

MANAGED TRANSFORMATION: THE LOW-RISK, HIGH-REWARD ALTERNATIVE

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EXECUTIVE SUMMARY

The urgent need to deploy new networks and services, streamline operations, and improve the customer experience is fast creating a new imperative for business transformation.

But the traditional approach in which service providers themselves manage an array of disparate vendors and partners often leads to transformation programs that significantly exceed planned budgets and timelines.

In a “managed transformation,” a single strategic partner takes end-to-end accountability for both transforming business and operational support systems (B/OSS) functions and processes and for managing and optimizing them on an ongoing basis. Compared with the traditional approach, a managed transformation model offers the potential of far lower risk and far greater reward. Specific benefits can include greater financial flexibility, lower cost, reduced risk, and increased accountability for results.

The great challenge of managed transformation is selecting the right partner. Before putting so much at stake with a single partner, service providers need the utmost confidence that the transformation partner can provide the product quality, domain expertise, transformation experience, and outsourcing capabilities required for ongoing success.

This paper provides an overview of the managed transformation approach, its benefits, and the critical success factors necessary to make it work.

TRANSFORMATION TRIGGERS

After years of talking about the business and operational implications of serving a more connected world, service providers are switching gears and moving to more specific plans for action, spurred by declines in traditional revenue sources, rising customer demands, and fast-growing competition from non-traditional players such as Google, Facebook, and Apple.

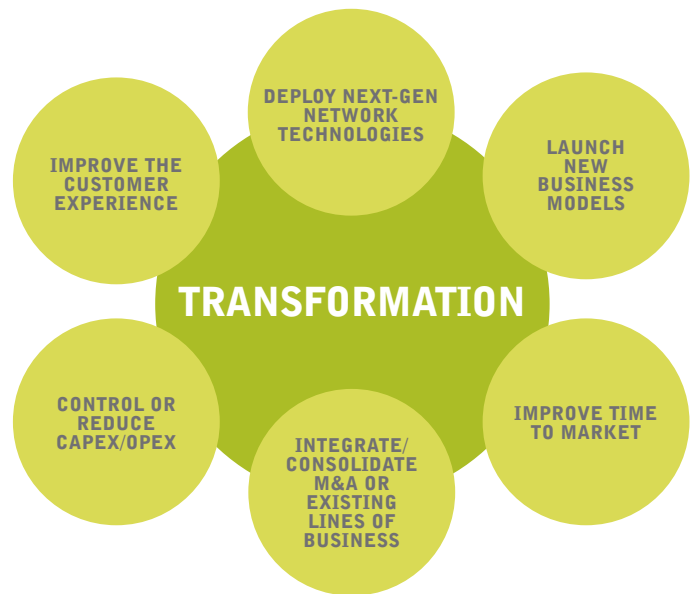
As the pace of change accelerates, few service providers can afford to put off substantial B/OSS improvements. Disparate and legacy systems, along with inefficient business processes, are hurting both the top and bottom lines as service providers struggle with such challenges as:

- > Rapid increases in the number of subscribers and the complexity of individual and business accounts
- > Deployment of next generation networks and the related explosion of new products, applications, services, and bundles
- > Shrinking time-to-market windows to roll out competitive new offerings
- > Customer demand for more compelling and reliable experiences across multiple devices and applications
- > Disappearing tolerance among customers, partners, and investors for system glitches or failures

Transformation is not necessarily for everyone. For some, operational systems and processes may seem “good enough” to support continued growth and change with perhaps only modest upgrades and improvements.

The specific triggers for a transformation initiative can also vary widely. For one service provider it might be the need to integrate with a large acquisition. For another, it could be the inability of existing systems to handle the rapid deployment of new and more complex services. For a third, it’s the need to reduce systemic risk and hold the line on escalating cost.

Figure 1: Typical Transformation Triggers



Overall, though, 92% of the participants at a recent gathering of 120 strategy executives from North American service providers and media companies said that they have to make significant changes or undergo a fundamental transformation over the next 12-18 months*.

It's not just in the developed world, either. A recent survey of service providers across Southeast Asia, Latin America, and Eastern Europe found that 90% believe new business models will be required in the connected world, and most of the service providers polled are looking to transform their operational environments and networks to make those new models possible**.

* STL Partners, "\$Multi-Billion Telco 2.0 Growth Opportunities in North America: Can Telcos Act in Time?," Analyst Note, November 2010

** Amdocs and Frost and Sullivan, "The Connected World Survey: The Emerging Markets Perspective," June 2010

FROM "WHETHER" TO "HOW"

As the strategy conversation moves from "whether" to "how," executives across every level of a service provider's organization, from CEO and COO to CFO, CMO, and CIO, are facing the practical questions of how to ensure operational success with a larger subscriber base, a new generation of product and service offerings, and a more sophisticated and seamless customer experience.

It's a huge challenge that raises a host of financial, management, and technology issues that ripple across the entire organization.

Perhaps most important is the issue of building more modern, integrated, and flexible B/OSS systems and processes. Realizing the potential of emerging business models requires unprecedented abilities to open networks and systems to business partners, conduct real-time operations and tracking, and support vast new quantities of data, devices, applications, and customer interactions.

At the same time, service providers need to hold the line on IT costs and investment. Ideally, transformation initiatives would actually help reduce CAPEX and OPEX to help maintain or increase competitive advantage.

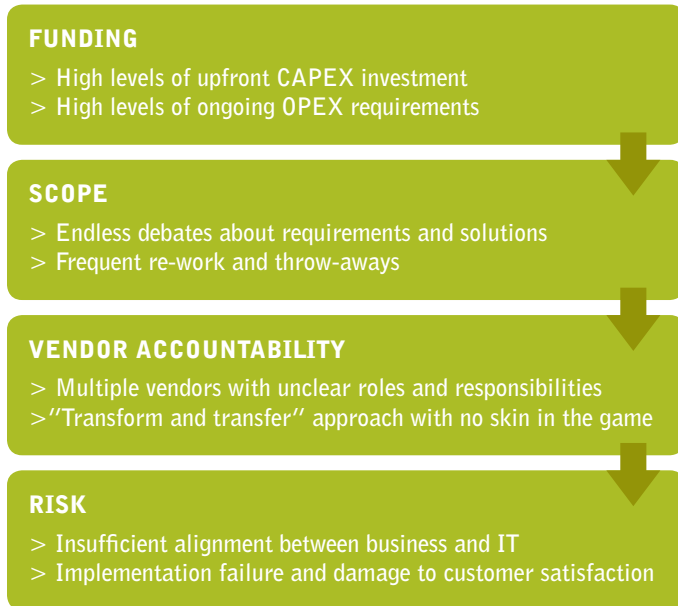
Ultimately, the "how" question comes down to this: How can we design an effective, multi-year approach to a transformation process that maximizes the short- and longer-term benefits while minimizing disruption, risk, and cost?

"How can service providers design an effective, multi-year approach to a transformation process that maximizes the short and longer-term benefits while minimizing disruption, risk, and cost?"

THE COSTS AND RISKS OF GOING IT ALONE

Traditionally, service providers would manage the transformation process themselves, using a variety of vendors to provide specific systems, applications, and services to support the overall change. But the costs and risks involved could cause even the most aggressive executives to hold back from getting started.

Figure 2: Common B/OSS Transformation Challenges



On the cost side, the traditional approach requires substantial capital investments at the beginning of the process. Transforming CRM or billing operations, for example, can require the purchase

and installation of new systems and applications costing tens or even hundreds of millions of dollars.

Increasing CAPEX is not exactly high on the CFO's wish list these days, to say the least.

On the risk side, transformation typically involves a multi-year process with multiple vendors and multiple business groups and functions. Orchestrating a successful outcome requires tight co-ordination across a host of inside and outside players, often with different agendas and key performance indicators (KPIs). Needless to say, this coordination is extremely difficult to manage efficiently and effectively.

Moreover, managing such a complex process is far from the normal experience or core competence of most service providers. Almost by definition, such transformations are once-in-a-decade occurrences, if even that. As such, the process is jam-packed with opportunities for confusion, misalignment, delay, and failure with little clarity on ultimate accountability. Not surprisingly, our industry is filled with stories of transformation failures. In one case, for example, a tier 1 service provider has spent years trying to recover from the problems of a large B/OSS transformation gone awry:

- > Frequent delays, errors, and cost overruns in the new customer and billing platform
- > More than 3,300 change requests to redress problems with the new system
- > Substantial problems with customer service due to frequent system crashes
- > Damage to the bottom line as the company has had to maintain its legacy systems

THE MANAGED TRANSFORMATION ALTERNATIVE

Rather than going it alone, transforming through a managed services approach provides a more affordable, less risky, and ultimately more effective alternative.

With “managed transformation,” a strategic partner takes end-to-end accountability both for transforming critical B/OSS functions and capabilities, and for managing and optimizing them on an ongoing basis to ensure substantial and sustained business benefits. The partner may not provide every single product and service within the transformation, but, most importantly, the partner is fully accountable for ensuring that the transformation and ongoing operations proceed in full compliance with service provider plans and requirements.

By actually taking over the management of legacy systems and operations, the partner gains much deeper insight into the business issues and processes, pain points, gaps, and requirements for change. At the same time, the partner has tremendous financial incentive to ensure that the subsequent transformation creates an efficient, manageable and affordable new approach since it maintains accountability for ongoing results. As such, the transformation’s work plan is fully grounded in the day-to-day reality of the service provider’s business needs and operating environment, as well as the industry best practices required to ensure success.

Figure 3: Managed Transformation: Transforming Operations in a Managed Services Environment



FINANCIAL PERSPECTIVE

As with most managed services deals, the managed transformation approach revolves around a clearly defined financial arrangement for overall costs and results. With a typical five-to-eight-year deal, the service provider has great flexibility to manage investment and expenses over the life of the transformation.

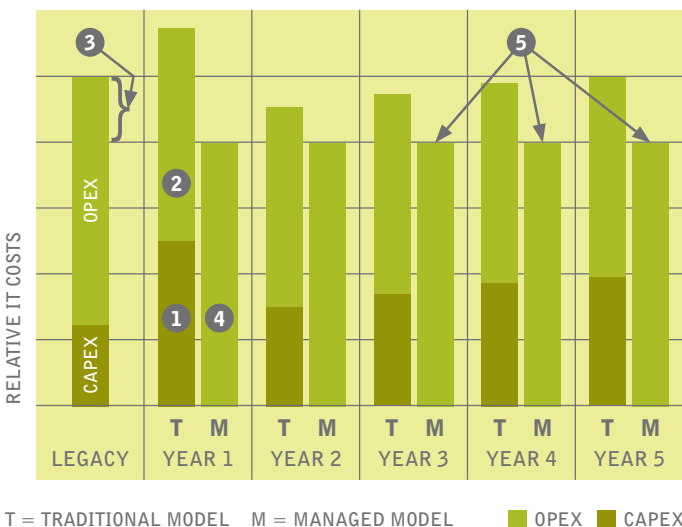
For example, under a traditional transformation project, service providers typically face significant upfront capital requirements to support infrastructure build-out/installation and licensing and/or development of software (see item 1 in Figure 4). In addition, operating expenses usually spike in year one (2) as consulting/system integration resources are on-boarded to support planning and analysis, requirements gathering, business process design, and PMO functions.

Alternatively, under a managed transformation program, the “Day 1” and on-going savings from the outsourcing of legacy systems and operations (3) can be used to partially “fund” incremental OPEX and CAPEX associated with the early phases of the transformation program. Also, under a fully outsourced model, the managed services partner has responsibility for data center facilities and IT costs (power, WAN connectivity, etc.), servers, and storage – not the service provider, resulting in significantly reduced CAPEX over the life of the agreement (4).

Finally, under a managed services model, OPEX pricing is transparent and predictable (5) over the course of the agreement. Under traditional, in-house operations models, it is often challenging to estimate the future costs of maintaining and scaling on-going infrastructure, applications, people and processes to support future subscriber growth and innovation, given the fragmented accountability and alignment between internal resources and external vendors.

In summary, under a managed transformation model, you can not only reduce your total cost of ownership (TCO), but also gain the financial flexibility to structure OPEX/CAPEX per your business needs, partially fund your transformation program, and remove the “hidden” or unexpected OPEX costs associated with delivering existing and future services.

Figure 4: Traditional vs. Managed Transformation Models: A Financial Perspective
(example illustrates a fully outsourced BSS program; OPEX only financial model)



Benefit	Managed Transformation	Traditional Transformation
Guaranteed Day 1 Cost Saving	Yes	No
Transformation Funding	Partial	No
Minimize upfront CAPEX investment	Yes	No
CAPEX to OPEX model	Yes	No
Pricing transparent and predictable	Yes	No

ONE THROAT TO CHOKE

Along with financial flexibility, managed transformation combines the scope and benefits of transformation with the efficiency and accountability of managed services. The partner has full accountability for modernizing essential systems, applications, and processes while running them at mutually agreed service levels and fees. The service provider has a clear view of results and “one throat to choke” if performance is not up to par.

MEASURABLE BENEFITS

Compared to the traditional approach, managed transformation can offer substantial, measurable benefits in cost, speed, and risk:

- > **Funded transformation:** Outsourcing B/OSS operations to the managed services partner generates substantial savings that can then be used to fund the required modernization with minimal CAPEX impact.
- > **Lowered transformation costs:** Working comprehensively with a single strategic partner can reduce transformation costs as much as 25-30% (depending on scope) compared with doing it in-house, while also accelerating the transition to a lower cost, steady state of operations.

- > **More predictable operating costs:** Bundling the entire process into a well-structured, multi-year managed services engagement substantially reduces the risk of financial surprise as the transformation unfolds.
- > **Reduced Risk:** Shifting the burden to an experienced transformation partner greatly reduces the risk of failure, while clearly defined KPIs, service level agreements (SLAs), and milestone markers create a more transparent process and allows for no-argument penalties if the partner misses targets along the way.
- > **Employee Retention:** Bringing in a managed transformation partner provides a compelling new opportunity for the service provider’s most important IT employees to work in a best-practice environment, thereby adding greatly to the ability to retain those employees in an increasingly competitive environment for top talent.

Given the multitude of business benefits, it should be no surprise that a number of leading service providers are taking this approach to transformation, including Bell Canada, Bharti, MetroPCS, Sprint, T-Mobile, and a host of other tier 1 and tier 2 players. (See case study on MetroPCS on page 14.)

Figure 5: Key Attributes of Traditional vs. Managed Transformation



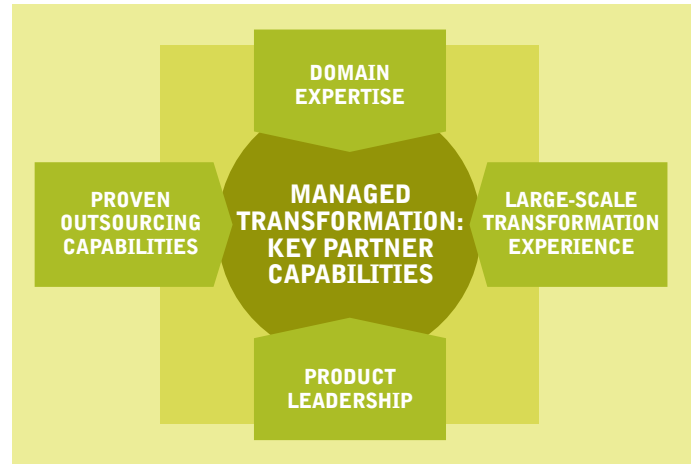
MAKING IT WORK: CRITICAL SUCCESS FACTORS FOR MANAGED TRANSFORMATION

The primary challenge with managed transformation is, of course, selecting the right partner. Service providers need to make sure the partner they select has the skills, assets, and experience to minimize their risk and maximize their chances of success.

The due diligence process should dig deep in four specific areas:

- > **Product Leadership:** Does the partner have access to best-of-breed products in the most critical areas of B/OSS? Can the partner ensure the transformation will build on the smooth integration of the latest business technology – and continue to update systems and applications as needed over time?
- > **Domain Expertise:** Does the partner have a deep understanding of the specific B/OSS and business processes, practices, and systems that service providers require? Does the partner have access to global industry best practices in managing B/OSS operations?

Figure 6: Key Partner Capabilities Required to Enable a Successful Managed Transformation Program



- > **Operational Capabilities:** Does the partner have proven experience and success running large-scale, end-to-end outsourcing engagements for tier 1 service providers? Does the partner have the tools, frameworks, and global quality certifications to benchmark service delivery and manage, measure, and report on operations at the highest possible level?
- > **Transformation Experience:** Can the partner demonstrate a proven record with large-scale B/OSS transformation projects with documented results in creating more flexible, efficient, and reliable systems and operations? Does the partner have the people, tools, and methodologies required to enable the successful configuration, implementation, and delivery of the program?

Along with selecting the right partner, service providers need to focus on several key elements of transformation, including:

- > **Long-Term Objectives:** Amid the various drivers for transformation, what are the specific business priorities for cost savings, revenue generation, customer experience, risk mitigation, system agility, and other strategic concerns?
- > **Transformation Scope:** How much of B/OSS systems and operations should the program include? Should transformation address the entire back office, or zoom in on a specific domain, such as billing or revenue assurance?

- > **Implementation Roadmap:** What are the most appropriate sequencing, timeline, and milestones to get from here to there? What are the key considerations around customers, culture, finance, and competition that should guide the implementation agenda?
- > **Service Level Agreements:** Does the program include clearly defined, measurable, best-in-class SLAs with incentives for compliance and/or penalties for missing the mark?
- > **Quick Wins:** Does the plan include a set of “quick wins” in early elements of the transformation to help build organizational momentum and sustained support?
- > **Governance:** Are the right people and mechanisms in place on both sides to ensure effective oversight and accountability through the life of the transformation?
- > **Measurement:** Based on business objectives, scope, and implementation plans, and SLAs, what are the most appropriate metrics? Are there workable measurement systems in place?
- > **Continuous Improvement:** The most effective managed transformation programs include not only specific targets for efficiency and impact but also an ongoing search for ways to surpass them. Does the project include a deep commitment and concrete mechanisms to support continuous improvement?

“Choose a provider that can outsource as well as transform the operational capability. The ability to improve processes and systems through transformational outsourcing can result in even lower operational costs, improved operations, and higher service levels.” ***

*** TM Forum Inside Leadership, “With Expanding Data Consumption, Outsourcing’s a Smart Choice,” January 16, 2011



**SERVICE PROVIDER CASE STUDY – METROPCS:
PARTNERING WITH AMDOCS TO SUCCESSFULLY EXECUTE
A MANAGED TRANSFORMATION**

The Challenge

MetroPCS, a fast-growing US wireless service provider, is committed to being the low-cost provider in the market, with a strong emphasis on underserved markets. Specific challenges included:

- > Controlling overall costs as the company grew, enabling ongoing success as a low-cost provider
- > Minimizing OPEX
- > Moving to a convergent, scalable, next generation solution to meet subscriber growth
- > Minimizing risk during transformation
- > Achieving operational excellence with best-in-class SLAs

The Solution

Transform and modernize billing, customer care and OSS platforms while running them in a managed services mode. The scope of the managed transformation included:

- > Replacing legacy systems with an integrated, end-to-end Amdocs solution for prepaid, postpaid and retail point of sale, including customer management, revenue management, and value-added services such as partner collaboration, portal and self-service, and service delivery and control

- > Consulting and system integration services for migration and conversion, learning and workforce readiness, and testing
- > End-to-end managed services operations

The Result

Substantial operational and business benefits, including:

- > Significantly improved key SLAs around billing accuracy, cycle times, and issue resolution
- > Productivity improvements in areas such as internal IT resources and leveraging partner technical resources and industry expertise
- > Faster time to market with new services – days vs. months
- > Reduced transformation costs by 25% with accelerated transition to steady state, lower-cost operations
- > Reduced total cost of ownership (TCO) and OPEX through managed services operations
- > Transformation risks transferred to managed services partner

FINAL THOUGHTS

Service providers have for years faced a difficult dilemma. On the one hand, legacy B/OSS systems and jury-rigged processes and operations have made it harder and harder to keep up with the demands of speeding time to market with new offers, improving the customer experience, and controlling escalating costs.

On the other hand, the prospect of transforming those systems, processes, and operations to meet the emerging needs of the connected world has been too challenging for many to confront. Splitting the difference, a great many service providers have tried to make do with incremental upgrades and improvements.

As the pace of change continues to accelerate, service providers are less and less able to put off transformation. How to organize and manage such a transformation is fast becoming a more important question for executives than whether to attempt one at all.

In this context, the managed transformation approach provides an attractive alternative to the traditional attempt to manage it in-house. With managed transformation, service providers have greater financial flexibility, lower risk, and stronger accountability for results. As a growing number of service providers are beginning to realize, managed transformation offers a compelling way forward in the race for competitive advantage.

ABOUT AMDOCS

For nearly 30 years, Amdocs has been leading the world's largest and most complex business and operational support systems (B/OSS) transformation projects, enabling service providers to focus and invest more on their business strategy – growth, new products, improving the customer experience and competing better.

Amdocs' unique and unparalleled combination of proven and future-ready systems, comprehensive range of services and best-in-class managed services, provides the answer to any requirement during the entire project lifecycle, all from a single partner.

With over 2,500 projects successfully delivered, on Amdocs and non-Amdocs systems and across all lines of business, our industry-leading implementation capability includes pre-packaged methodologies and tools, business process expertise and extensive communications-specific business process libraries.

ABOUT THE AUTHOR

With over 14 years of experience leading and supporting technology and transformation programs in the telecommunications industry, Kevin Freeman is currently responsible for developing new managed services offerings and capabilities as part of the Amdocs Global Strategic Sourcing (GSS) organization. Prior to this role, he spent two years in GSS Strategy and Marketing and two years with the Amdocs Consulting Division leading business process design and requirements management for major systems integration and business transformation programs at Sprint-Nextel and Rogers Communications.

Previous to joining Amdocs, Kevin held various management positions at Sprint-Nextel, and was responsible for the IT planning, development and implementation efforts for Nextel's next-generation Wireless Broadband and 4G services. He can be reached at **Kevin.Freeman@amdocs.com**.

LEARN MORE ABOUT MANAGED TRANSFORMATION

- > For more information on the capabilities and successes of Amdocs' managed services, please visit our website at **<http://gss.amdocs.com>**
- > If you're interested in a personal briefing with one of our managed transformation experts, please send a request to **ManagedServices@amdocs.com**

ABOUT AMDOCS

Amdocs is the market leader in customer experience systems innovation. The company combines business and operational support systems, service delivery platforms, proven services, and deep industry expertise to enable service providers and their customers to do more in the connected world. Amdocs' offerings help service providers explore new business models, differentiate through personalized customer experiences, and streamline operations. A global company with revenue of \$3 billion in fiscal 2010, Amdocs has over 19,000 employees and serves customers in more than 60 countries worldwide. For more information, visit Amdocs at www.amdocs.com.

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