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TRANSFORMING THROUGH OUTSOURCING:  
MANAGED SERVICES AS A STRATEGIC TOOL FOR  
COMMUNICATION SERVICE PROVIDERS

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## EXECUTIVE SUMMARY

In today's highly competitive communications landscape, being agile and flexible is critical and so is minimizing and rationalizing costs. Lower average revenue per user (ARPU) along with escalating support costs have placed increasing pressure on communication service providers to shave costs from their bottom line and focus on their core revenue-generating activities. Plus, they are looking for ways to improve performance of support functions while being able to quickly introduce new services and deliver a compelling customer experience that differentiates them from competitors. In this transforming environment, outsourcing is emerging as a strategic tool for service providers to transform their businesses to gain cost-to-serve, time-to-leadership and customer-experience advantages.

### KEY DRIVERS FOR OUTSOURCING

The need to control costs, increase flexibility and improve efficiencies of IT and business processes have driven a rapid increase in outsourcing investments in the communications sector. In order to remain competitive, service providers are increasingly outsourcing parts of their network infrastructure, data centers, billing and customer care systems and operations. They are turning to specialized partners to efficiently manage and run their key business support systems (BSS) and operational support systems (OSS) infrastructure and business processes. Often described as “the beating heart” of a provider's business, efficiently and effectively managing these BSS/OSS functions is critical to success. So what drives service providers to outsource these? Traditionally, there are four key factors:

> **Increasing cost pressures:** Increased competition demands increased rigor around financial performance—operating costs are under the microscope. And yet, managing modern billing and customer care functions requires significant capital and ongoing financial commitment that can be difficult to justify in a cost-intensive market.

> **Lack of operational flexibility:** Many service providers are limited by costly, aging legacy systems that do not provide the necessary flexibility and integration to support new services and deliver a high-quality customer experience. Organizations must improve their agility in order to react to and, better, pre-empt the actions of new, more nimble competitors.

> **Resource constraints:** With competition becoming even more pervasive, time to market is critical. Service providers often lack the necessary expertise, experience and best practices in designing business support infrastructures that can ultimately improve their performance and deliver a differentiated customer experience. Also, many service providers lack access to a global resource pool of experts who bring in not only product and domain expertise but also experience in cost-effective service delivery. Having the optimal mix of expert resources that maps to the business demands is impossible without incremental cost implications.

> **Business Focus:** To remain competitive, service providers need to focus their resources on key strategic business initiatives and this is further driving outsourcing in the communications landscape today. Service providers are re-evaluating what parts of their business are really core and valuable to their future success and are outsourcing the rest to vendors who can run these more efficiently, in a cost effective manner.

FIGURE ONE:  
TRADITIONAL DRIVERS FOR OUTSOURCING



“ We needed to make things simpler. We needed to consolidate our environment, get higher quality and lower cost out of our IT environment and at the same time allow ourselves to really focus on other core activities.”

**CIO OF A LEADING WESTERN EUROPEAN WIRELESS SERVICE PROVIDER**

## OUTSOURCING AS A STRATEGY: KEY BENEFITS

Outsourcing can be a strategic lever for service providers seeking to gain significant strategic, operational and financial advantages that will enable them to be more competitive in the long run. Some of the key benefits include:

<p><b>COST SAVINGS</b></p>	<p>Cost savings and financial benefits continue to be one of the most important drivers and a key rationale for outsourcing decisions. Service providers resort to outsourcing as a way to reduce the ongoing costs of managing and running functions while optimizing the capital spent. This can free up additional capital for reinvestment in the core business. Depending on the scope and scale of outsourcing projects, managed services engagements can reduce costs by 20 to 35 percent through automation, process reengineering, offshoring or productivity improvement mechanisms. More importantly, managed services also bring in “cost transparency,” enabling more predictability and control over IT investments and costs.</p>
<p><b>CORE-BUSINESS FOCUS</b></p>	<p>As their operations get increasingly complex, providers are finding it necessary to focus internal resources on their core activities, specifically, those in line with their business proposition. Using managed services enables service providers to allocate organizational and financial resources to more operational or revenue-generating functions such as product development and sales. It also frees up management’s time, resources and funds to focus on more strategic and core issues.</p>
<p><b>ACCESS TO RESOURCES AND BEST PRACTICES</b></p>	<p>As outlined above, service providers often outsource functions due to limited human or knowledge resources. Outsourcing key functions can deliver a competitive edge by providing access to specialized skills, capabilities, expertise and experience in managing the business functions more efficiently and cost-effectively. An outsourcing partner often brings in the core capabilities, tools, industry best-practices and a global pool of experts in transforming the business operations. Moreover, the outsourcing vendor’s service and performance levels can be used as a benchmark to bring discipline to internal operations, as well.</p>
<p><b>IMPROVED OPERATIONAL FLEXIBILITY</b></p>	<p>Typically, the outsourcing vendor assumes responsibility for managing the staffing, meeting the service level metrics and delivering ongoing productivity improvements for the outsourced function. The use of managed services enables service providers to move to a modernized environment with optimized systems and best-in-class processes for a substantially lower investment and in a shorter timeframe than they would have been able to achieve otherwise. In fact, the specialized insight and capabilities of managed-services providers has helped organizations improve their operational capabilities and leap-frog competition.</p>

Clearly, outsourcing or managed services is increasingly being accepted as an organizational strategy to help service providers become more nimble and agile in the marketplace, improving their ability to compete.

AN INDUSTRY-SPECIFIC APPROACH TO OUTSOURCING

With the widespread adoption and success of data center and IT infrastructure outsourcing models, outsourcing of support operations is gaining increasing acceptance in both North America and Europe. Service providers are outsourcing specific areas of their BSS functions including billing, customer care and CRM operations. According to a recent study conducted by consulting firm Booz Allen Hamilton for Amdocs in Western Europe, service providers view billing as one of the most likely candidates for business process outsourcing (BPO, described in more detail below), despite its high complexity, close interaction with product development and high impact on cash flow. Service providers are looking beyond specific applications or IT infrastructure, giving outsourcers end-to-end accountability for managing their IT infrastructure, applications and the relevant business process.

While evolving a unique strategy and approach to outsourcing your business operations, it's helpful to consider the layers of the business they fall into, as shown below in Figure 2:

- > Layer 1 corresponds to the IT infrastructure, physical facilities and data center operations

- > Layer 2 consists of all the applications (legacy and new) across the billing, customer care, CRM and other areas including ordering and provisioning
- > Layer 3 corresponds to the business processes to run the billing and customer care functions

Within a specific function (such as billing or CRM), service providers can consider outsourcing each of these specific layers individually (e.g., outsourcing billing application management only) or vertically across all three layers spanning IT infrastructure, applications and business processes. Service providers typically start out by outsourcing one specific layer within a business function, and as the operation matures, they gradually move to an end-to-end outsourcing model in order to reap the full benefits of efficiency and scale. In the BSS/OSS world, business process outsourcing (BPO) involves outsourcing a specific business process/function (layer 3) and may or may not be accompanied by outsourcing specific applications (layer 2) or IT infrastructure (layer 1).

Clearly, though, business processes are tightly coupled with applications and service providers seeking to transform these functions would be best served by taking a holistic approach to BPO, mobilizing the expertise of an outsourcer for the application layer, as well.

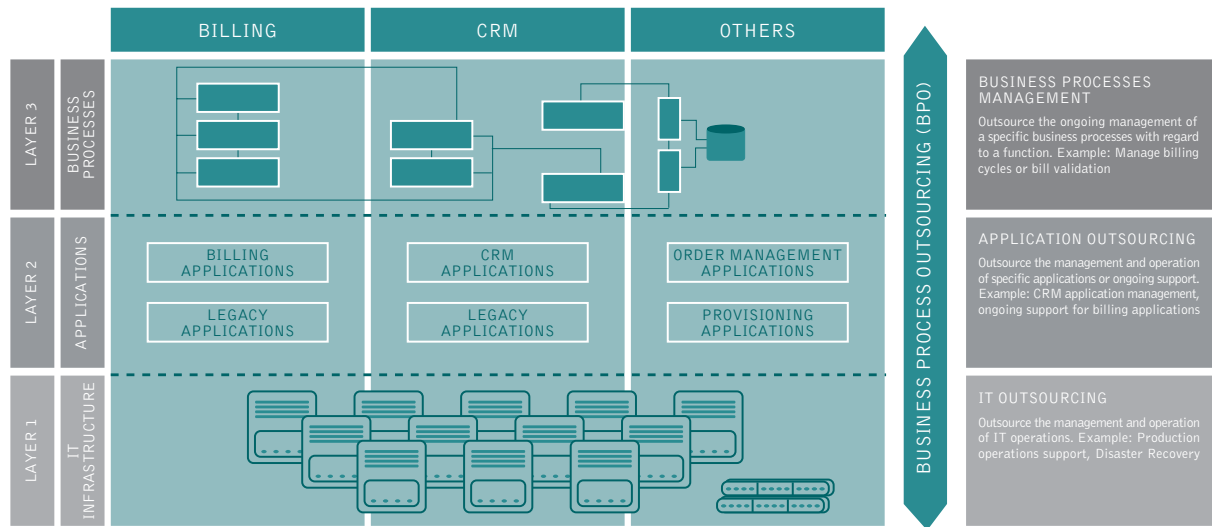


FIGURE TWO: COMMUNICATIONS BUSINESS LAYERS AND FLAVORS OF OUTSOURCING

## FLEXIBLE OUTSOURCING MODELS FOR SERVICE PROVIDERS

Defining the business objectives and clearly articulating the business expectations is really the first step in developing an effective outsourcing strategy. For service providers, the objectives for outsourcing could vary depending on the specific organizational goals and can range from outsourcing as a cost-optimization tool to outsourcing as a business-transformation lever to significantly improve operational performance and flexibility. Whatever the objectives are, service providers need to look at outsourcing from a strategic standpoint and should clearly define the goals and long-term objectives before embarking on an outsourcing journey.

Based on the overall business objectives and drivers for outsourcing, there are a few outsourcing engagement models that service providers can consider. This section tries to define the various models in more detail.

Each of these models, from tactical to transformational, varies in terms of the scope and the business impact and needs to be aligned with the end business objective in mind.

MODEL	PRIMARY OBJECTIVE	DESCRIPTION	OUTSOURCER RESPONSIBILITIES	VALUE PROPOSITION
<b>TACTICAL OUTSOURCING</b>	Cost cutting: Reduce ongoing costs of managing routine, non-core operations	<ul style="list-style-type: none"> <li>&gt; Outsourcing partner runs the function as-is with minimal or no modifications</li> <li>&gt; Primary focus is on squeezing costs out of the system</li> <li>&gt; Leverage economies of scale</li> <li>&gt; Short term/ immediate</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Drive costs down through productivity improvements or offshoring</li> <li>&gt; Maintain/improve existing service levels</li> <li>&gt; Manage operations through tight service level agreements (SLAs)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Predictable cost savings</li> <li>&gt; Productivity improvements</li> <li>&gt; Relatively low risk</li> <li>&gt; Tight control</li> </ul>
<b>TRANSITIONAL OUTSOURCING</b>	Reduce costs while transitioning the business function to a new environment	<ul style="list-style-type: none"> <li>&gt; Outsourcer to manage the function and transition operations to a new and more effective environment</li> <li>&gt; Minimal changes to the systems and business processes</li> <li>&gt; Focus is on improving business performance while cutting costs</li> <li>&gt; Medium term</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Maintain/improve existing service levels</li> <li>&gt; Specific pre-agreed modernization or improvement initiatives</li> <li>&gt; Focused technology enablement</li> <li>&gt; Drive costs down through productivity improvements or selective offshoring</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Transition to a new and effective environment</li> <li>&gt; Productivity improvements</li> <li>&gt; Leverage industry best-practices</li> <li>&gt; Predictable cost savings</li> </ul>
<b>TRANSFORMATIONAL OUTSOURCING</b>	<ul style="list-style-type: none"> <li>&gt; Fundamentally transform the business function to make it highly efficient, customer-centric and future-ready</li> <li>&gt; Deliver significant, long-term financial benefits</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Fundamental changes to systems, business processes and current practices</li> <li>&gt; Might involve transitioning to a new and improved business environment</li> <li>&gt; Implement industry best-practices and methodologies</li> <li>&gt; Focus is on fundamentally transforming business functions for greater flexibility and performance</li> <li>&gt; Long term and strategic</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Serve as a change agent</li> <li>&gt; Rationalize and consolidate systems</li> <li>&gt; Modernize legacy systems</li> <li>&gt; Deploy and enable new systems and technologies</li> <li>&gt; Business process re-engineering and optimization</li> </ul>	<ul style="list-style-type: none"> <li>&gt; A modern, scalable, and customer-centric business function</li> <li>&gt; Efficient and streamlined operations</li> <li>&gt; Implementation of industry best-practices</li> <li>&gt; Significant and long-term financial impacts</li> <li>&gt; Improved competitiveness</li> </ul>

## SELECTING A PARTNER

Many organizations view outsourcing as a means to achieve business transformation while minimizing risk. As mentioned previously, defining the objectives for an outsourcing project is critical. It sets the parameters for the work, and also helps define the criteria or establishing a suitable and ultimately successful outsourcing relationship. In transformational outsourcing projects, choosing the right partner is equally important to bringing about effective transformation. Some of the factors and key skill sets that service providers should weigh before selecting an outsourcing partner include:

**Domain Expertise:** The communications industry is unique. Successful outsourcing in this industry depends on an intimate knowledge and understanding of the business processes, practices and systems specific to it. In order to effectively transform business functions, an outsourcing partner must have:

- > In-depth understanding and expertise in BSS/OSS systems and business processes—IT operations and technology capabilities are crucial
- > Experience in large-scale BSS/OSS transformation projects and a proven track-record of improving efficiencies through re-engineering business processes and applying best practices
- > Access to global industry best-practices in managing world-class BSS/OSS operations

**Flexibility:** No two service providers have the same needs or business objectives. The outsourcing partner must be able to tailor a solution to the specific needs of the service provider. In outsourcing operations, flexibility can be defined in terms of three dimensions:

- > **Scope:** Flexible scope of offerings to suit the unique needs of the service provider—from specific applications, or business processes to end-to-end transformational business process outsourcing (BPO)

> **Engagement models:** Experience in working with diverse engagement models including insourcing, outsourcing, joint venture or build-operate-transfer (BOT)

> **Geography:** Global and flexible work-sourcing—onsite to near-shore and offshore staffing options—together with a global resource pool to deliver results where and when needed, and with optimal economics

**Operational capabilities:** Along with deep domain expertise and flexibility, an outsourcing partner must be set up, operationally, to enable business success. An effective partner must have global delivery capabilities including:

> **World-class outsourcing delivery centers** with global quality certifications (e.g., ISO, CMM, ITIL) with which to benchmark service delivery

> **Tools and frameworks** to effectively measure, track, report and manage operations on an ongoing basis

**Partnership approach:** Successful and strategic outsourcing relationships are true partnerships. They are built on mutual trust and confidence and structured in a way that benefits both the service provider and outsourcer over the long term. An outsourcing business partner must have an intimate understanding of the service provider's organization and business environment, including what works there and what does not. And both outsourcer and service provider must communicate their expectations and limitations clearly as they work together toward their common goals.

“As billing challenges become more complex, CSPs are hiring expertise from large vendors to customize and configure commercial systems to their specific requirements. Outsourcing is becoming more common, particularly in the North American market.”

**OSS OBSERVER, INDEPTH: BILLING MARKET OUTLOOK 2004-2009, FEBRUARY 2005**

## SUMMARY

The communications industry is under significant transformation and outsourcing is fast emerging as a key tool for today's communication service providers to cut costs and increase flexibility. If done right, outsourcing can deliver some significant strategic, financial and operational benefits to service providers and can significantly improve their competitiveness in the marketplace. Each service provider is unique and will need to begin its outsourcing journey by defining the goals and objectives sought from outsourcing. Setting realistic business goals and objectives for outsourcing is important, but so is selecting the right partner with deep domain expertise and delivery capabilities to enable transformation.

“ We see outsourcing as a strategic initiative for us. We want to be able to use supplier relationships to provide capabilities we cannot provide as effectively internally. Because of high turnover, training and infrastructure investment, we don't want to be in the business of doing things that we are not focused on.”

**CIO OF A LEADING U.S. WIRELESS SERVICE PROVIDER**

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Amdocs combines innovative software and services with deep business knowledge to accelerate implementation of integrated customer management by the world's leading service providers. By delivering a comprehensive portfolio of software and services that spans the customer lifecycle, Amdocs enables service companies to deliver an *intentional customer experience*<sup>™</sup>, which results in stronger, more profitable customer relationships. Service providers also benefit from a rapid return on investment, lower total cost of ownership and improved operational efficiencies. A global company with revenue of \$2.48 billion in fiscal 2006, Amdocs has over 16,000 employees and serves customers in more than 50 countries around the world.

For more information, visit Amdocs at [www.amdocs.com](http://www.amdocs.com).

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