

Telecom & Outsourcing

Retaining control while optimizing efficiencies

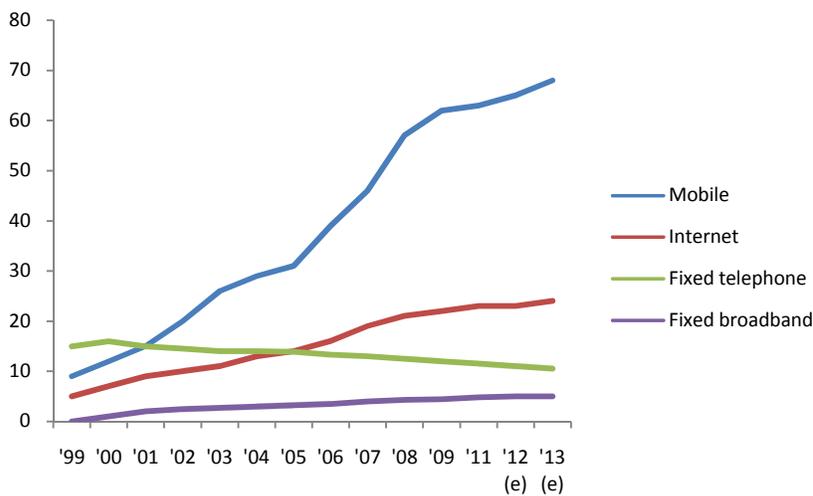


Growth in telecom over the past decade

The telecommunication industry has witnessed more change in the last decade as compared to its entire history. The single most significant trend in industry is the phenomenal growth in mobile telecommunications industry. In 2000, more than a century after its invention, less than 1 in 6 people had access to a telephone of any kind. By the year 2010, seven out of ten people around the world had access to a mobile telephony device. (Refer exhibit 1)

Exhibit 1 - Growth of Telecom

Per 1000 inhabitants



Along with the increase in mobile communication, the industry has also witnessed a sharp increase in over the top (OTT) communication services.

The strong growth mobile communication has in turn led to drop in public switched telephones (PSTN) and voice revenue volumes.

What are we faced with now?

The telecommunications sector has managed to withstand the global downturn fairly well compared to other sectors. This, coupled with the growth in availability of smart phones to a larger audience, has led to it being considered a secure investment sector within the otherwise volatile markets. However, this segment has long been plagued with a unique set of challenges that are accentuated by newer providers and emerging service areas.

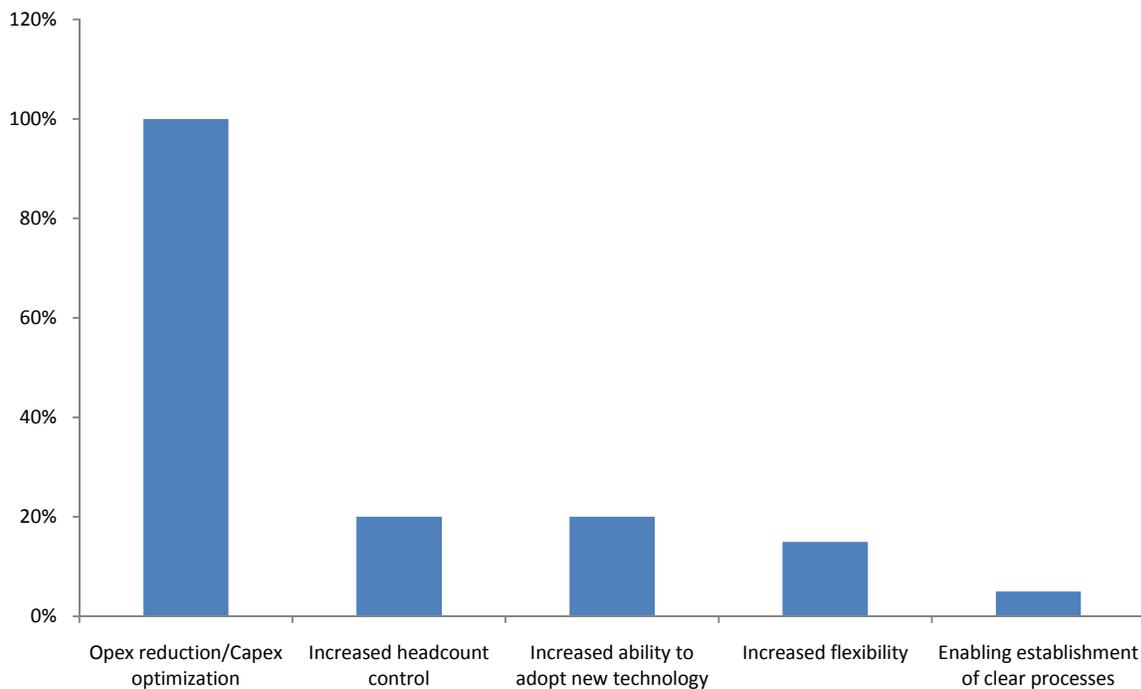
One of the key challenges in 2013 for the telecommunication provider is the lack of investors' confidence in return on investment. High capital spends have always been of concern to the

telecommunications provider. This has led to various providers exercising tighter controls on capex to maintain desired free cash flow levels. The increasing trend is to move capital spend to opex spend through outsourcing.

Outsourcing as an imperative

Traditionally, smaller players have emphasized on outsourcing as means to expand faster and at the same time maintaining focus. However, in more recent past, the larger players have shown interest in the outsourcing of functions as means to optimize capex and reduce opex.

In a survey conducted to understand why telecom providers needed to outsource (refer exhibit 2), it was understood that the reasons for outsourcing network and field operations varied from operator to operator. However, 90% of the respondents felt that the key driver for outsourcing was reducing the opex. The survey revealed that none of the telecom providers believed that outsourcing would lead to a competitive advantage. Hence, outsourcing continues to be a means to greater efficiencies rather than service differentiator.

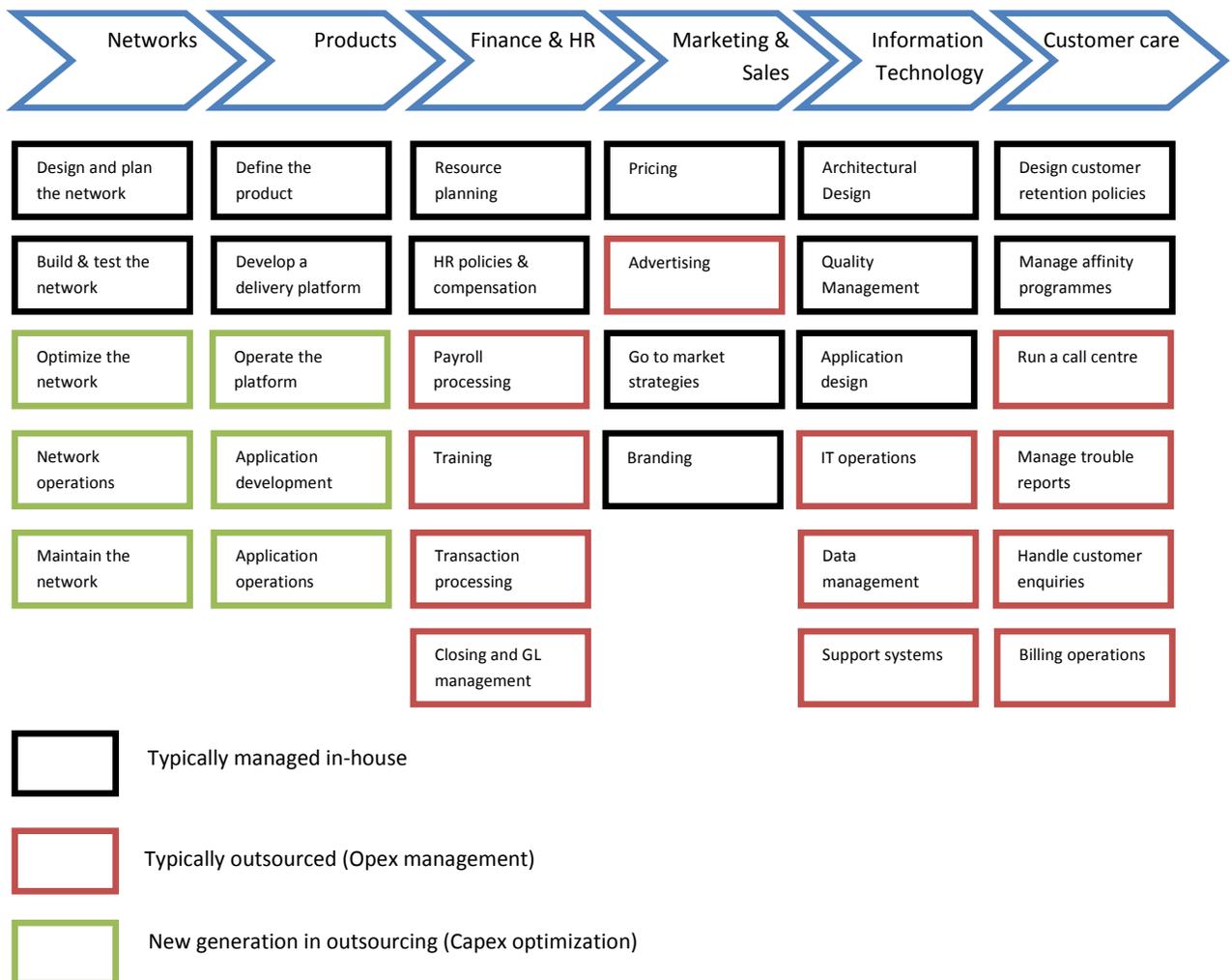


Outsourcing opportunities across the value chain

As is the case with other industries that outsource operations, Telecom companies tend to keep core competencies in house and outsource the rest. However, the definition of what constitutes core competencies for a telecom provider has undergone a shift in the market (Refer Exhibit 3). Historically,

the Industry has outsourced more transactional activities, such as billing, IT & call centers. However, more recently, telecom companies have moved to outsourcing areas of operation that be separated from the rest. This includes network operations and content bundling & solutions. This is has been driven significantly by the need of the industry to contol capex and improve return on investment. Nevertheless, conceptualization and development has continued to be managed in-house.

Though the market has altered its thinking regarding core competences in telecom, IT, finance and call centers continue to be most popular for outsourcing.



What are the emerging trends in outsourcing within the sector?

- The trend of outsourcing infrastructure as well as certain operational support to certain third party managed communication providers has accelerated in the last couple of years.
- The carriers desire to cut Capex and opex has driven the growth of the telecom outsourcing sector by 4% in 2012. Keeping in mind the current growth of the sector, the size of the sector is expected to hit \$76 billion by 2016.
- In 2012, the key players for service management have continued to be Alcatel- Lucent, Ericsson, Nokia Siemens Networks and Huawei.
- The next stage in telecom outsourcing is expected to be value added services such as content and next generation communication services

Imperatives to outsourcing

In light of the developments in the field of Telecommunication, a well handled migration of processes to a third party service provider becomes of prime importance. This is not just limited to having well thought out strategy but also ensuring seamless and time efficient implementation or transitions.

There are a few essentials that companies must keep in mind when deciding to outsource their operations

Perform a detailed viability analysis: It is imperative that businesses considering outsourcings are able to put understand the savings on costs and the opportunities to optimize operations. One of the other key factors to understand is the cost of migration.

Start with optimized processes: The maximum cost and effort required in outsourcing is that of the transitioning the process elements. A company should consider implementing leading practices for processes before they are migrated to third party, enabling smoother transition and quicker realization on efficiencies.

Well-structured service level agreements (SLA's): It is obviously of great importance that the terms of SLA's are studied in great detail to ensure competitive pricing. However, a more important element in an outsourcing deal is management of quality. Well defined KPIs to ensure quality are imperative to a successful outsourcing relationship. Hence, the telecoms should consider the best combination of both cost savings and performance ratios while selection and outsourcing vendor.

Where does Falak come in?

The Falak team has been part of and led various outsourcing assignments in the past, which have included successful migrations of telecoms. We support telecoms by providing support in all facets of outsourcing. Our experience of having worked independently with various outsourcing suppliers, we have the ability to provide insights into various critical success factors and help guard against major pitfalls. We ensure successful migration by supporting the following steps:

- Strategy formulation
- Defining what could be outsourced as opposed to what should be managed in-house
- Preparing business case for outsourcing with detailed understanding of cost savings to be achieved and efficiencies to be optimized
- Evaluating and selecting a vendor
- Project managing the transition
- Assisting in training for altered processes

Further information is available at WWW.FALAKCONSULTING.COM

The information contained herewith is deemed confidential and remains commercially sensitive.

Acknowledgements

International telecommunication s union 2013 – statistics database

Booz Allen & Company – 2009 –“Outsourcing Network Operations – maximizing the potential”

IBM Consulting – “Teleco 2015 : Five telling years, four future scenarios”

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