The Implementation of a Costing model

The experience of Telesur

Mexico, March 20, 2013

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Mission : Facilitate communication through innovative market-based solutions

Vision : Remain the leader of communication development of Suriname

Presentation overview:

- The Telecommunication Company of Suriname (Telesur)
- The regulatory context
- Cost modeling software
- Telesur cost model
- Conclusions

WHAT ARE YOU DOING !

Suriname

Suriname
*163.270 sq km

492.230 inhabitants

Company Profile

- Headquarter: Heiligenweg 14 (Paramaribo)
- Branches: 7
- Established: January 1981
- 100% Government own company
- Employees : 850
- CEO: Dirk Currie
- 2011 Revenue: US$ 104.7 million
- Main Services:
  - Fixed Telephony
  - Mobile
  - Data services
  - Internet

WHAT ARE YOU DOING !

Need for in depth cost modeling

- **Regulation**
  - The Telecom market was liberalised in April 2007
  - To meet regulatory obligation that tariffs of regulated end products must be cost oriented
  - Open up the market for the benefit of the customers
  - Fostering sustainable competition
- **Product profitability**
  - To ensure the use of objectively caused costs for products/services
- **Decision making**
  - Deep understanding of cost causation to support forward looking decision making

WHAT ARE YOU DOING !

Regulatory guidelines

GENERAL PRINCIPLES

- Cost causality / Cost orientation
  - Cost allocated based on cost drivers reflecting the causation of costs by activities, elements or services i.e. tariff rebalancing
- Efficiency oriented
  - Reflect costs of an efficient operator
- Transparency
  - Tariffs based on well defined and traceable models
- Objectivity/Non-discrimination
- Accounting Separation
  - Avoid cross-subsidiation between services

WHAT ARE YOU DOING !

Cost modeling process

- FAC Cost model; PWC(2001)
- COSITU; ITU (2004)

- The challenge for a new model:
  - Lack of support from PWC & ITU
  - Flexibility of the models
  - Regulatory purposes
  - Liberalisation

WHAT ARE YOU DOING !

Reference checks

- Two models:
  - Telcordia
  - INCA
- Reference checks
  - Deutsche telecom (Telcordia)
  - Belgacom (INCA)
  - Andorra (own model)
  - Guatemala (Telecordia)
- Choice:
  - INCA; implemented in 2009

WHAT ARE YOU DOING !

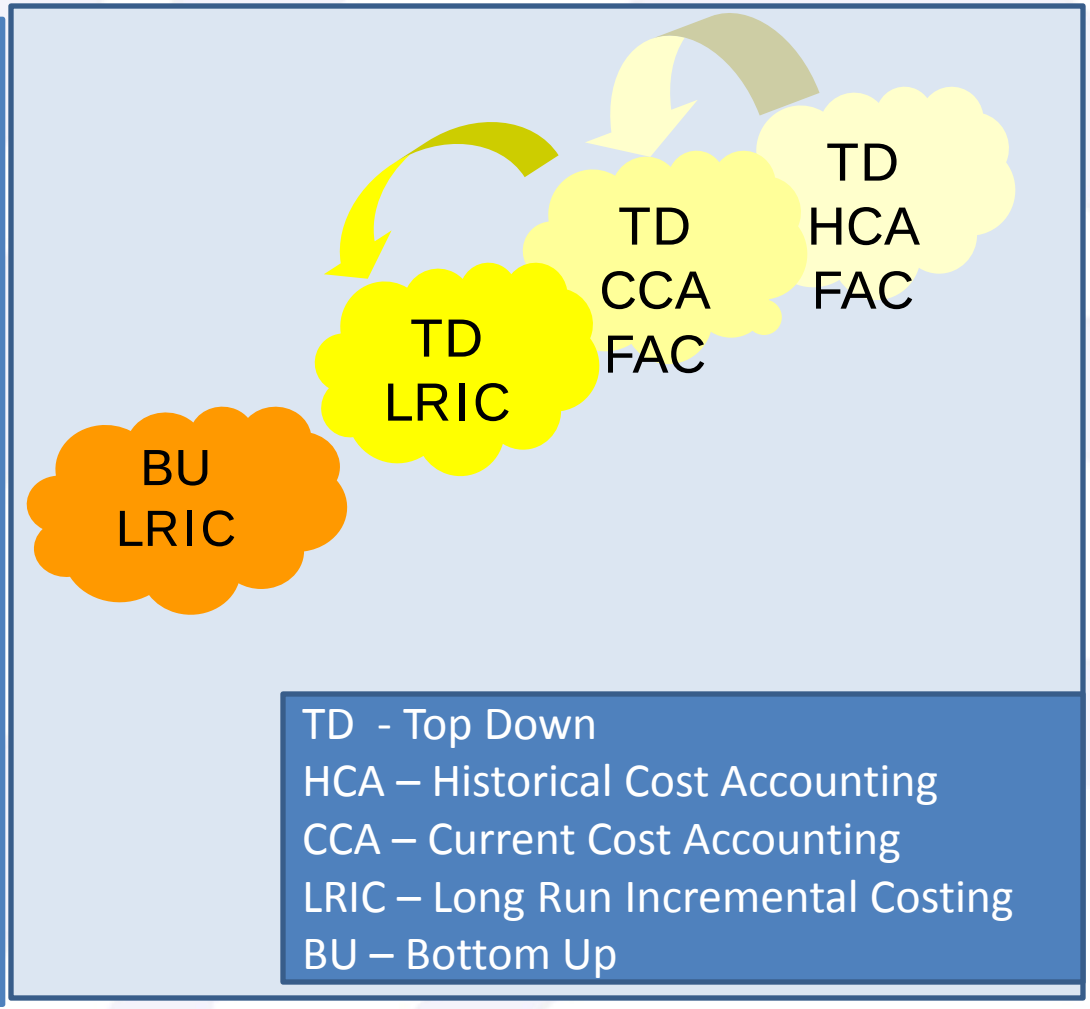
Software: INCA

Features:

Incorporates extended set of validation checks on input data

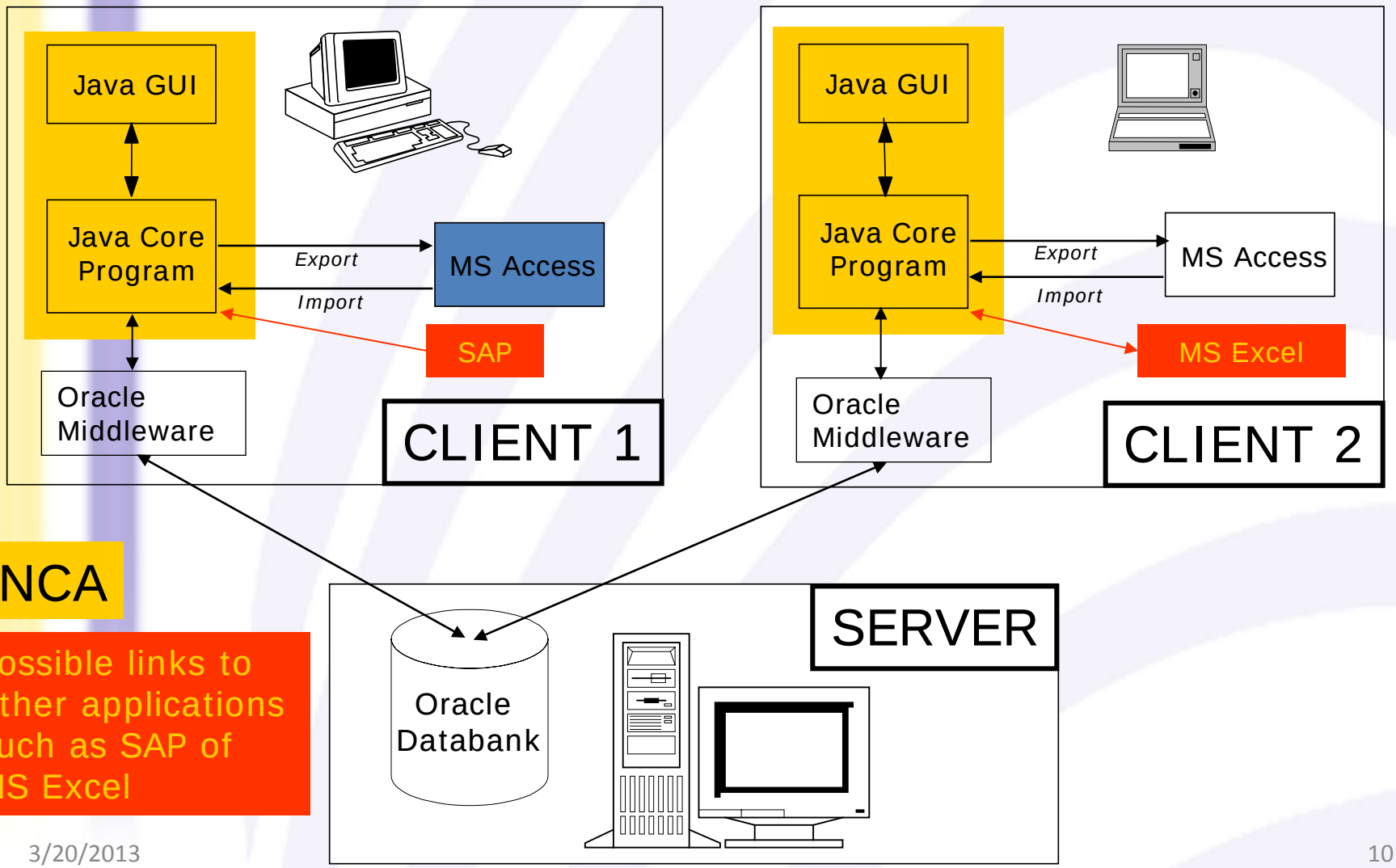
Incorporates specific checks on overall cost model

Built-in reporting features with high flexibility



WHAT ARE YOU DOING !

IT environment INCA



INCA

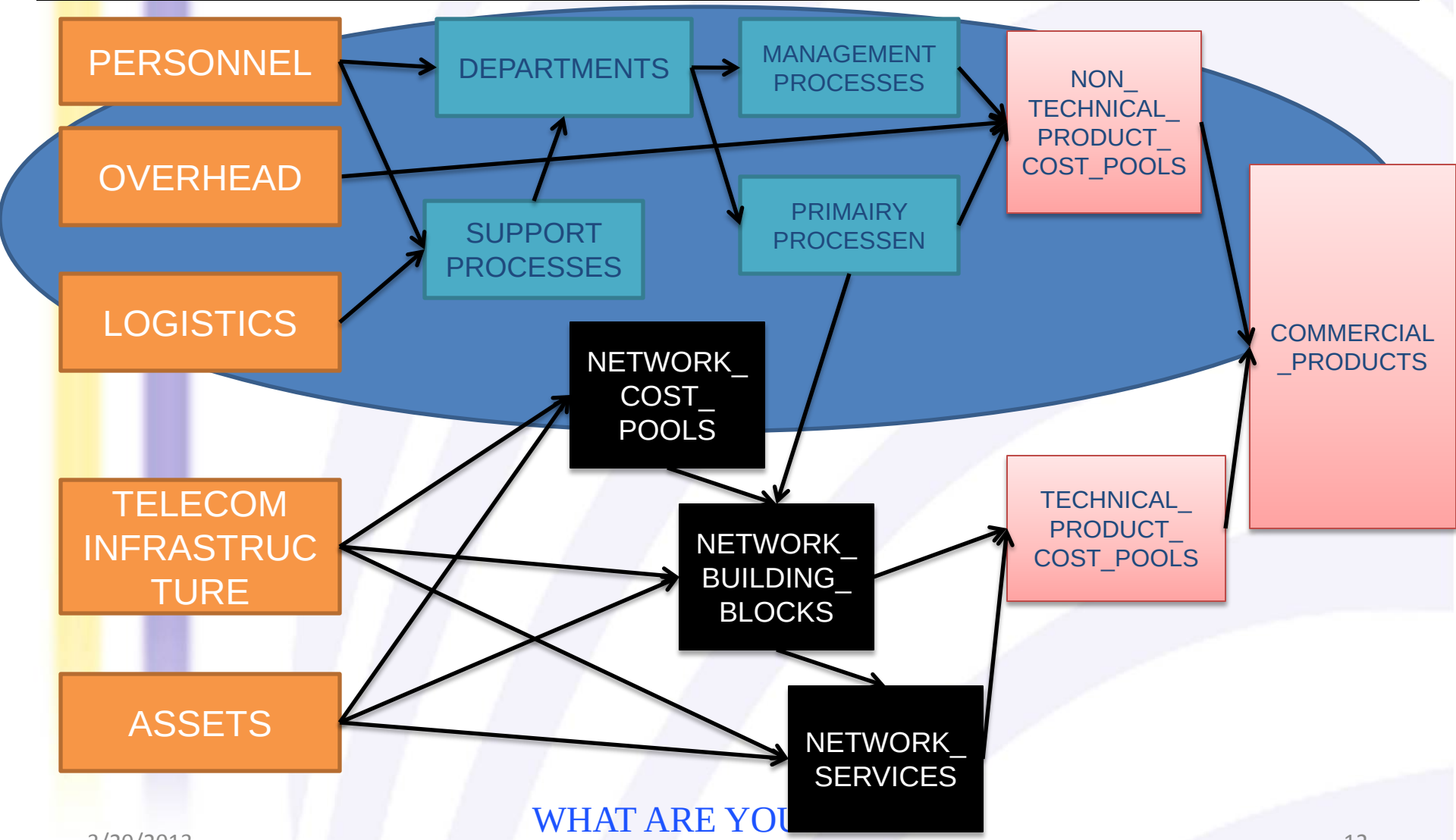
Possible links to other applications such as SAP of MS Excel

Telesur costmodel:

- Is based on INCA software (TD/HAC)
- A Fully Allocated Cost model:
  - Top Down/Historical Cost Accounting
  - Activity Based Costing / Building Block Costing
- The model was implemented in May 2009
- Regulatory process regarding the Telesur costmodel

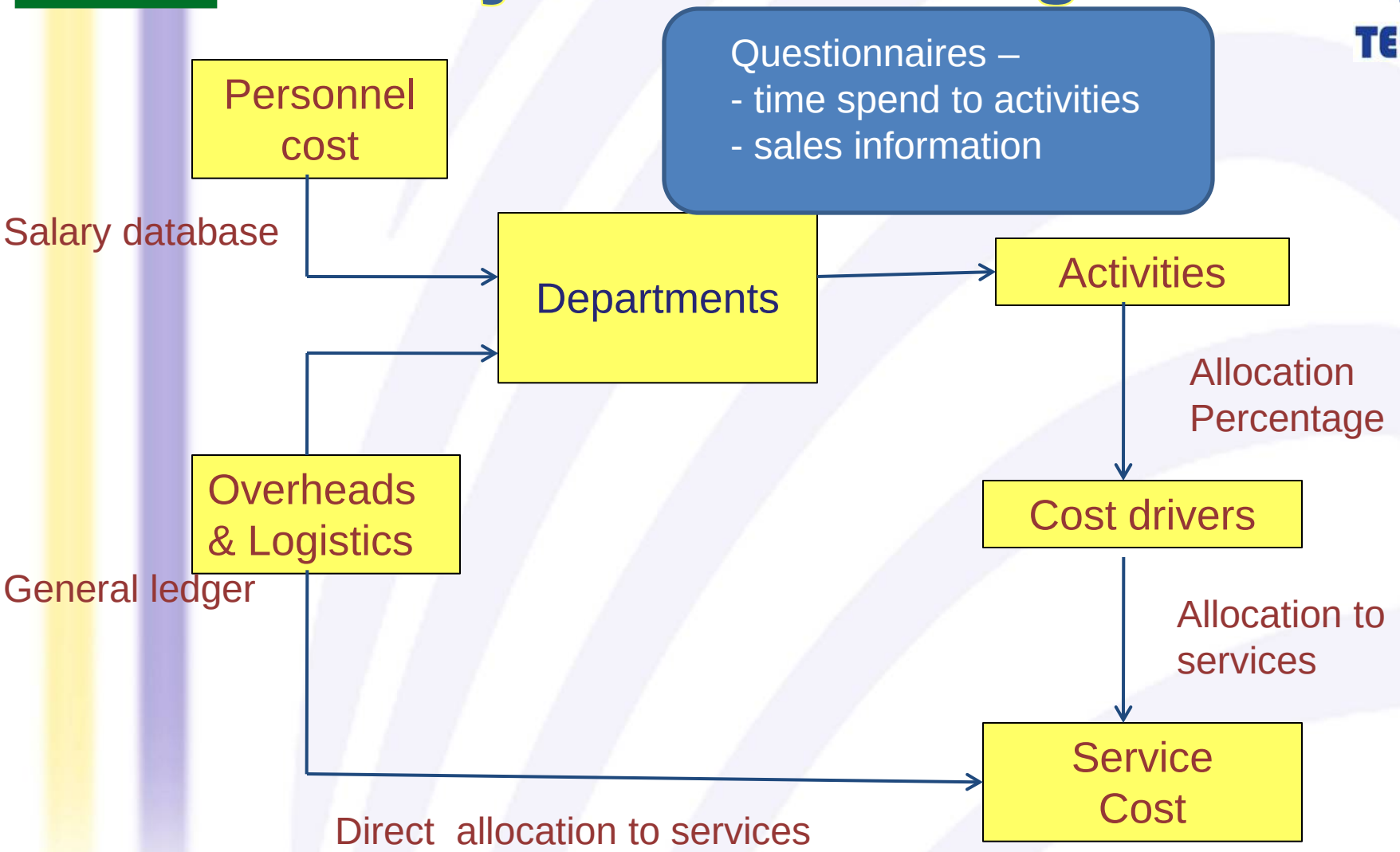
WHAT ARE YOU DOING !

Telesur Model Structure



WHAT ARE YOU

Activity Based Costing



WHAT ARE YOU DOING !

Building Block Costing

Cost of Assets

Cost of Telco Infrastructure

Network Building Blocks

Commercial Services use capacity of the Network Building Blocks and Network Services:
Driver is based on combination of
- Service volumes (minutes, calls Subscribers)
- and quantity of building blocks / network services on “average” route

= ROUTING FACTORS

Network Services

SERVICE COST

Some Network BB can be combined or split into Network Services (for example: transmission links)

BBC drivers example: Routing Factors Approach

Routing factor Model: Final uploaded result in INCA

Cost Driver =
Routed minutes as derived from routing factor model

Destination of allocation =
[Technical Product cost pools] Sub-services using the building blocks

Report 2 on

Table View

NETWORK_BUILDING_BLOCKS		Driver			Flow Targets	
MODULE	ELEMENT	Name	Quantity	Total Quantity	MODULE	ELEMENT
NETWORK_BUILDING_BLOCKS	403_Moeder_Centrale_Traffic	routed minutes	136.267.771,233...	444.758.867,616.	TECHNICAL_PRO...	pots to transgate
NETWORK_BUILDING_BLOCKS	403_Moeder_Centrale_Traffic	routed minutes	1.950.121,71125...	444.758.867,616.	TECHNICAL_PRO...	CDMAeq to Vast
NETWORK_BUILDING_BLOCKS	403_Moeder_Centrale_Traffic	routed minutes	722.141,034953...	444.758.867,616.	TECHNICAL_PRO...	prepaid to vast
NETWORK_BUILDING_BLOCKS	403_Moeder_Centrale_Traffic	routed minutes	256.840.546,241...	444.758.867,616.	TECHNICAL_PRO...	pots to vast
NETWORK_BUILDING_BLOCKS	403_Moeder_Centrale_Traffic	routed minutes	3.354.256,88333...	444.758.867,616.	TECHNICAL_PRO...	pots to prepaid
NETWORK_BUILDING_BLOCKS	403_Moeder_Centrale_Traffic	routed minutes	45.624.030,512038	444.758.867,616.	TECHNICAL_PRO...	transgate to vast
NETWORK_BUILDING_BLOCKS	404_GSM_MSC	routed minutes	125.613.203,966...	591.721.281,646.	TECHNICAL_PRO...	GSM to transgate
NETWORK_BUILDING_BLOCKS	404_GSM_MSC	routed minutes	212.611,260268...	591.721.281,646.	TECHNICAL_PRO...	GSM to Datanet
NETWORK_BUILDING_BLOCKS	404_GSM_MSC	routed minutes	129.981.733,273...	591.721.281,646.	TECHNICAL_PRO...	transgate to GSM
NETWORK_BUILDING_BLOCKS	404_GSM_MSC	routed minutes	2.705.483,07292...	591.721.281,646.	TECHNICAL_PRO...	GSM to SMSC
NETWORK_BUILDING_BLOCKS	404_GSM_MSC	routed minutes	330.568.690,854...	591.721.281,646.	TECHNICAL_PRO...	GSM to GSM
NETWORK_BUILDING_BLOCKS	404_GSM_MSC	routed minutes	2.639.559,2180791	591.721.281,646...	TECHNICAL_PRO...	SMSC to GSM

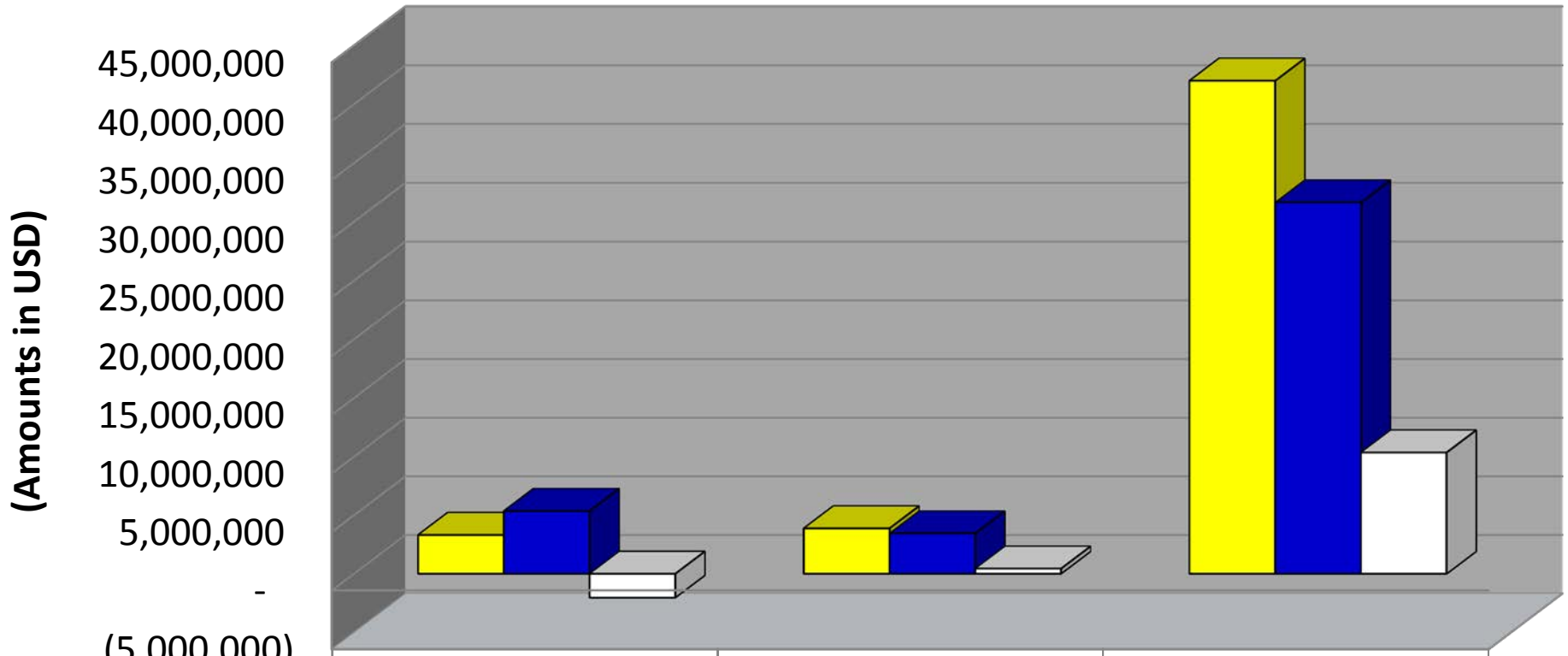
Row 11

Source of allocation =
[Network Building Blocks]
- POTS Base Unit (Traffic related part)
- Mobile Switching Centre

WHAT ARE YOU DOING !

Fixed en Mobile Service

Result Per Product



	Fixed National call	Mobile National Postpaid call	Mobile National Prepaid call
REVENUE	3,319,301	3,880,514	41,996,713
COSTS	5,356,861	3,448,193	31,640,632
RESULTS	(2,037,560)	432,321	10,356,081

Conclusions

- Complexity of costing activities shouldn't be underestimated:
  - A successful system requires a combination of technical, financial and behavioural expertise matched with appropriate technology resources.
  - Use a flexible cost modelling tool that enables in-depth cost structuring an analysis.

WHAT ARE YOU DOING !

Thank you!

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WHAT ARE YOU DOING !