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Convergys on Convergence: Cost vs Revenue in a Chaotic Market

By Ed Finegold

The prospect of a new revenue stream is exciting. It can mean growth that translates into increased shareholder value and healthy bonuses for all involved. But new revenue streams are also challenging to find, difficult to project, and expensive to create. While they make for good headlines, they don't always play as well in the board room, or in the CFO's office. IT is partly to blame. IT suppliers and organizations have promised in the past that investments in new IT will result in new revenue. The OSS/BSS sector continues to voice this promise on a daily basis. The question is whether new revenue generation provides a legitimate basis for an IT business case. In most cases, it's in the conversation, but rarely does it trump the need to drive cost out of the business. In an environment where networks, services, and service providers are converging, IT redundancy is being exposed as painful dead weight.

As IT organizations push for new capabilities, like convergent charging that makes it easy for customers to transact with a CSP as they please, Convergys argues that revenue generation is not the foundation on which to base a business case. "The business case can't just be built on new revenue because the risks are significant," says Alastair Hanlon, Director, Product & Solution Strategy, Information Management, Convergys. "You need to focus on the cost reduction that comes from consolidation."

Cost reduction isn't as sexy a story as revenue generation, but because it contributes to an improved bottom line, it's a story CFOs and boards of directors want to hear. Service convergence has thrust IT transformation into the spotlight. A standard argument says that because most CSP operations are

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built on product, functional, and geographic silos, they simply aren't flexible or synchronized enough to support converged service offerings. As a result, major transformation initiatives are necessary to create a common IT infrastructure that costs less in the long term while enabling new services that generate more revenue.

The problem with this argument, however, is that it is very expensive and risky. Major IT transformations require significant dollars in the first year. IT costs spike as new architectures are built out to support new services that might be launched sometime in year one, or early in year two of a program. Those dollars don't generate many benefits until new services are selling in the marketplace and redundant systems are decommissioned, their functions and data migrated to the new platforms. Multi-year programs generally aim to accomplish these dual goals, and often they fall short. A new architecture might be built out successfully, perhaps even on time and in line with budgets, but migration plans don't come to fruition. When this happens, IT has added cost and redundancy to the business rather than simplifying the overall IT structure and eliminating redundant costs.

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My CFO is Furious and He's Not Going to Take it Anymore

Many CSPs are suffering from just this type of scenario and their CFOs aren't happy. When a CIO then comes to the table with a new plan to invest in more IT that promises revenue generation up front and cost reduction in the long term, the CFO just doesn't want to hear about it. If I'm a CFO, I have one question for my CIO: How are you going to help our company spend less to generate and collect as much or more revenue as we do now?

The answer I want to hear isn't "give me three years, $50 million, and an army of personnel." It's likely to be something far more pragmatic like, "Well, after our mergers and launching new product silos, we have five different systems and processes we use to run credit card transactions. We only need one. It'll cost us 80 percent less to run those cards if we spend no more than $1 million in the next 4 months on some process optimization and simple integration." As CFO, I can sign off on collecting the same dollars for 20 percent of the cost without taking on too much risk or expense. And I don't need the CIO to transform the entire IT operation to pull this off. I like it. It's tangible. Let's do that.

Hanlon agrees, which makes Convergys' point of view refreshing. "You've got to weigh activity against the cost benefit and risk on those consolidation projects," he says. "I've seen examples where

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operators have a legacy billing platform for part of their business, but they can't justify the cost of migrating off that platform. There is a desire and cost benefit to simplify, but the cost benefit is not perceived as big enough to justify the short term benefit and risk- the pain isn't big enough to consolidate."

Now, it's arguable that Convergys has an agenda here. It's primarily an outsourcer, not a systems integrator. It's an incumbent biller facing new competition from major players entering its traditional cable and wireless markets. It's a company that isn't known in particular for inventing new technologies. Many of its prime competitors are in the transformation business. But none of that alters the merit of Hanlon's words. Consolidation projects are risky, and they fail very often. They are massively difficult to manage, even for the best and most experienced program managers.

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"The challenge for us as a vendor," Hanlon says, "is to find a solution that is low enough cost and risk to convince [CSPs] to migrate. But that decision also depends on what other projects the IT organization has going on at that time. There's limited bandwidth to take on too many of those projects at once," he says. Not only is there limited bandwidth, but executive wherewithal just isn't likely to be there. CFOs, CEOs, and boards don't want fancy architecture diagrams. A friend who is a lead business developer for a major software supplier said it best: "This economy is brutal." The OSS/BSS sector needs to offer tangible solutions that improve how the business operates today. Do that first. Then we might be able to talk about the glorious future.

So What About Convergence?
Undoubtedly, it is true that convergence has been thrust upon many CIOs. "CIOs are being forced to consolidate to justify mergers as well as to make these new offerings work," says Hanlon. So this is kind of a lousy time to be a CIO. If I'm a CIO I'm thinking, "The Internet is undercutting me and raising customer's expectations. I have competition coming from every direction. I have to devote a huge portion of my budget and staff to maintain systems that aren't moving me forward. And my CFO and CEO don't want to hear that I need more people, cash, and technology to do what the business owners want. Maybe I should have taken that early retirement package when I had the chance."

Setting the defeatist, self-pity aside, however, there's a pragmatic approach that's worth considering. First, I'll consider the CFO's point of view. If I can collect revenue for less cost, that's a winning proposition. That's where consolidating some aspects of billing starts to make sense. Billing, however,

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isn't just about billing. It tends to include product catalogs and customer databases. Consolidating and migrating those things is risky, expensive, and tough.

Charging, however, is a functional area I can work with. I want to make it easy for customers to pay me. Cash, check, credit, debit, PayPal, gift cards, rewards points, wire transfers, pay-on-behalf of…I don't care. If it means the customer can pay, I want to accept it. But I don't want distinct infrastructure for each payment type or to front each one of my billing systems separately. I want a common point of entry for charges and payments with clear processes for getting the right numbers back to the appropriate billing and accounting systems. This is a well defined activity that ties directly to cash flow. My C-level peers can sign off on it and my business owners can't complain too loudly if it's not part of their personal agendas. I will spend less to collect as much or more money. That's a business case.

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The Social Media Play
There's a sexy side to this too. If I'm letting people pay our company the way they please, I'm doing what Facebook, Twitter, and YouTube do, except I'm making money. Those outlets succeed, in large part, because they let their users define how their experience with the service will work. I decide whose Tweets to follow and who can follow my Tweets, in addition to designing my page to look however I want. My YouTube channel is my own on-demand broadcast station and I can decide what I want to put on it and who gets to see it.

There's a lesson here for CSPs. "For the first time I've seen service providers playing catch up with the consumer in the area of customer experience," says Fiona Fulton, Director, Product & Solution Strategy, Information Management, Convergys. "People have done their own thing on the Internet and linked their buddy circles together. Now it has turned on the service providers to catch up with that and provide an end to end experience across the service set. If they don't do that we'll see more of the over-the-top trend…it's catch up and survive."

If CSPs want to monetize Internet-style business models as part of service convergence, then their charging and payment infrastructure is the first piece to address. This is where cost reduction can start to enable some new revenue. Charging infrastructure can ultimately help CSPs to enable customers to monetize their social networks. Cutting customers in on the value chain is a good idea. Paying commissions for referrals is an old hat model that has limited success, and that's not really what I'm getting at.

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There are two reasons services like Twitter aren't making much money. First, their business model doesn't charge anyone for any of the value they do and can provide. Second, even if it was, they don't have a billing and payment infrastructure. (Consider all of the text traffic Twitter generates. It is mind boggling that they don't share in the revenue.)

Consider this idea: I buy a TV show off iTunes that I love. But I can't share it with anyone. I could tell my friends to buy it, but I can't really give them an incentive to do so, nor do I get anything for encouraging them to buy. I want my CSP to change this. When I buy that TV show or a movie for $5, I want to be able to share it with three friends. If they want to watch it, maybe they pay $1 to view it, and then another $3 if they want to own it. For making that happen, I get points in an account that helps me get some free stuff pretty quickly. Now I'm monetizing my social network while the CSP leverages viral marketing of its services.

Here's another idea that I alluded to in last month's issue. A communications bill, especially a wireless bill, says a lot about a person. My friend Adam calls lots of different people. He has a pretty large social network, only parts of which are manifested on Facebook or LinkedIn. His wireless carrier knows who those people are, or at least knows their phone numbers, based on the usage detail from Adam's bill. My CSP also knows that Adam loves to send text and email from his Blackberry, to use apps that help him find special stores and restaurants in Manhattan, and to run Google searches. What they might not know is that he has a property management business that enables and encourages him to expand his social network at all times.

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He should be encouraged to teach people in his social network how to use their Blackberrys and various applications the way he does. He loves to show off his gadgets and would do so more often if he was paid for it with something of value to him – like credit for more apps, free text messages or megabytes, or special discounts on trendy restaurants in SoHo. If the people on his wireless bill started to take up his favorite services after Adam received a promotional incentive, he should get credit for it. That drives loyalty. That encourages use. And it helps monetize the viral, social media effect that various Internet players invented but haven't yet turned into revenue or profit.

The beauty of this approach is that it doesn't require a massive IT transformation or customer data migration. All the info a CSP needs is on the bills it sends out every month. A consolidated charging infrastructure with a process for getting very well defined bits of information back to the right

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customer accounts is necessary, but that's a solution that's commercially available, well defined, and can be delivered with relatively little risk and time commitment. It certainly would cost far less than a transformation program and deliver tangible results.

The Bottom Line for CIOs and ISVs

As Convergys argues, the business case for convergence may be built best on cost reduction. Sell the initiative to the CFO and the Board as a way to move cost out of the business and make it easier and cheaper to collect revenue. Sell it to the marketing folks and business owners as a way to help them monetize Internet models and drive sales, customer acquisition and loyalty. Then wow the Board down the road when you show them that you're generating new revenue and loyalty, and have cut and restrained costs, by using your converged charging infrastructure as well as the billing and usage data you already have in-house. With this kind of approach, IT becomes the little lever that moves the world rather than the giant sledgehammer that destroys it.

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