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NEW PROFITABILITY IN NETWORK OUTSOURCING

A SUSTAINABLE MODEL FOR DRIVING GROWTH

Network operators need to ask themselves difficult questions about where they add value in the communications ecosystem and how they are going to shape their businesses to drive profitability. We've reached a point as an industry where business models need to evolve and develop to best meet the market conditions of today and in the future. Network outsourcing can help to address these changing roles and creates new opportunities to drive profitability.

Whether it is last mile connectivity, interconnection hubs or global infrastructure, network outsourcing offers local and global operators a flexible, sustainable and future-proof way to grow their businesses. Operators that use a mix of owned and outsourced assets are insulated from changes in customer demand and are able to leverage specialised expertise to develop and evolve their operations.

By refocusing their business away from expenditure on infrastructure development and maintenance and to customer needs, these operators can make themselves stronger, more agile and far more competitive – in short fit for whatever the market presents in the future. Outsourcing can be the start of a new phase in the business's development, one where profitability is paramount.

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WHY OUTSOURCING MATTERS

Outsourcing is not a new option for network operators, but it matters more as an issue today than ever before. Operator profit margins are under unprecedented pressure, with their customers able to choose from a growing range of alternatives.

Some of the competition that operators face comes from established providers with a traditional telecommunications focus seeking to open up new opportunities, and some from freshly licensed providers, all the more formidable for being unencumbered by legacy infrastructure investments. Yet another tranche of margin-devouring competition is coming at operators from entirely new and unlicensed sources, based around innovative and highly disruptive business models and burdened with minimal capex or opex commitments to hold them back.

While pricing on most categories of service is on a downward spiral, costs of all types are rising. Outsourcing is the operator's best weapon in this perfect storm of slashed margins and hiked costs.

Outsourcing allows the operator to develop a cost-effective footprint and network presence at high speed and at predictable cost, giving them access to the networks of other carriers all over the world, as well as to developers and aggregators of content.
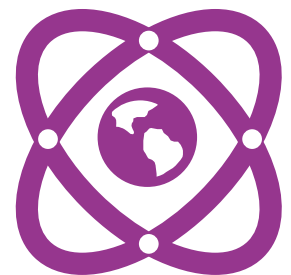
WHAT'S DRIVING OPERATORS TO OUTSOURCE?

Operators are driven to outsource their networks by three main factors:

1. LOCAL ACCESS PROCUREMENT

Operators can struggle when procuring local access, particularly in parts of the world that lie beyond their main operating region. When their customers demand this local access, operators are faced with one of two choices.

They can build their own procurement team to source the international connectivity they need, or they can outsource to one or more suppliers who can aggregate all the local access they need overseas and work as their international arm.

2. TAKING A NEW LOOK AT OLD POPS

Many large carriers operate a string of international PoPs that they built several years ago, when market conditions helped to justify such an expense. These carriers are now facing margin pressure thanks to rising costs. Some of their traditional service areas no longer deliver the returns they once did, for example the wholesaling of voice minutes or straight bandwidth services. Some have entirely withdrawn from wholesale arbitrage.

For such carriers, an overseas PoP is a pure necessity to support their domestic business and not a revenue opportunity in its own right. Outsourcing these PoPs is both a way to cut costs and to buy and sell only what they need according to domestic demand.

3. THE PACE OF TECHNOLOGY CHANGE

The pace of technology change is forcing operators to constantly upgrade overseas nodes. Planning for technology change is problematic. It is difficult to gauge the rate at which customers will adopt services based on new technologies. Capital constraints are also a barrier, especially where financing is needed to refresh older technology that is past its prime.

Outsourcing as a way to future-proof your business and cut dependency on legacy burdens. Trying to keep up with technology necessitates continually recruitment of new people for all the different technologies you are using. Running new and legacy side by side is resource intensive, and not creating value.

A managed services model offers a better and more sensible solution. This model gives the operator the choice to either avoid making their own investment in technology, or at the very least to try new technology out before they go down the investment route.

WHAT TO OUTSOURCE?

There are many aspects of a network that an operator can put in the hands of a third party, to be paid for as a managed service at a cost that can be forecast:

- International co-location services
- Operation of international points of presence
- Transmission services
- Switching services
- Routing services
- Metro and long haul network services
- Local access network services
- System integration and maintenance
- Billing services

There is a strong business case for outsourcing any or all of these, based around a mix of benefits.
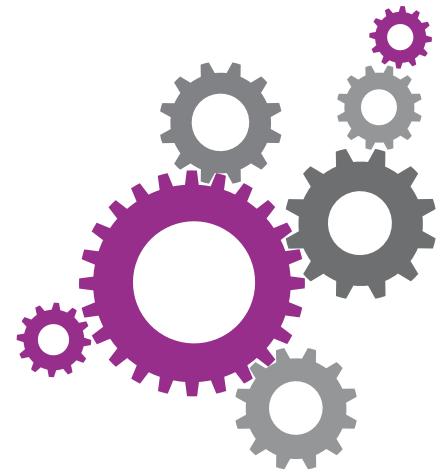
THE BENEFITS OF OUTSOURCING

The biggest gain to an operator of outsourcing a network lies in the removal of cost from the business. Outsourcing enables an operator, whether a small player with a local footprint or a large carrier working on a global basis, to reduce their headcount, and slash both capex and opex commitments. Time, money and effort are all saved by handing non-core elements of the business to a proven third party, covered by a contract with clearly defined deliverables and protected by penalties and SLAs.

There is also a clear business advantage to buying in expertise and knowledge when it is wanted, and not building it yourself over time. Outsourcing gives you immediate access to best practice and experience, and reduces your time to market with new products and services by saving you the need to recruit your own staff or develop processes and partnerships. Outsourcing furthermore gives you scalability, and an enhanced ability to match demand as it ebbs and flows.

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WHO BENEFITS MOST?

OPERATORS IN NEW AND EMERGING MARKETS

Operators starting up in emerging markets are often held back by a lack of in house skill sets and expertise. By outsourcing the development and operation of their network to another party, they have the chance to leapfrog themselves into a position of strength without suffering any of the costs and difficulties of acquiring this expertise.

Rather than spend a lot of time building a network, they can using the outsourcing model access all the carrier relationships they need. As they need more capacity, they can just turn it up.

Many carriers in emerging markets are going straight to a managed services model for their needs. This strategy is becoming more and more of a mainstream consideration.

OPERATORS IN ESTABLISHED MARKETS LOOKING FOR NICHE ROUTES

Operators seeking niche routes outside their domestic market should consider outsourcing the build and maintenance of overseas operations, particularly in places where they don't have any people on the ground. Local access is best outsourced by those players because they don't have the global footprint or the relationships to do it themselves, nor indeed the volumes of business in those niche markets to justify running operations there on their own.

These operators are focussed on their home markets, which in most cases are competitive enough to keep them fully occupied. Extending their reach into non-core markets is costly and complex, and not something they can ever do for a lower cost than an outsourcer. They need to focus on adding value and outsourcing anything that looks non-core.

To have a PoP in these out of the way places is a need and not a revenue opportunity. It is something they have to have to support their domestic business. Outsourcing is a pill that will rid them of this pain.

OPERATORS WHO OWN INFRASTRUCTURE, BUT SPEND LESS ON IT

Even those who do want to own their own platform can at least outsource its operation and maintenance. In preference to employing their own team for this, outsourcing provides a way to handle the upkeep and support of that infrastructure. Outsourcing part of your network operations on a hybrid model can be an effective way to reduce cost without reinventing the entire business.

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OUTSOURCING FOR THE FUTURE

Carriers can learn a lot from looking at the business models of their more agile competitors. OTTs, for example, make a virtue of owning the minimum amount of fixed assets they can get away with. Their priority instead is on reaching out to the customer with their application by the speediest and most effective means possible. Outsourcing is the starting point for all connectivity decisions.

The modus operandi for OTTs and other disruptive players is to use an outsourcing relationship to connect them with as many service providers as possible, reducing their time to market in a space where product lifecycles are short. Their strategy is to buy networking resources with ease, and be able to turn them up turn or down in the most flexible way possible. In a challenging and very competitive market they know they need to be able to adjust very easily or get lost in the mix.

HOW CAN CARRIERS EMULATE THIS? HOW CAN THEY COMPETE WITH A MODEL THIS LEAN?
One step forward is to adopt an ecommerce approach, using a proven ecommerce engine to streamline the sales process. Ecommerce is a way to innovate by bringing efficiency to the market, helping an operator business to take off.

Another way to create efficiency is through the use of a central network exchange hub, one that is neutral but connectivity-rich. New ways of interconnecting represent fresh ways of thinking and are a vital step away from a deadening legacy approach. A hub can translate different technology layers into new generation alternatives – SDH to Ethernet, TDM to IP.

Combined with outsourcing maintenance and support of infrastructure, such a model becomes a major differentiator in service delivery, enabling operators to bring services to market faster and to realise revenues from them as early as possible.

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QUESTIONS FOR OPERATORS TO ASK THEMSELVES

To help operators decide if outsourcing is likely to be effective for them as an alternative to owning and operating their own network, here is a checklist of questions:

WHERE DO I TRULY ADD VALUE IN THE COMMUNICATIONS ECOSYSTEM?

☑ How am I going to shape my business to drive profitability?

☑ How can I best improve customer retention and stickiness?

☑ Which business model enables me to face up to the market conditions of today as well as tomorrow?

☑ How can I capitalise most effectively on new opportunities as they arise?

☑ How can I insulate myself from unpredictable changes in patterns of demand, as well as the difficulties of keeping up with rapid evolution in technology?

ABOUT EPSILON

Epsilon provides connectivity and infrastructure solutions to Communications, Applications, Content and Cloud service providers. Its underlying network infrastructure, intelligent application layers and industry expertise enables its customers to seamlessly deliver mission critical, high performance applications and communications services globally. Epsilon offers a wide range of communications infrastructure services from network connectivity, co-location or data centre services and system integration through to an on-demand ordering platform for ethernet services and cloud access.

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