



MIND White Paper

Billing: In-house Provisioning vs Outsourcing



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The Economic and Business Process Argument in Favor of Outsourcing

This report is to help senior managers and business strategists think about the practical benefits and economics of outsourcing the billing function of their Telco business. Readers will be coming at the issue of outsourcing billing management from a number of perspectives. These include, but are not restricted to:

- A Telco carrier, retailer or wholesaler that knows that its legacy billing system is expensive and clunky to maintain and not nearly nimble enough to be able to respond to market pressures, arrest customer churn or enter new geographies.
- A Telco already outsourcing some aspects of its billing needs, but is interested in reviewing its current provision or is looking for support for the argument that switching to a holistic, managed service outsourcing process will add further advantages to its own services, and save costs.
- A new entrant wanting to provide some sort of telephone service to an existing customer base. For example a football club or a supermarket company looking for new revenue streams.

Unraveling the Language and the Debate about Outsourcing

Outsourcing jobs on the scale we read about in the popular press is what BT's head of consultancy Marc Veelenturf calls 'Outsourcery'. The transfer of labor on a large scale that makes it possible for a company to free up cash on the deal straight away by showing a transfer of assets –people – as a sale. This pleases shareholders and city brokers alike as bottom line costs go down, and profits, and hopefully dividends, go up.

Outsourcing can mean many things – but in most cases and reduced to its simplest terms, it is the shift of labor, skills or services out of one organization and into another. Generally related to business support functions, outsourcing companies can be found for just about every business process from IT maintenance and catering, to debt collection and payroll. The idea is that by leaving the irritating but necessary bits of the business to somebody else that likes doing it well, companies can concentrate on core revenue generation.

It is important to be clear about what sort of outsourcing is being discussed here. The research analyst firm, Gartner, predicts that the probability of success of the very big outsourcing deals, mostly of the type reported in the national newspapers, is only 50/50. In the main, these stories are really about offshore outsourcing, in particular call centre workers, contributing to the current public perception in Europe that outsourcing is bad for business. Certainly the understanding of the value of outsourcing has been skewed unfavorably by a minority of high profile '1,000's of jobs lost' deals that stick uncomfortably in people's minds.

And yet the trend is firmly set for growth in outsourcing in specialist sectors, particularly where business processes sit around variations of predictable transactions that can be more effectively run and managed by a specialist firm. For instance, processing call data records for billing purposes.

As technology continues to become more sophisticated and complex, more business processes can be defined and executed in systematically dynamic and useful ways. This doesn't just create business efficiencies, but often shows up new revenue opportunities. And more businesses now have to operate around the clock, not least those offering a phone service. These reasons alone add up to some rather stark operational and cost realities for companies that don't want crushing investment and development costs, but do want to take advantage of an open, and now global, telecoms market.

This has created fertile ground for a growing number of specialist companies, like MIND, to provide well defined and highly specific skills and services in niche markets. Such is the exactness of their science, the generalist outsourcing firms, like those attached to big

consultancy businesses, are now calling on smaller more agile and more advanced companies to respond to and resolve today's business process challenges.

Why Outsource?

Every report and industry analyst is in agreement about why outsourcing is worth thinking about. Outsourcing brings the following three top line benefits to an organization.

- Predictable cost management
- Access to specific skills not available, or too expensive, to hire in-house
- Improved time to market for new products and services

Cost Management

Predictable cost management is the most readily measured benefit to outsourcing and is often triggered by a requirement for cost containment. Cost of IT infrastructure, or car fleets, or food for the canteen, or emptying the bins can all be contained by handing over the responsibility and risk to someone else. But be warned, cost containment alone rarely satisfies either party and often ends up in acrimonious relationships with deals going sour. Quoted from an Information Age business briefing, Duncan Aitchison UK MD of outsourcing consultancy TPI, said "No-one wants to share risk – they want to transfer it. Outsourcers and their customers are only really interested in sharing anything when there is an upside, when money's being made".

For all the evidence that cost focused deals, known as 'utility deals', present a high risk of failure to meet expectations, they still account for 85% of all outsourcing contracts written. On the surface, saving costs looks very attractive.

Access to Skills

Buying skills, the second reason to outsource, is much more than just getting the job done more efficiently, it is about adding value, and making the function more effective. Known as 'Enhancement' deals, they account for 15%- 17% of outsourcing contracts according to Gartner. It is in this domain that niche outsource partners can really come into their own, often over and above the business process outsourcing (BPO) services provided by bigger consulting and service management firms.

Specialists have the edge because they stay ahead of the market and, technologically, often lead it. The service being sold is their core business so it is in their interests to be the best while continuing to invest and develop their offering. A self-fulfilling benefit to this specialization is that it makes them more attractive employers for people who are expert in that field. A benefit that is passed to the client in what Michael Earl of the London Business School describes as value creation.

Improved Time to Market

Improved time to market, the third pillar of the reasons to outsource, is the most difficult element to build into a service agreement. It requires a deeper relationship, openness and trust between partner and supplier and a common understanding of what the business goals look like. Ambitions that are difficult enough in any walk of life. Large scale deals designed to find these enhancements are sometimes referred to as 'frontier deals' but can require the re-engineering of an entire business over many years. Such is the complexity of some frontier deals, they only account for 2% of outsourcing contracts written.

The main problem with frontier deals is the complexity and impact they have on so much of the business in the approach. However, within a specialist business process, like billing, improving time to market doesn't require wholesale business change because it only tackles a very discrete but critical part of the business so avoiding the pitfalls of classic outsourcing. But, it might require a shift in attitude about control and a re-evaluation of the bogeymen of change.

Overall, good outsourcing deals work best, for all involved, when all three aspects of a relationship are considered, properly valued and understood. Predictable cost models, the provision of highly skilled, dedicated people and the ability to respond to high- speed change is a recipe for a strong and successful outsourcing relationship.

Billing – Is Customer Facing and Business Critical. Why Outsource Something so Precious?

The reality, for most organizations involved in the provision of telephone services, is that billing is the glue, not the core business. Core skills, and the main focus of any Telco, should be about customer acquisition and retention won through service development, competitive price models and effective marketing.

While billing has a direct impact on how well a company can do this, and a good billing solution offers customer care as de-facto, few are able to realize their own potential because in-house billing solutions can stifle a company's ability to move swiftly. By the time the shrink-wrap comes off an in-house solution, technology advances in the market have moved a minimum of 6 months. By contrast, companies that outsource their billing management already have flexibility and response times built into the agreement because the company running it on their behalf is at the head of its field. By design, they are prepared for the unexpected and are working in advance of the expected.

Why is flexibility with in-house billing so hard to do? Some suffer from a legacy of systems that, like the proverbial albatross weighing around the neck of the IT department, are too expensive or too politically sensitive to dump. But they should be. Some companies don't have the necessary skills within the organization to make adequate changes, and in contrast to the US market, many companies fear they will lose control if some of their business processes leave the building.

It is this last element, one of the cultural and sometimes psychological barriers to the acceptability of outsourcing, which can be so difficult to argue against, even in the face of business logic. Throwing out the old might sound revolutionary, but heart attacks kill old, inflexible men. The Greek philosopher Aristotle argued that when systems become inflexible, when fluidity becomes rigid, revolution is on the cards. Revolution these days, in politics and business, is about resisting foreign incursions – in other words, your competitors.

Not letting go is almost always emotive and the reasons not to outsource, purely subjective - there is no science based evidence to show that outsourcing by itself means that a company loses its grip on the business. In fact, quite the opposite. Evidence suggests that companies that outsource business processes are better able to control expectations, deliver to tight schedules and create innovations in service. This is because they can review the work being done objectively against business goals and not get bogged down in the mechanics of how it can be done with a limited and often over stretched internal resource. Outsourcing means you can let someone else worry about the 'how', you just worry about what you want.

Outsource – Making a Deliberate Difference

Telco's are only successful if the customer believes it is worth buying from them. High profile battles on the high street are daily reminders that differentiation between one supplier and another is often just about price. Price can be the single most powerful trigger for a customer to move from your business to someone else's. But failure to bill effectively can be the last straw for an itchy customer. Watch the effect of Hutchison's '3' service as it lures customers in their thousands everyday with rebate packages, cutting the call rates of all its competition in half and giving away some of the most technologically advanced handsets available. It may take them years to make a profit, but the fact that they exist, and that they are behaving so aggressively, means everyone else has to think hard about how they can respond.

European Telco markets have hit maturity with saturation in wireline and near saturation in mobile, leaving Telcos to explore 2nd world and developing nations as growth markets. The decline in consumer Internet dial-up charges, as they move their services to broadband and cable providers in first world countries, presents new and lucrative opportunities for telephone services over the Internet.

Despite parts of the industry being saddled with 3G debt, and held to ransom by creaking infrastructures, new services and price bundles are being launched almost weekly on every platform by either a new entrant, or a monolith trying to respond. It is a wonder that companies think about telephones as being a viable business at all. But, and here BT's advertising agency got it absolutely right, 'It's good to talk', and people all over the world just won't shut up.

It is exactly because human beings are programmed from birth to communicate with each other, and because the market is in so much flux, that new geographies and services are opening up every week. From Sao Paulo to Sofia, Soweto and Swindon the opportunities exist for companies to use outsourcing as a deliberate and tactical part of a business strategy.

Direct and Indirect Costing – Making Sense of In-house vs. Outsource

Working out the cost of running a billing function typically means establishing the average transaction cost per CDR (Call Data Record) in an attempt to compare one billing solution with another. This can be misleading as it only flags up variances from one billing supplier to another relative to its direct costs. Although in itself, cost containment can be compelling, it misses the greater advantages outsourcing offers. CDR analysis alone misses the huge opportunity costs that form the real and often bigger indirect cost opportunities of billing.

A four-stage review process can be useful when beginning to consider the economic advantages of outsourcing versus in-house.

1. Benchmark existing internal service provision.

Include administrative and non-administrative tasks, like management time, and the incumbent technology available to run billing effectively. Assess the economy of scale that can be extracted from existing provisions and think about the cost to the business' reputation if systems fail, or administration slips up. An incorrect bill run incurs credit notes, opportunity loss as call centre teams shift from outbound sales to in-bound customer response and cash flow hic-ups not to mention loss of good will.

Look at your facility to offer personalized bill customization over the web, secure access, intrusion alerts, fire walls, 24/7 monitoring, the ability to make tariff changes and new offers in real-time and so on.

2. Breakdown administrative tasks and assess your capability to respond to market and customer demand against them.

Data cleaning, credit control, debt management, bank transfers, auditing and reporting et al can all be cost managed providing there are no failures or slips. What cost in a crisis, however small? A single bill error adds significantly to the cost of acquisition of that customer and they may then leave. Consider also the management time associated with these problems. On a more positive note, think about the cost of introducing new products and services, either as innovations that lead ahead of the competition or as necessities in response to competitive pressure.

3. Identify future requirements.

Play out 'what if' scenarios. Could the business sustain growth, or stomach declines in traffic, against a fixed cost model of an in-house system? In any growth curve there is a point at which the decision to expand, for example hire more people, has to be weighed against the cost this will incur to the business. Assess costs of recruitment as well as on-going training and development. Look at holiday and sickness cover, and the management time required to find the right people. What level of investment can the business carry in order to introduce new products and services, and how fast do they need to come to market so that they actually do become profitable?

Can you keep your billing people? Billing as an in-house function is sometimes seen as the grey area of the business, the un-sexy bit. Maintaining morale, keeping people focused and delivering accurate services can be time consuming and therefore expensive. Billing, under OFCOM in the UK and in some other more developed European markets, has become heavily regulated. Staying up to date with the regulations, in-house, can be very difficult.

4. Assessment

Look at the idiosyncrasies of your business model and systems and review this against available solutions in the market. The greater the diversity and scope you require now, and what you might require later, will determine how well billing organizations can respond to your needs.

Look for suppliers that meet regulatory standards, such as the TBMS (Total Billing and Metering Systems) standards set by OFCOM in the UK. Both standards insist on very tight tolerances meaning that providers with that accreditation will offer a service delivery to clients of the highest standard.

Does the supplier operate across carrier, wholesale and retail giving them wide experience that can bring benefits that single solution providers may not?

In All Cases, Outsourcing Has Distinct Economic and Opportunity Cost Advantages Over In-house Solutions.

1. Internal service provision is no longer an issue. All the associated direct and indirect costs of running billing in-house evaporate with an outsource service. Further, choosing an outsource provider is far more likely to provide technological advantages over in-house, and at a rate of change that your own team would be unlikely to keep pace with. Choose one that uses its own software, and the advantages are even greater. Providers that develop their own software have better and more responsive internal feedback systems and as a result are better able at building improvements into the service.

2. Shifts in customer demand can put undue pressure on internal administrative tasks. New offers, special deals and tariff changes can put in-house billing administration teams under stress creating mistakes and loss of reputation. A well constructed SLA with an outsource provider will make guarantees against transaction peaks and troughs that you only pay for as you need them, meaning it only costs you money when you're making money.

3. The future is uncertain, and responding to its demands and your creativity about the service offerings you'll want to take to market are not hampered by the inflexibility of in-house solutions. With outsourcing, you can move as fast as you want. Unlike in-house systems that are more or less isolated and only as good as the ideas within the business, outsource providers see and respond to a much wider range of service and product ideas because of the demands of a wider client base.

4. In almost every case, an outsource service provider will have greater capacity and vision to work in a way that suits your business model, meaning that you are unbounded by the limitations of in-house solutions.

Summary

Done correctly, whether already competing or entering the market fresh, there are potentially huge rewards to being a Telco. Get it wrong and it is very expensive. Investing in infrastructure and billing is no longer necessary as the skills and tools to get you there are now available at low cost and even lower risk. Buying tie-ins to software contracts and hardware maintenance to run in-house billing added to the indirect costs of recruiting and training teams to help you make them work is a business distraction that is no longer desirable or even necessary. MIND is one such outsource billing firm that has the heritage, proven specialist skill and resource to make being a Telco more exciting, and more profitable, anywhere in the world you want to be.

About MIND

MIND (NASDAQ) is a leading global provider of real-time mediation, rating, billing and customer care solutions for prepaid and post-paid voice, data and content. Our customers include worldwide leading carriers servicing millions of subscribers, using our end-to-end solutions for the deployment of new services. MIND operates from offices in the United states, Europe, UK and Israeli headquarters.

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