

Optimization Services

- Forecasting and Budgeting
- Service and Process Costing

WHAT'S IT ALL ABOUT?

Precision in short-term planning and cost transparency are prerequisites for both effective plan-do-check-act cycles and substantiated service pricing procedures. Regulatory constraints and increasingly competitive environments induce operators to focus more on understanding the costs and profitability of individual services and processes.

Forecasting and Budgeting includes all review, development and tooling activities focusing on short- and medium-term business planning, with the main ingredients being subscriber base, revenues, operating expenses (OPEX) and capital expenditure (CAPEX), as well as their respective external (market) and internal (infrastructure, staff, processes) drivers. The forecasting and budgeting framework is linked to the costing system for all OPEX-related inputs.

Service and Process Costing comprises all methods of cost forecasting, recording, allocating and reporting, which are not only essential for controlling purposes, but also important inputs to consider for pricing decisions. Adequate pricing is a key determinant for growing the customer base, shaping demand for new services, increasing revenues at marginal incremental cost and maximizing profit. Conceptual starting points for costing assignments are either certain end-user services – often new as yet unlaunched services that are highly uncertain with regard to the initial price setting, and for which a dedicated costing project is conducted – or processes, the latter being the common approach when building a complete costing system.

OUR APPROACH

We review our clients' forecasting and budgeting in terms of both form (process, tool support) and content (actual forecast data). This usually involves the review of the short- and medium-term client business plans, combined with reconciliation with past annual and interim financial statements, as well as matching to the reporting structure. Beyond this, we actively contribute to the projections, relying on our operator experience and benchmark knowledge base. As we not only provide analysis and advice to our clients, but also production-grade tooling intended for ongoing

client use, we are familiar with implementing and customizing software tools for forecasting and budgeting, such as short-term business models and rolling budget systems. Depending on our clients' needs and the scale of operations, we use both standard spreadsheet functionality and special software features.

Costing is the science – and art, as some aspects involve fairly arbitrary decisions, such as the allocation of common costs – of calculating the costs associated with individual products, services, processes and customer segments. The main applications of costing include:

- Calculating the cost of individual services and their profit margin – this provides useful inputs for pricing new services
- Measuring customer lifetime value for various customer segments and the latter's contribution to total business value creation
- Calculating interconnection costs for regulatory purposes and negotiating with other network operators
- Calculating the costs of individual business processes and identifying areas for improvement – infrastructure, processes, people, tooling

The required handling of large amounts of data, identification of the proper cost drivers and ratios (dimensioning rules) and selection of the right level of detail for bottom-up network and process modelling make costing projects a challenge.

We are familiar with various types of costing, but focus specifically on the topics of Element Based Costing (EBC) and Activity Based Costing (ABC), which we consider to be state-of-the-art methods for telecommunications operators. These techniques are especially useful for telecommunications operators, as the latter are typically organizations with a large asset base, a high degree of automation and highly complex operations, delivering a great diversity of products and services varying significantly in volume, with relatively high overhead (indirect) costs, as well as operations undergoing continuous technological or design changes.

Establishing a full costing system entails both a conceptual and an execution phase. During the initial design phase, the costing system is specified, taking

into account the primary system purposes and the operator's individual situation, described by scale, footprint, infrastructure, organizational structure, process setup and accounting system. This stage includes the selection of methods and parameters and the definition of cost objects (entities to which costs are to be attached) and cost drivers (providing the basis for allocating costs to the cost objects). Activity-based and element-based systems involve the analysis and identification of organizational activities and network elements, respectively; assigning the costs of resources consumed by the activities and network elements – the “first-stage allocation”; and allocating homogeneous cost pools of activities and network elements to final cost objects, such as high-level processes and services – the “second-stage allocation”.

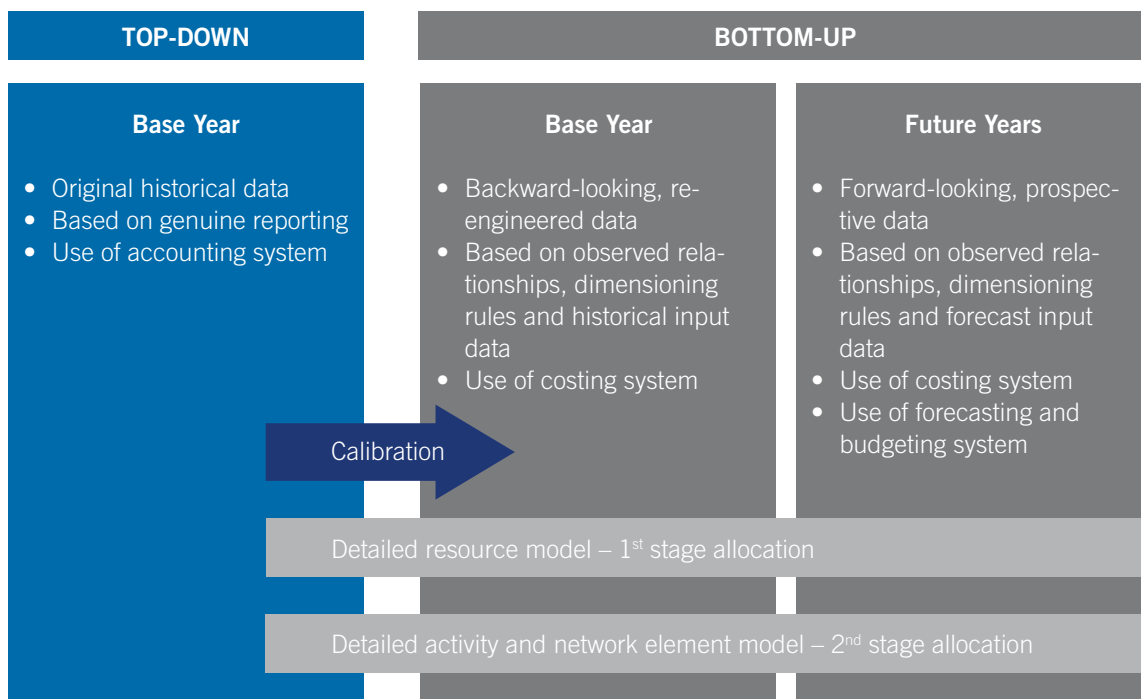
In the implementation stage, choices with regard to the IT solution are then made. Cost-relevant data is collected and the methodology put into practice by coding the costing system, using spreadsheet and database software. Ratios to determine the resource driver and activity/element driver parameters are computed from the collected historical data. In a step known as “calibration” of the costing model, the historical relationships are finally used – in combination

with estimates for future development of market and company – to project future costs for forecasting and budgeting purposes.

CLIENT BENEFITS

Operators benefit from a thorough review of their forecasting and budgeting function, both in terms of form and content. The costing system, being a major contributor to planning, is further scrutinized. Our technical know-how with regard to network infrastructure, operations processes and services enables us to properly define resources, activities and network elements, to identify the respective cost drivers, as well as to ensure a precise mapping. Cost data is collected and cost drivers analyzed, so that recommendations for cost optimization and service pricing can be made. Furthermore, past relationships are used to project future costs.

In terms of implementation, we provide production-grade tooling – based on spreadsheet, database and proprietary software – intended for ongoing client use, for forecasting and budgeting as well as for costing systems.



Generic costing and forecasting approach

OUR SERVICES

We offer a broad range of advisory services, as presented in our portfolio matrix. We position our individual solutions alongside services practices and service clusters.

	Strategy and Marketing	Corporate Finance and M&A	Operations and Technology Management
Transaction Services	Strategic Investment Management · Feasibility Study Strategic Due Diligence · Management Assessment Licensing and Regulatory Affairs	Commercial and Financial Due Diligence · Business Plan Analysis and Benchmarking · Asset Valuation Investor Business Plan Development Bankable Business Plan Negotiation · Project Finance	Network Infrastructure and Operations Due Diligence Roll Out Plan Review and Benchmarking Operations Plan Review and Benchmarking
Optimization Services	Going-to-Market Strategy · Segmentation · Target Marketing · Product · Pricing · Promotion · Sales Channels · Customer Care Organization Development Partner Selection and Sourcing	Financial Performance Measurement and Benchmarking Forecasting and Budgeting Service and Process Costing	Network and Process Performance Measurement and Benchmarking Business Process Reengineering · Process Audit and Improvement Shared Delivery · Regionalization and Centralization · Outsourcing and Managed Services
Innovation Services	Business Development · Growth and Transformation Mobile Virtual Network Operator · Mobile Virtual Network Enabler Value Added Services	Financial Modelling and Financial Engineering	Technology Appraisal and Roadmapping Network Planning and Migration Network Infrastructure Sharing



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