Evolving MS from network efficiency to value creation

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Managed services are evolving from a focus on network efficiencies and operational excellence to a new focus on value creation. Although operator satisfaction has been mixed until now, managed services providers (MSPs) are now being asked to aid the business transformation process from being network- to service- and customer-centricity as strategic partners who help to unlock value in the operator's business.

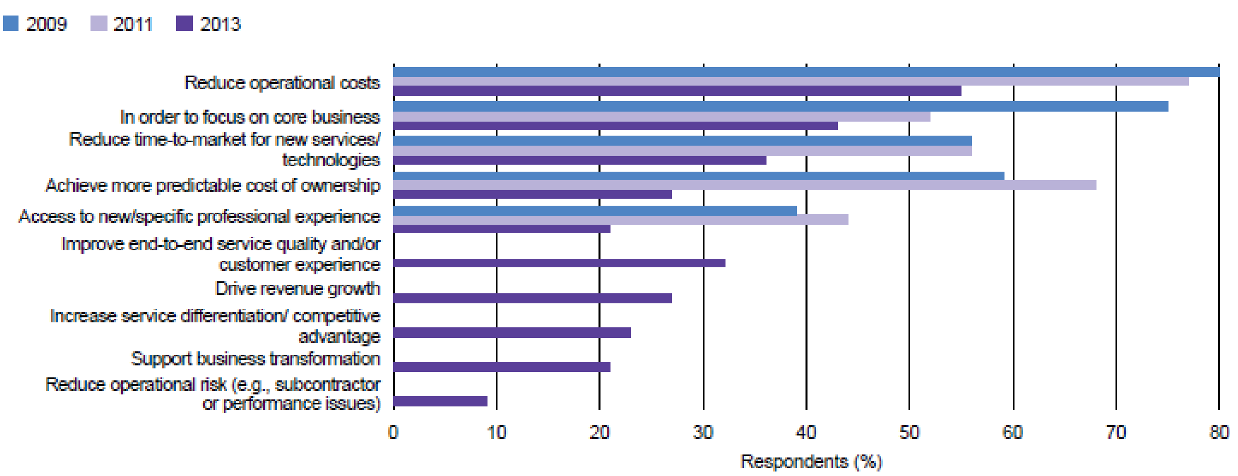
The search for differentiation

Communications service providers (CSPs) are having a tough time, with competition and regulation pressuring prices, customers demanding more in terms of service features & quality, and heavy investments being made in capacity additions and network upgrades to all-IP and LTE to satisfy an exploding demand for data. With margins under severe pressure, CSPs are looking for new ways to differentiate themselves and generate new sources of income, and this will lead to a greater focus in managed services (MS) on value creation, rather than the usual network efficiencies or operational excellence.

Drivers for a new MS approach

In May 2013, Informa Telecoms & Media conducted a global online survey of key executives from 59 CSPs, with the results confirming the growing popularity of MS. More than 60% of the CSPs who responded are already engaged in some form of MS, with a further 25% planning to do so within three years. This left only 15% of respondents having no plans for MS adoption, down from 28% in 2011 and 39% in 2009.

Figure 1 Key reasons for MS adoption among CSP executives.



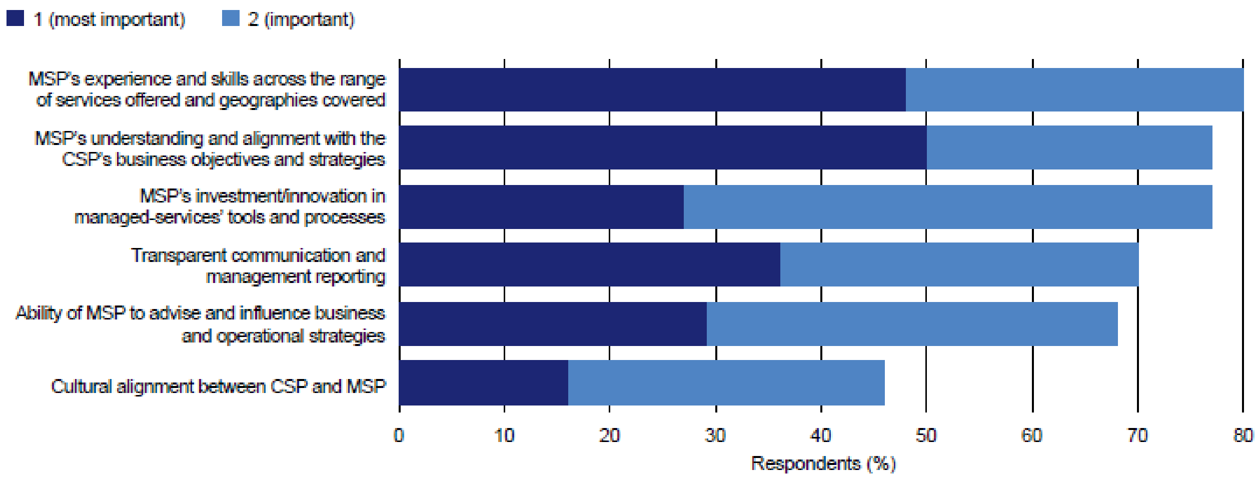
The key drivers for MS still center on cost and business focus, but their importance is declining compared with previous Informa surveys. In our 2009 survey, 80% and 59% of respondents ranked cost reduction and predictability as most important, respectively, compared with just 55% and 27% in 2013 (Figure 1).

The latter survey confirms that CSPs are now also looking to MS to address strategic and top-line issues, and to help them become more customer-focused. What's more, new value-creation drivers, such as service quality, customer experience and revenue growth are becoming nearly as important. These results indicate an opportunity, perhaps even a pressing need, for MS providers to address these emerging requirements early on, to regain trust and demonstrate value, by acting as strategic partners to improve operational efficiency and service quality/customer experience, and to drive new revenue growth.

A deeper partnership approach

The industry recognizes that a strong and trusting CSP-MSP relationship is at the heart of successful MS engagement. However, our survey results indicate that even before this relationship is established and tested, MSPs are chosen on the basis of their levels of investment and innovation in tools and processes, their MS track record, and their ability to support the CSP in an era of rapid technological change. In other words, experience, skills and tools in areas such as all-IP architecture, software defined networking (SDN), virtualization, IT/telco convergence, and big data/analytics are all critical for success, but just as important is the MSP's strategic alignment with and understanding of the CSP's business objectives. Thus, the CSP requirement for a much deeper level of engagement (Figure 2).

Figure 2 Most important attributes for a successful ongoing CSP-MSP relationship.



Managed service adoption is becoming a strategic rather than tactical decision and will thus need to be led by not just the CTO; the rest of the board will need to be much more closely involved as well. Increasingly, CSPs are looking to their MSP partners to deliver benefits in customer experience, service quality and revenue generation – all responsibilities of the entire leadership team.

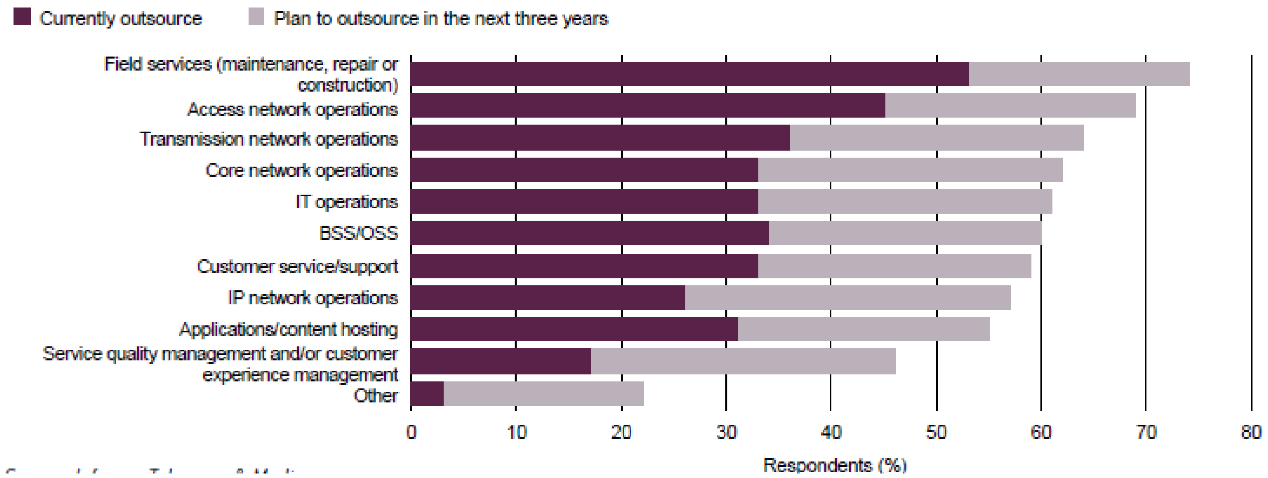
The development of a deeper partnership enables both the CSP and MSP to share long-term business objectives based on an agreed-upon roadmap, accept the sharing of risks and, ultimately, share in success, perhaps by revenue sharing derived from the actions of the latter.

CSP and MSP willingness to more fully engage is illustrated by the flexibility and imagination now being displayed with pricing and business models. An increasing number of CSPs are looking to more innovative pricing schemes, such as revenue sharing, with the MSP's revenue a direct percentage of the CSP's revenue for specific services. Such commitments encourage the MSP to be innovative in developing solutions to protect against revenue loss while supporting new sources of revenue such as VAS hosting, mobile payment, M2M, or big data.

Centralized & converged operations

Not surprisingly, our 2013 survey shows a continued emphasis on MS adoption for network operations, and a trend towards the further outsourcing of IT & IP network operations and BSS/OSS over the next three years. However, other functions, such as application/content hosting and SQM/CEM, will be increasingly outsourced as well, indicating a broader role for MS in the CSP's business its greater involvement in the support of customer-facing and revenue-generating activities (Figure 3)

Figure 3 Do CSPs currently outsource, or plan to outsource, these business functions?



To date, CSPs have tended to engage with specific types of MSPs for specific functions – network vendors for network operations, IT/systems integrators for IT operations and BSS/OSS, etc. However, certain recent deals demonstrate a new trend in integrated MS solutions where a single MSP takes responsibility for the network, service management, BSS/OSS, and IT systems. So far, these converged MS deals seem to be favored by smaller CSP challengers, perhaps because they are less constrained by cultural differences between telco and IT departments and/or because they think that they can more effectively leverage real-time SQM/CEM and operational efficiency benefits due to their smaller size and more entrepreneurial nature.

The benefits of centralized and multi-tenant platforms for MS operations include more efficient field maintenance, optimized workforce management, reduced management complexity, and synergies in sharing & exploiting real-time service quality data.

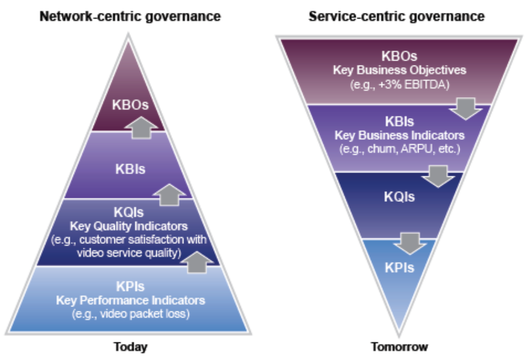
Service and customer focus

One of the most significant current trends in telco is the transition of the CSP operational focus from network quality to service quality/customer experience, often as part of an organization-wide business transformation process. CSPs are already embracing new techniques and processes embodied in SQM and CEM and are deploying service operations centers (SOC) alongside traditional network operations centers (NOCs) to monitor and manage end-to-end service quality and customer experience more effectively.

This trend is likely to have a major impact on managed services, as a greater number of CSPs are looking to outsource service operations in the future (Figure 3). This is most likely to be in combination with outsourced network operations. For many CSPs who already have an MS-operated NOC, SOC operation by the same MSP makes sense in terms of operational efficiencies and synergies in the sharing of service-related data.

Figure 4 illustrates how today's focus on KPIs as the primary mechanism for measuring and rewarding MS contract success will shift towards key business objectives (KBOs) and KBIs. KPIs and KQIs will remain key management metrics, but their relevance and use in the governance of the contracts themselves will diminish.

Figure 4 Transition from network-centric to service-centric
metrics and the impact on MS contract governance



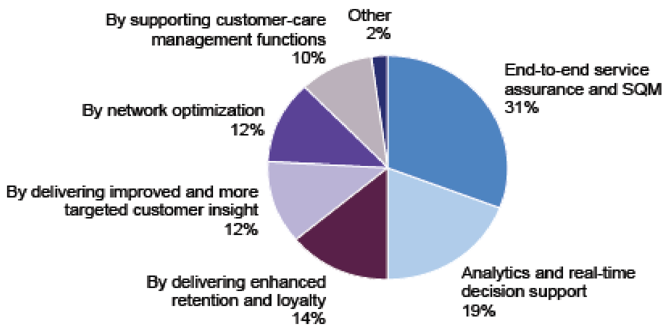


Figure 5. How can MSPs help to directly improve customer experience?

This emerging trend has implications for MSPs, who must now demonstrate experience, skills, and tools in SQM and CEM, which may require acquisition or partnership.

The ways that MSPs can contribute to CEM are varied (Figure 5), but their ability to manage E2E service quality and deliver real-time analytics across multiple platforms & technologies are expected by roughly 50% of CSPs to be primary factors, and this is expected to be one of the key drivers for fully-integrated or converged MS contracts.

Revenue growth

Surveys and interviews suggest that the MSP's vision, commitment, and ability to deliver improvement to the top line are becoming more valued by forward-looking CSPs. The most popular view is that this will be achieved through improvements in service quality, customer experience, and time-to-market. However, a few CSPs identified a number of business opportunities that they expected MSPs to help exploit, such as M2M, big data and cloud services.

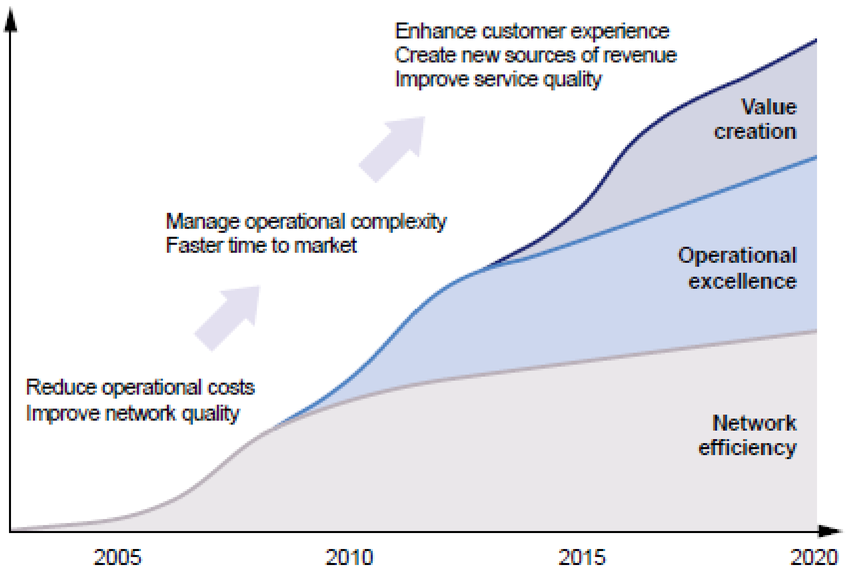
Many MSPs are already contributing to top-line growth for CSPs by delivering improvements in service quality and reducing service outages, which helps reduce churn and protect against revenue loss. MSPs are also helping maximize ARPU via tariff optimization and flexible charging systems, while getting new services/technologies to market faster. Thanks to IT/telco convergence, M2M, big data, and real-time data analytics, skills, tools and processes were also identified as MS opportunities.

Ultimately, many CSPs will want to see MSPs contribute to the both the top and bottom lines, and a commitment to a specific impact on overall business performance, perhaps a certain EBITDA increase over the period of the contract. This will be the point at which the CSP-MSP relationship can be considered a true partnership.

The future of managed services

There is no doubt that the adoption of managed services is accelerating worldwide, although the nature and extent of MS engagements are largely dependent on a CSP's maturity and market. The industry is learning, and is most definitely evolving into a more sophisticated and innovative force for positive change (Figure 6).

Figure 6 The evolution of managed services



Conclusions & recommendations

▪ Stronger partnership

Deeper and stronger relationships are needed, based on long-term strategic partnerships, where the MSP can bring unique skills, tools, processes and insights to complement the CSP's assets, vision and customer relationships. The partnership must be based on a willingness to change the terms of engagement and work together on new shared-risk business models, underlined by flexible but unambiguous contracts with commitments to top-line business outcomes.

▪ Network efficiency

Network quality and efficiency improvements must be built upon by exploring opportunities to drive costs down, enhance service quality, and enable new business opportunities, while exploiting the transition to flatter IP-based architectures and the convergence of telco and IT systems.

▪ Service quality

SQM and CEM techniques and processes must be embraced and developed within the MS proposition, including SOC development and utilization for the management & implementation of SQM and CEM processes & actions to facilitate CSP business transformation towards service- and customer-centric management.

▪ New revenue

A focus is needed on developing the skills, resources, partnerships, and solutions that enable the MSP to add top-line value to the CSP's business, either by satisfying a current end-user need (improved service quality) or by developing new markets and new revenue sources (M2M, big data, data centers, cloud enterprise services, etc.).

(All figures sourced from Informa)

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