Carrier Cost Containment
No room for false savings

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Management emphasis in most carriers has moved to reducing costs – a matter of survival for some. At the same time, the things that operators do to tackle operational problems sometimes tend to *increase* costs not reduce them. Many operational work-arounds introduce inefficiencies, risks and errors. Looking forward to a telecom future of commoditized connectivity, we predict that the successful carriers will be those who are even more aggressive in creating an optimized operational environment that really delivers cost containment, and who avoid the hidden costs created by short-term thinking and the attendant false savings.

It's not easy running a telecommunications company these days. In many world markets, competitors have proliferated – but many of them are now struggling to find the funding to continue. Prices for all telecom connectivity services have fallen, and operating margins have been squeezed. Looking ahead, carriers big and small foresee more hard times, as connectivity becomes more commoditized. Survival will depend on transporting large volumes of traffic, with higher reliability, but cheaply. Meantime the next generation networks being built by those same carriers will create *more* opportunities for low-cost competitors to cream off higher margin value-added services. The ability to deliver both new and traditional services using intelligence at the edge of the network will reduce the cost of entry. Competitors will offer not just new content-based and ASP services, but also traditional services such as voice switching, messaging services, information services, and call management services.

It is hardly surprising then, that the management emphasis in most carriers has moved to reducing costs. Network hardware vendors and systems houses have seen their order books shrink as carriers cut back ruthlessly on capital spending. Almost every company has imposed belt-tightening restrictions on travel, hospitality and employee perks. Bonuses have mostly disappeared. And of course, companies have cut their workforces.

For many companies, these steps were a matter of survival. Those who have reduced their cost base while keeping their customers reasonably happy, now have some prospect of being around for some time longer. So far so good.

But – is it enough? Probably not. Our recent conversations with a number of service provider executives gave us some updated insights into those issues that cause them pain and concern. (See last week's *Inside Out* article.) We have found that sometimes the things that operators do to tackle operational problems tend to *increase* costs not reduce them, hence adding to the burden of anxiety and sleeplessness downstream.

For example, many companies have amassed a substantial backlog of billing and order management system changes needed to fully support new services or pricing packages. There is, understandably, significant pressure from marketing departments to "get the

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service out the door". The operational and IT units respond as best they can, but this sometimes has unfortunate repercussions on underlying costs. Often the issue is simply lack of resources, or lack of vendor support. But in some cases the current systems simply are not capable of supporting the new service offering "twist" and so the changes needed are substantial. Nevertheless the new service is launched – and the operational and billing repercussions are handled in a work-around, with all good intentions of fixing everything later on.

The work-around soon becomes absorbed into the operation – and now there is something else to support and maintain. And because the work-around is often installed hastily, and without a full understanding of the operational and business impact, there is now increased risk of revenue leakage, delays in delivering service, low productivity, data errors, "lost" assets and human mistakes. Each one of these has a significant financial impact – in the wrong direction.

Another example. To save money, some companies have cut training budgets. Employees receive no refreshers and minimal updates. New people are expected to mostly learn on the job. Operational managers report that this is leading to longer call hold times, more repeat calls from customers and more referrals to colleagues and supervisors. Temporary cut-backs in training may be needed to cope with a short-term financial emergency. But protracted skimping on essential training is a cut that costs money instead of saving it, a false saving.

There is undoubtedly pressure from owners, and sometimes from executives, for a business to move as rapidly as possible from idea concept to implementation. Whether the concept is a new product or service, the adoption of new technology, or a move into a new target market or geography, essential research and planning is too often undervalued. To save time, and therefore money, the planning phase must not be allowed to impede the implementation phase. We saw this "ready, fire, aim" approach in many new entrants when capital was plentiful and "time to market" was the prime management aim. We still see it today. Companies still create and act on business plans based on market and competitor information that is out of date, and that include over-optimistic implementation times and costs (because some essential tasks were not considered). Costs overrun, and launch targets are missed. Ultimately poor planning leads to extra implementation costs.

The direct financial impact of misconceived cost "savings" is bad enough. But there are further repercussions, leading to further costs. The impact on customer service quality can increase churn – many customers are not won by a better offer, but lost by inferior service. A good reputation takes years to build, but can be demolished in a few weeks – thus undermining the value of advertising and marketing expenditure. Customer complaints cost money to process. And we know that employees working with inadequate resources and serving unhappy customers, are more likely to look for new opportunities – generating more costs for recruiting and (maybe) for training their replacements.

And life shows no signs of becoming easier. Every step towards next generation networks that service providers take, also brings them closer to a world of *commodity connectivity* in which high quality and low price are the main conditions for market success, and differentiation in any other way is difficult or impossible. This means that the continuing quest for every carrier in a competitive market must be to optimize not just their networks,

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but also their operational environment. Telco operations must be made fit for the purpose of delivering high quality, low price volume connectivity services to their customers.

Many carriers today have operational environments that are *flabby*. Not many telco executives are prepared to assert that that there are no stranded assets in their networks, that all customers are being charged the right amount for their services, that there are no failures in customer service due to poor information, and that the company receives all inter-carrier settlements due to it. These are all indications of gaps and defects in the way the business operates.

Work-arounds and short-term economies are sometimes necessary. But the telecom service provider companies that will survive in a commodity future will pay close attention to the continuous improvement of their operations. They will genuinely reduce costs, and will create an operational environment that enables *tight* management of network assets and customer information. They will drive the business with real cost containment, not false savings.

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