QUANTIFYING AND MITIGATING 'REVENUES AT RISK' FOR DATA PRODUCTS WITHIN A LEADING ISP

BUSINESS SCIENCE CORPORATION

Abstract:

In recent times there have been significant price pressures on data through increased competition and a proliferation of vendors. The primary driver for the significant decline in prices has been the oversupply of fibre links both internationally and nationally, including initiatives, one such as Fibre to the Building ("FTTB") that has overcome the last mile difficulties experienced by network providers. The challenge that ISP's and network providers now face is how to balance the rate that prices decline with customer acquisitions.

In the current South African market, internet access prices have decreased almost 50% YoY. This has resulted in ISP's experiencing substantial Revenues at Risk ("RaR"), as contract tenures can run up to three years (i.e. resulting in a revenue loss due to the realigning of customers to current market prices). Some clients can currently pay up to 3 times the current market price because of this. Through running realignment models and creating performance dashboards – Business Science Corporation (BSC) was able to quantify the risk and implement sales initiatives to reduce the dilution impact.

Client challenge:

A leading South African Enterprise ISP approached us to assist them in re-engineering the pricing and product structures of their offerings. In the process of creating this pricing strategy, the exercise exposed that a significant portion of the current revenues were at risk and immediate measures were required to stem the impact of this risk.

There are 3 core types of internet layer-3 services:

1. Internet access for enterprises that ensures redundancy
2. Virtual private network for the transfer of private information and
3. Standard digital subscriber line for basic internet access.

With advances in technology these services can be replaced by simple layer-2 services. As a result this has driven market prices down considerably in recent times. This not only dilutes revenues but also the tangible value that clients used to see in having this managed service provided by an ISP.

The key challenges faced by ISP's in the current market space are:

1. If they continue to charge their clients historical prices (even though they are in contract) – they face the risk of clients churning over to competitors and thereby losing client trust and loyalty in the process.

2. If they immediately realign customers to the current list price – they will see significant revenue dilution; especially if they are unable to cross sell them with a viable alternative product.

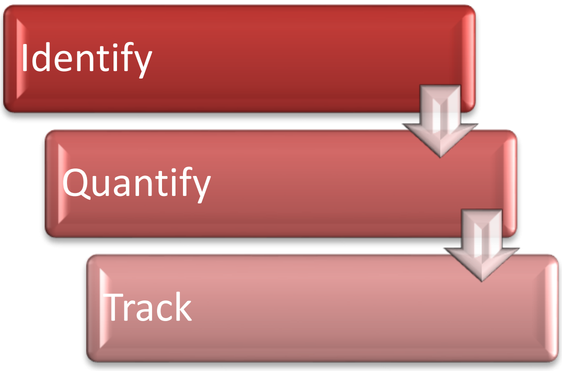
3. If they provide more value in the form of increased speed – they will need to ensure that there is an appetite / need for the additional provision

4. By providing these higher speed lines – they will need to fully understand the impact on current and future infrastructure requirements.

How we helped:

BSC's main directive was to provide a pricing strategy to maintain and grow revenues in the medium to long term, by understanding demand dynamics such as price elasticity and churn propensity and behavioural dynamics. In building these models, we determined that short term measures were required to manage the RaR and create a sustainable mechanism to track these risk management initiatives.

A 3 prong approach was used to identify and manage the RaR:



1. **Identify** – the most important facet of any analysis is to understand *which* set of clients are you dealing with. As with most companies, 80% of revenues are made up by 20% of clients. The client base was initially segmented by spend and then by line speed. This provided an indication of the purchasing behaviour of clients within spend groups. It also provided a propensity of clients within that segment to take up other services or increase their current service. Once we segmented the base in this way, we then identified the clients that were paying more than the current list price.

2. **Quantify** – a propensity model was created to understand the probability of customers actively churning based on the price differential between what they are currently paying and the current list price, thus quantifying the RaR. This provided a priority list of clients that the business would need to manage and create specialised offerings to satisfy their needs.

3. **Track** – dashboards were created to track the progress made by the business in managing the clients by either realigning those clients or providing them with higher line speeds for the same revenue, as well as tracking the impact on the underlying infrastructure.

Results & Value:

This analysis assisted the organisation in actively quantifying the revenues at risk and provided them with a 'Risk List' of clients that they were able to actively manage. It provided that sales team with a more decisive and quantifiable direction, while highlighting the impact of pricing decisions on business, and created a unified action plan.

Upon completion of the exercise, the business had a holistic view on their operations from the revenue side all the way to back bone infrastructure side.

Contact Us:

BSC provides leading analytical and modelling services to help organisations grow their revenues with deliberate precision.

Email us today to show you how we can do the same for your business:

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