Rethinking managed services group designs

How telco group designs can unlock value for managed ICT services

As the success of managed services (MS) continues to drive growth in the B2B space, an increasing number of operators are venturing into the managed ICT space. However, the role telecommunication groups should play when selling and providing managed ICT services must shift from the current legacy models to more centrally driven designs. Tech giants such as Microsoft, Google, Salesforce and IBM have already adopted this approach with their local presence in many markets – but the design of the business models and the development of the services are very much centralized. Telecommunication groups, too, can benefit from such centralization. Centralization not only brings about cost efficiencies, but more importantly, helps to build disruptive products due to the enhanced collaboration among operating companies (opcos), which allows them to acquire insight into relevant global trends and access to specialized and skilled resources at a much faster pace.

Essentially, in *ICT, scale matters when its benefits are exploited via well-thought-through, centralized models. Those that manage to develop centrally and deliver effectively are bound to rule the markets.*

The legacy: most telco groups have not yet centralized beyond shared service centers

Through the late 1990s and early 2000s, operator groups executed their territorial expansion strategies through acquisitions. They grew organically and by blueprint design to a much lesser extent. Time to market was the most important paradigm, as well as the focal point of these expansions. This may well be at the heart of the reason the technical reality of many opcos is very diverse.

Many groups have already engaged in establishing centralized services through trying to leverage scale benefits, and perhaps also for some less-rational reasons. However, these were typically limited to shared service centers (SCCs) catering to procurement, network design and other support services, such as knowledge management and project management. A few groups, including DTAG and Vodafone, have also addressed product and service innovation areas, through DTAG'S Products & Innovations and Vodafone's Innovation Park, respectively. Many of these set-ups have had limited success in delivering related group and scale efficiencies.

We believe if a group steps beyond the narrow space of being a mere financial investor, the benefits of such an engagement outweigh the related costs. Having worked with many of the groups named above, we have seen only two benefit levers beyond protecting shareholders' financial interests:

- Shared learning
- Efficiency

While shared learning is an obvious benefit, the trick is to organize it so whatever is presented as learning is meaningful for everyone, despite the lack of homogeneity in individual operations.

Operator groups have not even partially leveraged the key drivers (listed below) for efficiency:

- Asset utilization (sharing of production or support platforms)
- Skill utilization (availability of expertise and workforce)

Surprisingly, despite all the virtualization hype and global delivery models of the web-scale players that operators have enabled, there are few success stories that have benefited from asset utilization. Similarly, we do not see any meaningful stories of increased skill utilization, other than SCCs for call-center

services, procurement and similar support functions. While these fundamental functions are a good start, we believe there is more untapped potential.
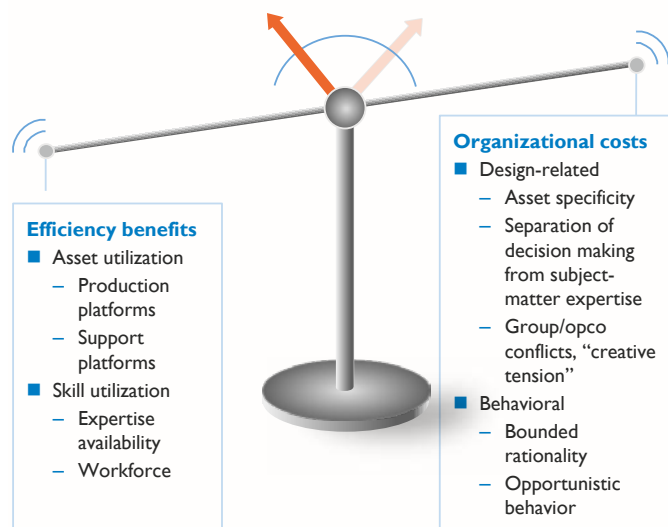
Intercompany alignment costs have prevented groups from capturing efficiency benefits

Often, capturing asset utilization efficiencies is more expensive than the benefits it yields. Many intercompany alignments suffer from high cost due to principles of organizational design and behavioral assumptions.

Intercompany alignment cost drivers

		Description	Examples
Organizational design	Asset specificity	Assets are **very specific to the opco** and do not render themselves particularly beneficial for centralization	Extensive integration requirements into OSS, BSS, self-care platforms
	Separating decision making from the work	Decision making is **integral to a process step**, leading to **inefficiencies** and possibly distorted/decomposed messaging when separated out from its embedding process	Capacity management of required resources
	Conflicting perspectives	Efficiencies that suffer due to **potential conflicts of interest** between involved parties and "**creative tension**" in organizational designs	Opco P&L responsibility versus group's perspective on growth
Behavioral assumptions	Limited rationality	With both parties fully rational, each party's rationality will be limited **to its own perspectives,** as well as and the information available and the ability to process it	Account/competitive info availability, prioritization of change requests, etc.
	Opportunism	Managers **optimize their own decisions for their own benefits** – and possibly to the extent of the other party	Cross-charges/rebalancing of different price levels, etc.

Efficiency benefits of group designs should outweigh organizational costs

Efficiency benefits
- Asset utilization
  - Production platforms
  - Support platforms
- Skill utilization
  - Expertise availability
  - Workforce

Organizational costs
- Design-related
  - Asset specificity
  - Separation of decision making from subject-matter expertise
  - Group/opco conflicts, "creative tension"
- Behavioral
  - Bounded rationality
  - Opportunistic behavior

Other organizational design elements that drive up intercompany alignment costs include assets specific to the opcos, processes designed to have decision-making as their integral part, opcos that have conflicts of interest by design, and group organization

models designed to create tensions in order to create more dynamism and challenge.

Furthermore, fundamental behavioral assumptions of transaction cost theory – bounded rationality and opportunism – also adversely affect intercompany alignments and increase cost.

Clearly, quantifying these cost drivers is difficult. However, examining the effort that major groups have invested in trying to achieve efficiencies indicates mixed results.

Brand management, store design, handset procurement, cash pooling and other areas provide obvious and meaningful benefits to the opcos and the group; thus, both parties streamline coordination efforts.
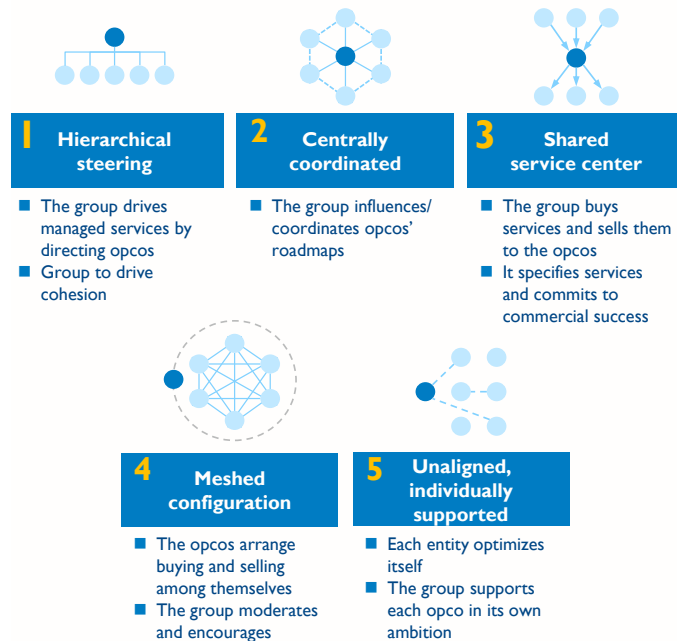
On the other end of the spectrum are product innovations, content sourcing and TV platforms, with which most groups have had limited success in achieving group synergies and for which coordination costs have stifled expensive efforts.

It is imperative that any involvement of the group is designed so that efficiency benefits outweigh organizational costs.

The right coordination model is key for enabling groups to benefit from asset utilization efficiencies

Not all production platforms lend themselves to offering group synergies, and no single coordination model is a silver bullet for all platforms. When reviewing group/opco alignment approaches, we have observed five models, each with its own merits and de-merits.

Group/opco alignment models

1 Hierarchical steering
- The group drives managed services by directing opcos
- Group to drive cohesion

2 Centrally coordinated
- The group influences/coordinates opcos' roadmaps

3 Shared service center
- The group buys services and sells them to the opcos
- It specifies services and commits to commercial success

4 Meshed configuration
- The opcos arrange buying and selling among themselves
- The group moderates and encourages

5 Unaligned, individually supported
- Each entity optimizes itself
- The group supports each opco in its own ambition

In a hierarchical steering model, the group assumes a more directive role in the central building of the platforms and mandates that opcos leverage the platforms. DTAG's Pan-Net is a good example of a hierarchically steered production platform.

In 2015, Pan-Net was set up as a new division to manage the central creation and roll-out of services. Its mission targets a reduction from 650 local platforms to 50 centralized platforms. The jury is still out on its commercial success, but the concept has merits and the financials look promising. How it propels or stifles DTAG's national companies' market position is yet to be seen.

In a centrally coordinated model, the group gathers and filters ideas based on opcos' input and their majority buy-in. Then a common roadmap is created, with the group urging the opcos to get onboard with the joint vision. Each opco has the choice to opt in or out. In this model, the opcos that opt in also cover the CAPEX. The central coordination role that some groups operate, including Telefonica, Orange, DTAG and others, can sometimes be overly time consuming due to the amount of coordination required. The centrally coordinated model works best for those group services that most opcos find appealing and are willing to fund, which thereby reduces the effort required from the group to obtain buy-in.

Shared service centers (SSCs) for platforms are a "new kid on the block," but have proven successful where tried. In a shared-service model, the design authority resides with the group, which will direct and interface through the opcos' channels to effectively utilize the platforms. In this model, the group buys services from and sells them to the opcos. In our definition, we take SSCs a step further to not only providing a platform, but also ensuring its market success through expertise and workforce utilization. An example is voicemail platforms, which are often provided group-wide. Vodafone Global Enterprise's centralization of product and partner management and AT&T Business Services are examples of groups that have employed the SSC model.

In a meshed configuration model, the group encourages its opcos to enter into bilateral business relationships. An example is Vodafone's Global Enterprise unit, which is encouraged to procure services from Germany, Italy, the UK, Spain, etc., to service its customers. Another is Etisalat's Saudi opco, Mobily, which uses the IPTV platform of Etisalat's UAE opco. This model offers flexibility to choose which opco's assets to leverage. However, employing this model extensively across multiple platforms and opcos, in addition to the complexities of solution design and pricing, leads to myriad technical, operational and commercial interfaces and creates the need for proliferation in bilateral governance.

Unaligned, individually supported models have been associated with MENA and SEE groups such as Singtel and STC, as well as TeliaSonera, Telenor, and others that operate in a laissez-fair manner, with the group independently supporting each opco in its own ambition.

Essentially, there is no one right coordination model that groups should adopt in working with and through their opcos. Instead

there are several feasible options, depending on the service focus of the group and its opcos, the nature of the services being centralized, and more importantly, the sphere of influence of the central entity.

Managed ICT services are more amenable to centralization than other classical telecommunication services

Managed ICT services differ from classical telecommunication services in three fundamental aspects, which render them amenable to centralization.

1. **No reliance on national assets:** National assets are not required to provide services (e.g. no spectrum license or no right of way).

2. **Scarcity of skills:** Skills required to develop, sell and deliver are typically scarce in opcos. This is primarily because opcos lack the scale to fully utilize the specialized skills required, and thereby to justify their high cost.

3. **Need for partnerships:** ICT requires partnering or buy-and-sell businesses models that offer scale benefits, if negotiated for an entire footprint rather than for an individual player.

However, it is worth noting that the issue of "data sovereignty" threatens to complicate the centralized delivery model for certain managed ICT services such as data center and cloud. This does not mean cloud orchestrators can't be centralized, or that security teams and cyber defense services can't be sourced or built once for the entire group, all while ensuring that the data sovereignty regulations for individual opcos are adhered to.

Microsoft services its Office 365 clients through 28 shared data centers and seven dedicated exclusively to O365. Google and Salesforce operate through over 85 and 45 facilities, respectively. Each has local presence in many markets – but the design of the business models and delivery of the services is very much centralized.

IBM, active in 170 markets, operates development centers in just 12 countries. Accenture, with presence in 203 locations, has developers in only 50 centers. Tech Mahindra, with 167 offices, has only 30 development centers. And the list continues.

Similarly, the nature of managed ICT services – i.e., their suitability for centralization – renders them feasible for development and provision centrally by telecommunication groups.

Let's look at some numbers to understand the magnitude of the benefit: in Europe alone there are about 190 mobile operators, with half of them belonging to group holdings of more than two mobile operators. These are organized into 14 groups and entertain an average of 6.4 opcos per group. Ignoring the fact that operators within these groups have already embarked on

MS journeys (and are thus brownfield), starting right would lower production costs by up to 44% – in both CAPEX and in OPEX. Leveraging this opportunity would leave the other half of the operators behind cost-wise (which may be a lesser issue) and improve profitability (which may be a strong reason). And this is just the cost perspective. The principal and most compelling reason is that centralization increases the group's pace towards success. Their opcos would advance up the learning curve more rapidly and collaborate and innovate successfully due to collective minds at work with better cognizance of global trends and improved access to skills and resources.

Centralized production models combined with localized delivery is the way forward

Assuming these telecommunication groups have successfully centralized their development models, how do they sell them?

Let us follow the example of Microsoft, HP, AWS, etc.:

1. They entertain strong partnership programs – which are designed centrally but managed locally.

2. They design the business model, define their services' specs, source and build the services, and then offer them to their markets. And they support selling them – even commit to it.

3. They even go beyond: they have what are sometimes referred to as "evangelists" (typically referred to as product-sales specialists), who travel to different countries to support specific deals, rather than generic approaches. So they get their hands dirty, rather than consulting at arm's length.

In addition to the above, these organizations follow their global customers wherever they go. Some even proactively sell to global customers wherever they are, and thus have global sales forces, but most strive to provide global services at least to those that are headquartered in their home countries.

We believe there is nothing to stop telecom groups from adopting all of these behaviors for managed ICT services: effectively establishing "managed ICT services shared service centers" and pursuing global customers through localizing the distribution and/or service side of the business. The most successful groups in selling and providing managed ICT services have designed the local and group operating models' operational interlinks. Thus, they have answered the following questions from a group-wide perspective.

- How is the portfolio being achieved?
- How are requirements being specified?
- How are customer requests being fulfilled?
- How are incidents or changes being managed?
- How are vendors being managed?
- How are capacity, escalation, expedites and projects being managed?

Has your group? Because if not, you will not collectively launch disruptive products, enjoy the benefits of reduced cost, increased profitability or faster time to market, and continue to behave as if you were not one group, but rather, a collection of individual opcos.

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