Promise & Pitfalls of Network Outsourcing

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Telecom operators have come under intense pressure to improve service levels, launch new services, manage a bewildering array of technologies and streamline their cost structures in response to declining average revenue per user (ARPU). To combat these pressures, many operators have begun outsourcing network operations. A recent study by Oliver Wyman found that since 2004, the number of network outsourcing contracts signed annually has increased threefold. Such arrangements can take a variety of forms:

• **Out-tasking.** The operator outsources key network operations and maintenance processes. While the market for out-tasking field and Tier 1 and 2 maintenance is fairly mature, we expect increased out-tasking of network optimization and performance monitoring.

• **Managed operations (MO).** The operator outsources core design, build, operations and maintenance functions. Adoption of MO is most prevalent among wireless operators in emerging economies, which often need help with complex technical networks and lack the necessary resources. However, interest in MO has also grown among larger mature-market operators, as they continue to reduce their cost structure.

• **Managed capacity (MC).** The network is owned and operated by the vendor, which the operator pays on a variable-usage basis. This form of outsourcing is most prevalent in new situations – for example, Bharti/Airtel's agreement with Nokia-Siemens, or Ericsson rolling out the GSM network in India.

• **Hosted applications and content.** The vendor builds and hosts the operator's applications infrastructure and is paid on a per-use basis. These arrangements can include go-to-market activities and elements of gain-sharing. We expect growth in this model for value-added service applications.

Regardless of the network outsourcing arrangement used, many operators are realizing important benefits from such deals - including 15%-30% reductions in operating expenses and a 50%-60% improvement in time to market. Yet network outsourcing carries risks, especially for operators with little experience in the area. The table below contrasts the benefits of outsourcing with key risks.

Potential Gains	**Potential Risks**
Reduce costs	Loss of strategic control
Increase flexibility and time to market	Dependency created with large suppliers
Access to specific competencies and leading-edge techniques	Reduced capability to monitor supplier performance and manage network migrations
Reduce new technology lead time	Implementation costs and workload
Reduce asset intensity	Network performance and quality of service issues
Generate short-term cash through divestments and free investments to focus on other missions	

As part of their due diligence, therefore, operators should explore other ways of reaping the same benefits promised by network outsourcing. These alternatives include network sharing, by which several operators share infrastructure elements such as cell sites, power and transmission equipment, as well as network operations and

maintenance staff. Internal improvements – for example, establishing repeatable O&M processes consistent with eTOM – also deserve consideration.

For operators that do choose to outsource, how might they maximize the business results from the arrangement? Our research suggests the following practices:

Establish realistic expectations about benefits and scope. Having a clear set of objectives and a business case that can be benchmarked are prerequisites for convincing senior management. Common pitfalls are overestimating savings, inadequately defining the scope of the outsourcing project and mixing outsourcing initiatives with other infrastructure projects (such as next-generation networking migration). It's important to have a clear view of the scope of activities before engaging the vendor in discussions.

Operators that have successfully deployed outsourcing deals define the business case along the following dimensions: processes and activities being outsourced, network domains being outsourced, assets being transferred, third-party contract relationships, governance, organization design, Opex and Capex benefits, network performance indicators, and deal-monitoring indicators.

Select the right vendor. However detailed the scope and contract negotiations, it is impossible to foresee every eventuality in an outsourced relationship. Given the complexity, risks and strategic importance of network outsourcing, operators should use a set of "hard" criteria and evaluate the vendor's flexibility. We also advise operators to follow a transparent and rigorous partner-selection process characterized by early involvement of vendors and rapid targeting of two to three key candidates.

Align and communicate. Senior management support for the outsourcing initiative and internal communication of the implications for employees are critical to ensuring success.Insufficient attention to these elements has resulted in significant staff attrition – more than 20% in the case of one operator – and a needlessly drawn-out negotiation process. Operators must supply their staff with early and honest explanations of how the outsourcing deal will be implemented and what these changes will mean for the work and for performance evaluations and rewards.

Network outsourcing by telecom operators is bound to spread, as it can generate 15% to 30% reductions in costs while presenting relatively manageable challenges. Yet, because of the risks, operators should weigh the tradeoffs relative to alternative means of saving money and achieving economies of scale - such as network sharing, internal improvement efforts and non-traditional outsourcing partnerships. Implementing a network-outsourcing deal is far more complex than selecting an equipment vendor. Thus, it requires close attention to alignment, due diligence, contract governance and workforce communication by the operator's management team. Anticipating the unique pitfalls that network outsourcing presents allows telecom operators to raise the odds that outsourcing will make a major impact on the bottom line.

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