objective

The main goal was to improve network cost savings. This was achieved by leveraging network automation. It featured a higher network reliability and a faster mean time to repair (MTTR). A further objective was to maintain a streamlined and efficient network operation workforce. One that is focused on identifying network/service problems and fixing them within existing SLAs.

How

Accenture delivered an end-to-end network automation project. This included an automation assessment, definition of the use case roadmap, and end-to-end project management. The scope of the project featured both a definition of a high-level business case and the design, building and testing of automation use cases.

Impact

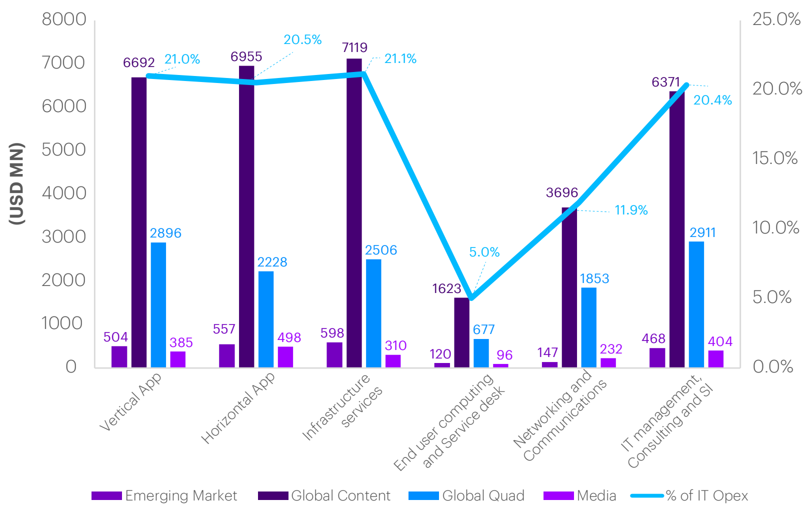
The project delivered 46 full-time equivalent (FTE) savings. These were across a 180-FTE baseline for network operations. And automation was introduced across several top contributors to service availability. This included link status change, device status, non-voice core alarm and voice infrastructure. Other outcomes related to data translation (e.g. automated clearing of trunk group OSS tickets), software upgrades, and pre/post validation (e.g. automated configuration of ePipe and LAG Upgrades).

3. Data-driven customer understanding and experience

Our study found that 21 percent of the overall IT budget for CSPs is spent on vertical apps. Spending on vertical apps increased by 1.7 percent between 2018 and 2019 (Figure 4). The biggest slice of spend is on Business Support Solutions (37 percent). And it includes both revenue management and customer management.

Figure 4: CSP opex breakdown by spend and company category

Source: Ovum CSP Opex Study 2019, Accenture analysis



Growth Rate

(2018 – 2019)

IT management, Consulting and SI	**+1.7%**
Networking and communications	**+2.3%**
End User Computing and Service desk	**+1.5%**
Infrastructure services	**+0.6%**
Horizontal App*	**+0.8%**
Vertical App*	**+1.7%**

In customer management, the shift to digital customer engagement is gaining traction. Several CSPs have deployed digital as a channel for self-service and automated interactions with customers. For example, up to 70 percent of chat-initiated sessions of one North American carrier's network are now handled by chatbots. This was achieved with an AI Care solution from Accenture. CSPs should use investments to reduce costs. But they should also be used as a means to improve customer experience and Net Promoter Score (NPS).

The next wave of digital innovation will be more focused on enhancing the customer journey. And it will be powered by omnichannel experiences and analytics. Digital innovation requires a change in approach from CSPs. This is in terms of both the overall brand strategy and organizational culture. These initiatives must be driven top-down by CSPs' leadership. It's key to ensuring buy-in across the organization and adequate funding. AI Care can further improve customer outcomes and reduce call center costs. Customer data analytics can be used to enhance product design and targeting.

03

A targeted approach to capex investment

By focusing on Return on Invested Capital (ROIC), CSPs can improve business performance and lower operational costs. Here are the three approaches that can help CSPs achieve this.

1. Drive network capital efficiency
Due to the cost constraints outlined earlier, CSPs should always aim for improved network capital efficiency. It's important to try and get the "most bang for your buck" with any new investments into the network. Don't forget that 5G network deployment is set to become one of the most critical areas of investment for mobile operators over the next few years. This is why we recommend that companies optimize their infrastructure rollouts with a targeted approach, as it maximizes their returns on investment. And to help with this, Accenture built the Network Decision Platform (NDP). It's a powerful cloud-based solution for CSPs that offers an integrated, end-to-end view of 5G, fiber and traditional mobile communications services. The NDP uses data analytics and innovative visualization tools to aid CSPs in three areas. First, to identify where they can efficiently deploy their capital. Second, to accelerate capital deployment timelines. And third, to calibrate CSPs' business case metrics.

2. Migrate legacy systems to the cloud
As shown in Figure 3, the IT spend of CSPs contributes 7.5 percent to total opex. IT spend increased significantly between 2017 and 2019. The key drivers of rising investments include cloud services platforms, acquisitions (e.g. Yahoo, L3 and EE) and infrastructure applications. CSPs' cloud costs are projected to increase by 2 percent. These will be driven by the need for lower latency, better monitoring and new analytical tools. However, it is only in emerging markets that CSPs have funded this cloud investment by reducing their on-premise spend.

This data indicates that CSPs can realize substantial capital cost savings. But to do this, they must migrate existing IT systems from on-premise to the cloud. And they must also reduce investments in new, on-premise IT. This approach will lead to immediate cost savings. And it will also create opportunities for CSPs to enhance competitiveness by adopting a more agile operating model. For example, cloud-based operations enable CSPs to deploy new services and features quicker. This in turn creates service differentiation. opportunities.

Accenture Case Study

Large Italian CSP: data platform migration to the cloud ("journey to cloud")

Objective

The goals included datacenter cost reduction and rationalization with a technology and processes refresh.

How

Accenture designed and set up a hybrid cloud for the client. This hybrid was created using innovative SD-x/container-based on-premise architectures. The journey to the cloud required an application analysis and a definition of an effective migration strategy. The scope of the project included decommissioning and consolidation of the datacenter. In addition, we drove the transformation of the operating model.

Impact

The reduction of capex was achieved using a new x86-oriented architecture. Due to lower costs, opex reduction occurred in areas such as energy, physical space requirements, hardware/software licensing and maintenance. IT operational efficiency improvements were achieved by adopting automation. This enabled faster system start-up and time-to-market. The client's employees were reskilled to use the new technology.

3. Take a more strategic approach to capex/opex interplay

CSPs should take a more strategic and long-term view of the capex and opex relationship. This will help them to adopt a disciplined approach to cost management. Targeted capex investment programs such as 5G and fiber can lead to lower opex. This is due to automation, network virtualization and reduced leased lines usage. It is also a result of the better alignment of network resources with customer demand. Similarly, accelerating Network Functions Virtualization (NFV) deployments can reduce network opex.

There is also an important organizational dimension. Accenture can identify relevant opportunities for alignment. This is based on Accenture's long track record of working with CSPs. We help CSPs' marketing, network, finance and business planning functions to align closer. In cases where there is poor alignment across the groups, we have observed inconsistencies in the KPIs. These drive decision-making within each part of the organization. But when business units have misaligned priorities and KPIs, this often results in inefficiencies in resource allocation.

To address this issue, CSPs should adopt a strategically- and commercially-driven approach to capex investment. And it's advisable to develop a deeper understanding of how capex decisions impact opex over the long term. The ultimate objective is to free up resources to invest in new innovations. This is how CSPs can underpin future business growth.

04

Competitive agility requires a zero-based mindset

In today's hyper-competitive landscape, CSPs must strive for business advantage. This requires a high degree of competitive agility. As summarized in Figure 5, competitive agility provides companies with a competitive edge. And it enables an opportunity to turn disruption into an advantage. The key to success is to drive growth and innovation, and keep the core running optimally.

Figure 5: Competitive agility overview

Source: Accenture

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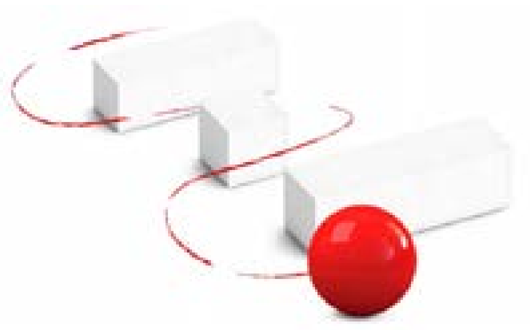
Competitive Agility

In the hyper-competitive landscape how do you thrive in the now, the new and the unknown?



What it is

A way for companies to gain a competitive edge, invest in new opportunities and drive growth while keeping their core business running optimally.

Why it matters

The competitive landscape is shifting as customers seize control. To thrive, leaders must shift to a more agile, confident mindset to turn disruption to opportunity.

Where it's going

Leaders will be able to maximize investments, reallocate resources and prioritize growth by cultivating Competitive Agility from within.

CSPs that master competitive agility set themselves up for success. They can execute with equal strength across growth, profitability, sustainability and trust. But they need to manage the core business. They must maximize investment in new technologies and business opportunities. It's critical that they also realign resources to drive future growth. Competitive agility is demanded from the outside yet driven from the inside. CSPs that achieve it can act with speed and confidence. And they can turn disruption into opportunity.

Adopting a zero-based mindset

The adoption of ZBx is a key component of competitive agility. ZBx goes beyond zero-based budgeting (ZBB) to help companies identify non-working money and reinvest it for growth and innovation. A key challenge for some companies—including most CSPs—is how to achieve startup speed at enterprise scale. ZBx can help them overcome this challenge.

ZBB addresses the tip of the iceberg in terms of cost management. ZBx is a more evolved way of thinking about efficient business operation. It favors agility over austerity. It enables visibility over guesswork. And it drives future vision over past behaviors. ZBx shifts the focus from pure cost-cutting toward linking efforts with outcomes. This is done to drive competitive advantage and greater corporate agility. Figure 6 summarizes some of the critical actions CSPs can take on their journey to achieving ZBx.

Figure 6: Key components of a zero-based mindset (ZBx)

Source: Accenture

Zero-based commercial (ZBC)

Define the right customer experiences and price points for each segment. Evaluate total share of wallet to optimize investments and grow revenue.

Zero-based organization (ZBO)

Clean sheet your company. Determine your future needs and redesign to shift talent away from work that doesn't drive the outcomes you want.

Zero-based spend (ZBS)

Identify General & Administration (G&A) with an unprecedented level of granularity to make bold choices that free up cash for growth initiatives.

Zero-based supply chain (ZBSC)

Pinpoint the "should cost" of goods sold based on price, performance and value engineering, then optimize products and services accordingly.

With the move to ZBx, the days of incremental problem-solving are gone forever. A zero-based mindset is about more than line items and balance sheets. It's about transforming a culture at its core by aligning priorities across the organization. If implemented correctly, ZBx reinvigorates mindsets and behaviors. It endows people with ownership over their spend and how they channel savings into new sources of growth. It's not easy to create a culture of innovation at every level, but ZBx makes it possible.

05

Closing thought: choose your partners carefully

In this paper we've identified just a handful of the myriad initiatives CSPs can pursue to optimize costs and ensure their network and IT investments are fully aligned with their business strategy and goals. As they continue on their journey toward competitive agility and ZBx, CSPs need partners that can help them both in transforming their cost bases (capex and opex) and in leveraging savings to unlock new growth opportunities. Choosing to manage costs rigorously or find new paths to growth is not an either/or decision. Today, CSPs must do both.

Using Accenture's data-driven approach, CSPs can begin their journey by benchmarking costs against those of their peers. Our cost benchmarking study—conducted in partnership with Ovum—provides a wealth of detailed data. And it covers all major opex expense categories. CSPs who work with Accenture can achieve competitive agility and a zero-based mindset. This will ensure they succeed in their quest to identify and seize new opportunities. And it will set them up for continued growth and innovation.

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