TIME TO ZERO BASE
YOUR TELECOM BUSINESS

Terry Steger | Chloe Barzey | Vikrant Viniak
CUT COSTS. FUEL GROWTH.

It sounds deceptively simple, but...

...large communications service providers (CSPs) are on a challenging search-and-rescue mission. They have watched their EBITDA decline steadily, from 35 percent in 2010 to 31 percent today.¹ Despite declining profits, shareholders expect growth and positive returns.

Executive teams want to reinvigorate profits to fuel growth—but they must find the funds first. Some CSPs have been searching for years—using traditional cost-cutting methods—while others are just getting started. But, all established industry players need to be more aggressive in their efforts, because new competitors have changed the competitive landscape.

Their digital competitors are putting on a full-court press as they utilize technology to its full advantage. With no legacy costs and a greenfield situation, digital competitors are wreaking havoc with competitive norms.

Given the competitive situation, large CSPs need to move beyond the cost reduction efforts they have historically used. Rather than choosing an arbitrary percentage of costs to reduce, CSPs need to start with a blank slate, calculating costs from a zero base. And if they take zero-based budgeting (ZBB) a step further to a zero-based mindset (ZBx), this can help fuel the growth necessary to compete with nimble digital challengers.
While no leadership team knowingly stands still in such a competitive situation, many seem to be doing so by default.

But standing still is not a wise course of action. Pressure on traditional revenues—six out of ten CSPs have a market valuation which is 80 percent based on current free cash flows—points to one outcome. Diversified growth funded by aggressive re-baselining of costs is the only way for established players to maintain and expand total shareholder returns. Accenture Strategy sees several possible paths to this diversified growth as possible, but only one is a truly competitive move. Starting from zero, using a ZBx approach, may be just what this search party needs.

CSPs have tried traditional cost reduction—typically aiming to achieve an average of 10 percent savings. But most do not have the financial firepower to launch new services in hyper-growth markets such as the Internet of Things and at the same time invest in the upcoming wave of 5G infrastructure.

Accenture Strategy analysis suggests that established CSPs are systematically under-reacting to their financial and competitive challenges, targeting a fraction of the cost reduction they need to capture profitable new market growth. The top 50 CSPs’ current cost-reduction plans will achieve only 35 percent of the savings needed to invest in growth and infrastructure.³

Today’s opex reduction plan does not produce what communications service providers need to grow.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2022 at current 10% reduction plan</th>
<th>2022 at current 10% reduction plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE</td>
<td>100</td>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td>OPEX</td>
<td>69</td>
<td>66</td>
<td>68</td>
</tr>
</tbody>
</table>

Note: Projections based on Accenture Strategy analysis of top communications company financials. Revenue and Opex have been indexed to 100.
ZBx, a zero-based mindset, combines a new level of cost optimization with emerging technology to free funds to reinvest in growth. It’s a new approach, more holistic than ZBB. ZBx looks at profitability through four zero-based approaches: zero-based spend (ZBS), zero-based organization (ZBO), zero-based front office (ZBFO), and zero-based supply chain (ZBSC).

The art of the possible with ZBx

ZBx can provide a 30-percent reduction in Opex when applied holistically.

WHY ZBx FUELS GROWTH

The graph illustrates the percentage reduction in Opex across various categories before and after ZBx implementation.
ZBx is like Rocket Fuel

Some companies have turned to ZBB to achieve cost optimization. Accenture Strategy takes it a step further, encouraging clients to utilize a new mindset, one we call ZBx. ZBx is about improving a company’s agility in four areas:

**ZERO-BASED SPEND (ZBS)** enables the organization to identify discretionary consumption of non-labor overhead expenses through a unique lens that provides granular cost visibility. This allows leadership to make the right choices to change the culture of the organization, ultimately freeing up cash that can funnel into growth initiatives and capability improvements, and boost EBITDA.

**ZERO-BASED ORGANIZATION (ZBO)** designs the organization from a clean sheet to shift talent from work that no longer contributes to desired outcomes to the distinctive capabilities required to win in the future. It recognizes that the organization, talent, end-to-end capabilities and routines that have been passed from one generation to the next are not necessarily the same ones required to win in the digital world.

**ZERO-BASED FRONT OFFICE (ZBFO)** optimizes marketing, sales, customer service and pricing to deliver superior customer economics.

**ZERO-BASED SUPPLY CHAIN (ZBSC)** identifies the “should cost” of the Cost of Goods Sold (COGS) as well as cost reduction opportunities across three levers: price, performance and value engineering. And it does this while optimizing product and service complexity. A closed loop process ensures results hold over time.

ZBx results in change that is sustainable because it is underpinned by a forensic level of accountability. Companies can continuously optimize their spend without costs “growing back.” Savings can then be divided between the bottom line and investing in growth. ZBx is the antithesis of seeing cost elements and projects in silos.

It recognizes that companies can no longer afford to set next year’s budgets based on this year’s performance. Instead it combines demand-driven, should-cost analysis with cross-enterprise, C-level driven and peer-challenged cost optimization. Add in extensive use of emerging technologies, and you have companies transforming “should cost” to an unprecedented level.
To achieve the level of cost optimization needed for profitable growth, CSPs will need to prioritize three areas: reducing core—network and IT—costs, simplifying the organization and better managing external spend.

1 Reducing Network and IT Costs

A major CSP eliminated 20 percent of total annual expenses by completely rethinking all operating expense (Opex) network costs. Starting from a clean slate, it focused on four key areas of its business:

- Domestic and international roaming
- Leased backhaul and access
- Network real estate and tower rent
- Hardware

TIME TO ZERO BASE YOUR TELECOM BUSINESS
Streamlining the Organization

Customer acquisition and retention costs represent 20 percent of a typical CSP’s annual operating costs, given these are people intensive and historically prone to error or rework. A variety of technologies are changing that situation:

- Advances in intelligent automation mean that virtual assistants can reduce the burden on full-time employees or call center burden. Virtual assistants can now have meaningful conversations with new or existing customers, simultaneously checking profile information.

- Machine-to-machine learning technologies detect systemic service issues and learn which resolutions work. These then inform “next best action” across the entire call agent workforce (human and virtual).

- Call center agents and field engineers are becoming connected agents—using smart visual interactive platforms such as Techsee to resolve issues in a fraction of the time and cost by referencing fault-site images and instructions remotely. This technology alone could reduce technician dispatch rates by 15 to 20 percent.

- Many functions in support areas (e.g., finance and human resources) benefit from robotic process automation (RPA) technology such as Blue Prism. For instance, Accenture deployed over 7,250 automation solutions across its delivery network, using proprietary and third-party software platforms, freeing about 20 million annualized work hours.5

Some organizations reinvent entire areas of their operations, using technology to take the ultimate zero-based, clean slate approach. Giffgaff uses an open-source, crowd-sourcing approach to customer support. The customer base, connected by technology, provides support as a self-service community.6

Managing External Spend

Third-party expenditure on general overhead represents 15 to 20 percent of a typical CSP’s annual operating costs.7 Consider how effective strategic cost optimization helped drive expansion for a leading CSP. Faced with rising competition and declining margins in its core business, the company, using ZBB, reset operating budgets and within six months realized a US$550 million annual cost reduction—US$250 million derived from new Selling, General & Administrative (SG&A) initiatives and US$300 million achieved in core spend areas. Ultimately, improved margins helped the company step up its investments in areas of strategic importance, and fueled growth initiatives.8
When CSPs utilize ZBx, they create potential new revenue streams from:

- NEW SERVICES MADE POSSIBLE BY 5G
- THE INTERNET OF THINGS
- MOBILE COMMERCE
- CUSTOMIZED B2B INDUSTRY SERVICES
- DATA MONETIZATION
- DIGITALIZATION OF EXISTING BUSINESS
MORE RESCUE
LESS SEARCH

While CSPs have several paths to growth in front of them, ZBx is by far the one that affords individual companies the most control over their own future. It is not unreasonable for a company to target a 30-percent reduction in costs across primary Opex categories. A few suggestions to get you started in the areas of most impact:

IMPLEMENT ZERO-BASED SPEND to eliminate “non-working” money immediately. This strategy has the advantage of avoiding headcount impacts and can rapidly demonstrate the positive financial impact of zero-based mindset.

DEFINE A NEW TARGET NETWORK COST —looking at it from a clean-sheet, zero-based perspective—using a combination of cost-driver analysis and machine-to-machine learning technology. Because this area contains the largest expenditures, it is key to improving profitability and creating investment headroom for growth.

REDEFINE THE NEW ZERO-BASED ORGANIZATION by pushing the boundaries in automation and analytics, and becoming a leader in the deployment of artificial intelligence. The combination of emerging technologies is key for maximum effect.

These actions should provide cost savings that CSPs can leverage to fuel innovation and growth. The search-and-rescue mission is a success if profits are brought back to the shareholders at the end of the journey.
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 442,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

About Accenture Strategy
Accenture Strategy operates at the intersection of business and technology. We bring together our capabilities in business, technology, operations and function strategy to help our clients envision and execute industry-specific strategies that support enterprise-wide transformation. Our focus on issues related to digital disruption, competitiveness, global operating models, talent and leadership helps drive both efficiencies and growth. For more information, follow @AccentureStrat or visit www.accenture.com/strategy.

Notes
1 Accenture Strategy analysis of large CSP financials based on data from Capital IQ.
4 Accenture Strategy client experience.
6 “Getting Ahead by Cutting Back,” Accenture Strategy point of view, 2017
7 Accenture Strategy client experience