The benefits and barriers of network sharing

Network sharing has obvious benefits. Why then have so few projects been successful? The technical issues, although complex, can be resolved. The real challenge is to make cooperation between competitors work. A business-focused and structured approach will improve the chances of success.

**THE ARGUMENTS** for network sharing are well known. It can substantially reduce capex and opex. It can also speed up network roll-outs, improve coverage and help meet the capacity demands of increased data traffic. Smaller players can “leap frog” larger, more established operators, while other operators are able to remain or expand in a market that is already saturated.

It is no surprise then that in the past few years operator interest in network sharing has grown significantly. So why have so few deals been successfully implemented?

Each sharing environment is different, and there may be pressures and priorities that change throughout the process of establishing a partnership between two operators.

When looking at the challenges that make network sharing difficult, it is important to understand the priorities and aspirations of each operator within a series of major decision making areas and the tension that exists between them. These key spheres of executive influence and decision making are: finance, sales and marketing, network operations and technology, and organization and governance.

Below is a summary of the top 10 challenges that operators face when approaching a partnership with what might be considered a competitor.

**Cultural alignment, stakeholder management and sponsorship.** As with any partnership or merger, there must be clear direction on how the two organizations will work with each other and what they aim to achieve. This may appear obvious – but with network sharing there is a real danger that the cultural mindset of both organizations will tend towards their respective competitive positions.

**Network coverage and control.** Determining coverage areas plays a big part in when operators should compete and when they can collaboratively share in order to better compete with others. Passive or active sharing does not have to be applied uniformly. Major cities may be too sensitive to be shared when considering the balance between benefit and potential loss of market position, whereas a dedicated network in a rural area may not provide any competitive advantage.

**Program complexity and risk.** Slippages and scope changes in the program are likely to increase costs substantially. Key elements need to be assessed early and risks mitigated within the program design. These include network architecture and design criteria, transmission strategy, landlord negotiation, lease termination costs, the creation of a target reference network plan, and evaluating the capacity of existing sites to be shared, including planning permission.

**Shareholder and cost pressure.** Operators respond by cutting costs, but further savings are getting more complex and harder to achieve. The network is a fixed cost that does not respond well to traditional saving methods, making sharing an option because it can reduce site requirements by 30 to 40 percent. It is a difficult

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**Key spheres of executive influence**

![Diagram showing the key spheres of executive influence](image)

The challenges are positioned according to their relevance to the area of decision making; for example, when a challenge borders two areas, it is considered to be equally relevant.
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- Network growth. Mobile broadband and smartphones have had a huge impact on the networks through increased traffic. The economics of this traffic are significantly improved when new coverage and capacity are combined with network consolidation and modernization. However, the complexity of a sharing program increases the risk of not actually achieving these benefits.

- Asset valuation and management. There is evidence that an inability to reach agreement on asset valuation has alone caused the failure of major sharing arrangements, particularly when the pooling of assets within a joint venture was a necessary aspect of the program.

- Experience and resources. Network sharing is a complex and unique undertaking, particularly if consolidation of existing coverage takes place. Large scale network consolidation is very different from a rollout program and requires additional resources and skills that do not typically already exist in an operator’s organization.

- Vendor risk sharing. Sophisticated risk/reward mechanisms are now increasingly used throughout many industries to share risk between the parties—and even extend to shared investment models. Key third party partners can reduce operators’ risk by applying their expertise and economies, especially when they are involved in setting up the structure and scope early in the process.

- Regulation and spectrum. Local competitive conditions can determine the depth and extent of what is possible and desirable to share. European government bodies and regulators have rejected network sharing deals in the past due to concern over competitiveness. However, these bodies have begun to ease restrictions as they realize the difficulties operators face when independently evolving next generation networks.

- Market dynamics. The number of potential sharing partners is usually only three to five in each country. If two operators take the initiative to share, the remaining choices become very limited. Being forced into a defensive partnership with a less suitable operator is not the best starting point for any company. In some countries, significant funds are being made available to encourage operators to provide coverage for rural areas—but usually with conditions for their network to be “open access.”

**COMMON PITFALLS**

If operators both understand all of these challenges and that the benefits are still significant, why have so few deals been successful?

The reasons why two executive teams engage in sharing discussions may vary, but it is the approach taken towards network sharing that is truly important. Typically a small team is set up in a strictly confidential environment in order to assess the feasibility and financial benefits of sharing. If the numbers look good, the decision to share is reviewed at the board level and throughout the stakeholder structure in both operators. Agreement in principle is reached, although some groups may remain skeptical. The operators then invest considerable internal resources in setting up a joint technical team to develop the architecture and implementation plan. Key vendors are then invited to engage, usually in a formal process, and the executive teams then wait for the originally identified benefits to emerge.

While this may be a simplistic view of what actually happens, it does highlight the two main errors made when trying to create a shared environment with a competitor. Firstly, devolving a complex set of business decisions from two independent executive teams to a joint technical and engineering group is not the optimal case for sharing—and may carry inherent risk in execution. Secondly, not managing the competitive tensions between two operators—who both wish to independently control their network and the remit of the joint network sharing team—will fuel the skeptical view and the potential risk of failure.

To understand why devolution of decision making to a technical group is flawed, consider the following examples of consequences from actual network sharing deals:

- A decision was made early on by the executive teams not to pool assets, in order to simplify financial valuation and management. This resulted in no clear sponsorship for a long-term commitment and limited the sharing agreement’s scope and benefits significantly.

- The technical implications were worked through, and the joint team made a decision not to share active assets. This significantly reduced benefits by limiting the leverage that might have been created in reducing overall costs and vendor investment. This increased the capital cost by deploying two sets of active components within the program.

- The joint team struggled to gain full sponsorship for the planned consolidation with factions within each operator, which then
exploited the lack of progress as a reason to discredit the sharing partnership.

While the initial sharing program delivered short-term benefits, the longer term interests and strategic aspirations of each operator caused the partnership to end.

The lack of consideration for customer services management caused significant problems during execution, because customer service complaints became difficult to solve within a live program. The initiative lost the support of the skeptics, stakeholder alignment was compromised and the initiative was stalled.

**UNDERSTANDING STAKEHOLDER TENSIONS**

In well-founded sharing partnerships, these joint business decisions were made quickly and decisively across the businesses. The executive teams gave clear and decisive direction to the rest of the organization and to the external market generally. While it may appear obvious to engage executive sponsorship, the partnerships that have struggled generally had poor executive alignment. They have also tended to view strategic agreement as a one-time decision at an initial stage, rather than an on-going process.

Managing these tensions requires the identification of a collaborative approach on many levels in an operator’s organization. It can be difficult for many employees to understand that collaborating with a competitor will help them compete better with others. Parts of the organization may consider that too much is being given away, particularly where the perceived benefit of sharing does not directly benefit them or they are remote from the sharing team, such as sales and marketing.

Others may appear to buy in but do not actually feel involved and end up abstaining from the program, particularly where senior sponsorship is not evident.

It appears to have helped operators to first determine what and where it is important to maintain independence and balance that against the potential benefits of selectively sharing the network. This needs to incorporate a longer term strategic perspective and not just the immediate position. This is vital for the technical team to understand the impacts of sharing network coverage and maintain control of the customer experience as the network environment is changed. In some cases this has been used positively by the sharing operators to attract new customers within an area as new coverage is created.

Key suppliers play a significant role in supporting operator collaboration. An important aspect is early engagement with major suppliers to support the joint development of an agreed approach, including a framework whereby they can collaborate with each other and with the various business groups within both operators. Ideally this should be done in a shared risk/reward structure to underwrite the success of a sharing program, potentially including suppliers as stakeholders and investors in the consolidated network.

Neutral or independent governance can also be a solution for managing these tensions. This allows a third party to be the honest broker between the operators and can help align differing cultures and aspirations as well as validating the overall approach.

Whatever methods are employed to improve collaboration between the operators, it must define, communicate and maintain a clear intention of their joint strategy and aligned business ambitions – supported and sponsored fully at all executive levels of both companies.

**A STRUCTURED APPROACH**

Although no two network consolidation environments are the same, it is possible to develop a plan that brings two networks together in the most optimal way, avoiding pitfalls and ensuring engagement across all stakeholder groups.

It is vital that the process is divided into clear stages, ensuring that all stakeholders are engaged with a clear understanding of the joint approach. This must balance issues like coverage, potential changes in competitive positioning, and achieving optimal benefits over the associated joint network architecture.

It is important to make sure that each phase, from the early foundation and agreement on the overall strategy to detailed program initiation, has a clear set of aligned outputs. Each phase therefore needs to be gated with a set of criteria designed to drive a consistent approach across all areas of the business and to build consensus among all stakeholders. Governance and stakeholder management is then key to controlling the transition between each phase as the process moves from high level principles to detailed design.

**CONCLUSION**

Successful partnerships are those in which the partners clearly thought through their sharing objectives and chose to work with a partner that – above all else – provided a good business fit.

Network sharing is a complex undertaking, often on par with mergers and acquisitions. Each party involved needs to realize the effects of sharing – not just on their network but on their business as a whole. When considering a structured approach, it is essential that a clear joint vision is established...
and sponsored from the beginning, and that cultural alignment is both fostered and managed throughout.

It is clear from previous sharing partnerships that it is vital for the executive team to establish and implement a structured approach that will:

- Actively manage the tensions between the two operators and the network sharing team.
- Identify early in the process the appropriate operating model and governance structure.
- Ensure that the entire business has bought into the decisions and agreement.
- Establish the roles and engagement model of key delivery partners early in the process.

With most operators likely to consider or review sharing opportunities in their market, it is essential that they do so primarily from a business perspective – and keep this consistently aligned with the feasibility of actually undertaking the technical and operational aspects of sharing.

The three major phases of a structured approach

The red line shows the typical path taken by operators when a relatively quick executive agreement in principle is delegated to a joint network technology and operations team to build the detailed case. This can spoil alignment of the business requirements and increase the risk of failure.