

Synchronizing for Results

The sequence of steps from the arrival of a customer's order, up to and including the customer's cash reaching the operator's bank account, represents the financial lifeblood of any communications company's business. But the order-to-cash cycle also does more: It shapes many key touch points—installation, provisioning, billing, and so on—that directly determine the customer's own experience and perception of the operator. So an optimized order-to-cash cycle not only brings direct benefits in terms of cash flow, revenue, and cost, but also boosts an operator's reputation among customers and creates a clear competitive edge.

Today, amid rapid change in the technological and competitive environment, and with the shift toward increasingly complex bundled services, optimizing the order-to-cash cycle is more vital than ever for every operator. But an operator's ability to optimize depends crucially on maintaining an unyielding focus on the customer.

by **Kenny Fraser, Lisa Meeks, Mark Bergsma, and Erik Klein Nagelvoort**

In April 2006, the United Kingdom-based handset retailer and operator Carphone Warehouse sent shockwaves through the industry when it announced its TalkTalk phone service would include a “free” broadband connection starting in July. As rivals queued up to respond with lower-price offerings of their own, consumers queued up to buy the service.

However, while the new offering was a major coup for Carphone Warehouse in marketing terms, the rollout was hardly as smooth as the company would have liked. By late July, TalkTalk had signed up 476,000 customers for its free broadband service. But only 250,000 of them had actually been connected, and—with a two-month backlog—there were widespread anecdotal reports of consumers giving up waiting and deciding to go elsewhere.

In a trading update on July 27, 2006, Carphone Warehouse’s Chief Executive Charles Dunstone admitted that the level of demand had been higher than the company had estimated. He commented: “We have expanded our customer service capacity substantially since June to meet this additional demand, and this is now having a noticeable effect. In turn, this has enabled us to increase significantly the rate at which we are provisioning customers onto broadband. We still have some way to go, however, to reach the leading service levels we target.”

Lessons to learn

This sequence of events highlighted several key lessons for today’s operators. In product design and consumer marketing terms, TalkTalk’s free, bundled broadband was a groundbreaking innovation—one with a truly disruptive effect both on the industry and on consumers’ expectations and demands. But by stimulating such heavy orders without the back-office processes in place to handle so many orders quickly and smoothly, Carphone Warehouse created a classic bottleneck in its order-to-cash cycle. The company moved quickly to expand its call center capacity and tackle the backlog, but, inevitably, some damage had already been done to its reputation and relationships with customers.

As this experience suggests, keeping the order-to-cash cycle in good shape is critical to today’s communications companies. Figure 1 illustrates the way the cycle typically works. In analyzing the efficiency of this process, a key measure is how long it takes to go from the customer’s desire to order the product or service, to the stage where the order has been fulfilled to the customer’s satisfaction and the cash is in the provider’s account. The interlinked nature of the process means that blockages can arise at any point, or even at multiple points, in the cycle.

When this happens, the impact can be far-reaching. Operators may be tempted to regard inefficiencies or capacity constraints in their end-to-end, order-to-cash cycle as essentially internal systems or resourcing issues. Given this viewpoint, the natural response would be to pinpoint the specific operational problem, address it through a point solution, and move on: problem solved. However, the reality is more complex. The interdependent and interlinked nature of the various elements in the process means that tackling a problem in one area often results in a new problem elsewhere.

A relatively simple and commonplace example of this can occur where fixes are applied at the switch level to optimize call handling. These fixes often can result in changes to the call detail record used as an input to the mediation, rating, and billing processes. In some cases, the changes to the call record mean the modules in one or more of these three customer-critical processes can no longer read it—a problem that emerges only when the operator finds that a series of records has been rejected.

A further key consideration is that operators must not underestimate the wider effect of an inefficient end-to-end, order-to-cash cycle. On the one hand, it can have a serious financial impact, negatively affecting revenues, cash flow, debt levels, and, ultimately, profitability. On the other, the fact that elements of the cycle such as billing and provisioning are so central to the customer experience means problems at any point in the cycle can have an unquantifiably negative impact on customer relationships. Such an impact can drag on long after the root-cause internal operational issue has been solved.

More than just a challenge for today

As the communications industry faces perhaps the greatest upheaval in its history, there is another important dimension to consider: digital convergence. Many operators are focused on the major business challenges convergence brings, including the death of their traditional voice business, a greater focus on content, and the new opportunities presented by advertising revenues. However, numerous communications companies we have spoken to also perceive a further vista of opportunity. This is because, whatever happens in the newly converged markets, the need will be clear for complete, accurate, real-time service provisioning and billing covering very high volumes of typically small transactions.

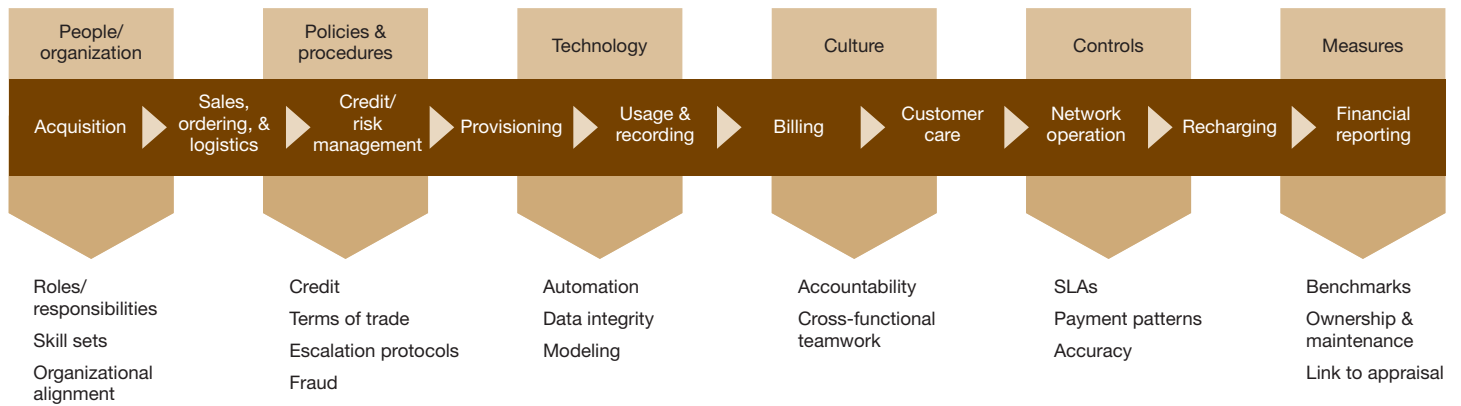
These provisioning and billing relationships will exist between providers and consumers but also, and increasingly, among the various parties in the value chain. Consider, for example, a UK-based customer viewing a clip of Wayne Rooney scoring a goal for Manchester United, an English soccer team, over his Vodafone connection on a Nokia handset. The customer may include the cost in his content subscription bundle. But how much—and what proportion—of this money is distributed to the football club, the broadcaster, the carrier, the shirt sponsor, and possibly even the player?

In this new environment, there will be a need for real expertise to handle the complex billing and payment mechanisms. We know from our industry conversations that many companies see this as an increasingly key capability in the telecommunications industry—and, consequently, as a major opportunity to build a new source of revenue in an uncertain world.

The importance of optimizing the cycle

The message is clear: Optimizing the order-to-cash cycle should be a key objective of every operator’s board. Making the cycle as efficient and effective as possible will ensure that payments are processed quickly while also minimizing the time and maximizing the accuracy of provisioning and invoicing customers. This efficiency, in turn, will simultaneously improve customer satisfaction, increase

Figure 1: A typical order-to-cash cycle



Because a typical order-to-cash cycle is efficient when it satisfies customers' needs, an operator should optimize the cycle by first taking an end-to-end view of the interlinked steps from the customer's perspective.

cash flow and revenues, and minimize the costs of the back-office processes.

In addition, if operators are serious about the revenue opportunity from providing billing and collection services, their new customers certainly will expect them to be able to manage the services in a seamless, end-to-end fashion. Problems in the order-to-cash cycle that merely cause internal pain today will become major business and reputational issues when the operator is providing a service to hundreds of content rights holders.

But realizing these advantages is not easy and seldom is achieved in full. This is largely because true optimization of the order-to-cash cycle requires an end-to-end view of the entire process, and achieving such a view involves far more than simply tweaking a few systems and processes. In fact, moving to an end-to-end perspective throughout the business often involves significantly changing the culture, with substantial management input and support. Such change may be best approached as part of a wider change program, perhaps involving a series of targeted workshops—departmental, cross-departmental, senior management, middle management, and so on—to embed the new thinking throughout the business.

Having overcome the cultural and organizational silos, still more hurdles lie ahead. In our experience, operators all too often adopt a reactive attitude to problems in one element—provisioning, billing, collection, or some other subprocess—and get bogged down in addressing that particular segment

of the cycle. The result is uncoordinated, limited actions that have relatively little impact on the performance of the cycle as a whole. A further hindrance to an end-to-end view is the rapid change under way in products, services, and bundling. This constant innovation, coupled with the severe pressures to reduce time to market, can lead to order-to-cash processes becoming fragmented and subject to bolting on elements to handle specific products—ultimately hampering the cycle's overall efficiency and effectiveness.

The key to achieving the necessary end-to-end perspective lies in remembering that the cycle is actually all about customers. At every stage are customer touch points that can have a profoundly positive or negative impact on the customer experience. Given the communications industry's generally poor reputation for customer service, it is probably fair to say that many players have been getting this element wrong for years. To an extent, this reputation reflects the industry's historical tendency to focus on a provisioning problem, for example, as a systems issue rather than a customer issue. However, if a hundred customers have their provisioning delayed as a result, their collective sense of dissatisfaction will not go away just because the systems problem has been fixed.

The industry's generally poor reputation for customer service represents a major opportunity for operators that get it right. By doing the simple and basic steps well throughout the order-to-cash cycle, an operator can differentiate itself from the competition in the eyes of the customer and

can create a major source of competitive advantage. Ultimately, this is what optimizing the order-to-cash cycle will achieve.

Experience to date

So, what lessons should today's communications companies bring to bear as they seek to optimize their order-to-cash cycle? The best way to approach this question is through some real-world examples we have seen in the industry in recent years.

In 2004, one of the country operations of a major wireless operator discovered it had been overcharging customers in that territory over a period of several months. The overcharging was a result of a problem in its rating process, just one element of the cycle. While the amounts individual customers were overcharged were small, the fact that the total overcharge ran into millions of dollars meant the company attracted widespread negative press coverage and close scrutiny from regulators. Inevitably, the operator's reputation and level of trust among customers suffered. And although the damage was partially addressed by the company's public apology and its decision to compensate all affected customers, costs were high, both financial and in terms of overall reputation.

Another example is that of a publicly quoted European broadband provider that was producing sales and revenue forecasts based on reports by its sales force of completed sales. The board of this company thought the sales reports reflected signed orders, but the expected revenues from these reported sales were

taking more than six months to come in—indicating that the sales people were logging sales prematurely and even over-optimistically. Again, this isolated process problem within the order-to-cash cycle had a severe reputational and regulatory impact.

To tackle the issue, the board decreed that no element of provisioning for any customer should be processed until the sales person had submitted a signed order. However, this change created a blockage in customer provisioning, because some elements—such as contacting third-party installation companies—that usually would have happened in parallel were held back and done sequentially. This example illustrates how remedial action in one part of the cycle can have a negative effect elsewhere, underlining the need for an end-to-end view.

Finally, the recent experience of a global enterprise network provider presents a more positive example of the benefits that can be achieved through an overall perspective of the cycle. Historically, this company had approached the order-to-cash cycle in a relatively fragmented way, to the extent that each new product was set up with its own specific people, processes, supplier procurement, and billing. Largely as a result, it took an average of more than 140 days for a customer's order to reach the point where the business received the cash payment. By examining the order-to-cash cycle in its entirety, removing duplication, streamlining the individual steps, and improving linkages, the company was able to reduce the time by more than a third, to 90 days. As a result of the lower costs and improved cash flow, this heavily indebted company was able to stop paying interest on an amount equivalent to 15% of its turnover.

What to aim for

The experiences of these companies may be extreme in terms of the situation that needs to be addressed, but they do bring all players insights into possible approaches and the scale of the resulting benefits. However, it is not always that easy to gauge the size of the problem in the first place. For operators in many marketplaces, the true underlying order-to-cash efficiency levels are masked by the increasing use of pre-pay offerings, which effectively bring the cash in before the service is delivered.

This shift to pre-payment, in combination with the wide diversity of operating environments and processes applied in various markets, makes it difficult to identify hard-and-fast metrics that can be applied across the world to underpin best practices. What may appear to be a rapid order-to-cash cycle in one territory may rank as relatively poor elsewhere. However, a best practice that does not change from market to market is that the best-performing operators start from the customer's perspective to examine the entire order-to-cash cycle on an end-to-end basis.

One approach for achieving an end-to-end view was adopted by a continental European fixed-line operator, which put all its product development under the ultimate control of a committee of individuals drawn from across the business. This product development group—which included representatives from product development, core networks, IT, billing, customer service, marketing, finance, and so on—was given responsibility for go-or-not-go decisions, both at the start of development work on a particular product and at the end, immediately before launch. The whole committee needed to agree before the product could go to market. If, for example, the billing function had a problem, then the product launch would be delayed until the issue was resolved. This approach ensured that the needs of every element of the process were met before any product went live.

As such approaches suggest, order-to-cash optimization is not a discrete project that can be completed and filed away. It is an iterative, ongoing process, as further improvements always can be made. As the communications industry continues to evolve and become more complex, and as companies roll out new services and bundles on a daily basis, it is all too easy to take the underlying order-to-cash cycle for granted. But unless an operator focuses specifically and continually on optimizing it, any gains made inevitably will start to ebb away.

Laying the groundwork

To create the right basis and environment for successful order-to-cash optimization, the first step should be to identify and exploit opportunities for organizational improvement. At root, this is about reducing or removing silos within the organization—the kinds of cultural and process barriers that result in the sales team not talking to

the billing or network departments, making it more difficult to achieve seamless, efficient provisioning and billing once a product has been sold.

The key, once again, is to look at the end-to-end cycle as an integrated whole rather than as a collection of discrete steps. At every point throughout the organization's value stream, there needs to be an understanding not only of how the whole value stream fits together, but also of the importance of each specific step and of its impact on the others. So a sales person who closes a deal with a customer by including, possibly, an additional discount and a time commitment for when the service will go live should know precisely what those offers mean for provisioning, billing, customer care, and so on.

The way to embed an end-to-end awareness, and to ensure that it is reflected in behaviors and subprocesses throughout the cycle, is to set explicit responsibilities underpinned by the right incentives. A detailed but potentially significant example of this type of joined-up thinking might be found in the way network switches are configured. The switch essentially runs two pieces of software: the network availability software, which keeps the traffic flowing; and the accounting software, which monitors the traffic for billing and financial purposes. When the switch becomes overloaded to the extent that one of these routines has to shut down, then it should be the accounting software that does so.

Why? Because shutting down the accounting software will cost the operator some cash, while shutting down the network will cost it both cash and customers—and wreak far more damage on its end-to-end value chain and its business as a whole. The ability, culture, and awareness with which to apply a holistic view consistently depend on suitable incentives and responsibilities, plus a clear focus on the customer experience as the key factor in decision making.

Optimization techniques

So, with silos removed and an end-to-end view of the value chain increasingly embedded, how should the company go about optimizing the order-to-cash cycle? We have already stressed how a customer-centric focus should act as the guiding principle of an operator's optimization program, and have described several instances of this perspective being put into

effect. In terms of implementation throughout the order-to-cash cycle, a number of specific methodologies, techniques, and tools are available to help operators optimize the cycle while constantly keeping the customer fully in view.

Process improvement

One technique can be based on the relatively traditional process improvement, which consists of an iterative series of actions targeted to reduce costs and increase the overall effectiveness and coherence of the end-to-end cycle. The aim is usually to maximize two attributes at every phase of the cycle: automation and flexibility. Quick wins are likely to be available at various points by removing duplication and eliminating the need for human intervention.

For example, in recent years we have seen operators whose order input process involved every order being manually rekeyed up to four times, creating major inefficiencies and multiplying the potential for errors. Rationalizing, automating, and integrating such duplicate processes should be a priority. However, any specific improvements should be taken only after careful consideration of the possible effects on other parts of the cycle—a point illustrated by the experience of the broadband provider described above, whose attempt to improve the sales process had a negative effect on customer provisioning.

Automated tools

For use in a process improvement approach, several automated tools on the market are designed to optimize specific segments of the cycle. Some of these are very effective, so selecting the right tool and configuring it in the right way can deliver tremendous results in some areas. However, it is important not to regard these tools as an alternative to applying customer focus and an end-to-end view. The ultimate risk is that an operator might end up with an order-to-cash process consisting of a hodgepodge of disparate tools that do not integrate with one another especially well, thereby hampering end-to-end optimization and distracting attention from the root causes of any inefficiencies.

Lean Six Sigma

Perhaps the most sophisticated and highly disciplined approach to order-to-cash optimization is Lean Six Sigma, a methodology for driving continual

improvement that focuses primarily on achieving higher speed and lower costs. Six Sigma was conceived as a way to optimize manufacturing processes, and its “lean” variant is currently widely regarded as being epitomized by the Japanese automobile manufacturer Toyota. However, Lean Six Sigma has become increasingly prevalent in service industries in recent years, initially in financial services and now in the communications industry.

In applying Lean Six Sigma to an operator's order-to-cash cycle, the starting point is again the customer. The process involves examining and assessing every segment within the cycle in terms of what it contributes to the customer experience. If it contributes nothing, it can be stripped out. Within this overall process, a useful approach to the Six Sigma program is encapsulated in the steps of the DMAIC model—define, measure, analyze, improve, and control:

- Define the goals of the improvement program and the metrics by which success will be judged.
- Measure the existing processes and their performance to develop a clear understanding of the current state.
- Analyze the outputs from this measurement process to identify the root causes of inefficiencies and bottlenecks.
- Improve the target processes through a continual, iterative cycle of improvement and measurement, tracking the performance of individual segments and the entire end-to-end process.
- Control the end-to-end cycle and the related improvement process to ensure that each initiative is fully integrated and contributes to the optimization.

Throughout, maintain a clear focus on customers' requirements and aspirations, ranging from their experience of network quality to the speed and usefulness of the response from call centers.

The benefits: Boosting business fundamentals

An operator that succeeds in optimizing its order-to-cash cycle stands to gain two major benefits that are fundamental to any business. First, it will increase its revenues. Second, it will simultaneously minimize its costs and maximize its margins.

Significantly, these wider and longer-term advantages may not necessarily represent the main drivers behind the optimization program. In many cases, the costs of the program itself can be fully justified by more immediate benefits such as lower interest costs and faster cash flow—the kinds of highly measurable improvements that lend themselves to a Six Sigma approach.

Beyond these is a range of customer-related benefits that are equally significant but more difficult to measure. As we have already pointed out, in an industry with a generally poor reputation for customer management and service, significant competitive advantage will flow from a strong reputation for dealing with customers. Furthermore, an optimized order-to-cash cycle provides a good basis for developing and promoting customer self-management, which in turn will free up resources and enable the operator to boost the standard of service to customers who actually need its help.

The order-to-cash cycle represents the core of a communications company's operations, containing all the shared touch points between its business and its customers. In an increasingly converged world—one where many traditional revenues are under threat—a sound and cost-effective order-to-cash cycle represents the key platform for fully exploiting new revenue possibilities. Clearly, optimizing the cycle creates the basis for financial outperformance and competitive edge with customers. But it also does much more: It positions the business for long-term survival and success in tomorrow's converged, services-led marketplace.

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