



Telecom Co. (2014)

Driving Customer Growth Within the Telecommunications Industry

Team 8:

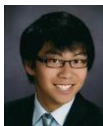
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University of Michigan – Deloitte Case Competition

January 17th, 2014

Team Overview

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Presentation Agenda

Driving Telecom Co.'s Continued Growth Within the Telecommunications Industry

Situation Overview

- Executive Summary
- Problem Statement

Driving Customer Growth

- Market Segmentation and Growth Opportunities
- Operational Strategy and Outlook
- Regulatory Risks and Considerations

Information Technology Strategy

- Situation Overview and Comparison of Possible Actions
- Long Term and Short Term Strategies
- Implementation Plan and Partners

Finding and Retaining Talent

- Organizational Talent Gaps
- Hiring New Talent
- Retaining Talent

Conclusion

- Financial Outlook
- Risks and Mitigations
- Timeline of Implementation

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Executive Summary

- I. Telecom Co. must forge state partnerships while entering emerging markets, develop high-revenue 4G services in drive-to-maturity markets, and break into mature markets through targeting nontraditional prepaid wireless device demand
- II. Short-term transition away from IT Co. is imperative while long-term solutions, including in-sourcing of customer facing services, should be implemented as internal capabilities are developed
- III. Addressing existing talent gaps in IT leadership and regional markets to successfully implement customer growth and IT service improvement goals
- IV. Lower employee and senior leadership turnover through teamwork initiatives, defined career progressions, and competitive executive compensation

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Problem Statement

Telecom Co. must drive customer growth, recover IT capabilities, and retain internal talent

Revenue Growth

How can Telecom Co. increase its growth rates and top-line revenue?

- How is the market segmented and where are the growth opportunities?
- What are the risks and barriers to entry Telecom Co. must consider while entering new markets?

IT "Plan B"

How can Telecom Co. resolve its IT issues?

- How can Telecom Co. control the quality of its IT services?
- Are there cost implications that Telecom Co. must overcome?
- What needs must Telecom Co. fill in order to take lasting action?

Attrition Rate

What can Telecom Co. do to lower attrition rate and develop internal expertise?

- What talent needs must Telecom Co. fulfill? How should Telecom Co. fill these needs?
- How can Telecom Co. retain and develop its internal talent?

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Telecom Co. must find opportunities for growth within a industry characterized by high consolidation, uncertain regulatory environments and increasing niche demands

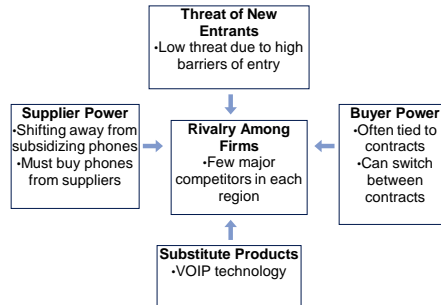
Telecom Co. Market Overview

Market	Revenue(\$ in M/Year)	Market Share(%)	Inflation	Comments
US (HQ)	\$120.0	1.6%	2.0%	Telecom Co. operations in US are minimal
Mexico	\$400.0	80.0%	7.0%	New product launch planned in next 6 months
Argentina	\$100.0	25.0%	25.0%	New product launch planned, potential for nationalization of mobile infrastructure

SWOT Analysis













Strengths <ul style="list-style-type: none"> • Dominant market share in Mexico • First-to-market provider of 4G services 	Weaknesses <ul style="list-style-type: none"> • Limited market share in the United States • Limited available cash flow for large cap-ex infrastructure investments
Opportunities <ul style="list-style-type: none"> • Expansion to emerging markets • Enter mature markets through nontraditional niche markets 	Threats <ul style="list-style-type: none"> • Risk of asset nationalization in Argentina • Large carriers entering niche markets

Porter's Five Forces



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Wireless device markets follow three stages of development – emerging, drive-to-maturity, and mature markets

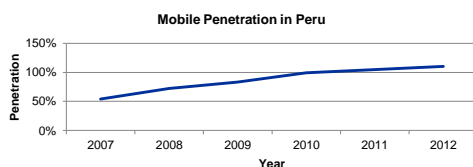
	Stages of Development		
	Emerging	Drive-to-Maturity	Mature
Definition	Regions where wireless devices lack establishment past basic devices	Regions with increasing demand for advanced network capabilities (4G, LTE, ect.)	Consolidated regions often characterized by well-developed infrastructure
Mobile Penetration	< 50% ¹	50% - 95% ¹	> 95% ¹
Example Region	Peru	Mexico	USA
Barrier to Entry			
Required Capital Expenditure			
Revenue Potential			
Customer Retention			

¹Economist Intelligence Unit estimates

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Enter emerging markets where friendly regulatory environments and governmental assistance are present

Case Example: Peru 



Market Share ²	
Movistar	51.5%
Claro	43.2%
Nextel	5.3%

Environmental Factors

Governmental Investment

Emerging markets are characterized by both friendly and unfriendly regulatory and political environments

First-Adopter Businesses

Corporate adopters remain more responsive to value-adding wireless devices than the average consumer

Operational Strategy

Leverage governmental support in developing infrastructure

- Enter markets only after securing governmental and regulatory support in investment in new infrastructure networks
- Build proposals through leveraging existing advanced network expertise and ability to deliver expanded network coverage

Build initial adoption of smartphone devices by targeting business through fleet packages

- Target higher level smartphone demand through signing corporate customers consistent with Telecom Co.'s origin

Enter friendly regulatory environment emerging markets by winning support from local governmental agencies and build initial adoption through targeting corporate customers

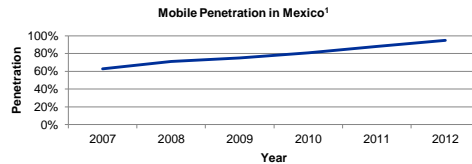
¹International Finance Corporation, IFC Mobile Money Scoping Country Report: Peru, January 16, 2014 pg. 6

²Standard & Poor's Industry Surveys – Telecommunications: Wireless, July 2013, p. 11

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Leverage existing infrastructure in drive-to-maturity markets in order to upsell to high revenue potential, broadband data packages (3G, 4G, LTE)

Case Example: Mexico



Market Share ²	
Telecom Co.	80%
Other	20%

Environmental Factors

Broadband Data

Increasing demand for broadband data packages presents opportunity for first-to-market providers

Customer Retention

Increasing presence of competitive carriers makes retaining (and upselling) existing customers priority

Operational Strategy

Develop first-to-market 3G, 4G, and LTE infrastructure

- Capture high revenue potential, broadband data packages focused on upselling current mobile subscribers
- Leverage continued governmental investment support to create well-developed infrastructure networks

Retain customers and build 3G, 4G, LTE penetration with phone buyback programs

- Convert existing subscribers to higher revenue data packages by purchasing old devices in exchange for subsidized 3G, 4G, and LTE enabled mobile phones

Grow revenue in drive-to-maturity markets by upselling existing customers to high revenue data packages through customer phone buyback programs and first-to-market infrastructure

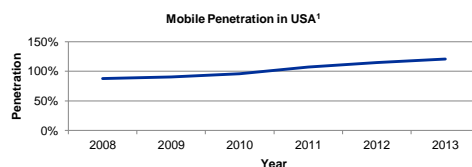
¹Economist Intelligence Unit estimates

²Standard & Poor's Industry Surveys – Telecommunications: Wireless, July 2013, p. 11

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Enter high-barrier markets by addressing demand for non-traditional, pre-paid phones while limiting cap-ex through leasing existing infrastructure

Case Example: USA



Market Share ²	
AT&T	34.0%
Verizon	31.4%
Sprint Nextel	17.5%
T-Mobile	10.8%
Telecom Co.	1.6%

Environmental Factors

Consolidated Market

Large existing carriers dominate the market with well-developed, existing infrastructure networks

Niche Demands

Prepaid subscribers, as a percentage of total subscribers, in the USA increased to 25% in 2012³

Operational Strategy

Lease infrastructure from established carriers

- Broker infrastructure leasing agreements with existing carriers to limit required capital expenditure and asset investments
- Team with existing smaller players to develop consolidated infrastructure backbones matching similar structures in Brazil

Focus on increasing demand for non-traditional pre-paid mobile device and wireless data plan options

- Build market share through new demand for pre-paid phone and wireless data subscriptions
- Bypass contract-locked subscribers and similar high-cost of acquisition customers

Bypass barriers to entry in mature markets by targeting pre-paid phone demand and by limiting capital expenditure costs through leasing existing infrastructure from established carriers

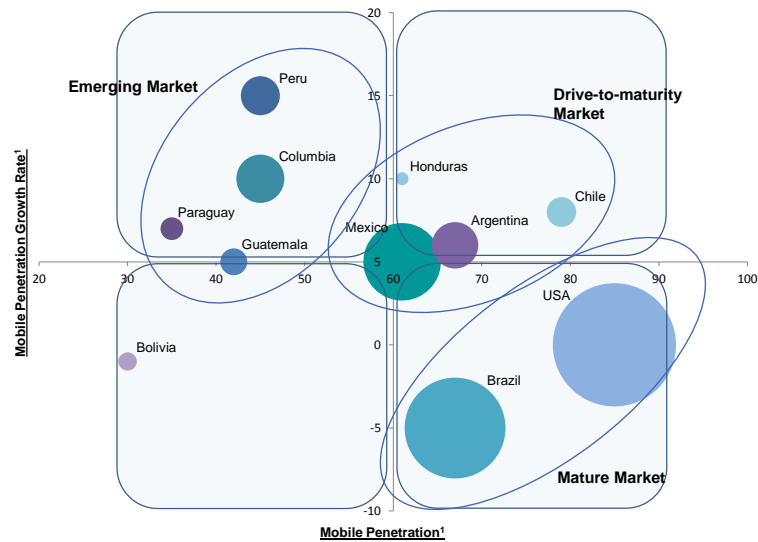
¹Economist Intelligence Unit estimates

²Standard & Poor's Industry Surveys – Telecommunications: Wireless, July 2013, p. 11

³US Mobile Data Market Update* Chetan Sharma, Q1 2012

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Three market segments represent separate required strategies for growing revenue at steps within wireless device market development



¹AT Kearney "Mobile Readiness Index", 2010

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Avoid unfavorable and risky regulatory environments and exit markets like Argentina expediently through asset sales that raise additional investment capital

Case Example: Argentina

Argentina's Telecommunications Sector: The Latest Target for Nationalization?

"...President Kirschner's Government applying significant pressure to Argentina's companies not to pay out dividends and instead reinvest that capital..."

"...the government would keep a close eye on whether the company's investments in Argentina were in line with its profits."

"All of which I believe indicates that the government is increasingly using the regulatory stick to pressure telecommunications companies to increase investment in infrastructure in Argentina, against their own best interest"

-Caiman Valores, Independent Investment Analytics and Risk Management Consultant

	Market Share ²
Telefonica de Argentina	40.0%
Telecom Argentina	34.0%
Telecom Co	25.0%
Others	1.0%

Environmental Factors

Government Pressure

The government is forcing companies to reinvest extensively, forcing Telecom Argentina to increase investment by 40%

Threat of Nationalization

The current actions of the government parallel those taken before the nationalization of the oil and mining sectors

Operational Strategy

1. Limit future investments and product development for this market

- Stop future proposed investments in Argentina and reassign product development team to new projects.
- Search for potential buyers and open negotiations.

2. Begin liquidation of operations in Argentina

- Gradually liquidate operations in Argentina moving towards a complete exit from the market.
- Apply capital generated from liquidation to fund other projects.

Exit unfavorable and risky regulatory environment to gain capital that can be used for expansion and further development of other projects.

¹Economist Intelligence Unit estimates

²Standard & Poor's Industry Surveys – Telecommunications: Wireless, July 2013, p. 11

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Telecom Co.'s severe achievement gaps within its outsourced IT services warrant immediate, provider change considerations

Service Level Results

Service	Target	US Achievement	Mexico Achievement	Argentina Achievement
Helpdesk Key Metric: Time to respond (e.g. to incidents, to emailed requests, etc.)	4 Hours	8 Hours	8 Hours	8 Hours
Application Development Key Metric: Number of Bugs	1 per 1,000 Lines	1 per 1,000 Lines	0.1 per 1,000 Lines	1.1 per 1,000 Lines
Application Maintenance Key Metric: Application Uptime	99.99%	99.98%	96%	99.999%
Data Centers Key Metric: Uptime	99.999%	99.999%	97%	99.995%

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Data Centers Key Metric: Uptime	99.999%	99.999%	97%	99.995%

Telecom Co. must find alternative IT service providers in order to alleviate unacceptable key metric performances across regions

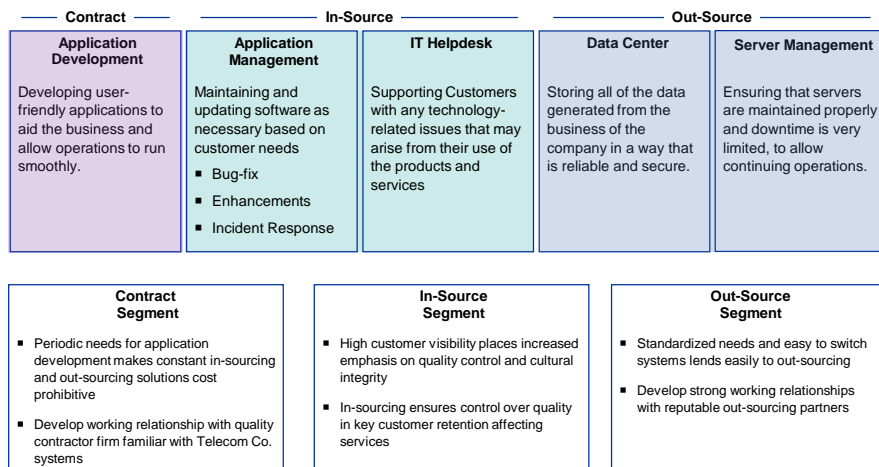
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IT services can be segmented into contract-able, in-source-able, and out-source-able segments dependent on customer interaction levels

Application Development	Application Management	IT Helpdesk	Data Center	Server Management
Developing user-friendly applications to aid the business and allow operations to run smoothly.	Maintaining and updating software as necessary based on customer needs <ul style="list-style-type: none"> Bug-fix Enhancements Incident Response 	Supporting Customers with any technology-related issues that may arise from their use of the products and services	Storing all of the data generated from the business of the company in a way that is reliable and secure.	Ensuring that servers are maintained properly and downtime is very limited, to allow continuing operations.
Contract	In-Source	In-Source	Out-Source	Out-Source
<ul style="list-style-type: none"> Periodic and project based in nature Customer interaction level:  	<ul style="list-style-type: none"> Fully continuous and constant in nature Customer interaction level:  		<ul style="list-style-type: none"> Fully continuous and constant in nature Customer interaction level:  	

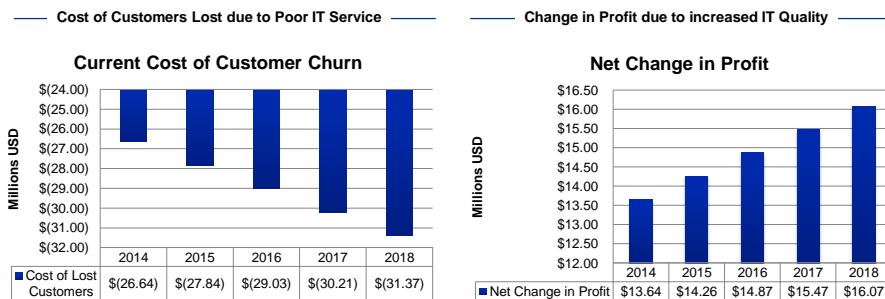
- 18 -

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Increased customer retention, due to improved quality control on IT services from in-sourcing strategies, results in \$74.31MM increase in net profits over 5-years



Assumptions:

- Telecom industry average annual churn: 41%¹
- Telecom Co. average annual churn estimate: 45.1%
 - 10% of lost customers due to poor service
 - Assumes 1.1x Average Industry Churn

Model Breakdown:

- Assumes increases in IT service quality reduces average annual churn to industry levels over the course of 5 years

¹"Modelling telecom customer attrition using logistic regression", Department of Business Administration, University of Lagos, 2012

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Telecom Co. must address talent gap and employee attrition issues within its human capital structure in order to execute on long-term customer growth strategies

Talent Gaps

IT services: in-sourcing of IT requires development of new talent and internal capabilities covering both technology development and interfacing with outsourcing partners for Telecom Co.

Regional Markets: expansion into Latin America requires deeper knowledge of national regulatory environments and customer demands

Employee Attrition

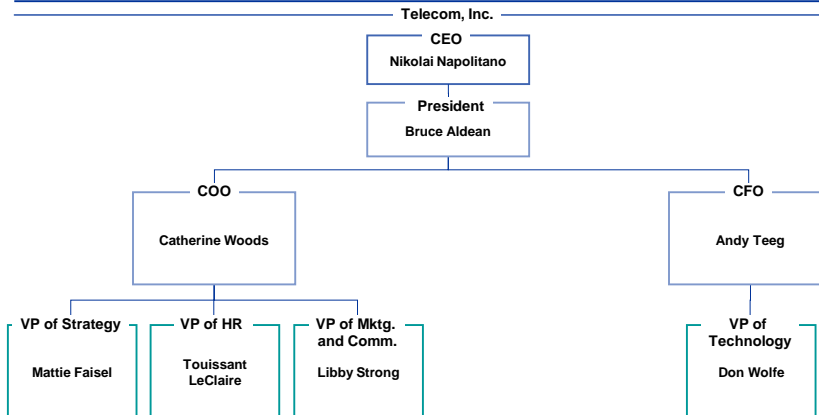
Leadership Turnover: Concerns regarding teamwork (1.5 / 5 on exit survey) and lack of fair compensation (2.2 / 5 on exit survey) drive leadership attrition rates 2x that of industry standard

Staff-level Turnover: Concerns regarding teamwork (1.7 / 5 on exit survey) and lack of clear career progression (2.5 / 5 on exit survey) drive lower-level attrition 2x that of industry average

Telecom Co. must address talent gaps in IT services and regional markets – and – concerns regarding teamwork, fair compensation, and clear career progression to reduce employee attrition levels

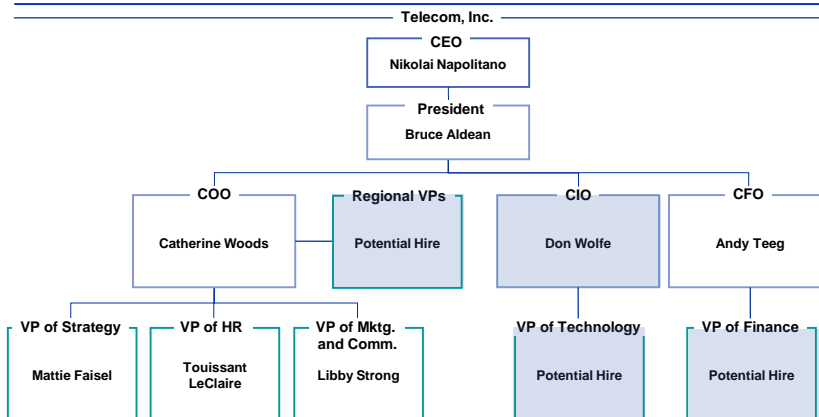
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Telecom Co.'s current organizational structure reveals talent gaps within technology and regional expertise and a misalignment of VP of Technology under a financial role



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Telecom Co. should introduce a CIO role and regional VPs under Catherine Woods to build talent required for technology insourcing efforts and new market expansion



Introducing a technology oriented CIO position to develop in-sourcing IT service capabilities and introducing regional VP positions to guide entry into new national markets helps resolve traditional Telecom Co. talent gaps

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Team based project initiatives and team bonus pools represent two strategies to help forge teamwork among Telecom Co. employees

Team-Based Projects

Previous solo projects distributed across 2-3 employees

- Completion of project requires team-oriented work
 - Employees work independently on segments and collaborate to complete projects
 - Opens project dialogue between employees
- Responsibilities should not overlap
 - Mitigation of free-rider risk

Pooled Bonus Funds

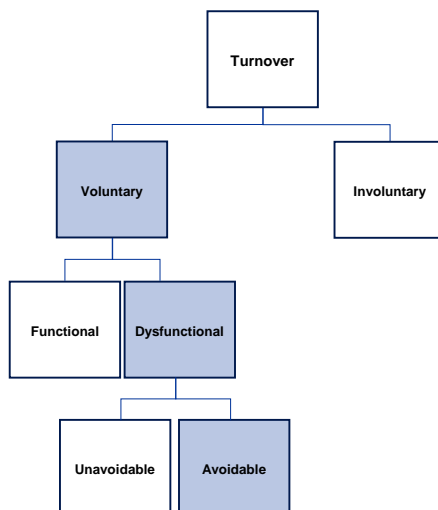
Staff-Level and Leadership employees eligible for bonuses

- For exceptional performance and effort outside of assigned duties, employees may be nominated for a quarterly bonus
 - This bonus incentivizes collaboration
 - Top nominations are voted upon by employees to determine distribution of bonuses
- Strict formal audit procedure prevents abuse
 - Approval required by HR and subsequent manager
- Competition and political issues may arise, but company policy will strictly prohibit "campaigning" for votes

Source:

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Telecom Co. can limit avoidable employee turnover by strengthening relationships, increasing cultural fit, and aligning employee stake-hold in the company



"Retaining Talent", SHRM Foundation, 2012

Strengthen Relationships

How can connections be improved between people, groups, and organizations?

- Provide Mentors
- Encourage Employee Referrals

Cultural Fit

How can the compatibility between employees and the firm increase?

- Facilitate social events for new hires
- Fit-based recruitment and hiring

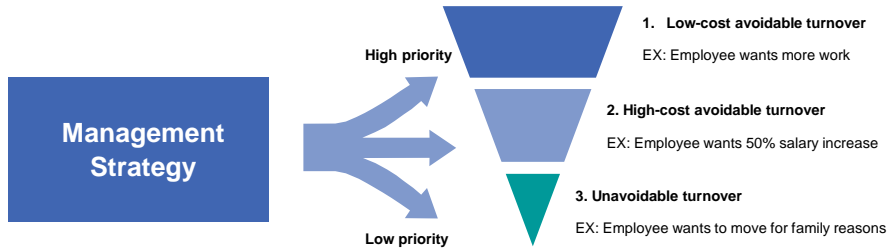
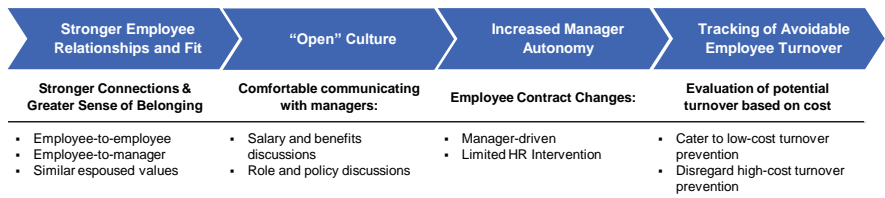
Employee Stake-hold

How can we increase the value given up when employees leave?

- Tie financial incentives to tenure
- Provide unique incentives like sabbaticals

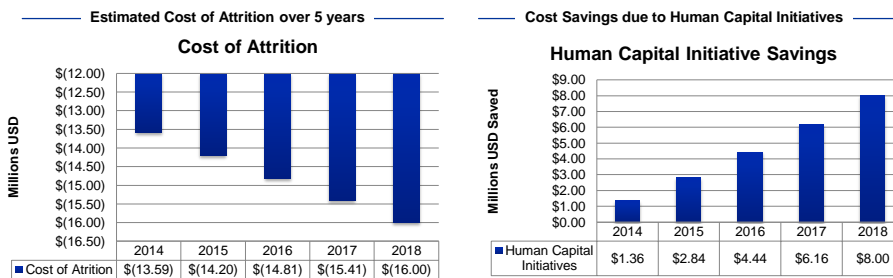
- 26 -

Creating open cultures allows for efficient tracking of avoidable employee turnover and allows for managers to focus on addressing low-cost avoidable turnover



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Lowered employee turnover, due to Human Capital Initiatives, results in a net increase in profits of \$22.8MM over 5 years



Assumptions:

- Telecom industry average annual employee turnover: 18%¹
- Telecom Co. average annual employee turnover estimate: 36%
 - 2x industry average annual employee turnover

Model Breakdown:

- Assumes decrease in employee attrition to industry average annual turnover rate over the course of 5 years
- Direct cost of employee replacement: 50% of annual salary²
- Telecom Average Salary Expense: 11.6% of annual revenue³

¹Examining the Relationship Between Turnover, Average Tenure, HR Investments", SHRM Foundation, 2011

²Retaining Talent", SHRM Foundation, 2012

³AT&T Audited Financial Statements, 2013

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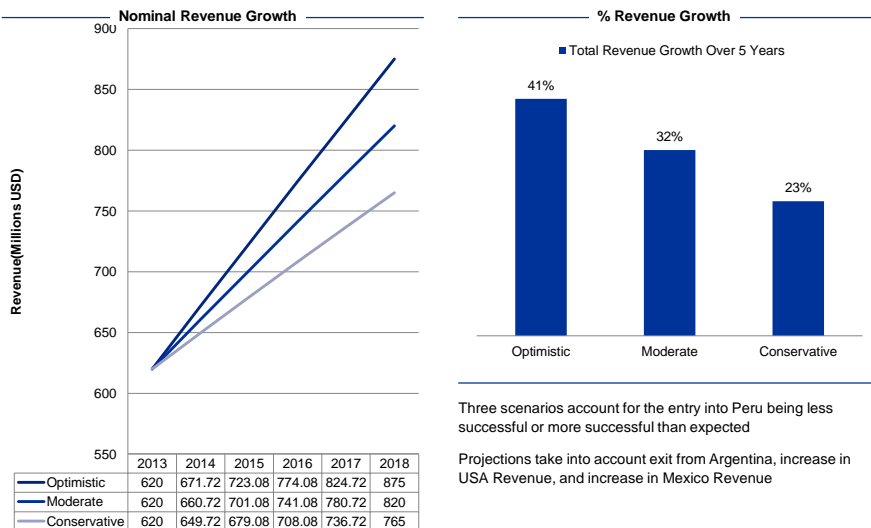
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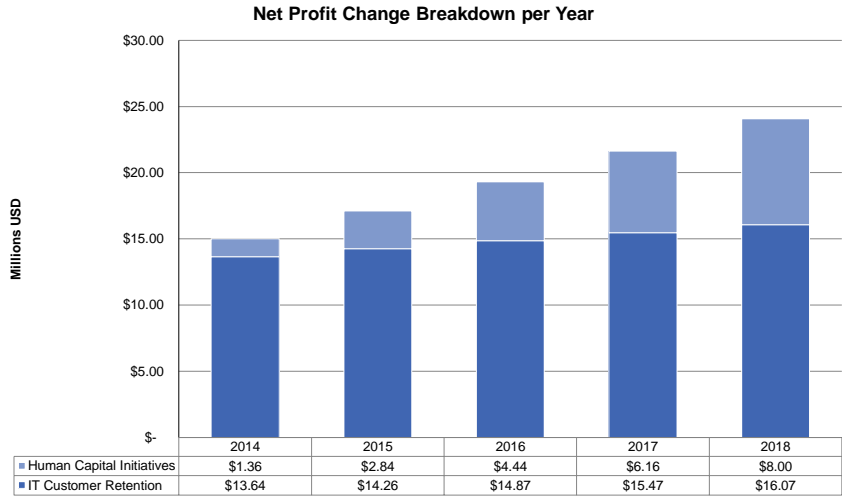
Optimistic revenue projections resulting from new customer growth strategies outline total revenue increase of 41% over 5 years



Source:

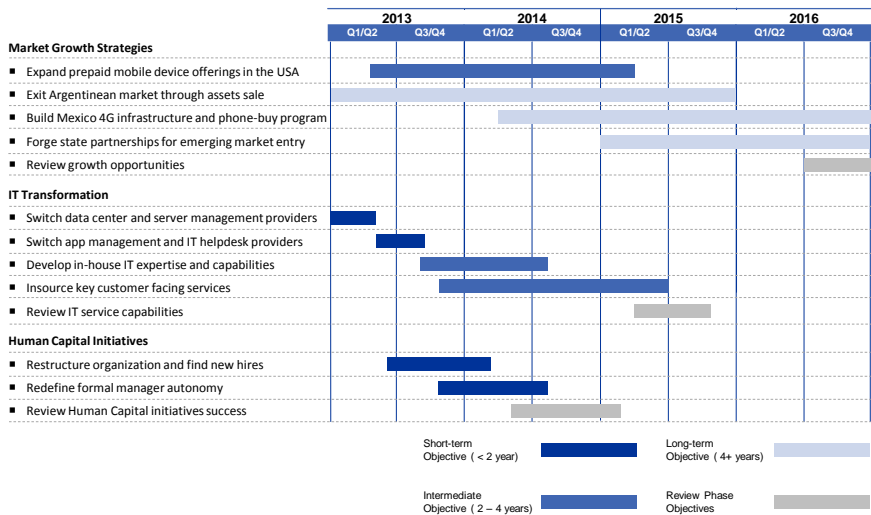
- 30 -

Projected total net profit increase over 5 years for Telecom Co, after implementing IT strategy and Human Capital Initiatives amounts to \$97.11MM



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To continue the Telecom Co.'s success, Deloitte will develop a detailed 4-year roadmap to achieve the agreed strategic objectives



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Telecom Co. must understand the risks part of growth, IT service change, and human capital shift strategies and develop mitigation strategies to address them

Growth Strategy Risks

Political and regulatory risk within Latin markets:

Risk of state nationalization, targeted regulatory fines, and repatriation of profits

Mitigation Strategy:

Forge state partnerships to incorporate sponsor governmental agencies as key stakeholders within infrastructure development

Large competitor carriers enter the prepaid wireless device market:

Competitor carriers may enter the prepaid wireless device market to win back lost market share

Mitigation Strategy:

Leverage existing market share in prepaid wireless device markets to develop a brand focused on ease of use that forges customer loyalty

IT Services Strategy Risks

Outsourcing partners continue to under-deliver on key metrics:

An inability to find strong partners in outsourcing IT services in the short term risks continued customer attrition due to poor service quality

Mitigation Strategy:

Build performance based payment schedules into IT service outsourcing contracts

Insourcing costs exceed projected costs:

Insourcing efforts that exceed expected costs due to lack of internal IT services expertise

Mitigation Strategy:

Insource on a set schedule parallel to internal talent acquisition and development of IT service capabilities

Human Capital Initiatives Risks

Lack of employee buy-in for cultural realignment initiatives:

Rapid trainer base expansion may cause deterioration of the New Look brand look and feel

Mitigation Strategy:

Reward teamwork initiatives and start cultural changes from top-to-bottom through winning upper-level management stake-hold

Continued turnover of senior management talent:

Sustained loss of senior level leaders inhibits talent growth necessary IT service and growth strategies

Mitigation Strategy:

Create greater senior management stake-hold within the firm through increased performance based stock compensation

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Conclusion, key considerations, and next steps

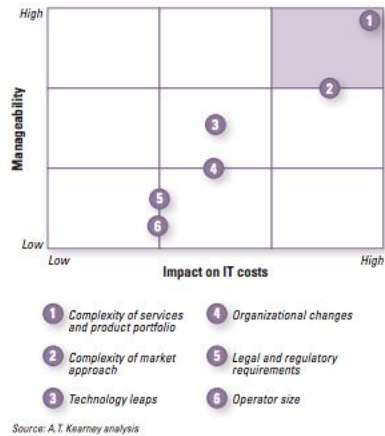
Conclusion

- I. While impressive growth in net revenue and net profit over 5 years is achievable with strong customer growth, IT service, and Human Capital strategies, **initial stated goals of 20% revenue growth YOY is not feasible under reasonable circumstances**
- II. Segmented customer growth strategies can **grow total top-line revenue by over 30% in 5 years**
- III. IT Quality Increases and Human Capital Initiatives aimed at lowering employee turnover can **increase profits by nearly \$100MM over 5 years**
- IV. In-sourcing key customer facing IT services and realigning internal cultural values **ensure the long-term stability of Telecom Co. by addressing service quality and employee attrition**

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Appendix A: Impact on IT Costs vs. Manageability of External Drivers

External drivers of IT costs



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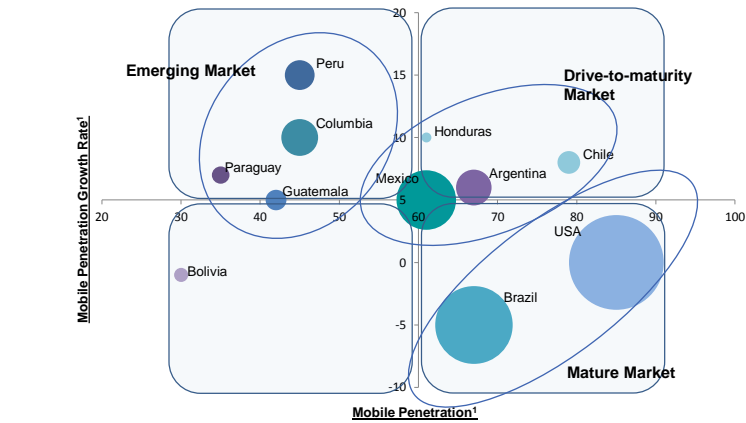
Appendix B: Possible IT Service Outsourcing Partners

Xerox Corporation	<p>10 Years of serving the four largest wireless brands</p> <ul style="list-style-type: none"> Including AT&T <p>30 Major Customer Care Centers(Telecom Sector)</p> <p>\$185 Million in managed telecom spend annually</p>
Hewlett-Packard Corporation	<p>Service clients in over 100 countries with IT Infrastructure services and application development.</p> <p>Past Clients include Softbank, Swisscom, and Wind, Italy</p> <p>Experience providing services for smaller telecom companies</p>
Infosys	<p>2nd Largest IT Outsourcing company</p> <p>#1 IT service provider for 4G networks in developing countries.</p> <p>Full fleet of services including Application Development and Customer Care Centers</p>



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Appendix C: Why Argentinian Operations can be Liquidated

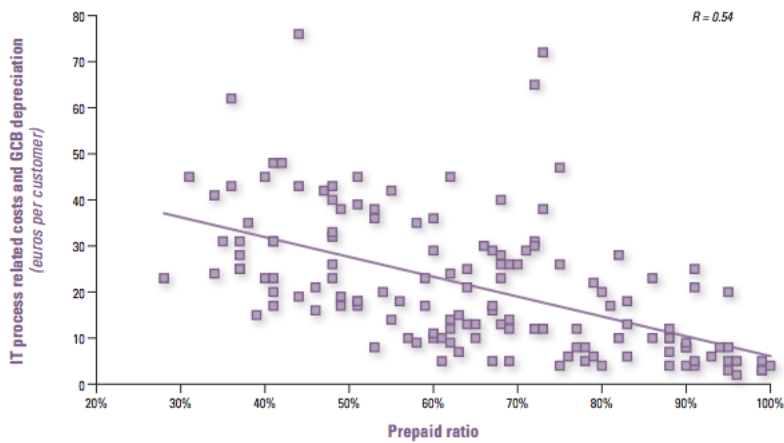


¹AT Kearney 'Mobile Readiness Index', 2010

In addition to being a growth market, the major players in Argentina have not provided quality services, an opportunity which can be capitalized on

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Appendix D: Prepaid Customer Ratio vs. IT process related costs and GCB depreciation



Source: A.T. Kearney analysis

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