



# Review of retail cost attributions for NTS retail uplift

16 December 2003

Analysis

# Agenda

Introduction

Approach

Overview of Costs

Sector review: Key changes

Impact

Brand Finance

# Scope of study

**“Review the attribution methodologies used for retail costs relevant to the NTS retail uplift”**

- Review attribution methodology for all significant costs
- Propose alternative methodologies where current approach could be improved
- Estimate likely impact on FACs of changing methodology
- Assess P313 (local), P314 (national) and P315 (premium) separately
- Address ‘Freephone’

# Role of Brand Finance

- Marketing & Sales costs are a key contributor to FAC
- Brand Finance retained to provide expert opinion
- Detailed analysis of major costs – Analysys have adopted a consistent approach for other M&S costs
- Separate report (and presentation) produced by Brand Finance

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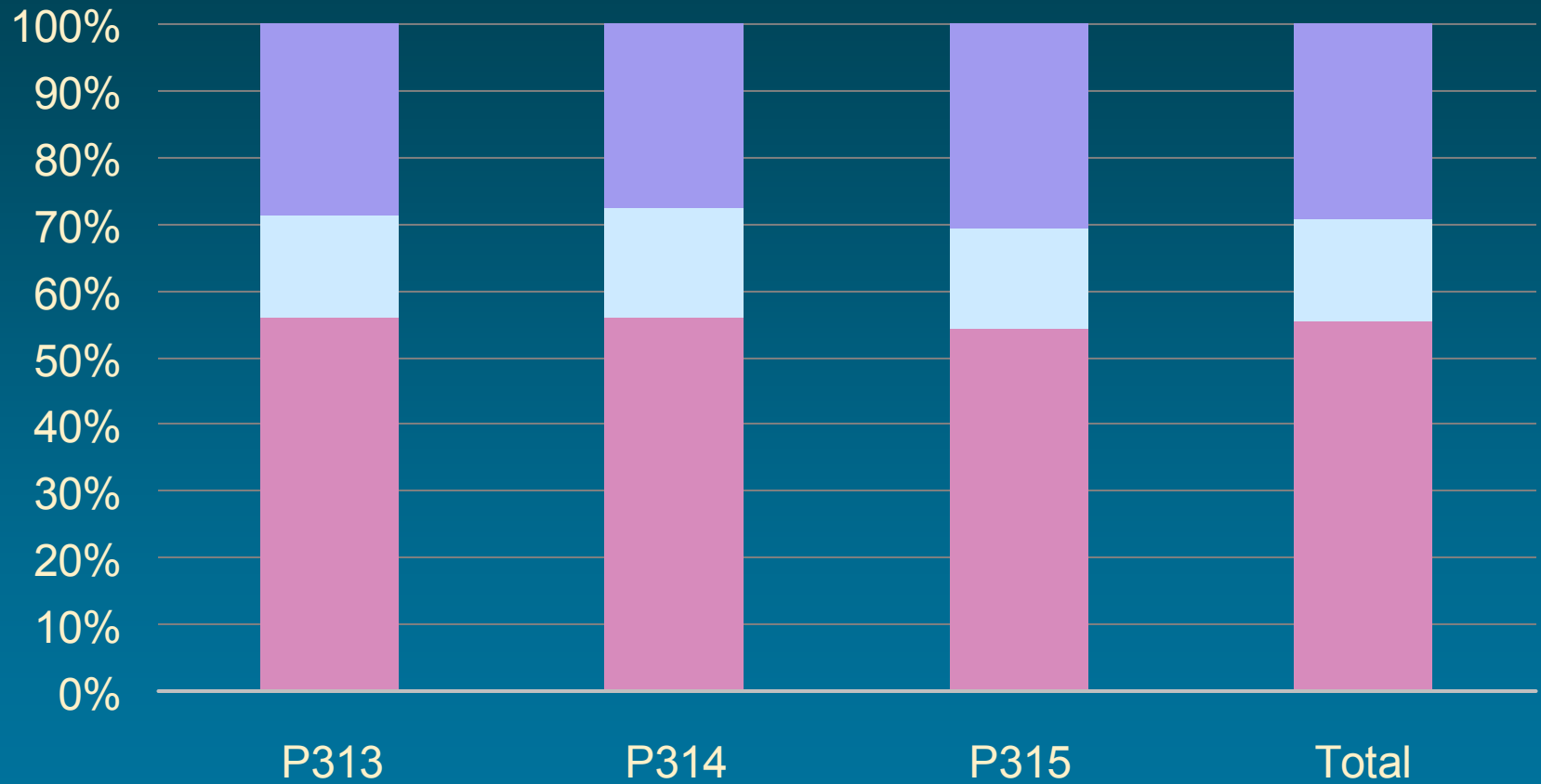
Impact

Brand Finance

# Thresholds for analysis

- BT provided download of every (>1000) unique cost attributed to retail BT-OLO NTS calls
  - Identified by sector, 'F8' and 'OU' code
- Three levels of analysis utilised
  - >~1% of FACs – detailed analysis
  - ~0.4-1% of FACs – 'mixed' analysis
  - 0.1-0.4% of FACs – top level analysis only
  - <0.1% of FACs – not analysed

# Level of detail was similar across products



■ Detailed analysis ■ 'Mixed' analysis ■ Top level / not analysed

# Detailed analysis - review

- Cost data and attribution methodology in DAM
- Internal BT working documents (e.g. spreadsheets) used to calculate 'base'
- Input material to calculations
  - Surveys
  - Activity based system data (e.g. Orderline)
  - System driven data (accommodation, computing)
- Queries / challenges raised with BT



# 'Mixed' analysis - review

- Initial review based on cost data and attribution methodology in DAM
- Where Analysys had concerns over attribution or DAM was unclear, review conducted as per 'detailed review'
  - Internal BT documentation supplied
  - Issues raised with BT
- Consistent approach with costs already analysed (similar attribution method employed in several cases)

# Top level analysis - review

- Review based on cost data and attribution methodology in DAM
  - ◊ No detailed analysis conducted
- Many attribution methodologies are identical to those used for already analysed costs
  - ◊ Alternative methodologies recommended consistent with detailed analysis
  - ◊ Impact on FACs assessed

# Not analysed - review

- No analysis conducted
  - ◊ Over 1000 small cost lines
- Many share attribution methodology with cost item analysed in detail
  - ◊ Impact on FACs not estimated
  - ◊ Changes will be picked-up by BT when FACs are calculated in future
- Impact of non-analysed costs will therefore be small

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# Important cost sectors

Marketing & Sales

Finance & Billing

~50% of costs

Computing

General Management

Accommodation

Customer Service

~35% of costs<sup>1</sup>

Depreciation

Planning & Development

General Support

Other

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# Marketing & Sales

- Publicity & Marketing
  - ◆ Many campaigns not linked to NTS calls
  - ◆ Where link exists change attribution from gross to net revenues
- Sales – attribute on net revenues
- Correction to calculation for PRS call barring



Estimated impact on FACs for this sector:	P313	-70%
	P314	-83%
	P315	-49%

# Finance & Billing

- Primarily bad debt and operation of the billing process
- Bad debt attribution does not currently account for variation by product
  - Add product adjustment (direct feed or sample)
- Impact likely to be limited to PRS calls



Estimated impact on  
FACs for this sector:

P313	0%
P314	0%
P315	+17%



# Computing

- Primarily computing support and cost transfers (have no impact on retail uplift) and some billing development
- Billing development final attribution currently based on revenue
  - Consider 'billing events' approach
- Computing support utilises very detailed attribution



Estimated impact on  
FACs for this sector:

P313	+1%
P314	-3%
P315	-4%

# General Management

- Consists of a very large number of primarily small cost items.
- Three key changes:
  - ◊ 'Talktime' to be attributed by actual voice minutes (not total revenue)
  - ◊ Compensation payments excluded
  - ◊ Correction to PRS call barring calculation



Estimated impact on FACs for this sector:	P313	-16%
	P314	-9%
	P315	-15%

# Accommodation

- Primarily rents, rates and utility charge for BT buildings
- >70% analysed
- Current attribution methodology to products is very detailed (building by building basis for each operating unit)



No changes recommended

# Customer service

- Costs dominated by call centre operations and commissions to third party dealers
- Attribution methodology for commissions revised as per other sales costs (marketing & sales)
- Alternative methodology (non ideal) suggested for call centre costs
  - 'billing events' rather than revenue



Estimated impact on FACs for this sector:	P313	+10%
	P314	-10%
	P315	-40%

# Other sectors

- No significant changes recommended for:
  - ◆ Depreciation
  - ◆ Planning & development
  - ◆ General support
- Two 'other costs' excluded:
  - ◆ Concert SG&A charges
  - ◆ Provision for loss of revenue from CPS – already reversed out by BT

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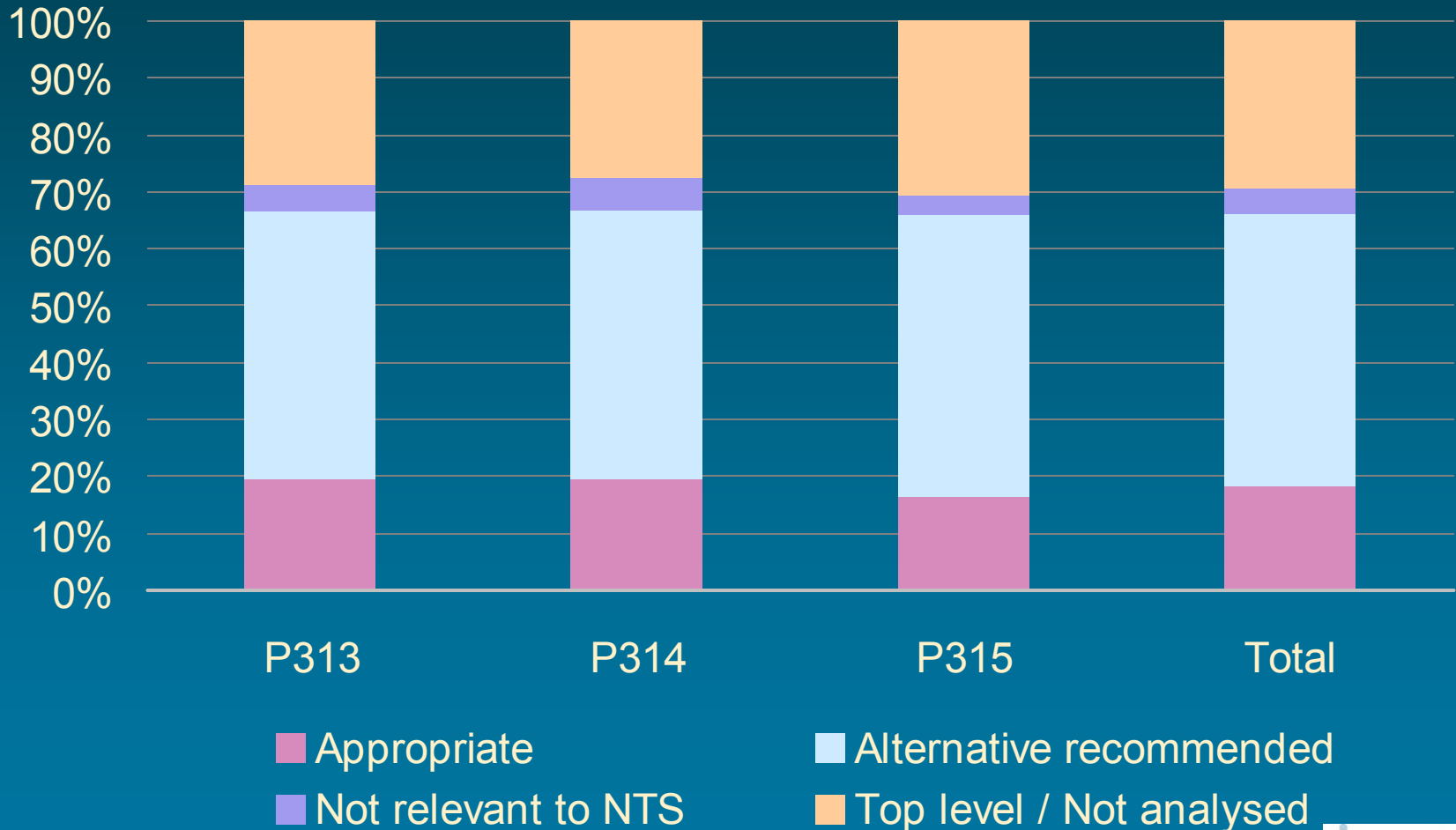
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# Alternative attribution methodology recommended for ~50% of costs



# Impact on FACs driven by Marketing & Sales

	P315	P315	P315
Marketing & Sales	-18%	-22%	-13%
Finance	0%	0%	+4%
Computing	0%	-1%	-1%
General Management	-2%	-1%	-2%
Customer Service	+1%	-1%	-3%
Other	-3%	-4%	-2%
Total	-21%	-28%	-17%



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