Title:
Managed Service in Telecommunication Sector
Getting the messages across

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Thesis
Study programme in
Master of Business Administration in
Marketing Management
Abstract

This thesis will look at what marketing channels to be used and what type, or types of marketing message for a vertical diversification into managed services. A diversification from a goods only company into both a goods and services company. It looks at this marketing challenge in the telecommunication sector within the English market. This thesis is part of the Marketing MBA program at University of Gävle.

Summary

This thesis looks at marketing channels and market messages for a vertical diversification strategy into managed service. As such, a vertical diversification is an expansion into new business area or areas and it is therefore natural that both the market channels and market messages are analysed. The research question formulated for this thesis is:

“Which marketing channels and what message(s) are most effective for improving the customer perception of a managed service partner in the telecommunication sector for the English market?”

The overall approach for this thesis was to look at this from a research and analysing perspective and to use a mix of both quantitative and qualitative research and to benchmark towards academic “theory” were such existed.

The primary input data was decided to be collected from the following groups:

- Mobile telecommunication operators in the English market.
- Consultant companies e.g. PA Consulting
- Vendor / Supplier sales team (Ericsson)

The research shows that the market message to get across should be based on the following:

1. Initial market message – the outcome from the primary research show that the two main market messages should be based on financial / business and technology. As described above it is also the main and initial driver from the experience of Bradley Mead, VP Services Ericsson UK – the potential cost savings in managed service.

2. Track Record - Possibility to show the track record of existing managed service contracts from a multitude of aspects based on the benefits delivered to the operator. Such as cost savings, engineering skills being available, tools synergies and/or improvements etc. Outsourcing is a ‘reputation business’ so references are key. This is in line with the conclusion from chapter 5 Operator Experience and it also found in the primary research.

3. Right Competence – Be able to show that the right competence are available for the wider managed service and vertical integration. This can be acquired either by organic growth or by acquisition of suitable consulting skills, like IBM and HP did.

4. Multi-vendor capabilities - It will be increasingly important that the managed service capability can be utilised on all vendors equipment. It forms a vital part in building scale for the MSP to be profitable in the managed service area.
In terms of the marketing channel the reference material shows that the employees working in direct interface towards the customer have the greatest possibility to add value. The primary research shows that the people working in this boundary interface have the direct relationship with the customer. This is supported in the academic paper regarding importance of communication and who from the vendor that have that interface into the operator McNaughton Rod B. et al, 2002. It is also supported in terms of boundary interface and communication by Sharma Neeru et al, 1999. This is also supported and in line with Grönroos “six rules of service” (2000, pp. 376-7) discussed in chapter 6 Theory and Academic Papers.

So the people working in this boundary interface being the interface to the customer could be used as a direct marketing channel. The primary research shows that these employees collect and gain their knowledge and understanding of their own company capabilities via internet web pages, extranet and intranet.

The conclusion here are three fold;

a) Acknowledge that employees working in the border interface are the main marketing channel.

b) Continuous eduction of the employees via internal web pages. Making sure that these employees are given the correct and latest information and marketing material via the internal web pages.

c) Given the pivotal role of functional quality and communication in impacting on relationship commitment, intensive training in interpersonal and communications skills would seem warranted.

Worth noting here is the difficulty in achieving a standardised output in people-based performances. In order to build and maintain quality the service delivery needs to be based on a common process and the employees working with the service delivery, the boundary interface, needs to be continuous trained in order to achieve a somehow common customer experience. However in the end it will always be dependent on individual achievements and single independent situation.
Contents

1 Introduction to the Thesis................................................................. 6
   1.1 Background to the Thesis............................................................ 7
   1.2 Advisory Group and Contributors............................................. 9
   1.3 Definition of Managed Service and Hosting.............................. 10

2 Market Background.......................................................................... 12

3 Context............................................................................................ 13

4 Market Forces.................................................................................. 13

5 Operator Experience......................................................................... 19

6 Theory and Academic Papers......................................................... 21

7 Primary Research.............................................................................. 36

8 Summary.......................................................................................... 42

9 Appendix A....................................................................................... 46

10 Abbreviations.................................................................................. 54

11 References...................................................................................... 54
1 Introduction to the Thesis

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“Which marketing channels and what message(s) are most effective for improving the customer perception of a managed service partner in the telecommunication sector for the English market?”

The research question was defined and refined several times during the early parts of the thesis. To arrive at the final research question the following information was reviewed and discussed:

a) a sales cycle definition
b) a geographical limitation
c) to positioning the research as analytical viewpoint
d) the decision regarding the sources for the primary input data.

During the early brainstorming sessions with the advisory group ¹ the research question was refined from the marketing sales cycle that was discussed;

Create Awareness ➔ Create Interest ➔ Create Understanding ➔ Sale

The first phase in this cycle is to create an awareness. An awareness around its products and its services capabilities that can be provided to the customer. Once that first stage is achieved the next step in this cycle is to generate an interest with the customer. In today's competitive market this means placing the product or service in the context of the customers situation. In order words; show the value and benefits it will bring to the customer? Alternative, what problem or problems does it solve for the customer? After the 'Create Interest' stage is the understanding stage which involves presenting more facts and details. The information to present varies slightly depending on the receiver in the customer organisation. For example the CFO (Chief Financial Officer) is primarily interested in the details on how the business case is calculated. The CTO (Chief Technical Officer) will be more interested in how the product or service is to be implemented and used in order to provide the full value and business benefits. Once the 'create understanding' stage is reached the final stage is to move towards the sale phase. The conclusion from these discussions was to concentrate the thesis research at the 'create awareness' phase. This is reflected in the research question in terms of improving the customer perception part.

Another input was the limitation to a specific geographical area, England and the reasons for this was:

1. In order to get more focus on the research.
2. To give the possibility for a more detailed and specific outcome on the research question.
3. Access to source data and access to experienced sources in managed services.
4. Performing the research and analysing a homogeneous market place.

¹ The Advisory Group is outlined in chapter 1.2 Advisory Group and Contributors
Different geographical areas have reached varied levels of maturity and market penetration. As such the market communication would potentially have to be dissimilar for the different market places. This situation is altogether avoided from the research point of view with a single country approach. Within a country all the operators are facing the same market conditions such as technology maturity, mobile phone penetration, end customer awareness levels etc. By doing this the thesis research can treat and analyse the market and market place as homogeneous. More about this in chapter 2 Market Background.

The third area of discussion was about the overall approach and positioning of the research. The approach adopted was to look at this from an analysing and theoretical perspective and to use a mix of both quantitative and qualitative research. And to benchmark and compare towards academic “theory” were such exists.

With regards to the primary data it was decided to be collected from the following sources:

- Mobile telecommunication operators in the English market.
- Consultant companies e.g. PA Consulting
- Vendor / Supplier sales team (Ericsson)

The reason for including consultant firms was an indication that some of the English operators involve external consultants in the early stages of their evaluation whether to outsource or not. Potentially the consultant firm could then also be asked to survey the market for potential outsourcing partners. Consequently the consultant firms can have a major influence in the strategic direction of the operator and their choice of managed service partner.

There was an interest from a specific member in the advisory group to collect input from the Ericsson sales personnel in UK. In general their input was viewed as highly time stamped, being relevant only for a short time span. The reason for this short time span view was that with a dynamic job market as England and a dynamic company such as Ericsson people move around to different positions. Employees leave and join the company, the companies internal communication is continuously being updated and employees build more knowledge and competence by attending courses. Despite being viewed highly time stamped information compared to the other information sources there are some clear benefits. Especially if it shows that the data differs in some substantial way to the external data. Hence this source was included in the thesis.

1.1 Background to the Thesis

I approached Ericsson with a wish to use the result and outcome from the research for both a report to Ericsson and as the data source for this thesis. The rational and thinking was the possibility of access to experienced and knowledgeable information sources. The feedback from key people within Ericsson was overwhelmingly positive and I was surprised and grateful by the positive support during the whole period writing the report. The report to Ericsson is now finished and has been presented to the advisory group.

The original report and problem question was proposed by a senior marketing manager at Ericsson head office, Kista Sweden. The initial thinking behind is was around the diversifying strategy into managed service and how a telecommunication goods supplier can avoid impact on the existing business and market position.
The first research problem formulated was; “What channels are most effective for marketing a company’s capability in terms of (managed) services in the telecommunication sector”.

Worth noting in this early phase of the research is the term managed service was used in a broad sense referring to different approaches or models for setting up and running a service. More about the definition of managed service is in chapter 1.3 Definition of Managed Service and Hosting.

The advisory group desired outcome from the research report was to provide an increased general knowledge around managed services and give an indication on:

1. Marketing channels to use for managed services.
2. Type of marketing message for managed services.
3. Focus, both in terms of resources (people and money) and marketing message for services.

Apart from increasing knowledge in the managed service area another reason was the signing of the largest managed service contract in the industry at the time in December 2005 between 3 UK and Ericsson. The seven-year partnership was the first agreement of its type in the UK\(^2\). However it then took two years until another large managed service contract was signed in UK by Ericsson. It was the five year managed service contract between Ericsson and T-Mobile UK.

_December 3, 2007, 11:10 (CET)_

_Ericsson and T-Mobile UK, part of Deutsche Telekom, have signed a five-year managed services contract to modernize the T-Mobile UK network and provide managed services with a comprehensive range of professional services._

_The strategically important contract includes modernization of T-Mobile’s infrastructure, field operations and multi-vendor spare parts management. The contract came into effect on the 1st December 2007._

_The five-year contract will enable T-Mobile UK to lower operational expenses whilst maintaining high quality levels, strengthen the company’s platform for growth and improve the customer experience._

_Ericsson will build on its existing UK managed service capability. Around 190 staff from T-Mobile will be transferred to Ericsson, further enhancing its service organization._

_Source: www.ericsson.com_

The research work started before Ericsson and T-Mobile signed the above contract. So at the time there was a willingness to support the report research in order to increase knowledge on how to raise awareness of capabilities in managed services.

1.2 Advisory Group and Contributors

The choice of approaching Ericsson was based on getting access to knowledge and experience within the area of managed services. I am no longer employed by Ericsson but at the time when I started with the thesis work I was. So there was a direct access to the advisory group and some of the contributors. Without they sharing their experience and competence this thesis would not have been possible. All the members in the advisory group and the contributors provided input with integrity and professional conduct. There is no doubt that their input to this thesis has been based, in part, on their experience within Ericsson. But also in part from experience from other employers and working in the area of managed services in the IT and telecom sector. The report was positioned and approached from a research and analytical viewpoint the input provided from the advisory group and contributors was in general terms.

The main contributors:

Philip Thomas, at the time Head of Managed Services Sales and Solutions Ericsson UK. Has worked with managed services and outsourcing from both IT and Telecommunication sector since 1999 in companies such as British Telecom, IBM and Marconi.

Mike Tankard, Head of Services Sales Ericsson UK. Worked with outsourcing and hosting in the IT sector and worked with managed services in the telecommunication sector. Provide insights on the difference between the two sectors. His experience comes from working with companies such as Nortel Networks, Lucent Technologies and Hewlett Packard.

Bradley Mead, Vice President Services Ericsson UK. Responsible for setting up and running the Ericsson managed service organisation for 3 UK. Provided valuable insights in terms of operators key points and interest in managed services.

Stephen Hall, Vice President Key Account Manager Ericsson UK, shared his network contacts and helped setting up interviews with one operator in UK.

During the writing of the thesis, regular reporting was done to the advisory group and ad-hoc face to face meetings with advisory group members was held. Advisory group:

Keith Westcott Vice President Marketing Ericsson Market Unit North West Europe. At the time Responsible for all marketing in Ericsson Ltd. Provided insights and knowledge around marketing in the telecommunication sector

Johan Gyllenswärd Vice President Managed Services Market Unit North West Europe. At the time responsible for all managed services sales and additional services around existing managed services. To expand and leverage existing managed services contract. Provided deep insights and knowledge around marketing and creating customer awareness around managed services.

Anna Olsson Marketing Manager Managed Services Ericsson Sweden. At the time responsible for marketing managed services world wide.

Andy Williamson Strategic Portfolio Marketing, Ericsson Sweden. Tremendous
experience in product and service marketing that was shared throughout the thesis work.

Rutger Reman
Vice President Sales Mobile Core Networks Ericsson Global Customer Account Vodafone. Provided insight and knowledge around sales on a global level. Also provided deep insight into senior management and leadership.

Kristian Toivo
Chief Technology Officer Ericsson Global Customer Account Vodafone. Profound experience and knowledge in product R&D and operational aspects. Provided insights and knowledge around senior management and leadership.

Staffan Åkesson
Vice President of Sales Managed Services Vodafone Global Customer Account. At the time responsible for all service sales towards a major global customer. Provided deep insight and experience to services sales.

Having access and active support from this extensive knowledge base proved to be very beneficial in writing this thesis. From some of the contributor the experience shared was from both IT and telecom sector, and from a wide company base. The risk is of course that the views and experience shared will be single company based. Being aware and conscious of this fact forms part of the mitigation of the risk. The mitigated risk was worth taking in order to access the deep insight, experience and support provided by the advisory group and contributors.

1.3 Definition of Managed Service and Hosting

Going through the literature, academic research and papers from different research companies you find quite a few definitions of managed service and hosting, all being slightly different. The terminology are plentiful with; Outsourcing, Insourcing, Right sourcing, Hosting, Managed Services, etc.

Outsourcing can be defined as "the strategic use of outside resources to perform activities traditionally handled by internal staff and resources". By this definition outsourcing is a strategy by which an organisation contracts out major functions to specialised and efficient service providers i.e. managed service.

The Ericsson definition of Managed Services concept is (Ericsson White Paper, Mar 2007):

“A Managed Service is provided by a service provider that takes on management responsibility for a function that has traditionally been carried out internally by a telecom operator”.

The definition from Nema Prachi, (Visiongain, 2006):

“Managed Services is defined as the practice of transferring day-today management responsibility as a strategic method for improved effective and efficient operations.”

Visiongain defines Managed Services as a strategic method and as profitable outsourcing of network-based services, applications, content and equipment by network operators, MVNOs (Mobile Virtual Networks Operator) and content providers to third party vendors.
Companies have always hired contractors or consultants for particular types of work or to level-off peaks and troughs in their workload. They have formed long-term relationships with firms whose capabilities complement or supplement their own. However, the difference between simply supplementing resources by “subcontracting” and actual outsourcing, is that the latter involves substantial restructuring of particular business activities including, often, the transfer of staff from a host company to a specialist company with the required core competencies (Griffiths, No year).

In Managed Services, operators enter into a fixed term contract with service providers who handle a part or whole of the day to day management aspect at a pre-defined cost. See Illustration 1 for the different definitions.

With regards to hosting, the scope can vary from outsourcing the services and the content delivery platform through to outsourcing everything including services, content sourcing, management and to handle marketing, branding, and promotion (Darnbrough, June 2007).

In the paper from Dash Shailey (Sept 2005) two different types of outsourcing are described; Manufacturing and Services. It state that there been little systematic theoretical or empirical analysis that compares the two types of outsourcing in terms of their intrinsic nature and/or economic affects. Analytically both types of outsourcing have been treated as being similar in theoretical, empirical literature.

He also states that in a market economy, the borderline between vertical integration and outsourcing is determined by profit maximizing firms who weigh the costs and benefits of governing production in an integrated, as opposed to disintegrated, way.

The characteristics of services
1. The services category is highly heterogeneous in nature.
2. Many services activities are intangibles and non-storable and must be consumed as they are produced.

3. Many services are non-transportable and require physical relocations of providers or receivers.

4. Business services tend to be skilled labour intensive. They usually require limited amounts of capital and infrastructure unlike manufacturing activities.

In summary we can say that hosting can encompass many aspects of outsourcing with a flexible business model. Whereas managed service is more defined as it includes the aspect of transferring staff. However as pointed out by Dash (Sept 2005) there has been little academic research into the area of services.

The main area of the thesis research is in Managed Services, however there are so many parallels with hosting as a service and its business model so it will be included from time to time in this paper.

2 Market Background

In the global world market of telecommunication different geographical areas have reached different level of maturity and market penetration. Due to these dissimilarities the market challenges for the operators and the telecommunication equipment suppliers will be different in the various geographical areas. The mobile phone penetration is much higher in the developed world compare to developing. See Illustration 2 The different level of mobile penetration in developed and developing countries. Source: International Telecommunication Union (ITU) http://www.itu.int/ITU-D/ict/statistics/.

Illustration 2: The different level of mobile penetration in developed and developing countries. Source: International Telecommunication Union (ITU) http://www.itu.int/ITU-D/ict/statistics/
However if you look at the challenges limited to a geographical area, such as north west Europe or a country there will be several common denominators for the operators such as; the end user will have similar level of awareness about telecommunications, same resource pool with similar level of competence to employ from, similar level of prices that can be extracted in the market place for the same or similar services. For example all of the operators in England face a very similar market situation in terms of the same level of growth, maturity and penetration for both fixed telephony and mobile phones. So a limited geographical area such as UK or England can be treated as a homogeneous market place in terms of market channel and market message point of view.

3 Context

The theoretical research will be based on literature and internet resources. Relevant literature identified includes several of the sources used during the previous assignments in the MBA Marketing Management programme at the University of Gävle. But also additional literature in business to business marketing and marketing communication subjects. See chapter 11 References for the complete list of theoretical resources.

As per guidelines and recommendation from the University of Gävle the MIO Model, (Ericsson et all, Sept 2004) was assessed in terms of applicable framework to be used for this thesis.

The MIO Matrix is a model developed by Eriksson, Hauer and Hultén, with the main intent to be used in business development. The market research question is limited to the awareness phase, and more specifically the market channels and market messages for a diversification strategy into managed service. Therefore the MIO matrix model was deemed more extensive then what this thesis research needed. Despite being an excellent business and marketing development tool the MIO matrix model was not utilised for this thesis.

4 Market Forces

So why would outsourcing or venture down the path of managed services be of interest to operators? What are the forces that drive the market place?

The forces on telecommunication operator are:

- Market trends
  - Increasing competition in terms of number of operators and MVNOs (Mobile Virtual Network Operators)
  - Need for innovation – for differentiation in the market place
- Pressure on costs
  - CAPEX (Capital Expenditure) and OPEX (Operational Expenditure)
  - Cost of capital
- Increasing complexity
  - Network technology
  - Business Models
- Operational challenges

Operators with a brand and subscriber management but do not own and manage the actual physical network.
Access to competence and skills
Lack of scale

Illustration 3 Telecom operators' challenges/drivers for managed services show these market forces on the telecommunication operators in today's market.

John Darnbrough, in his paper (Darnbrough, 2007), identified the following forces on the operator for managed services:

- Reduce and control operating costs
- Improve host company focus
- Gain access to world-class capabilities
- Free internal resources for other purposes
- A function is time-consuming to manage or is out of control
- Insufficient resources are available internally
- Share risks with a partner company

Source: Informa Telecoms & Media

Illustration 3: Telecom operators’ challenges/drivers for managed services
Using Porters five (5) forces diagram\(^4\) we get a more in depth and complementary picture on market forces for an telecom operator. The applicable determinants have been included for each of the five forces in the illustration below. As an example we see that relative price performance of substitutes is high (free VOIP, low cost WiFi). Meaning that it is relatively easy for the end customer to find substitutes with good price performance. The subscriber (buyer) can move to a substitute. As a consequence the market force for substitute is of medium level of threat towards the operator.

The market pressure from competing operators (Firm rivalry) is high due to saturation in the market place, high exit barriers, price pressure and pressure for product differentiation. This make the market force industry competitors a high level of threat. For the other three (3) market forces we have; Buyer power has medium to high threat level. The threat level for Supplier power is medium and New entrants has a threat level of medium. See Illustration 4: Porters 5 forces on Telecom Operators. Source: Visiongain for all the applicable determinants and the threat level for each of the market force.

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Illustration 4: Porters 5 forces on Telecom Operators. Source: Visiongain

Nema Prachi (2006) identify three major areas in terms of market forces and refer to them as; issues facing the network operators. They are 1) financial, 2) sustained competitive advantage in the market place and lastly 3) continuous improvement or development work in end customer offerings. Each of the three areas has a mitigation activity in order to reduce the impact. See Illustration 5: Issues facing Network operators. Source: Nema Prachi, Visiongain (2006).

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An argument for managed service is to reduce the number of parties the operator deal with. Reason being that there is an increase in operational, financial and legal risks by dealing with various parties. By using managed services, operators are able to reduce the number of players they need to deal with and can therefore manage risks, reduce costs and add value to the overall business in an improved way.

There is a counter argument from those advocating that managing the network is a core business and should not be outsourced in any form. It is the reliance in one or a few vendors for the network and its operations increase the risk that technical or operational faults affects the whole network. In other words the operational risk increase with managed service.

The advocated values and benefits received with a managed service are:
- Reduced network operation costs
- Improved market capitalisation
- Shared risks, higher return on assets
- Make fixed costs variable
- Simplification of organisation and processes
- Improved quality of service for end-customers
- Improved time-to-market with new services
- Mitigated network, technology and subscriber-migration risks

Looking at the market forces from a vertical integrations point of view a graphical picture can be made showing the current and up coming market battle in the area of managed services in the telecommunication sector. See Illustration 6: The vertical integration market forces is changing the industry.

The picture shows the different players; equipment manufacturers, telecom providers, IT services providers and system integrators are moving along the vertical value chain from their respective position. Developing and progressing their business from their strengths and market position and competing for (new) areas of business.
The value chain evolution as presented by Alexander Zak\textsuperscript{5} outline a progression from commodity raw material - to a partnership - to transform the value creation. It starts with commodity raw material that is used to produce a product. Around the product the company can build up and offer different, added value type services, such as support & maintenance, installation service and managed service.

With a built up portfolio of both products and services together with market sector experience the company can then add the value of experience to the customer. As the company have previous experience of delivering a combined product and service solution it should by association be able to deliver the solution with experience to the customer. In other words not only do the company have the product and the different services capability around the product but also the market credibility from previous experience of delivering the solution. With that growing market credibility the company can positioning themselves as the partner of choice in the last step in the evolution chain; transform. A partnership to transform the value creation. See Illustration 7: The value chain evolution. Source: Alexander Zak.

\textsuperscript{5} Alexander Zak is an independent consultant and a member of the Duke Corporate Education Global Learning Resource Network. In recent years, Alexander served as a professor and founding director of Leadership Programs at the Indian School of Business (ISB), an international business school created by McKinsey and Co.. Alexander holds a doctorate in engineering and masters in management. His work and research is in strategic problem solving methodologies, management of complexity in enterprise systems, and development of executive leadership capacity.
If both the customer and the supplier are part of the same value-creating process, the role of price is altered (Gummesson, 2004 (Wikström and Normann, 1994, p. 62)): “This means that both profits and losses... should be shared between supplier and customer. Instead of price setting, it becomes a question of remuneration for participation in the creation of value. This kind of remuneration must be discussed in very open-minded negotiations between the two parties”.

It is not enough that the company has market experience of delivering a product and positioning themselves to deliver services, around the product. In addition the company also needs to be able to take away some of the customer pain points and / or address a wish or wanted position in the service delivery, whatever that position might be. It also need to make the whole transaction and relationship smooth and enjoyable for the customer. For example the experience you make as a customer in a McDonald’s restaurant are; fast, clean, family friendly fast food and the hamburgers taste [nearly] exactly the same world wide. So if your wish in terms of the experience are in opposite to what McDonald's offer then you are not very likely to be a customer of their establishment.

Another example is around the Walt Disney brand. It is about the family, fun, community and optimism. These values are the basis for its success in films and theme-parks and consumers trust the Walt Disney brand to deliver that experience.
5 Operator Experience

This chapter looks at experience and feedback made with managed services from an operator point of view. A good starting point for understanding a potential market message is to listen to operators that already made that experience around managed services.

The experience collected from operators that already have gone through the process and outsourced part of their business or gone into managed service deals:

- Ensure that the organisation and processes are stable and running smoothly before outsourcing – avoid outsourcing problems.
- The human factors and corporate cultures and in particular the influence of trade unions should not be underestimated. Notifying and involving operator employees from an early stage is crucial, as is respecting the power that employees – and in some countries trade unions – have in influencing the success or otherwise of the transition of responsibilities.
- Put the best people in the project from day one and ensure most of them move to the outsourcing company.
- Have realistic expectations regarding the time schedule – allow plenty of time for approvals and formalities.
- There are alternatives to pure outsourcing.

Alex Wolny, CTO Director at 3, worked on the operator side going through the outsource process with Ericsson and directly involved managing it afterwards. Alex Wolny was interviewed for this thesis and his key points from his experience are;

- Crucial to get the scope and requirements right
  - This is important for both the vendor and the in-house resources that are transferred as part of the outsourcing contract.
- Educate the rest of the business
- Not allowing business to fully outsource, in other words outsource 50 then employ 50 to govern the managed service provider and the contract should be avoided. There should be little or no duplication of jobs.
- Meet monthly around service performance

The biggest challenge experienced was to break down the entrenched vendor/supplier mentality inside the organisation. A realisable business case was central to build trust. Including all aspects of effective governance with appropriate stakeholder communication, risk sharing, rapid escalation processes, quantified performance measurement and rigorous price assurance processes.

As a blueprint for an effective governance that include escalation, communication and strategy handling is the model from Darnbrough (2007). See Illustration 8: A governance model suitable for managed services contracts. Source: Darnbrough John, June 2007.

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6 Mr. Alex Wolney, CTO Director at 3 was interviewed for this thesis.
One major issue that many outsourcing operators have commented on has been the tendency to forget about the needs of the staff left behind, especially the team tasked with managing the relationship with the MSP. Two concerns typically arise. The first is one of scale; many operators found they had failed to accurately judge the scale of the task of management and found themselves left with insufficient resources. The second was the change in skill set. The need to move from a typical procurement-driven approach, based on a customer-supplier relationship, to a more collaborative, relationship management role was often overlooked too (Darnbrough John, June 2007). The managed service outsourcing is releasing management responsibility for day-to-day management but not the control of the network or its performance.

Denis Coakley, Director Managed Operations at Ericsson, was working for operator 3 and was part of the staff that transferred across to Ericsson as part of the outsourcing contract. Coakley Dennis was interviewed for this thesis and his experience around successful Managed Service operations:

- To have a commercial model that is suitable and flexible.
- The key principles for the governance structure should be built on:
  - Carrot, instead of stick.
  - Only one person per organisation for responsibility and accountability.
- There has to be flexibility to adapt to changes that will happen.
- Rationalise products, globalise the service.

The experience from both Alex Wolney and Dennis Coakley, and the conclusion reached by John Darnbrough show the importance for the MSP to have experience and competence in delivering managed service. To have people with experience and skills to...
transition the customers operations into managed service model. The conclusion to make is
the ability to show a track record of successful transition into and continuous delivery of
managed service to a customer. A track record to support the customers business
transformation.

6  Theory and Academic Papers

Marketing management activities in the service sector have historically been distinguished
from those in the manufacturing sector on at least five generic differences: intangibility,
inseparability, heterogeneity, perishability, and lack of ownership.

In turn five marketing problems stemming from intangibility and heterogeneity are
experienced by professional services to a greater extent than any other service types.
Professional services experience greater difficulty displaying and communicating their
services, calculating costs accurately, setting prices, promoting their services, and
controlling service quality. These findings are consistent with the characteristics that define
professional services, namely, professional services are more people-oriented and
process-focused than either services shops or mass services, and they have greater levels
of customisation and employee discretion (Clemes Michael et al, 2000 (Silvestro et al.,
1992)).

The survey done in Clemes Michael et al (2000) paper reveals that professional service
firms experienced the following marketing problems to the same extent:

- Services as performances or experiences are often mentally difficult for the
customer to grasp
- Services can easily be copied
- Customers can negatively affect the service experience of others around them
- The service provider is often seen as the whole service rather than only part of it
- Supply and demand can be difficult to match
- Services, unlike goods, cannot be “stored” at quiet times for use when things get
busy.

The marketing problems that arise from the special characteristics of services need to be
managed, as a failure to do so leads to deteriorating levels of perceived service quality,
and ultimately a loss of profitability for service organisations. Given the focus service
organisations place on creating and maintaining customer relationships, a decline in
perceived service quality stands to inhibit the formation and duration of such relationships.

For many services, the essence of marketing is, or ought to be, the development of long-
term, value-laden relationships with customers (Sharma Neeru et al, 1999 (Berry, 1983;
Bejou and Palmer, 1998; Christopher et al., 1991)).

The personnel operating at the “boundary” between the firm and the external environment
are the ones who have the opportunity to re-mix the service offering and add value in
interaction with customers. Their technical as well as interpersonal skills becomes a critical
source of differentiation, satisfaction and thus customer retention. The people spending
their main time working in this boundary are the service delivery personnel that is providing
the actual service. However in the the technical complex telecom area and applicable for
vendors is that sales personnel and technical solution architects are also working in this
boundary. In the direct front line during the sales phase of the service and more in the
background during the actual service delivery.
If customers have trouble evaluating outcomes, then it seems reasonable that interactions ("how" the service is delivered) and all forms of communications will take on added significance as customers seek to minimise dissonance and uncertainty about the service provider they have chosen. The integral involvement of the customer within the service process suggest the need to develop close and trusting relationships to increase customer perceived value, and such relationships are logically fostered by a market orientation. As an active participants in the service "performance" the consumer interacts with personnel in a manner that does not occur in a product marketing context. The consequent transparency of the service encounter enables an impression to be formed of the firm’s commitment to creating customer value. Equally the interaction that occurs with service personnel enables enhanced market sensing by the firm, a capability of a market-orientated company (Day, 1994). As a result it is possible that a market orientation is even more central to the performance of service firms (McNaughton Rod B. et al, 2002).

The importance of the communication and leveraging the market-orientation is even more applicable if the actual service delivery and its personnel is not sitting in the customer premises being physical there. In the digital area of telecommunication the actual service delivery can be done remote for many services or in part for some services. The whole managed service business model relies heavily on scale implying that the service deliver and support personnel are centralised and serving several customers. With this in mind the service delivery can be done remotely and if so the few on-site personnel; like technical solution architects and sales personnel will become the major “boundary” interface.

The findings of the study done by Sharma Neeru et al (1999) highlight the critical role that effective communications plays in impacting on perceptions of technical and functional quality, trust and relationship commitment. Communications effectiveness refers to the formal as well as informal sharing of meaningful and timely information between a client and service provider in an empathetic manner. Its purpose is to shape realistic expectations, help educate clients. Timely communication fosters trust by assisting in resolving disputes and aligning perceptions and expectations. Communication effectiveness has been shown to be the single most powerful determinant of relationship commitment. So relationship commitment is conceptualised to be a function of communication effectiveness, perceived service quality (technical and functional) and trust.

For services such as the service delivery in the telecommunication area the people operating at the boundary between the firm and the external environment are the ones who must re-mix the service in interaction with customer. Their technical capabilities and interpersonal skills are the source of service differentiation, satisfaction and ultimately, customer retention.

Hence customer satisfaction should be regularly monitored to allow corrective action to be taken where necessary. Regular and effective communications with clients is essential in order to reduce perceived risk and uncertainty, shape expectations, educate the client, resolve any misunderstandings and explain the options in a jargon-free way. Given the pivotal role of functional quality and communication in impacting on relationship commitment, intensive training in interpersonal and communications skills would seem warranted. This confirms the importance in spending time on getting the governance organisation and structure working and to make sure senior management is involved during the whole service delivery period, see chapter 5 Operator Experience and illustration 8 for the discussion around governance model.

Operationally, Grönroos (2000) sees managing customer relationships as a triangulation of promises. First there is giving promises (making value propositions to customers), then keeping promises (delivering value in interaction with customers) and also enabling promises (continuous development in operational excellence and internal marketing).
Grönroos has distilled “six rules of service” (2000, pp. 376-7) as follows:

1. The “service mindedness” of employees.
2. Demand/capacity assessment involving the knowledge of the front line staff.
3. Flexibility in customer/supplier interactions as a function of quality control.
4. Marketing and the role of the “part-time marketer”.
5. New technology diffusion, efficiency and customer perceptions of value.
6. Guidance support and encouragement of senior management.

A core product strategy is seldom enough to achieve or sustain competitive advantage in today’s markets, whatever the firm’s business may be. Instead, Grönroos argues that any firm needs to offer and communicate service solutions to connect with the customer’s value generating processes. Therefore all firms become service firms. Further, as services are inherently relational (derived from the dynamics of interaction), he sees no conflict between a service perspective and a customer relationship management approach. However, there is no doubt that he sees relationships as pivotal in effective service management and marketing (Ballantyne, 2006).

Storbacka and Lehtinen (2001) summarise their perspective on Customer Relationship Management (CRM) in this way:

- To emphasise a catalyst role for helping customers to create value for themselves.
- To participate in customer value creation as a process, where exchange includes the interaction between provider and customer, and not just a product or service in finished sense
- To develop strong relationships with customers with the intent of expanding the possibilities for more customer value creation.

Whatever the relationship strategy, trusting and being trustworthy is critical, and this involves making difficult judgements often with insufficient information about integrity, capability and commitment (Ballantyne, 2006).

Storbacka and Lehtinen claim that the most effective relationship strategies develop from knowledge of the customers’ value creation processes.

In many aspects the telecommunication business is similar to the IT business and has shown to have a very similar development path so far. With market convergence and the vertical integration discussed in chapter 4 Market Forces both the telecommunication and the IT traditional sectors will face the same or very similar market forces moving forward. Therefore it could be assumed that telecommunication sector will, to a very large extent, follow the development of the traditional IT sector going forward.

The development from highly customised expensive hardware and software to cheaper commodity, standardised mass-market hardware and software.

In the early days of both IT and telecom there were large customised proprietary systems and solutions. Both from a vendor product and solution point of view but also from a customer requirements point of view. It is not that many years ago when telecommunication was state owned monopoly in large parts of the world with only one provider / operator in each country. Each operator had their own way of operating and maintaining the network and therefore had their specific requirements on hardware and software.
The different standardisation bodies in the telecommunication sector, such as ITU (International Telecommunication Union), together with customer requirement will continue drive the industry to more standardised products and solutions. A product standardisation development similar to the IT standardisation seen for the past 20 years. With the standardisation also comes the possibility of cheaper products via mainly larger mass-market volumes.

Today when hardware is more or less commodity and software is en route of becoming standardised the value in the chain has moved from producing hardware through developing software and into integration services. Building and integrating something customer specific using standardised hardware and software.

This will be more and more applicable to the telecommunication sector due to:

1. Hardware is becoming a commodity. In order stay ahead of the cost pressure from the market place vendors are looking to use common and standardised components more and more.

2. Standardisation bodies will drive and push for common set of functionality and standardised interfaces. This will be done with a view to keep the market place open for all vendors and limit the introduction of proprietary technology that could infringe the market place and its competitive situation. Which in turn will introduce limitations on vendors and operators. The consequence of standardisation will be very similar hardware and software offerings from the vendors → which in turn will further drive the market into commodity.

3. Disruptive business model moving into services as differentiation and being a survival strategy for the vendors. As the traditional IT sector already experienced.

4. Both IT and telecommunication companies will face the same or very similar market forces, as seen from chapter 4 Market Forces.

A search for [academic] papers and books analysing the value and the strategic shift from; hardware → software → integration services, and companies that went through that development was done for this thesis.

The only strategic shift analysed in IT or telecommunication that was found was the academic research of IBM and the paper “Using Networks For Changing Innovation Strategy: The Case Of IBM” by Dittrich Koen, Duysters Geert and de Man Ard-Pieter (2004).

Until the early 1980s, IBM was probably the best example of a vertically integrated corporation: almost all stages of design, production and commercialisation of computers remained internal to the firm. An important initial catalyst of vertical specialisation was the availability of standard components, which allowed for a change in computer design away from the centralised IBM mainframe to decentralised architectures, PC and PC-related networks (Dittrich et al 2004).

From the shift in revenue alone you can see the change IBM went through from 1994 until 2006. In 1994 IBM gained just 11% of its revenue from services. In the group’s 2006 results, IBM Global Services reported revenue of $48.3 billion, or 53% of total group revenue of $91.4 billion (Morris Anna, Oct 2007).
Two forces that emerged in the computer industry in the early 1990s were decisive for IBM's strategic change (Gerstner 2002). The first force, system integration, emanated from customers. Customers increasingly valued companies that could provide solutions integrating technology into the process of enterprise. Because of this customer-driven force, IBM saw that in time the ICT industry would be service-led rather than a technology-led. The second force was the emergence of the networked model of computing that would replace the stand-alone PCs that dominated the market in the beginning of the 1990s.

IBM is highlighted as a shining example of a company that recognised the challenges to its core business early on, and over a period of 10 years and more shifted from a mainframe computer maker into a services company. Where the large leap forward in the strategy was done largely through acquisition. The major acquisition in the service area was in 2002 when IBM bought the consulting arm of Pricewaterhouse.

Looking at the service market for telecommunication in terms of volume and size the trend and development can be seen. Nema Prachi (Visiongain, 2006) estimate the telecommunication service market for outsourcing, hosting and managed services to the following:

1. Over 40% of mobile operators in Europe have already chosen a partially or fully outsourced solution for mobile content.

2. The market for hosting will grow at Compound Annual Growth Rate (CAGR) of 19% from €700 million in 2005 to around €1.7 billion in 2011.

   This is in line with the expectation from Informa Telecoms & Media. They estimate that services hosting will continue to be a buoyant market in Europe and it is expected to more than double in value to US$1.3 billion by 2012.

3. The Western European market for managed services will show a 6% annual growth between 2005 and 2010, rising from €2 billion to €6.5 billion, a CAGR of 26%.

4. The Managed Services market segment is relatively small but will grow further. It is estimates that the total addressable market for Managed Services globally is around $50 billion, and will grow at 2.66% CAGR to around $57 billion by 2011.

   However Darnbrough (June 2007) estimated the market for managed network services for telecoms operators is set to continue to grow at a CAGR of 18% per year until 2012.

   Forecasting the outlook for the managed network services market is extremely complex. This is still a relatively immature market with little publicly available historical data, especially on contract values, with which to identify and characterise specific trends.

5. As of Q2 2006, 20% of all telcos have adopted some form of Managed Services strategy, and that this will increase to around 40% by 2011.

Europe will continue to be the largest managed network services market in the world and will account for 34% of global expenditure on outsourcing network operations by 2012. Most of the largest managed network services contracts are in Europe, for example 3 UK and 3 Italy signed deals with Ericsson worth approximately US$3 billion over seven years and US$2 billion over five years, respectively. These two contracts alone represent an equivalent of approximately US$800 million per year, perhaps 10% of the global managed network services market.
The growth in managed services contracts is shown by the monthly round-up of contracts done by Current Analysis, see Illustration 9: Source:Current Analysis, Monthly Round-up in Telecom Infrastructure Services contracts. These are the published infrastructure contracts in the telecommunication sector by quarter from 2006 to mid 2008 that Current Analysis tracked and published.

Managed services providers claim that OPEX savings of 15-20% are realistic from well structured and executed managed services contracts – primarily as a result of taking advantage of the service provider’s economies of scale and scope. This level of OPEX saving is a considerable improvement on the savings that can be achieved through incremental process improvement, asset disposal and headcount reduction.

If managed services is seen as primarily a way forward to cut operational expenditure then sharing the radio access network is an alternative that operators need to look at. The data from Unstrung Insider shows that with site sharing between operators the cost savings can be up to 20%. This is quite substantial savings from site sharing alone.

However if competition in the market place is on network coverage, quality and availability which is the case in US then sharing the network access, as in any of the types of sharing in Illustration 10: RAN Sharing: Cutting the Cost of Mobile Broadband. Source: Unstrung Insider May 2007., will not be an option. When you are competing on those bases it is less likely that the network or parts thereof would be outsourced to a MSP (Nema Prachi, Visiongain, 2006).
New technology developments, in particular the transition to IP-based services and New Generation Network (NGN) architectures, and increasing competitive intensity is placing telecoms operators under tremendous strain. Operators in mature telecommunication markets all over the world are being forced into investing in a major overhaul or even replacement of their legacy networks to remain competitive, while also seeking to dramatically reduce operational costs to offset increasing demand for expenditure on marketing and sales. Meanwhile, operators in developing markets are juggling the opposing requirements of investing rapidly in network capacity in order to keep up with explosive growth in subscribers and traffic and the need to carefully manage costs thanks to very low tariffs and ARPU levels (Average Revenue Per User).

The initial driver for outsourcing, whatever the business context, is usually the need to reduce operational and / or capital costs (Bradley Mead, VP Services Ericsson UK). The business case for outsourcing telecoms network operations is no different. As telecoms networks grow in both size and complexity and increasing competition from existing and new competitors is driving prices down and placing greater emphasis on service differentiation, which is driving costs up. The operator Chief Technology Officer's (CTO) main objective is to improve the cost effectiveness of day-to-day operations, while maintaining or even improving quality. Embarking on a managed services strategy – which typically means outsourcing some or all network operations, and potentially outsourcing network assets too, is a way to try to address that main objective.

There is a decrease in revenue growth for telecommunication operators in Western Europe to levels of a more mature market and single digit revenue growth, see Illustration 11: Financial performance of selected main European mobile operators, 2003-2006. Source: Darnbrough John (June 2007). With the revenue decreasing the profit levels can not be maintained unless the costs are reduced. This is the reality that makes operators look for ways of reducing cost.
In addition, outsourcing network operations and services hosting are seen as the means by which operators can achieve faster time-to-market, while maximising revenues by taking advantage of the expertise and best-practice of a specialist partner and increasing the flexibility to respond to market needs and trends.

The business case for outsourcing network operations is based on a number of economic, operational and strategic benefits (Darnbrough, June 2007):

- Direct operational cost savings.
- Better use of capital and resources.
- Faster time to market
- Business transformation

On the other hand the business case for services hosting is based on three core advantages over the conventional procurement, deployment and integration route:

- Reduced Capital Expenditure (CAPEX) and Operational Expenditure (OPEX)
- Faster time to market.
- Simpler business and technical operations

Comparing pay-back period and break even point between a traditional product model where the product is sold to and maintained by the operator and the service hosting model, see Illustration 12: Source: Informa Telecoms & Media June 2007 Managed Services: The Business Case and Market Outlook for Outsourcing & Hosting.
There is no doubt regarding the financial strength of the business case for the hosting business model. This will in turn make it a strong [market] force for the operator in terms of possibilities to launch new services for minimum capital expenditure.

A key driver for the hosting business model is the high degree of uncertainty regarding the potential demand (i.e. revenue) – and the cost of developing, managing and delivering new services. Services hosting can be used as a means of managing those risks. The business case for services hosting is therefore primarily driven by the issues of break-even, pay-back and return on investment.

In summary the benefits for the operator with the hosted model are:

- Fewer assets to buy and maintain, which in turn means lower total cost of ownership
- Minimised upfront investment and risk
- Faster time to market.

But what process or activity can be outsourced?

Researchers Ravi Aron, Siddharth Jayanty and Ying Liu (Dec 2004) classify the processes that can be outsourced into three categories:

1. Some processes are foundational in nature, i.e. they account for most of the man-hours and have relatively high volumes and low value.
2. Some processes are “value originators”, since they require expertise in process execution and managing complexity.

3. Some processes are value differentiators, i.e. they have considerable strategic importance.

The choice of what or which functions to outsource and when will depend on a variety of factors:

- The speed at which the operator wishes to adopt this strategy.
- Its attitude to what is ‘core’ to its business and what is not.
- Relative competence or resource availability.

Looking at the functional areas in terms of delivering a new service and different levels of possible service hosting business models we get the following below, see Illustration 13: Value added service delivery functions and business models. Source Darnbrough John June 2007. It show different level of outsourcing choices a operator can do.

There are evidence that some of the global operator groups are adopting a strategy of in-house services hosting – looking at having one operating company that specialises in a particular service and hosts that service on behalf of the rest of the group.
Taking a wider view, looking at all the processes or functions within a typical telecommunication operator and grouping them into similar functional areas we get the following below, see Illustration 14: Telecommunication operator processes or functions. Source: Darnbrough John (June 2007). The colour code for each functional area in the illustration show the propensity of outsourcing.

When there is limited competition and customers value network quality more that any other aspect, network operation will be considered a core area and will be vital in sustaining a competitive advantage. The links between network performance and ARPU (Average Return Per User), churn and customer satisfaction are well understood – and are most acutely experienced in mobile networks. Poor call quality, dropped calls due to interference or poor handover, and poor network availability due to limited coverage are all issues a mobile operator is constantly trying to overcome. In some markets network and service quality continues to be a key differentiator for operators.

Today good network quality, coverage and capacity is taken for granted by the majority of subscribers in the Western European markets and is no longer considered an effective differentiator on its own. Telecommunication operators are being forced into investing more and more in marketing, subscriber acquisition and customer care to reduce churn. Meanwhile operators are being forced to rely on developing and delivering new value added services (VAS) to help them differentiate and maintain revenue growth, but at a time when they are also being forced to find new ways of cutting costs.

As network quality is regarded as a pre-requisite for many subscribers it becomes a hygiene factor in these markets. Therefore it does not provide a source of competitive advantage as more or less all operator have mastered this area of operation. And all operators should be able to deliver the same quality, coverage and capacity in today’s mature markets.
For example, in the UK, Virgin Mobile consistently comes out as a preferred mobile network for consumers in independent surveys and yet its services are hosted on T-Mobile’s network, which consistently comes bottom in those same surveys (Alex Wolny, CTO Director at 3).

This clearly shows that network quality does not matter in end-user perception. Instead it is a difference in marketing and CRM (Customer Relationship Management) that becomes visible in these surveys.

Customers now give more importance to brand, applications, and innovative pricing/tariff schemes. So operators are being forced to rely on developing and delivering new value added services to help them differentiate and maintain revenue growth. Only new mobile services and applications provide the opportunity for gaining competitive advantage, however this advantage is not sustainable for long, i.e., it lasts only until the competition catches up.

The decision to outsource network operations will therefore not be based on economic factors alone. For many operators, the decision to outsource is being driven by a desire to simplify the management process so that they can focus on the new core competence areas such as; market knowledge, customer relations, innovative product and service portfolios management. These new knowledge areas will be crucial to improve competitiveness and sustain competitive advantage.

In addition, the increasing churn, falling ARPU and customer demand for data application have all contributed in shifting operators focus from network operations towards customer services, marketing and sales. A shift to the telecommunication operators’ businesses – a shift away from technology-led to customer- and market-led organisations.

In turn infrastructure vendors should invest their time and energy in understanding the end-user behaviour, in particularly the enterprises. This will give them rich insights into their business models and helping them to assist operators in providing hosting services for enterprises (Nema Prachi, Visiongain, 2006).

A major strategic question for many telecoms operators is whether they hand over their network operations to a third party. The answer comes down to a question of attitude and ideology. For many operators, services’ differentiation and competitive advantage comes from branding, packaging, promotions and customer services rather than from infrastructure operations.

There appear to be four major factors that determine the propensity to outsource:

- Competitive intensity. The stronger the competition the stronger the need to reduce costs and time to market with new services.
- Rate of market growth. The faster a market is growing the greater the demands on operational resources to roll out coverage and capacity rapidly, and to maintain or improve network quality – thus there is a greater tendency to seek help from MSPs, especially network vendors.
- Operator size. The smaller the operator, whether it is an established operator or a new entrant, the harder it is for it to exploit scale economies on its own. Hence, smaller operators are more likely to outsource than larger ones.

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8 Mr Alex Wolny, CTO Director at 3 was interviewed for this thesis.
• Operator maturity. New entrant operators are faced with the dual challenge of limited skills and resources, and limited income placing greater emphasis on cash flow management, and thus operational efficiencies. New entrants are more commonly found in developing markets where skilled resources are hard to find and ARPU levels are lowest.

Many operators have recognised that future success, and sustainability, will only be guaranteed if they radically change their strategic and organisational focus.

In some cases this means an acceptance that a division between network operations and service provision is natural, and that the division may run deeper than just separation at a departmental level but potentially at an organisational or company level. But does it make sense to fully separate ownership and operation of network from service provision?

Many network professionals see this as a step too far, even the strongest supporters of outsourcing network operations are reluctant to advocate giving up the ownership of the network itself – it is still considered a core strategic asset.

It seems possible that the operation and management of the network will become separated from the content and service provision, billing and marketing functions, possibly with a shared network resource, rather like the power distribution networks, independently managed underneath.

In the research paper by Ravi Aron (Mar 2004) he describes how his field research has determined that for a company to reap dividends beyond operational efficiencies, it is imperative that senior management view sourcing strategically, and not as an operational decision. "Rightsourcing initiatives that have cost savings as their principal intent do not yield strategic gains easily. Considerable re-architecturing of the relationship is needed before strategic gains can be captured."

Further on he writes:

“One of the strategic advantages of sourcing is knowledge of technology, access to better processes or efficiencies, or learning about more efficient management procedures."

This is in line with the strategy of mobile operator 3 in UK were Alex Wolny, CTO Director at 3 UK commented during the interview for this thesis that 3 UK was looking to; "Move from outsourcing to right sourcing".

Just as there is cost savings in sourcing things, there are savings in sourcing knowledge and talent. So a managed services contract is about far more than cost reduction, or the transfer of operational responsibility or staff. The decision to outsource functional responsibility often encompasses significant structural change and can be driven by a desire to fundamentally change the business – from a cultural and strategic point of view. Transformational outsourcing is already being used by companies in other industries which are looking to bring about radical institutional change, achieve dramatic financial gain and transform their businesses to a continuously improving state.

The business and organisational transformation is what operators strive for to become more market-focused and customer-oriented. Many operators have recognised that future success, and sustainability, will only be guaranteed if they radically change their strategic and organisational focus.
When the market becomes mature and to some aspects saturated like the telecommunications market has done in Europe, operators are shifting their emphasis from subscriber and revenue growth to profitability. Consequently this means a transition from a control to an efficiency focus. For example, access – not ownership – to relevant service solutions, content and infrastructure is key. Efficiency translates to specialisation, i.e. a focus on ‘core’ competencies and activities, and a strategy based on partnerships. Closer relationships with both major infrastructure vendors and specialist services companies are being recognised as critical to maximising revenue and profitability. The result of this shift in strategy can be seen in the significant growth in demand for professional services.

Whether a telecommunication operator’s network is its key differentiating asset or not is still a contentious issue in the industry. Some operators, both fixed and mobile, consider the network as core to their business and a critical means of differentiation in an increasingly competitive market. They will therefore be very reluctant to hand over responsibility for their networks to a third party, no matter how competent they may be.

It seems that for many network professionals it is a question of ideology. For those that believe the network is the life-blood of the operator and its main source of differentiation will continue to refute the claimed benefits of outsourcing, and insist that the operator alone is best place to carry the responsibility of network operations. It makes no sense to hand over responsibility for it to a third party, especially if that third party is the main supplier of the network equipment. For those that believe outsourcing network operations can be beneficial, it becomes a question of “what is core and what is not?”

For many operators, services’ differentiation and competitive advantage comes from branding, packaging, promotions and customer services, not from infrastructure operations. Network ‘operators’ are now becoming more focused on service provision than network operations – and in some cases already begin to resemble ‘virtual’ operators, buying wholesale capacity on shared or third party networks.

The difference with some Value Added Services (VAS), especially content-based services is that differentiation and competitive advantage can be gained from services’ design, in terms of user interface and usability, and from control of the content, especially if it is branded and/ or fashionable. Therefore for some operators, VAS development and management will continue to be a core strategic business activity and will be retained in-house.

The following risks to hosted services for the operator has been identified:

- Lack of control over product roadmap.
- Lack of alignment regarding importance of faults.
- Lack of market orientation of the hosted service.
- Lack of in-house expertise.
- Viability of the Hosting Service Provider.
- Myth of services hosting cost savings.

The danger of relying on an external third party to develop and deliver VAS is that the operator may not develop the capability to fully understand the market dynamics, the associated value chain or eco-system, and the technologies behind particular application and content markets. This may hinder the operator in fully exploiting the market, or anticipating market trends, and to some extent makes it reliant on the services provider for strategic planning too.
By keeping VAS in house the greatest challenge for telecoms operators is to develop a profitable content-based business. Apart from those with the scale of a Tier 1, operators are finding it hard to find and keep media experienced staff and manage the wide range of complex business relationships with content providers and owners.

One important reason for the reluctance to outsource in the US is that US operators still compete very much on network coverage and availability. Hence Cingular’s ‘More bars in more places’ and Verizon Wireless’ ‘Can you hear me now?’ campaigns. Whereas in the dense markets in Western Europe and East Asia, the network is no longer considered a significant means of differentiation – and some operators have already begun to share networks in these markets.

Furthermore, in North America a great deal of focus has been on consolidation in the last three to four years, the period when outsourcing has come to the fore elsewhere. It is well understood that large scale outsourcing does not fit well with organisations undergoing dramatic and uncertain change. Typically outsourcing would be more appropriate before any M&A activity (Merger & Acquisition) – as it should make the business more attractive by streamlining operations and rationalising costs – or after M&A activity – in order to streamline the new business and achieve the efficiencies sought by shareholders.

The North American market for outsourced network operations is currently the smallest in the world and services hosting has been more common. This is mainly because of the large number of small regional operators present in the US market. Few of these operators can justify the upfront investments in VAS platforms given their size, especially when some of the services are unproven. Consequently services hosting has been adopted by many of these operators to enable them to compete effectively with the larger operators by offering comparative VAS portfolios while keeping their costs down.

In Asia Pacific region Bharti Airtel embarked on a ground-breaking strategy of ‘managed capacity’ and managed services, which meant that it agreed terms with its key network vendors, NSN and Ericsson, for them to deliver network capacity and coverage on demand, and to operate the network on its behalf. Each vendor had responsibility for different regions within Bharti’s network and took on almost all of Bharti’s operational staff.

The drivers behind Hutchison’s and Vodafone’s decisions to outsource network operations were primarily cost reduction and management simplicity, given the size and complexity of the networks involved. Whereas Telecom New Zealand’s decision was based to some extent on the small size of its network, its resulting inability to exploit scale economies in operations and purchasing power in procurement.

The market for outsourcing network operations in Africa and the Middle East is characterised by significant differences between developed and developing markets. In most of this region, in particular in Sub-Saharan Africa, the markets are primarily based on basic voice services and are very price-sensitive. For the majority of operators, the key challenges are similar to those of the operators in developing markets in Asia – strong competition, low tariffs, limited supporting infrastructure, lack of or very expensive transmission facilities and the challenge of moving into rural areas where demand is very thinly spread and geographic areas are huge. Appropriately trained and experienced people are also in short supply.

So with all these market forces discussed throughout this chapter how come large operators, that already have the large scale operations do not streamline their operations and network to a larger extent and / or at a faster pace?

- Political or cultural reasons. Especially valid for operators with operations in several European countries.
• Management of risks. Easier to control risks if everything is handled internal
• Top management focus more on revenue and customer side and less on internal operations efficiency. Especially valid in a growth situation.
• Operating an own network is viewed as core area and seen as competitive advantage.
• Avoid switching barriers that a Managed Service Partner (MSP) can create. Especially with the typical 5 or 7 year contract currently being the standard.
• Even if you can find someone who can make or provide something cheaper it does not mean that the total cost will be less.

7 Primary Research

The primary research done for this thesis looked at the effectiveness and efficiency to get a message across on different information and communication channels. Looking at informations sources and their usefulness and perceived quality from the respondents the following two questions was rated:

1. How do you rate the information sources below in terms of usefulness and in quality to keep you up to date on changes and development in the general telecom area?
2. How do you rate the information sources below in terms of usefulness and in quality to keep you up to date on changes and development in managed services area?

For the general telecom area 73% of the total respondents see the meeting with the vendor as useful, see Illustration 16: General Telecom Area – Total respondents. For the managed service question 68% of the total respondents see the internal meetings useful, see Illustration 17: Managed Service Area - Total respondents.

So quite a different and opposite view between the general telecom area and the managed service area. In terms of the general telecom area the respondents view the external vendor meeting useful. But when it comes to managed service area the respondents view the internally meetings more useful. So the external vendor does not deliver the same usefulness on the different areas.

For the general telecom area 100% of the respondents from operators and consultants see the meeting with vendor / supplier useful. However only half of them, 50% rate the meeting as good quality. 83% of the respondents from operators and consultants viewed the information from industry web pages as useful. See Illustration 15: General Telecom Area – Respondents from operators and consultants.

For the managed service area question 81% of the supplier respondents see the internal meeting as a useful information source, see Illustration 18: Managed Service Area - Supplier respondents. Of the respondents from operators and consultants 67% of them see the quality of their internal meeting as very good or extremely good. The vendor / supplier respondents gave the same rating, 67% of them see the vendor arranged events (e.g. workshops, road-shows) as useful. See Illustration 19: Managed Service Area – Respondents from operators & consultants.
Illustration 15: General Telecom Area – Respondents from operators and consultants
Illustration 16: General Telecom Area – Total respondents
Managed Services Area - External

Illustration 19: Managed Service Area – Respondents from operators & consultants

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<tr>
<td>More</td>
<td>36%</td>
<td>25%</td>
<td>More</td>
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<tr>
<td>Solutions</td>
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<tr>
<td>Don't</td>
<td>27%</td>
<td>31%</td>
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<tr>
<td>Less</td>
<td>50%</td>
<td>50%</td>
<td>Less</td>
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<tr>
<td>More</td>
<td>18%</td>
<td>13%</td>
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<td>Market Trends</td>
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<tr>
<td>Don't</td>
<td>9%</td>
<td>0%</td>
<td>Don't</td>
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<tr>
<td>Less</td>
<td>14%</td>
<td>13%</td>
<td>Less</td>
</tr>
<tr>
<td>More</td>
<td>77%</td>
<td>88%</td>
<td>More</td>
</tr>
</tbody>
</table>

Of the total respondents 3 out of 4 are reading financial / business information and market trends. Less the 1 out of 5 reads information around [technical] solutions. So it is strong indicating that to reach these people it needs to be on the basis of financially or market trends type information. See above table.

On the question: “If you were to outsource as in Managed Service or Managed Hosting would you use an external consultancy service to map the market and advice?” 13/21 or 62% says yes.
The summary conclusion to be made from this primary research is that respondents look primarily internal for information around managed services. So the main market channel to be used needs to connect with the internal view of the operator and the people directly. The outcome from this primary research also show that the majority of the respondents view two main market messages should be based on financial / business and technology.

8 Summary

This thesis has looked at diversification and strategic change from the view point of a product company that are transforming and diversify in to the service area. And in doing so wants to get the right message across.

From chapter 4 Market Forces it is evident that the whole telecommunication sector and industry are facing a changing market place. For a company to survive in such turbulent environment when the whole industry are facing very though market forces, strategic change is often considered a necessity (Hamel and Prahalad, 1994).

So what is preventing and hindering a company to initiate a strategic change like the product and service diversification?

In the paper from Jeffrey T. Macher, Barak D. Richman (2004) “Organizational Responses To Discontinuous Innovation” they describe that an organisational inertia constrains the abilities of incumbent firms because the structures and systems that facilitate survival in stable and predictable environments become liabilities in environments undergoing rapid change (Jeffrey T. Macher, Barak D. Richman, 2004 (Amburgey et al., 1993; Hannan & Freeman, 1984)).

In short, core competencies become core rigidities and an inability to recognize the value of new information, assimilate it, and apply it to commercial ends (Jeffrey T. Macher, Barak D. Richman, 2004, (Leonard-Barton, 1992) (Cohen & Levinthal, 1990)).

Because the “absorptive capacity” of firms is built upon prior and related knowledge, and because discontinuous innovations generally require knowledge that exists outside of the firm, incumbent firms are unable to recognize and fully embrace new paradigms (Jeffrey T. Macher, Barak D. Richman, 2004).

Companies like IBM and HP got around the organisational challenge and made a substantial step in their respective consulting and services diversification business by buying large existing consulting companies. In 2002 IBM bought the consulting arm of Pricewaterhouse and in 2008 HP bought the consulting company EDS, see articles below:

I.B.M. Will Pay Pricewaterhouse $3.5 Billion for Consulting Unit July 31, 2002

I.B.M. announced yesterday that it planned to buy PricewaterhouseCoopers Consulting for $3.5 billion. The move will accelerate I.B.M.’s shift from selling just computers and software toward a future of providing information technology to corporate customers as a utility-like service.

HP struggled to compete against IBM in global services, see snip below from an article that speculated in HPs future in global services:

For its first fiscal quarter ended January 31 2008, HP generated $4.4 billion in revenue. IBM, meanwhile, reported services revenue for first quarter 2008 ending Mar. 31 of $14.6 billion10.

A few months later that same year HP bought EDS:

HP EDS deal completed: competition for Big Blue11 26 August 2008

HP has completed its acquisition of Electronic Data Systems Corporation (EDS), creating a company that will provide hardware, software, services and outsourcing to both private and public sector IT departments, in competition with IBM.

With the vertical integration, covered in chapter 4 Market Forces the traditional telecommunication vendor companies are facing competitions from traditional IT companies. As can been seen in Illustration 20: Key suppliers of managed services for telecom operators. Source: Darnbrough John (June 2007) the traditional IT companies have a base from where they can progress the vertical integration threatening the more traditional telecommunications vendors like, Ericsson, NSN and Alcatel Lucent etc. The base being identified as “System Integrators & IT Outsources” in the illustration.

Illustration 20: Key suppliers of managed services for telecom operators. Source: Informa Telecoms & Media

Source: Informa Telecoms & Media

Illustration 20: Key suppliers of managed services for telecom operators. Source: Darnbrough John (June 2007)

10Article from Channel Web: http://www.crn.com/it-channel/207602802;jsessionid=TPSS5M0SKUV1VQE1GHPSKH4ATMY32JVN
From chapter 6 Theory and Academic Papers we know that there is a strong likelihood that telecommunications companies will follow the market developments of the IT industry. Especially in terms of hardware becoming commodity placing financial pressure to diversify into software integration and services.

Currently the traditional telecommunication vendors are growing the service business diversification organically and up to time of writing this thesis no major merger or consulting business bought. Herein lies a small contradiction in terms of convincing the operators to go down the path of managed service including areas such as system integration between traditional telecom and IT areas. Reason being that in some cases the vendors themselves have outsourced their IT services to the likes of IBM and HP which in turn creates marketing challenges in justifying managed services to the telecommunication operator.

However adopting a business model for managed services that includes the more traditional IT services areas makes sense for three major reasons:

1. The technologies are being standardised so common systems and tools are the same for both the traditional IT services and the traditional telecommunication services e.g. network monitoring tools, common user databases and user provisioning tools, common transport layer etc. This will make it easier to achieve scale in operations and it make it easier to share competence and skilled engineers across the different areas.

2. The vertical integration threat and keeping potential competitors from gaining tractions by building valuable relationship with the operators.

3. The adoption of common systems and tools across multiple managed services contracts is key to achieve synergies and volume; and thereby the financial benefits. This can be achieved by consolidating monitoring, maintenance and administrative tools and by consolidating the service delivery process.

The services business is predicated on the existence of scale as an overall business model. In order to become and remain successful the business model need to achieve scale efficiencies in all areas of the service delivery (J. Marcus, Current Analysis, 2008).

Bradley Mead, VP Services Ericsson UK\textsuperscript{12} experience was the financial benefits and potential cost savings was the starting point for all operators interested in managed services. This is in line with the conclusions from the primary research. However after that initial drive other aspects was always considered by the operator.

The research shows that the market message to get across should be based on the following:

5. Initial market message – the outcome from the primary research show that the two main market messages should be based on financial / business and technology. As described above it is also the main and initial driver from the experience of Bradley Mead, VP Services Ericsson UK – the potential cost savings in managed service.

\textsuperscript{12}Mr Bradley Mead was one of the contributors for this thesis.
6. Track Record - Possibility to show the track record of existing managed service contracts from a multitude of aspects based on the benefits delivered to the operator. Such as cost savings, engineering skills being available, tools synergies and/or improvements etc. Outsourcing is a ‘reputation business’ so references are key. This is in line with the conclusion from chapter 5 Operator Experience and it also found in the primary research.

7. Right Competence – Be able to show that the right competence are available for the wider managed service and vertical integration. This can be acquired either by organic growth or by acquisition of suitable consulting skills, like IBM and HP did.

8. Multi-vendor capabilities - It will be increasingly important that the managed service capability can be utilised on all vendors equipment. It forms a vital part in building scale for the MSP to be profitable in the managed service area.

In terms of the marketing channel the reference material shows that the employees working in direct interface towards the customer have the greatest possibility to add value. The primary research shows that the people working in this boundary interface have the direct relationship with the customer. This is supported in the academic paper regarding importance of communication and who from the vendor that have that interface into the operator McNaughton Rod B. et al, 2002. It is also supported in terms of boundary interface and communication by Sharma Neeru et al, 1999. This is also supported and in line with Grönroos “six rules of service” (2000, pp. 376-7) discussed in chapter 6 Theory and Academic Papers.

So the people working in this boundary interface being the interface to the customer could be used as a direct marketing channel. The primary research shows that these employees collect and gain their knowledge and understanding of their own company capabilities via internet web pages, extranet and intranet.

The conclusion here are three fold;

a) Acknowledge that employees working in the border interface are the main marketing channel.

b) Continuous eduction of the employees via internal web pages. Making sure that these employees are given the correct and latest information and marketing material via the internal web pages.

c) Given the pivotal role of functional quality and communication in impacting on relationship commitment, intensive training in interpersonal and communications skills would seem warranted.

Worth noting here is the difficulty in achieving a standardised output in people-based performances. In order to build and maintain quality the service delivery needs to be based on a common process. And the employees working with the service delivery, the boundary interface, needs to be continuous trained in order to achieve a somehow common customer experience. However in the end it will always be dependent on individual achievements and single independent situation.
This chapter includes the raw data from the quantitative primary research. It has been analysed and used to reach the conclusion in this thesis.

<p>| Who do you rate as the leader in telecom Managed Services area? (Open area) | Ericsson | BT | IBM | Accenture | Ericsson by reason of number of agreements | Ericsson by reason of number of agreements | Ericsson No other UK competitor | Ericsson | IBM | Ericsson on a pair with Alcatel Lucent | Ericsson | Do not know | Ericsson |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Why do you rate them as leader? (Open area) | Market share | Success | Performance | Cost | Expertise | Reliability | Relationship | Because of the Hutch 3 managed services deal. The scale of it | No significant UK outsourcing except H3G to Ericsson | Currently more contracts than the competition. More long term experience then the competition | Advertising No. of contracts | Reputation | Ericsson &amp; ALU have many global operations I am not sure either has a lead over the other in terms of no. contracts. The ultimate ranking needs to be by customer satisfaction &amp; management overall | I only know Ericsson in the Telecom area | NA | Number of contracts | Percentage of market |
| If you were to outsource as in Managed Service or | No | Yes | Yes | Yes | Yes | Yes | Yes | No | No | No | Depends | Yes | Yes |</p>
<table>
<thead>
<tr>
<th>Managed Hosting would you use an external consultancy service to map the market and advice?</th>
</tr>
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<tbody>
<tr>
<td>If Yes to above question - Who would you consult? (Open area)</td>
</tr>
<tr>
<td>Big 5</td>
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</table>

<p>| Do you talk to and take advice from other operators with regards to Managed Services? |
| No | No | No | No | No | Yes | Yes | Yes | No | No | NA |</p>
<table>
<thead>
<tr>
<th>What area would you consider to outsource as Managed Service or Managed Hosting? (Open area)</th>
<th>NA</th>
<th>Network Customer Care IT</th>
<th>CTO Call Centres</th>
<th>Field Operations- Non contentions areas that are &quot;commodity&quot;</th>
<th>Revenue Assurance - IT &amp; Billing - Performance Management CTO Organisation</th>
<th>Field force maintenance ICT</th>
<th>NA</th>
<th>Outsourcing: - FM - SPMS - IT - Call Centres Hosting; Third party applications</th>
</tr>
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</tr>
<tr>
<td>What would you consider to be the key driver for an outsourcing service (Managed Services or Managed Hosting)? (Open area)</td>
<td>OPEX reduction Focus on core business areas</td>
<td>OPEX Savings</td>
<td>OPEX Reduction</td>
<td>Look of resources, bias of know-how Financial drivers</td>
<td>Cost reduction - operations Technology enhancement to network</td>
<td>Cost reduction is the number one driver with quality of service as a second driver</td>
<td>Cost Savings - Reassurance that work was being done - Revenue increase, efficiency to drive margin &amp; technology refresh to drive revenues up</td>
<td>No. 1 issue is what savings are guaranteed the be made via outsourcing by the operator. Without this number being high the operator will never outsource.</td>
</tr>
<tr>
<td>Who do you rate as the leader in telecom Managed Services area? (Open area)</td>
<td>In the UK Ericsson because of 3 UK deal. Globally Alcatel and BT Global Services emerging</td>
<td>BT Ericsson NSN</td>
<td>E///</td>
<td>E/// in the UK</td>
<td>Unfortunately I have no experience of managed services so cannot comment.</td>
<td>Accenture in terms of Project and Programme Management</td>
<td>Accenture</td>
<td>From a Market Share perspective then Ericsson. However, when you look at the market as a whole, the performance of all the providers is poor. For example, immature bidding capability, value propositions unclear, inflexibility and lack of robustness in contracting approach, unsustainable business / operating model. When you compare the IT outsourcing service providers against the telecom</td>
</tr>
</tbody>
</table>
equivalents, their are stark contrasts in terms of ability to bid and deliver.

So albeit Ericsson are doing well in their market against their competitors, their overall performance leaves a lot to be desired, and signposts clearly to areas of improvement.

| Why do you rate them as leader? (Open area) | E/// - Because 3UK deal Alcatel - Perception of market share | Size of customer base E/// & NSN - BT Growth in revenue and scale of services - BT leading the pack with actual delivery | Captured the most as far as market share goes | Secured H3G mega deal - Well positioned & secure T-Mob snowdrop | NA | Proven track record. Deliver on their promises. | Ericsson are market leader purely down to contract size, as that is my measure of market leadership. However, if one we to compare the service providers on attributes such as their partnering behaviour, - Competitive on price - Flexible risk profile - About to lose out due to inability to act as service delivery. Too much emphasis on business case | Volumn, diversity, competence & geographical spread |

- They supply high quality people and ensure that knowledge transfer is performed when there are changes in resource. They understand the business they are in and will perform in that area and there Business is

- Proven track record. Deliver on their promises.
geared up to perform in that area. their delivery performance, contracting flexibility, ability to innovate over the duration of the contract, one may see a different result.

If you were to outsource as in Managed Service or Managed Hosting would you use an external consultancy service to map the market and advice?

If Yes to above question - Who would you consult? (Open area)

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>No</th>
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<th>No</th>
</tr>
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<tr>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
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</table>

2 big players - Accenture, etc To make sure we get a view which is from the ext in This also give a free & unbiased

- System Integrator company - Cartesian - Professional Service Company (non telco & telco) Accenture,
<table>
<thead>
<tr>
<th>Question</th>
<th>NA</th>
<th>Yes</th>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>Yes</th>
<th>No</th>
<th>Yes</th>
<th>Yes</th>
<th>IBM and HP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you talk to and take advice from other operators with regards to Managed Services?</td>
<td>NA</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>What area would you consider to outsource as Managed Service or Managed Hosting? (Open area)</td>
<td>All IT All Network Infrastructure</td>
<td>IT space BSS space</td>
<td>Field Services - Call centre</td>
<td>If you mean in terms of what area / function of the business, there are the possibilities for support, configuration, billing, provisioning.</td>
<td>Core Telecoms Network, Project and Programme Management</td>
<td>N/A at the moment for my specific area. Generally would consider area's of work which are considered more Business As Usual. Drive to reduce cost.</td>
<td>everything could be in scope, depending upon the risk and reward model.</td>
<td>- Nothing further to outsource - Consider right sourcing</td>
<td>- We (Ericsson) already do hosting - Can / should engage more in government / border security / public sector - Where to partner -- Twin Strategy, pre-arranged 1) ourselves 2) partner (as HP)</td>
<td></td>
</tr>
<tr>
<td>What would you consider to be the key driver for an outsourcing service (Managed Services or Managed Hosting)? (Open area)</td>
<td>Cost reduction Managed / known OPEX profile Focus on core functions + marketing services + brand customer relationship etc</td>
<td>OPEX Improving Network performance Retaining cutting edge functionality Allowing more time for operator &amp; focus on the upcoming battle for the consumer e.g. Internet or Telco</td>
<td>Cost reduction Expertise leverage Efficiency Performance levels Price</td>
<td>Cost, efficiency, ability, performance, case history of similar offerings in similar business environments.</td>
<td>Cost and Quality Drive to reduce cost.</td>
<td>Cost reduction and supplier process innovation 1) Cost, P&amp;L 2) Capability 3) Core competencies</td>
<td>Cost and Quality Drive to reduce cost. 1) Cost, P&amp;L 2) Capability 3) Core competencies =&gt; financial &amp; strategy - difficult to scale - competence or core business - leverage scale</td>
<td></td>
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</tbody>
</table>
10 Abbreviations

ARPU  Average Revenue Per User
BOM  Build, Operate and Manage
BOT  Build, Operate and Transfer
BPO  Business Process Outsourcing
CAGR  Compound Annual Growth Rate
CAPEX  Capital Expenditure
CFO  Chief Financial Officer
CRM  Customer Relationship Management
CTO  Chief Technical Officer
ICT  Information, Communications and Technology
IP  Internet Protocol
IT  Information Technology
ITU  International Telecommunication Union
M&A  Merger & Acquisition
MSP  Managed Service Provider
MU  Market Unit
MUNWE  Market Unit North West Europe
MVNO  Mobile Virtual Network Operator
NGN  New Generation Network
NOC  Network Operation Centre
OPEX  Operational Expenditure
ROI  Return Of Investment
SLA  Service Level Agreement
VAS  Value Added Services
VP  Vice President

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