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Defining and Measuring Value in OSS Projects

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Is a new inventory, provisioning, activation, or other OSS system worth $100,000, $1 million, or $10 million? To answer this question it's necessary to unravel an OSS environment's complex systems and processes to find how each element will contribute to, or take away from, the final calculation of total value. This means examining exactly how operational improvements can be reaped that will in turn recover the costs of the OSS' on-going maintenance and evolution, in addition to the initial acquisition and integration costs. It also means evaluating whether headcount will be reduced or increased in user and systems operations groups. Ultimately, it requires a service provider to define reliable measurements that will prove definitively whether the new OSS' expected benefits are achieved.

Implementing Common Measures

Service providers are moving toward common measures of business performance that will make it much easier to analyze OSS' impact to the business accurately and consistently (see sidebar). Borrowing from the successful Product Lifecycle Management theory prevalent in manufacturing, this move towards common metrics makes it easier to design and implement the measurements necessary to gather appropriate details and numbers. Knowing exactly how success will be measured and which measurement targets to hit will result in a streamlined OSS selection process, a positive cycle of improved information, more accurate proposals, better implementations and will allow service providers to achieve expected business benefits faster.

There is, however, a catch. Though network and service provisioning processes fit nicely into a factory analogy, the job of maintaining a day-in and day-out relationship with each customer - maintaining the network, handling service issues, configuring features, re-routing traffic around congestion, producing invoices every month, etc. - does not fit so neatly. There are not yet standard metrics to help us understand things like the increased call volumes caused by new product announcements, cable cuts, or a competitor's new long distance discount offering.

SIDEBAR: **Examples of Measures to Demonstrate OSS Value**

Time to market Measure the time needed for each team, process and system to: - prepare - test - train - and launch the new product
Sales Performance - Web site "hits" on the new product compared with new orders placed - Number of opportunities to up-sell qualified customers calling in to service representatives - Number of sales made and lost - Reasons for won or lost sales
Order Performance Measures - Number of changes or cancellations - Number of times the order was completed on original schedule. - Time from order to cash
Service Reliability and Network Performance Measures - Elements functioning within performance throughput and up time estimates - Repair and replacement intervals for serving equipment - Billable events a new service generates - Accuracy of event detail capture for new service - Cost of parsing and reconciling co-carrier settlements

Problems with Cost Recovery Value Propositions

Often OSS providers attempt to prove their value with various cost recovery arguments. For example, many OSS application providers focused on network inventory and provisioning suggest that their solutions pay for themselves easily because they recover stranded or lost network assets. But calculating whether the assets recovered will have a substantial impact on next year's forecasted capital expense budget is a complex calculation in and of itself. Put simply, some assets may be obsolete, completely depreciated or not on next year's shopping list anyway.

Another problem with this cost avoidance oriented message is that the group within a service provider that benefits most from asset recovery - usually Finance - is not the group that needs the capital expense funding - Network Engineering. The bottom line is that the five to 10 percent of stranded assets in the average service provider's network may have very little business value when found and returned to inventory. Thus, the vendor's value proposition may be misstated, overstated or lost in the wrong message.

Cost Savings Initiatives Often Miss

Calculating an OSS' perceived value has another real hurdle in attempting to gain the decision maker's attention. The senior team often is not interested in trying to understand a complex value chain argument. The payback it is looking for is typically top line driven and thus focused on generating more revenue. Revenue is tangible and immediately visible. While this frustrates the champions of an operations improvement project for which the payback is measured in reduced operational expense, there is good reason for the executive suite's lack of interest. Too many cost reduction initiatives simply fail to deliver the promised impact to the bottom line.

Another reason why cost savings arguments may fall on deaf executive ears is because executives are bombarded with business cases from a variety of different groups, each of which is focused only on improvements in its operational area. Adding up the estimated savings in each business case can suggest company wide savings of 50 percent or more. This end result is highly unlikely. It is more likely that the savings expected in one area will cause additional expense in another. Project benefits are often more interdependent than each group has considered individually.

Multiple Groups Need to be in the Process

Building a business case with the cooperation of multiple departments is an ideal way to produce more realistic and defensible cost savings estimates. Gaining support from other groups also helps to create momentum and a positive profile, which in turn may increase an executive's confidence that the promised results are deliverable. It will also help avoid situations where groups competing for project funding argue that inefficiencies exist everywhere but in their own group, which is sure to make an executive skeptical.

Many companies have formalized their approaches for determining the relative value of projects and have a steering committee that evaluates all proposed projects according to a consistent set of criteria. This approach promotes objectivity, reducing the impact of style over substance. The committee ensures that cross-departmental impacts are considered, assigns a priority rating based on each project's alignment with key business objectives, and presents a prioritized list of projects for executive approval. Though this may seem like bureaucracy overload, experience shows that it significantly improves the chances that approved projects gain persistent support, funding and the profile they need to succeed. Without a formal, agreed and published priority ranking, project champions can be embroiled in a continuous battle for funding against each new idea, instead of managing their own projects.

ROI and Value are Different

Clearly, determining value is not as straight forward as OSS vendors would like everyone to believe. The Pragmatic ROI model described in Pipeline's May issue provides a time and cost-efficient approach to gauging the relative value of any planned change to an operations environment. This model can help one to understand the size and scope of a business problem and its solution in a project's earliest stages. The model also helps define the tangible measures that provide the basis for tracking achieved results. These measures provide a basis for evaluating solution options and act as touchstones throughout contract negotiations and implementation.

Determining a project's ROI is not the same as determining value. Value is in many respects more elusive than ROI. There are too many horror stories about managers who have been burned for anyone simply to accept a vendor's promised results. When managers try to get these promises in writing, the "Assumptions" section of a contract tends to expand significantly. Value must take into consideration a broader contribution to the overall health of the service provider's business. Realizing value implies that improved capabilities are delivered, are sustainable over time, and persist even when some products, technologies or services change. Meeting all of these goals is a tall order, but it is achievable if OSS solutions are designed with a solid understanding of the business functions they need to support.

Burden of Proof is on the OSS Vendor

OSS vendors must do more than present tangible evidence of improvements in operations or capital expenditure. They must also present value propositions that show they have a deep understanding of each prospect's or customer's most pressing business problems. Establishing credibility and trust is a necessary step toward creating perceived value. This is achieved by addressing real business problems that the customer faces every day, using the right language or lingo and placing people on site that can roll up their sleeves and work side by side with application users. If a vendor cannot do those things, there is good reason to suspect that its product won't deliver on its promises.

Service providers likely have too many choices when considering an OSS application, which makes relative value important as well. Besides the large number of package OSS vendors, there are other choices like building in-house or outsourcing to a service bureau. With so many choices, it's not surprising that customers may see any vendor as just one more piece in a commoditized market. This should give vendors even more reason to demonstrate their value clearly, or be prepared to settle for low prices and short odds of being selected.

Each vendor's value proposition must state their value in solving business problems, as well as how they do this better than their competitors or than an in-house project could. Competing against an in-house team is a special challenge and requires careful handling. If the in-house team is a major competitor, it is critical for the vendor to propose something that's a win for them as well.

Exercise Your Value Proposition

The following value proposition format, made popular by Geoffrey Moore, is an excellent exercise for every OSS vendor. The idea is to fill in the blanks to create a concise, compelling and accurate proposition. It is much more difficult than it looks.

- For ___________________________________
  (Describe of the target customer)

- Who is dissatisfied with ___________________
  (A business performance issue, or a competitor's system)

- Our product is a _________________________
  (Type or category)

- That provides _______________________
  (A short description of an important client business problem)

- Unlike _______________________
  (Other vendor or internal solutions)

- Our product ________________________
  (Very concise statement of key feature or capability that makes a product the best solution for the stated business problem – without mentioning technology!)

Every OSS vendor struggles with this exercise, so to make it just a bit easier, here's an example of a completed statement: "For Large Global Network providers who are fed up with inaccurate settlement invoices from their international carrier partners, our product is a Co-Carrier management system that makes it simple to implement, track and control all aspects of international carrier relationships. Unlike Revenue Assurance Systems, our product automates the end-to-end business cycle, from Route Contract terms, through actual volume tracking, to authorization of charges and direct settlement to guarantee 100% accuracy in the settlement process and thereby eliminate overpayment and fraud.

Service Providers should also take a shot at this exercise and in the process consider what they would like to hear from a vendor and why. The more clearly the service provider team can articulate its demands and priorities, and specify how it determines value, the more likely vendors are to deliver.

Talk to Each Other, and Agree on the Business Metrics

By now, every service provider executive, OSS planner, and Operations Officer has learned – usually the hard way - that vendors cannot read minds. In fact, some vendors are not even skilled at reading business requirements documents. To improve the odds of success significantly, it’s important for service providers to look for vendors whose people understand their specific businesses. It is just as important to tell those vendors exactly what is needed for success and how that success will be measured. With specifications and metrics in hand, a service provider and its chosen vendor have a solid opportunity to create real value – measured in terms the business understands.