FUEL FOR GROWTH:
HARNESSING DIGITAL TO CUT COSTS IN THE COMMUNICATIONS INDUSTRY

How communications service providers can harness digital to cut costs – and free up investment to turn their future vision into reality

TODAY'S CONTEXT:
AN INDUSTRY AT AN INFLEXION POINT

Communications service providers (CSPs) across the world are facing a fast-evolving landscape of stagnating revenues from traditional services, rising customer expectations, and intensifying competition from agile and well-funded over-the-top entrants.

The resulting impacts on CSPs' costs, revenues and margins are all too evident. As Figure 1 shows, CSPs' operating expenditure (opex) has fallen by about 2% over the past two years, but their net income remains at its lowest level since 2009.

This tightening revenue and cost squeeze is driving CSPs to seek out new strategies to reduce costs and reignite growth.

The good news is that CSPs have a window of opportunity in which to reinvent themselves for the new industry environment. They can do this by building an intelligent enterprise, and using the resulting cost savings as fuel for growth

OUR RESEARCH SHOWS UNFOCUSED APPROACHES ARE RUNNING OUT OF ROAD

The findings from Accenture's research with Ovum into CSPs make it clear that ad hoc, piecemeal cost-cutting and unfocused investment in new areas won't deliver the turnaround in performance that CSPs are seeking. Instead, CSPs need to consider costs and growth in tandem, with a clear unifying goal in mind.

The fact is that many CSPs are currently just surviving by optimizing their core business to save costs and pay dividends.

But to kick-start sustainable growth once again, they need to fuel that growth by reinvesting the savings into high-potential areas.

In this paper, we discuss the insights from our research with Ovum into CSPs; our method for fueling growth from cost savings; and our vision for an intelligent enterprise that enables these savings to be realized and sustained.
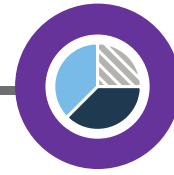
CSPS' PROFITABILITY CONTINUES TO DECLINE

To help our CSP clients make the right decisions on costs, investment and growth, Accenture has partnered with Ovum to undertake a cost-benchmarking assessment of 26 global CSPs. This research has given us unrivalled insights into a CSPs' cost base, enabling us to identify their key cost drivers in Network & IT, Enablement, Sales & Marketing, and Admin & Overhead. The top-line findings are shown below.
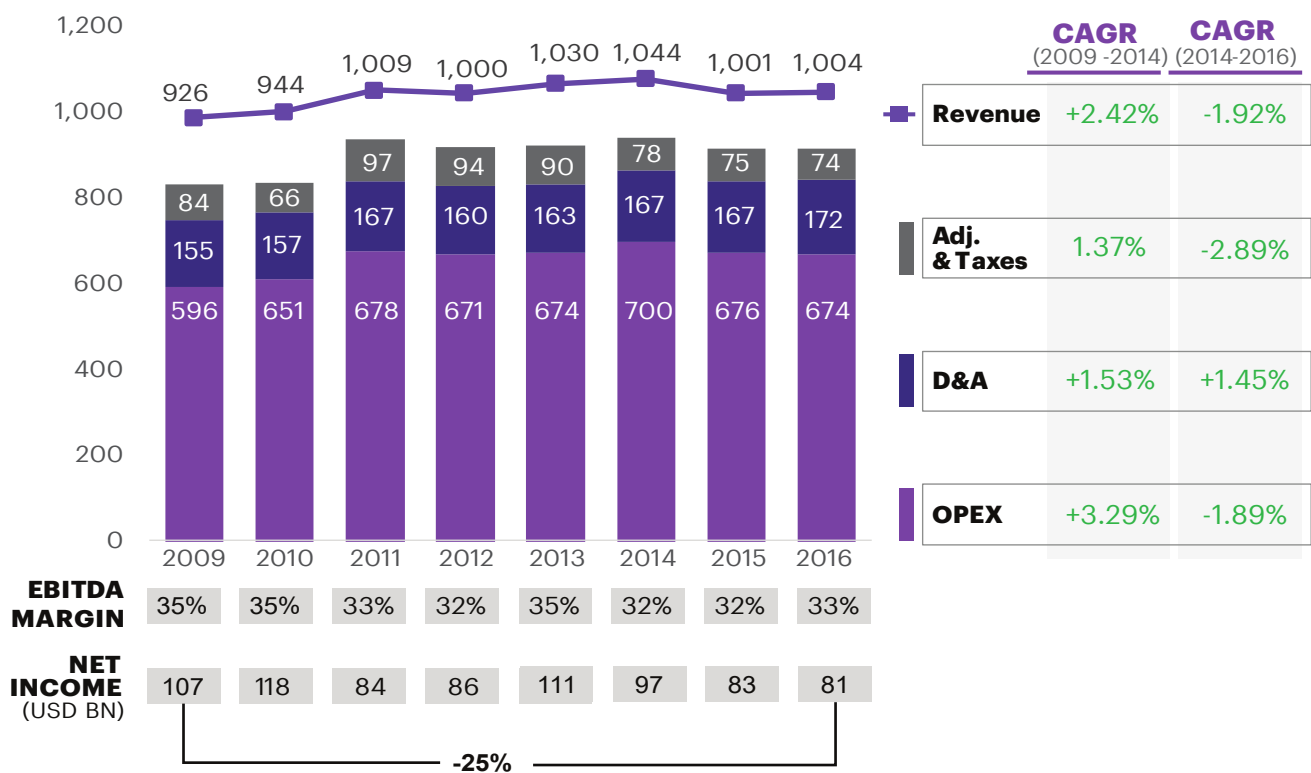
26 GLOBAL CSP NET INCOME (USD BN)

		CAGR (2009 -2014)	CAGR (2014-2016)
▪	**Revenue**	+2.42%	-1.92%
▌	**Adj. & Taxes**	1.37%	-2.89%
▌	**D&A**	+1.53%	+1.45%
▌	**OPEX**	+3.29%	-1.89%

Revenue (line): 926, 944, 1,009, 1,000, 1,030, 1,044, 1,001, 1,004

Adj. & Taxes: 84, 66, 97, 94, 90, 78, 75, 74
D&A: 155, 157, 167, 160, 163, 167, 167, 172
OPEX: 596, 651, 678, 671, 674, 700, 676, 674

Years: 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016

	2009	2010	2011	2012	2013	2014	2015	2016
EBITDA MARGIN	35%	35%	33%	32%	35%	32%	32%	33%
NET INCOME (USD BN)	107	118	84	86	111	97	83	81

-25%

Figure 1: 26 global CSPs' net income and other financial metrics, 2009-2016

CSPS' OPEX AS A PERCENTAGE OF TOTAL REVENUES
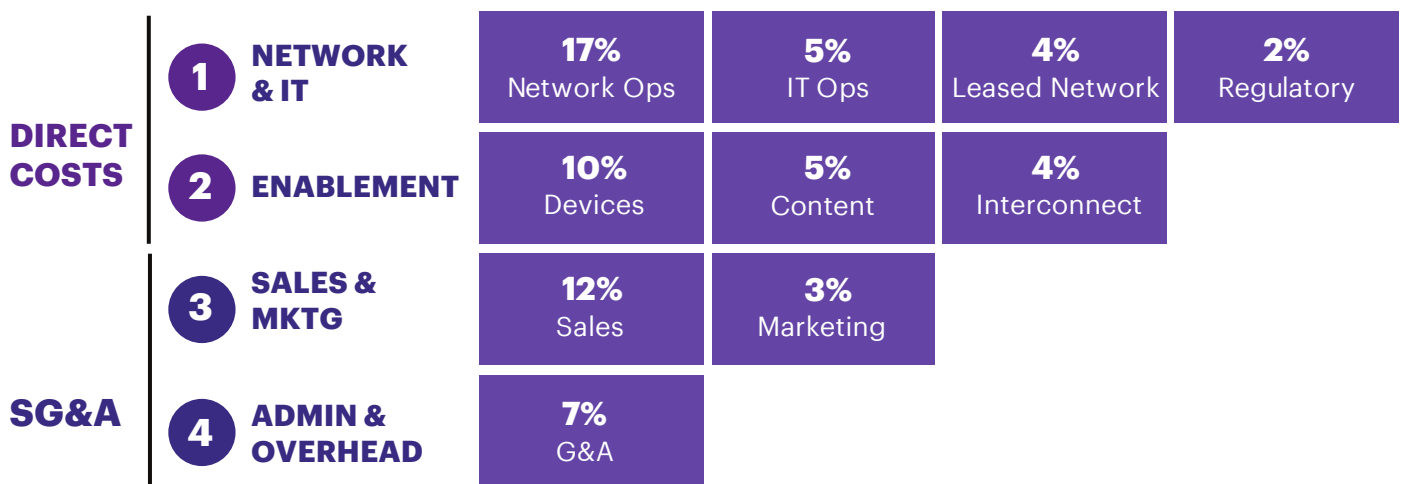
(OPEX AS % OF TOTAL REVENUES)

DIRECT COSTS	**1** NETWORK & IT	**17%** Network Ops	**5%** IT Ops	**4%** Leased Network	**2%** Regulatory
	2 ENABLEMENT	**10%** Devices	**5%** Content	**4%** Interconnect	
SG&A	**3** SALES & MKTG	**12%** Sales	**3%** Marketing		
	4 ADMIN & OVERHEAD	**7%** G&A			

Figure 2: CSPs' opex as a percentage of total revenues

TOP INSIGHTS

PROFITABILITY CONTINUES TO DECLINE
- CSPs' opex has fallen by about 2% over the past two years, but their net income remains at its lowest since 2009

SAVINGS FOUND HAVE BEEN REINVESTED
- Savings made from a 10% cut in interconnect costs have been canceled out by higher spending on Network & IT Ops and Content
- CSPs are seeking to create more robust business models by allocating almost 70% of total spend to direct costs, with a view to strengthening their operations

OPPORTUNITIES VARY BY CSP TYPE
- Our analysis categorizes CSPs globally into three segments: Emerging Markets, Global Quad-Play, and Global Content
- We've identified that each segment needs to adopt a different focus: Emerging Markets CSPs on zero-basing spend in G&A; Global Quad-play CSPs on simplifying Sales; and Global Content CSPs on investing in Networks & IT
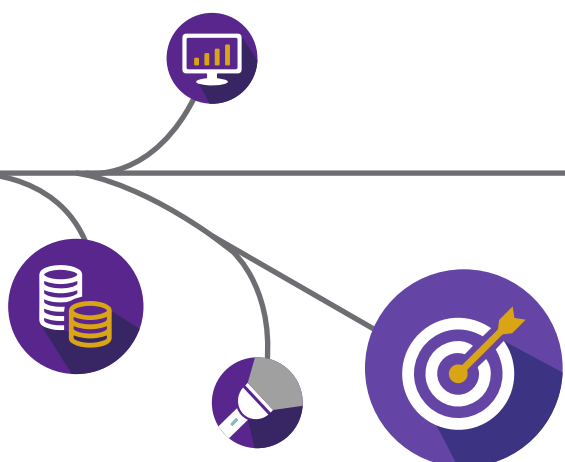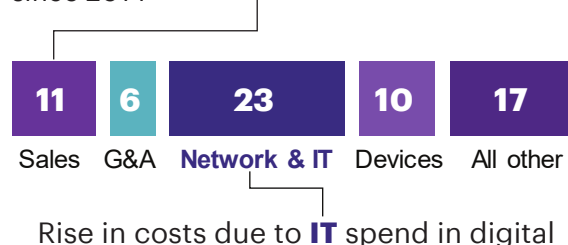
COST DRIVERS FOR THE THREE TYPES OF CSP

GLOBAL CONTENT PLAYERS

CSPs from developed economies with significant content-based business

67%
Of all revenues spent on Opex

Simplified **SALES** to reduce spend by 25% since 2014

11	6	23	10	17
Sales	G&A	Network & IT	Devices	All other

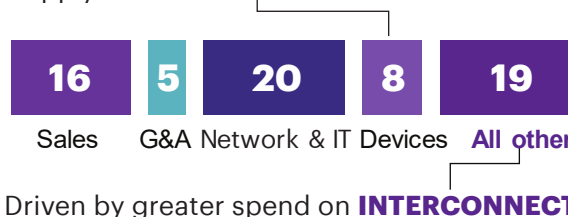Rise in costs due to **IT** spend in digital

GLOBAL QUADPLAY PLAYERS

CSPs from developed economies offering quad-play and global enterprise solutions

68%
Of all revenues spent on Opex

Optimize **DEVICE** spend by investing in supply chain

16	5	20	8	19
Sales	G&A	Network & IT	Devices	All other

Driven by greater spend on **INTERCONNECT**

EMERGING MARKET PLAYERS

CSPs with mostly mobile operations in Latin America, Eastern Europe, Africa, APAC

66%
Of all revenues spent on Opex

Only CSPs to increase **G&A** in last two years

11	8	21	11	15
Sales	G&A	Network & IT	Devices	All other

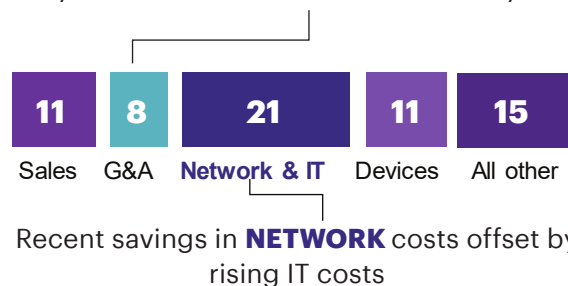Recent savings in **NETWORK** costs offset by rising IT costs

Figure 4: Key cost drivers of four categories of CSP

These insights – combined with our ongoing engagements and conversations with CSPs worldwide – have enabled us to develop a clear point of view on cost transformation in the industry.

THE S-CURVE OF TRANSFORMATION

Operators must start by clearly identifying their vision of their future digital business. Then they must use that vision to develop the framework for their growth program – powered and enabled by digital – and pinpoint the savings needed to finance it. This strategy enables operators to transform from old to new – while enabling the whole business to see that the savings are being made to fuel growth, not just for in-year belt-tightening.

By undertaking the S-curve journey, operators can ignite their fuel for growth to deliver three imperatives: transform the core, scale the New, and navigate a wise pivot to their future vision.
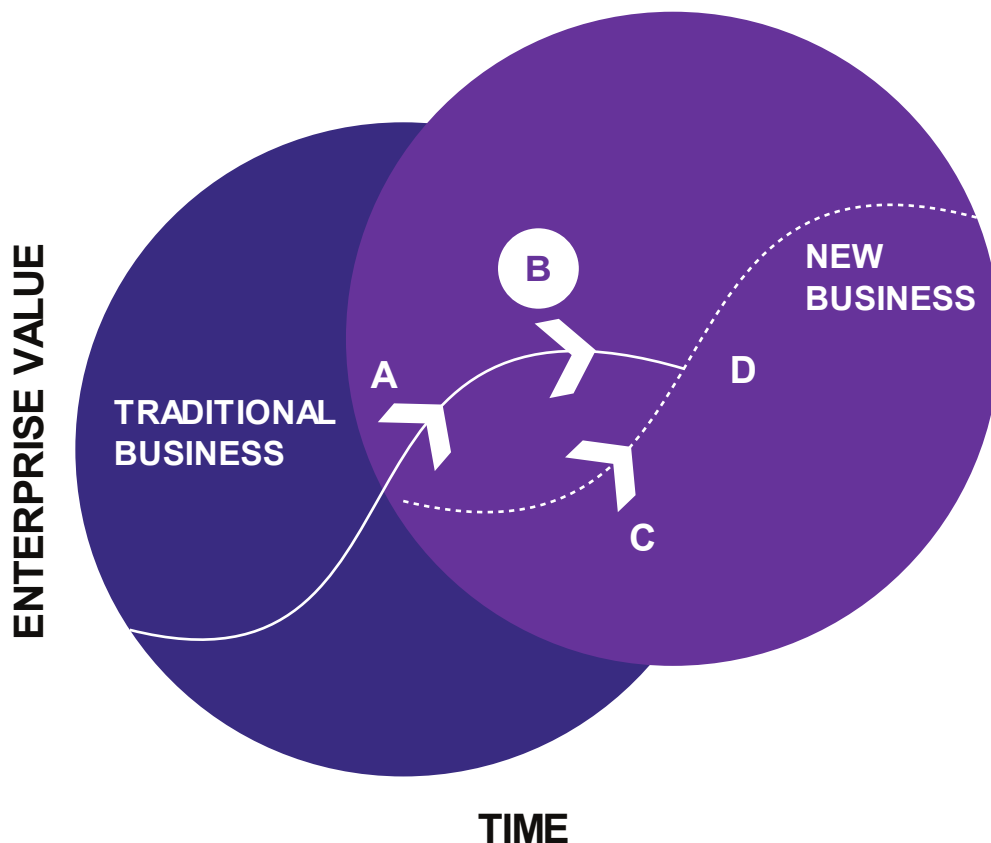
ENTERPRISE VALUE

TRADITIONAL BUSINESS

A

B

C

D

NEW BUSINESS

TIME

Figure 5: The "S-curve" of transformation (Accenture analysis)

Navigating the S-curve repositions CSPs to grow their core businesses while also gaining significantly more agility. It does this by allowing them to move away from merely fighting opex to generate cashflow, and toward realizing renewed growth while continuing to optimize their core business. The result is that CSPs can pivot towards their target end-state – and manage that pivot at a pace that suits their specific needs, challenges and opportunities.
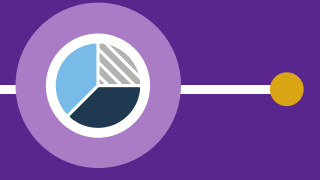
THREE WAYS WE HELP CSPS TRANSFORM THE CORE

There are three complementary approaches to transforming the core, as shown in the diagram below. We help CSPs of all types understand which of these approaches will be optimal for them.

NEW RULES, NEW CHALLENGES

The industry squeeze is tightening...

- Top-line growth is stalling
- Profitability has plateaued
- Consumers are finding new-increasingly digital ways to engage

THERE ARE 3 PLAYS IN THE FUTURE

MULTI-SIDED PLATFORM

Establish cloud-platform business enriched by OTT / industry partners.

DIGITAL MOBILE FIRST

Provide a basic connectivity service built around simplicity.

CONNECTED INDUSTRY ORCHES-TRATOR

Managing intelligent, open, self-service digital networks.

The Intelligent Enterprise

Simplify Operating Model

Zero based Mindset

THE WAY FORWARD

TRANSFORM YOUR CORE

WHERE TO START?

We've teamed with Ovum to analyse the spend of 26 CSPs globally across the 3 plays

1. INVEST IN AN INTELLIGENT ENTERPRISE

NETWORK & IT costs are rising 10% a year for Global **CONTENT** Players

2. SIMPLIFY YOUR SALES OPERATIONS

Global **QUADPLAY** Players spend 16% of their revenues on **SALES-** their competitors spend 11%

3. ZERO BASE YOUR BACK-OFFICE SPEND

EMERGING MARKET Players commit 8% of revenues to **GENERAL & ADMIN** costs- while other CSPs spend 6%

Figure 6: Accenture's approach to 'Transform the Core' and drive fuel for growth

INTELLIGENT ENTERPRISE: HARNESSING DIGITAL TO CUT COSTS

An intelligent enterprise enables CSPs to surgically drive down costs and boost the speed and quality of decision-making across the enterprise.

In the rest of this paper we'll focus on how the intelligent enterprise can be harnessed to cut costs

INSIGHT AND ANALYTICS

Overview

By deploying techniques and technologies that create actionable understanding and unlock the highest possible value, a CSP can identify and exploit opportunities for sustainable cost optimization to deliver competitive advantage.

Key use cases include:
- Network analytics
- Order to cash analytics
- Customer life-time value
- Product use analytics

Accenture Case Study

US-Based CSP: analytics-driven Network transformation

Objective: Transform the cost model for the Network Function

How: Analytics tools deployed which provided new insights and lenses which were used to optimize field labor productivity and right-size the IT operating model

Impact: In-year savings of US$19m through reduced third-party spend

ARTIFICIAL INTELLIGENCE

Overview

Artificial Intelligence allows smart machines to extend human capabilities by sensing, comprehending, acting and learning.

Key use cases include:
- Intelligent automation
- Machine-learning based compliance
- Chatbots

Accenture Case Study

Global Tech Company: Customer ticket processing

Objective: Automate and improve the intelligence of customer service management ticketing process

How: Implemented AI-powered natural language processing technology, introducing advanced ticket categorization functionality and automated the processing

Impact: Reducing services costs by improved Right First Time metrics

ROBOTICS

Overview

By deploying Robotics, CSPs gain the ability to configure software to use existing applications for activities requiring manual intervention. This drives savings through higher process efficiency and speed, enabling the workforce to pivot towards activities that create higher value.

Key use cases include:
- Order creation and fulfillment
- Billing management
- Service management

Accenture Case Study

Major European CSP – Automated inventory Dispute Handling

Objective: Automate the circuit inventory dispute management process, which was entirely manual

How: Implemented an automated workflow tool to file, manage and assure the disputes process

Impact: Improved forecast accuracy, 30% workforce productivity uplift, reduced cost leakage

...CONNECTED AND POWERED BY THE "BRAIN"

The Brain is the core of a truly digital CSP, enabling it to marshal, align and integrate its strengths to compete more effectively. In deeply understanding the consumer, CSPs looking to innovate can decouple experience and topline from cost and complexity.

YOUR JOURNEY TO RENEWED GROWTH – WITH ACCENTURE'S INNOVATION ARCHITECTURE

Our research among CSPs worldwide confirms that – in today's challenging environment – CSPs cannot use unfocused cost-cutting to reinvigorate their growth. The route to higher performance involves not just cutting costs, but sustaining these savings by becoming an intelligent enterprise, while directing the resulting savings into high-potential areas as fuel for growth.

Accenture can help you create and target this fuel. As the rate of change in the communications industry accelerates, technologies such as AI and genetic engineering are building on the maturation of others such as cloud and analytics. In such an environment, innovation is critical for CSPs to "rotate to the New" successfully – which is why Accenture is pioneering a range of innovation-focused services to help our clients innovate.

We call this set of services our "Innovation Architecture", and it's illustrated below. Today, we're applying our Innovation Architecture with CSP clients worldwide, helping them to define their vision for lower costs and higher value – and then supporting their realization of that vision in the shortest possible time.
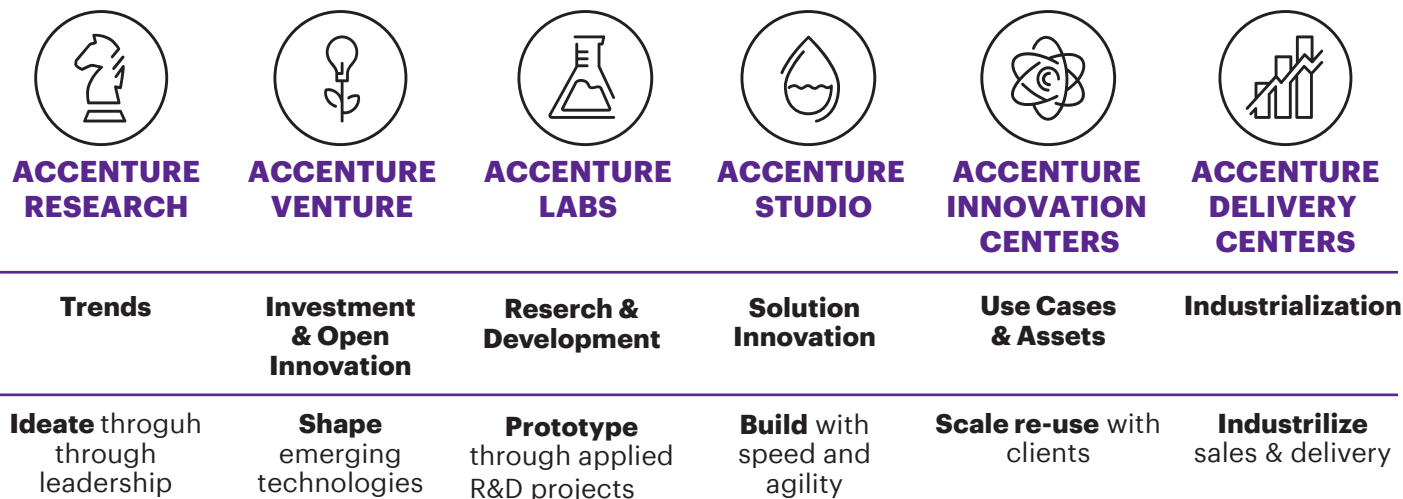
ACCENTURE INNOVATION ARCHITECTURE

ACCENTURE RESEARCH	ACCENTURE VENTURE	ACCENTURE LABS	ACCENTURE STUDIO	ACCENTURE INNOVATION CENTERS	ACCENTURE DELIVERY CENTERS
Trends	Investment & Open Innovation	Reserch & Development	Solution Innovation	Use Cases & Assets	Industrialization
Ideate throguh through leadership	**Shape** emerging technologies	**Prototype** through applied R&D projects	**Build** with speed and agility	**Scale re-use** with clients	**Industrilize** sales & delivery

Figure 7: Accenture's Innovation Architecture

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions – underpinned by the world's largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 373,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way works and lives. Visit us at www.accenture.com

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