

# Cost Analysis, Modeling and Management

## Practice Area Profile

CostQuest develops cost solutions--models, analysis, studies--that give you an accurate view of your business.

### Management Costs versus Financial and Regulatory Costs

Cost analysis involves three dominant disciplines:

- ✓ Financial
- ✓ Regulatory
- ✓ Management

All three are key to an organization's success. However, management costs are probably less well understood than the other two because companies often focus on the costs they are required to create, audit, and track—financial and regulatory costs. Typically, financial and regulatory costs are required for public reporting and to comply with the standards of various agencies, such as the Securities and Exchange Commission (SEC), Internal Revenue Service (IRS), Federal Communications Commission (FCC), and Financial Accounting Standards Board (FASB).

While financial and regulatory costs may provide an objective basis for inter-company comparisons and external audits, they do not deliver all the information needed for intra-company management. For that, you need to analyze management costs.

Management costs are used internally by a company's management team. Sound business economic principles are the primary determinant of a company's management costs. The proper treatment of management cost information is largely a function of how

the costs actually behave combined with the management team's priorities and decision needs.

### The CostQuest Management Cost Solution

CostQuest delivers a forward looking, realistic, and optimized solution to you that clearly identifies the drivers and effects of cost, is scalable to grow as your business expands, and is flexible to allow development of what-if scenarios. CostQuest cost analysis focuses on management costs and how to use these to improve the business—and these can also form the basis of a cost analysis that meets regulatory requirements.

CostQuest uses an economic basis to understand and capture the real drivers of your current business cost structure or proposed future plans. We refer to this as our Economic Based Cost ('EBC') approach. We examine complicated work processes and capital expenditures to better identify the nature of the costs and to model why a cost is being caused and when that cost needs to be incurred.

For companies with extensive capital assets, CostQuest's EBC solutions are similar to EVA methods. We investigate each asset to determine its nature and how its need is driven, which properly allows this asset to be incorporated as a cost in each business decision.

For company operations, CostQuest's EBC cost analysis solutions are similar to ABC methods. We capture the economic cost behavior of corporate functions. We understand which costs are volume driven (and what the driver is), which costs are shared jointly between functions, and which costs are truly common.

For network companies, CostQuest's EBC solutions utilize actual spatial plant data in a full census platform. They are based on NEXT

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GENERATION tools—CostQuest’s own open, transparent, robust, and easily maintained CostPro suite that:

- ✓ Uses advanced plant placement and routing algorithms
- ✓ Incorporates actual data on customers and their actual locations and service requirements
- ✓ Utilizes a state-of-the-art, optimized network routing routine following road paths, i.e., the minimum spanning road tree (“MSRT”) approach
- ✓ Allows users to adjust network engineering drivers
- ✓ Meets the specific needs of the regulatory and management cost studies
- ✓ Captures the cost behavior of each component in the network
- ✓ Has been accepted by public utility commissions in eight states to set UNE rates

### Our Cost Analysis and Management Tools

#### include:

- ✓ CostProLoop – A telecommunications cost model focused on the cost of the “last mile”
- ✓ CostProCore – A telecommunications cost model focused on the core network (switching and transport functions)
- ✓ CostProCapCost – A tool to develop the capital costs associated with corporate assets
- ✓ Customized tools to analyze the operational and capital costs of a firm

### Examples of Problems Solved by CostQuest Cost Analysis

- ✓ CostProLoop is used by four companies with operations in over 30 U.S. states and has been adopted by eight U.S. state regulatory commissions to set UNE rates for incumbent telecommunication carriers.
- ✓ CostProNZ (a customized installation of CostProCore) has been adopted by the New Zealand Commerce Commission to assist in determining funding for universal service and set prices for call services.
- ✓ Cost analysis and models have been used internally for business decisions and externally for universal service and unbundled element proceedings in the U.S., New Zealand, Australia, and Hong Kong.
- ✓ CostQuest analysis supported a non-incumbent Australian service provider’s contention that the incumbent relied significantly on historical costs and network configuration and did not conform to the regulatory requirement for forward-looking costs. Ultimately, the incumbent’s proposal for Universal Service funding was reduced by 75%.
- ✓ CostQuest analysis improved accuracy in developing loop costs for mid-size U.S. ILEC by implementing a customer geocoded local access model.
- ✓ CostQuest analysis is used for wireless and wireline switching, transmission, and signaling cost model development.
- ✓ A network cost model review resulted in build/buy recommendation for large U.S. ILECs.

For more information, please contact us or visit us at [www.costquest.com](http://www.costquest.com).