

Telecom New Zealand: ongoing success in network outsourcing through transforming vendor relationships

“We think that the days have gone where services providers can consider themselves the integrators, the jacks of all trades, as we say in New Zealand, thinking that they can pull all this together.”

Simon Moutter, Chief Operating Office (COO), Telecom New Zealand

Telecom New Zealand’s (TNZ’s) contractual experience with Alcatel goes back to 2002 when a partnering agreement covering reengineering of their many service networks into a single multi-service, IP-based network was signed. But as far back as 1999, TNZ had recognized that the global telecommunications industry was undergoing fundamental changes. Competitive pressures were squeezing margins. A radical value to end users, aligning incentives through the value chain and dealing with IT and telecom convergence. Over the next few years, this recognition of necessary refocusing was to result in a project that TNZ dubbed Transforming Vendor Relationships.

Vision and action

TNZ saw that the major network transition from circuit-based to packet-based technologies would require significant investment over the next several years. They believed that they could not achieve this rapidly and cost-effectively under the old vendor/telco model. TNZ had experience with

outsourcing, since field and maintenance services had already been subcontracted to local suppliers. But the basic transformation of the company’s focus from network-centric to customer-centric marketing and sales was yet to be achieved. Put quite simply, there was too much internal vested interest in maintaining the status quo.

TNZ recognized that a transformational initiative was required. In late 2000, after much internal debate, TNZ selected and approached 7 major vendors with an invitation to consider becoming TNZ’s single supplier of fixed network equipment. This project was to become the implementation phase of Transforming Vendor Relationships. The successful vendor was never intended to supply only what it manufactured, but also to take responsibility for selecting the technology that best supported TNZ’s business strategies. What was involved here was influencing TNZ’s strategic direction. This was an invitation to completely reshape the relationship between TNZ and the network equipment supply industry.

TNZ: ongoing Success in Network Outsourcing through Transforming Vendor Relationships

The challenge: outsourcing to achieve technological migration and compete more effectively

TNZ's situation was complex and the problems to be solved included:

- > Many legacy networks, and in some cases, quite a lot of TNZ-specific technology
- > Numerous vendors and suppliers, resulting in high operational and management costs
- > Time-consuming internal activities such as technical selection and product/solution development.

These problems entailed long lead times for vendor selection and gave an incentive to vendors to exaggerate capabilities. Moreover, revenue and profitability objectives often came second to choosing the most technically advanced solution.

The transformation move was initially cost driven, evolving later to support a changing industry structure and business model that require significant role changes by all participants. Of course, the relevant issues included cost reductions, but also hard decisions on definition of core activities. The partnering business model offered solutions that would provide those reductions and help define those core activities. Moreover, it would enable TNZ's management to better focus on external management, leverage the talents of suppliers and partners, and speed delivery of enhanced services.

Choosing Alcatel

TNZ believed that a partnering business model developed with a committed global telecommunications vendor would:

- > Deliver a simplified network —reducing operational and management costs
- > Give the vendor an incentive to share TNZ's focus on market success
- > Remove development duplication, thus reducing costs and offering faster speed to market
- > Provide the TNZ group with a global perspective on technology and servicing customers
- > Allow TNZ to migrate its network smoothly

Among the key reasons for the choice of Alcatel was a vision of technology and service that aligns to TNZ's. Alcatel is a stable, financially strong, innovative company that

has and is developing the widest range of technology and third party relationships to ensure that TNZ will always be competitive. Alcatel also had a substantial global and local pool of expertise in implementing end-to-end technology. Alcatel's proven leadership in the global marketplace was another major factor in the selection process.

Simon Moutter, Chief Operating Office (COO) Telecom New Zealand, comments: "We chose Alcatel because they're a world leader in designing, developing and building communications networks. And that's important to us because we were then embarking on the journey that most service providers around the world need to, to migrate from today's circuit switched network environment to tomorrow's all-IP network environment."

After a period of careful planning, negotiations and increasingly closer relations, TNZ and Alcatel extended their partnership to include network operations and management in July 2003. Simon Moutter puts it best: "Alcatel showed us that they had a technology and innovation strategy that fitted well with ours as a service provider and we feel that they were the ideal partner to continue to develop our business in a way that meets customer needs, that continues to increase the value and the service capabilities of the networks that we own."

Partnering relationship and objectives

The partnering relationship includes a Partnering Charter that contains the vision, objectives and principles.

The first objective is to bring together role model partners—Alcatel and TNZ— so that the customers they jointly serve get the services they need, at a time, price and quality that is market-competitive and that delivers value to both organizations' shareholders. But the charter goes further, including commitments to:

- > Lead the industry in delivering value to the market
- > Continue simplification and migration of TNZ's network to an all-IP network
- > Provide efficient operational support systems
- > Leverage the partners' global capabilities
- > Deliver significant ongoing economic growth for both partners

- > Extend this strategic partnering model to achieve broader business outcomes
- > Use this relationship to transform our organisations and develop our people.

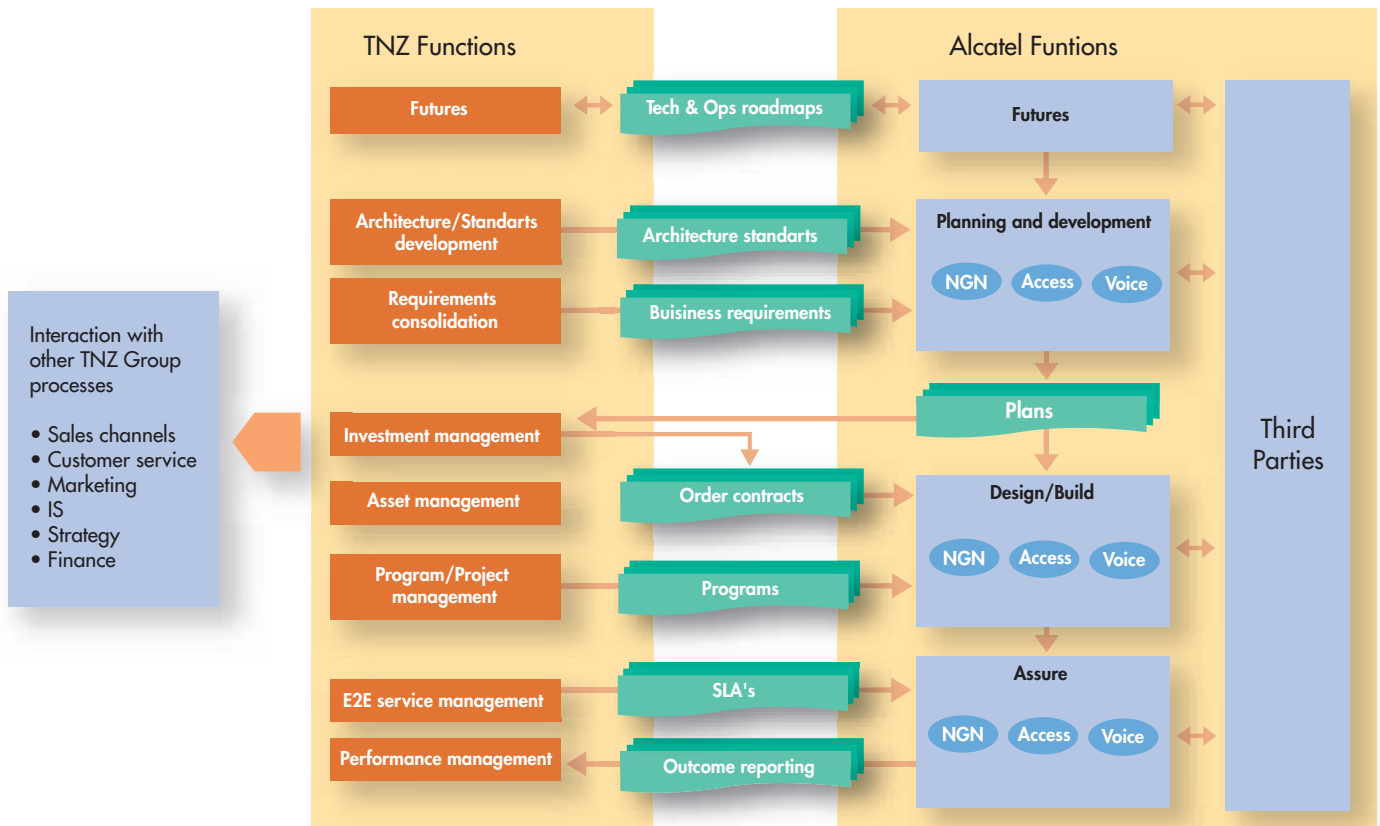
In short, become 'one team' demonstrating an understanding that the quality of the relationship is the primary driver of value.

Partnership is delivering measurable benefits to TNZ...

Alcatel is becoming more integrated into Telecom's business and there are real benefits for TNZ and AAPT, TNZ's Australian subsidiary. The major activity areas to date are alignment of competencies and reduced duplication through outsourcing. Over 20 successful development projects have been launched in support of TNZ and AAPT's strategic initiatives. And marketing support from Alcatel is showing real benefit.

TNZ is now leveraging the knowledge of a global technology player and partner, learning from what works in major markets, reducing complexity and mitigating technology choice risk. They have outsourced significant human resources engaged in technology and vendor assessment and product and solution development. Which means that TNZ can now focus its management and technical competencies externally on customer-centric activities, the next big step to becoming customer-centric rather than technology driven. Simon Moutter sums up the current situation:

"We have access to Alcatel's global expertise and tying that in with our marketing and engineering efforts is really helping us get our thinking right around how we migrate our networks... but also to think about what services and products we really need to deliver to meet customer needs."



TNZ and Alcatel operating model

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Benefits to TNZ as a result of the partnering relationship include a 12% improvement of cash flow to TNZ and faster time to market. Simon Moutter explains:

“We have considerably improved our speed to market and that’s critical to us in terms of our ability to compete in New Zealand’s increasingly competitive communications market. We’ve seen our times from concept to delivery of new products and services massively improve over the course of this partnership.”

TNZ and Alcatel have been operating in partnering mode for the last 18 months, during which TNZ’s expectations have been exceeded. Alcatel has delivered more value (measured as EBIT gain to the TNZ Group) than budgeted for and there is much more to come. What the partners learned in the first six months led TNZ to understand that further value could be achieved through outsourcing planning, development, operations and maintenance activities to Alcatel.

“It’s about value. And we are seeing real financial benefits arising out of the partnership, both in an operational cost sense and a capital cost sense,” concludes Simon Moutter.

And the companies are working together ever more closely

- > In August 2002, AAPT outsourced its Asset Management functions to Alcatel
- > On 1 July 2003, TNZ outsourced network development and network operations capabilities to Alcatel in New Zealand. At the same time similar capabilities were outsourced from AAPT to Alcatel in Australia. This involved the transfer of 200 people in New Zealand and 100 people in Australia to Alcatel

> The rationale for these initiatives included:

- alignment of core competencies between TNZ and Alcatel,
- improvement of service quality through Service Level Agreements and associated Key Performance Indicators,
- committed cost savings,
- consistent Trans Tasman operation methods allowing for future product and procedure synergies,
- alignment of operational developments with network capability developments.

Moreover, Alcatel takes the lead for planning and solutions development, network design and operational activities for TNZ’s next generation and legacy networks.

Looking ahead

The outsourcing agreement runs for 5 years with an option for another 5-year period. The Partnership is part of TNZ’s, AAPT’s and Alcatel’s business strategy and will continue barring extraordinary events. It is exclusive for supply of fixed network solutions and equipment, including supply of third party products where appropriate. Good value is assured and Alcatel will benchmark prices regularly.

The expectation is that the basis of the relationship will expand where there is mutual gain.

In brief, for Alcatel, nothing succeeds like success.