Measuring CSP success for a digital world

IBM Institute for Business Value

An industry in transition

It’s clear: The world of communications service providers (CSPs) is no longer the telecom world you were leading before. The explosive rise of mobile data and video, the growth of global digital commerce and the emergence of an empowered, hyper-connected consumer are altering the service provider-customer relationship. Disruptive over-the-top (OTT) players are gaining market share while new connected technologies such as the Internet of Things (IoT) are upending traditional telecom revenue models. It is a telecom world in flux, with outdated measurements and metrics. So, the question CSP executives must ask is, how will they achieve and measure success in this next incarnation of the CSP model?

What was and what's now: The transformation of telecom

For the past 25 years or more, CSPs realized sizable revenues from their voice and Short Message Service (SMS) offerings, with profit margins upwards of 40 percent year over year. But with voice and SMS in decline, and digital transformation in full ascent, CSPs are facing developments that are significantly impacting their strategies and their bottom lines:

- Globally, by 2021, 60 percent of mobile phone users will own a smartphone.[1]
- By the same year, the average number of connected devices per person is anticipated to be 2.4.[2]
- The number of global digital buyers is expected to grow at a rate of 9.5 percent annually to reach a figure of 2.3 billion by 2019.[3]

But what is occurring in the industry beyond these numbers?

Digitization is quickly sandblasting the foundational bedrock of the telecom industry. Emerging digital service providers (DSPs) and OTT players are gaining traction with the data-driven millennial generation; the result is a consumer movement where quantity and quality replace loyalty. According to a 2016 IBM Institute of Business Value global telecom consumer survey, less than 15 percent of respondents value their telecom providers for video.[4]

As emergent players enter the marketplace, customer demand for expanded digital services, faster speeds and personalized customer service are dictating a rethinking of the customer experience (CX) journey. Forty-six percent of those same surveyed telecom consumers often find customer service to be average or poor.[5] To compete, telecom providers are seeking new ecosystem partners, often from outside established relationships, that foster innovation in user experience (UX) design and digital commerce.

Finally, beyond the critical focus on enhancing CX and retaining customers, the advent of new OTT technologies is radically changing how telecom companies will differentiate themselves from the ever-disruptive competition. To capitalize on revenue driven by consumer demands and emerging technologies, CSPs must navigate a "fourth curve" of revenue generation that will take advantage of:

- The IoT, including wearables
- Smart energy and metering, smart grids
- Mobile payments and digital malls
- Remote monitoring and connected homes.[6]

In pursuit of excellence: Achieving measurable success

The telecom industry is undergoing transformational disruption from inside and out. Greater reliance on cognitive analytics and data monetization means CXOs can no longer rely on existing measurements to analyze and calculate performance. What's needed is a radical rethinking on measuring everything from margins to profit and loss to return on invested capital.

To achieve the level of ROI or better understand average returns by a broader set of targeted criteria, providers should consider focusing their measurement processes as follows:

- *Move beyond average revenue per user (ARPU) to average revenue per megabyte (ARPMB) and average revenue per individual customer or user account (ARPA).* With voice on the decline and data on the rise, customer value must be measured in terms of cost of retention, lifetime value or overall customer account spending.
- *Move beyond earnings before interest, taxes, depreciation and amortization (EBITDA).* EDBITDA no longer provides the organizational "health" measurement it once did. A new approach to managing capital expenditures (CAPEX) focuses more on cash flow, leaner operations and cost cutting.
- *Move beyond financial metrics to measure CX.* Leverage cognitive analytics to measure the full customer journey. Exploit data insights to assess customer satisfaction and the probability that customers will purchase additional products and services or engage in social media interactions.

By taking a fresh, data-driven approach to looking at key performance indicators (KPIs), providers can move beyond pure numbers, gaining better insights into critical competitive capabilities and differentiators such as the rate of innovation.

An innovative culture can drive more proactive preparation, reaction and results and help an organization address OTT threats and seize upon new fourth-curve revenue streams.

Moving beyond ARPU: Embracing user and usage

As voice diminishes, ARPU is losing traction as a vital KPI. Due to the increasingly complex makeup of revenue, with multiple data services presenting different profitability profiles, ARPU calculations do not offer the type of insights critical to business performance.

By changing to an ARPMB measurement and derivative data service revenue measures, CSPs can understand more effectively how to extract value from the network and gain a more precise ROI picture.

A single customer can have multiple SIM cards or devices, so measuring average revenue by customer account can offer a different perspective in terms of overall value. Targeting this user with new value-added or fourth-curve services would be more cost-efficient (and profitable) than trying to acquire new customers – especially since the acquisition cost is always greater than the cost of upselling an existing customer. A lower churn rate not only provides financial benefits but can also drive greater customer loyalty.

Moving beyond EBITDA: Examining operating cash flow

The transformation from voice to data and eventually to the fourth curve alters the way companies look at operational effectiveness and fiscal performance. During the heyday of voice and SMS, the high margins associated with those services made it logical to measure business profitability with EBITDA measurements.

But as CSPs evolve into DSPs or even OTTs, EBITDA may no longer be the financial doctrine by which a provider is accurately evaluated. Operating cash flow offers more visibility into the cash return a provider is generating on invested capital. Cash flow can be measured in several ways:

- *Cash return on capital invested (CROCI),* which is the ratio of free cash flow to invested capital and the portion of earnings paid to investors after CAPEX has been satisfied. As telecom companies seek to reduce CAPEX by becoming more agile and leaner operationally, CROCI may serve as a better measurement for evaluating an operating unit's overall performance. This measure also grows in importance as CSPs continue to make multiple new acquisitions in digital businesses.
- *Return on invested capital (ROIC)* offers visibility into operating profit after tax. As more disruptive players move into the CSP space, ROIC can provide more meaningful comparisons between disparate businesses.
- *Total shareholder return (TSR)* allows for performance tracking for publicly traded companies by looking at stock appreciation and free cash flow over an extended period.

As the CSP space becomes more defined by disruptive OTT players, EBITDA may no longer be effective in assessing performance and profitability. As one CFO of a leading Asia-Pacific mobile operator stated, "As we are going towards software-defined networks and cloud, focus is more on return on investments, ROIC and cash flow."[7]

How telecom providers can optimize loyalty, reach new customers and help ensure customer retention.

Moving beyond financial metrics: Measuring CX

While analyzing financial performance and profitability is essential to measuring organizational success, cognitive understanding into the customer's experience allows for critical KPIs to be reviewed across the full user journey. It affords deep insights into social media interactions and sentiment, customer satisfaction and propensity to cancel or purchase new services.

Here's how telecom providers can exploit CX measurement methods and tools to optimize loyalty, reach new customers and help ensure customer retention:

- *Customer journey index (CJI),* which is a paradigm shift in looking at CX, is a great metric to measure end-to-end customer experience across a customer's physical-digital (phy-digital) journey. Cognitive analytics provide real-time insights into brand perceptions, purchasing decisions and on-boarding experiences.
- *Net promoter scores (NPS)* are propensity metrics that measure the likelihood of specific actions a specific user or set of customers may take whether those of displeasure or around sharing promotions. This is a critical KPI to drive competitive advantage.
- *Customer Satisfaction (CSAT)* surveys gauge how users are interacting and receiving support and services. With the growing emphasis of digital self-service as a competitive differentiator, analyzing and responding to CSAT is a vital KPI.

Next steps in measuring CSP success

Here are recommendations that can help you augment your KPIs and measure your organizational and strategic success:

- Provide an amazing CX by creating more personalized digital experiences across web, mobile and social channels. Offer a consistent brand experience in which customers can research, buy, track, receive and return purchases wherever, whenever and however they choose. Increase revenue by delivering targeted and personalized campaigns and promotions.
- Lead through innovation using agile metrics and by measuring the rate of innovation against emerging players. By leveraging CX measurements and investing in innovation, providers can test new services into the market, making agile course corrections to effectively compete as they aim to maintain market share.
- Build a lean, agile operational model to assess success, utilizing new financial metrics and CX benchmarks instead of tools and processes more applicable to the days of voice and SMS. The impact of digitalization, along with the growing demand of customers for uninterrupted mobile video and data, must translate into an organizational culture built for speed and performance.
- Generate non-traditional profit centers through new business models by investing in ecosystems of critical strategic partners, testing and launching new data monetization services into the marketplace, and fully committing to expanding the portfolio through fourth-curve services.

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Produced in the United States of America
August 2017

GBE03865USEN-00

Notes and sources

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2. Ibid.

3. Ibid.

4. "Global Telecom Consumer Survey." IBM Institute for Business Value. February 2017. https://www-01.ibm.com/common/ssi/cgi-bin/ssialias?htmlfid=GBE03804USEN&

5. Ibid.

6. "Operator's Dilemma (and Opportunity): The 4th Wave." Chetan Sharma Consulting, LLC. 2012. http://www.chetansharma.com/publications/operators-dilemma-and-opportunity-the-4th-wave/

7. Based on IBM survey insights gathered from interviews with select CSP executives in the Association of Southeast Asian Nations (ASEAN).