Realizing synergies

...in multi-country operations

To justify acquisitions and **meet global competition**, multi-country operators need to create cross-border synergies. Many are doing so by consolidating knowledge, operations, and networks. Yet, **in spite of obvious savings opportunities**, most operators find it hard to cash in for legal, technical, and – especially – human reasons.

Between 1995 and 2007, mergers and acquisitions within the telecommunication services industry accounted for EUR 631.9 billion. Most of the acquisitions were cross-border, with large incumbents leading the way. These international acquisitions occurred mainly to ensure growth beyond saturated home markets and create economies of scale.

Acquiring foreign operators or licenses is expensive, and shareholders expect returns on these investments. Further consolidation of the telecom operator market means that competitive pressure increases – the aim is not just to create synergies but also to be damned good at it.

The potential for savings through economies of scale seems obvious and within reach, but many operators find them hard to realize.

But let's look at the sweet part before talking about the sour.

Develop once, deploy many times

Synergies are most easily created and deployed by multi-country operators in the areas of product and service development, branding and promotion, and procurement.

Multi-country operators offer a number of services across multiple countries. The product and value proposition is the same between markets, as are the branding and presentation of these services; for instance, operator-branded portals like those of 3's X-Series branded services and the MTNLoaded and Vodafone Live suite of services. Operators are working on these developments by themselves or with multi-country partners, such as in the recent launch of iPhone in many markets, the social networking suite of services that Vodafone launched with Facebook in four markets during 2008, or 3's Skypephone, which has been launched in nine countries.

In line with a multi-country service portfolio, operators are creating international centers for product and service development; for example, Orange's "technocentre" in Jordan (proximity to Africa and Middle East markets) and Vodafone in Newbury, the UK, for the European

market. Some operators have created separate companies to serve the group, such as Telenor Connexion, which provides machine-to-machine communication, or SoftAtHome, a joint venture launched by Thomson, Sagem and France Telecom to develop software solutions for triple-play services in the digital home.

Most operators optimize their roaming service over several countries within their networks. Services such as 3's "3 Like Home," Vodafone's "Passport," and Orange's "Pass Vacances" holiday pass offer rates, quality, and ease of use for on-net voice calls similar to those at home. Operator alliances such as Bridge Alliance in Asia are doing the same thing in another format. Development of roaming plans in Europe has been accelerated by pressure from regulators.

Most large multi-country operators use their brand name across their subsidiaries, either directly (e.g., MTN, T-Mobile, O2, and Vodafone) or alongside a local brand (e.g., Telenor). They support this by group-wide brand management, advertising, and sponsorships that smaller national players find difficult to copy. Many multi-country operators also team up with other multi-country players to co-brand and co-market their services (e.g., Google and MTV, each with many operators) and devices (e.g., Dell with Vodafone and HP with Orange on notebooks).

Having operations in multiple countries creates flexibility in financial management. Most operators use cross-country loans and guarantees as part of their financial activities; for instance, Telenor is funding its investment in India through a rights issue in Norway.

The last area of easy gains is in procurement of handsets, content, and infrastructure. Most multi-country operators have centralized purchasing functions that benchmark prices across their subsidiaries, write and negotiate global tenders, and use price coordination. With some multi-country operators, this is supported by local purchasing functions reporting directly to global procurement.

Where less is more

Synergies in knowledge, operations, and networks are more difficult to create and therefore less common. They include substantial cost savings from common strategy, functions, operations, and platforms.

A number of operators have established technology and network expertise centers, either centralized at headquarters or virtual across their operating companies, to focus on technologies that can provide competitive advantages in the near future. These innovation groups look at topics such as femtocells, IP network transformation, telemedicine, and "cloud computing." In some cases the scope of work is expanded to include operational innovations such as network sharing and network operations. Clear, strong technology and a group-level network strategy to provide guidance and context are prerequisites to creating value. Typically this work is done in close cooperation with other industry stakeholders such as standardization bodies, universities, and vendors.

A good example of joint operator-vendor innovation is Ericsson's Dynamic Discounting Solution (DDS), which offers real-time discounting on voice services based on local network utilization. MTN from South Africa worked closely with Ericsson and a local partner to develop the solution and roll it out through MTN's operators in Africa.

Common technology roadmaps and collaborative R&D, alone or with technology partners, provide a competitive advantage on the local level with unique functionality, less technology risk, and optimization of the installed base. Examples of this are Telstra's joint development of long-range 3G base stations and Vodafone's co-development in base stations and femtocells. Commonality between networks opens the door to more centralized network support, operations, and optimization. A good example of the latter is the Europe-wide, multi-vendor spare parts management contract that Vodafone has signed with Ericsson.

An obvious set of synergies, but difficult to implement, comes from consolidating parts of the networks into multi-country centers for testing, operations, service delivery, and assurance. Most multi-country operators have common testing functions for handsets, network nodes, and specific services (e.g., BlackBerry). Increasingly, operators are outsourcing infrastructure and testing activity to vendors with larger-scale economies.

Especially for new services with an unproven business case, operators have the option of creating multi-country service centers. Typical examples are multimedia messaging services, mobile push mail, prepaid roaming, and IMS-based services. Telefónica has consolidated most of its service nodes in a regional center for its Latin American operators. To serve mobile virtual network operators and enablers from multiple countries in Europe, Vodafone created a separate service provisioning and billing platform where the operator signs the service contracts while the vendor provisions and manages the wholesale service. A similar setup is used for mobile advertising.

Most multi-country operators have consolidated their IT infrastructure into large data centers and outsourced their IT management and support, as well as other back-office activities, to lower-wage locations. Vodafone, for example, in 2006 consolidated all its European data centers into two central hubs in Germany and Italy, creating cost savings of 25 to 30 percent.

Given the threat to networks from natural

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disasters, all operators and service providers have put data backup, disaster recovery, and business continuity on their agendas. Multi-country operators have an opportunity to improve effectiveness and efficiency by applying common methodologies, policies, and infrastructure for this purpose.

Studies have been made into consolidation of other network nodes, such as circuit-switched and packet-switched core control and database functions. Although the savings potential is high, implementation is challenging. Savings depend on reduction of sites, equipment, and transmission links. Partial centralization leaves the operator with more, rather then fewer, sites and equipment, so it has to be either all or nothing. Most multi-country operators have linked networks with their own regional backbone to arbitrage the different costs for interconnect and transmission.

Reality check

There are as many barriers to cashing in on potential synergies from multi-country operations as there are opportunities. In reality, only a few large operators have recently started to show some value for their size, some after years of mixed results and false starts. A few reasons for these mixed results stand out.

When it comes to consolidating networks over country borders, legislation can spoil the party. Issues around transfer and storage of confidential customer data across borders, local legal intercept capabilities, and implementation of regulatory obligations become difficult. Which laws apply and which regulations need to be complied with when services in country A are provided by equipment in country B? But even if it is legally permissible, network consolidation might be less attractive than it seems.

The financials of network consolidation look good if you build a network from scratch. Using existing network capabilities and operations to run a new neighboring network is technically and financially feasible. The case becomes less clear-cut when there is existing equipment on the ground and you have to start moving it to central locations. The costs and risks associated with moving offset the benefits of centralization.

Local operators typically see more cost than benefit in cross-border group initiatives. There is no obvious direct value for them in giving up autonomy, or responsibilities and corresponding budget. So there needs to be a strong platform for joint decision making and execution, combined with top-down leadership to get things moving. This is more difficult in the case of minority ownership. Change-management skills are essential for the process and hard to acquire, especially for self-assured, large and successful incumbents.

Trust, justice, and police

All regional synergies start with a clear vision, strategy, and implementation plan, backed up by sufficient budget, resources, and management commitment and attention. A balance of push and pull for change, supported by strong, diversity-aware management skills, is necessary for success.

According to Albert Einstein, "Every kind of peaceful cooperation among men is primarily based on mutual trust and only secondarily on institutions such as courts of justice and police." His words apply equally well to cooperation between telecom operators. In general people resist centralization, as this often means loss of control, autonomy, authority, and responsiveness to changes in local conditions. Consequently, getting full buy-in from all involved is the most cited barrier to achieving synergies. Cultural differences can be a source of innovation, as well as an impediment to communication. The latter becomes increasingly important when functions are centralized and control becomes more complex.

In order to justify their cross-border investments, multi-country operators need to get better at creating cross-boundary synergies without losing local flexibility. The good news is that there are plenty of opportunities; the challenge is that it is an all-people business. ●

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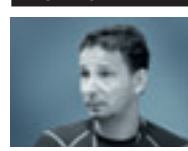

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