



# ICT strategies for telcos

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Chris Lewis  
Katy Ring  
Jan Dawson

A decorative graphic in the bottom right corner of the slide. It is composed of a grid of overlapping squares in various shades of gray and beige, arranged in a stepped, staircase-like pattern that ascends from left to right.

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|  |    |
|--|----|
| Table of Contents.....                           | 1  |
| Key messages.....                                | 3  |
| Drivers and barriers in the move to ICT.....     | 5  |
| The end-user perspective.....                    | 11 |
| Key considerations for business development..... | 16 |
| Positioning telco players in the ICT market..... | 25 |
| Competitor analysis.....                         | 28 |



# ICT strategies for telcos

***Network-centric providers (NCPs) such as telcos and carriers are moving into territory historically dominated by IT-centric providers (ITCPs), to provide portfolios of information and communications technology (ICT) services rather than simply voice and data services. Here we examine how network-centric providers should formulate their ICT strategy, what they are doing to expand their ICT portfolios, how they are marketing them and segmenting the enterprise market.***



## Key messages

*Ovum is not advocating that all telcos should become ICT service providers, but where a telco has evaluated the financial and competitive pressures on its business and decided that it is going to change its business model to increase its IT services coverage, we offer the following key messages.*

### **ICT should mean lower-cost solutions for end-user organisations**

For the vast majority of ICT areas, the expectation in end users' minds is that industry and technical convergence will mean cost savings, not additional spend.

### **End users do not want service providers to move away from core competencies**

End-user organisations do not expect the telco- or IT-oriented players to extend themselves too far on uncertain ground; telcos will be expected to move into areas such as communications-oriented applications management but not into enterprise applications or business process outsourcing (BPO).

### **There are IT-based revenue-generating opportunities to be derived from wholesale lines of business**

Once a telco has invested in creating a next-generation network capable of fully supporting 'net native' software, then, arguably, more revenues may be generated via wholesale channels offering more IT-aware networks than by a direct ICT offering.

### **Network-centric IT offers a low-risk, low-gain strategy**

Offering network-centric IT services that add incremental value to traditional network services is the lowest risk strategy for a telco, but will not progress the telco far up the services value chain.

### **Acquiring an IT services company is high risk, but promises higher rewards**

For those telcos wishing to move up the services value chain, it will be necessary to build market credibility via the acquisition of IT service skills, brands and customers. Organic business development alone is unlikely to be successful.

### **A vertical-sector sales focus is a critical success factor**

Telcos moving into ICT service provision are advised to restructure around vertical-sector customer-facing business units to compete more effectively with IT service companies.



**Don't think too global**

Most telcos will fail to establish a global ICT brand (unless they acquire a global IT services company) and so initial success is more likely to come from the development of a regional or country market focus.



# Drivers and barriers in the move to ICT

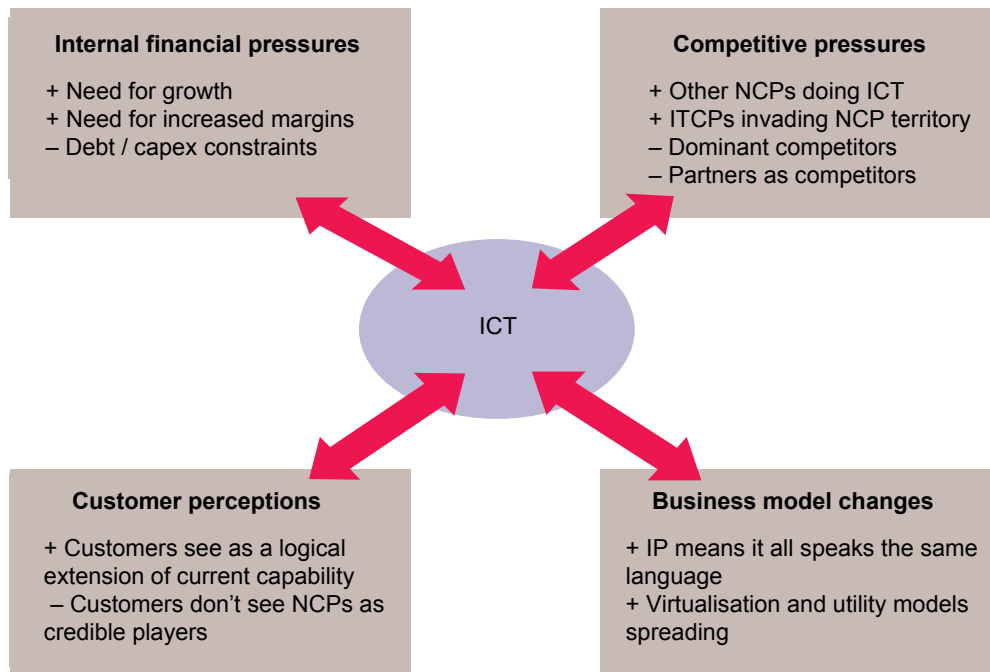
## Four basic sets of drivers and barriers

Four basic sources of pressure either spur NCPs to expand their ICT portfolios or prevent them from doing so:

- internal financial pressures
- competitive pressures
- customer perceptions
- business model changes.

The degree to which drivers and barriers in each of these four categories influence each NCP will determine to a large extent whether they seek a greater role in the ICT market. *Figure 1* gives a high-level overview of these four sources of pressure.

Figure 1 **Drivers and barriers for NCPs expanding their ICT portfolios**



Source: Ovum



## Internal financial pressures

### The need for revenue growth as the core business shrinks

Perhaps the biggest drivers for NCPs expanding their ICT portfolios have been internal financial pressures. NCPs have been struggling to find growth in recent years as their core sources of revenue have been assaulted from every side by intense competition, technology substitution, price erosion and commoditisation. Some have therefore seen a move into the broader ICT space as a possible source of new revenues.

This pressure has been strongest for those players that have lacked other common sources of growth such as mobile and broadband. BT has struggled to find growth since it divested its mobile arm, and has very much seen ICT (or, as it now prefers to call it, 'networked IT services') as one of the sources of future growth. AT&T and MCI, lacking both substantial broadband and mobile businesses, have also been forced to seek growth by expanding their portfolios of enterprise services.

### The need to increase margins in the face of commoditisation

At the same time, NCPs with an enterprise focus in particular have suffered from declining margins as the services which were once their 'bread and butter' have become commoditised, with very little differentiation and falling prices. These players have sought to overcome this problem by recourse to value-added services, among them managed services, outsourcing and IT services. Professional services, with their traditionally high margins, have also appealed to some, notably Equant.

### But financial pressures can also hold NCPs back

At the same time, some of the same financial pressures which create a need for a broader ICT portfolio can sometimes hold NCPs back. Where players have taken on large debt burdens and become cash-constrained, they have been unable to embark on investment programmes to create broader ICT capabilities and have been forced to 'stick to their knitting'. KPN is an example of an operator which has not developed an aggressive ICT strategy because of such financial constraints.

## Competitive pressures

### The fear of being left behind

Even as the financial pressures have mounted, NCPs' competitors have been launching their ICT strategies. BT and T-Systems were among the earliest to launch in the systems integration and IT services space with their acquisitions of Syntegra and debis Systemhaus respectively. As a result, competitive pressure mounted for the remaining NCPs to expand their ICT portfolios to keep up with the competition. There was a fear that competing with just network-centric services against a player with both network- and IT-centric capabilities was not going to cut it, because



customers could 'one-stop shop' from the integrated provider instead of multi-sourcing from specialist NCPs and ITCPs.

### **Attack is still the best form of defence**

At the same time, the ITCPs have spent the last few years doing an elaborate dance around their strategy for network services. IBM built and then sold (to AT&T) its Global Network. EDS, too, offers a wide range of network-centric services, although it typically buys in the connectivity itself. As the ITCPs were extending their portfolios in the direction of the NCPs' core business, some felt they had to fight back to remain on equal terms. Like the previous driver, this somewhat assumes that customers want to single-source rather than multi-source, which is by no means certain.

At the same time, the ITCPs have lacked the extensive networks of the NCPs, and so they have typically worked with the NCPs as junior partners or wholesale suppliers to complete their offerings to customers. NCPs have often felt marginalised in these relationships, as the ITCPs have treated the network as a utility to be bought at utility prices, and have squeezed the NCPs out of providing any added value. They have resented this and have felt that they are best served by developing their own IT strategy to counteract this bullying.

### **Does 'co-opetition' really work?**

The NCPs have wanted to continue to do business with the ITCPs where customers have stated a clear preference for dealing with an ITCP as a prime contractor. This has left NCPs in the awkward position of being at the same time partners with and competitors to the same ITCPs. Some have resisted the urge to develop broader ICT portfolios for this very reason.

As a senior executive at one systems integrator said to us recently, 'Co-opetition only works in theory, not in practice.' ITCPs wishing to find partners will resist dealing with those NCPs who they regularly see bidding against them for lucrative contracts and will seek to find partners who will be more consistently friendly. Thus, for the NCP, investing in a broader ICT portfolio risks losing significant business through broken ties with ITCP partners while gaining little.

While NCPs have many competing demands on limited resources, and many other major projects (notably the migration to IP NGNs) on the go, some may decide that a major drive to expand their ICT portfolios is not feasible. A viable alternative strategy is to work closely with ITCPs as a wholesale supplier or partner – a strategy that Global Crossing has embraced for example. This strategy avoids the problems associated with co-opetition while presenting an attractive proposition to ITCPs looking for non-threatening partners, allowing the NCP to derive an indirect, rather than direct, revenue stream from ICT services.

### **There's no point being last in the class**

With so many dominant ITCPs and several less-dominant but nonetheless prominent NCPs already in the market, some NCPs have decided that competing in a new



market as an 'also ran' makes little sense. Going head-to-head against IBM and EDS (as well as NCPs with broad ICT portfolios) is an unattractive proposition, and only currently underserved but attractive niches really make sense as targets.

## Customer perceptions

### Increasing demand from customers for a broader portfolio

Ultimately, a decision by an NCP to broaden its ICT portfolio must be driven by, or at least take into account, customer perceptions. The positive side of this factor is that more and more business customers are demanding that their NCPs extend their portfolios into new areas such as LAN management, managed security, hosting and storage. Even if customers are not proactively requesting these services from their providers, they certainly give their NCPs 'permission' to enter these new areas.

### Scepticism from some customers about credibility

However, there is also scepticism among some enterprise customers about their NCP's ability to effectively provide some of these new services. In particular, there is a general trend among customers as to what they will and won't accept their NCP to do, namely the following:

- expanding the scope of managed services to include other network elements, such as LANs, PBXs (particularly IP PBXs) and even desktops in some cases, is seen by most enterprise customers as a logical extension of current NCP portfolios
- de-coupling from the network and offering services such as IT outsourcing (including help-desk services) or business process outsourcing meets with scepticism from most enterprise customers. The exception to this rule is NCPs which have acquired existing providers of ITO or BPO services which have credibility in their own right.

Even where customers can see the logic behind a move into the broader ICT space, this does not necessarily mean that their NCP will be their chosen supplier, but it does mean that they will consider NCPs as suppliers of such services alongside other suppliers, including ITCPs.

## Business model changes

### IP means it all speaks the same language

The fact that customers are giving their 'permission' for NCPs to offer them new services beyond the traditional portfolio is a reaction to a fundamental shift towards IP networking. With IP becoming the *de facto* protocol for wide-area networking as well as local area networking, the whole network – from WAN to LAN – now speaks the same language.



The border between IT and telecoms is therefore breaking down as the ICT system becomes, depending on your point of view, either:

- a series of intelligent endpoints connected by a network utility, or
- an intelligent IP network which controls and manages the IT infrastructure.

The latter viewpoint is primarily subscribed to by the NCPs, among the most vocal of which is AT&T. The ITCPs have more of a mixed view on which of these world views is accurate, although they view with scepticism the attempts of the NCPs to take over their world.

Either way, as AT&T put it to us, 'the customer's business runs on IT, which runs on networks.' The two are inextricably linked, and this is causing a shift in the mindsets of customers in terms of who they are willing to buy such services from.

### **Utility and virtualisation models spreading**

Business models from the IT world are crossing over into the telecoms world. The concepts of utility computing and virtualisation are being adopted by the NCPs, and they are attempting to incorporate them into their own offerings, even those which are network-centric. The emergence of hosted IP voice services, for example, is a sign that the utility and virtualisation models have crossed over into telecoms. At the same time, the concept of bandwidth on-demand and the development of Ethernet at multiple levels in the network make a utility model for bandwidth more realistic.

This cross-pollination works to break down the barriers between telecoms and IT, and leads to customers increasingly asking their NCPs to provide a broader range of ICT services.

### **Are IT and telecom really the same thing?**

Despite this erosion of the boundaries between IT and telecoms, some clear differences remain. Pricing and licensing models in IT remain quite different from those in the telecoms world. Per-seat pricing, the whole concept of end-user and enterprise licences, and outsourcing remain marginal in the world of telecoms, though they dominate in the core business of the ITCPs.

Despite the ability of IP to bridge the divide between the IT and telecom worlds, and the cross-pollination of concepts such as utility computing and virtualisation, these businesses continue to sell, price and deliver their services in very different ways. NCPs must therefore carefully examine the degree to which the two worlds really have collided, and whether they are capable of changing their business models to play in a new space.

## **Weigh up the competing pressures**

Network-centric providers will need to weigh up these competing pressures to determine whether they will remain network service providers only or whether they



will become fully-fledged providers of ICT services. They will need to determine which of the following pressures wins out:

- the need for growth and increased margins or limits on capital investment
- the need to compete aggressively or the need to work effectively with partners and provide best-in-class solutions
- the need to meet customers' increasing demands or the recognition that credibility suffers when you over-stretch your purported capabilities
- the degree to which evolving business models break down the barriers between telecom and IT versus the degree to which these two sectors maintain fundamentally different business models.



## The end-user perspective

Almost every conference or individual discussion with end users involves a discussion of convergence at some point. It is critical to understand the end-user perspective in the ICT debate as the end users are the ones who ultimately pay the bill and hopefully reap the benefits. Ovum has an increasing amount of exposure to the end users and their issues relating to ICT and its supply. Much of the comment contained here comes from work with the Enterprise VPN User Association (EVUA) and its MNC members. This view is augmented by the end-user consulting work that Ovum carries out on benchmarking and *ad hoc* consulting around ICT acquisition.

### End-user drivers

Not surprisingly, cost and control are among the main drivers for end users when it comes to ICT. IT and communications have, for too many years, been a cost drain on companies. Under more stringent economic times the CIOs have been asked to rein in the expenditure on the ICT area. According to the 2005 EVUA Members' Survey there is a small amount of growth in ICT budgets, but it is small. The only areas receiving double-digit growth come in data networking, especially in mobile data services. For the vast majority of ICT areas, the expectation in end users' minds is that industry and technical convergence will mean cost savings for them. This is, of course, at odds with the industry, which believes that convergence is an opportunity to make more money!

CIOs face three main pressures on their budgets and ICT infrastructures:

- Pressure to refine and rationalise the infrastructure that supports all business processes. This is a three- to five-year programme involving networking and IT infrastructure and is a result of stove-pipe investment in piecemeal solutions scattered around organisations on a departmental and geographic basis.
- C-level urgency for tactical adjustments. Pressure from the business leaders in companies means that new services and processes are required on a short-term basis (three to six months) to gain advantage over competitors and adjust to market demands
- Real end users. Just to complete the multi-dimensional stretch, the ultimate end users are still trying to do their own thing and bring things like their own mobile devices, instant messaging and unsecured wireless access into the corporate network.

### What keeps CIOs awake at night?

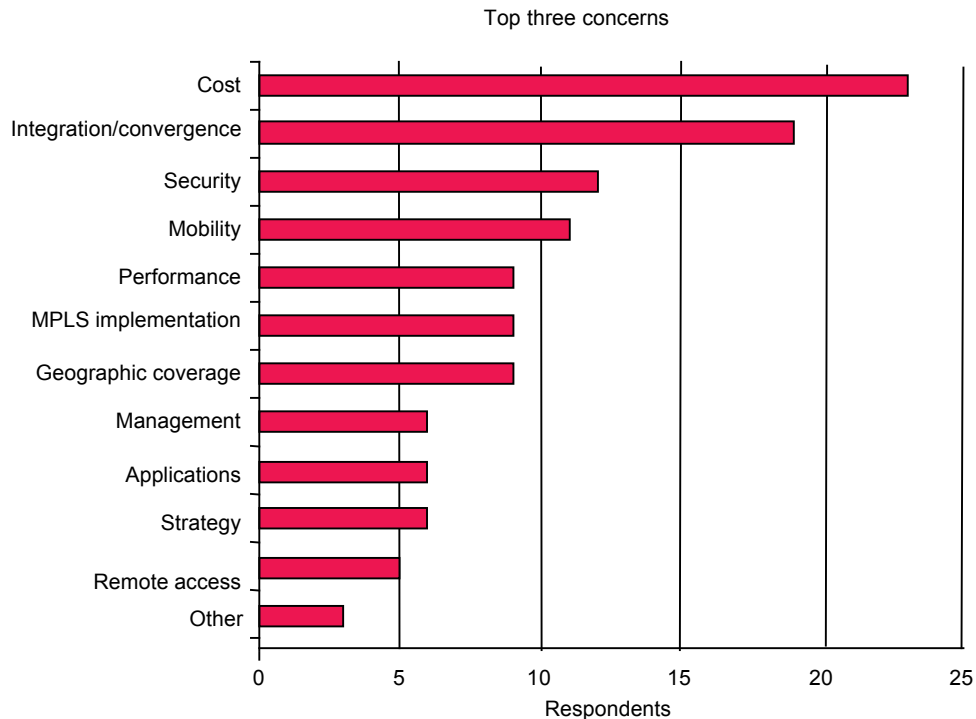
This multi-dimensional pressure on the CIOs is a major influence on their investment plans. Significant amounts of resource go into maintaining the status quo, while innovation at a business level is demanded simultaneously. The concerns that keep



them awake at night are summarised in *Figure 2*, from the EVUA 2005 Members' Survey.

Figure 2 CIO concerns

**G3 What are your three major network services concerns over the next 2-3 years?**



Source: EVUA/Ovum

Cost scores highest as the demands being placed on the ICT infrastructure are so many and varied. Integration comes second because the formerly disparate networks and IT infrastructures, let alone applications, all need to be brought together into a single underlying business support service. Security comes third as the increasing integration of services, coupled with far greater mobility within the company and far more electronic access from suppliers and customers, means that the core of the business is far more exposed than it ever has been in the past.

These factors lead end users to be driven into one of three camps when it comes to the purchasing of managed services covering ICT.

- DIY – where the company has a significant in-house IT resource and trusts nobody to implement and run the ICT infrastructure and services. This has tended to be the picture in some of the financial community, where the banks, for example, wouldn't even trust a network service provider to manage its routers.



From EVUA evidence, we estimate that this represent around 10% of the MNC market

- outsourcers – these companies are at the opposite end of the spectrum. They have made corporate-level decisions to outsource all the ICT infrastructure. This is often done on a high-level cost justification basis, assuming that outsourcing is a major contributor to cost savings. We estimate from EVUA and other direct contact with the end-user community that this is a further 10% of the global MNC.
- ICT managed services prospects – the middle ground. The remaining 80% of MNCs fall, not surprisingly, in between the DIY and outsourcing extremes. This is not to say that they want a specific set somewhere in between the two; they all have a different mix requirement. Some will look at the ICT building blocks and decide on a case-by-case basis to keep a piece in-house or seek a service provider partner. The mix appropriate to a particular company will be dependent on attitudes to things like security, hosting, teleworking, remote access management, datacentres and applications management.

The middle ground is the real battlefield for the ICT suppliers. Convincing the end-user community that the right tools are in the box to build a customised service around a particular company's requirements is the key challenge. The main problem is that convergence takes many suppliers out of their comfort zone and users are keen to exploit this lack of confidence combined with an over exuberance of suppliers to break into new ground. One nagging thought in the backs of CIOs' minds is that the telecoms and IT industries have promised many false dawns, and they want to make sure that this isn't another!

This customised sourcing view leads to a wide variety of suppliers being used. Some end users try to find a single provider who can stitch together the right mix of services; others opt for multi-sourcing at each level. It is therefore a gradation between the DIY and outsourcing extremes. What is interesting is that few users see the utopian outsourcing view when they have a handle on the actual requirements. The big outsourcing deals tend to be C-level driven and the IT and telecoms groups then have to manage the consequences – never a popular decision.

Is there room for specialists in this new sourcing scenario? Absolutely, in fact, specialists such as Vanco from the virtual network operator (VNO) angle are gaining ground both directly with end users but also in combination with systems integrators and IT service providers such as IBM. We should have learned from the outsourcing debacle of the 1990s that trying to do everything is a real uphill struggle. Breaking the ICT spectrum into manageable chunks seems to be the choice for the majority of end users. In this way they can get the best mix of providers and not expect the telco-oriented or IT-oriented players to extend themselves too far on to uncertain ground. So, telcos will be asked to move into areas such as communications-oriented applications management, but not into enterprise applications or business process outsourcing. IT-oriented players will not be expected to build their own networking infrastructures, but should be seen to bring in appropriate fixed and mobile networking providers to support the higher-level IT propositions.

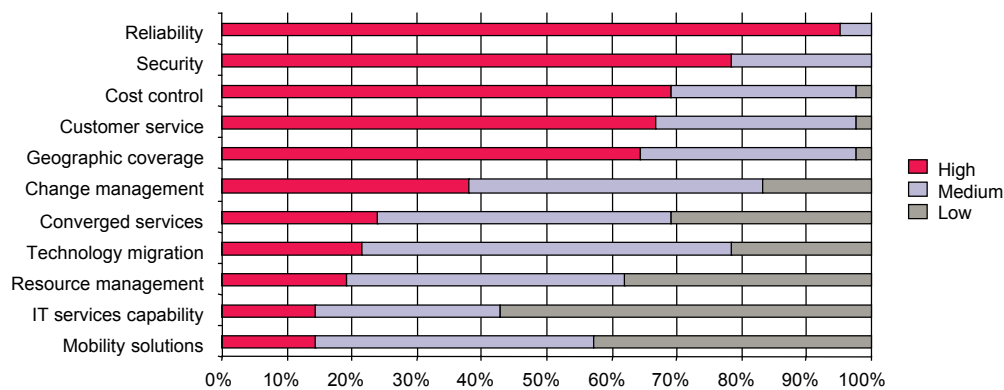


## Key service delivery criteria

According to the EVUA Members' Survey 2005, there are some key drivers in choosing service providers. Key delivery criteria can be seen in *Figure 3*.

Figure 3 **Key delivery criteria**

**Q16 What are your key delivery criteria for network providers?**



Source: EVUA/Ovum

Interestingly, although users say that cost is the number one concern in their ICT activities, it is not the key purchasing or service delivery criterion. It comes third behind reliability and security. This is partially explained by users of this magnitude being perfectly aware of their powers of negotiation, but also reflects a need for reliable and secure platforms. An interesting dichotomy emerges: for the majority of service providers being used today, the end users believe that they are expensive, that they do not offer good value for money, but that they are likely to renew contracts with these suppliers. The trust factor with incumbent suppliers is strong enough to stick with the higher quality of service; they can negotiate on price but they are not willing to compromise on quality of service. So, the good news is that users are willing to pay a premium, but it takes a lot of convincing to depose an incumbent supplier!

## The ideal ICT supplier?

The evidence from all of our end-user research is that users are looking for different degrees of integration, customisation and indeed spending. The end-user community now expects that the service providers will fit themselves around individual company needs and not *vice versa*. The ideal service provider for the future ICT generation is one that listens to and can match the level of end-user requirement. This may be DIY,



it may be full outsourcing, but it is most likely, as ever, a hybrid specially concocted for that company. No service provider, from whatever background, has the right to say they 'own' the customer. Convergence on all levels is making the future ICT industry a very even playing field.

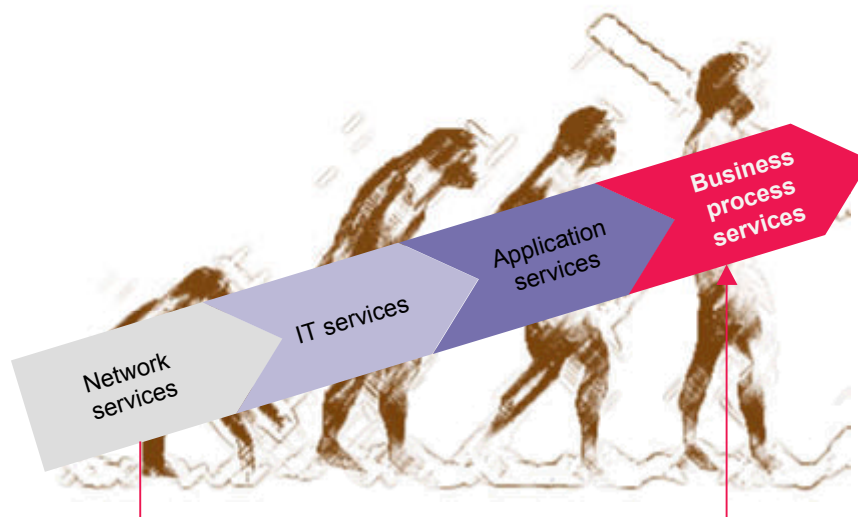


## Key considerations for business development

### What type of service play should my line of business develop?

The ICT spectrum of services is very broad and few players can deliver everything effectively. When developing an ICT services strategy it is important to focus on near-term objectives, and the first of these, which is often overlooked, is what type of service play is to be developed within the spectrum of possibilities. Some telcos have been extremely vague about what offerings they plan to develop, while others have talked about very ambitious offerings at the early phase of development. It is best marketing practice to be focused on well-scoped propositions. In order to aid scoping exercises, we believe that there are currently four main categories of service plays in the market – the network-centric, the IT-centric, the application-centric and the process-centric.

Figure 4 **Service evolution**



Attempting to short-cut the evolutionary process can be disastrous for a network-centric provider



## Network-centric services

In this approach the departure point is the core network business and the idea is to offer IT services that add incremental value to traditional network services. For example, business services that have both network and IT components such as managed workplace solutions that incorporate messaging, collaborative working, and support for mobile workers, as well as the desktop. Voice over IP is an application that fits snugly into such an offering and neatly bridges traditional IT desktop services with IP network-enabled applications and is an opportunity for building out ICT service capability. Another emerging opportunity lies with the monitoring and management of enterprise application traffic across next-generation networks.

Security and storage service provision are also areas that fit neatly into a network-centric portfolio because of the key role that network-based capabilities can play in such services. However, it is rare for a telco to be able to offer either of these types of service without IT systems integration skills.

## IT-centric services

In this approach the core capability presented to the market is based on systems integration and management skills to do with desktop services, data centre services and enterprise hosting. The provision of IT-centric services remains the core business capability of IT services giants such as CSC, EDS, HP and IBM. However, from a business development perspective each of these players views revenues from 'vanilla', IT infrastructure-led service provision with a similar level of anxiety as telcos view fixed line service revenues. This is because the nature of this type of IT-centric service provision is slowly changing to a straightforward procurement of standardised services. Although the traditional view is that the risks for telcos in developing such services are very high, because of a lack of technical and sales skills, within ten years we expect the entry risks will be much lower.

## Application-centric services

Application-centric services are developed around enterprise class application software that is designed to support a business process or a set of integrated processes. Examples would be back-office systems to support finance and accounting and HR, or front-office systems to support CRM or systems to support manufacturing processes, supply-chain processes and so on. Classically, such services were developed to support the application development and management of internal custom-built application systems in these process areas. Today market opportunity is more usually driven by commercially developed application systems from software vendors such as SAP and Oracle and the solution around which the service is sold will have a strong vertical-sector alignment.

This type of service play has a long tradition of following a design, build, run pattern of sales cycle and this makes it an extremely difficult market to enter without sector-specific sales skills, extremely strong application development and systems



integration skills and 'blended' onshore, nearshore and offshore application development resources.

### **Process-centric services**

This type of service play builds a value proposition around the ability of the service provider to more efficiently manage an entire process for the customer. That process might be managing the HR process, the finance & accounting process, the mortgage application process, the telco billing process, or the call-centre process within the CRM function. In the evolutionary value chains enshrined in Western thought, process-centric services are always accorded the evolutionary equivalent of homo sapiens, while IT-centric services are probably the evolutionary equivalent of the Neanderthal, with network services in the role of the ape. In other words there is a deeply-held belief that the gap between providing network services and IT services is large in evolutionary terms but that to attempt to move from network services to business process services is a disastrous attempt to fast-track evolution.

Actually, if the service provider can credibly demonstrate mastery of that process to the customer then it has a strong market entry capability. And clearly in some process areas telcos have a deep understanding of the process area. Furthermore, well-run telcos have arguably as good an opportunity to develop business process services as IT service companies. The more challenging aspect for telcos is putting in place the services culture around delivery of that process to external customers. However, IT product companies such as HP and Unisys have managed to do this, as has BT in the UK public sector and T-Systems with HR in Germany, so it is not an impossible business opportunity for a telco to develop.

## **Main development requirements**

### **Organisational structure**

#### **Vertical-sector expertise**

One hurdle at which many new entrants to the ICT services market fall is overlooking the necessity for industry domain expertise. Technical skills alone are not enough to win market share in the ICT enterprise services space. For those organisations developing ICT strategies, it is important to decide early on which industry sectors to focus on as this decision will inform key staff recruitment policies as well as the positioning and substance of the services portfolio being developed. For example, while it is true that all organisations have storage requirements, some sectors have to prioritise archiving because of regulatory rulings – financial services, for example, have a far more urgent set of requirements here than retail.

Getting industry experts within the organisation to sell services within the customer's own business terms of reference is extremely useful. What is more such key individuals, if managed properly, can help raise the game of the existing staff by



sharing that industry knowledge amongst sales teams and service development teams.

It is easy to be a little cynical about the value of vertical-sector expertise – those from a product-based business culture tend to take the view that what you end up selling at the infrastructure level is virtually the same for each customer of a certain size and complexity irrespective of their business. So why bother? The interesting marketing point to consider here is that taking time to engage with the customers on their own terms and in their own language is the hallmark of a services culture. In truth what the big services companies actually deliver most of the time is vanilla IT infrastructure services, but you have to know the industry well to understand this and you would never deduce it from the way those companies are organised or from their sales and marketing strategies.

Below the key account management tier, however, there are many sound reasons why communications and IT service sales teams should be kept separate. The knowledge required to sell a network-centric proposition is quite different from the knowledge required to sell other types of ICT propositions. Indeed, the technical language differs markedly between network-centric and more IT-centric propositions and expectations around service and support can also differ quite markedly.

### **Getting a services culture to grow**

The key distinction between a services company and a product company is that with the former the customer relationship is king and with the latter market share is what matters. The services sector is a deal-based sector and each win is only as good as service delivery against customer expectations for the life of the contract. Service companies that aspire to be more than a support services organisation cannot afford to take refuge in the challenges of product development lifecycles as an excuse for poor performance in an account.

In order to nurture a services culture there are many small steps that can be taken to foster a different way of approaching work. These would include:

- introducing time management systems so that resources get allocated and managed according to customer and project codes
- knowledge-based teaming processes to share internal knowledge
- internal training programmes for service accreditation
- bonus schemes related to client satisfaction ratings.

## **Organic or acquisitive growth?**

### **The organic path**

It is extremely challenging for a telco to organically develop an IT-centric or process-centric play because the brand recognition is not there, it is difficult to recruit the skills



required and the progress to a services culture internally will be painfully slow and easily overturned by senior management changes.

The organic path to developing network-centric services is the lowest risk and most popular choice for telcos moving into ICT provision. This is because it does not challenge the core business competency of the organisation, which resides in network skills. Rather it embraces this capability and adds incremental IT service offerings to it. Consequently, it does not require a big bang business re-engineering exercise. The flipside of the lower risk nature of this approach is that there are lower gains. For example, this approach will do very little to change the profile of telcos within enterprises as the 'IT' services being offered are business services purchased through procurement departments and do not have the board-level visibility that enterprise applications and business processes do.

AT&T, Bell Canada, Equant, MCI and Telefonica Empresas are among those adopting this approach.

### **What options are there for telcos that want to grow organically?**

Those telcos that wish to develop higher value ICT services above a network-centric play but that do not wish to acquire companies or the IT assets of their customers might consider the following:

- joint venturing with specialised independent software vendors (ISVs) to deliver niche application and process services in selected industries
- joint venturing with 'offshore' companies to provide low-cost hosted application services, and ASP solutions with application development skills.

### **The acquisition route**

It is difficult to identify a telco that has yet successfully developed an ICT strategy without making an acquisition to bring in skills, customers and brand associations. Even BT's forays into IT services would have been unthinkable without the ownership of Syntegra. The obvious example of a telco that is building ICT capability on the back of an acquisition is Deutsche Telekom. It acquired Debis in 2000 to create T-Systems. In our view T-Systems is the most advanced ICT player in the world today in its breadth of portfolio and in its brand recognition for ICT services in its home market.

T-Systems believes that the key to its success in Germany was that the IT services business was operated separately from the communications business. This enabled Deutsche Telekom to better understand how the IT services market operated and the differences between the two types of business. After four years the two businesses were more tightly integrated within T-Systems in 2004 by developing two lines of business:

- T-Systems Enterprise Services
- T-Systems Business Services.



Enterprise Services is led by an IT services senior management team, aided by a telco mid-management team, while Business Services is led by a telco senior management team supported by an IT services mid-management team.

The re-organisation is now being taken through to the existing field organisations (from T-Com and T-Systems) so that Enterprise Services addresses the top 60 accounts with account managers, while Business Services addresses the SME market via the regional field organisations and central call centres. This organisational blending of the two types of line of business is the most advanced that we are aware of.

However, other telcos are beginning to take the acquisition route to IT-centric capabilities:

- in 2004 Telstra acquired KAZ and is just starting its ICT journey by keeping the two businesses separate and introducing buddying schemes in the two salesforces
- in 2005 Swisscom IT Services acquired Comit, the Swiss-based IT consultant and systems integrator specialising in systems for financial institutions. From 1 January 2006, Comit will trade as an autonomous subsidiary of Swisscom IT Services, and will take over the latter's financial-services business, with a charter to 'focus on implementation, operation and application management of integrated banking solutions'. While the new-look Comit will handle IT consulting and systems-integration services to banks, Swisscom IT Services says it will handle data-centre operations for Comit customers. The new Comit will have 420 staff, including 200 transferring from Swisscom IT Services.

## Global or local service provision?

The IT services market divides sharply into two opportunities: on the one hand there is the type of consistent global delivery methods required by multinational companies that spend hundreds of millions of dollars (if not billions) on individual IT service contracts – the mega-deals. On the other hand, the vast majority of contracts signed are for less than \$100 million, and are predominantly signed and operated locally within a country market.

Given this dichotomy between two types of market opportunities for IT services, telcos need to decide which type of ICT business they wish to develop. Those telcos that characterise themselves as global carriers will probably prefer to develop a global ICT capability. Those telcos that see themselves as national or regional carriers will obviously plan to fit their ICT strategy into the geographic profile in which they operate. In fact it is arguably easier for all fixed carriers to develop a local ICT proposition than it is to develop a global ICT proposition for the following reasons:

- Very few carriers have a truly global telecommunications brand that is well-recognised beyond their country of origin. Building a new, unproven ICT service capability on top of an internationally weak communications brand association to deliver high-profile services to multinational corporations, headquartered in countries beyond the telco's country of origin, is challenging.



- The larger the deal, the more important it is to have strong board-level connections with the customer organisation, and whether telcos have those connections beyond customer organisations in their country of origin is highly questionable.
- If the ICT service capability being offered is network-centric, the telco will increasingly have to compete with telcos headquartered in the customer organisation's country of origin where such services are unlikely to differentiate it.
- It is extremely challenging to deliver ICT services globally in a methodologically consistent way. The big global IT service companies are currently investing heavily and restructuring to ensure that they can do this. If telcos were to start building this service delivery capability organically today, they would be at least five years behind their global IT service competitors.

Telcos have stronger opportunities to develop ICT services in their countries/regions of origin for the following reasons:

- They have strong brand recognition in that country or region that may stretch to cover the new ICT services.
- For network-centric and (increasingly) IT-centric propositions, the brand stretch will probably be credible within that country or regional market.
- At the less than \$100 million deal level, purchasing patterns typically favour local players above global players.

## Emerging market trends

Although the focus of this research is on telcos developing ICT propositions, it is important to remember that ICT service provision is a moving target as the market for IT services is maturing.

### **IT service supplier business models are changing**

The primary market driver within the IT services market is to deliver cost reduction and control. In order to do this, suppliers have to reduce their own costs. They are doing this through:

- operational scale
- global resourcing
- utility computing models.

In order for telcos to compete with ICT offerings they must understand these developments and be prepared to invest in these three areas themselves, especially if they aspire to be a global ICT player.

#### **Operational scale**

Until this century, global IT service companies typically operated as a set of regional fiefdoms, with partners managing their own regional 'theatres of operation' virtually as



separate businesses with their own P&L. Although such companies may have appeared to offer global solutions, in reality the solutions were delivered by an alliance of internal partnerships delivering differently in each geography. Over the past five years, this has begun to change with many of the top IT service suppliers undergoing a major change management exercise to develop global development, integration and service delivery methodologies to enable services to be delivered consistently on a global basis. In this way global service providers can really bring operational scale to bear on their costs and pricing.

### **Global resourcing**

The global IT service providers have been making use of low-cost application management and maintenance expertise for more than a decade. However, the rise of the offshore programmer is now highly topical and clients expect pricing to be lower because of offshore labour capabilities. In fact the effective management of offshore programmers in India and the Philippines, combined with lower cost nearshore labour in Eastern Europe and South America, is a skill in itself and does not automatically translate into cost savings. Nevertheless, it is an area where the global IT service providers are well advanced in their understanding and have the resources at their disposal to competitively price solutions.

### **Utility computing**

Utility computing is all about the ability of providers to reduce parts and labour costs, and to do this they must:

- work the economies of scale that the Internet and associated web technology advances have enabled via shared service provision
- support SLAs that operate on usage metrics delivered at a lower level of granularity than was possible before the introduction of IP networks and 'net native' software
- introduce transparent billing and pricing to enable clients to more efficiently manage consumption of the service being delivered.

In order to do this service providers need to invest in new service delivery technologies and platforms to enable the automated provisioning of equipment, the management of virtualised processing capabilities and the ability to monitor, meter and bill clients for their IT consumption.

### **How will the market develop?**

Given the changing IT services supplier business models, over the next decade, we see the ICT services market developing in two main directions:

- big global players with utility capabilities, offering wholesale infrastructure services to smaller, regional players
- smaller, niche players with specialist skills.



All players interested in the ICT market must make strategic decisions about how they will fit into the developing market. Do they go for size and scale; or do they adopt a more specialised market approach targeting specific industry sectors or geographical regions?

## Exploiting changing IT service propositions

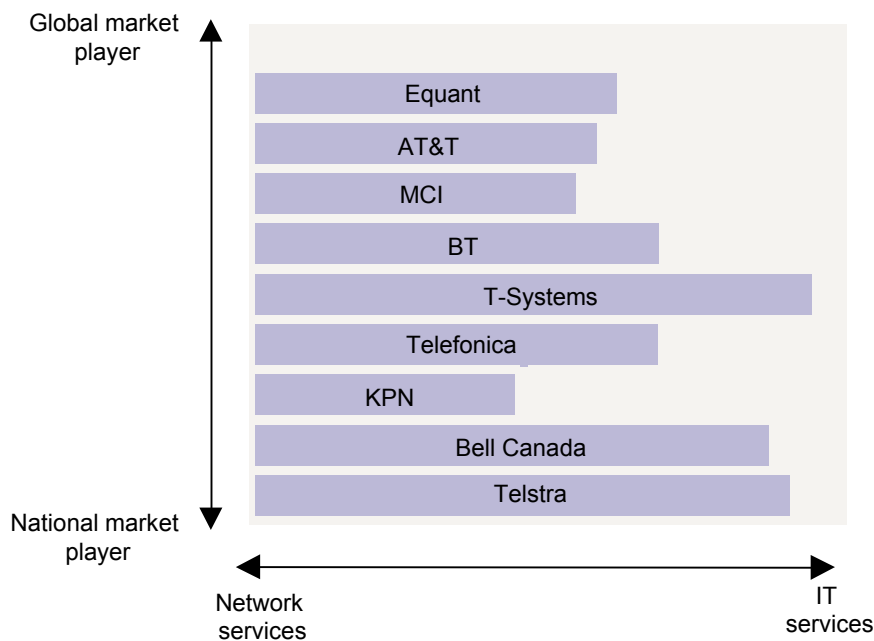
It would seem intuitive that the telco as ICT provider has an opportunity to enter the IT-centric services market as the utility computing model matures and global, wholesale delivery of services becomes the mainstream market approach. After all, telcos understand both how to operate wholesale businesses, and how to manage utility services. However, we believe the telco will struggle to prevail because of a lack of global IT brand recognition and because of a fatal miscalculation regarding likely market development.



## Positioning telco players in the ICT market

Figure 5 shows a sample of telcos positioned according to our judgement of whether the ICT services they provide are at a national or global level, and an indication of the breadth of the portfolio of ICT services they provide. A more detailed view of each player in the chart is provided in the profiles that follow this section.

Figure 5 **Positioning**



Source: Ovum

Telcos developing an ICT portfolio tend to divide into those looking to add incremental network-centric IT services and those looking to expand more aggressively into the IT services space with a more IT-centric proposition.

### Network-centric ICT providers

#### AT&T

AT&T is focusing its ICT strategy on global MNCs and provides hosting & application performance management services but does not get involved in IT outsourcing contracts, application development services or BPO. Its coverage is global, although



its position in the European hosting market is relatively weak compared to European-headquartered telcos.

### **BT**

BT is taking an interesting hybrid approach to ICT services. Its global strategy is self-styled 'network-centric' and focuses on hosting, application performance management and managed workplace services. However, in the UK it is becoming known as an IT outsourcing provider in the public sector. There are currently no plans to take that ITO capability to markets beyond the UK.

### **Equant**

Equant is focusing its ICT strategy on MNCs and has a strong international customer base in the sense that it is not overly dependent on one country market. It offers hosting, managed workplace services and outsourcing contracts to that level of ICT competence. It does not provide application development services or BPO.

### **MCI**

MCI provides hosting, application performance management and workplace services for US enterprises and global customers. It does prime for IT outsourcing deals but does not provide application development services or BPO. For ICT services it has relatively weak market penetration in Europe.

### **KPN**

KPN is the most conservative ICT player we interviewed. It is only looking to build ICT capability around those areas that are clearly network-centric and telco-based, such as VoIP, and it only services the Dutch market.

### **Telefonica Empresas**

Telefonica is building its ICT strategy organically within Spain offering services such as application hosting, and workplace management services. It is keen to move into IT outsourcing opportunities where the network is also being outsourced.

## **The telco-based IT-service players**

### **Bell Canada**

Bell Canada is developing its ICT portfolio via acquisitions to address the requirements of small and medium-sized businesses in Canada. Given the SME focus, Bell Canada is providing managed and hosted services (including integrated back-office application systems) rather than developing a full-grown outsourcing capability. Its profile beyond Canada is small but it claims that its brand recognition in Canada in this space is now stronger than both HP and Dell.

**Telstra**

In 2004 Telstra acquired the Australian mid-market IT services company KAZ in order to kickstart its ICT strategy. KAZ provides managed and outsourced IT services as well as BPO capability to the superannuation, insurance and transportation sectors. Telstra's ICT strategy is purely focused on the Australian SME opportunity.

**T-Systems**

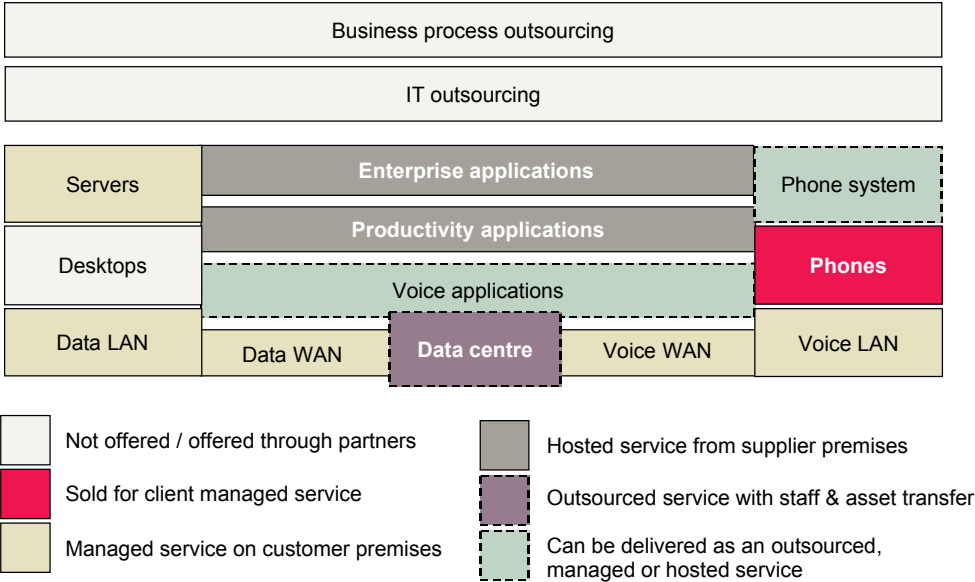
In 2000 Deutsche Telekom acquired debis Systemhaus and became Germany's largest IT outsourcing player. T-Systems Enterprise offers a full portfolio of IT services including BPO offerings in HR. It has the dominant market position in Germany but is far less well-known beyond Germany.



# Competitor analysis

## AT&T

### ICT capabilities



Source: AT&T, Ovum

AT&T has expanded beyond its historical focus on pure network services into the LAN environment and into storage, hosting and managed services. It can provide business process and IT outsourcing in part through working with partners and has a wide range of managed and hosting services, including security. It has also developed a line of 'virtualisation' and utility computing services which it is rolling out to its customers. AT&T also provides what it refers to as Network Integration services, under which AT&T manages complex networking requirements, including multi-vendor solutions.

### Company structure for ICT service delivery

AT&T Business Services delivers the full spectrum of ICT services offered by AT&T from a single organisation. For the purposes of management, the portfolio is separated into Enterprise Hosting and Application Services on the one hand, and Enterprise Networking on the other, but the full portfolio is delivered, deployed and managed by integrated design, engineering, sales and customer service teams. The customer's solution is managed through AT&T's integrated management platform known as iGEMS.



### **Customer segmentation for ICT service delivery**

AT&T has tried to create a portfolio of ICT services and an approach to creating ICT solutions which allows for considerable customisation in delivering solutions to customers. This flexibility allows AT&T to target customers of many different sizes with its portfolio, from the largest MNCs to smaller businesses. It does not segment customers specifically with ICT services in mind but rather applies its general business market segmentation to these services.

While the smallest businesses are presently not a focus for AT&T either in the US or internationally, these services are made available to smaller businesses, although many tend to purchase less complex solutions.

### **ICT marketing strategy**

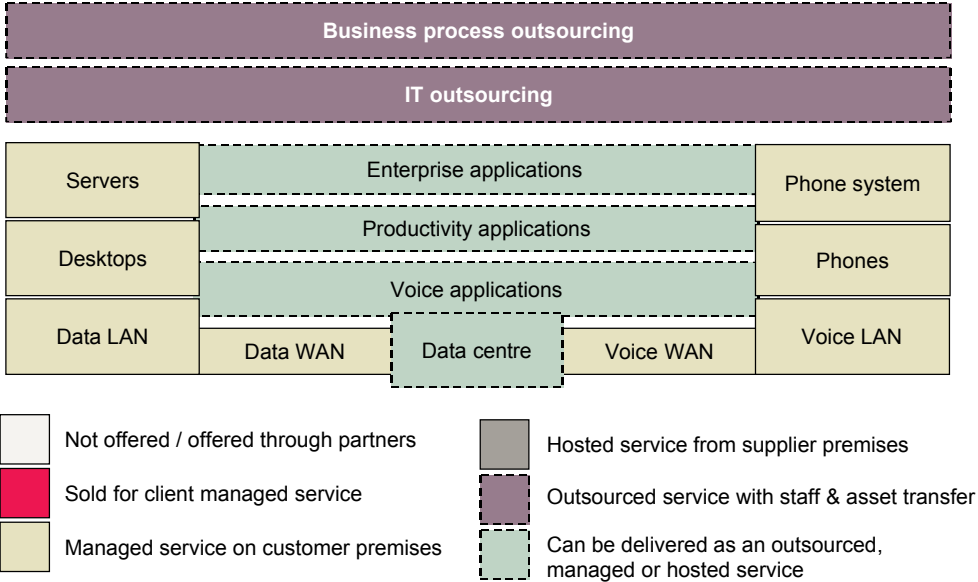
AT&T takes its ICT solutions to market through its 4,000-strong salesforce, its Alliance Channel indirect salesforce and its partners. These sales teams are able to build custom solutions by bringing together AT&T's sales engineers, specialists in areas such as security, storage and hosting, and AT&T's network integration team, which designs and implements customers' network solutions.

AT&T has also been running seminars throughout major cities in the US to promote its capabilities in the ICT space, meeting with CIOs and senior ICT managers from customers and prospective customers. AT&T has provided them with ROI case studies and references to demonstrate its track record in the ICT space as a way to overcome any customer scepticism about AT&T's capabilities in the broader ICT market.



# Bell Canada

## ICT capabilities



Source: Bell Canada, Ovum

Bell Canada has invested in both organic and inorganic expansion of its core capabilities into the broader ICT space. It now offers a broad range of services in both the networking and IT services markets. It offers both business processing and IT outsourcing services, although it is selective in the opportunities it pursues. In the BPO space, it stays away from the more generic opportunities which are the core business of the SIs, and focuses instead on more custom, front-office opportunities which in some cases allow it to create solutions for multiple customers in a given vertical. Its basic rule in determining whether or not to offer a service is that it should be either 'network-centric' or 'network-adjacent'.

### Company structure for ICT service delivery

Bell Canada has sales channels for both enterprise and SMB customers, which sell the full spectrum of ICT services, including both network services and associated IT services. The direct sales teams within both groups are able to draw on centralised resources to help them create solutions which are appropriate to meeting individual customers' needs and creating vertical-specific solutions.

### Customer segmentation for ICT service delivery

Bell Canada has separated its Enterprise and SMB Groups under separate management – the Enterprise Group is managed by Isabelle Courville while the SMB



Group is managed by Karen Sheriff. The ICT solutions for these two sets of customers are rather different. In the SMB segment, Bell aims to become a 'virtual CIO' to SMBs, effectively a 'one-stop shop' for their ICT needs. In the Enterprise Group, Bell offers a more network-centric suite of services, although there too it has a broad IT capability.

In addition, Bell has also created an Industry Solutions Group to create solutions around particular vertical industries which can be leveraged by the account managers working with Enterprise customers. So, although the sales team is not segmented by vertical, it does offer vertical-specific solutions.

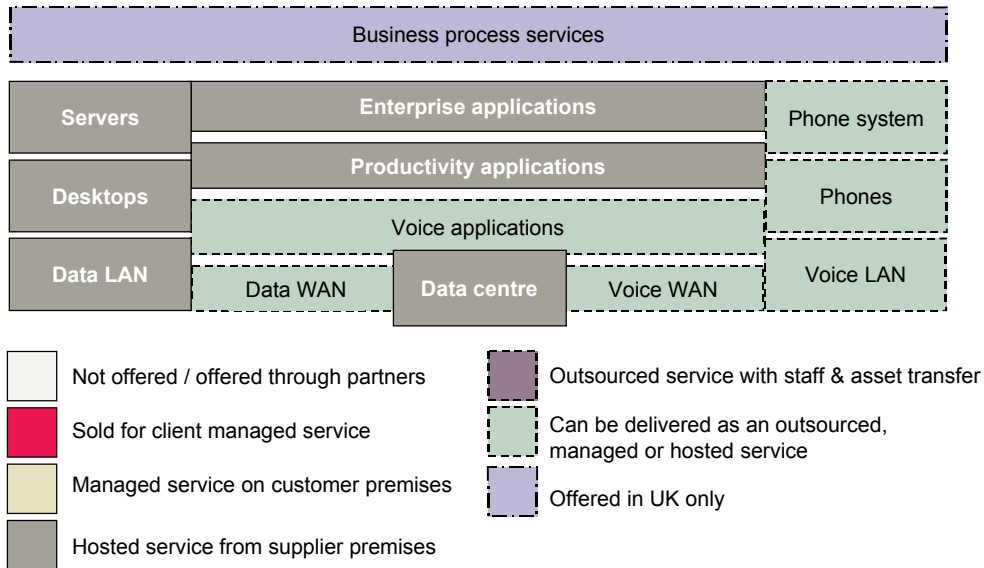
### **ICT marketing strategy**

Bell continues to sell its portfolio of ICT services through its normal sales channels, including both direct sales and an increasing range of indirect channels for SMBs. However, in order to raise awareness of the breadth of its portfolio, it has recently run a campaign with the theme, 'Did you know?', advertising specific parts of its portfolio with which its customers may be less familiar, including its IT services capabilities.



## BT Global Services

### ICT capabilities



Source: BT, Ovum

### Company structure for ICT service delivery

BT Global Services is organised into three levels – markets, service lines and functions.

The Markets team comprises two layers as customers are divided into UK and international accounts. Behind each of these are three P&L businesses looking after UK accounts, the 87 global accounts, and other international accounts. Each unit is responsible for the end-to-end P&L (pre-sale through to delivery). The two service lines and the various group functions support all accounts.

### Customer segmentation for ICT service delivery

Customers are currently segmented primarily in terms of account size and geography. However, BT Global Services has begun to adopt a more vertical-sector approach to its structure. For example, in September 2005 Howard Edelstein was appointed as president and chief executive of a newly established Global Financial Services unit. BT Retail – the UK-focused business – adopted a more vertical approach to market some time ago, acquiring industry-specific applications through the business units BT Pulse (pharmaceuticals), BT Expedite (retail) and an unbranded financial services team.



## **ICT marketing strategy**

BT's IT service strategy focuses on what it terms 'networked IT' which is any aspect of IT where the network is critical to adding business value to the customer. By this, BT means those parts of the IT infrastructure such as messaging and email where the application would not exist without IP infrastructure.

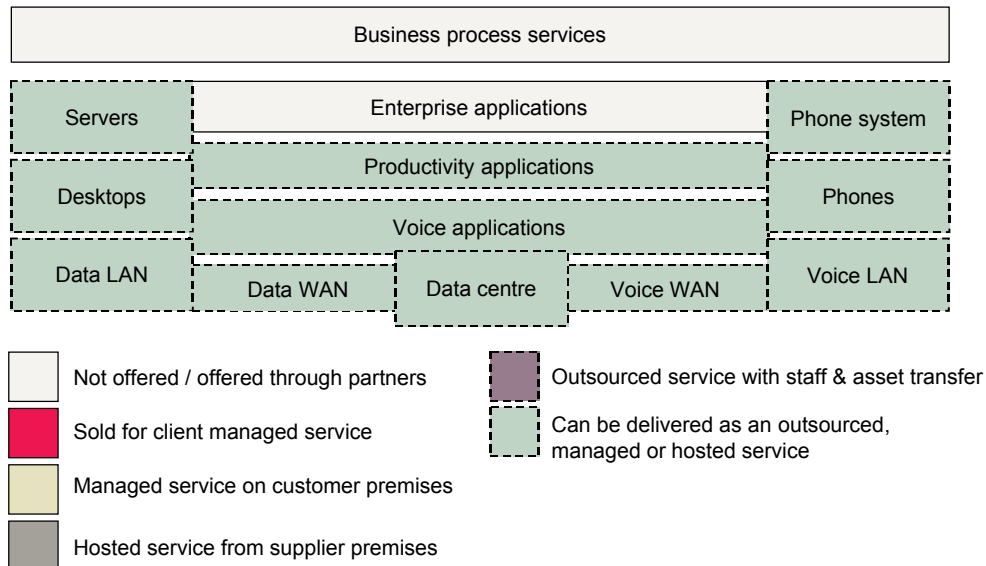
Within its 'Networked IT' capability BT offers phone systems, voice LANs, voice WANS, hosted services (within BT's own data centres), data WANS, desktops, voice and productivity applications. BT does not offer enterprise application management, but it can host enterprise applications. In other words what BT feels most comfortable doing is managing network services. Its strategy can be paraphrased as adding incremental IT service offerings to its core network capability.

In order to communicate this strategy BT has invested in a 'Networked IT' TV commercial that has been shown in several different geographies and languages. It also hosts analyst and media events to present its strategy.



## France Telecom (Equant)

### ICT capabilities



Source: France Telecom, Ovum

### Company structure for ICT service delivery

Within Equant, ICT is managed as a separate line of business via Equant's Solutions and Services Division, which comprises four business units:

- Integration Services, which is the largest division and offers core expertise around LANs, IP telephony, the management of private networks and support and maintenance around the resale of network equipment
- IT Services, which provides managed messaging services, security services and server management services
- Professional Services, which provides consulting, project management and customer service management
- Outsourcing, which is laid on top of the other business units as well as over Equant Network Services. This unit is engagement-focused, dealing exclusively with large customers.

The management team within Solutions & Services is drawn from both network services and IT services companies. Many new recruits are from service companies such as IBM, PwC and Accenture.



Approximately 1,000 people are employed within Solutions & Services, and a further 2,000 are at the disposal of Solutions & Services, if you count IT services staff and field operations.

The existing Equant sales channels are used for selling integration services, however, for outsourcing contracts Equant has developed a specialised sales team that resides in the Solution & Services unit.

### **Customer segmentation for ICT service delivery**

Equant is targeting multinational corporates with its ICT services. It focuses on three vertical sectors:

- finance
- manufacturing
- retail.

Equant is a global company servicing global companies, and for the services it provides it is always the prime contractor.

### **ICT marketing strategy**

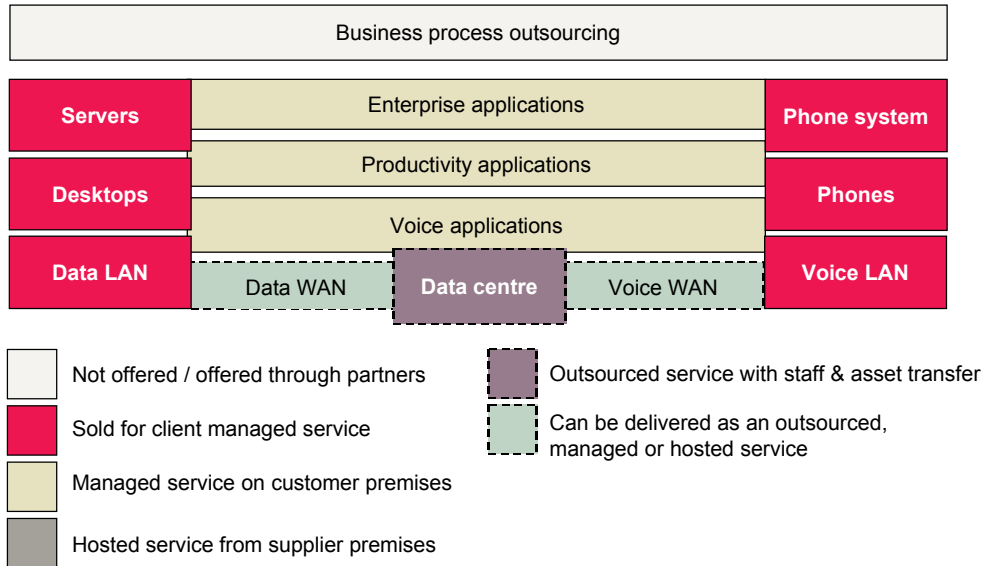
Equant's key ICT services market message is that it has the capability to deliver services with the same processes throughout the world using its global communications infrastructure, and this enables it to manage complexity for its customers.

Equant has no specific ICT services marketing campaign, but views ICT services as being part of France Telecom's global 'NEXT' (New Experience in Telecom Services) campaign. While Equant is comfortable with its branding for the provision of ICT services, the new Orange branding requires more marketing to increase its recognition in the services space.



## KPN

### ICT capability



Source: KPN, Ovum

There is no consistent definition of ICT in KPN. KPN delivers only those services that relate directly to the network infrastructure and related network applications. KPN wants to add incremental IT service offerings to its core network capability.

There is also an issue between definition and the scope that KPN is going for. The company is trying to identify in its business plan which parts of the IT stack it is going after. KPN interfaces with the systems integrators somewhere around the non-infrastructure-based applications. Voice, for example, is a separate network and service today but with VoIP becomes just another application loosely related to the KPN network. KPN is seeking infrastructural and communications-oriented applications, which are natural to an incumbent.

### Company structure for ICT service delivery

KPN took a decision around a year ago that it would not enter the SI market either through acquisition or organic growth; the senior management see the IT expertise required as being outside of the scope for a telco player. ICT activity is handled through relationships with SIs. KPN works with all of the SI partners for the Netherlands such as Getronics and Atos Origin.

The fixed network division of KPN is responsible for applications from the fixed network perspective. This currently means the introduction of VoIP for the enterprise market. There is a special solutions/integration group (KPN Solutions) within KPN that



pulls the larger accounts' needs together – these are mainly contracts of over a million. However, these contracts probably have 10–20% of real value-added service mapped on top of the basic infrastructure and communications.

### **Customer segmentation for ICT service delivery**

IMS, the integrated solutions division, deals with the major accounts such as ABN Amro and Aholt where an ICT solution is required. Some of this comes from KPN; other pieces come from outside.

The business division handles all business customers, including small organisations.

### **ICT marketing strategy**

KPN does not want to get into a position where it competes with the big management consultancy players. It believes the trick is to keep the SIs happy and work with them all rather than becoming a competitor to them by acquiring its own SI resource.

Some customers do a lot of ICT outsourcing where the ICT part is a small part of the total. However, the SIs are competing aggressively for this business and KPN wants to remain at the disposal of all. KPN doesn't want to be left out of the biggest deals. It is, however, concerned about losing the direct contact with the major customers.

KPN has adjusted its sales and distribution strategy. Selling through IBM is OK on one level, but this can squeeze the telco services, which are being reduced to very simple services. This then presents a problem for KPN to raise the value proposition. The more direct contact, the better attuned the services and product development can be. The trick is to make sure the SI doesn't replace that function.

Today it is at the top end of the market. In a couple of years, KPN thinks it might spread down but it isn't happening yet. The top market is a very high percentage of a telco's turnover. The integrators are making contracts shorter and revenue expectation is becoming more volatile.

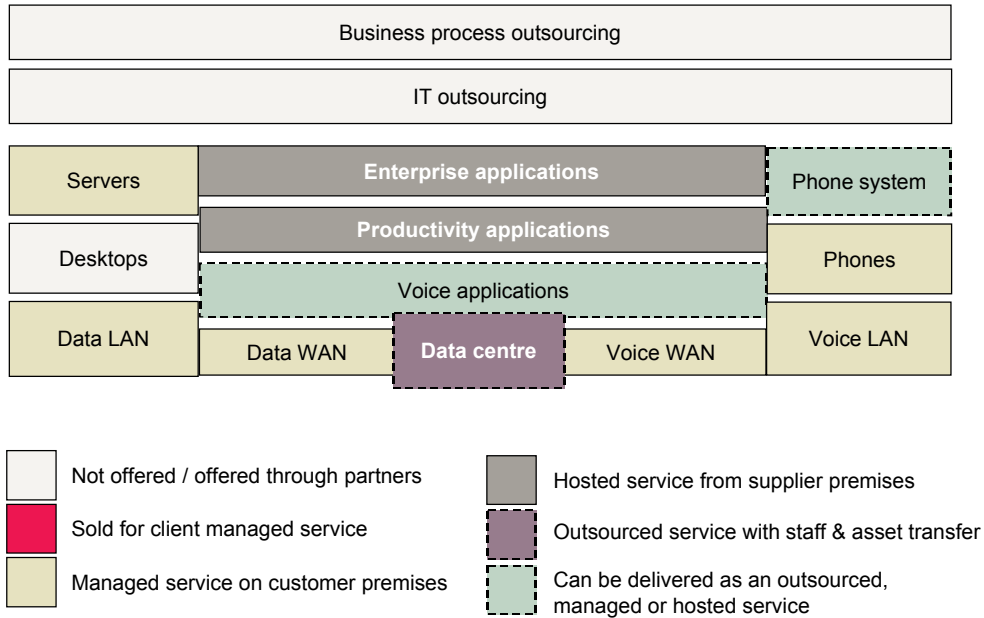
Successful contracts are the key. They want to sign contracts with the integrators for the basic services and then put the simple things out to the market. It is a real bidding contest and it is difficult to make money

KPN has predominantly telecoms staff and has lost IT skills over the last two or three years. This is not likely to change over the next few years. The skill will be brought in to address customers' needs.



## MCI

### ICT capabilities



Source: MCI, Ovum

MCI's portfolio has extended in two directions beyond basic network services:

- towards managed services, including managed WAN, LAN, IP PBX etc
- beyond the WAN into the LAN, desktops, security, application management etc.

It does not provide business process or IT outsourcing but does provide a range of options for network services, including client-managed, MCI-managed and hosted IP telephony solutions. MCI has used acquisitions to boost its capabilities in at least two areas – security (NetSec) and application management (Totality).

### Company structure for ICT service delivery

MCI has a single organisation for selling its entire portfolio of services to enterprise customers. There is some division of responsibility between managers responsible for IP services on the one hand (MPLS, IP VPN, IP telephony, contact centre solutions etc) and IT services on the other (hosting, managed security, digital media services etc), but these two groups work closely together. The management team in this organisation comes from both IT and telecoms backgrounds.



## **Customer segmentation for ICT service delivery**

MCI sells its portfolio of ICT services to all business customers from medium-sized up. It doesn't sell the full portfolio to small business customers, but does sell a more basic set of services to this segment. Broadly, MCI segments its business customers into several groups: small business, medium-sized business, large domestic accounts, government accounts and global accounts.

## **ICT marketing strategy**

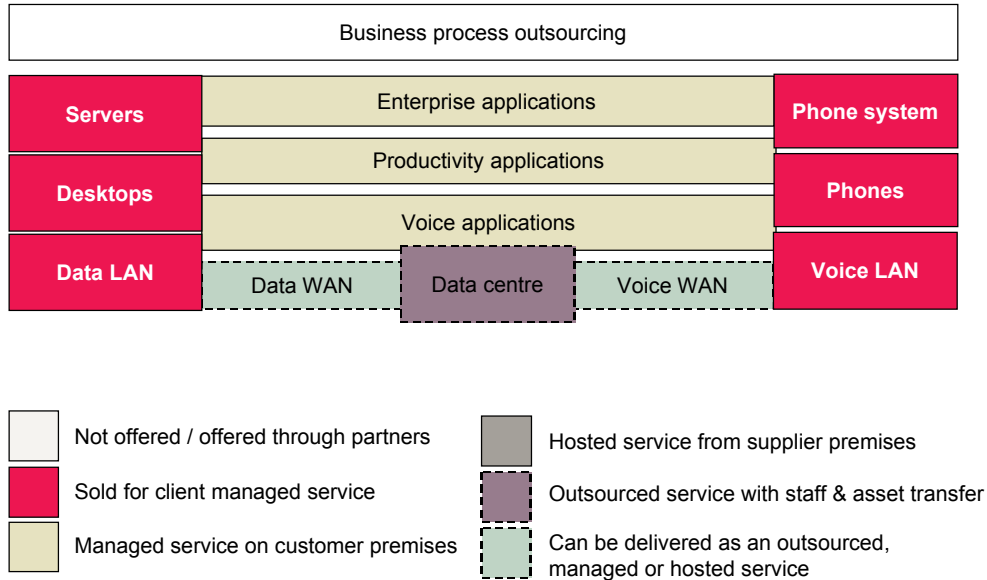
Two years ago, MCI began to develop a specialised solutions sales team to better market these more complex services, in recognition of the fact that different skills were required compared with selling more basic traditional services. This team was overlaid on the existing organisation to help with creating attractive value propositions, bid management and technical support, and was staffed from existing successful MCI salespeople as well as new team members from competitors and counterparts such as AT&T, EDS and IBM.

Since that time, MCI has also developed a branch sales organisation to support sales into medium-sized enterprises looking to buy managed and hosted services. MCI has also made a decision since exiting Chapter 11 to begin investing more heavily in four 'centres of excellence': managed network services, hosting services, security services and contact centre services. MCI has expanded its headcount in the marketing functions for these four areas, with a view to developing better solutions, serving customers better and better selling these services and solutions to customers.



## Telefonica Empresas

### ICT capabilities



Source: Telefonica, Ovum

### Company structure for ICT service delivery

ICT sits within Telefonica Empresas (TE). The focus is on satisfying large client needs by means of personalised, reliable, cost-effective and integrated ICT solutions that free large clients to focus on their core business.

The organisation includes what was formerly Telefonica Data España (data connectivity and managed services), Telefonica Soluciones (formerly Telefonica Sistemas), which is where the IT expertise comes from, and Telefonica de España. TE has not acquired a SI but has grown it within the company.

TE staff are predominantly from the telecoms side; 700 staff are involved in ICT (out of a total of 3,000 in TE as a whole).

The sales team is moving to a 'value selling' or 'solutions selling' approach. One of their challenges is the transformation of the former salesforce focused on data and voice communication products and technology.

### Customer segmentation for ICT service delivery

TE deals with the top 2,000 companies in Spain. This represents 12,000 businesses when considering the holdings organisations. The size varies immensely from those



spending tens of millions of euros to those spending less than euro1 million. The average spend is around euro1 million.

TE is focusing on four major vertical sectors:

- finance, divided into two sub-segments (banks and insurance); this is the biggest market area for TE, representing one-third of revenues -
- government, divided into three sub-segments (National Administration, Regional Administration and Local Administration)
- manufacturing and retail
- telecoms, mainly supporting Telefonica's internal needs (a different part – TIWS – covers relationships with other carriers from a wholesale perspective).

There is a major initiative within the company to drive solutions around vertical sectors based on an advisory sale approach. Sales teams have been trained in order to sell customised vertical solutions.

### **ICT marketing strategy**

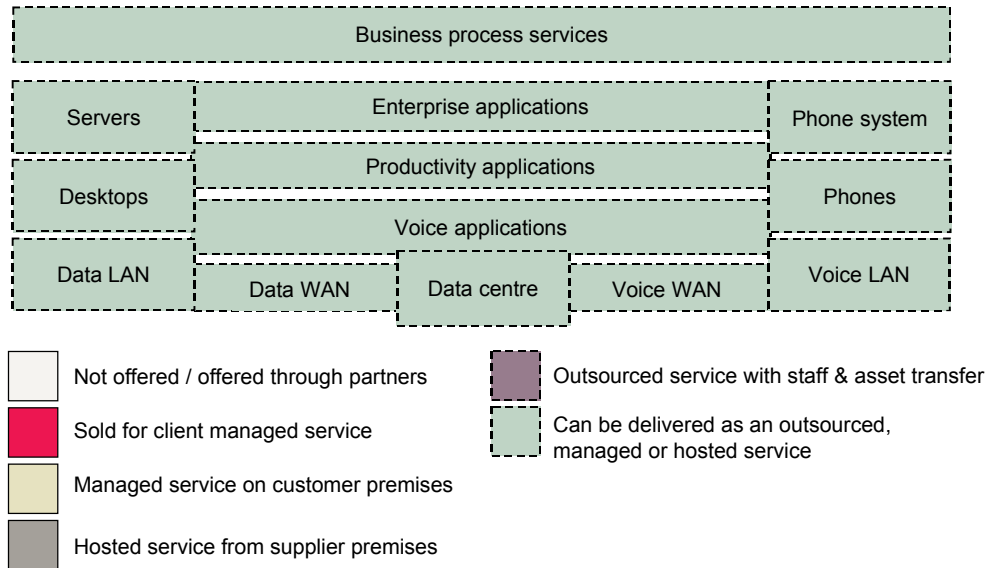
TE offers customised and end-to-end solutions for all communication and ICT needs. This is accomplished under an outsourcing model, fostering broadband access, extending operator management to the LAN/desktop, hosting ASP and centralising IT architectures (applications on-demand, business continuity, disaster recovery, etc.).

TE has one of the most trusted brands in Spain. The company is now raising awareness of its IT capabilities and hopes that the trust from the telecoms side rubs off. For the time being, TE is developing a key ICT services market message.



## Telstra

### ICT capabilities



Source: Telstra, Ovum

### Company structure for ICT service delivery

Telstra bought KAZ in mid-2004, and it operates as a separate entity within Telstra with a separate profit and loss account.

#### Organisation of KAZ group

KAZ is organised by vertical sector and by region. It reports into Telstra's business and government division, which is Telstra's enterprise business.

KAZ has three professional groups:

- KAZ Technical Services
- KAZ Business Services (its BPO unit)
- KAZ Solutions Consulting (professional services).

Each of these groups manages business by vertical sector and continues to be staffed by KAZ employees. There has not been much staff transfer from Telstra. KAZ has hired a lot more employees since its acquisition by Telstra; Telstra has provided the financial strength to develop the KAZ business.

KAZ has approximately 4,000 staff.



### **Working with Telstra**

Telstra serves a high percentage of the Australian consumer customer base, so the issue that it faces is co-ordinating this with the KAZ business. The Telstra enterprise product sales channel has 3,000 sales people while there are approximately 450 KAZ sales solution specialists. The Telstra and KAZ sales people work together carefully to ensure smooth cross over and customer management through a buddying system.

Telstra also sells through dealers. This indirect channel includes hardware vendors and IP leasing companies. Most of these dealers are resellers for small retailers in Australia. However, the SME market is managed by a different division within Telstra, called Telstra Business Services.

### **Customer segmentation for ICT service delivery**

KAZ claims to be the largest mid-market ICT provider in Australia and focuses mostly on tier 2 and 3 customers, ie: those with 500 seats and above. Beyond this KAZ segments its market in terms of vertical sector and focuses on:

- superannuation market
- insurance
- transportation
- manufacturing.

Telstra believes there are opportunities for ICT services at those organisations that are moving towards IP substitution. In response Telstra is selling products that are increasingly modularised and scalable.

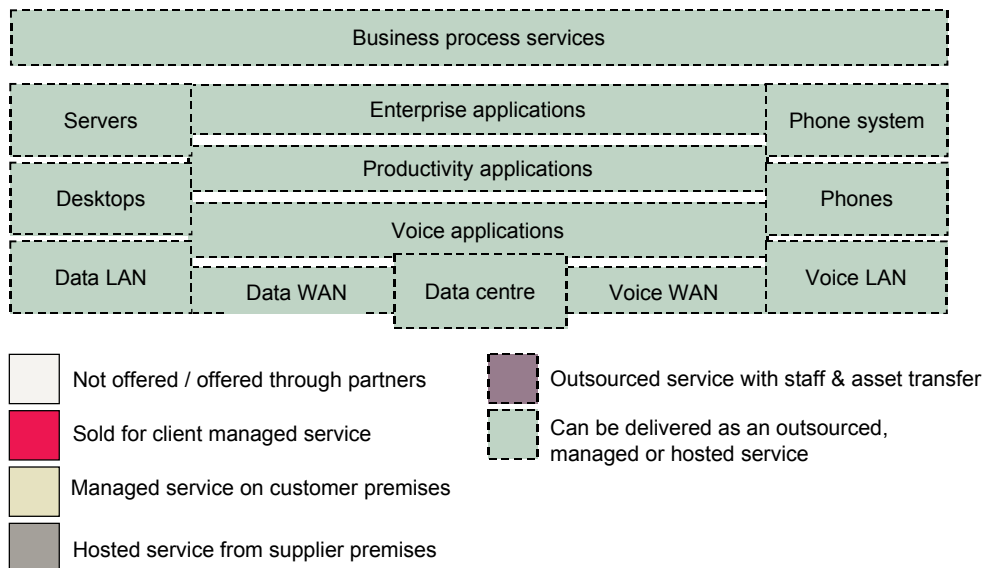
### **ICT marketing strategy**

KAZ is a brand stretch for Telstra, so the decision has been taken to keep the name, brand and identity of KAZ separate to Telstra. Consequently, there is currently no marketing campaign around Telstra's ICT capabilities.



## T-Systems

### ICT capability



Source: T-Systems, Ovum

### Company structure for ICT service delivery

At T-Systems, ICT services are managed as a distinct line of business by two divisions: T-Systems Enterprise Services and T-Systems Business Services.

The company took the view in its most recent re-organisation (2004) that it was important to have a mix of managers in the 'new' T-Systems from both industries – both in senior and mid-level management.

In January 2005 the new T-Systems was created and the 41,000 staff that were already employed in the old T-Systems were joined by 12,000 Deutsche Telekom employees. The top 5,000 managers have all subsequently undergone a two-day change management programme.

### Customer segmentation for ICT service delivery

The new T-Systems is now re-organising the two existing field organisations (from T-Com and T-Systems) in the following way:

- Enterprise Services focuses on the top 60 accounts with pure key account management
- Business Services addresses the SME market via a customer-driven mixture of account management, regional field organisations and central call-centres. The formerly T-Com-oriented field organisations are being up-skilled to sell and



support comprehensive ICT solutions and there is a recruitment campaign underway to bring in additional people with IT services experience.

On the delivery side, the role of Enterprise Services is to provide IT factories with industrialised processes for Business Services to sell. In other words T-Systems is creating productised services (basic standardised services) for its key verticals (telcos/media/utilities and manufacturing) and then looking to Business Services to pull through sales to SMEs via the supply chains of the key accounts.

### **ICT marketing strategy**

T-Systems' key market message is that it provides business flexibility, not just in how services are delivered but also in how it engages with the customer. This message is being communicated via a global campaign including sponsorship of the German Olympic Sailing Team and the South African team in the 2007 Americas Cup.

In Germany T-Systems is happy that its brand is strongly associated with ICT services, but it recognises that it has a much lower IT services profile internationally.

T-Systems perceives its biggest marketing challenge to be the development of its profile amongst different sets of decision-makers – procurement officers for vanilla communications services, CIOs and CFOs for IT and BPO services. In Germany T-Systems has this reputation but not internationally.

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