

## ITaaS: *The Evolving Role of IT for CSPs*

By Becky Bracken

Cost compression is the name of the game.

Increasingly IT department heads are being drawn into solving fundamental business issues and focusing on areas of innovation. Rather than just deployment and maintenance, IT needs to support and enable innovation across all business centers. Technology is shifting from a business tool, to a fundamental business enabler. As a result, IT resources are becoming increasingly valuable and finite.

"There is no easy answer," Mike Phelan, CEO of SevOne, a leading provider of performance management solutions says. "Telcos and enterprises are under enormous pressure to drive down costs while facing increasing complexity and competition."

This couldn't be any truer for the battle-worn CSP sector. Much of that pressure is cascading down to CIOs and CTOs, forcing them to make tough choices about the future role of in-house IT.

A [recent report](#) released from Oracle and PricewaterhouseCoopers titled "Rethinking IT strategy... Can it enable a step change in Communications Service Provider Performance" indicates outsourcing of IT will continue to grow over the next three years across the globe. PwC was commissioned by Oracle Communications to survey a mix of 30 communications CIOs, CTOs and senior IT executives in ten countries within the EMEA region. Forty-five percent of respondents provided both mobile- and fixed-line services. The rest of the respondents' organizations were split between either a mobile provider only (32 percent) or a fixed-line provider only (23 percent). "Outsourcing will continue to grow in the next three years across all functional domains with the exception of portal and content applications," the report says. "This is true for Western Europe, Russia/Eastern Europe and Middle Eastern respondents."

The report indicates that billing and mediation will increasingly be brought in-house so that CIOs can stay in touch with these kinds of activities, and the data it yields, that will continue to shape their business. The data that billing and mediation generate alone can be a significant bottom-line differentiator. Self-service, pay-as-you-go customer interactions are going to help drive customer acquisition and retention. Focus



on mediation allows providers to get the most out of networks and helps identify and service the most lucrative customers. These are the business issues in-house IT departments will turn toward, leaving other functions to outsourced providers and COTS solutions.

Ninety-five percent of those surveyed say they plan to increase their use of COTS solutions in 2012, which can be delivered quickly and under budget. In fact, the report says that 52 percent of COTS applications are delivered under budget. Eighty-eight percent of CIOs also plan an upgrade of their CRM systems in 2012. This is a significant about-face from the built-it-ourselves approach that permeates the culture of most IT organizations. IT departments are increasingly looking toward legacy, standardized solutions from outside the organization so that in-house IT departments can focus on innovation and differentiating services.

Bespoke network and IT architectures have been the natural consequence of CSP attempts to get new products to market quickly and a legitimate need to isolate certain network functions. Now, because IT is no longer just one aspect of business, rather the means of doing business itself, those homegrown IT solutions need to interact with a myriad of business functions, from billing to customer service. In fact, CIOs reported that more than two-thirds of bespoke applications are delivered with substantial budget overrun and 74 percent have some level of budget overrun; and that's a luxury today's CSP CIOs can't afford. COTS vendors can seize the moment, according to the report, with its prediction that COTS and integration budgets will be 10 to 20 percent higher over the next year and a half.

The reason for the increased interest in investing in more flexible, standardized IT solutions is evident when you look at the inordinate percentage of CAPEX dedicated just to maintaining existing, outdated

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IT systems and not to innovation and service differentiation.

Scott Burgess, Director of the office of the CTO for EMC consulting, says an astonishing 70 to 80 percent of IT budgets go toward just “keeping the lights on.” Respondents to the Oracle PwC report indicated they were spending 60 percent, more than half of the IT budget, just keeping the lights on.

“Given the levels of change in the market we have noted COTS vendors reshaping their offerings from traditional packaged and fully integrated product models to more flexible on-demand services across a range of platforms,” the report adds. “Over the next 18 months...95 percent of respondents intend to increase their IT budget allocation for COTS applications.”

Burgess also points to the scalability requirements of service providers and the need for more “pay-as-you-go” solutions to manage costs. “The shift for large providers is to drive significant automation and integration with large-scale subscribers,” he notes.

A flexible IT infrastructure that easily interfaces with subscribers is what will make this possible.

#### ItaaS for CSPs

“CSPs are at a crossroads,” Dan Ford, vice president, product marketing, Oracle Communications says. “They face another year of budgetary pressure, at a time when the need for innovation and competitive differentiation has never been greater. CSPs need to increase customer retention and improve the provision of content and services, such as media and applications. More CIOs are focused on simplifying and

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streamlining their core IT operations and focusing on the areas of their IT operation, which can drive real efficiency and growth within the business.”

CSP CIO and CTOs who responded to the Oracle PwC report survey identified in the near-term they will be focused on:

- “Replacing or upgrading billing and CRM systems to provide an improved and more efficient self-managed customer experience.
- “Self-managed development of portal and content domains for improved customer access.
- “Embracing true customer centricity and customer excellence programs.
- “A new approach to IT and business simplification that relates and integrates more effectively with core business functions and encourages innovation.
- “Developing broader and deeper working relationships with the business and the finance community to better understand now IT

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innovations can impact the bottom line.

- “Expanding the TCO calculation to better reflect the true cost of IT implementation within the business – a consideration for both the CIO and the chief financial officer (CFO).
- “Continuing to exploit the outsourcing opportunity for nonstrategic systems as a means of focusing on innovation of core business functions: CRM, billing, mediation, etc.

“Through 2012 we see a dual challenge for CIOs as they come under increasing pressure to reduce both operating costs and capital expenditure, while meeting their organization’s desire to invest in improving customer experience to drive retention,” David Russell, UK Telecommunications Leader, PwC, says. “With the squeeze on product pricing, the need to reduce operational costs, the requirement to simplify IT and increased competition, CSPs see improved customer experience as the key differentiator.”

#### **So where does that leave the CIO or CTO?**

There’s a fundamental shift occurring where IT departments are switching focus from managing infrastructure to focusing on areas of innovation. There is also a significant demand to drive down

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costs. Leveraging hosted solutions and outsourcing traditional IT functions enables precious IT resources to tie themselves into both top-line revenue growth and bottom line profitability by driving down the cost of IT.

But the true difference-maker according to Gordon Rawling, director of EMEA Marketing, Oracle Communications is the ability of in-house IT departments to focus on refining customer interaction.

“Resources can be better spent on direct customer touching or influencing activities rather than simply ‘keeping the lights on’,” Rawling says. “The use of COTS software allows them to focus on where they can really add value, it provides the IT staff with transferable, rather than legacy, skills and it allows a step change in risk to be made.”