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WHITE PAPER

BRINGING OUT REAL VALUE

INVESTING IN THE RIGHT OUTCOME-BASED SERVICES TO
INCREASE VALUE OF EXISTING ASSETS AND OPTIMIZE COSTS

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EXECUTIVE SUMMARY

The economic downturn has prompted service providers to look for measures of reducing costs – which is compounded by a competitive landscape that is getting tougher every day. Providers are now aiming to “do more with less” – improve the customer experience and explore new growth engines while constantly looking at ways to save.

In many cases, direct cost reduction measures result in lowering the level of service that providers offer which in turn reduce loyalty and customer spending. Therefore, instead of directly cutting expenses, service providers should explore other investment approaches – that will result in higher value and return on investment (ROI).

This white paper focuses on two types of services that should be explored. Those that:

1. Bring in value through better realization of benefits
2. Take measures to reduce costs through optimization channels

Investing in such services, especially during these times, will allow service providers to better position themselves in the challenging competitive arena.

INTRODUCTION: THE CHALLENGE TO INCREASE VALUE FROM EXISTING ASSETS

For service providers, times couldn't be more challenging. On one hand, economic pressures prompt them to massively reduce and reconsider large investments such as product transformations. On the other hand, the competitive arena couldn't be tougher. More than ever, providers need to offer the best service to their customers – personalized, focused and efficient, with attractive pricing. They must keep up if they don't want to lose the race.

To achieve this, service providers must offer their customers a high scale of customer experience, position themselves for innovation and explore new growth engines. The major challenge is to accomplish all this without expanding costs, reducing revenue options or delaying programs.

So how can service providers overcome this challenge? How can they bridge through these times of uncertainty? Is it just about reducing expenses or can providers pull out more value from their assets?

“Do more with less” has become a common phrase. But what does it really mean? How do service providers get more from what they have?

REALIZING BENEFITS AND OPTIMIZING COSTS

The instinct to reduce expenses when trying to increase net income is not always the right approach. Although cost cutting is inevitable, in many cases, taking measures to directly reduce costs may result in service providers reducing their ability to provide their customers with the level of service they expect and, in turn, increase churn and reduce loyalty and customer spending. Instead of directly cutting expenses, service providers need to explore the right form of investment. One that will result in higher value and return on investment (ROI) for them.

Recent surveys show that “74% of CFOs admitted that their companies often get their cost-cutting priorities wrong by cutting what is easy to measure rather than what is most needed.”

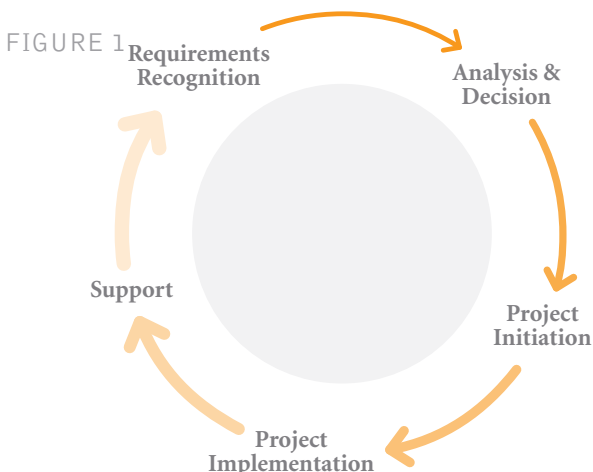
Source: PricewaterhouseCoopers

Service providers shouldn't be tempted to take the easy route, even if short term. They need to explore all avenues of investing in their existing business and operational support systems (B/OSS) solutions through cost optimization channels and additional value-based, high-end services offered by vendors with the right level of industry, product and service expertise. Two types of services are key to the investments that will result in optimal monetization of existing assets: Those that bring value by realizing significant benefits, and those that reduce costs through cost optimization methods.

SERVICES THAT REALIZE BENEFITS AND VALUE

With the need to continue to invest, yet with the call to truly realize the value behind each investment, it's crucial for service providers to invest in services that define and materialize each project's business case. An approach based on business outcomes serves as the strongest foundation for such services; and allowing for solid and short term ROI will increase providers' ability to commit to these projects.

Services that deliver a deep understanding of the desired business and project benefits help drive all project activities with this outcome in mind. Services that accompany the different stages of the lifecycle (see figure 1 below), have a major impact on the right decision making and setting the implementation path to result in success. With the market changing rapidly, services that measure and track results frequently, throughout the project decision and implementation lifecycle, ensure that benefits constantly reflect a changing business environment, and allow for a lower level of risk for failure.



For the different stages, such services may include:

Requirements recognition and analysis

> **Value and ROI Analysis** – The current economic climate demands that service providers take a hard look at potential investment projects and reject those that don't deliver significant ROI – and fast! A structured, consultative and collaborative process, supported by the right tools, can provide sound financial analysis to support budget applications and business case development, as well as enable investment decisions. The impact of system and process change on key business drivers, including reduced operating costs, deferred network spend, lower TCO and enhanced revenues must all be considered. Yet this type of analysis should not be seen as just a numbers exercise. The ROI analysis process helps to foster cross-departmental cooperation across business and IT functions. It helps to focus all parties on the service provider's business objectives and challenges, demonstrating how solutions address those challenges, and so deliver benefits which may be both qualitative and quantitative. ROI analysis for a potential project also helps with decisions regarding project phasing, ensuring that each phase delivers value in its own right.

> A wider level of initial analysis is with **Business Case Development** – Accurate data around the current operation together with insight to best practices and correct financial modelling techniques bring the right services to bear to form and deliver a robust business case, which reduces uncertainty and risk when engaging in a new project. The right level of business case development is based on specialized operational analytics. With increased scrutiny around expenditures and pressures on budget reductions, it's key for service providers to have accurate data on how operations are performing. These types of services, as the basis of the approach, use specific analysis techniques to marry anecdotal evidence around areas of inefficiency with statistical confidence in the root cause. Yet, analytical techniques on their own are not enough; they have to be combined with a true appreciation of the operational environment (the industry) and the underlying systems and organizational estate. A generic business case is not enough in this case. Providers need to use an analysis level that brings focus to improvement initiatives and increased rigor in assessing where to prioritize resources, as well as more confidence in achieving maximum benefit for investment.

Throughout project initiation, implementation and support phases

- > **Benefits Realization Management** – Delivering on the outcomes of the business case doesn't stop once activities get under way. On the contrary, most challenges arise due to unexpected changes throughout the journey. Investing in a service where specialized and dedicated resources are aimed at ensuring the entire program effort is directed at realizing the initial defined benefits will help in keeping the project within the defined track. Imperative to this success is adjusting the resources in parallel to the invariably changing business environment. Managing benefits realization also supports the situation where the overall risk and reward from a project can be shared between all parties involved in delivering change. This type of situation is becoming more and more common with the changes in investments.
- > **Workforce Readiness** – Tough economic times influence human capital in various aspects. Dismissal often occurs, remaining employees are asked to do more, and thus need to be skilled and prepared accordingly. Business transformation, mergers and acquisitions, and organizational changes often shake the whole organization. An enabled workforce ensures higher motivation and loyalty, has a significant effect on customer satisfaction and profitability, and makes a substantial impact on innovation and new product development – right people, right skills, right motivation. In search of cost reduction measures, service providers should look at services that promote and enable their human capital assets, thereby ensuring a better linkage between organizational strategy and business results.

HOT SPOT OF COST OPTIMIZATION

Recently, a Tier 1 mobile service provider, invested in a cost and process assessment to identify hotspot areas of cost inefficiencies. The project's goal was to provide an improvement roadmap with defined benefits for prioritization. Objectives of this assessment were to drive significant efficiency improvements in the reduction of operating expenses. ROI improvements and reduction in time to market were also investigated at a wider level.

To achieve these objectives, the provider devised a strategy to focus on targeted areas of inefficiencies and define an improvement roadmap, as well as find areas of revenue protection opportunities. Reaching these goals would involve streamlining processes, reducing duplicated and manual activity that allows faults to be resolved quicker, limiting the amount of revenue degradation and improving the customer experience.

The project is currently in progress and has identified estimated savings of over EU4.5 million (over US\$6 million) per year going forward based on the realization of process-driven efficiencies.

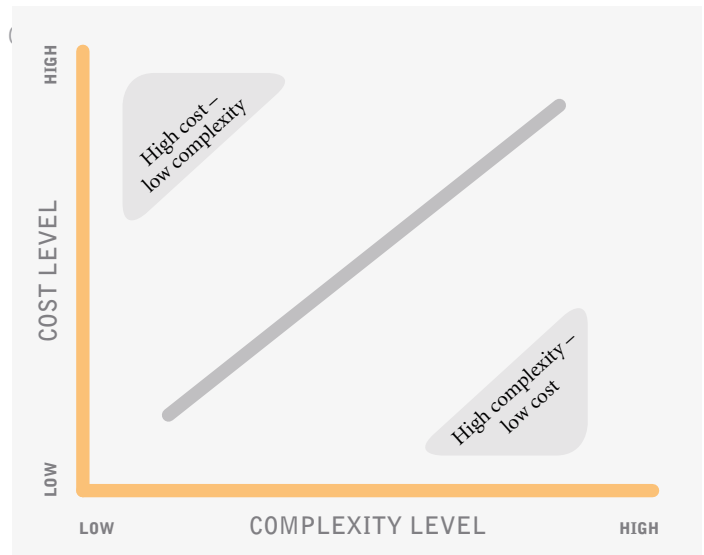
SERVICES THAT OPTIMIZE COSTS

Service providers must set out to achieve better alignment across the organization in terms of processes and mechanisms to improve performance and therefore reduce costs. This includes process, hardware and workforce optimization and simplification, using the 20-80 rule. Providers should maximize the benefits of such investments by focusing on simplification and alignment of the 20 percent most inefficient processes, hardware investments and workforce performance throughout the organization. This will result in an elevation of performance and outcomes, therefore reaching a new level of cost reduction. Cost reduction is achieved this way as a result of investment in optimizing existing assets.

Service areas to explore include:

> **Process optimization** – Industry specific expertise, track record based methodologies and best practices come into play when dealing with process optimization. Cost and performance based profitability is increased by leveraging all channels to create operational efficiencies, looking at a specific process or domain and proposing improvements across process, people and systems. One approach to process optimization may be an analysis of costs versus complexity of processes. With the right criteria in place, a comparison of the level of complexity versus the cost per process may be created. Processes that rank high on the costs side but low on the complexity side should raise a red flag. In some cases, those that rank low on the costs side but high on complexity should be looked into deeper. Solving these inefficiencies can provide for ongoing cost reduction.

Example: A recent, similar approach was taken by a Tier 1 service provider to assess cost efficiencies and look for areas of improvement. Steps were taken to assess these cost inefficiencies, including an analysis that measured the cost level of the process in the context of complexity per process. In order to achieve this, a set of industry best practices-based criteria across people, processes and systems was established. Criteria scoring used a model of complexity versus costs as illustrated in figure 2. Two areas of inefficiencies were looked at: when costs are high and complexity levels are low; and when costs are low but complexity levels are high. The first shows cost inefficiencies, where the latter may be a symptom of shortcuts and incorrect processes used resulting in non-optimized efforts. Solving these red zones of cost inefficiency resulted for this service provider in an increase of the return on investment from the existing products without the need to go through a product transformation or upgrade process.



> **Hardware optimization** – In this area, service providers should be looking into methods of optimization to ensure maximum capacity to accommodate new customer growth, and reduce total cost of ownership with unified tools for application deployment, operation and management. Services that help providers realize the hardware assets they already have for new subscribers and data may result in large savings in this regard.

> **Workforce performance optimization** – Service providers should look for workforce performance optimization solutions to maximize current systems' benefits. Workforce performance improvement solutions on current processes and applications could be executed quickly with rapid ROI. Such tools and services ensure the workforce is focused, therefore increase sales, reduce operating costs through increased efficiency, support continuous process adherence and improvements, and increase customer retention.

CONCLUSIONS AND RECOMMENDATIONS

The real challenge is not to succumb to simply reducing measurable expenses in tough economic times but to be bold enough to invest in areas that will realize value and ROI, and explore and capitalize on cost optimization channels. Service providers should also carefully evaluate the necessity of new product and product upgrade investments to avoid lagging behind competitors once the financial downturn terminates.

As providers look into the opportunities of outcome-based services, they should keep in mind the following:

- > Service providers should explore services that assist them in improving their business results by increasing the value of their existing assets and optimizing costs.
- > In order to maximize the business results of any investment in services and reduce the risk of failure, service providers should select vendors with deep and focused industry knowledge and a proven track record.
- > Vendors that can also support product-related activities with deep and specific product knowledge are the right choice for these types of projects as they can commit to lower risk and full accountability.
- > A well planned investment in services can significantly improve a service provider's competitive positioning.

“CARRIERS NEED TO FOCUS ON BOTH SIMULTANEOUSLY GROWING VALUE WHILE OPTIMIZING COSTS.”

(GARTNER, DATAQUEST INSIGHT: IMMEDIATE CARRIER COST SAVING STRATEGIES IN THE CURRENT ECONOMIC CLIMATE, MARCH, 2009)

ABOUT AMDOCS

Amdocs is the market leader in customer experience systems innovation, enabling world-leading service providers to deliver an integrated, innovative and *intentional customer experience*[™] at every point of service. Amdocs provides solutions that deliver customer experience excellence, combining the software, services and expertise to help its customers execute their strategies and achieve service, operational and financial excellence.

A global company with revenue of \$3.16 billion in fiscal 2008, Amdocs serves customers in more than 50 countries around the world.

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