case study

IPA Reverses Negative Profitability Trends of a Large Billing Services Bureau

Highlights

- UST Global℠ (UST) employed its unique IPA program to address the exponentially increasing maintenance costs while allowing the company to pursue next-generation product billing opportunities
- The IPA program enabled optimal realignment of staff from multiple projects throughout the course of the program while ensuring older systems continue to attain revenue while the new system was constructed
- Significant saving was achieved by unifying various architectural groups
- Time-to-market for new functions was reduced from one year to three months

Profile

A large service bureau offering outsourced billing services to a wide range of U.S. and international clients was contemplating an IPO in the near future. However, due to the firm's 'growth at all costs' business strategy, the profitability trend over the past year had weakened considerably although revenues had quadrupled over the previous three years.

Business Issue

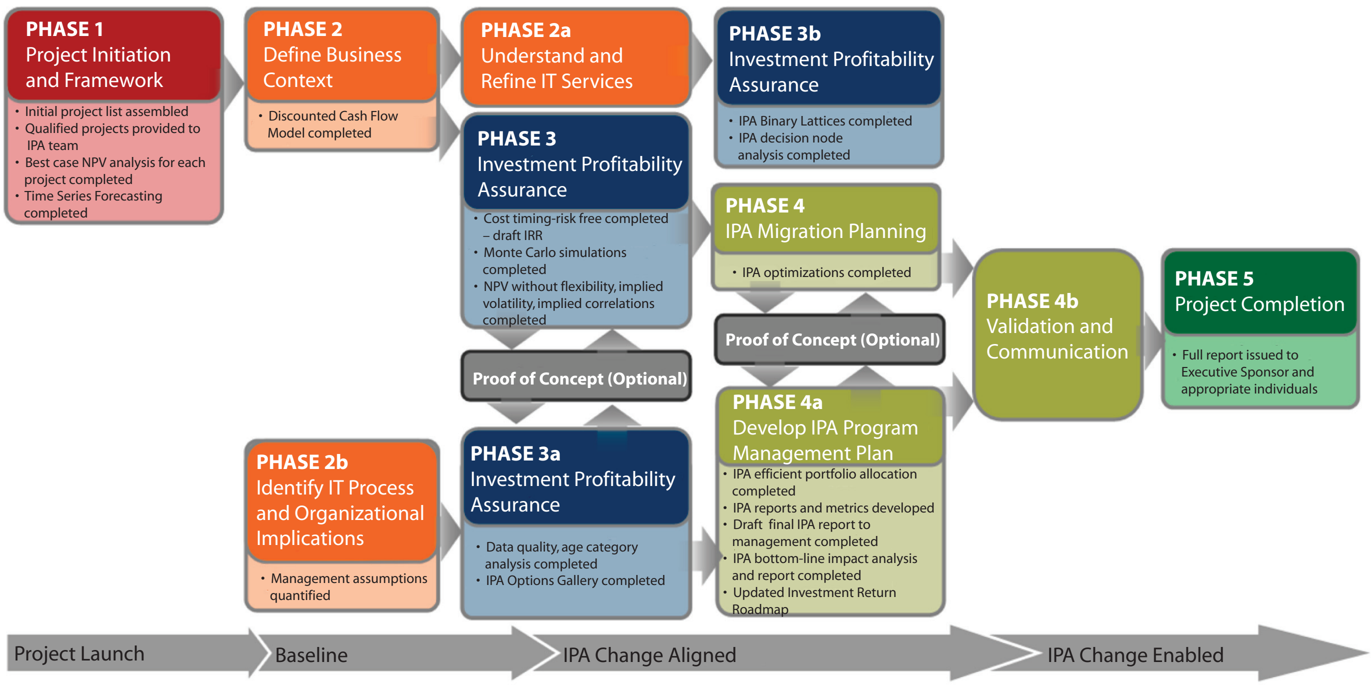
The rapid, three-year revenue increase was attained by copying the company's original billing system into seven different versions, each customized to generate revenue from a different market segment. Initially, this strategy was a tremendous success. However, over time, IT maintenance costs increased exponentially because bugs in the original billing system now existed in the seven other copies. Instead of fixing the bugs once, bugs were fixed eight separate times. Essentially, this meant that maintenance costs were inflated seven fold. This was the root cause in the erosion of profitability even though revenue had increased by 300%.

Further, an analysis revealed that each of the eight billing systems were becoming less relevant in a marketplace where smaller service bureaus created highly competitive billing systems for new generation products and services. Although there was an attempt to create a ninth copy of the original billing system to handle the newer products, management recognized this would intensified their profitability problem instead of solving it.

The analysis also concluded that the firm had no more than four years to address the issue of weakening profitability before corporate financial performance became critical.

The UST Approach

UST initiated an Investment Profitability Assurance (IPA) project that creates IT-enabled business value by merging the disciplines of enterprise Service Oriented Architecture, advanced project management, organizational dynamics and competitive marketing strategy combined with precision economics into a unified approach. This specific IPA project focused on the optimal approach to address the exponentially increasing maintenance costs while allowing the company to pursue next- generation product billing opportunities. The framework for the IPA Process comprised of five primary phases, including 12 optional sub-phases for a total of 109 potential steps, some of which are included in the following figure:



The UST Solution

The result was a component-based architecture that borrowed the best parts from each of the eight billing systems into a single, unified billing system capable of accepting business from next-generation products.

A critical aspect of this IPA program was that it had to allow the eight billing systems to continue to attain revenue in their respective market segments while the new, component-based billing system was constructed. Also, because of the impending IPO, the IPA project could not consume an inordinate amount of funding that would impact the bottom line.

As such, the chart below shows that the IPA project was designed to restrict the need for funding early in the project. The post-tax, discounted cash flow-negative impact remained low for the first 30 months of the project. However, the positive increase in

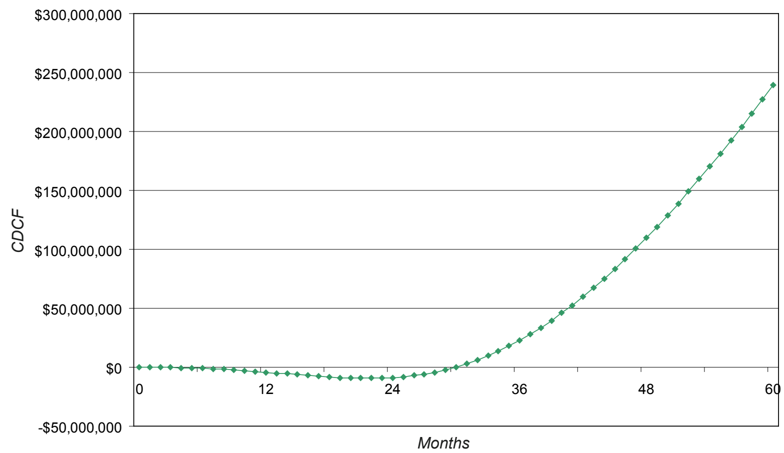
About the IPA

Investment Profitability Assurance is an evolution in assuring that the majority, if not all, of IT projects result in successful financial outcomes when they are expected; that the right mix of projects are selected for maximum financial benefit and that senior management is provided the information necessary to achieve greater than expected financial outcomes. IPA is an extensive adaptation of a methodology that was originally developed in 1973, later refined, and was awarded the 1997 Nobel Prize in Economics.

A whitepaper on the IPA is available at www.ust-global.com/whitepaper.aspx

cash flow accelerates rapidly as the new billing system was introduced and the old systems retired.

Post-Tax Value-Based Cumulative Discounted Cash Flow

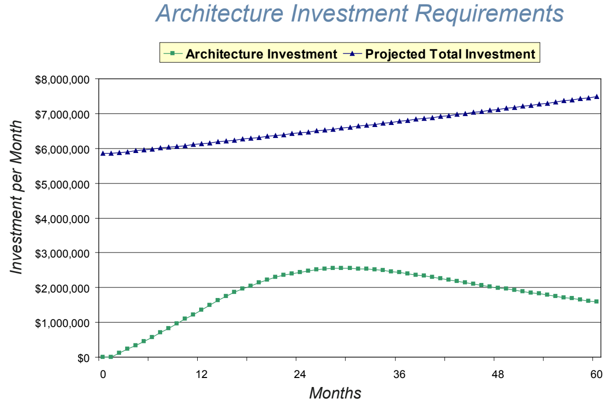


Further, the IPA program was designed to “borrow” resources from the other billing system staffs to quickly ramp up the component development teams. Once these teams completed their work, they were returned to full-time duty with their original development group.

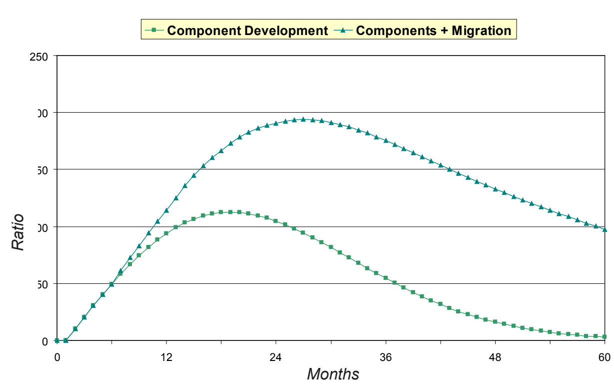
Benefits

As the chart below on the left shows, by unifying architecture group efforts significant savings could be achieved. On the right, the chart shows that the realignment of staff from the multiple billing development groups into a component development group is accomplished within the first two years and then falls quickly to half its original size. The reduction of 100 engineering staff employees did not result in layoffs, but the resources were instead used to create a new, custom billing system services offering with an entirely new revenue stream.

Architecture Investment Requirements

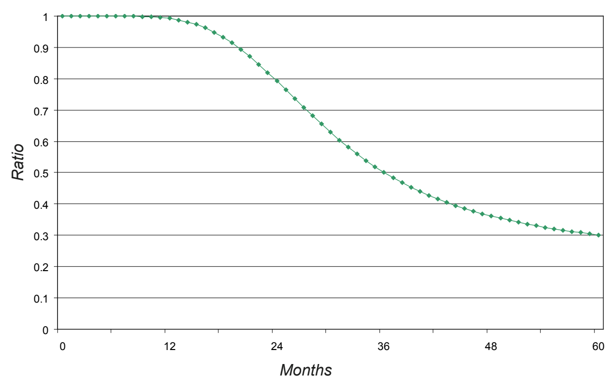


Architecture Investment Resources

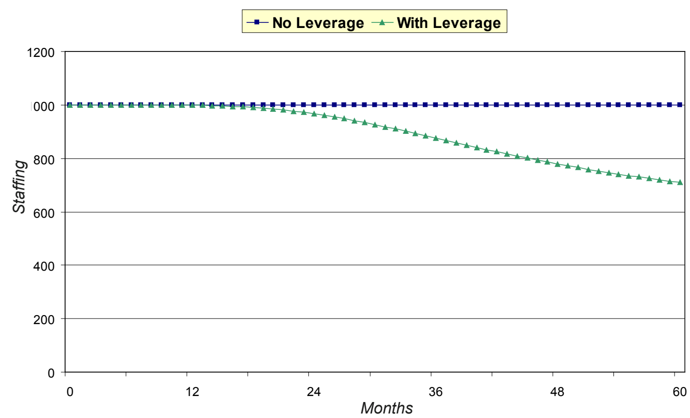


In addition, as the next set of charts shows, the IPA program enabled commiserate reductions on time-to-market for new billing system functions while reducing the need for support services.

Time-to-Market Reduction



Support Resource Requirements



In the case of time-to-market for new functions, this was forecasted to be reduced by 70% from one year to three months. And support staff requirements were forecasted to be reduced by 30% from 1,000 employees to 700. Again, layoffs did not occur and these employees were redeployed to the new service group.

The firm was able to accomplish an IPO six months after the IPA program began with an opening at $15/share. This increased to $55/share within 24 months. Within five years, the company was able to reach all the primary goals of the program.

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