

## **Convergence driving growth in Outsourcing**

Convergence of networks (PSTN, data, broadband, wireless...) together with convergence of services (voice, video, data, broadcast...) are transforming the ICT industry. Many large telecommunications operators are investing in so called Next Generation Networks (NGNs), which promise to deliver internal costs savings by unifying disparate networks and by maintaining and generating additional revenue streams from the provision of new and more interactive services to end-users.

Market dynamics and the introduction of VoIP (i.e. the like of Skype) has not only allowed entry by previously unthinkable competitors, but in the process has eroded margins for the provision of basic voice services. Telecommunications operators are now looking for ways to reduce subscribers switching to these alternative providers, whilst seeking to deliver new services which may be able to recover some of the lost revenues from increased competition from the new boys on the block.

The NGN is at the heart of enabling convergence and is based upon three key principles (some of these are driven by regulatory pressures):

### First principle

- Functions performed by the network are separated into functional planes – these functional planes include access, transport, control & intelligence, and service. The functional planes are independent - i.e. they can be modified or upgraded regardless of other functional layers

### Second principle

- Functional planes are separated by open interfaces in order to facilitate the interconnection to other operators' networks but also the integration of third-parties' services and applications

### Third principle

- NGNs are multi-service networks (used to provide multiple services, as opposed to legacy networks that are only used for specific services) - this multi-service network enables operators to implement converged and new services

The principal drivers for the significant investment (billions of dollars) in NGNs are the first (allowing cheaper methods to upgrade and replace old networks) and the third bullet (allowing more creative services to be delivered over a unified network), however it is the second bullet which is creating a serious threat to very operators investing in NGNs.

Up until very recently, the telecommunications industry was in many ways an old boys club – to enter the club you needed to have lots of money (if we are talking about building actual access networks, then think billions), a long track record and good friends in high places to acquire the licenses and spectrum that may be needed to offer services. To enter the world of telecommunications you needed to interconnect with the existing operators who dictated where, how and on what terms you could connect to there networks – intelligence always resided within their network and this usually meant you could only offer the very basics of services. Most creative services were created by the existing telecommunications operator using proprietary technology and protocols.

In the NGN world, gone are these proprietary technologies and protocols and gone is also the need to have lots of money. In this new world, there is no need to invest in building networks, rather the idea is to use this new all singing and dancing NGN network that has been built at huge expense, to deliver services and applications that you create using software (like skype for instance) and deliver these to subscribers connected to the existing telecommunications operator.

The NGN environment offers opportunities for third party service providers in traditional Telco networks – entrants can now enter without the need for substantial investment in telecoms transport infrastructure.

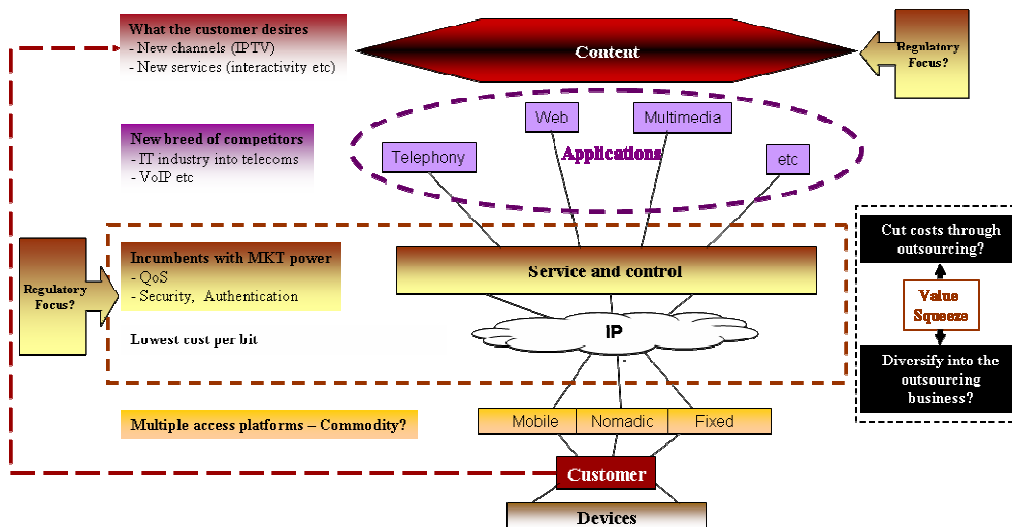
Convergence and NGN is therefore a double edged sword.

In this new world, the traditional telecommunications operators, whose business it has been to transmit

bits of traffic from point in the network to another is in trouble. If all you are doing is providing the motorway lanes for carrying Rolls Royce cars (new services) created by someone else, then what value are you offering?

The real value in this new world is content.

The old boys in the telecommunications club must now adjust to the reality that they must either try and cut costs and specialise in delivering what is valuable to end users or must try to generate additional revenues streams from the core competences they already have.



The telecommunications world is embracing outsourcing in three key ways:

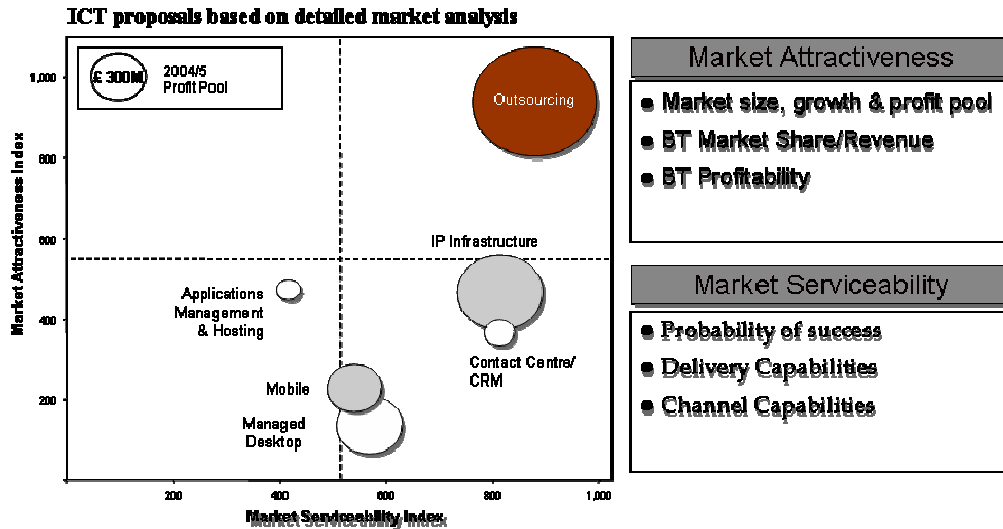
1. Telecommunications operators outsourcing their functions and processes to cut internal costs in the aim of becoming a lowest cost telecom provider – e.g. outsourcing non-core activities to other specialist outsourcing providers (call centres, BPO, HRO etc)
2. Telecommunications operators positioning selectively on the value chain – to concentrate on their key core competences - outsourcing network operations to other telecom operators (e.g. traditional mobile operators like Bharti in India)
3. Telecommunications operators concentrating on the provision of outsourcing services to business enterprises - Enterprises outsourcing their telecommunications infrastructure and management to organisations whose business it is to provide such services (e.g. BT)

The market for network outsourcing should not be underestimated:

- Shell outsourcing its global telecoms, in a deal worth \$4bn
- Fiat has made BT its global telecoms provider in a deal worth €450m over five years (2006)
- BT has signed a \$650M five-year contract with Procter & Gamble (P&G) to provide and manage a broad and integrated portfolio of services
- Orange Business Services secured a €160 million, 7-year Outsourcing deal with Numonyx to implement and manage a significant part of its information and communications technology (ICT) infrastructure
- Credit Suisse – global telecoms outsourcing contract signed with BT in 2007
- ING – European telecoms outsourcing signed with Verizon last year
- Novartis – global outsource deals signed last year with BT for pure telecoms and Vodafone for mobility
- ABN AMRO – 3 large global telecoms outsource deals signed in 2005

- Unilever – global telecoms deal with BT agreed several years ago

Notice how BT features prominently in the above – this is no coincidence. BT saw outsourcing as a key driver for its business back in 2003. Its analysis (as detailed by Andy Green, CEO BT Ignite in Jan 03) suggests outsourcing as a business model as ranked highly.



4 primary areas identified: Outsourcing, CRM, IP Infrastructure & Mobile  
 2 secondary areas for selective action: Desktop & Applications Management

The telecommunications industry globally is facing a paradigm shift in focus both for policy makers and operators, from the twin challenges of convergence of technology, services and players, and as result of separation of networks and ownership.

The opportunity for entry by new niche businesses is increasing, whilst the dominance of content owners is changing the market dynamics of the industry. Incumbents are no longer in the business of just serving the end-user, but increasingly are becoming the outsourcer of networks for existing and new operators and enterprises.

The changing landscape requires a dramatic shift in operator strategies, if they are to maintain their position in the market. Business improvement philosophies are critical in the battle of market share and profitability. Outsourcing in particular, offers the opportunity to generate new revenue streams, cut internal costs and re-engineer the business to be more agile, flexible and responsive to ever rapid changing market dynamics.

*This Perspective has been written by Bharat Vagadia, CEO Op2i - a business improvement firm specialising in outsourcing. Services offered include: advisory, training, project management, governance and arbitration services throughout the outsourcing lifecycle.*

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*The views expressed in this Perspective reflect only the views of its author and not the NOA.*

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