TELECOM IT

HOW IT IS DRIVING BUSINESS VALUE AT EUROPEAN TELCOS

by Frank Felden, Thomas Krüger, and Eirini Markoula

FACING ONGOING DOWNWARD PRESSURE on revenues and pricing power, European telecommunications companies have put a premium on cost reduction. IT units have been called on to do their share, and many have responded with aggressive cost-cutting campaigns that have already delivered sizable savings. But for IT, the low-hanging fruit has largely, by now, been plucked, while the pressure to support the business remains and is indeed intensifying. How are IT departments responding?

Many are increasingly emphasizing *business value creation.* This was a key finding of the latest annual survey of industry participants conducted by BCG and ETIS, a membership-based organization that seeks to help telcos improve their business performance through shared discussion of IT practices.[1] Cost reduction is and will remain a priority for the industry's IT, the survey confirmed. But IT departments are focused not just on reducing spending but on ensuring that what they do spend is spent wisely and has maximal impact on the business.

And IT units are hitting that mark, on balance. A comparison of telco IT spending on key processes—product and sales management, fulfillment, billing and collection, and assurance and customer service—with the quality of those processes revealed a general correlation between spending and value creation, though the link was stronger in some areas (such as product management and sales) than others. The survey also found that no single telco-IT unit excelled in value creation across all business areas. Some operators led for one or even two of the processes, but all lagged somewhere.

Pressure on IT to support the business is intensifying.

The survey also shone light on two closely related issues: IT-spending efficiency and the alignment of IT spending with the company's business strategy. IT spending averaged 4.6 percent of revenue but varied significantly among respondents, ranging from 2.8 to 6.2 percent. In the past, it has been difficult to infer anything with confidence from these numbers with regard to spending efficiency. Outliers have justified their results by saying that the numbers are not comparable: a smaller operator, for example, cannot benefit from economies of scale, while an integrated telco has more complicated IT than a mobile-only player.

The latest survey, however, attempted to normalize IT spending—and give telcos a realistic sense of how their cost levels truly compare with those of other operators—by accounting for three of the most important factors that influence IT cost: a telco's size, business mix, and, critically, IT business-value creation. The analysis found that, when adjusted for these factors, IT spending levels were much more closely aligned, averaging 4.8 percent of revenue. Most participants fell around that figure, but interestingly, several telcos whose unadjusted spending marked them as underperformers were actually outperformers once their cost levels were normalized.

Survey findings also underscored the importance of IT-business alignment. Investing to generate business value, no matter how efficiently the money is spent, can be largely wasted if the investments are scattered or targeted at the wrong things. Telco IT units, thus, need to ensure that their spending strategy is closely aligned with the company's overall business strategy. "No frills" IT (low value creation, low cost), for example, would be the ideal position for a telco with an overriding goal of cost reduction, while "premium IT" (high value creation, high cost) would suit a telco focused on growth. Once its spending strategy is aligned with that of the business, the IT unit can concentrate on ensuring that it is getting what it paid for—or more.

Note

1. For a copy of *Telco's New IT Weapon: Business Value Creation*, an executive report cowritten by BCG and ETIS that highlights many of the survey's major findings, please contact one of this article's authors.

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