



Next-Generation Managed Services

An Operating Model for Service Providers

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This is the second of a series of papers on “Next-Generation Managed Services.” The first paper, “Next-Generation Managed Services: A Window of Opportunity for Service Providers,” introduced a new managed services concept, encouraging service providers (SPs) to think beyond traditional managed services and the role they play in this market. This paper focuses on a specific model SPs can adopt to expand their services portfolios and increase revenues.

Introduction

The market for fixed and mobile services is nearly saturated. Growth is flat to negative, seriously impacting SP profits. Tough economic times only amplify this situation. To maneuver in this business climate, SPs must reinvent their business models by offering new, profitable, next-generation managed services, such as web-based video conferencing and collaboration, and other unified communications solutions. These services can help SPs realize revenues incremental to those from network-based legacy services such as access and transport. Next-generation managed services also offer the potential for rapid returns on investments.

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 the 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.

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

Meeting New Opportunities

Although SPs have a solid track record of delivering high-quality, stable services, the time it takes to deliver them is often affected by a rigid and time-consuming development and implementation process. For example, time to market (TTM) for an IP VPN-related managed service takes nine months, on average, for most SPs.² For others, TTM can take as much as 18 months.³ Research from the Cisco® Internet Business Solutions Group (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.

This “classic” approach to bringing services to market is antiquated in today's challenging environment. By working with established third-party suppliers of next-generation services and enabling new business models, SPs can reap the following benefits:

Additional Revenue from:

- New and innovative services
- New platforms that enable SPs to up-sell legacy and network-based equipment, and cloud services
- Shorter time to revenue and improved cash flow through reduced TTM and service lead times

Low Implementation Costs from:

- New/more agile business models, with OpEx elements outsourced to third parties
- Service upgrades that are easily deployed, with minimal impact on business operations
- Limited changes to operational processes and IT systems

Low Business Risk from:

- No up-front CapEx, enabling sales staff to easily articulate the value of the services
- Low-risk service operations, stable services, and immediate access to support
- Secure and scalable service infrastructure provided by market leaders

Although the benefits of partnering with third-party suppliers are substantial, setting up a collaborative model can be challenging because it requires that SPs change their business architectures and strategies.

How can SPs implement an agile business model based on partnerships with third parties to drive incremental revenues, improve TTM, lower implementation costs, and decrease business risks?

2. “IP VPN Benchmark Study,” Cisco IBSG, 2009.

3. Ibid.

Recipe for Success

Working with multiple partners requires a standardized process that enables SPs to create an ecosystem blueprint that is replicable across all partners. Based on engagements with SPs, Cisco IBSG identified some major 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**—change the mindset of sales staff to enable them to easily understand and articulate the value proposition of complex services

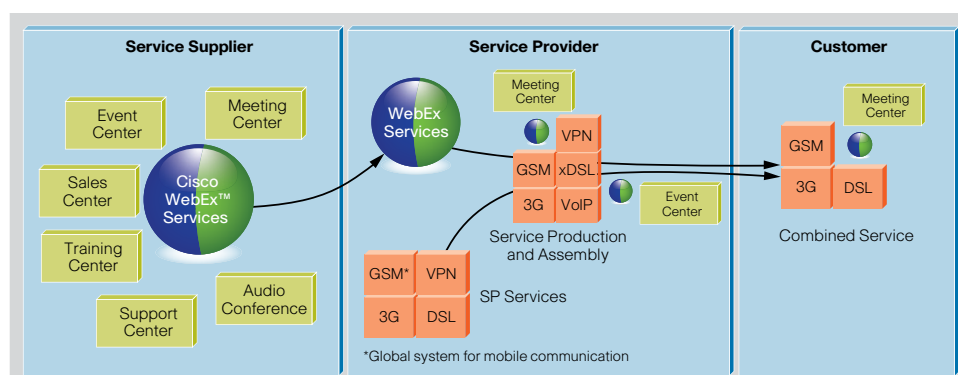
Over time, the third-party supplier landscape will evolve further to include multiple partners of varying interests and service offerings. Each partner, however, must work effectively to provide enough value for the SP and end customer, while maintaining healthy margins.

The following steps can help SPs redefine and optimize important areas of their overall business architectures to develop successful ecosystem models 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 SP services, along with end-to-end service-management processes
- Align go-to-market (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

By taking these actions, SPs can develop an agile ecosystem model that is deployable across multiple departments within the SP organization. Based on a real-life scenario, Figure 1 depicts an agile business model in which a third-party supplier delivers web-based services to the end customer. Employing a Software-as-a-Service (SaaS) approach, this model uses the SP as the sales, delivery, and support channel.

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



Source: Cisco IBSG Service Provider Practice, 2009

Figure 1 also illustrates (from left to right) how SPs can create differentiated value for end customers by adopting the principles of modularity and mass customization, and by assembling a services portfolio tailored to customers' needs.

Third-Party Ecosystem

An agile and scalable third-party partnership is achieved only when interactions between the SP and third party are supported by standardized, automated IT systems and business processes. Standardization should be implemented at different levels of the ecosystem and for the various needs of the SP, and should include:

- A win-win commercial model that requires low CapEx initially, and a pay-per-use model
- Close collaboration with product marketing to align service roadmaps and guarantee continued service innovation
- An automated business-to-business environment supported by a clear set of operational-level agreements and key performance indicators to measure ongoing business performance and efficiency

Service providers can benefit from pay-per-use third-party service packages, enabling them to limit initial CapEx requirements without impacting service quality and customer experience. As service sales ramp up, SPs can offer volume-based packages at lower price points, thereby improving margins.

Third-party suppliers already offer customers services similar to those of SPs. In this situation, an arrangement should be negotiated on how both companies will approach the market. Such an arrangement could result in a combined strategy where, for example, the SP targets large corporate customers and the third-party supplier addresses small and medium-sized businesses.

The commercial framework (overall ecosystem, including costs SPs pay for delivering third-party services, penalties to the SP if a service fails, partner agreements, and more) could also include transitioning the existing customer base from the third-party supplier to the SP. Such an approach would result in immediate revenue for the SP. A binding agreement should form the foundation for a successful ecosystem model, and should cover:

- Operational- and service-level agreements
- Service pricing and packaging strategies
- Joint service development strategies
- General roles and responsibilities

Once a basic framework is in place, the parties involved can collaborate more effectively and explore new revenue opportunities. For the SP, the framework provides a vehicle for extending the model to other third-party suppliers that can deliver complementary services, further enriching their overall offerings to the end customer.

Service-Operation Model

Service operation is the core of the SP's business. It is here where technology and products are converted into services and revenues. An SP's ability to deliver highly qualitative services at competitive prices and healthy margins is influenced largely by its service-operation performance. The service-operation model should focus on:

- Limiting any impact on the service-operation workforce
- Minimizing IT integration requirements and changes in operational processes
- Combining third-party services with services developed internally

Third-party services will enable SPs to limit or reduce any impacts on their service-operation workforce by out-tasking basic activities to third parties. Trigger points for out-tasking activities within service provisioning, quality assurance, and billing are often related to costs, workload, and skills requirements. For each SP, trigger points will differ, and a core-versus-context analysis will reveal which activities could be supported by third parties and which ones should remain internal.

By out-tasking certain activities, SPs can reduce the need for additional resources and avoid dramatic changes to their business processes and IT systems. Less time spent preparing the business to deliver a new service equals faster TTM. For instance, the SP's order-management staff could be equipped with third-party service provisioning and assurance tools that eliminate the need for further IT development because the tools are based on standard application programming interfaces (APIs). In this way, certain process steps can be automated prior to commercial launch, without running into excessive development and implementation costs.

In terms of service assurance, the SP helpdesk supports Tier 1 and the third-party supplier supports Tier 2. Here again, the helpdesk staff is equipped with third-party tools that enable them to diagnose root causes and initiate service resolution activities. In situations where Tier 1 helpdesk support cannot solve the problem, a standardized escalation process kicks in, ensuring that the problem is handed over properly to Tier 2 for fast resolution. With a stable SaaS web-based collaboration service offered by a third party, service failures would result in a small increase (+/-0.017) in trouble tickets per active user per month. Considering that typically +/-95 percent⁴ of customer complaints are solved by Tier 1 support and do not escalate to Tier 2, the overall effort required to conduct qualitative service assurance is minimal.

Billing integration, one of the most difficult areas to handle, is influenced by different SP service-pricing packages, such as pay-per-use, flat fee, or a combination of the two. Also, SPs have 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, all of which can further complicate the billing-integration process. Therefore, it is strongly recommended that billing requirements are well-drafted, communicated, and agreed on by the third-party supplier in the early stages of

4. Cisco IBSG, 2009.

the on-boarding process. Only through early involvement will both companies be able to align billing capabilities with business requirements and implement a cost-efficient and standardized billing solution.

Service providers can allocate fewer resources to TTM processes by collaborating with third-party suppliers when developing and launching a next-generation managed service. Table 1 shows the levels to which third-party collaboration can reduce standard TTM processes.

Table 1. Time-to-Market Process Steps Reduced via Third-Party Support

General TTM Process Steps	Level of Reduction via Third-Party Collaboration
Develop new service	High
Implement new service	Medium
Training (sales, ops, marketing)	Low
Fulfillment readiness	Medium
Assurance readiness	High
Billing readiness	Low
Sales and marketing readiness	Low

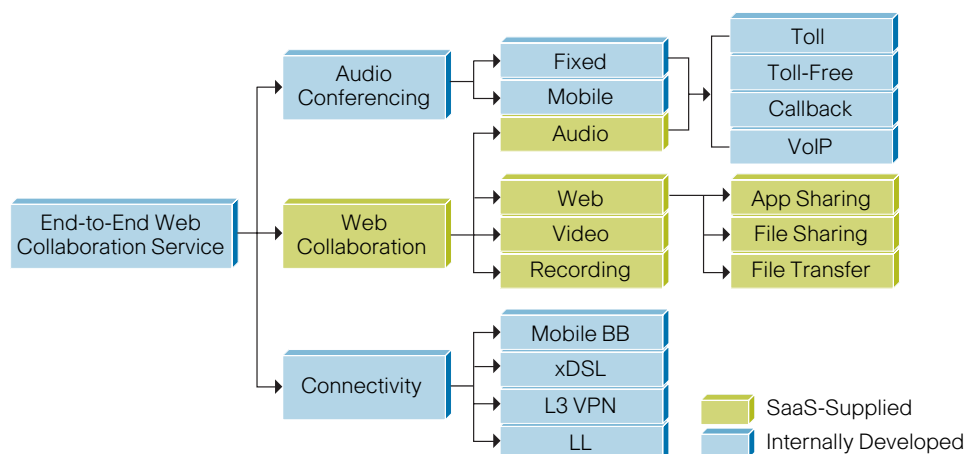
Source: Cisco IBSG Service Provider Practice, 2009. Research for Table 1 was conducted over a number of years.

Some of these processes can be reduced substantially, or eliminated, by collaborating with third-party suppliers that already service SP customers; SPs can buy the third-party service that best suits their business strategy rather than develop it in-house. For example, a SaaS provider offers service modules tailored to specific end-customer needs (such as high-quality, interactive online training classes or large-event management) and delivers them to the end customer using the SP as a channel. Each service module has its own specific SLA that defines service delivery, quality, and support characteristics. From an SP's perspective, these modules can be combined with application or infrastructure service modules developed internally.

Research shows that more than half of managed service customers use or are interested in service bundles.⁵ The SP's strength lies in its ability to provide flexible and agile service modules. By bundling these modules, SPs can tailor end-to-end services to specific customer requirements and deliver differentiated value. An end-to-end, bundled, web-based collaboration service is illustrated in Figure 2.

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

Figure 2. End-to-End, Bundled, Web-Based Collaboration Service



Source: Cisco IBSG Service Provider Practice, 2009

The hierarchical construct shown in Figure 2 allows SPs to mass-customize services per customer profile or segment. By using this construct, SPs can assemble one service for small and medium-sized enterprises and another for large ones.

This construct also enables SPs to expand their fixed and mobile audio offerings and, over time, add other innovative service modules. Once established, this modular service provides a foundation for a more integrated service-operation model that improves end-to-end service management and quality.

Go-to-Market Model

The GTM model, a key to the service offering's success, involves many aspects of the SP's organization (for example, sales, channels, marketing, and customer-facing portals) to allow customers easy access to ordering and self-service management capabilities. The GTM model is also critical to the customer experience and helps increase customer acquisitions and decrease related costs and customer churn. Following are major points to consider when developing a GTM model:

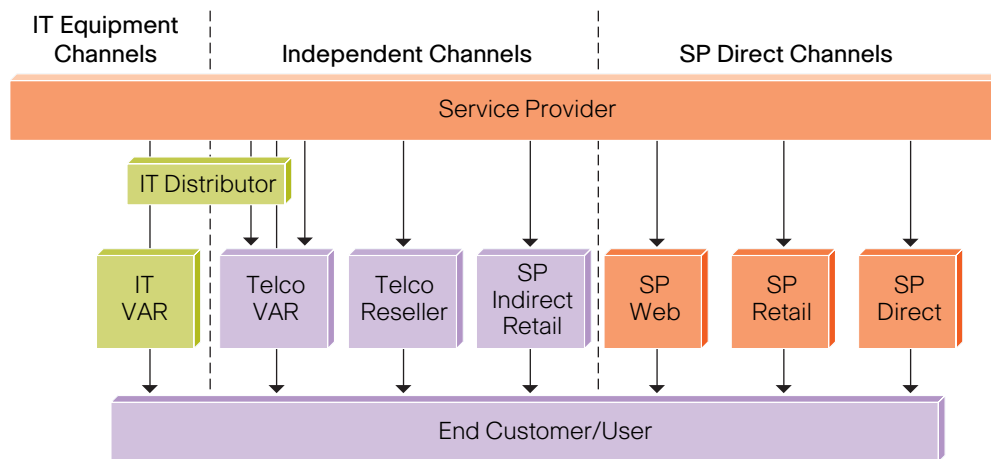
- Joint GTM and branding strategy, including customer segmentation and value propositions
- Optimization of the channel organization to ramp up sales quickly
- Enhanced self-service management capability, allowing customers to place orders, report service failures, and review service statistics online

Combining the SP's brand recognition with that of a global third-party supplier is a recipe for success. Such a partnership blends the strengths of both companies and assures customers that they will receive highly reliable, high-quality services.

To adequately support third-party services, SP sales and channel partners must understand both the customer's business challenges and how a flexible services portfolio can deliver opportunities to improve performance.

The strength of an SP's GTM plan lies in developing a flexible approach to serve all sales channels—direct or indirect—cost effectively. Figure 3 provides an overview of the typical channels SPs use to acquire customers.

Figure 3. Service Provider Channels



Source: Cisco IBSG Service Provider Practice, 2009

This rich environment requires a focus on optimizing the performance of each channel, without generating overlaps or conflicts of interest. Helping sales staff understand the value of a web-based collaboration service so that they can articulate it to customers is a common concern across these channels. Product trainings and insight into the customer's needs are essential. Mature SaaS providers understand this and—over time, through customer feedback and research—have successfully developed web-based collaboration solutions. Service providers can benefit from this approach not only by collecting customer feedback, but also by codeveloping GTM branding and marketing strategies with third parties. In this way, SPs can minimize the cost and time required to bring a service to market, and enhance current features and offerings to increase market share.

As competition increases, so do customer requirements, such as having access to online ordering, support, and billing. These capabilities must be integrated with the SP's back-end operation and business support systems/processes that are automatically linked to those of third-party suppliers. This optimized, end-to-end orchestration of customer- and service-related activities (referred to as self-service management) will give SPs further competitive advantage.

Many third-party suppliers currently provide self-service management portals that allow customers to report service issues, change account profiles, and view service usage statistics and bills. Service providers can do the same by linking their portals to those of third parties, requiring only one username and password for access to multiple sites.

Gearing Up for Success

Service providers can navigate today's challenging business climate and stop revenues from deteriorating 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 2 illustrates five key ingredients to consider when reviewing current business models and their relative business impacts.

Table 2. 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, a partner ecosystem, service-operation requirements, and GTM strategies.

Identification of the right partners and services is based on elements that drive the SP's business, ease the on-boarding process for partners, and improve collaboration, brand recognition, cobranding and GTM alignment capabilities, pricing, and margins.

A gap analysis among partners to assess current capabilities and challenges will lead to the development of a joint implementation and execution plan that defines scope, objectives, milestones, and deadlines.

The journey toward delivering next-generation managed services is paved with challenges. By following the guidelines presented in this white paper, SPs now have a concise recipe for success.

More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps CXOs and public sector leaders transform their organizations—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that address key CXO concerns.

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