



The Eastern Management Group
One Crossroads Drive
Bedminster – NJ – 07921
T: (908) 306-8800
F: (908) 306-9595
www.easternmanagement.com

Tactics for Managing Cable and Telecommunications Carrier OSS Costs

By Chris Talbott, Director
The Eastern Management Group

As a management and IT consulting firm that focuses exclusively on the converging communications space, The Eastern Management Group (TEMG) works with OSS vendors and their cable and telecom service provider customers continuously. We have identified a list of common pitfalls in buying and managing OSS.

For example, cable operators who have expanded their service offerings into High-Speed Data, digital video and telephony can learn from the mistakes of the newer local-exchange telecom firms, the CLECs, many of whom underestimated the importance of careful OSS planning, and have since paid a heavy price in terms of unforeseen costs (among other things).

One of the first things that's become clear is the most important OSS investment choices are the first ones: To make real savings, make the right choices on which functions and components can wait for future investment, and which ones should be pursued now, either because they promise short-term savings, because they build platforms for the growth engines of the future, or—as in the case of Service Level Management, for example—because they do both.

Having said that, there are cost-saving tactics that apply across the board for most, if not all, service providers. We will list them here and briefly describe them so that you can judge whether they make sense for your organization and therefore merit further investigation. You no doubt have used at least some of them already; think of this as a checklist to make sure you're not overlooking anything.

- Go with the right project sponsors

If you have to decide who gets scarce OSS resources, look at who's backing the projects. Make sure your sponsors have a proven track record of delivering value. They should control all of the "3 Ps" needed for project success: people, process, and P&L. The projects with the best chance of success are obviously the better investment.
- Go with known equipment vendors

Avoid the cost of integrating new hardware with your OSS, which can cost up to \$10 million in some cases. This has the additional virtue of extending your relationship with companies most likely to weather the downturn.
- Meet ROI targets by staged approaches to large projects

If the project fits corporate strategy and needs to get done, break it up into modules that fit your budget. Vendors will work with you on this these days.
Strive to get 70% of the return for 50% of the investment, early. If your vendor can't tell you how to do this, look for one who can.
- Scale back or cancel projects that don't offer quick return

This one's obvious, but have you re-examined all current projects? Are the ones you *thought* offered a fast payback really doing so?
- Don't tolerate poor software quality

Service providers often end up spending several times their original investment to get the application working properly. Patches and required regression testing can show up as often as weekly, significantly adding to costs.
Solutions:
Careful due diligence with vendors to eliminate those with a track record of poor quality.
Renegotiate contracts to stay one release behind the most recent version.
- Extensive internal support requirements

Insist on understanding these in detail before going with a vendor. Make sure you have best-practices contracts that provide that detail and allow for renegotiation if requirements change later on.
- Flow through problems

Too many pieces of paper on the floor is something to avoid. Flow-through rates can range from 25% to 90%, with high human costs for dropout. Some

- cable providers are just beginning to understand these issues, having rapidly scaled new service offerings through manual processes.
- Scaling costs

We see much more due diligence about referenced deployments and ROI claims these days. Make sure the scale you want already exists *in production* at a customer somewhere. Insist on proof; don't just take the vendor's word for it. Understand the license fee structure and how it interacts with your scaling needs.
 - Complex interface requirements

Questions to ask:
Is everything you need really covered? Show me the interface—in a production environment!
Does it support the network elements you have?
 - Insufficient functionality

Another due diligence issue: Ensure that the functionality promised by the vendor will really be there. If it's not, the cost will show up later, when it's too late to avoid expensive custom work (or lawsuits).
 - Planning

How much planning do you really need? None is too little, but how much is too much? This is a dangerous game, since lack of sufficient planning can lead to costs down the line. Making sure the requirements are clear and detailed is not optional. Perhaps planning for how your application will work with either Sun's or Microsoft's web services strategy would be premature. (Or maybe not—that's just an illustrative example.)
 - Application installation

Get your systems integrator and the application vendor to sit down with you in the middle. Lay out aggressive cost-cutting plans and solicit their help. Having them together in the same room prevents one from laying off the issue on the other. Keep them both there until you get what you need. They need you more than you need them. The top 10 carriers in North America generate 85% of OSS spending.
 - Systems Integration

Now is the time to be a tough negotiator. Some integrators have half their developers on the beach these days. Make a deal.
 - Customization

Keep in mind that heavy customization of

	<p>applications means equally heavy maintenance costs down the road. Also, changing processes may be much easier—and less expensive—than changing software, especially in an economy where employees are less likely to jump ship.</p>
<ul style="list-style-type: none"> • Training and documentation 	<p>Relatively modest investments can reduce maintenance and support costs dramatically.</p>
<ul style="list-style-type: none"> • Maintenance and support 	<p>What are you getting for your 15-25% a year? Service providers with whom we speak are in the process of renegotiating this area with their vendors.</p> <p>One effort focuses on separating maintenance from upgrades, something vendors often resist. They should be more amenable these days.</p>
<ul style="list-style-type: none"> • First-cost trap 	<p>The IT rule of thumb that 60% of the system’s lifecycle costs are in opex, not capex, certainly holds true for OSS. Life-cycle cost is the appropriate point of view. The need to cut costs in the short term shouldn’t overshadow this. You should be able to spread out the cost of the right system for your long-term needs through careful negotiation with vendors. If a system is truly needed for long-term success, there’s no need to cut important corners just to meet today’s budget constraints. A long-term OSS plan that looks beyond the current economic environment is still vital.</p>
<ul style="list-style-type: none"> • Best-of-breed trap 	<p>“Best of breed” may simply mean an OSS that fits one buyer’s criteria best; other purchasers may not consider it best. Service providers The Eastern Management Group has worked with also caution that the cost of integrating point solutions can be higher than a suite solution. There are no easy answers that fit all situations.</p>
<ul style="list-style-type: none"> • Near-term solution trap 	<p>Although it’s tempting in the current environment to simply solve the problem that’s right in front of you, service providers find that short-term solutions are a long-term disaster. One warning sign: If you can already see the need for middleware to work around problems, expect a chain reaction of fixes, upgrades, personnel</p>

<ul style="list-style-type: none"> • Training to reduce maintenance costs 	<p>additions and license add-ons.</p> <p>With vendor maintenance costs running 10-25% of the license fee it's worthwhile to consider training existing staff to perform this function. This is especially true if your experience with the vendor's maintenance staff is less than satisfactory, as The Eastern Management Group finds is a frequent complaint of service providers.</p>
<ul style="list-style-type: none"> • Share existing platforms 	<p>Time to push on this one. This differs from basic platform consolidation that requires new hardware purchases—which is usually too expensive up front to justify in today's situation. However, you may have platform capacity available already in another department or function. Consider charge backs to organizations that won't go along because they want to keep current systems.</p>
<ul style="list-style-type: none"> • Outsourcing 	<p>Here, too, deals are to be had. Pull out those plans you put together a few years ago and update them. The numbers probably work better today, because you can strike a better deal with outsourcers. The long-term trend is away from in-house OSS development, with some notable exceptions. The percent of carriers' IT budgets spent on internal development has dropped from 90% ten years ago to 36% last year. Of the amount they spend today, some 60% is for maintaining existing systems.</p>
<ul style="list-style-type: none"> • ASP model for OSS gone, at least for now, but "hosted services" isn't—and it may help your budget 	<p>Some OSS vendors today are helping their customers manage costs by offering their products as services. This differs from third-party hosting (the ASP model), in that the vendor hosts only their own code, improving their cost structure by combining their margin on the software with the hosting margin and giving some of the savings back to the customer.</p>
<ul style="list-style-type: none"> • In-sourcing 	<p>Service providers who currently have a significant investment in in-house resources may hold on to them for the short term, since the incremental cost of that versus the long-term investment in outsourcing may be easier to fund during the current telecom winter. Sometimes it may make sense to do it yourself. There's also the hybrid</p>

	<p>approach: Develop a working prototype, and have a specialist software house build the production model.</p>
<ul style="list-style-type: none"> • Business-process analysis to identify redundancies in functions and processes 	<p>This can be especially valuable if you are emerging from an era of rapid growth, or, on the other hand, from a round of downward restructuring. The business processes from the previous era may no longer be appropriate, and some quick wins may be available. Redistribute or re-engineer existing work.</p>
<ul style="list-style-type: none"> • Have a buy vs. build bias 	<p>Is a custom OSS really a differentiator? Make sure this is clear before you spend on heavy customization or a large from-scratch development project. It may be easier to change people processes than software, especially in a time when employees are highly motivated to help the company survive. And, as noted elsewhere, customization has significant ongoing costs as well as higher initial costs.</p>
<ul style="list-style-type: none"> • An army doesn't have to be perfect—only better than the other army 	<p>This suggests that good intelligence—tactical and strategic—about what your competitors are doing should be a key part of OSS decision-making. Don't spend money on an advantage you don't need.</p>
<ul style="list-style-type: none"> • BU cost-sharing for new development 	<p>If your business-unit partners feel strongly about the need for new OSS support, they should be eager to share the cost. If not, you've identified an area of investment that can wait.</p>
<ul style="list-style-type: none"> • Is the non-OSS part of the business process going to hold up its part of the bargain? 	<p>We know of one North American service provider that spent significant sums to automate the paper part of the provisioning process for a new broadband service, finally getting it from 8 days to 30 seconds. The problem was it still took the company's installation force the same amount of time to complete the install so the customer could be billed. Time to revenue didn't change, so the rationale for the project was lost.</p>
<ul style="list-style-type: none"> • Check vendor staying power 	<p>OSS is subject to the same laws of market maturity as any other business. Eventually, there's only room for two or three vendors to succeed in each area. Given the costs of being orphaned, due</p>

	diligence about who's likely to survive is required. (Size is important, but not everything.)
• Re-examine all old cost-saving ideas	Time to take out those old notes about cost-saving that you've been saving. You may have already done data-center consolidation, for example, but service providers have discovered that there's usually room for more.
• Incentive plans for cost-savings ideas from employees	Those in the thick of the action often have ideas that seem obvious to them from close up. Give them a piece of the savings, and watch the suggestions flow in.
• Better employees are more cost efficient	Can you trade up in the current environment? But keep in mind...
• Hang onto your best employees	They're more productive, therefore more cost efficient
• Don't forget the "Who Cares?" metric	This can—and should be—applied at all stages of projects. As quickly as things change these days, it needs to get asked at every important milestone.
• Strategic fit	It everyone convinced that this is a good fit? Make doubly sure the project will be used.
• Extend delivery times	In the bubble era, spending to get multiple projects done at "Internet speed" seemed to make sense. Today, it makes more sense to fit the delivery to the development resource, all other things being equal.
• If necessary, reduce IT salaries	Unfortunately, it's becoming common in IT shops these days. As an alternative to corporate failure, it makes sense. You must mitigate the risk of losing key employees, of course, or the process could do more harm than good. At a Systems Integrator we're familiar with, it was determined that severe cost cuts were required in a group of 135 people. The budget had to be reduced from \$10 million to \$8.5 million. Rather than laying off 20 people, the manager insinuated that layoffs were inevitable unless some employees took a pay cut of 10% and everyone adhered to strict new travel guidelines to further reduce expenses. The pay cut was accepted.
• Renegotiate service levels with users	Hard times allow people to get better perspective on what's truly needed. Take advantage of this clearer vision by discussing what's truly vital.

Arrian Shafqat, Senior Analyst at The Eastern Management Group, provided research for this article.

Chris Talbott is a director with The Eastern Management Group, where he covers OSS, converged networks, PBX, and public policy issues. He can be reached at ctalbott@easternmanagement.com or (908) 306-8800.

The Eastern Management Group, Inc.

The Eastern Management Group is one of the oldest and largest management consulting firms focused exclusively on the IT and communications industries. For a quarter century, The Eastern Management Group has served over 400 communications and IT industry clients worldwide including every major carrier, manufacturer and software company. The Eastern Management Group has offices in the U.S. and Japan.

The Eastern Management Group, Inc.

One Crossroads Drive

Bedminster, NJ 07921

T: (908) 306-8800

F: (908) 306-9595

www.easternmanagement.com