



Profitability: Income and Cost (PIC)

Understanding contribution margin I drivers.

What does the PIC do?

The PIC system supports short term strategic decisions by delivering detailed, up-to-date information on Contribution Margin I and its drivers in several dimensions (such as services, tariffs and customers).

PIC provides support for month closure process by automated generation of booking orders. It also supports pre-closure and early warnings by providing estimation mechanisms.

It provides consistency of detailed, analytical data available for managerial reporting in different business areas with financial reporting data.

The solution is built on a scalable platform to ensure sustainable performance improvement.

Why is important?

By providing Contribution Margin I insights, PIC system enables organizations to make informed decisions that deliver profit growth by managing its drivers.

The decision makers can investigate financial and quantitative data and develop corrective actions with the ability to access into the details that lie beneath standard P&L statements down to the lowest level.

Today as the telecommunication markets are becoming increasingly competitive and the margin for short term decision errors is shrinking dramatically the requirements for information supporting day-to-day, strategic decisions are becoming more and more demanding.

Profitability: Incomes and Costs (PIC) is a solution developed in the Polish subsidiary of SAS Institute for telecommunication companies, as an answer to the needs of decision makers from different business areas. It provides up-to-date multidimensional data on Contribution Margin I drivers, both financial and quantitative, down to the subscriber level of detail. The information includes revenues, costs, usage data (volumes, units, etc.).

It supports better, more accurate and faster decisions, delivering information necessary to answer crucial questions, such as:

- whether to add or subtract a product line,
- how to price a product or a service,
- how to structure sales commissions or bonuses.

Telecommunication providers are increasingly utilizing contribution margin as a means of not only measuring profitability performance, but also as a tool to assist in making daily pricing decisions. When used as a measurement of profitability reporting, contribution margin shows more clearly how cost behavior impacts overall profitability.

Profitability: Income and Cost, constitutes a flexible, comprehensive and reliable environment for managing business issues related with reporting, analysis and generation of booking orders for the Profit and Loss positions included in contribution margin I.

Using the PIC solution data on contribution margin I, an analyst can easily deliver Cost-Volume-Profit Analysis, compute breakeven and target income sales and thus gauge the success or failure of company's product line by allowing the comparison of one line's profitability to another.

PIC is an excellent source of data for different types of financial models and calculations, Customer Lifetime Value analysis being one of the examples.

Among areas that are sure to benefit from the functionalities delivered by the solution are: marketing, finance & controlling, accounting.

Support of the month closure and pre-month closure generation of early warnings makes the most up-to-date data available for analysis and decision making.

Consistency of data used for decision making in different areas supports the alignment of operational activities with financial goals and helps to keep consistency of decisions in different areas.

For whom is designed?

- Finance managers who must understand contribution margin drivers.
- Marketing executives who need to determine the financial value of services portfolio and the dependences between sales, usage and profitability.
- Business line heads responsible for product portfolio and profitability.
- Controlling analysts who need to investigate aggregated and detailed data.
- Accounting and controlling users responsible for booking and month closure procedures.
- Marketing users responsible for developing new, profitable offers.

Functionality of PIC system

As the Management Information System

- Unique „source of the truth”.
- Management Information on Contribution Margin I P&L positions.
- Management Information (Business KPI's).
- Early warnings on Business KPI's behavior.
- Audit support in reporting (Sarbanes-Oxley).
- Main KPIs for post-paid – per day.
- Main KPIs for pre-paid – per day.
- Main source of data for majority of reports and analysis.

As Analytical & Reporting System

- Detailed multidimensional data repository.
- Detailed data per contract.
- Business dimensions and subscribers characteristics.
- Financial and quantitative data.
- Daily data from billing systems.
- Monthly data after accounting closure.
- Estimated data before month closure.
- Explanations of deviation of estimations.
- Analytics of services, segments, rate plans, interconnection, roaming.
- Reporting support for key departments in the company.

As tool for Controlling, Budgeting, Planning

- Control over financial and accounting processes.
- Qualitative planning supporting data for operational planning.
- Data for flexible budgeting and deviation analysis.
- Data for financial models (eg. Customer Lifetime Value)
- Financial and operational controlling support.
- Flexible data management and configuration of booking orders by business users.
- One point for managing KPI's definitions and calculation algorithms.

As tool for Booking automation

- Schedule of month closure processes.
- Management of Booking Orders documents (definition, generation, verification, archiving and version control).
- Accruals and deferrals calculation and booking.
- Reserves / provision calculation.
- Balances analysis for pre-paid.
- Setting final monthly result (includes corrections),
- Estimations for pre-closure and analysis of variances.

The available dimensions:

- contribution margin I positions (P & L positions)
- Activation
- Billing cycle
- Commitment
- Offer
- Terminal model
- Rate Plan
- Sales channel
- Customers segmentation
- Sales / Retention actions

The available measures:

- Billing based (complacent with tax reporting)
- Accounting based (complacent with financial statement reporting)
- Provisions & accruals made
- Provisions & accruals reversed

Available contribution margin I positions:

Revenues:

- Subscription Revenue
- Activation revenue
- Roaming Revenue
- Interconnection/ Interworking revenue
- Revenue on terminals sales
- Traffic revenue (different usage types; voice, SMS, MMS, GPRS)

Costs:

- Roaming cost
- IC cost
- Dealers commission costs
- Cost of goods sold (terminals)
- other

Key PIC benefits

Better decision making and alignment in different areas due to centralized reporting environment.

- Wider support of ad-hock analysis and advanced analytics in the decision making process.
- Consistency between different areas like marketing, sales, controlling and finance revenue and costs reporting.
- Early warnings on revenue – precise controlling reporting in the middle of month with current month revenue estimation (pre-closure).

Better control of month closure processes resulting in improved reliability and efficiency.

- Automation and clearer more efficient organization,
- Increase in reliability and possibility of systematic monitoring and defining responsibilities.
- Automated calculation of estimations, provisions, accruals).
- Reduction of manual work needed for the process and quantity of supporting reports.
- Generation of supporting reports assuring the consistency of information and quality of booking and reporting data.

Integration of information from different systems and areas (eg. billings, financial systems, CRM).

- Detailed MSISDN level P&L reporting.
- Common P&L reporting on crossing of many business dimensions: rate plans/products, sales channels (POS), detailed P&L lines, promotions.
- Possibility to verify profitability and margins on MSISDN level.
- Possibility to relate detailed finance numbers with quantitative measures (airtime, customer base).
- Detailed KPIs like ARPU, AUPU.

One interface for managing business rules allowing:

- Unification of definitions eg. calculation of KPIs, algorithms and configuration.
- Change management for business definitions.
- Defining business owners for different areas.
- Business control over calculations processes:
 - forecasting and estimation,
 - mappings between billing and P&L lines.
- Reports on status of input data and all processing status understandable to business users.
- Generation of booking orders documents.