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Outsourcing OSS: Logical Conclusion or Loss of Control?

By Edward J. Finegold, Editor-in-Chief

Outsourcing has become an increasingly important IT strategy option for enterprises across the board, including large telecommunications carriers. From the outside looking in, the business case for outsourcing seems pretty standard – cut costs, offload non-core systems and processes, extend processing and project capacity, and drive operational efficiency. With functions like customer care, and in many cases billing, telecom operators have been outsourcing on an increasing basis for a number of years. As the scope turns toward key OSS functions however, like network management and provisioning, the business case grows murky and the personal and political stakes escalate.

No Economy of Scale

Functions like billing and CRM are common and generally well defined. Today's outsourced software offerings are flexible enough to take in stride the variations in billing and CRM requirements from carrier to carrier and still produce the economies of scale that make outsourcing make sense. Deeper telco processes however, like those for complex service provisioning, are so unique in most cases that they aren't repeatable. Outsourcing such functions may not produce any economies of scale for the outsourcer, and ultimately can lead to more work for telco operations folks as they first move functionality out of house, and then have to manage the outsourcing partner to make sure things are running correctly. In the end, at best the carrier may only trade like-for-like. In some cases decreases in the cost of labor – much of provisioning can involve data entry and order policing by clerks – can be realized, but can be offset just as easily by the cost to move capabilities out and reorganize the organization. Further, sending manual processes out for cheaper labor doesn't necessarily drive operational improvement as much as headcount reductions and shifting some fixed costs into the variable category.

Outsourcing Realities

"It's all about cutting costs," says Mark Fenness, a former director with MCI who is now helping growing carriers to develop operations and automation plans. "We're not talking about the super-technical stuff though, we're talking about things like data entry," he says of those OSS functions that are generally sent out. For example MCI, he says, sends a significant amount of its clerk-work to Argentina, though the company does not typically publicize it – externally or internally. MCI is certainly not alone as heavyweights such as AT&T and Nextel declined to comment for this story based on their sensitivity toward this topic.

Fenness explains that in many cases, outsourcing decisions are made in mid-stride. "Every executive must maintain a budget – and budgets get trimmed," he says. As a budget cutting mandate is passed down from the executive levels, different organizations are tasked with cutting a percentage of their expenses and outsourcing is typically considered an option. It can be a long process, however, to determine what can be sliced and the associated risks. In many cases, the final outsourcing selection process is done without a typical RFI or RFP process so as to keep things quiet for reasons ranging from morale and potential media scrutiny to the value of a carrier's stock.

Surrendering Control

The individual's need for control over his environment is a powerful psychological motivator. In fact, it's humans' ability to manipulate and in some way control the environment around us that puts us at the top of the food chain. When it comes time to take control away from someone – be it over systems, processes, people, or managing the network – there seems to be a primal urge to reject the notion. "Those who control the tools control the business," is an old IT axiom that takes center stage in the argument over outsourcing. In many cases, outsourcing is done after the fact and quietly because it wasn't made a strategic priority early on. Generally speaking, those with the ability to make decisions that will keep their hands firmly on the controls will do so until they have no other choice.

All decision-makers, however, should not be condemned for choosing not to pursue OSS outsourcing. In many cases, the risks are too steep and the potential benefits unclear. Fenness explains that common functions like network management can be outsourced in part. This can be cost effective and the right choice in many cases because craft technicians are expensive for a carrier to keep on staff. The expense of such a skilled person makes more sense when spread across multiple carriers in an outsourcing arrangement.

Similarly, while some group or function may appear perfectly suited for outsourcing, internal process dependencies can make it impossible. Stories abound of carriers shipping out a process only to realize that several other groups that had depended on this process were now hung out to dry. In a knee jerk reaction, the folks that were downsized in favor of outsourcing are brought back – sometimes at a higher cost – to close the gap.

Further, critical network operations can be "unforgiving," says Feness, making the risk of even a perceived lack of control intolerable. Sending basic functions like data entry out is one thing, but core operations cannot fail, once again making the need for perceived control the dominant decision making factor.

Perception is very much at play here, particularly for the investment community. It would not do to have investors, analysts and reporters asking too many questions around outsourcing. What is a wise business decision could be painted as a lack of competence in running core operations, or unpatriotic practice when domestic jobs are sent to other countries. When the onlookers don't understand the inner workings of the business, it's easy to invent such misconceptions – and it makes for sensational news. In the end, however, stock valuations and public relations can suffer, which is why carriers are smart not to reveal too many details of their outsourcing plans.

Different Approaches

Thus far outsourcing has been addressed generally, but there are in fact several different models to consider. One option is pure hosting where a set of systems or processes are moved from the carrier to an outsourcer's data center where they are then managed, maintained, operated and in some cases automated and improved (see Q&A: Synchronoss Technologies). This kind of outsourcing is done, though it is currently the exception and not the rule. There are offerings that focus on order and circuit provisioning and network management that fall into this domain, though fewer on the provisioning side. Insiders report, for example, that Verizon Wireless sends much of its backhaul circuit provisioning out to its equipment vendor, Alcatel. In this case, however, the arrangement was reportedly driven by a lack of provisioning interfaces or workable EMSs from Alcatel and the resulting cost of inefficiency was pushed back on the vendor.

Another approach is the reverse, where systems and processes remain on-site with the carrier, but are run by the outsourcing partner. Sprint, for example, recently signed an extensive agreement with IBM for such services. Under this agreement, Sprint employees were essentially "re-badged" as IBM employees. According to insiders who have requested anonymity, this change has – in many cases – had a negative impact on morale. Once again, perception plays a role - people feel that much closer to the chopping block, even if it's not the case. More forward thinkers, however, see the change as an opportunity for advancement in an organization like IBM that arguably has more potential career paths for IT and operations experts than does a large carrier. According to Mark Wiess of IBM who is responsible for OSS alliances and offerings, this kind of arrangement is in place at Sprint, but has received little more than "tire-kicking" attention from other large carriers.

The IBM-Sprint relationship is "like the fox in the henhouse," says Nimal Gamage, chief OSS architect for Agilent Technologies. According to Gamage, Sprint is interested in having a third party come in to keep on eye on how well IBM is running its network, rather than only relying on IBM's own performance reporting. This is more a matter of instituting business controls than a lack of trust obviously, but it also shows that this kind of "in-sourcing" model is new, in question and not without some basic risks. "Outsourcing OSS is still in an early adopter phase," says Gamage.

A third, growing approach takes on a utility computing model where carriers would pay-per-use for access to various OSS applications and transactions. Neustar, for example, which handles LNP provisioning, is one example of a utility-computing type of outsourcer. Utility computing is growing in enterprise circles as an interesting option, but for most OSS functions, the uniqueness from carrier to carrier makes this model challenging, at least in the near term.

In fact, IBM's Wiess explains that while any of these three models would seem to make sense as great offerings for the telco sector, this isn't generally true. He says his expectations for OSS outsourcing business are not very high today. This, he says, is largely because the folks making the decisions – operations and IT – run into conflicts and concerns over employment and, once again, a perceived or very real loss of control. One area Wiess says may hold promise is in helping to offload aging Bellcore/Telcordia applications to help free up carrier resources to focus on rolling out new services and infrastructure. Also, smaller carriers that can't afford to build their own new-generation OSS infrastructure are likely takers, though admittedly too small for a large player like IBM.

The Upside

Even if the choice to outsource is made, success requires a high level of focus and determination. A source inside Sprint says that "to make it work, you have to be committed. You have to have all of your processes ready to go so you don't kill your partner with change requests. But it's really valuable to improve your processes – it will bring a lot of efficiency and help you realize the [promised] economies of scale."

The source also suggests that with a strong outsourcing relationship a carrier is more likely to succeed in consolidating. The outsourcing partner can provide more reach and resources than a carrier can generally provide itself and should not have to hire. "It was amazing how fast we could act," says the source, explaining that technical resources abroad are "phenomenal in their savvy and discipline" and that the success of Sprint's national network rollouts has been in no small part due to help from the outside.

Positive and Negative

Outsourcing's upside factors are at once positive and negative – positive for the business, negative for those decision-makers looking to protect their own. It isn't easy for educated, experienced people in a leadership positions to swallow the fact that folks outside their organizations – and often outside their home country – can do a better job than their own teams. Further, people have careers and personal relationships to protect, which will make them unwilling to surrender responsibilities or let close colleagues go. Ultimately, if the decision to outsource isn't made at the top of the organization and passed down as mandate, outsourcing OSS is likely to remain a stop-gap measure resorted to only when it's time to trim expenses and there's nowhere else to turn.

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