

seven sins of reselling

the top reasons why
telecoms resellers fail



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this guide is part of the AKJ white paper series aimed at ICT resellers



The ICT industry is changing.

As ICT service providers start to bring telecoms services into their portfolio to offer customers a complete communications service, there are a range of new and challenging obstacles to overcome to ensure that these new services do not negatively impact on your core business. The barriers to entry in the telecoms market are extremely low, and today it is estimated that there are over 1,200 telecoms network resellers; however the real challenge lies in effectively managing your services once they are initially established.

This article looks at some of the most common reasons why a large number of the UK's telecoms resellers struggle to generate profits and maintain growth and ultimately why many fail; and offers guidance on how your ICT business can avoid making the same mistakes.

Cashflow Concerns

Successful telecoms' reselling is based on effective cashflow, cash collection and debt management. There is no question that the UK's telecoms market is extremely commoditised; however even on low margins there are many resellers that can generate healthy profits on larger volumes by minimising the risk on cash. In most cases your wholesale suppliers will expect payment from you within 30 to 45 days and if you have failed to invoice and collect payment from your customers in this time then you will rapidly create a cashflow drain.

The biggest obstacle to effective cash management is Direct Debit (DD). DD is absolutely essential in network reselling as it not only allows you to collect payment before paying out suppliers; but it is also extremely effective in both reducing bad debt exposure and keeps your operating costs down.

In most cases you can collect payments by Direct Debit 10 working days after the issue of the invoice, and so this should allow plenty of time to ensure that your billing run is completed and payments are cleared; however as the process of collecting payments is automated it significantly removes the people cost associated with debt management. DD is also a great early warning system for bad debt and failed DD payments should trigger rapid response from your finance team. It really is simple, the higher the proportion of customers on DD, then the lower the reseller failure rate.

Poor Management of Headcount & Initial Costs

Whilst your own business may already have a core base of customers that support revenues and profits based on IT services, many new entrant resellers invest in operational costs too heavily in advance of sales, eroding their profit margins and increasing their chances of failing prematurely. With extremely high levels of competition you have to be certain that your sales proposition and team can deliver before investing too heavily in support infrastructure and resources.

There are many businesses both owner and VC funded that have invested millions in establishing telecom's services, only to fail to deliver on sales numbers and ultimately go out of business. Whilst having a clear plan for future investment is important; testing and identifying the right sales message and proposition at an early stage is critical.

In our experience of working with telecoms resellers with a current turnover of less than £5m, the most successful ones perfected their sales first and then invested in operations once they have a proven track record. By understanding where your operations will need to change in the future but focussing on sales today, you will minimise your risk of failure.

effectively managing costs is crucial when introducing new services





keep your eyes open to ensure exceptional customer service

Lack of Knowledge

Notably low barriers to entry in the telecoms market often set a misleading guide to prospective resellers; who naturally assume that the in life management of services will also be easy. Customers are used to very high levels of network availability with telecoms services and once services are established they do not tend to go wrong too often; however the establishment of services is highly prone to mistakes and problems.

As a minimum your ICT business needs to ensure that it fully understands the core products and services that it is offering to customers (for example Openreach WLR services and CPS services for calls), or your business will get over-run with installation and billing issues.

Most wholesale service providers offer training on these core products and having a number of people trained on these products and processes before your sales team are ready to start talking to customers will save you plenty of time, money and embarrassment with customers.

Offering Too Many Products and Services

The range of telecoms services available to resellers is growing at a significant pace. There are legacy services which for example include exchange lines and outbound calls; inbound services (calls to 0800/0845 type numbers), IP services (for example hosted telephony) as well as Mobile and Conferencing services to name only the most common ones. The temptation is therefore to seek to offer as many services as possible to meet the wide and varying needs of your customers; however be sure not to rush in too quickly.

Each service typically carries its own unique billing rules and individual challenges and each requires completely different tools and resources to manage provisioning and in life management. It is better to start with a core range of products and then build up the portfolio of services. Not only will this allow your customer services and billing team the time to become familiar with the products; however it will also provide your sales teams with a regular flow of new products to sell to the existing customer base.

Where resellers fail to review the billing, provisioning and customer care requirements of offering a new service before it is launched to sales teams, they often find out too late that their systems will not cater for the new service. This ultimately leads to the use of many disjointed systems, which always inevitably leads to margin erosion and customer care issues.

Using Complex Tariffs

The more complex or bespoke that you make your tariffs, the more unmanageable they will become as your telecoms network business grows. Many businesses like the flexibility of being able to offer their customers bespoke tariffs or will look to match competitor's tariff structures; however unless this is extremely well managed it will lead to billing errors, reduced margin and customer dissatisfaction.

To avoid this problem it is highly recommended that the use of truly bespoke tariffs is kept to an absolute minimum; instead it is best to start with a core tariff that covers all destinations and acts as a master reference tariff for all other tariffs in your billing system. In most cases the top 20 destinations represent over 90% of the typical customer's expenditure, which means that the thousands of other destinations represent only a tiny minority. By setting the pricing for all non-core destinations on every customer tariff (for instance fixed rate, directory, premium, non geographic and most international destinations) to a default tariff scheme, you will only ever need to update one tariff to manage the majority of changes. This leaves you free to create a small number of different tariffs where only the main destination prices (UK local, national, mobile, 0845 and key international destinations) are changed.

By working in this way you will easily be able to spot and deal with loss making or low margin calls and you will also only need to maintain a handful of tariffs, significantly reducing the resources required to manage this complex area of telecoms reselling.

Not Controlling Fraud

Fraud poses a major risk to resellers as it is generally an uninsurable risk and can very rapidly create losses of tens of thousands of pounds. Fraud most commonly occurs where a customer's telephone system is accessed (normally by a voicemail or engineering port) by a hacker who then uses the system to illegally route thousands of outbound calls to premium or international destinations at the expense of the reseller and their customer. Remarkably the UK's wholesale carriers are often unable to spot these significant spikes in usage; and so resellers need to be extremely vigilant in monitoring usage on their customer accounts.

If this usage is spotted early the networks can implement barring and also prevent out-payments to other networks on these calls (this is commonly how the hacker will ultimately make money from the process); however there are strict processes to follow to protect your business and if it is left unchallenged the reseller (and their customer) will be liable for the cost.

To minimise the risks you should become familiar with the different types of telecoms fraud and most wholesale carriers will offer courses on this; however there are a range of other actions that you can take to minimise the risk including:

- Process billing data daily and check for abnormal usage
- Work with wholesale carriers that offer fraud checks and online monitoring tools
- Understand the processes for reporting fraudulent usage to your wholesale carriers
- Ensure that affected lines can quickly be barred and learn how to invoke this
- Educate customers on the risk of fraud and how to protect voicemail and engineering ports from unauthorised access
- Ensure that your customer agreements specifically make fraud the customer's liability
- Provide customers with the mechanism to view their billing data daily and set usage alerts

damage limitation will ultimately protect both you and your customers



Failing to Regularly Review Wholesale Costs

The price of telecoms services can change more frequently than you may expect. Often these changes are related to regulatory price changes that cause the prices for certain routes to be changed on a frequent basis as carriers seek to achieve short term price reduction targets. In the example of calls to mobiles; the prices have been changing very rapidly over the past 18 months and often with little notice. In some cases the price changes also lead to significant unexpected increases in costs especially at off peak times. If your business does not constantly monitor these changes and update customers and their tariffs to reflect this; you will quickly erode your margin and even make losses on certain calls.

Successful resellers will look to benchmark their buying rates on a regular basis and will be able to often squeeze an additional 1 or 2% margin as a result, all of which leads to higher profits and business valuations, unsuccessful resellers will typically only look at the overall monthly margin and regularly fail to identify the issues which are eroding their margin.



in a rapidly changing market, you must keep up or weaken your profitability

About AKJ

Aurora Kendrick James (AKJ) has been working with leading fixed line, mobile and ICT service providers for over ten years. During this time we have gained a great deal of expert knowledge and experience from helping these market leaders to scale their businesses, differentiate their services, streamline processes, reduce costs and increase profitability – experience that we can apply to your business.

We typically work with larger or rapidly growing telecoms and IT service providers that are entering the next growth stage of their business or are looking to expand the range of services that they offer customers. Organisations at this stage often find that their existing processes and systems have become disjointed and are preventing the business from rapidly adapting to market changes and opportunities.

These inefficiencies can often quickly lead to customer service issues, increasing headcount, billing problems and unnecessary time and resources being spent on fire fighting rather than growing the business. Altogether these issues hold back growth, impact on reputation and cause frustration amongst staff. AKJ's business is based on helping our customers to remove these issues.

Whilst AKJ does not have the largest number of customers in our marketplace, our customers include many of the top 100 resellers in the UK as well as a fair share of those that aspire to be there in the next few years. Whilst some of these customers have grown with us from their earliest days to become market leaders, many of our customers only came to us when they started asking the very questions listed above and nearly all of our customers remain with us for the long term.

AKJ's services are based on our market leading Affinity CRM billing and customer care platform which can be provided as an in-house solution for customers with their own dedicated billing and IT resources, or as a fully outsourced Bureau Billing Service supported by AKJ's expert billing managers. For more information, please call us on 01634 673 800.