Capital Allocation Management

World Wide Web

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Effective capital allocation is at the heart of value creation

Capital allocation decisions can occur at all levels of an organization, and usually mean different things to different people.
Executives are not always aligned in their investment priorities

The key is building on what they want by focusing on what they have in common.
Achieving a more mature capital allocation process should be a goal of all telecom operator

Good decisions are already being made... they just need to be optimized.

<table>
<thead>
<tr>
<th>Current State</th>
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<tbody>
<tr>
<td>Decisions are based on advocacy and who has the loudest voice in the room</td>
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<tr>
<td>There are many arguments in the organization about who should be funded, and for how much</td>
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<tr>
<td>The company adds an increment to last year’s network capital base to determine how much to budget this year</td>
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<tr>
<td>The company knows it is spending a lot on network capital, but doesn’t have an appreciation of whether it is getting a return on its investments</td>
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<tr>
<td>Project owners are accountable for time and cost not post implementation benefit</td>
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<table>
<thead>
<tr>
<th>Capital Allocation Maturity</th>
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</thead>
<tbody>
<tr>
<td>Decisions are not based advocacy, but on a thorough vetting process, evaluation and metrics that effectively describe outcomes</td>
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<tr>
<td>Leadership within functional units understand they are allocating based on the needs of the organization, not on the needs of the silo</td>
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<tr>
<td>The numerical basis for allocation is based on the logical, rational reasoning for allocation</td>
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<tr>
<td>The company is better able to track its spending and realize the returns on its investment through pre-defined metrics</td>
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<tr>
<td>The business has a formalized post-investment appraisal process to share best practices</td>
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...how do we drive the biggest ‘bang-for-the-buck’?
Six issues challenge efficiency in telecom capital projects

Mastering these capital project challenges will increase return on invested capital.

Lacking a good framing process means you don’t know what problem you are solving, what you can do and what your company really wants. Discussing and defining these issues up front is critical to solving the right problem and defining the choices you can make.

If you can measure it you can improve it. Defining key metrics early on gives your business owners ability to measure and improve the project as it moves along in its life cycle.

Capital Project Challenges
Improving 6 key areas will drive efficiencies in telecom capital spending

1. Lack of clarity on what direction Capital Allocation Plan should take
2. Funding isn’t allocated to the direct ownership level
3. The organization has no process to decide which investment projects to pursue
4. Key metrics ignored or not developed to understand organizational success
5. Plan has no flexibility if external environment changes
6. No system to support decisions

No one has the ability to predict the future, so plans must be flexible enough to weather change. Using a scenario process up front will help identify potential shocks so you can plan how you will react before it becomes a reality.

Having clarity around who is responsible for the funding being provided is key to resolving the typical disagreements between parties within an organization, and it helps define responsibility and ownership of the capital to make sure it is invested properly.

Many organizations believe they have a great evaluation process, though that is not always the case. By establishing early on a rigorous selection process, your shareholders will have greater confidence in your selection process.
Start by a clear strategy and accountability

Gain clarity of direction & intent and allocate a proper level of funding to the right owners

Solution Highlights

- Deep framing, make sure we solve the right problems, build key relationships and have meaningful conversations.

- Use drivers of shareholder value to determine where the capital needs to be allotted.

- Have key, upfront discussions about what the organization wants as opposed to what the business units want.

- Help the finance organization better understand the value that is being proposed by the engineering group.

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Improving 6 key areas will drive efficiencies in telecom capital spending
Frame issues by asking the three key questions

Knowing our frame helps make sure we solve the right problems.

1. **What are we going to do?**
   We create intent by asking what are we going to do and who are the key stakeholders we plan to include. This includes surfacing all of the key issues, uncertainties and biases at the beginning.

2. **Why are we going to do this?**
   Getting clarity around the reasons for the project, and getting stakeholder buy-in is critical to the success of the project. We should be asking this question at the beginning, not the end of the project.

3. **How will we determine success?**
   Determining success means determining the key metrics that we will use to help define that success. Without pre-defined metrics, we cannot know if we are successful.
Decisions on investments must be based on clear criteria

Insight into to strategic goals, dependencies, real cost and real profit will shed light into the decision making process.

### Capital Project Challenges

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### Solution Highlights

- Projects need to be evaluated using the same criteria.
- Develop standardized templates and tools for collecting data efficiently and in the direction of the company strategy.
- Move typical decision-making out of the company’s comfort zone into one that is based on logic and proper allocation of resources.
- Create a governance model and empower teams to drive capital allocation.
# Building Better Business Cases

High-stake investments can often benefit from structured framing and robust risk-and-return analysis in order to design businesses cases that make the most of the opportunity at hand.

## Frame Risks and Opportunities
- Facilitated workshops with a multi-stakeholder group help explore risks & opportunities

## Structure Decision Analysis
- The results of framing are structured into value and risk driver blueprint for analysis and data collection.

## Develop & Populate Models
- Develop decision tree, linked to a dynamic Excel financial model that can compute probabilistic outcomes under each branch.

## Quantify Value & Risk Drivers
- Explore ways to mitigate downsize and better leverage upside potential.

## Compare Alternatives
- What is the likelihood of success under each alternative? How much value is at stake?

## Support Decision Making
- Leverage the analysis to inform discussions and answer questions through additional sensitivity analyses.
Define and develop metrics to determine success of investments

Continuous monitoring and flexibility in the process is key to ensure sustainability.

Solution Highlights

- Create measurable, actionable metrics that can be used to understand whether investments are considered successful.
- Update plan with actuals on a regular basis.
- Continuously monitor plan & allocation of capital to ensure consistency with organization’s goals.
- Test capital decision against scenarios, monitor and adjust.

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Scenario analysis to allow for informed investment choices

Helping to frame uncertainty to empower more robust investment design and decision making.

**Example of wireless scenarios**

- **‘Dumb Pipes’**
  - Carriers operate spectrum, but do not monetize content. They own the rails, but not the railroad.
  - Revenues decrease for carriers, increase for Android and Apple.

- **‘Clash of Titans’**
  - Epic battle between Verizon and AT&T versus Google and Apple.
  - Google buys spectrum for content broadcast and applications.
  - Value capture limited by a concentrated set of companies.

- **‘Middle Earth’**
  - Fragmented systems require carriers to work closely with middleware developers.
  - 3-4 different wireless data standards (i.e. GSM, CDMA + two more) this results in higher expenses.

- **‘Carriers Rule’**
  - Relative price stability, fewer choices, good for carriers.
  - OEMs and Android/Apple remain fragmented and beholden to carrier pricing models on both content and devices.

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These wireless scenarios helped a client make better decisions about their external environment.
Systems should be in place to automate processes & support analysis

Automation and visualization are key to ensure trust in the process and drive adoption.

- Project and Portfolio Solutions can shed some light into the Capital Projects bridging the gap between marketing requirements, finance controls and network execution.
- Periodically evaluate demand and current projects to perform portfolio decisions.
- Analytics capabilities need to be put in place to make sure the correct questions can be answered by the Capital Allocation team.

Solution Highlights

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Capital Allocation Process
Automation with Software

PPM software tools can be an important enabler to achieve success.

<table>
<thead>
<tr>
<th>Demand Mgmt. &amp; Consolidation</th>
<th>Portfolio Management</th>
<th>Program Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business users create requests for network/IT services, providing real-time visibility into the project demand.</td>
<td>Portfolio management enforces and automates governance processes.</td>
<td>Programs are managed and reported based on on-line status reports, issues, risks and scope changes.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Project Management</th>
<th>Resource &amp; Time Mgmt.</th>
<th>Control &amp; Charge Back</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project work plan is automatically generated upon funding approval.</td>
<td>Resources track time against project tasks or requests.</td>
<td>Time data is used to generate IT/Network charge-back reports to other Business Units</td>
</tr>
</tbody>
</table>
**Robust analytics must drive investment choices**

<table>
<thead>
<tr>
<th>1st Where should we invest?</th>
<th>2nd What should we invest in?</th>
<th>3rd How should we invest and why?</th>
<th>4th How much should we invest in each case?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Network &amp; Technology:</strong></td>
<td>• Which areas have the best-worst QoS &amp; QoE?</td>
<td>• What is the root cause of degraded QoS &amp; QoE?</td>
<td>• How much can we save in CapEx in each case?</td>
</tr>
<tr>
<td></td>
<td>• Which areas can meet the MBB quality requirements and rank no. 1 in QoS &amp; QoE from customer experience testing?</td>
<td>• What is the dominant technology? 2G, 3G, 4G or Wi-Fi</td>
<td>• At a high-level, from How and Why analysis we can answer how much should we invest by multiplying the average unit cost for each CapEx program to get the total investment by target.</td>
</tr>
<tr>
<td><strong>Sales &amp; Commercial:</strong></td>
<td>• Which areas have the highest/lowest net income, NPV, revenue?</td>
<td>• What is the focused services in each POI?: voice, data, SMS?</td>
<td>• How can we simulate a marketing campaign in a particular target area and track the changes in NPV?</td>
</tr>
<tr>
<td></td>
<td>• Which areas do I need to focus my marketing efforts?</td>
<td>• What is the incremental NPV by improving QoS by 1% in a particular POI, site, cell?</td>
<td>• How can we compare investment scenarios?</td>
</tr>
<tr>
<td><strong>Finance:</strong></td>
<td></td>
<td>• New spectrum investment (2nd or 3rd carrier upgrade or 3G on 900 MHz)</td>
<td><strong>Finance:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 3G or LTE new site, small cell investment</td>
<td>• How much can we save in CapEx in each case?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Capacity upgrade (CE, IuB bandwidth, HSPA concurrent user,..)</td>
<td>• At a high-level, from How and Why analysis we can answer how much should we invest by multiplying the average unit cost for each CapEx program to get the total investment by target.</td>
</tr>
<tr>
<td></td>
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<td>• Coverage Enhancement or Capability Enhancement</td>
<td>• How can we simulate a marketing campaign in a particular target area and track the changes in NPV?</td>
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<td></td>
<td>• How can we compare investment scenarios?</td>
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How well capital is allocated is the most important driver of value creation...

... it is also one of the hardest organizational disciplines to master.
For more information:

Joaquim Ribeiro  
Partner  
joaqribeiro@deloitte.pt  
Portugal

Charles Alsdorf  
Advisory Director  
calsdorf@deloitte.com  
US – New York

Jan Wuppermann  
Executive Director  
jwuppermann@deloitte.com  
Singapore

Igor Heinzer  
Director  
igheinzer@deloitte.ch  
Switzerland

Terrence Karner  
Advisory Manager  
tkarner@deloitte.com  
US – Chicago

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