Advisory Report

Mobile Network Sharing Agreements: A Game Changer to Serve Enterprise Clients Better

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Summary

The new multi-market network sharing deal between Telefonica and Vodafone appears to be a major new industry trend for key mobile operators to collaborate although we have already seen collaborative initiatives taking place such as the FreeMove Alliance. Since mobile networks first went live, mobile operators have used their networks for competitive differentiation similar to fixed players such as BT Global Services and Verizon Business. However, as business customers both on a national and international basis are expecting higher levels of service from their mobile suppliers, new competitive elements are emerging such as multi-carrier networks agreements in order to deliver service level agreements (SLA) including solid performance guarantees. Hence, network sharing deals will play into these new elements to make networks equally fast, more reliable and available, with consequences.

The challenge will now fall on marketing and propositions teams to create new stories of differentiation; increased pricing competition is a likely to be a side-effect of that, too. Network sharing also creates an opportunity for operators to nurture a 'green' profile more aggressively. But most importantly, these deals highlight the extent to which operators are ready to challenge previously-held assumptions about the sanctity of retaining a distinct competitive profile. Just one year ago, a multi-market network sharing deal between two of Europe's largest and most powerful Tier 1 competitors would have been inconceivable. However, today cost reduction programs are turning out to be the industry's most frequently-deployed response to the ongoing recession. This report will bring out what is happening or likely to happen to obtain business benefits in the current market environment.

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Report:

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Current Perspective

Telefonica and Vodafone have announced Europe's first multi-market network sharing deal. The partners will share sites and equipment, where appropriate, in the UK, Ireland, Germany and Spain and potentially the Czech Republic. The deal is expected to enhance service quality for customers in the longer term but also create savings of 'hundreds of millions of pounds' for both operators over the next ten years, and will be used to accelerate 3G/HSPA roll-out by both sharing existing sites and building new ones together. The deal opens the door for more pan-European collaborations in the same vein, building on the experience of single-market projects, such as the existing network sharing agreements between Telia and Tele2 in Sweden, Vodafone and TIM in Italy, Vodafone and Orange in both the Spain and the UK, and T-Mobile and 3 in the UK.

This deal sets two important precedents. Firstly, it is now possible to imagine an operator managing multiple network sharing relationships within a single market by enhancing its service quality for customers: Vodafone will conduct new network sharing activities with Telefonica O2 alongside existing sharing arrangements with Orange in both the UK and Spain. Secondly, it lights the way for multi-market network sharing agreements, flagging up even greater operating and capital expenditure savings than was once considered possible. The prospect of 'hundreds of millions of pounds' in cost savings is now too powerful for shareholders to ignore; in the current economic environment, investors could put pressure on mobile operators to follow Vodafone's example. If the European mobile market leader is prepared to share networks with key rivals within all its key European markets (UK, Germany, Spain and Italy), any hesitancy on the part of competitors could reflect badly on its management team. Just some months ago, several operators – notably Telefonica O2 – were negative towards network sharing projects. Attitudes towards network sharing are changing. Once considered an interesting experiment in cost-saving on a local basis, network sharing has become an integral element of a pan-European recession-survival strategy.

To better understand the key take-aways network sharing deals represent, here are some key areas we consider being of high importance:

Service Level Differentiation Focus

One likely consequence of network sharing deals is that mobile operators will be compelled to differentiate at the service level. However, from an enterprise perspective this has been a long time coming in the mobile world because for at least eight years, national and global fixed telecom players have offered enterprises IP VPN SLAs in terms of different Classes of Service for applications with service level guarantees attached. So it is reasonable to expect that in a converging world where service providers, both fixed and mobile, are aggressively marketing new services as 'anywhere, anytime and on any device' they are delivered with SLAs that guarantee performance for mobile services. As more mission critical enterprise applications run over mobile networks, the industry needs to pay more attention to resiliency and service quality guarantees. Vodafone and Telefonica seem to have taken this perspective on board when they communicate that the network sharing agreement will "enable both companies to enhance service quality." In addition, while unlikely to happen anytime soon the question will be if Vodafone will translate Vodafone Global Enterprise recent launch of a standardised SLA on core managed mobility services to multi-national business customers together with Telefonica? Another related aspect is, although real LTE deployments among mobile operators (but IMS is an ongoing activity) are still some time away LTE will likely due to its IP architecture improve SLA offerings beyond what is possible with 2G and 3G networks today. However, already today pricing and service modeling will become more important in distinguishing one service from another. Predicting the rate of pricing change is difficult, but it seems reasonable to suspect that network sharing will exacerbate price war tendencies as networks become more ubiquitous and less distinct from a coverage/speed perspective.

Benefits of Going Green

To date, press announcements of new network sharing deals have tended to focus in on the bottom-line operating cost savings such deals are set to generate. That's certainly good news for shareholders, but it fails to create any parallel goodwill in the public domain. In all the network sharing announcements to date, operators have notably failed to make any promises around passing these cost savings on to the customers. 'Green marketing' is probably the hottest marketing tip for the post-recession era, and network sharing plays into this space nicely. But none of the network sharing announcements to date have fully capitalized on this end-user benefit. How can we best express this in layman's terms? Engineers have the answer to the first question; marketing teams have the skills to address the second.

Going forward, all operators will need to both establish a green profile and communicate this effectively, but also compete in terms of their respective 'greenness.' We'll move from the competitive norm today, in which operators boast the 'best, fastest, widest coverage' network, to the most 'environmentally sound' network competitive messaging of tomorrow. Whereas mobile operators rely on IT testing third-parties for network accolades in the area of speed and coverage today, tomorrow's jury could be third party carbon-dioxide offset certification bodies. Mobile operators thinking of going after the enterprise FMS market with mobile broadband could even consider the environmental case for positioning mobile broadband as a 'greener' form of Internet access than fixed broadband, if, that is, such a claim can be supported. There's potentially a case for claiming that using a low-powered, always-on mobile phone to do a quick spot check on CRM changes and email are 'greener' activities in terms of power consumption than booting up a PC and establishing Internet activity on an ad-hoc basis, or even leaving the PC burning online all day long, as many end-users now do. Given the current economic climate, it's probably too early for an operator to start competing for the title of 'greenest mobile service in Europe,' and operators will benefit from already keeping an eye open for EU regulation on environmental issues because that's where the post-recession era is headed.

Network Collaboration Today, What to Expect Next?

Network sharing deals on an international level in particular will re-define the boundaries of 'competition' at the network level, and could likely cause operators to consider other areas of collaboration. The global recession is causing the industry to challenge previously-held assumptions regarding 'what works' (and what doesn't), and it's likely that we'll see more innovation in the name of cost savings than ever before. Some operators are proactively motivating their own employees to help the executive team identify new areas of potential cost-savings. In 2007, Orange France implemented the idClic program to encourage Orange employees to post cost-saving ideas on a dedicated Intranet for internal debate. Last year, the idClic Website received 3,400 'ideas,' which generated multiple feasible cost-saving programs, the implementation of which is estimated to release some EUR 350 million in potential annualized gains. The industry already has several examples of collaboration in practice. The FreeMove Alliance of mobile operators (T-Mobile, Orange, Telecom Italia and TeliaSonera) already leverages a number of important functions and services to better target MNCs, notably, account management, solutions, handset procurement and bid management. In Asia, the Bridge Alliance does roughly the same, offering a number of common services – including a shared VIP membership benefits program – across 11 markets. If there's one thing that these new network sharing deals have taught the industry, it's that operators needn't share much to reap significant economies of scale. Network sharing is teaching mobile operators to consider new asset-share arrangements, and even consider extending these arrangements to multiple markets. In the short run, we'll all have to scrabble to generate as many cost savings as possible to offset the recession. But if the industry continues along the asset sharing path, how will service providers differentiate themselves in the next decade? It will be up to the marketing and sales people inside the telecom companies to come up with new creative thinking for continued growth within their business.

Recommended Actions

Recommended Vendor Actions

• Enterprise mobility marketing executives responsible for serving enterprise clients in Europe or globally with strategies need to be able to provide a strong message on SLAs with clear service guarantees. Over time, SLAs will be expected on mobile services because enterprises will expect to receive some commercial commitments in a market where business services can be consumed anywhere at anytime.

• Smaller Tier 2 and Tier 3 operators should consider sharing deals, to create mutually beneficial cost savings in the areas of common services, handset procurement and support. There is no need to market 'an alliance' until this potential is well understood – these players should consider implementing cost-saving projects on an ad-hoc basis as a first step, before signing up to a broader partnership.

• Europe's mobile operators should motivate their own employees to challenge all previously-held assumptions and suggest cost saving ideas wherever possible. The Orange idClic program should be held up as a nice example of innovation-generation in practice.

• Europe's mobile operators and network sharers should give more thought to wording the environmental benefits of network sharing more aggressively, as these are certainly worth referencing. By all accounts, as we are in a climate change era, competition in terms of the 'greenest' provider is also likely to be a key post-recession issue.

Recommended User Actions

• All enterprises in Europe should consider including service guarantees as a checkbox item when considering potential service providers for enterprise mobility services. They should ask in particular what commitments these service providers' offerings will bring in terms of the overall business goals for the enterprise.

• Moreover, enterprises should find out what network sharing deals represent in terms of potential cost savings with their supplier such as Vodafone and Telefonica. In essence, enterprises need to ask in particular if this means that they will benefit from mobile operators passing these cost savings onto the customers.