Telecom Business Performance Management Metrics

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Published: September 27, 2005

Standard measurements for dashboards and scorecards can often be faulty, especially when dealing with statistics, definitions and relative terms.

"What gets measured is what gets done."

While many of us have heard this statement, its meaning is not always clear. In actuality, this is the basis for the increasingly popular business performance management dashboards and performance scorecards. For publicly traded telecom service providers (which is virtually all of them), this means using Wall Street’s favorite metrics to grade their performance.

Over time, these metrics have changed from subscriber additions to average revenue per user (ARPU) to churn. A recent Informa Telecoms & Media Study shows how most of the "old" standbys are still valid performance metrics. These standbys include:

- Subscriber data
- Pre and post paid ARPU
- Pre and post paid minutes of use (MOU)
- Churn
- Subscriber acquisition costs

Each of these points directly to the growth of business for telecom service providers and has had their "day in the sun" as a Wall Street favorite metric. But are they still the appropriate internal dashboard and scorecard measures for your organization?

Lies, Damned Lies and Statistics

Whenever I see numbers of any type, one of my favorite quotes comes to mind. Mark Twain, quoting Benjamin Disraeli, once said, “There are three kinds of lies: lies, damned lies and statistics.” Clearly, you can make any type of statistics say what you mean for the context in which you mean it.

The fault of statistics is particularly noticeable when using the word "average." The average American family "has" 2.3 children. However, I have never met a family with...
2.3 children. After seeing metrics like ARPU, I wonder how many of Cingular's customer bills are actually $49.42.

I am not debating the comparative value to Wall Street and other organizations external to the typical telecom service provider, in regards to average revenue per user or minutes of use. When examining the essence of a customer base, however, these metrics are fine.

But how do these metrics apply to the daily business of a telecom service provider? How much value does Net Monthly Additions have to a company’s customer base when there is no comparative information? And how much value does ARPU have to an organization with business and residential customers?

**Depends on Your Definition of the Word**

"Net Monthly Additions" can be an important metric for telecom service providers. It shows the growth of a customer base over a monthly period. But with the segmentation strategies of many telecom service providers, what does “Net Monthly Additions” actually tell you?

I recently came across two RSS “articles”/informational pieces. In one of these, a telecom service provider touted approximately 88,000 new subscribers. Another firm touted the addition of 3,600 new subscribers. Based just on these two announcements, you could easily assume that Voxtel of Moldova was doing better than Vodafone Japan. One might think this because Voxtel of Moldova has 450,000 total subscribers and Vodafone Japan 15 million total subscribers.

Even though Voxtel has significantly added to their base with a 59.2% market share in Moldova, Vodafone Japan seems like the stronger long-term company. Moreover, Vodafone Japan’s “Net Monthly Addition” information is misleading. The second sentence of the announcement states that their highly valued 3G customer segment rose by 160,600 subscribers, to nearly 1.6 million subscribers. While Vodafone Japan’s customer base remains smaller than some of their larger competitors, it is impressive that 3G customers grew by almost 10%.

**Lies, Damned Lies and Statistics**

ARPU is a good measure for looking at revenues, the top line of a company’s income statement. But what does ARPU say about the bottom line of the income statement, that being net income?
The Price Consultancy’s Jeremy Parsons wrote an interesting article regarding ARPU as a metric with limitations. Specifically, Parsons discusses how discounts and subsidies dilute the “truth” and value of ARPU as an accurate measure of a customer. Much like Parson, I feel that placing a high focus on ARPU to generate top line growth is somewhat foolish if there is associated “cost of goods sold.” These are usually in the form of acquisition and ongoing operation costs.

Perhaps a more accurate overall metric could be average margin per user (AMPU). AMPU considers the “cost of goods sold” activities associated with a customer. In the wrong hands, AMPU numbers can be just as distorted as those of ARPU. However, I feel AMPU has a much greater potential since it shows the margin for a customer base or a segment of customers. Organizations generally cannot make up for losing money on customers through their customer volume.

**Proper breakdown:**

The famous baseball player Yogi Berra once stated, “You better cut the pizza in four pieces. I'm not hungry enough to eat eight.” Berra’s wit and wisdom reflects my philosophy for the measures associated with management dashboards and performance scorecards. No matter what metrics you are using, you must tailor the metrics to meet your organization’s needs. Those needs must also be applied correctly.

In the case of Vodafone Japan, the “news” was not that 3,900 new subscribers had been added to the customer base. Here, the “news” was that 160,000 new subscribers had been added or transitioned to the 3G subscriber base. It appears Vodafone Japan should be segmenting their dashboards and scorecards “pizza” into at least three “pieces”:

- Total Customers
- 3G Customers
- 2G Customer

Their overall customer metrics should reflect the expectations of the public equity markets. Vodafone Japan’s 3G scorecards should illustrate the importance of moving customers to a higher revenue segment, but still show the margins associated with this segment. The 2G dashboards should reflect the margin per user associated with this relatively thin margin segment above all else.

**Conclusion:**
As with any type of numbers, the metrics used for dashboards or scorecards must accurately reflect business performance management measures for a particular business or business unit. When attempting to put a favorable light on an organization’s activities, it is way too easy to “cook the books.”

**Postscript:**

This week’s edition of the Economist contains an interesting cover story that might make the current business metrics of the telecom industry moot. This story focuses on the acquisition of Skype by eBay, as well as how the margins on voice calls may be headed to zero.

I believe that telecom service providers will need to watch the impact of VoIP on their voice business. On the other hand, I also feel that the truly agile telecom service providers will embrace the new technology and trends. Because of this, they will become more than simply voice providers.