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WHITE PAPER

HP SCS: Bringing a Unique Value Proposition to Operational Transformation

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EXECUTIVE SUMMARY

As communications providers pursue strategies to keep pace with changing market dynamics, they will increasingly be forced to reevaluate every aspect of their existing business operations. Communication service providers' efforts in this regard can be compromised by inefficiencies in their overall operational environment. The operational environment must be transformed and aligned with evolving business strategies to meet business goals and objectives.

HP Solution Consulting Services (SCS) addresses these issues by providing a model-based approach to transformation that gives communication service providers a holistic view of their entire operational environment across functional areas while reducing the risks inherent in large, complex transformation efforts. By combining a model-based approach with documented best practices from HP's varied engagements with communications and media companies, HP SCS enables communication service providers to manage, control, and transform their entire operational environment from the delivery of end-user services to the back-office operations.

IDC believes that HP brings a strong value proposition to communications providers seeking to improve their competitive position and achieve the following:

- Meaningful competitive differentiation
- Operational efficiency
- New sources of revenue

This white paper discusses how the HP SCS group, through its COSMOS asset and reference model, addresses the challenges that communication service providers encounter as they pursue operational transformation. This paper also highlights the HP SCS services portfolio and the unique value proposition that it creates when combined with HP's solution and technology portfolio in the communications, media, and entertainment industry.

SITUATION OVERVIEW

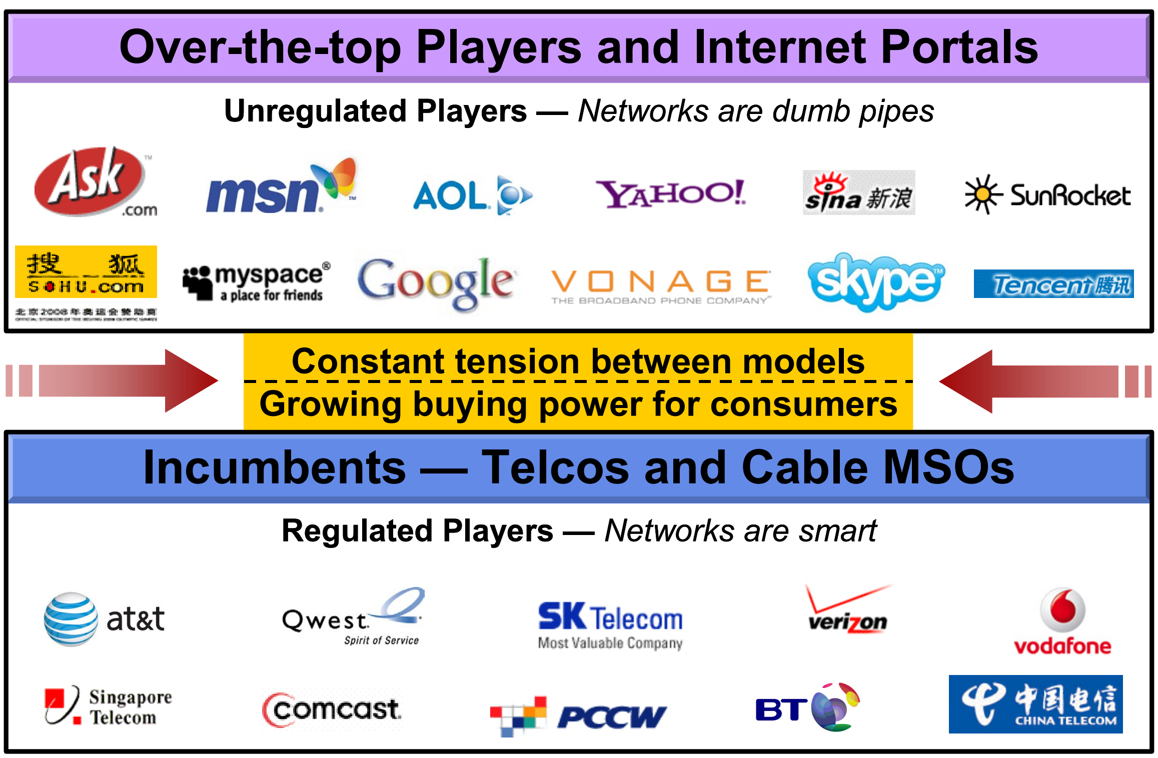
The worlds of communications, media, and entertainment are converging as communication service providers look to provide a more compelling service experience to customers by offering a blend of services over a variety of end devices. As these industries converge, opportunities and challenges are being created for established communication service providers in this new environment. Current dynamics will force communication service providers to devise strategies to deal with the new realities of the market while ensuring long-term success.

Evolving Competitive Landscape

Convergence is altering the current industry structure and expanding the competitive field to new entrants with business models that offer customers a completely new experience. Web 2.0 companies such as Google/YouTube, MySpace, and eBay/Skype have developed compelling value propositions that are challenging the business models of established communication service providers (see Figure 1).

FIGURE 1

Clash of the Business Models



Source: IDC, 2008

The communication service providers' business models are in constant conflict with those of the Web 2.0 players, which view transport as a commodity and thus have focused their efforts on delivering value at the applications/services level.

Web 2.0 players have gained significant mindshare within the user community, which has enabled them to establish strong brand recognition. This is a significant factor for communication service providers as it represents a potential source of disintermediation. This has spurred the battle to control the user experience.

Competition has also intensified between cable and telecommunications companies as both are making heavy investments in technologies such as VoIP and video that will enable them to compete in the other's core market by offering a similar set of services to consumers. Driving competitive differentiation against traditional and nontraditional players will be a key component of communication service providers' strategies going forward.

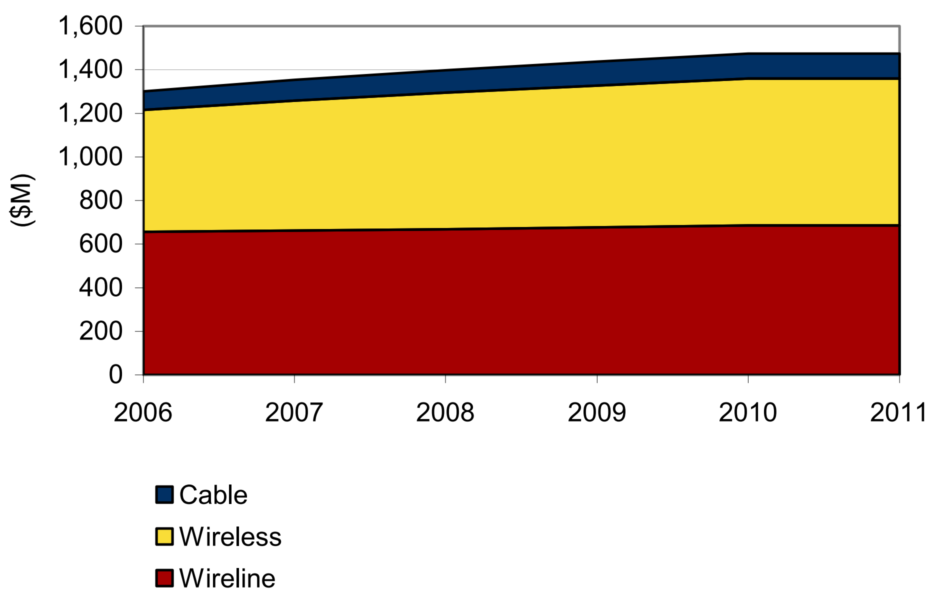
Growth Through New Services

For communication service providers, intensified competition is only part of the challenge. Factors such as regulatory issues and technology disruption have also played a key role in compromising the value of their existing business models. In many cases, these factors have resulted in revenue declines, lost market share, and erosion of profit margins.

Figure 2 depicts worldwide telecommunications services revenue growing from $1.3 trillion in 2006 to $1.4 trillion by 2011, which represents a compound annual growth rate of 3.5%. While this is a large market, the slow growth is largely related to a number of market dynamics.

FIGURE 2

Worldwide Telecommunications Services, 2006–2011



Source: IDC, 2008

IDC projects worldwide wireline voice revenue, which still represents 62% of wireline services revenue, to decline nearly 3% from 2007 to 2011, falling from $382 billion to $342 billion. In the wireless market, growth in voice revenue is slowing. Revenue is projected to grow only 2.4% from 2007 to 2011. Voice (wireless and wireline) still accounts for the majority of most incumbent communication service providers' revenue, and while wireless and wireline data revenue is growing, it is not growing sufficiently to offset declines in core voice revenue.

The message inherent in these trends is that standalone and discrete services will not provide the growth and profitability needed to increase shareholder value or meet the demands of customers. The commoditization of the voice market due to wireline technology substitution and the flattening of wireless voice ARPU are forcing communication service providers to seek new sources of revenue growth. Despite these factors, customers continue to have an insatiable demand for communications. However, it is no longer about bandwidth; customers are now demanding access to services that offer a unique experience in a wired or wireless environment. Communication service providers must demonstrate that they are more than "pipe" providers and can deliver the value to meet customer demand.

Delivering solutions that meet customer demands through value-added services creates an opportunity for communication service providers to capture a significant portion of the value that is migrating to nontraditional players. Accomplishing this will require a focus on a different set of services that include the bundling of media and entertainment content with traditional communication offerings. In addition, communication service providers must also expand their services portfolio to meet the growing demand for applications delivered as a service in a utility-based model.

Operational Efficiency

Reducing costs and driving greater operational efficiencies have become strategic imperatives for communication service providers. Part of the requirement stems from past M&A activity that resulted in a mix of network and support systems that were never rationalized. Many operators are evolving their networks by moving away from deploying infrastructure to support a specific service and toward an environment in which services run on a common, shared IP infrastructure. Streamlining the network in this way allows operators to alleviate the redundancies inherent in the traditional network model and thus reduce support and maintenance costs in the network and OSS/BSS domains.

The Drive to Transformation

As communication service providers transform their businesses to better address future market requirements, they are pursuing two primary objectives: reduced operational costs and new revenue-generating services. To effectively pursue these two strategic imperatives, communication service providers must reevaluate their current business operations and address the following issues:

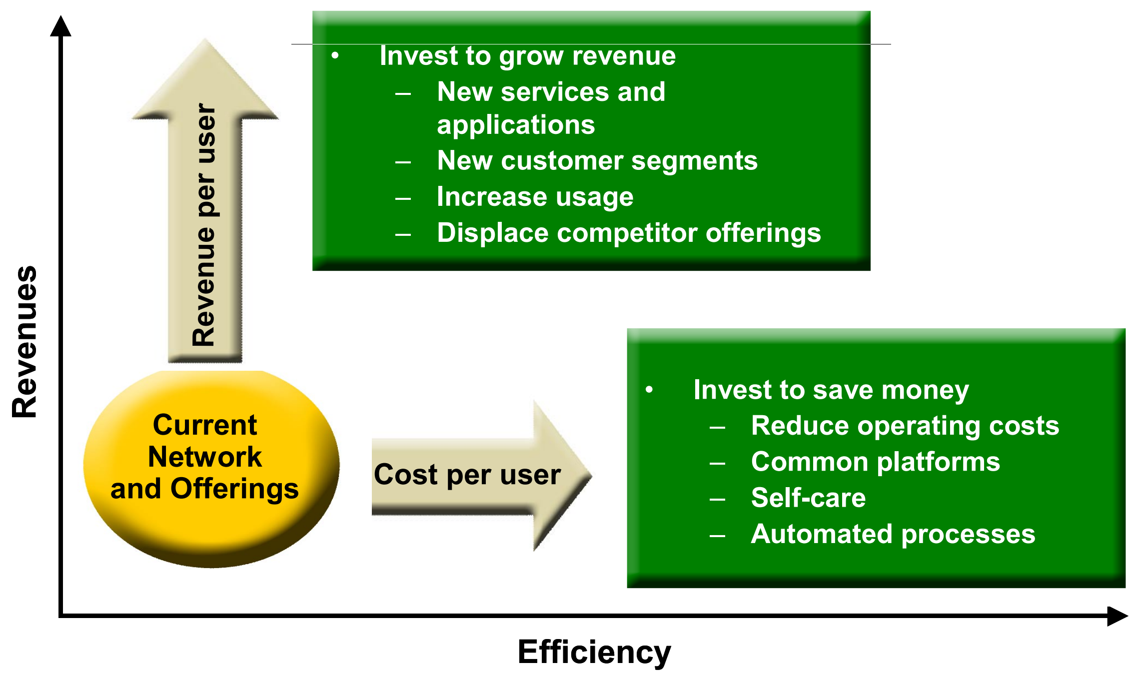
- Improve efficiency by merging IT and network operations
- Reduce networking costs by moving to a converged IP infrastructure

- Create an environment that enables rapid provisioning of new services, thus improving time to market
- Deliver innovative and personalized services
- Streamline OSS/BSS environment to drive efficiencies and accelerate the delivery of new services

Many communication service providers are addressing the issues by embarking on aggressive transformation initiatives (see Figure 3). These initiatives range from large-scale end-to-end transformation projects to engagements around specific operational activities. The strategies driving transformation are aimed at improving current operations to drive operational efficiencies and delivering top-line revenue growth. However, these initiatives are complex and present significant challenges for communication service providers.

FIGURE 3

Service Provider Strategic Imperatives



Source: IDC, 2008

Transformation Challenges

Transformation impacts various parts of an organization, and as a result, it is a very difficult and complex activity. As communication service providers pursue operational transformation, the success of the effort is largely dependent on effective coordination of the various elements that support the business strategy. The essential component of success is a tight linkage between business strategy, people, systems, and operational process. These elements are inextricably linked and must evolve together to achieve business objectives.

Effectively coordinating these elements can be a challenge for communication service providers that operate in siloed technology and organizational environments with very little to no cross-functional interaction. These issues, combined with undocumented and/or outdated processes, can compromise the success of any transformation initiative.

To minimize risk and reduce complexity, communication service providers need a solution that provides a holistic view of their entire operational environment. A holistic view would provide a comprehensive understanding of a company's current operational state and give an accurate assessment of where process and/or organizational improvements are required to reach the desired end state.

Virtually all communication service providers that have embarked on transformation programs have indicated that one of the most challenging aspects is the lack of enterprisewide operational visibility due to siloed organizational structure. One communication service provider noted, "A meaningful level of operational convergence is essential to the successful execution of a transformation strategy."

One company that is helping communication service providers address this challenge is HP. Through an innovative asset called COSMOS, HP's Solution Consulting Services group is delivering successful transformation projects to communication service providers worldwide.

HP SOLUTION CONSULTING SERVICES

HP SCS is part of HP's Communications, Media & Entertainment (CME) industry group and plays an important role in expanding the company's sphere of influence beyond technology. HP SCS complements HP's broad solution portfolio and technology strength in the CME market by offering a suite of consulting services designed to deliver business value to communication service providers.

The key asset that HP SCS leverages in its engagements with communication service providers is COSMOS. COSMOS is a reference model that gives communication service providers insight into operational processes and interdependencies among the various dimensions of business operations such as business models, information models, organizational structure, and business metrics. Moreover, by providing a holistic view of an organization's business process, HP SCS helps identify which processes have the most significant impact on the business. This is a critical step in aligning business processes with business strategy.

Communication service providers are well aware of the challenges associated with transformation and are placing a high value on companies that can demonstrate a proven approach to delivering successful transformation programs. Through COSMOS, HP SCS meets this criterion by leveraging an extensive knowledge base of HP best practices in the CME industry while supporting enhanced versions of industry standards such as eTOM, SID, and ITIL to deliver actionable recommendations to communication service providers.

There are multiple starting points for transformation, and communication service providers around the world have different entry points based on their business strategies and the competitive dynamics in their local markets. HP SCS offers a services portfolio that enables it to support a company at various stages along the transformation path.

HP SCS Services Portfolio

COSMOS powers a broad set of consulting services that are designed to support various types of transformation initiatives ranging from product/service transformation to process improvements. The HP SCS consulting offerings are grouped into six primary service areas:

- **Product innovation.** The set of offerings in this area identifies new service opportunities that drive revenue growth, customer loyalty, and competitive differentiation. HP consulting services for product and service innovation include:
  - **Service and Product Adoption Forecasting** delivers a consulting solution utilizing unique BRAIN technology, developed by HP Labs, to optimize the forecasting of new service adoption, take rates, revenues, and customer acquisition costs.
- **Process improvement.** In the converged environment, business processes must support business strategy at every level of the organization. HP consulting services for process improvement include:
  - **Service Process Assessment** delivers prioritized recommendations to address gaps, overlaps, and inefficiencies in operations through the analysis of strategies, processes, organizations, and technologies.
  - **Process Optimization Services** delivers process analysis, design, reengineering, and implementation to drive the efficient transformation and integration of business operations.

- **Organizational change.** HP's consulting offering for organizational change helps companies adopt a more efficient organizational structure, where strategy drives the business processes and organization rather than the technology. HP consulting services for organizational change include:

  - **Organizational Efficiency Optimization** delivers an organizational redesign, based on process efficiency and effectiveness criteria, incorporating the aspects of structure, responsibility, communication, and skill along with a tailored evolution road map.

- **Architecture optimization.** Aligning architectures to meet emerging business requirements is a central goal of HP SCS. Proper analysis and alignment streamline ICT architectures and simplify the complexity of services, infrastructure, and applications. HP consulting services for architecture optimization include:

  - **Technology Architecture Assessment** delivers an analysis of the existing "as is" infrastructure and systems model to maximize outcomes and minimize risk for "to be" technology transformation implementations.

  - **Solution Performance Simulation** evaluates the performance of any ICT-based solution under given assumptions of usage demands and underlying availability of infrastructure and network resources to ensure successful solution implementations.

- **Transformation governance.** Strong governance is essential, and HP SCS addresses governance in terms of standards and policies, program management, professional development, change management, and risk and financial management. HP consulting services for governance include:

  - **Business Transformation Governance** provides the methodologies and HP best practices needed to implement a robust governance environment that can help ensure that performance and compliance goals are met.

- **Financial evaluation.** This evaluation examines the business case for pursuing a transformation program and highlights the associated cost savings. HP offers financial evaluation services, including:

  - **Financial Return Assessment** evaluates the balance of opex savings and capex investments of an alternative operational model enabled by the adoption of a new solution.

These consulting offerings enable HP SCS to make a range of recommendations to improve companies' operations and/or drive revenue growth through new services. When combined with technology solutions from HP's CME portfolio, HP SCS delivers even greater value to communication service providers by following their recommendations with solutions that address business challenges. HP's technical strength in the CME market and its services capabilities around operational transformation represent a source of competitive advantage for the company that few suppliers can match.

Competitive Positioning

As communication service providers pursue transformation, they will increasingly partner with technology and services firms that can reduce the complexity inherent in these programs. A number of companies have developed strategies to help communication service providers successfully execute transformation initiatives. However, to effectively address this opportunity requires a unique set of skills that few companies possess. The two groups that are best positioned to address communication provider transformation requirements are network equipment providers (NEPs) and systems integrators.

Network Equipment Providers

Network equipment providers (NEPs) have an established position within the network infrastructure that they are attempting to leverage to support communication service provider transformation. The NEPs' strength is in the network operations domain of the communications infrastructure, but many of the companies in this segment are increasingly moving up the value chain to provide OSS/BSS solutions as well solutions in the service delivery environment.

Many NEPs are complementing their technology strengths with a comprehensive suite of consulting, integration, and outsourcing services. These service offerings have been essential in helping the NEPs pursue transformation deals.

Given their strong relationships within network operations, their success has been greatest when the transformation initiative is driven by network operations. In addition, the NEPs' ability to leverage best practices from their outsourcing business has enabled them to build a set of transformation services for communication service providers.

Systems Integrators and ISVs

This segment includes platform vendors that sell telecom software solutions and services firms that focus on implementing these platforms while also providing a full suite of professional services.

Systems integrators occupy a dominant position in the IT layer of communication service provider networks due to their strength in delivering process-based solutions that guarantee manageability, repeatability, reliability, and scalability. Systems integrators' experience with and extensive use of industry-standard models such as eTOM, ITIL, and SID and IT-based technologies such as SOA have made them the preferred providers of OSS/BSS transformation initiatives.

Much like NEPs, systems integrators are leveraging their outsourcing business to drive best practices in transformation. This has enabled them to develop a suite of transformation services that use proven processes.

A large number of smaller ISV companies participate in the market, but most are focused on delivering point solutions to communication service providers (see Figure 4). The ISVs' ability to establish "best of breed" status in a key area makes them ideal partners for larger established systems integrators or NEPs. For the ISVs, broad partnerships are critical channels to achieving scale and market reach for their solutions.

FIGURE 4

Comparative Analysis of Transformation Capabilities

	HP	IT Firms	NEPs	ISVs
Holistic view of transformation components	Strong	Modest	Weak	Weak
Use of industry models	Strong	Strong	Strong	Strong
Proven methodology and process	Strong	Modest	Modest	Weak
Technical expertise (comms/networking)	Strong	Modest	Strong	Weak
OSS/BSS capabilities	Strong	Strong	Modest	Strong
Experience in CSP transformation	Strong	Modest	Modest	Modest
Global presence	Strong	Strong	Strong	Modest
Broad partner ecosystem	Strong	Strong	Modest	Modest
Business process expertise	Strong	Strong	Weak	Modest

Strong Modest Weak

Source: IDC, 2008

Since communication service providers have stringent requirements for the companies they choose as "trusted advisors" for transformation initiatives, IDC does not believe that ISVs are well positioned to meet these requirements. Instead, ISVs will remain key partners for systems integrators and NEPs in filling specific capability gaps around transformation. In fact, IDC believes that the ISV market will consolidate as systems integrators and NEPs look to build services specifically for transformation initiatives.

HP

IDC believes that a new set of skills is emerging in the area of transformation that encompasses a mix of telecom business operations and technical skills in both the IT and networking domains. HP's capabilities and skills put the company in a strong competitive position relative to competitors that are pursuing transformation deals.

T-Mobile Hungary

The Business Imperative

T-Mobile Hungary is the leading mobile operator in Hungary with 4.4 million subscribers and nearly 45% market share. In an increasingly competitive mobile market, a key imperative for T-Mobile Hungary is to maintain market leadership through customer service excellence.

Toward this end, T-Mobile Hungary initiated an engagement with HP SCS to help establish a service management program that encompassed trouble ticket consolidation and an improved process for customer service. T-Mobile Hungary was responding to a requirement by its parent, T-Mobile International, which set a goal to develop a common service management platform across its operating units on a global basis. The primary drivers behind this move were to improve its operational efficiency around customer support and to deliver high customer service quality. As part of its effort to improve service management, T-Mobile Hungary developed the following goals:

- Establish a common language that unifies internal communication
- Provide unified handling of complaints for internal and external customers
- Provide guaranteed customer service quality
- Precisely define processes, activities, and responsibilities
- Measure business process parameters for service-level agreements (SLAs)
- Provide effective software support for the business process
- Build the capability for self-improvement into all business processes

The Challenge

T-Mobile Hungary had deployed multiple solutions to support its various services, but the solutions were not well integrated. In addition, the company was implementing 30–35 new services annually with stringent SLAs, but in most cases, it was providing software support for the operation of a service after it had proven to be successful. This created a number of internal issues:

- Limited software support for specialized solutions led to increased capex and opex needed to operate these solutions.
- The demand for resources in customer services and technical management areas involved in trouble solution management increased.
- Lack of exact documentation of interdependencies among services elements made it difficult to coordinate service components and processes.

As a result of these issues, service quality and reliability suffered because the existing support staff could no longer deliver the same level of service due to the increased number of services.

To address this problem, T-Mobile Hungary needed a solution for supporting unified incident management. As a result, the initial step toward the company's objective was the development of an incident management program. For this effort, the company worked with HP to create a proof-of-concept demo that represented one of its services in HP OpenView Service Quality Management (SQM), which is a platform that automates the historical reporting of operational service levels and customer SLAs.

HP Service Process Assessment

HP's Service Process Assessment (SPA) was utilized to help determine a way to map resource events and measurement to service quality levels. The initial step was to define an ideal incident management process, which involved harmonizing eTOM and ITIL, as well as T-Mobile's own best practices. Once this process was defined, it was then tailored to fit "real life" requirements.

T-Mobile Hungary used the SPA to evaluate a number of sample services, with the objective of tracking all of the steps involved in delivering a service. One of the unexpected benefits of this exercise was the ability to show T-Mobile Hungary management the state of different services in real time and where improvements were needed to provide better customer service. This enabled management to understand that developing a longer-term vision was critical to its goal of building a comprehensive service management platform.

The SPA highlighted a number of areas where improvements were needed while also identifying enterprise capabilities that had the most business benefit. This was a key point in the project, as the SPA allowed T-Mobile Hungary to see its entire process and identify areas where processes were not managed appropriately.

Once problems areas were defined, T-Mobile Hungary utilized HP's OpenView Service Desk Solution to establish a business process framework that helped the company define processes and roles using best practices from eTOM and ITIL. This led to the modification of 70–80 internal orders and also helped establish a common language between departmental groups.

Guaranteed Customer Service Quality: Mission Accomplished

With its service management process in place, T-Mobile Hungary is now able to achieve the goals it established at the outset of its service management project. The company has maintained its leadership position in the Hungarian market largely by delivering excellence in customer service. Working with HP has helped T-Mobile establish a process to build on for supporting future services and business processes.

OPPORTUNITIES/CHALLENGES

The consulting opportunity associated with transformation projects is significant. IDC estimates the market for consulting services in the CME segment will reach $4.0 billion in 2008 and grow to just over $6.0 billion in 2012. Much of the activity in this market will be driven by transformation.

HP's global presence, communications capabilities, transformation consulting services, and proven methodology and approach to transformation will make it an ideal partner for communication service providers. The company has a unique set of assets that will enable it to deliver a compelling value proposition around transformation. HP's ability to manage the following opportunities and challenges will bolster an already strong presence in the CME market.

Opportunities for HP SCS include:

- Leverage installed base of CME customers and broaden HP exposure through more strategic engagements

- Demonstrate tangible results from transformation engagements around the world

- Work with an ecosystem of "best in class" technology providers to enhance the HP SCS value proposition

- Leverage HP's position in the consumer and business markets to better help communication service providers understand where value is perceived by end users

Challenges for HP SCS include:

- Expand "sphere of influence" into the various stakeholders (network, IT, executive management) involved in a transformation project

- Develop effective ISV and NEP partnerships that strengthen HP SCS capabilities and enhance the overall value proposition

- Adopt a technology-agnostic approach to transformation so that HP SCS is not perceived by communication service providers as a channel for HP technology

CONCLUSION

Given the current market dynamics that communication service providers are facing, the need to transform their business is critical to their long-term success. As communication service providers pursue this path, finding companies that can act as "trusted advisors" will be a challenge as very few possess the experience and capabilities to support complex transformation projects.

IDC believes that HP SCS brings an innovative approach to transformation. With SCS, HP has a unique combination of assets and skills that enable it to address various elements of a transformation project that range from business process to organizational change management. These capabilities have already been demonstrated in a number of communication service providers around the world, which will serve as a solid reference base for HP as it seeks to establish itself as a strategic partner to communication service providers pursuing transformation.