



Time to Act

MARC SUMMERS, Transaction Services Director

Boards must take a bold and decisive approach to the non-core parts of their telecoms business.

Otherwise they could face accusations of generating lower returns by failing to make best use of capital, explains Marc Summers.

The need to effectively manage delivering portfolio value assets is higher than ever on the telco sector's boardroom agenda. Its prominence as an issue is driven by intense competition for capital and by increased scrutiny from both shareholders and analysts regarding how that capital is used. Senior managers are compelled to scrutinise their businesses to see if they have capital and resources locked up that could be more usefully invested elsewhere.

Capital and cash may not appear to be a major issue within the telecoms industry. Most telco businesses generate plenty of cash, but they also face plenty of demands for that money, such as the creation of next generation networks and services. Telcos must therefore ensure they are maximising their investments in the most valuable parts of the business.

In this respect, the telecoms industry may face more than its fair share of challenges when compared to other verticals. The sector's cycle is such that a typical telco will have made a lot of acquisitions over the past few years, which often means picking up a lot of ancillary elements along with the main deal. In telecoms, clean and simple acquisitions are rare.



▲ **Marc Summers**, Transaction Services Director



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Telcos are not alone in facing this challenge, but many are yet to be as decisive as the market leaders in other sectors such as Chemicals and FMCG, who continually assess businesses and brands for strategic fit and have a long history of streamlining their businesses through non-core divestments. Perhaps this is because telcos have not yet been pressured to do so or because the pain from the non-core bits and pieces has not substantially impacted the resilience of the main business. Either way, portfolio assessment and focused action can become a task that is repeatedly put off.

Faced with a process that requires tough decisions, boards must be brave and proactive if they are to unlock the hidden value from their non-core assets and break the inertia. The process may add complexity in the short term, but in the long term it drives benefits as complexity is reduced, capital is released and talent can be re-deployed to areas where it can make a real difference.

Assessing where businesses fit, both now and in five years, without pre-conceived judgements, and supporting this with facts and analysis, is critical. It is also a challenge as boards will invariably have their own perceptions of certain business and where it fits. Most telcos probably do have a core and non-core strategy, but the question remains whether they are executing that strategy effectively.

Are they prioritising executive time and capital? Do they even know what their non-core assets are? Do they know the true performance of these assets? In extreme cases, telco managers may be forced to admit they have assets that are as unloved as they are poorly managed. Such managers may also be unable to properly evaluate the financial impact of those assets, especially within an integrated operation. Factors such as cross-charging and allocated costs can also complicate matters when measuring the contribution of different parts of a telco.

If one part of the business is found to be coasting then I believe you must do one of three things:

- Fix that part of the business so as to integrate it with the rest of company.
- Improve efficiency of the asset's performance.
- Exit.

Don't forget that non-core does not necessarily mean non-profitable or unsuccessful. You may be successful in a market like mobile money, but this may not be central to other activity and can flourish outside the normal business. Non-core simply means a part of the business that doesn't match your overall strategy.

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DON'T LET DELIVERING PORTFOLIO VALUE TIE UP YOUR CAPITAL, AND DON'T LET IT BECOME A DRAIN ON MANAGEMENT TIME AND ATTENTION. DECISIVE ACTION TAKEN NOW ON THE NON-CORE ISSUE WILL SEND OUT A SIGNAL THAT YOU ARE EXECUTING A STRATEGY FOR GROWING THE BUSINESS AND ADDING VALUE. CLEAN AND SIMPLE ACQUISITIONS ARE RARE.

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