
LEADING INTEGRATED COMPUTED VENDOR – Profitability Analysis

Client: A leading provider of products, technologies, solutions and services to consumers and business .

Application: Profitability analysis using **Alacrity Results Management (ARM)**

Requirement: The company was looking for a tool to use to explain to potential customers the benefits of moving to next generation packet-based IP networks from the current circuit switched networks. From a flexibility, maintenance and scalability standpoint (the technical viewpoint), the move is easily justified; however, companies are loathe to make such a move without having a full picture of the underlying monetary costs and benefits.

Most network service providers do not have a very good ability to take an integrated look at their market, their services, their costs, their network infrastructure and profitability. The company approached Cherniak to provide such an integrated model to:

- provide a broad understanding of the cost and revenue implications of moving to a next generation network
- allow for scenario evaluation using different pricing models, configurations, and marketing assumptions

Model configuration needed to be done by the company's consultants and engineers as required. The tool was not to be a hand coded masterpiece that could only be developed or changed by programmers.

Solution: The ARM architecture strongly supports all the requirements listed above.

Working with a marketing consultant and the company's engineering group, Cherniak devised an initial model with the following attributes:

- Support for multiple marketing segments with different characteristics in terms of usage patterns, revenue / pricing, provisioning cost, servicing cost, etc.
- Support for variable marketing assumptions including yield from advertising, churn rates, etc.
- Ability to manage multiple scenarios each with different assumptions.
- The ability to define various telecommunications boxes, their locations, and parameters in terms of usage, cost, capacities, etc. There was even the provision for the model to determine the number of each type of telecommunication box required given the number of customers and their usage patterns.
- Provision for handling some (reducing over time) portion of the network traffic using old telecommunication technology, and gradually moving to the new technology.

Benefits: The model provided the company's engineers and network consultants with a number of valuable tools they did not have before:

- Projected income statements for each scenario overall, and by customer segment.
- The ability to demonstrate to their customers and potential customers the timeline to profitability. Customers can have confidence in the numbers because the derivation of each number is well documented, showing them the assumptions and the resulting costs and revenue streams.
- The ability to do all of this in a flexible tool which can be modified by the engineers / consultants themselves (avoiding having to wait for the IT group), yet provides a robust, easily verifiable model to supply clients with believable numbers.