

The Telstra Story

Telstra is Australia's leading telecommunications and information services company, providing more than 10.3 million fixed lines and 6.5 million mobile numbers with services in Hong Kong, New Zealand, and the Asia-Pacific region.

CHALLENGE:

In 1999, Telstra found their market share and profitability eroding. Increased competition in areas such as mobile phones and long distance was placing increasing pressure on traditional revenue streams. Telstra needed to reduce costs by \$300 million while establishing a sustainable competitive advantage in preparation for privatization.

BACKGROUND:

However, the case for cost reduction was not seen as compelling by the employees. The company, 51% owned by the Australian government, was not experiencing an immediate threat, nor was there a single event to rally the 38,000 employees. Telstra management began its Next Generation Cost Reduction initiative, (NGCR). This used typical cost reduction strategies like headcount reduction, consolidation, product-line rationalization, and 'headline' productivity improvements. The effort encountered employee resistance and execution bogged down. As one Telstra manager observed, "NGCR was limited to probably less than 100 practitioners who used a series of blunt instruments to drive change – or else. This approach only works while the policeman is on the beat. We needed a program that would involve a wider audience and start to change how staff approached their jobs and responsibilities."

Telstra leaders began looking for an outside set of eyes to see a way through the resistance to executing change. Telstra retained the Destra Consulting Group because of their successes at accelerating cost savings by making execution a corporate-wide capability. "When looking for a partner to help us, we sought providers at the world's best practices. Destra was an outstanding choice because of their values, culture, experience, and the quality of their leaders," said David Moffatt, Group Managing Director of Consumer and Marketing at Telstra.

DESTRA APPROACH

The Telstra leaders understood they needed to integrate the skills of execution into the cultural fabric of the organization to achieve sustainable cost reductions at a high ROI. "The whole reason we engaged Destra was not just for their PI methodologies but also for their change management capabilities that accelerate such an intervention and make it sustainable," commented Imre Hegedus, Group Manager of Process Management and Improvement.

The Destra approach was simple: build grassroots enthusiasm by supplying a wide variety of PI tools and training, rigorously measure results and celebrate successes to build acceleration. The goal was to appeal to multiple audiences knowing that once Telstra people got on board, they'd go gangbusters.

THE STRATEGY:

The initiative, Process Improvement Using Six Sigma, focused on company transformation including employees, processes, customers, and financials—both for growth and cost reduction. Destra and the Telstra leadership crafted a set of critical implementation principles, ultimately called the Seduction Strategy, to make PI so attractive that people would volunteer to get involved. As Ziggy Switkowski, the CEO explained, "If we had taken a demanding and directive approach, the program would have been rejected by the organization's immune system." The principles included:

- Get key stakeholders/tribal leaders committed so other tribes will join in
- Create the expectation from leadership that this would be a primary driver of the company's progress
- Create competition through publicly praising examples of success
- Offer it to everyone, so it doesn't seem like a "secret society"
- Offer an extensive suite of tools and methodologies to involve more people
- Integrate the tools with change management skills and acceleration methodologies

An example of the seduction strategy in action is told by one Telstra senior executive: "I didn't become supportive of Process Improvement using Six Sigma just because other places had

used it. I became supportive when the CFO came and showed it to me and I saw it provided things we needed—like consistency in measurement, approach and expectations in the company, and how it focused on the customer. I thought, “How good would it be if we could do these things?”

RESULTS:

The Seduction Strategy worked. As the early wins of the PI initiatives were celebrated, the PI program caught fire. As more and more projects were successfully executed, Switkowski remarked, “I am struck by how process improvement consistently allows us to achieve such simple but important results. For example, we discovered 200,000 telephone poles that we are paying for that are not needed, and I ask myself, “What have we been doing for the last 10 years? Why didn’t we fix this before?”

FINANCIAL GAINS

From 2000 to 2004 Telstra’s financial performance consistently improved during a time when many of its peers were faltering:

- \$300 million saved, at a cost of \$62M, an ROI of 380%.
- EBITDA increased 20%
- Return on equity is near best in class: Telstra 26.8% vs. top quartile 24.2%
- Free cash flow was up 150%, in spite of increased capital investments

Improvement initiatives continued to reduce costs with an average project benefit is \$2.3 million. Projects came from all areas of the organization:

- 50% reduction in spare part inventory, saving \$3.8M in just one year
- 87% reduction of Leads Referral Process time, resulting in \$6.2M in additional service revenue
- 13,400 fewer customer fault visits per month, saving \$13.6 million in two years
- Shortened time for signing up new customers. Savings of \$3.0M in the first year and \$5.0M in the second

ORGANIZATIONAL GAINS

All in all, over 5000 Telstra employees, (13%), received process improvement training, making PI “the way we do things.” This broad exposure from the Destra approach imbedded the

discipline of execution creating a more competitive workforce.

Ted Pretty, TTIP Group Managing Director put it this way, “Destra Consulting has been instrumental in deploying Process Improvement throughout Telstra. The passion and persistence Destra Consulting possesses were the key advantage of their work with us. The real point of difference was their structured approach and passion for execution; working with the business and just getting on with it. They, like us, like to get things done.”

OTHER QUOTES:

- “Destra always had our success as their goal. They were attuned to what was important to us and were willing to be flexible to tailor the program to meet our requirements. They challenged us to think forward all of the time. They brought exceptional people to the table. Their training was well executed, very professional, and well structured. And they had the scope, resources, and expertise required for the scale of implementation required. We have had a very effective partnership.” Peter Jamieson, Financial Controller for Telstra Consumer and Marketing
- “We have implemented a number of change programs in the last 10 years or so, but this is the one that is most imbedded. The tools have helped drive cultural change, build alignment across the organization and has delivered productivity and customer service improvements from Day 1. Destra brought many of the conceptual and mechanical aspects you would expect from a partner in this type of engagement.” Ziggy Switkowski, CEO, Telstra
- “Process Improvement using Six Sigma helped us gain some ground in performance against our competition. It has done so through giving us a set of tools and knowledge that enables us to improve our processes, which in turn has led to financial benefits and customer experience benefits as well,” according to John Stanhope, CFO and Group Managing Director.