Sagacity

Value vs. Volume: Carving Out a Systematic Path to Profitability

An investigation into how data can help to define and transform telecom customer base value

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Executive Summary

The world of telecoms is almost unrecognisable today compared to twenty years ago. That change has accelerated even more dramatically in recent years. From the pandemic putting additional pressure on the need for connectivity, to increased market saturation as newer entrants enter the marketplace, and a seemingly constant stream of mergers and acquisitions, the telecoms landscape is in a constant state of flux.

The continued commodification of many traditional services – such as broadband, text, voice and data – has put added pressure on providers to transform and add value through content and add-ons. At the same time, changes in regulation have made it easier to switch providers, increasing customer churn and forcing many providers into profit-destroying price wars.

Against this backdrop, it is harder than ever to carve a path to profitability. This is driving a shift in mindset towards the need to grow base value, as opposed to just growing the base. This subtle but fundamental change is helping many operators to plug revenue gaps, reduce churn and increase ROI.

However, a fundamental lack of understanding around customer value management, and failure to take a systematic approach, is holding telecoms organisations back from being truly value-driven. At the heart of the issue: data. With growing complexity obscuring visibility, it is essential that telecoms operators have easy access to timely and contextual data to help drive better decision making. Yet many are struggling as they do not have the internal knowledge, skills, and tools to surface the data they need to be value-driven.

To build a better understanding of these issues, we surveyed 200 professionals with responsibility for customer value base management from across the USA, UK and rest of Europe to gain insights into how far along this journey from volume to value they are.

Key Findings

1. While all respondents say their organisation wants to be value-driven, only 17% of respondents say they have been successful in making this change

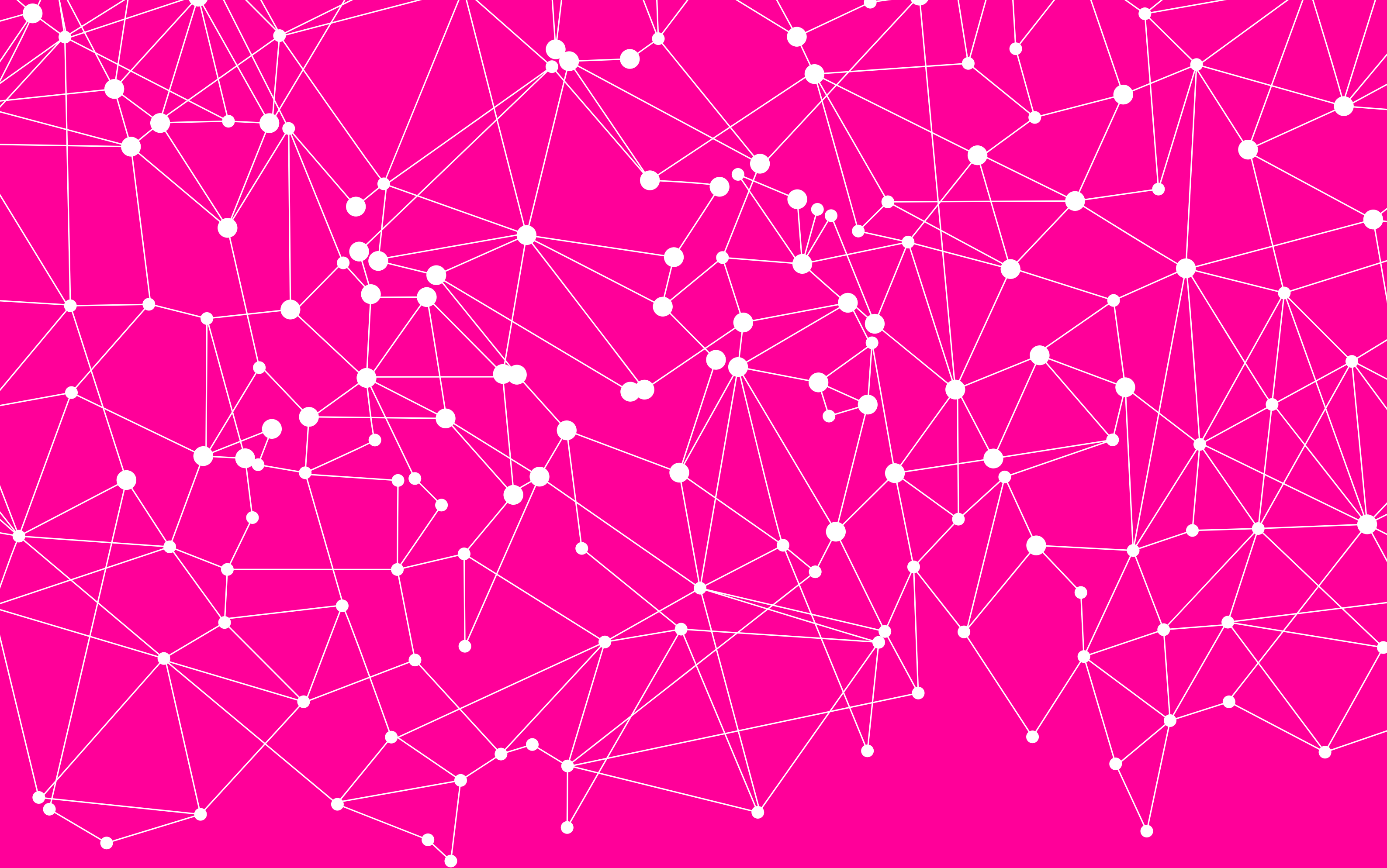
2. As a result, 80% admit ARPU continues to be the main way they measure profitability – “even though we know better” – with two fifths creating bundles by making assumptions on what people want

3. Perhaps unsurprisingly, respondents said almost a quarter (23%) of their marketing campaigns miss the mark and fail to get the right level of ROI due to a lack of precise data

4. 17% say they are “embarrassed” by the quality of their data, with 57% complaining that their churn reports are often based on useless two-year-old data

5. 80% say a lack of internal resource and knowledge is preventing them from being data-driven, as an average of four to five projects languish in IT queues

6. These issues are exacerbated by IT teams’ penchant for delivering projects themselves – of the 65% who say their IT teams prefer to build solutions in-house, rather than using external products and experts, 99% have experienced challenges



True cost of customer acquisition and retention is being obscured by data gaps

The cost of customer retention and acquisition is rising; 85% of respondents said the cost of customer retention has increased in the past five years – a figure that rose to 92% for Tier 1 network operators. Furthermore, almost half (49%) of respondents that had experienced an increase said it has gone up by a quarter or more. Again, this figure rises for Tier 1 operators; 65% of those who had experienced an increase said costs had gone up by a quarter or more. As a result, the average cost of retention is now £212.

Similarly, 76% of respondents said the cost of new customer acquisition has risen in the past five years. Over a third (37%) of those that had experienced an increase, said that the cost of acquisition has gone up by a quarter or more. Again, Tier 1 network operators were hit the worst, with almost one-in-ten (8%) saying costs had risen by three-quarters or more. As such, the cost of customer acquisition today stands at £228 – a cost which many providers fail to recoup in their first contract, due to the ease of switching to a new provider offering good welcome promos.

Yet many pieces of the puzzle are being left out of these calculations, meaning the true cost is likely to be much higher. Only 59% of respondents factor in the cost of overheads (such as store costs and web infrastructure); just over half (55%) consider device subsidies; two fifths account for the cost of staff; 39% factor in marketing and costs related to SIMs; and just over a third (36%) account for commission costs.

Interestingly, there was disparity here between the different players. Tier 1 network operators were more likely to include staffing costs in their calculations, whereas Tier 2 operators were more focused on device subsidies and overheads, and MVNOs were more likely to include marketing costs.

"While many telecom businesses may think they have a handle on their costs, it's clear that most are only getting part of the story – the true cost of customer acquisition and retention is likely much higher than they think. If you're doing it right, calculating such cost is incredibly complex. If you are failing to take all factors into account, you'll never be able to isolate and control value-destroying customers or ensure that the right level of investment is being made to get the right return. With costs rising, organisations need to get this issue under control."

Harry Dougall
CFO & Founding Partner, Sagacity

While being value-driven is the goal, many are struggling to get there

There is universal acceptance from respondents that their business needs to move away from volume metrics towards more value-based metrics, with the overwhelming majority (97%) saying their organisation is serious about making this shift.

However, intention is not always translating to action. Only 17% said their organisation has been successful in shifting focus from volume to value. A large majority (79%) said they were either 'taking steps' towards being value-driven or were still in the planning stages – while 3% believe their organisations are "just paying lip service" to the issue.

Furthermore, fewer than half of respondents (44%) said they judge the success of their marketing campaigns based on the value of new customer acquisitions, with the majority (54%) still judging on the volume of leads or new acquisitions. 2% said they don't measure the success of their marketing campaigns at all.

Some progress is being made, however, with many respondents reporting that they are using Customer Lifetime Value (CLV) to support key business decision making. Eight in ten telecoms businesses said they use CLV to decide on discounting offerings, and almost three quarters (74%) said they consider CLV when setting tariff structures, channels, and bundles. However, CLV is not being used across all decision making: only 32% consider CLV when structuring revenue share, just 30% use it when assessing the performance of a marketing campaign, and just 27% use it for assessing channel costs and commission structure.

Worryingly, considering how widespread use of CLV is, most organisations are failing to factor in key elements to their CLV calculations.

Less than half (48%) consider tenure in their calculations

Only around two fifths consider household spend (42%); churn propensity (39%); cost to retain (38%); or monthly spend (37%)

Less than a third factor in cost to acquire (32%) or cost to serve (32%)

"CLV can be a really useful metric, but if you're using CLV as part of the decision-making process for big ticket items – such as discounting offers and tariff structures, which can result in millions of pounds of cost to the business – then you better be sure that the data is relevant and can be trusted. Relying on an inaccurate or incomplete CLV, or smearing costs, can result in false positives and means you make decisions that are based on flawed logic. This can result in very costly errors. So it's really important to have a systemised and com-prehensive CLV."

Chris Stephenson
CTO, Sagacity

Growing complexity pushing telcos to fall back on averages and price drops

One of the challenges stopping telecoms companies from becoming more value-driven is that there are now so many options for them to consider. More than eight in ten (82%) respondents agreed that there are so many channels and tariffs that it's hard to understand the impact each of them has on profitability. It's no wonder almost three quarters (72%) of respondents lamented that they sometimes miss the simplicity of the dumb pipe.

Almost three-quarters (74%) said growing complexity is making it harder than ever to join up customer data. As a result, none of the respondents said they felt very confident in their ability to get an individual customer view; with only just over a third (34%) saying they felt moderately confident. Interestingly, participants felt more confident getting a household view – with half (50%) saying they were either very confident or moderately confident.

This is making it difficult for telcos to take a value-driven approach, with many of them falling back on averages. In fact, 80% admit that Average Revenue Per User (ARPU) continues to be the main way they measure profitability – even though they said they "know better". Many others are still just 'keeping up with the Joneses': 36% say that deep discounting is eroding profit margins, but if a competitor drops prices, they always follow suit. Interestingly, this need to drop prices was most keenly felt with Tier 1 network operators (45%) and MVNOs (43%).

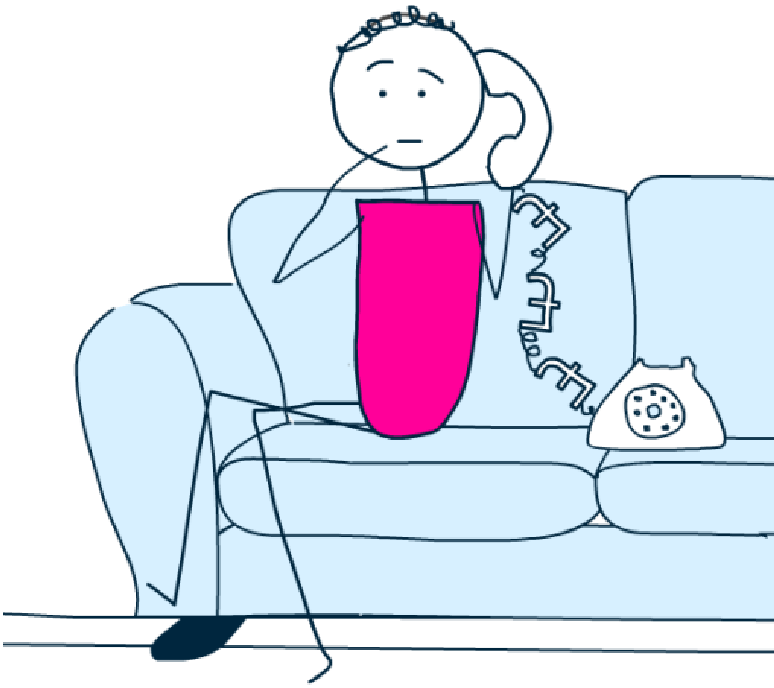
When deciding when and what to offer customers, it's clear that many are not taking a granular view, instead using simple metrics to make decisions. Over half (54%) schedule upgrades and incentives based on tenure, while 42% offer rewards based on spend per month and 48% use averages to determine which customers to provide offers to. There are signs of a more value-driven approach being taken, though: over half (51%) offer personalised rewards based on user habits and behaviours, a figure that rises to 62% for Tier 2 network operators. Furthermore, 48% have a value management system that helps determine what to offer which customer, a figure that rises to 59% for Tier 1 network operators.

When working out what to base tariff structures and bundles on, the most common method was to use averages (58%) – which was particularly prevalent with Tier 2 operators (68%). A further 57% rely on competitor data to decide on offerings.

However, some are taking a more data-driven approach: 46% predict based on profiling, while 44% use existing data to predict what will be the most profitable – a figure that rises to 54% for MVNOs. Worryingly, two fifths are not relying on data at all, saying that they create bundles "by making assumptions of what people want".

"Gone are the days where it was simply about providing a household a basic phone line and broadband connection, it's now about a fibre or cable connection that enables CSPs to offer hundreds of potential combinations of services. Untangling all of this to understand which customers are driving the most profit, what bundles and tariffs will attract the best customers, or what commission structures will provide the right level of incentive, is impossible without robust and systemised access to quality and timely data. Yet while some are clearly taking steps to being more value-driven, the parameters included in these calculations are critical as data gaps can lead to false assumptions and bad decision-making. All facets of the customer must be included to create one, true picture. For example, calculating lifetime value without initial investment costs or length of tenure is just inaccurate."

Harry Dougall
CFO & Founding Partner, Sagacity



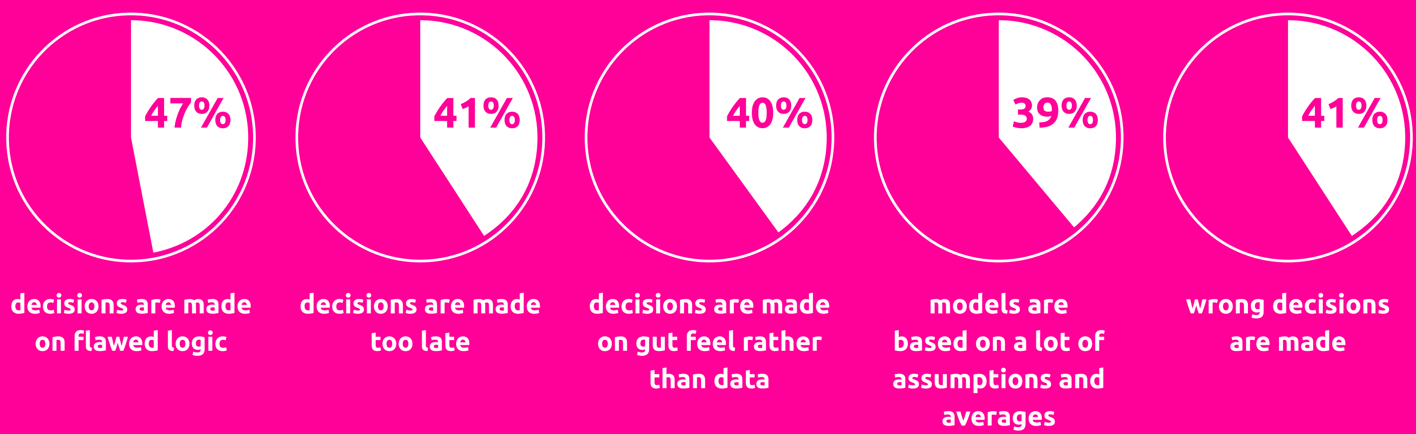
Lack of access to data is hampering telcos' ability to be value-driven

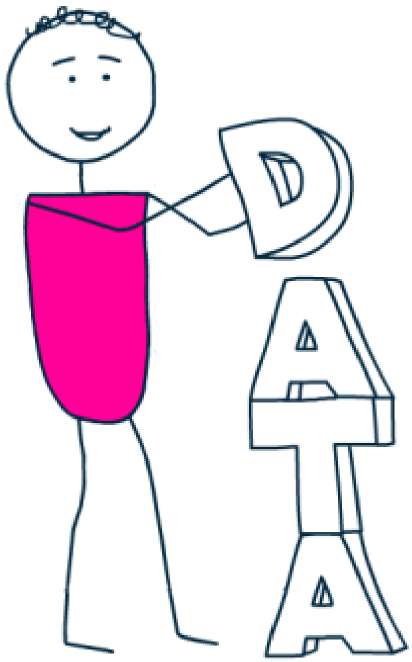
Unfortunately, two in every five respondents (42%) said that while they want to be value driven, they just don't have the tools and visibility, and so they often fall back on volume – a figure that rises to over half (54%) for MVNOs.

Data is a big part of this – and telcos know they should be doing better. Almost one in five (17%) go as far as to say they are “embarrassed” by the quality of their data and that they don’t even know if their customers are living in the same household – a figure that rises to more than a fifth (21%) for MVNOs. Over a third (36%) said they have loads of data, but somehow can't really get value from it – a figure that rises to 51% for Tier 1 network operators. Furthermore, 57% said their churn reports are often based on two-year-old data, which is useless to them.

These issues with data are having an impact on the bottom line. One in five (20%) said their data is so siloed that they are constantly missing low-hanging opportunities for cross-sell and upsell. It’s perhaps unsurprising that respondents estimate almost a quarter (23%) of marketing campaigns miss the mark and fail to get the right level of ROI due to a lack of precise data – with an even higher number of them (26%) remarking that marketing can often feel like guesswork.

Nearly half (46%) said they are unable to access quality data in a timely and easy way – a figure that rises to 65% of Tier 1 network operators. This lack of access to timely, quality data is creating serious challenges for decision making.





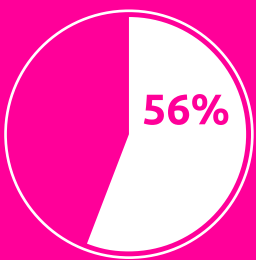
"It's important to make the distinction between data being rubbish, and the data that is being surfaced being rubbish. Ultimately, there is no bad data and all the data that telcos need is right there for the taking. The challenge lies further down the pipe, in how the data is being interpreted within the context of the business. Organisations are failing to set the right business rules, which means they are not surfacing the right data. As a result, the re-porting of that data is often meaningless as it is not timely or actionable. Data collection, interpretation, harmonisation, contextualisation and reporting all needs to be automated so that it can be delivered to the right people at the right time to make the right decisions."

Chris Stephenson
CTO, Sagacity

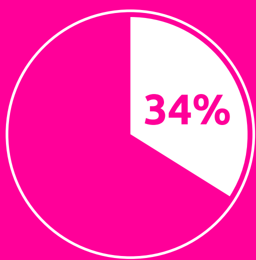
The 'Build Your Own' IT ethos is strangling business innovation

So, what is stopping teams from accessing the data they need? Four in every five respondents said a lack of internal resource and knowledge is preventing them from being data-driven. Furthermore, two thirds (67%) said legacy systems are holding them back from delivering innovative services to customers that could drive value. Respondents said they have an average of four or five projects waiting in line for IT that they think could help drive business growth and profitability – with 15% saying they have eight to ten projects needing IT's attention.

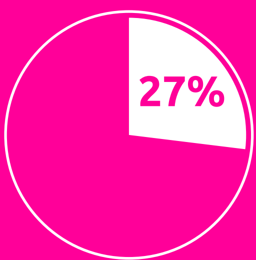
Contributing to delays, 65% say their IT team prefers to build solutions in-house, rather than buying in and using external products and experts. For those that do have IT teams that prefer to build in-house, 99% said this creates challenges.



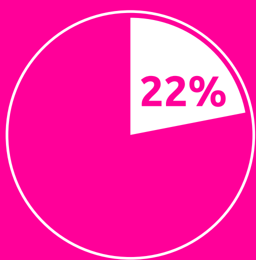
it deepens our dependency on legacy tools



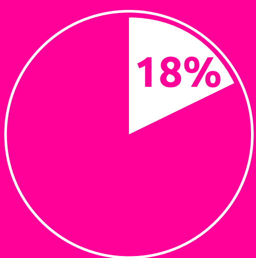
it creates delays and prevents us from being agile



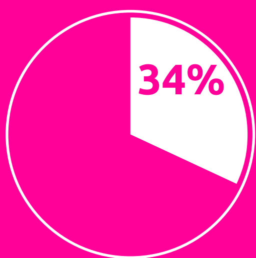
there are often interoperability issues with other off the shelf tools



we have to compromise too much on features and scope



we do not achieve what we set out to achieve



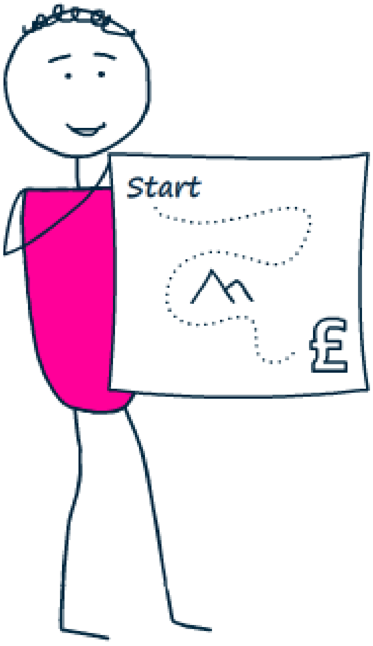
the final product is often not as high standard as we could get elsewhere

"There are good reasons why many telecoms IT teams get behind on transformational change projects – competition for internal resource, budget, skills shortages, the list is endless. Ultimately driving value isn't their core responsibility, they have many competing priorities that are just as urgent. Value is the responsibility of the CFO, CEO, CMO and the people that support them in driving up base value – they are the people that know what they need and want to see. Often these operational areas of the business have a clearer view of the tools they need to make better decisions, but they are competing against other business priorities and IT backlogs to get to what they need. As a result, IT is often pushed into delivering something, but they do not truly understand the complexity of what is required. This means the final product does not deliver the granular insights needed to make value-based decisions, which puts organisations in the precarious position of basing million-pound decisions on untrustworthy insights. Ultimately, having a half-baked value management system can sometimes do more harm than good."

Harry Dougall
CFO & Founding Partner, Sagacity

The importance of a systematic approach to value management

To be a leader that oversees transformational change to the bottom line, it's essential to take a systematic approach to value management. Without a granular and accurate understanding of the drivers and levers that impact value, organisations are missing a trick.



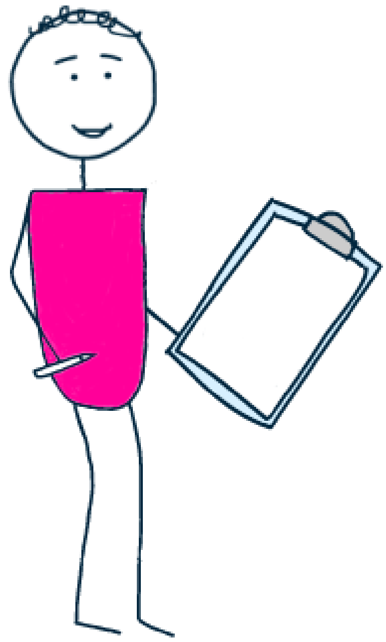
Yet while organisations clearly recognise the need to be more value-driven, the current haphazard approach is opening them to risk. When you consider that this data is being used to underpin critical business decisions on millions of pounds worth of investments, it's essential that people are not working from flawed assumptions.

With the cost of new customer acquisition and retention escalating, organisations need to ensure that they are making the right long-term decisions and understand what the impact of these decisions will be over time. Whether it's the choice to offer free broadband installation, subsidised mobile phone handsets, or designing new commission structures, tariffs and bundles, operators need to balance the risk and rewards in a data-driven way to ensure a return on investment.

Moving data insights from grainy signals into High Definition and widescreen

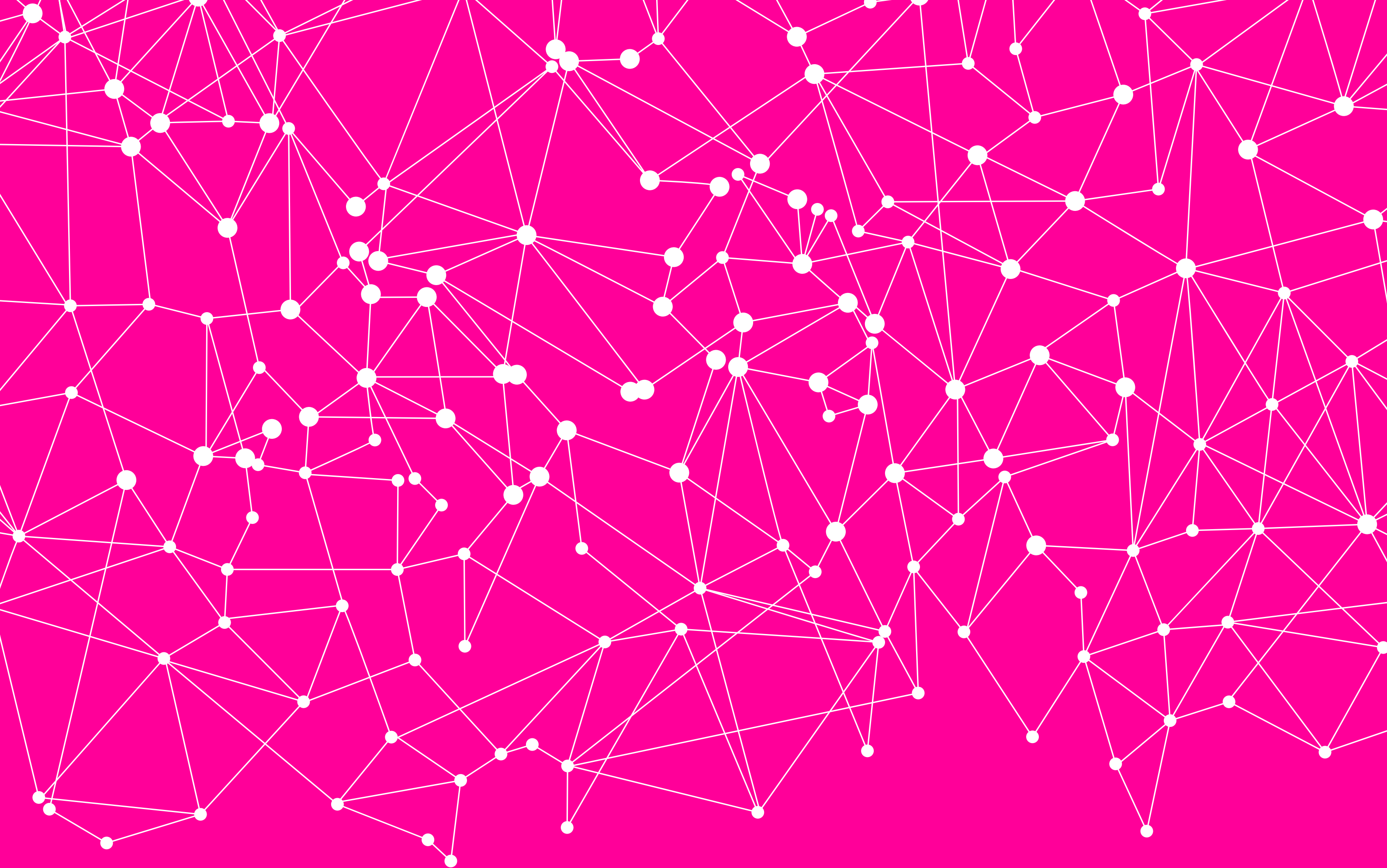
Working on assumptions, averages and lumping all customers into broad categories is likely to result in massive revenue leakage. Instead, organisations should be considering who their most valuable customers are and offering personalised incentives to make them stay, while de-incentivising those who destroy bottom line value.

Layering a value management platform on top of the technology stack helps organisations solve many of these challenges, giving an accurate and granular single customer view. Overlaying in this way allows operators to look at different factors – such as contract value, the cost of acquiring that customer, the tenure of their contract, and so on – to assess the lifetime value of a customer.



For example, some customers may be profitable due to a long-standing tenure and because they rarely call the contact centre; others may be a sunk cost because they change contracts every twelve months and never spend more than £10. Being able to identify the common factors that earmark a profitable customer versus the negative traits that identify an unprofitable customer helps operators focus their resources.

By taking this granular view, right down to the subscriber level, it is easier to identify pockets of profitability; operators can zoom in on these to understand why, so they can hopefully attract more of that type of business.



You wouldn't build a billing system, so why try to build a value system?

The job of value shouldn't be left in the hands of IT. Building a value-based management platform from scratch requires a combination of experienced data engineers, commercial analysts and technical developers all working together that most organisations simply don't have. It is timely, resource intensive and if not done in the right way, can result in very costly mistakes.

It's a false economy to try and build a value based management platform inhouse, or worse, trying to do these complex calculations in Excel. Ultimately, you wouldn't build a billing system, so why try to build an even more complex value management system yourself?

A value based management system automates much of the hard work to ensure that results are delivered consistently and in a timely way. By automating much of the process, the data is just there – ready to use. This means teams no longer need to justify and make a business case for whether or not to use data when making a decision – all decisions, no matter how small, can be run through the platform. And this is where the value builds – as small decisions can build up to big problems.

By partnering with external experts, IT teams can massively reduce their workload and focus on supporting the core business. Sagacity's team of experts have years of experience working with businesses in the telecoms sector, with a practice dedicated to value based management. This means businesses can get value from day one, ensure data-led decisions are made in the right way, while freeing up IT teams to support the wider business needs. The platform is also configuration based meaning any changes in the market or company do not require any changes to the platform. In fact, one telco customer Sagacity worked with to provide a holistic view of value, made over £6 million of savings by increasing the ROI of 'low' value customers in year one.

Methodology

The report is based on a survey conducted between 10th June and 4th July 2022 by Coleman Parkes, an independent market research organisation, of 200 telecom professionals from the UK, US, and rest of Europe with responsibility for customer value base management. This included CFOs, CEOs, Heads of Base Management, Heads of Customer Insight, CMOs, Value Directors and Heads of Value.

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