

Communications & High Tech | Outsourcing

Expanding network capacity at less cost: The future of network outsourcing

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Network executives are under pressure to increase capacity to meet the growing demand for data services, even as their companies struggle to reduce costs in light of continued economic uncertainty. One important strategy capable of meeting those very challenges is outsourcing. For more than 20 years, IT-related fields have leveraged outsourcing as a way to enhance capabilities, tap into deep skills and reduce costs.

Yet in the network space, the use of outsourcing still lags other IT-related functions and processes. To learn why this is so, Accenture and TM Forum—an industry consortium focused on improving business effectiveness for communications service providers and network operators—conducted in-depth interviews with network and IT executives from almost a dozen major communications companies across Western Europe. The results of this research are instructive to companies everywhere.

Overcoming resistance: The benefits of network outsourcing

The executives interviewed expressed a number of common concerns about today's marketplace and technology challenges. As one executive noted, "We have two concerns of equal importance. One is driving down costs, because of reductions in pricing and especially roaming revenues. The second is dealing with the rise in volumes for data services, and getting ready for the open value chain."

To address these challenges, however, few of these companies are using network outsourcing in comprehensive ways, preferring to take, as another executive put it, "a more project-oriented approach

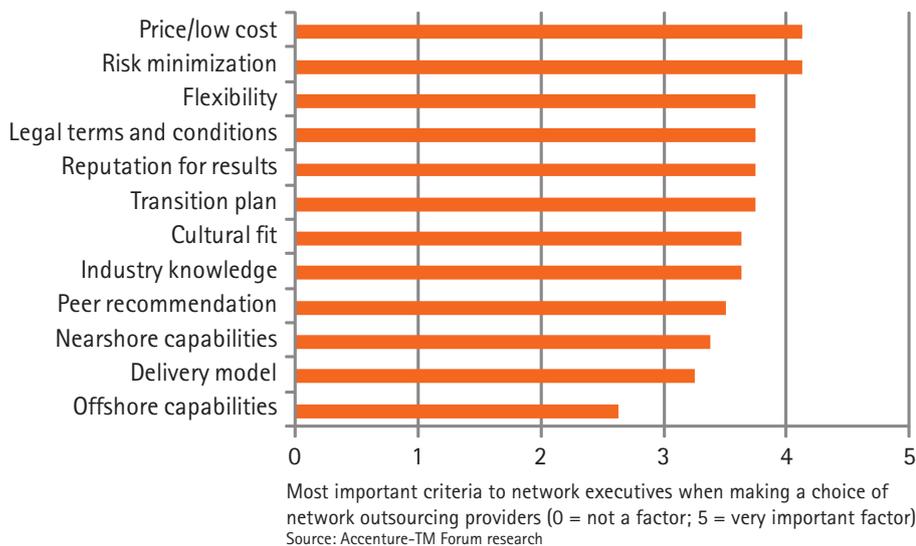
rather than pursuing activities within operations." Only two of the executives we spoke with were outsourcing more extensive operations of the network.

Why is the network function lagging in the use of outsourcing? In our experience, resistance comes in several forms. Sometimes, decision makers believe that their back-office functions are too complicated for an external provider to handle. Other companies, wary about the loss of control, of expertise or of the customer relationship in general, fear that the customer experience would degrade or that there would be more widespread service outages that would have long-term consequences.

Most of all, many executives believe that their network is core to their company's business strategy—and, therefore, not something to be managed by an external provider. As Accenture research and experience demonstrate, however, many aspects of network operations have become commoditized, making them likely candidates for outsourcing.

The potential benefits of a broader use of network outsourcing are considerable. Based on our experience, clients can generate cost savings of up to 40 percent, achieved through lower-cost sourcing of high-quality talent, consolidation of fragmented operations and the synergies of leveraging resources across companies and geographies.

Companies can also experience greater efficiencies and improved service because outsourcing providers are contractually obligated to specific service levels. An outsourcing provider with a global, industrialized capability is able to take efficiencies generated with one client and apply them to other



companies, resulting in continuous operational improvements.

For example, when Dutch communications company KPN outsourced order entry and engineering for its narrowband products, the company realized significant savings from labor arbitrage and efficiency improvements while also increasing quality of service by 9 percentage points.

Deciding factors

Many of these same potential benefits are on the minds of network and IT executives as they weigh the merits of competing network outsourcers. The top two factors named by network executives as criteria in choosing an outsourcing provider were the abilities to keep costs low and to minimize risk (see figure, above). Flexibility, contractual issues and reputation also figured highly.

The criteria listed by IT executives were similar. However, perhaps reflecting their longer years of experience in the outsourcing area, the importance of an effective transition plan was named as the most important factor. These executives are aware that the first months of an outsourcing relationship—the time when responsibilities are transferred to the provider and new business processes are established—are especially important to realizing the overall business case of an outsourcing deal.

Achieving an outsourcing leadership position

How can communications companies use network outsourcing to advance their position as an industry leader? Based on Accenture's experience, here are some keys to tapping into greater value:

1. Focus on entire processes, not only tasks. Instead of relying on an outsourcing provider only for discrete tasks or projects, look for one that is competent to handle entire processes—order entry, circuit design, service activation, telecom expense management, customer care and so forth. The best outsourcing providers stake their reputation on bringing industrialization, standardization and Six Sigma approaches to end-to-end processes. That's where a communications company can begin to realize both better cost control and higher business value through outsourcing.

2. Base your sourcing decision not only on cost considerations but also on larger value propositions. As noted, our research found that cost was an important factor in choosing a provider, but other sources of value were also critical. These included flexibility, cultural fit, industry knowledge and a reputation for delivering results. The executives we interviewed had concerns about whether an outsourcing provider could continue to drive value several years into a contract, so be sure to look closely at a provider's track record in this area.

3. Look for evidence of the ability to consolidate and transform. As companies move further along the outsourcing maturity curve, they should look beyond just "doing the same things for less." What they need is to do the right things for less. Outsourcing begins to deliver greater business value when a provider can consolidate different activities and locations, eliminating manual work and leveraging the advantages of repeatability and standardization.

Conclusion: Outsourcing for competitive advantage

The fact that outsourcing within the network function is earlier in the maturity curve compared with other types of IT outsourcing is actually an opportunity for companies to achieve a marketplace edge. Service providers can use outsourcing across broader sets of network activities, including testing, provisioning, inventory data management and expense management, as well as related applications and infrastructure.

In other dimensions of corporate IT, outsourcing is a well-established strategy to meet the very needs identified by the executives interviewed in our research: providing high-quality capabilities to supplement an organization's internal functions, resources and processes while simultaneously providing a more cost-effective, variable fee structure.

Communications providers now have the chance to increase their use of network outsourcing to achieve similar benefits—outsourcing more complete processes to increase network capacity and support next-generation networks while also keeping costs as low as possible.

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