

AMDOCS WHITE PAPER

amdocs

ACHIEVING MEASURABLE ROI FOR IT:

THERE MUST BE A BETTER WAY

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ROI IS MORE IMPORTANT THAN EVER

No business anywhere can afford to buy into a strategy that simply doesn't make a return.

Vague and general claims that customers will be happier, or that profitability will increase do not justify investment.

For each project you undertake there must be a business case that shows not only how the current project contributes to long term strategy goals but also generates short term value. And the focus in the business case is on the numbers – return on investment.

WHAT IS RETURN ON INVESTMENT?

Return on investment is simply a measure for determining what benefits an investment delivers in excess of the costs of making that investment.

Return on investment, like any measure, is the instrument for measuring success, and is not the success itself. That said, it's critical to get this measure right in order to have a true understanding of not just project options prior to project launch, but also how well objectives have been met once the project has been completed.

CALCULATING ROI IS MORE THAN DOING THE NUMBERS

At Amdocs, we believe that the process of developing the business case is perhaps more important than the finished document itself. It provides the opportunity to thoroughly work through and understand exactly what the project includes, how it will contribute to the business, and why it was better than other options, including doing nothing. Armed with a thoroughly developed business case, an organization is in a good position to really understand the implications and consequences of its investment.

A good business case will always include more or less detailed consideration of the following:

- Goals and strategic context
- Needs and demand
- Initiatives/options
- Risks and Assumptions
- Benefits and Costs
- Preferred initiative and recommendation.

The ROI component of a business case must leverage key elements of each of these items in order to be realistic and measurable over time.

IN ROI, ITS THE RELATIONSHIPS THAT MATTER

Measuring and proving business value will become the single largest common responsibility, and challenge, for IT vendors in 2004

Forrester, 2004

Calculating ROI is not just a matter of plugging numbers into an equation, but of ensuring that the benefits and costs included in it are those arising from undertaking one or more initiatives that address the pain points to achieve the goals outlined in the business case. Solid ROI figures therefore arise out of solid business cases, where the relationships between all of these factors are well understood and outlined – see Figure One.

Amdocs believes that these relationships are fundamental to solid business cases that translate into solid investments. Getting these relationships right overcomes most of the difficulties in determining ROI.

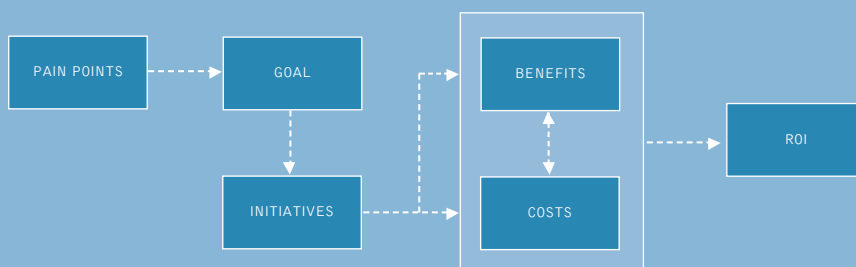


FIGURE ONE:
SOLID ROI ARISES
OUT OF SOLID
BUSINESS CASES

THE REAL DIFFICULTIES IN DETERMINING ROI

Some of the biggest barriers in determining ROI have nothing to do with the complexity of the numbers, and everything to do with the difficulty of understanding and making the connections between the various parts of the business case that contribute to a solid financial case being made.

The biggest issues arise when it's difficult:

- to articulate pain points
- to understand what to do about them
- and particularly, to decide what specific actions will best help you to meet your goals.

For example in CRM, goals are commonly indeterminate, giving rise to two major issues. For goals such as improving customer satisfaction, reducing customer turnover, increasing revenue per customer, the first major issue is trying to decide what concrete actions might possibly enable you to meet those goals.

The second major issue organizations face is that it's difficult to know which actions might be most effective, or deliver maximum return in minimum time. Should you reduce order time first? Or enable self-help? Will enabling a single holistic view of the customer be more effective? Which will enable a faster return? How much will any of these initiatives actually contribute towards meeting your goal?

And finally, having determined what goals you wish to pursue and how to go about it, it is critical to understand how realistic the parameters of your plans might be. It's one thing to 'reduce customer turnover' – but by how much? What is possible in your market? What is likely? How do you compare against industry averages? How can you find out?

It's no wonder then that it has been difficult to see a clear ROI from IT projects. Previous IT Project theory provides little support for the actualities of establishing cause and effect between Projects and Business goals, like increased revenue per customer, and IT actions, like developing tools for customer segmentation and profiling. Assuming you can make this connection, there is little in the way of published industry data that you can use to be confident both that:

- the actions you are proposing to perform will enable your goals to be achieved,
- and that the parameters that you have selected, eg, increase revenues per customer by 30%, are within the realms of possibility and probability for your organization in your industry.

COMMITMENT: THE AMDOCS ADVANTAGE

Where your project requires Billing/CRM technology, most vendors will be willing to provide support to you in determining ROI. This approach has been criticized by analysts and others concerned that no vendor would make a recommendation against proceeding with a project, nor would vendors stand behind or guarantee their ROI calculations.

Amdocs is different.

Amdocs has been helping its customers achieve positive ROI in its core business since it was formed in 1982. In the interests of maintaining a long-term customer relationship, Amdocs will not recommend purchase of software where a positive ROI cannot be established. It's not in Amdocs' interests to do so, partly because a customer with an unsuccessful IT project is unlikely to become a repeat customer. But also because Amdocs is willing to stand behind its ROI calculations, have them independently validated by Gartner Consulting, or even to implement on a 'shared risk' basis, using its in-depth ROI calculations. No other IT vendor goes this far in its commitment to ROI.

HOW DO WE DO IT

Amdocs Approach

Amdocs believes that the right way to calculate ROI is to put it in context. Amdocs ROI calculations are based on establishing clear, identifiable relationships between your pain points, your goals and initiatives. Context is everything. For Amdocs does not stop there, instead going further to benchmark your goals against your own specific industry, so that you can check that your goals are both realistic and achievable.

Only once a solid basis for your investment has been established does Amdocs concentrate on calculating the benefits and costs to your project, using standard financial methods. In this way, quantified benefits and costs and the resultant ROI figures are clearly developed as solid consequences of meeting your goals.

What is your pain and what are your goals?

The Amdocs approach starts with your pain points, and what goals might be appropriate to address these.

This would seem to be the most straightforward aspect of your business case. But in real life, events are complicated. It may be the case that you are facing a new competitor at the same time your organization is experiencing difficulty with its distributors, or that deregulation is brewing, or that another competitor has just brought out a new product line. Just determining which pain points you need to address right now can be the most difficult step of all.

Pain points can lead to strategic initiatives, such as increasing customer profitability, or business imperatives, such as dealing with a new regulatory requirement, and ROI expectations should be different as a result. That is, a business imperative might never have a positive ROI – instead, the best initiative will be the one with the least negative ROI.

Having decided which pain point to address then how can you determine what objective or goal will best fix it? For example, is increasing customer satisfaction the best way to address competition, or should you focus on pricing?

See Figure Two for a subset of key business goals that Amdocs specifically addresses with its ROI services. Extensive research indicates that these represent the most pressing needs in Billing/CRM implementations today.

WAYS TO REACH YOUR GOAL – WHICH ONES SHOULD YOU CHOOSE?

For each goal, your business case needs to be more specific about the actions that you will take in order to achieve it – and these will be detailed in the Initiatives.

This is where many organizations come unglued, and where conflict between project members is most likely to arise. What actions are most likely to achieve your goal? Which of these actions are likely to be most effective? Is it better to choose actions that have a quicker result, but a smaller return overall? How can you choose between actions? How many actions are necessary to meet your goal? How do you know if you have too many or too few actions to be effective? What combination of actions will be needed?

At this stage, Amdocs provides significant value in its wealth of experience. Amdocs has incorporated its knowledge and the expertise of industry experts into the development of its ROI Tools, which cover the entire lifecycle of ROI development, as detailed in Figure Four.

Using ROI Tools, Amdocs can show you which actions have been proven to achieve your chosen goals. Further, Amdocs can suggest which actions should be undertaken in which order to maximize value in minimum time.

As an example, if your goal was to maximize customer profitability, and you wanted to do this by increasing wallet share, then Amdocs ROI Tools could suggest that you can achieve this by actions shown in Figure Three.

FIGURE TWO: KEY BUSINESS GOALS

1. Reduce customer turnover, either short-term churn or longer-term attrition
2. Maximize customer profitability, increase wallet share, cross-sell/up-sell
3. Increase revenue actualization through end-to-end order management
4. Reduce cost of service (eg. through consolidation, increased efficiency or better customer process management)
5. Provide customer with appropriate and segment-differentiated levels of service across all channels
6. Consistently deliver on commitments and obligations to our customers
7. Increase marketing campaign effectiveness (reduce costs) through better profiling (analytics)
8. Reduce time to market
9. Integrate disparate customer-oriented operational systems for reduced costs and increased effectiveness

FIGURE THREE: MAKING THE CONNECTION

BUSINESS GOAL	METRICS	INITIATIVES
Maximize customer profitability – by increasing share of wallet; and cross/up selling	Wallet share, cross-sell ratio, number of products per customer	Develop capabilities for the segmentation and profiling of customers
		Develop capabilities to tailor customer treatment based on segmentation and customer profiling
		Implement tools to improve the effectiveness of the planning and execution of advertising, marketing and promotion
		Improve efficiency and effectiveness of call centers
		Develop facilities to analyze product and price performance
		Provide facilities to support customer affinity capabilities

The Amdocs ROI approach does not just suggest actions, but can also produce an activity plan, including dependencies, that serves as a solid basis for developing your project plan once your business case is approved. In this way, consistency can be maintained not just within your business case, but also between your business case and the project that it supports.

Doing the numbers

Having provided further detail as to ‘how’ you will achieve your business plan’s goal, the benefits, costs, risks and assumptions will be those associated with undertaking these specific actions.

Having a solid foundation of clearly linked goals and actions means that quantifying benefits and costs to calculate the project’s anticipated ROI is relatively straightforward. There may be iteration at this point, as you go back and determine the effect of slight changes in estimated benefits and costs, for example, testing ‘what if’ you were to increase customer profitability to \$130 per annum instead of \$120?

‘Does this look right to you?’

You will want to be sure that you have your facts right before completing the ROI analysis. This means not just mathematically checking the actual numbers and calculations performed, but also applying some kind of sanity check. This is often done in a cursory way – with the question ‘do these numbers ‘look right’ to you?’ commonly the extent of checks performed. Again, this step can be the cause of much conflict in your project team, with different opinions being based on the experience of each of the team members. But other ways of grounding your analysis can provide a greater degree of objective confidence.

Amdocs takes away the guesswork by benchmarking your goals, benefits and costs against your own industry’s achievements, for both Leaders and Challengers. Amdocs uses objective industry data supplied by Gartner Consulting, giving you the ability to see exactly how your IT project places you competitively. Using Amdocs ROI Tools you can be sure that your goals are realistic in terms of what companies in your industry typically achieve.

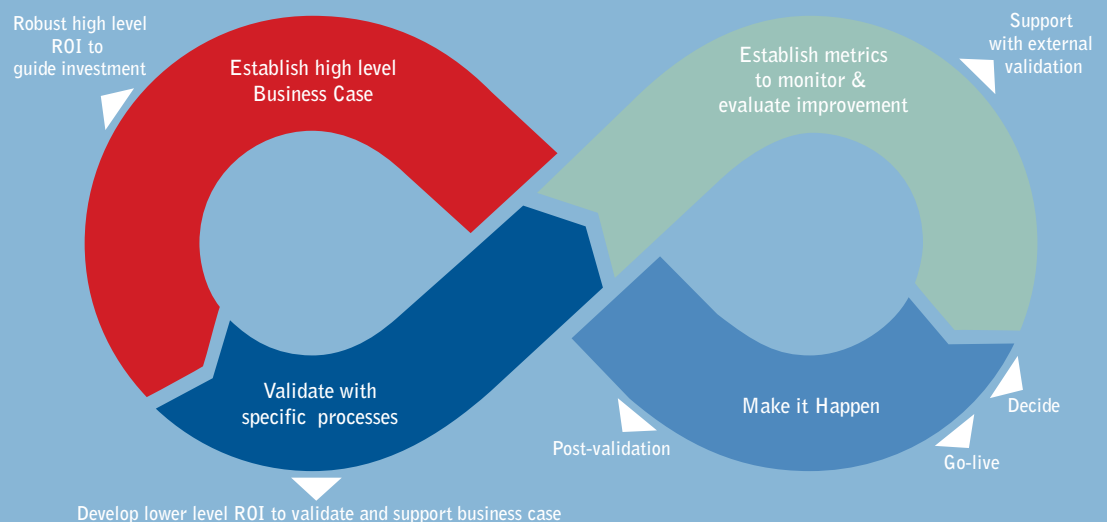
Coming full circle – did it deliver?

Amdocs is unique amongst IT vendors in advocating an approach whereby measurement of ROI becomes an ongoing process. The business case should be seen as only the beginning point for measuring ROI, with continued measurement to ensure that you know when projected ROI has been achieved. Figure Four shows that determining ROI is only part of the process. Amdocs advocates an ongoing program of monitoring and measurement.

Figure Four also shows that an important stage in the Amdocs Approach is determining which metrics will be used to measure project goals and actions. It is critical to note that this stage includes ensuring organizational buy-in on both commitments and metrics from the various groups whose actions affect the overall ROI. Success requires commitment from every group involved.

By providing a baseline, continued measurement also gives a starting point for future Billing & CRM projects. Amdocs is committed to a long-term partnership with its customers, advocating and providing a means to measure your IT investment on an ongoing basis so that your IT strategy can be further refined and improved over time.

FIGURE FOUR:
ROI
AS AN ONGOING PROCESS



AMDOCS RESULTS: AMDOCS DELIVERS

Amdocs Results is a dedicated service provided by Amdocs to help you determine and deliver ROI. Amdocs Results is delivered by a team of specialists, who understand Billing & CRM projects, and their ROI consequences.

Amdocs Results can be leveraged at a high level or can address the end to end process covering all of the elements in measuring and monitoring ROI, as shown in Figure Four.

ROI Tools & Methodology

The Amdocs Results team is supported by its use of Amdocs ROI Tools. Amdocs ROI Tools follow established good practice in determining ROI. That is, Billing & CRM-specific goals, such as Maximizing Customer Profitability, are linked to specific actions that are required to meet those goals. Provision is made for associated costs and benefits, both technology and non-technology specific to be entered, quantified and validated. These are then compared to give a true measure of ROI. The output of the ROI calculation process shows how goals link to actions with all of their associated benefits and costs to show the true ROI of the project.

Amdocs Results can be delivered by Amdocs, or can be offered with ongoing service and processes to make you self-sufficient in determining your ROI on an ongoing basis.

Relevant to your unique situation

Amdocs Results is designed to be used in the context of your own unique Business Case, so that you can be confident that:

- The actions that you choose to address your pain points have been determined over years of experience to be the most effective
- The parameters that you have selected are within the realms of the possible in terms of what has and is being achieved in your industry.

Fastest path to ROI

Utilizing experience of best practice in Billing & CRM, Amdocs Results leverages the ROI Tool to prioritize actions in order to maximize returns in minimum time – that is, it determines which actions should be undertaken first for maximum value in achieving your goals. Without use of the Amdocs ROI Tools, this would weeks of painstaking effort to determine.

Easy to Understand

Amdocs Results follows a disciplined approach to analyzing and determining whether your IT project can achieve true ROI. Amdocs uses clearly defined ROI metrics and calculations in order that its tools and processes can be used by any organization anywhere. Amdocs follows a step-by-step transparent process so that at all stages, what has been done, and how it has been done, can be easily understood at all levels in the organization.

Conservative calculations for a realistic baseline

The Amdocs approach uses conservative tools in a conservative way, so that ROI figures can be seen as a realistic minimum result that can be expected, versus typical vendor approaches, where more idealized ROI calculations can be seen as a maximum to aim for.

Not just ROI but a wealth of industry experience

The most significant benefit to Amdocs Results however, comes from the industry experience and know-how that they embody. Amdocs ROI tools include independent, objective Billing & CRM-specific industry best practice for calculation of ROI. In particular, the linking of business goals to actions, and actions to benefits is based on known and established experience gained over years of gathering data and observing best practice. This provides a clear picture to your organization of which initiatives and actions are most likely to give maximum advantage in your IT projects.

Amdocs ROI tools are unique in their unprecedented ability to provide you with industry specific benchmarks for both costs and benefits. With Amdocs Results you can be sure that your goals are realistic in terms of what companies in your industry typically achieve. This industry data comes from Gartner Consulting, and provides two levels of comparison – one, against leaders in your industry, and two, against challengers, giving you the ability to see how your IT project places you with your industry peers.

CONCLUSION

Developing a strong business case and using the right measurements is difficult enough, and research indicates that organizations are struggling with this. But where many IT projects fall down is in not putting their business case in the context of their own industry norms and their strategic business objectives. Where it arises, a perception of failure in IT projects stems more from the lack of a sound basis for project inception, such as would be given by a comprehensive and benchmarked business case, than from any other factors

Amdocs ROI Tools and Services offer a comprehensive and detailed approach to helping you establish your business case on a sound basis of ROI analysis. Drawing on years of Amdocs experience and Gartner Consulting data, Amdocs ROI Tools and Services offer you the opportunity to compare your IT project objectives against the best your industry has to offer. Using standard metrics and a rigorous process, Amdocs helps you to take the guesswork out of establishing your business case for Billing & CRM.

AUSTRALIA
+61 2 8913 1500

BRAZIL
+55 11 3040 4700

CANADA
+1 416 355 4000

CYPRUS
+357 25 886 000

CZECH REPUBLIC
+420 2 6677 3222

FRANCE
+33 1 4691 1145

GERMANY
+49 2 131 3480

HONG KONG
+852 2966 2118

IRELAND
+353 1 402 9439

ISRAEL
+972 9 776 2222

ITALY
+39 02 58215 225

JAPAN
+81 3 3514 1836

MEXICO
+ 52 55 9171 1057

POLAND
+48 22 630 7230

RUSSIA
+7095 725 6571

SPAIN
+34 91 572 6801

SWEDEN
+46 8 50 52 1120

THAILAND
+66 2617 7510

THE NETHERLANDS
+31 40 2668633

**UNITED KINGDOM
LONDON**
+44 20 7343 2500

READING
+44 11 8955 5200

**UNITED STATES
ST. LOUIS**
+1 314 212 7000

SAN JOSE
+1 408 965 7000