Point of View

Next-Generation Managed Services

Vodafone Adopts a New Operating Model for Service Providers

Authors
Roy Page
Tony Verspecht
Stuart Taylor
Andrew Toouli

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Introduction

The market for fixed and mobile voice services in the economically developed world is nearly saturated. Revenue growth is flat to negative, seriously impacting service provider (SP) profits. Tough economic times only amplify this situation. To maneuver in this challenging business climate, SPs must reinvent their business models by offering new, profitable, next-generation managed services such as web-based video conferencing and collaboration, along with other unified communications solutions. These new services can help SPs realize revenues incremental to those from network-based legacy services such as access and transport, and offer the potential for rapid return on investment.

Next-generation managed services provide attractive opportunities for SPs because they can be integrated into their current product and services portfolios. Not only will these services enhance SPs' offerings—they will also generate pull-through revenue by combining existing capabilities such as audio with, for example, web-based collaboration.

The market for next-generation managed services is growing fast—the compound annual growth rates (CAGR) of web-based video conferencing and collaboration segments in the United States and Europe are forecast to reach 19 percent and 15 percent, respectively, by 2015.[1]

By adding next-generation managed services to their existing portfolios, SPs can provide customers with a rich collaboration environment that includes content sharing, instant messaging, and webcam video—all in a single communications session.

Service providers face a number of challenges in designing and bringing next-generation managed services to market and providing after-sales support. This Point of View from the Cisco® Internet Business Solutions Group (IBSG) examines these challenges and illustrates how one company is successfully deploying next-generation managed services via an innovative partner ecosystem model that helps SPs streamline and improve their operations processes, deploy new services quickly and effectively, and reduce costs.

1. "Global Managed Services Forecast and Market Opportunities," Forrester Research, 2009.

Challenge: Improve Time to Market

Most SPs have a solid track record of delivering high-quality, stable services, but the time it takes to deliver them is often affected by a rigid and time-consuming development and implementation process. For example, the average time to market (TTM) for an IP VPN-related managed service is nine months for most SPs.[2] For other services, depending on the inherent complexity, TTM can be as much as 18 months.

Research from Cisco IBSG indicates that approximately 50 percent of the TTM cycle is impacted by the readiness of an SP's operations, including changing operational processes, updating IT systems, and improving the skills of sales, marketing, and service-operations staff. By establishing a *partner ecosystem*, SPs can create an agile business model that addresses these challenges.

Solution: Partner Ecosystem

The partner ecosystem model requires a higher level of interworking among SPs and their key business partners. Within such a system, the combined capabilities in planning, launching, and maintaining new services cost effectively and with agility—that is, using a standardized set of processes across a number of services—are harmonized throughout the chain. In addition, new services are integrated rapidly, and the "siloed" approach that historically has accompanied legacy services—with each service having its own operational infrastructure that does not transfer to a new service—is eliminated.

By working with multiple partners, SPs can use their capabilities and the services they provide to overcome challenges in service development and implementation. Doing so requires a standardized process that enables SPs to create a partner ecosystem blueprint that is replicable across all business partners. Based on engagements with SPs, Cisco IBSG identified some major, common challenges that must be overcome to implement a sustainable ecosystem model:

- **Margins—**establish a commercial framework that provides SPs and third-party suppliers with sustainable margins
- **Billing systems—**integrate billing systems with those of third parties
- **Sales—**enable sales staff to easily understand and articulate the value proposition of complex services

Although the benefits of partnering with third-party suppliers are substantial, setting up a collaborative model is also challenging because it requires that SPs change their business architectures and strategies. Following is a real-world example of how Vodafone Group Plc overcame these challenges by adopting the partner ecosystem concept to design and bring to market a next-generation managed service, quickly and cost effectively.

2. "IP VPN Benchmark Study," Cisco IBSG, 2009.

Vodafone: A New Operating Model for Web-Based Conferencing

With roughly 315 million customers, Vodafone is a leading mobile telecommunications company with significant presence in Europe, the Middle East and Africa, Asia Pacific, and the United States.

Vodafone, like many SPs in today's challenging economic climate, has experienced a decline in average revenue per user (ARPU) for voice services. While mobile offerings are the core of Vodafone's business, the company recognized the need to introduce a new, IP-based collaboration and voice/data communications service to counter this decline and increase market share in the enterprise and small and medium-sized business sectors. Vodafone established a new "Unified Communications and Collaboration" division to spearhead its agenda and drive incremental revenues from related services. The company chose the Cisco WebEx™ Meeting Center web-conferencing solution to help it gain traction in the rapidly expanding web-based collaboration services market.

The move challenged Vodafone to expand its expertise in connectivity by adopting a more complex business and support model for its web-conferencing service. Due to the economic downturn, Vodafone was under-resourced in areas essential to launching the new service. Vodafone turned to Cisco IBSG to help it define a new operating model and services roadmap based on the Cisco WebEx Meeting Center solution and its mobile capabilities. Working with multiple partners required a standardized process and a set of best practices that would enable Vodafone to create a third-party partner ecosystem blueprint using internal and external operations-level agreements. This blueprint needed to be scalable and replicable across Vodafone's operating companies (OpCos) and subsidiaries worldwide.

After assessing Vodafone's key operational areas, including service design, OpCo operations and support, marketing, and go-to-market (GTM) activities, Cisco IBSG identified major challenges Vodafone had to overcome before it could implement a sustainable partner ecosystem:

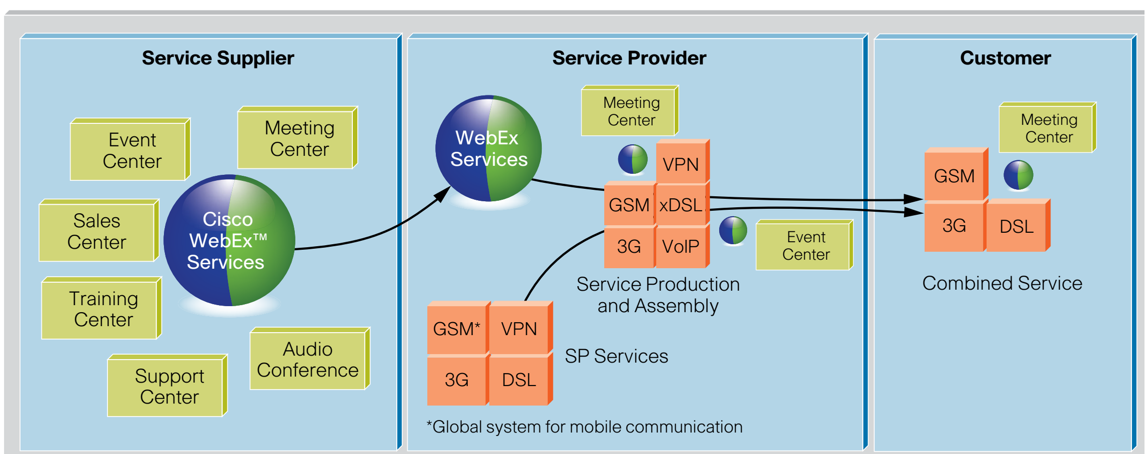
- **Sales:** The Vodafone sales teams and resale channel partners are used to selling mobile tariff plans and calling options. The "language" of web conferencing services, however, is new to them. As a result, Cisco IBSG educated Vodafone's sales staff on the new vocabulary and provided appropriate tools, support, and compensation plans to help them sell these new services effectively.
- **Service operations:** Different working procedures and practices were needed to reduce risk and simplify key operational areas. New services such as web-based conferencing would align Vodafone business operations that were previously separate. A new set of processes and operational interlocks were implemented to allow different parts of the business to interact with each other and with external partners and agencies.
- **Billing systems:** Billing integration is a major component of the service-operation model, and one of Vodafone's most challenging areas. Billing integration is influenced by different service-pricing packages such as pay-per-use, flat fee,

or a combination of the two. Specific billing requirements, such as daily billing "feeds" (files), 100 percent accuracy of billing data, prerated service prices from third parties, blended call data record, and consolidated invoices, can further complicate the billing integration process.

Furthermore, Vodafone OpCos have different IT system outsourcing partners, which affects their operational capability and flexibility in billing and other key areas. Because of this, Cisco IBSG recommended that billing requirements should be well drafted and agreed on by the third-party supplier in the early stages of the on-boarding process. Only through early involvement will both companies align billing capabilities with business requirements and implement a cost-efficient and standardized billing solution.

By addressing these challenges, Vodafone and Cisco IBSG developed a partner ecosystem blueprint based on an agile business model for delivering WebEx Meeting Center services. Employing a Software-as-a-Service (SaaS) approach, this model uses the Vodafone partner ecosystem as the sales, delivery, and Tier 1 support channel (see Figure 1).

Figure 1. Delivering Next-Generation Managed Services via an Agile Business Model



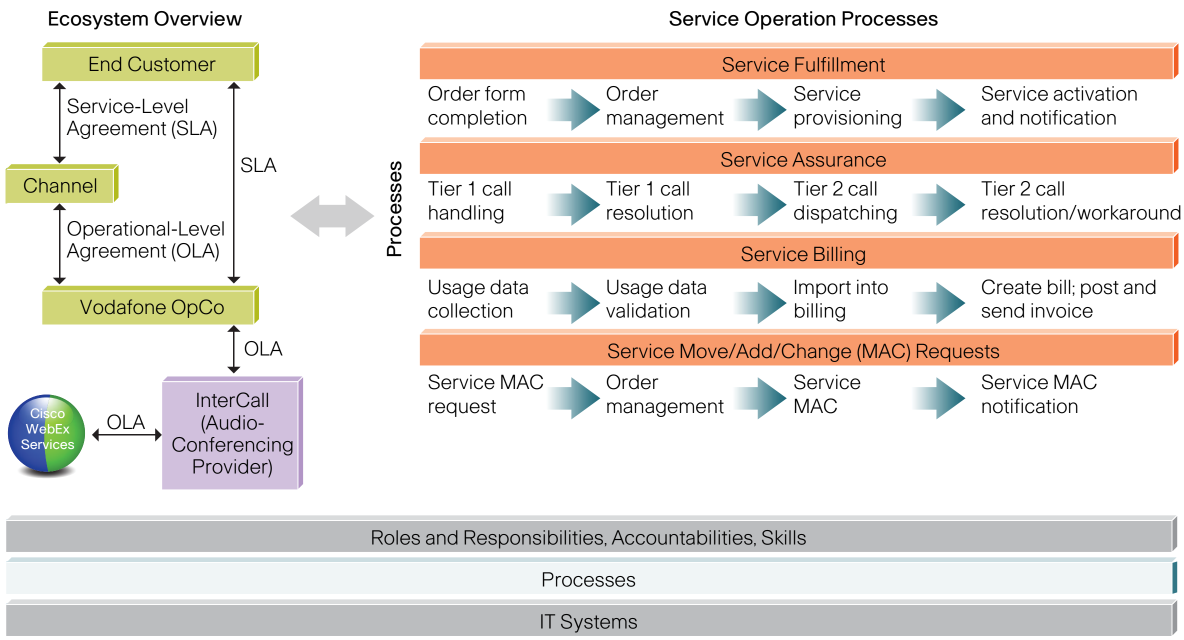
Source: Cisco IBSG Service Provider Practice, 2009

Vodafone Service-Operation Model

Service operation is the core of any SP's business. It is here where technology and products are converted into services and revenues. Vodafone's ability to deliver highly qualitative services at competitive prices and healthy margins is influenced largely by service-operation performance, including that of its partners.

By out-tasking certain activities such as service fulfillment and assurance, Vodafone can reduce the need for additional resources and avoid dramatic changes to its business processes and IT systems. Based on the original assessment of Vodafone's operational practices, Cisco IBSG recommended changes to Vodafone's internal and external service-operation process. From there, IBSG developed a modular set of processes for the web-conferencing service. Figure 2 provides an overview of the process flow.

Figure 2. Vodafone's Operational Blueprint for Service Fulfillment



Source: Cisco IBSG Service Provider Practice, 2009

One benefit of the operational blueprint is that Vodafone can apply it to other services, such as unified communications.

Vodafone: What To Expect

While results from the Vodafone engagement are beginning to emerge, the new operating model is expected to drive incremental revenues, improve TTM, lower implementation costs, and decrease business risks. Cisco IBSG estimates that potential incremental revenue from the WebEx Meeting Center solution, plus expected pull-through revenue from other Vodafone services, will total US$160 million by 2013.

The flexible nature of a SaaS-based WebEx service model will enable Vodafone to deploy the new service with a number of pricing structures—including pay-as-you-go, licenses, and named hosts—through a variety of direct and indirect channels, depending on the market dynamics of the host OpCo country.

Cisco IBSG worked long-term with Vodafone, from the original concept in early 2008 to the successful deployment of the Meeting Center service at Vodafone's OpCo in Greece in July 2009. As the WebEx service is rolled out to more OpCos around the world, the following steps will help Vodafone redefine and optimize important areas of its overall business architectures and develop a successful partner ecosystem model with third-party suppliers:

- Implement a standardized and scalable partner ecosystem that drives service innovation and reduces TTM
- Optimize service operations to integrate third-party and Vodafone services, along with end-to-end service-management processes
- Align GTM service-branding strategies with those of third-party suppliers and identify and optimize the right channels to accelerate service sales and improve the customer experience

Cisco IBSG is working with Vodafone's product management and marketing teams to create collateral and best practices that can be shared with other OpCos to accelerate global deployment of the WebEx Meeting Center service across 15 countries during the next two years.

Next Steps

The Vodafone engagement proves that SPs can navigate today's challenging business landscape by collaborating closely with third-party suppliers and integrating new offerings into their existing portfolios. The potential for integration is great, and web-based conferencing and collaboration tools are ideal candidates.

Infrastructure as a Service (IaaS) is also ideal for third-party integration because it offers SPs more opportunities to improve revenues without wrestling with costly and time-consuming service development and implementation processes. By combining IaaS offerings from third parties with stable, secure, and flexible network services, SPs can offer differentiated cloud services that meet their customers' needs. Such IaaS offerings include developing and testing new applications, running mission-critical applications cost effectively and securely, and standardizing/migrating existing applications to reduce costs.

To benefit from these capabilities, SPs must revamp their current business architectures to deal with the plethora of third-party suppliers. Table 1 illustrates five key ingredients to consider when reviewing current business models and their relative business impacts.

Table 1. Key Ingredients for New Business Models and Related Business Impact

Key Ingredients	Impacted Areas			
	Time to Market	Business Efficiency	Customer Experience	Value Differentiation
Develop a replicable win-win commercial framework	●	●	○	○
Define billing requirements up front, and standardize integration	●	◐	○	○
Out-task service operations wisely	●	●	◐	○
Change the mindset of salespeople so they can easily articulate service value	○	◐	●	●
Implement self-service management capabilities	●	●	●	●

Relative Estimated Business Impact: ● High ◐ Medium ○ Low

Source: Cisco IBSG Service Provider Practice, 2009

Service providers can successfully address these ingredients by establishing an empowered governance structure and a team of cross-functional contributors who can develop suitable business architectures, partner ecosystems, service-operation requirements, and GTM strategies.

These changes often—in fact, usually—affect an SP's culture. Therefore, SPs must win the hearts and minds of employees to make sure they 1) buy into the need for change and 2) are committed to change. A common belief in the SP industry is that change happens only at the operations level. The reality, however, is that change must occur across all parts of the organization, since the components of "operations" touch all parts of the business, particularly the sales teams.

As Vodafone discovered, a new method of interaction among partners requires extra effort. It also requires "change agents"—people within the SP ecosystem who have both the mindset and support from C-level or senior management to drive change throughout the organization and partner ecosystem. Education, motivation, and incentive are critical if change is to be achieved in a timely manner to produce expected cost efficiencies.

There are countless industry examples where change has failed because these important factors were missing. Cisco IBSG's experience with Vodafone and other SPs illustrates that such change is possible and profitable.

For further information, contact:

Roy Page, Manager
Cisco Internet Business Solutions Group
Service Provider Practice
Phone: +44 20 8824 9113
Mobile: +44 780 385 7293
Email: roypage@cisco.com

Tony Verspecht, Manager
Cisco Internet Business Solutions Group
Service Provider Practice
Phone: +32 2 778 4085
Mobile: +32 4 7868 1127
Email: tverspec@cisco.com

Stuart Taylor, Director
Cisco Internet Business Solutions Group
Service Provider Practice
Phone: +1 978 936-0022
Mobile: +1 617 312-0418
Email: stuartt@cisco.com

Andrew Toouli, Manager
Cisco Internet Business Solutions Group
Service Provider Practice
Phone: +44 20 8824 3097
Mobile: +44 7720 598 079
Email: atoouli@cisco.com

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Notes

More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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