www.pipelinepub.com
Volume 19, Issue 1

Balancing Performance, Profitability, and Cost with Margin Assurance

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Profitability is the underlying driver of telecom operations, fueled primarily by margin calculations. Over the past three years, though, profit margins have been deteriorating by 13 percent on average.

The reasons are many: consumer habits are changing, forcing telcos to compete and offer complex bundled products. In cases where CSPs introduced products with negative margins, it has led to a massive $3.4 billion in losses. In addition, agile OTT providers pose stiff competition by meeting customer demand for relevant OTT content such as videos, music, movies, and more—eating into telcos' market share. Asset management often lacks granular views, leading to suboptimal utilization of assets that amount to an additional $1.7 billion leakage. Moreover, telcos struggle with high operational costs, tallying over $800 million, which calls for impactful cost optimization methods to improve margins.

Current obstacles to profitability

Apart from rising product complexities and competition from OTT providers, CSPs must also be aware of the gaps that hinder profitability. These include unidentified contributory costs that emerge as a result of the different direct and indirect expenses that rise as the number of partner systems increases. Improper cost allocation models, in addition to the bundling of network and business costs, increase the overall complexity in the costing process. Furthermore, even as operators dedicate significant spend to planning and capacity optimization, they also need to keep an eye on profitability, which is challenging due to limited views into capacity and utilization.

Compounding the above challenge is the lack of granular-level visibility and real-time insights. Most of the time, CSPs tend to average the margin values and, hence, struggle with cost allocation parameters. This results in limited insights into the cost and revenue segments. Furthermore, data volumes involved in underlining telco revenue generation processes are increasing, and CSPs often lack a unified view across various sources such as networks, partners, and products. The dearth of insights into the real-time performance of products can result in poor decision-making across the CSP organization, negatively impacting profitability. Thus, CSPs need advanced skillsets in cost accounting to map the cost of individual products or bundled segments of voice and data traffic. Any discrepancies in accounting increase with the inability to determine the accurate price of a particular product or technology.

Poor data management is another obstacle. To assess profitability, CSPs need transactional data about cost and revenue, as well as metadata about the transactions. When this information is lacking, it diminishes CSPs' ability to identify which products or services are profitable. Managing and analyzing large volumes of data for different cost and revenue items in the context of dynamic changes in the metadata (such as new products, new add-ons, and promotions) is a herculean challenge without the right platform.

Operators are also trying to merge or bundle multiple services, products, and technologies, resulting in the creation of complex cost allocation models. This is exacerbated by traditionally siloed operations among key telecom stakeholders that lack cross-functional knowledge and do not possess a common ground for their operational activities. It compromises stakeholders' ability to understand the specific profit and network asset costs involved in individual products' revenue generation. The result is ineffective cost modeling and inaccurate cost allocations during new product launches.

Throughout the year, financial reports should inform CSPs whether they are profitable across assets, product innovation, service consumption, and more. Without key information on new and old revenue streams, CSP staff cannot make the right decisions, which severely impacts company margins and overall profitability.

How does margin assurance help?

Margin assurance uses various profitability trends such as KPIs across dimensions like Region, Subscriber Segments, Revenue Segments, months, and more to calculate and arrive at the bottom line of a complex mix of service offerings. It defines a holistic view of cost allocation and provides a real-time assurance and margin automation. It enables profit computation, flexible cost allocation, and effortless cost modeling, allowing operators to widen their scope of impact with a massive increase in

the number of cost line items. Broadly, margin assurance quantifies the profitability of products and services by considering the entire portfolio and its performance. It helps operators decide when and how to retire products such that customers can enjoy uninterrupted services while retaining the most popular features. It also gives business teams visibility into the revenue generated. Furthermore, network teams can track asset performance and, subsequently, ROI across different regions. In turn, such insights will allow business teams to make relevant decisions including optimizing assets and products in low-performing geographies.

Maintaining a margin for each product, individual customer, and partner helps CSPs in segmenting products. They can understand the types of cost parameters involved and identify high to low-margin customers and accordingly tailor product campaigns. Margin assurance also supports credit risk teams in measuring customer risk, enables marketing teams to identify opportunities for upsell and cross-sell, and aids finance teams in forecasting the potential P&L for product launches. In cases where margins and cost modeling are part of the product launch, margin assurance can cover multiple aspects to mitigate risk factors involved in these decisions.

When implemented properly, margin assurance can be an enabler for superior business outcomes, contributing to elevated profitability, improved competitiveness, and enhanced customer satisfaction.

Top capabilities enabled by margin assurance

The right margin assurance solution combines consulting, business, and engineering expertise with modern data processing capabilities. It allows CSPs to integrate all cost and revenue sources across operations and business into a single model that can process hundreds of records to gather subscriber-level information for use in finance, marketing, sales, and technology teams. Rapid processing and intuitive dashboards also help telcos track profitability at service, network, partner, and technology levels for every user. Additionally, the right margin assurance solution drives collaboration among experts within the CSP organization for in-depth cost models that compute and allocate costs to users, regions, networks, sales channels, or products.

From a product performance standpoint, a modern margin assurance solution can measure customer adoption of new products so business teams can get alerts on low-performing products and gauge product profitability. They can also perform what-if analysis using product or network simulators to know potential profitability, expected costs, and possible adoption of new products. With this information, CSPs also become aware of soon-to-be launched products that may eat into their margins, so they can quickly rationalize product portfolios.

Finally, a key capability enabled by margin assurance is granular views into demographics, enabling telcos to curate offers for enterprise customers based on historical data and usage patterns.

Benefits of margin assurance

CSPs adopting margin assurance solutions with the above capabilities can expect several benefits, the most immediate being enhanced cost modelling and cost allocation. The solution will flag negative margins and execute near real-time validation to identify product profitability. As operational changes take effect, it will support them in shifting from ARPU (average revenue per user) to AMPU (average margin per user) models. Eventually, CSPs will be able segment customers more effectively, increase sales, and map capacity implemented to capacity utilized through actual product usage.

The margin assurance imperative

Digital disruption and new technologies make it imperative for CSPs to take steps that ensure long-term profitability. A case in point is recent observations that indicate a decline in the revenue growth of wireless, fixed line, cable, and satellite service providers, without a correlated decrease in investments or operating expenses.

Margin assurance has the capability to optimize the bottom line by managing a complex mix of service offerings, defining holistic views for cost allocation, and enabling automated, real-time margin assurance.