

WHITE PAPER

Professional Managed Services: Estate Management

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Sections 1 & 3 of this white paper contain the findings of independent research and analysis carried out by Informa Telecoms & Media in March and April 2010. The research was sponsored by Cluttons. Section 2 contains findings that were commissioned by Cluttons, who provided detailed information on the company's activities for this purpose.

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ABOUT Cluttons

Cluttons is a chartered surveying and property consultancy firm with its head office based in the UK. Trading in the UK since 1765, it commenced operations in the Middle East over 30 years ago and now has five offices in the region (Oman, Bahrain, Dubai, Abu Dhabi and Sharjah) with an association in Saudi Arabia.

John Wood, Head of Commercial Division, Cluttons, commissioned this paper. John has 15 years' experience in the telecommunications sector providing property advice to mobile operators, broadcasters, infrastructure providers and wireless technology companies. John holds a Bachelor of Science Honours degree in Estate Management, is a member of the Royal Institution of Chartered Surveyors and the RICS Telecoms Forum Board. He is a regular speaker and contributor of articles on the telecoms sector.

John Gravett, Partner, Cluttons, worked with Informa on the compilation of this paper. John has over 10 years' experience as a surveyor specialising in the telecommunications industry. John has specific expertise in the acquisition of telecoms sites and subsequent estate management of operator networks, as well as valuation and strategic advice for telecom assets. He is client partner for Telefónica O2 UK Ltd, Vodafone Ltd, MBNL Ltd and Nawras.

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Executive Summary

Market Overview

Growth in managed services for telecoms will be driven by a number of factors, some of which are global, some only apply in the mature markets, and others will only apply in developing markets. Global trends that are driving managed services include the convergence of the fixed and mobile internet markets and telecoms, media and entertainment. A further global trend is the emergence of wireless broadband, both through home networking and access via a mobile device or laptop.

In this environment a key role of specialist managed services players is to provide strategic advice and assistance in areas such as site portfolio assessment, rent negotiation and renewal as operators rationalise and restructure their estate assets.

Cluttons Services

Cluttons provides a full range of real estate advice and its specialist telecoms team provides professional services in three main areas:

- Specialist property management services (rent and rate reviews, collection and payments, site sharing)
- Site acquisition (location of sites, negotiation with landowners)
- Asset valuation (detailed audit, monitoring and updating).

In each of these areas, Cluttons has worked with leading telecoms players such as O2, Vodafone, T-Mobile and Macquarie/Arqiva and case studies are summarised later in this paper.

Cluttons has also recently commenced site acquisition services for Nawras, the second licensed operator in Oman. More information on the nature of this deal can be found in a footnote at the end of the Case Studies chapter. This represents an important announcement for Cluttons showing that it is able to take advantage of a growing interest in managed services in the Middle East region.

Middle East Potential

In terms of telecoms market maturity, the Middle East region is rapidly developing with high rates of growth for new services and subscriber numbers, in contrast to the mature markets of Western Europe and North America for example. At the same time, there are significant differences across the region, with Saudi Arabia and the United Arab Emirates for example further advanced in terms of new services and technology.

Developments in India offer some interesting pointers for the Middle East, notably in the areas of site sharing and managed capacity, which allows an operator's network to grow according to its needs without upfront capex investment.

Key business and technical operations such as asset management and applications/content hosting are very likely to be outsourced currently, along with new professional services, site acquisition and site sharing according to a newly-commissioned Informa industry survey.

Underlining the importance of new service launches in the Middle East, network performance optimisation and partner management are also seen as top candidates for outsourcing in future.

These survey results demonstrate the need for new specialist professional services in Middle East markets, along with site acquisition and site sharing as operators seek to optimise their coverage and service delivery. The development of new types of managed service agreement, such as the managed capacity type of business model, is also likely to offer considerable potential in the future for service providers either as lead consultants or in partnership with others.

1. Market Overview

Growth in managed services for telecoms will be driven by a number of factors, some of which are global, some only apply in the mature markets, and others will only apply in developing markets. Global trends that are driving managed services include the convergence of the fixed and mobile internet markets and telecoms, media and entertainment. A further global trend is the emergence of wireless broadband, both through home networking and access via a mobile device or laptop, which is contributing to the need for upgraded access and core networks. As operators move towards an all-IP network, they are looking for end-to-end solutions which include access and backhaul as well as value-added content delivery.

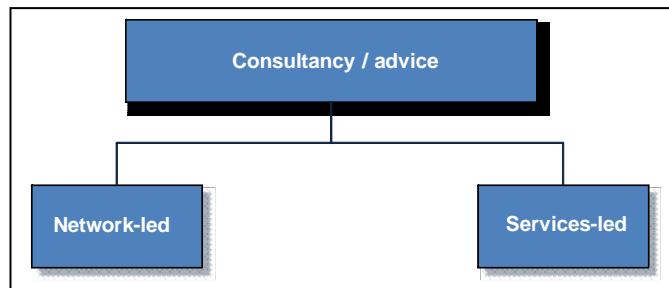
As shown in Figure 1, Informa Telecoms & Media splits the managed services market into three main sectors: network-led, services-led and consultancy/advice which is typically offered across both network and service operations.

Consultancy and advice forms part of a newer service-led approach in managed services which responds to the need for business transformation in the telecoms industry, and which includes a greater degree of strategic involvement on the part of the service provider. As the managed and professional services players increasingly move into competition with the management consultancies and IT service providers, this option is becoming an important factor in outsourcing decisions.

Network-led services focus primarily on creating greater efficiency in managing the network, whether in terms of third-party maintenance or in building and operating the network on an outsourced basis.

Service-led solutions can include hosting of web-based applications and can also cover new services such as VOIP or enterprise services. Third-party services can offer new enablers, such as payment and partner management systems, which allow fixed, mobile and convergent telecoms players to deliver competitive offerings in a cost-effective way.

Figure 1: Managed services – main sectors



Source: Informa Telecoms & Media

In the mature markets, the focus of fixed and mobile operators is on maintaining a competitive edge in the face of pressures on margins and market saturation.

In the developing markets, total cost of ownership is a key factor as greenfield operators seek to offer the maximum coverage combined with the minimum time to market, often using new technology to leapfrog their established rivals' traditional infrastructure. New managed service

business models in the developing markets include managed capacity deals, where the operator pays for network capacity used rather than underwriting the full cost of the network, and build-operate-manage (BOM) schemes, which allow an operator to manage the financial risk of launching a new service. These trends are leading to an emerging need for a new type of service-based offering with a higher value-add in terms of business advice, over and above pure technical support.

Global market forecasts

Informa Telecoms & Media forecasts show that the market for managed services is dominated by network-led services, and this trend is expected to continue over the period to 2014, with two thirds of revenue generated by this sector. While network service contracts have tended to resist commoditization due to a high level of supplier support, competition from service providers which differentiate on price will begin to have an impact toward the latter stages of the forecast period.

Europe has by far the greatest share of revenues generated by managed services and is expected to continue in this position throughout the period to 2014 although a number of developing nations will show strong growth including Africa, the Middle East and Latin America. The propensity to adopt a strategy of outsourcing in these regions is an indication of a maturing market, particularly Africa and parts of the Middle East, which are likely to look to sources of new professional expertise in rolling out new technology and end-user services.

Figure 2: Global managed services revenues 2010 - 2014

US\$ bn	2010	2011	2012	2013	2014	CAGR (%)
Network-led services	10.2	11.8	13.8	16.5	19.7	16.6%
Services-led solutions	4.7	5.5	6.5	7.9	9.7	17.8%
Total managed services	14.9	17.2	20.3	24.3	29.4	17.0%

Source: Informa Telecoms & Media

Key Issues

Operators are now moving into a global market that is changing in three different but related ways:

- Network services are being complemented by new media, content and applications
- Fixed and mobile communications are converging
- Disruptive business models are changing the established pattern.

Internet service providers are an example of both new media and a disruptive business model, in that they are moving into competition with fixed and mobile operators with a radically different approach to pricing and delivery of services. Equally, virtual network operators are challenging other players in the media and telecoms marketplace by creating new organization structures which may be more responsive to consumer needs and changes in demand.

Operators in developed markets have become realistic in their conception of network rollout: it is no longer possible for network rollout to follow the pattern that was used for 3G in Europe, where individual operators spent massively on acquiring licenses and rolling out infrastructure. In the new partnering environment, network construction and capacity/spectrum share will be key features for success with risk sharing between operators and suppliers becoming more important. In this environment a key role of specialist managed services players is to provide strategic advice and assistance in areas such as site portfolio assessment, rent negotiation and renewal as operators rationalise and restructure their estate assets.

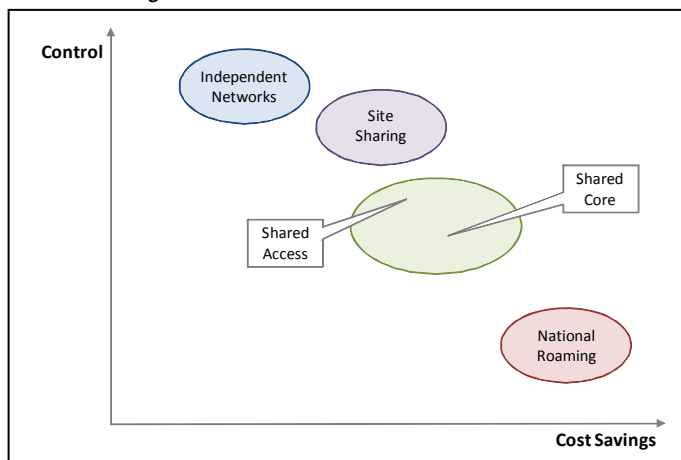
Network sharing - MBNL

One example of the joint approach to network sharing is the venture by 3 and T-Mobile in the UK to integrate and manage their 3G radio access networks (RAN). The objective is to provide national 3G coverage of the UK with complete RAN sharing by the two operators. The joint cost of the venture is around £2 billion over 10 years, covering a programme of mast decommissioning and equipment installation. The asset values of the company (Mobile Broadband Network Limited) are retained by each of the partners, and MBNL operates on a lean staffing model with 40 employees in total who are tasked with managing the outsourced services of the network equipment providers (BT, Ericsson and Nokia Siemens Networks). As a specialist service provider Cluttons acts for MBNL on network consolidation and estate management cases.

The rationale behind the MBNL joint venture is shown in Figure 3 below. As this illustration shows, the operator can retain the greatest control by deploying a fully-independent network. However this is the most costly option, and in a fiercely competitive market such as the UK it puts pressure on operating margins. While site sharing using separate equipment is a less expensive option, new developments such as multi-operator radio access network sharing (MORAN) can offer a balance between retaining control of service delivery and managing operating costs, and it is this advantage which MBNL seeks to exploit.

At the other end of the scale, options such as national roaming can offer the greatest cost savings, but also give the operator the least control over service delivery.

Figure 3: Network sharing – control vs cost



Source: Informa Telecoms & Media

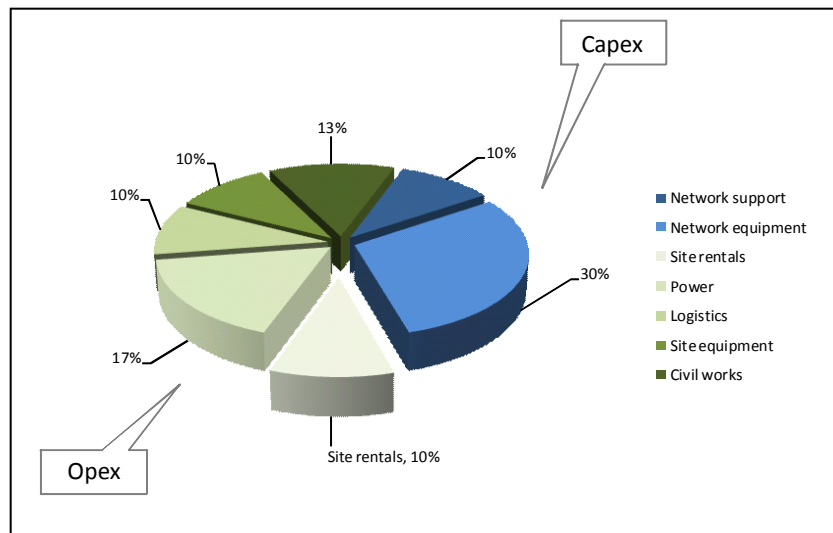
The MBNL project will result in a reduction of some 5,000 radio sites across the UK, bringing the total down to 13,000 for the combined network and providing both environmental benefits and significant cost savings while at the same time improving coverage. Synergies in network operations will be achieved thanks to a leading-edge radio access solution which allows both partners' networks to function independently. There are several benefits from using this approach, including full flexibility while merging the two networks, and the re-use of existing infrastructure as well as the reduction of the overall number of sites.

Capex / opex

For operators in mature markets such as the UK, the need to share infrastructure assets has been driven by the high cost of maintaining a fully-owned network. Our estimates for such a network indicate that network rollout and capital costs (capex) form around 40% of total network expenditure, while combined operating costs (opex) account for a majority of expenses or 60% of the total.

As seen in Figure 4, while the proportion of opex which is accounted for by site rentals is relatively modest at 10%, the ability of a specialist managed services provider to help reduce overall opex is greater than this figure might suggest. By providing advice and analysis at a strategic level the professional services supplier can influence other elements of the mix such as logistics and civil works through careful planning of site resource sharing and support, as well as directly influencing site rental costs through negotiation.

Figure 4: Network infrastructure – capex vs opex



Source: Informa Telecoms & Media

2. Case Studies

This section summarises Cluttons work in three main areas:

- Specialist property management services (rent and rate reviews, collection and payments, site sharing)
- Site acquisition (location of sites, negotiation with land owners)
- Asset valuation (detailed audit, monitoring and updating).

In each of these areas, Cluttons has worked with leading telecoms players such as O2, Vodafone, T-Mobile and Macquarie, and brief case studies are set out below.

Strategy advice and planning

In addition to this specialist expertise, Cluttons is able to provide strategic advice and planning input on the basis of its detailed knowledge and its position in the market which allows it to offer innovative solutions for its telecoms clients. For example in new ventures such as the pre-launch (land banking) phase of a proposed WiMAX network with Macropolitan in the UK, it has demonstrated its ability to deliver high-value stakeholders which can offer a large number of potential sites as a result of a single negotiation.

Specialist services (O2 UK – Telefonica Group)



Background

Property management at O2 UK forms part of the finance business unit, reporting ultimately to the company's CFO. The department itself is divided into two functions, commercial which looks after O2's network real estate assets (currently 12,000 cell sites nationally) and retail which looks after the company's retail stores across the country.

In general terms, O2's policy is to outsource specialist business services such as payments while keeping core areas such as customer service mainly in-house.

O2 looks for two main qualities in its specialist commercial property management suppliers:

- professional skills (for example surveying) plus analytical ability
- inter-personal/negotiating skills (these are particularly important in rent and rate reviews).

The main areas of property management which O2 outsources are:

- Rate/rent reviews
- Rates appeals
- Rent/lease renewals
- Finance - collection/payments
- Site sharing.

Site sharing is now a major focus for all UK operators including O2, and its Cornerstone project with Vodafone has now been in operation for a year with a large team of staff from both operators working on a day to day basis.

The Cornerstone project marks a new approach to network sharing in O2's view, since it is based on a design and rollout strategy which is jointly agreed between the two operator partners. This enables each operator's base station equipment at every cell site to be kept separate and so ensure a fully independent delivery of service, while still sharing assets such as towers and power supply.

Working with Cluttons

O2 have been working with Cluttons since 1999 across a range of services including estate planning, site acquisition, rent reviews and lease renewals. Two factors are becoming increasingly important in property management for O2 and these are:

- Rent reviews (in the current economic climate, these require special attention because landlords have traditionally come to expect year on year rent increases, and this may no longer be possible in all cases)
- Site sharing (in order to carry out network rationalisation effectively a strategic assessment of the site portfolio is required alongside the ongoing review of rent agreements).

A recent major project with Cluttons has involved auditing the O2 site portfolio and recommending efficiency savings through network rationalisation and rent reviews, following an audit of 8,000 lease agreements as part of a data cleaning exercise.

In recent years, O2 have moved towards a new style of partnering which involves putting in place service level agreements (SLAs) with suppliers, backed by a set of key performance indicators (KPIs) and rewarded by bonus payments which are agreed on a six-monthly review process. One result of this is that suppliers including Cluttons now work more closely with O2, even to the extent of having staff based in O2's offices.

In March last year, O2 completed a tender process which streamlined its suppliers from five down to two. Cluttons were selected as one of the successful contenders partly because of their strong presence and scale of operation in the UK and partly because they were happy to adapt to the new style of working.

Benefits

The main benefits for O2 from using specialist managed services in the commercial property arena are summarised in the table below.

Benefit	Impact
Reduced headcount	Outsourced commercial property team of around 30 staff in total, with minimal O2 in-house staff requirement
Improved property strategy	Detailed site analysis (for example the Cluttons audit) with efficiency savings
Performance improvement	Collaborative working process with O2 enables suppliers to suggest areas for further improvement
Professional engagement	SLA process enables service delivery according to agreed KPIs
Greater flexibility	Staff allocated on project basis, for example in the kick-off phase of the Cornerstone project
Breadth of expertise	Cluttons knowledge of total real estate market (both telecoms and non-telecoms)
Portfolio management	Supplier expertise always available across all disciplines – for example around 10 Cluttons staff specialists are available to work on O2's commercial property business

Site acquisition (Hutchison 3G UK)



Background

In the latter part of 2006 Hutchison 3G UK (H3G) were looking to strengthen their network in London and the surrounding area as part of their campaign to build up their position in the UK market. As new entrants, they were facing strong competition from the established mobile players such as Vodafone, O2 and Orange. In line with their objective of becoming the leading 3G network in the UK, the company needed to acquire a number of infill sites to improve their network coverage and capacity in the key area in and around the capital.

Working with Cluttons

During the last quarter of 2006, Cluttons were tasked with acquiring 100 sites in London and the surrounding area as part of their role as specialist managed service providers in association with Ericsson, who were the lead suppliers to H3G. This involved using Cluttons' specialist knowledge of the telecoms market, as well as their wide-ranging contacts across the property industry more generally, which enabled them to locate the best sites for H3G's purpose. While the coverage area is densely populated, the cell sites needed to be correctly sited and environmentally acceptable. This meant a careful choice of potential location both in terms of access logistics and of appearance - sites in sensitive locations needed to be disguised as flagpoles or incorporated into street furniture such as lamp posts for instance.

Benefits

By using their specialist knowledge and property industry contacts, Cluttons were able to successfully complete the programme of site acquisition by the end of 2007, within budget and on time.

Asset valuation (Macquarie Group/Arqiva)



Background

The UK telecoms and broadcast networks have seen a number of notable merger and acquisition deals in recent years following the privatisation of infrastructure operations and subsequent consolidation in the industry. The Australian-based Macquarie Group has been an active player in

this consolidation process through its communications infrastructure arm, which secured a leading position in the UK infrastructure market as a result of a series of takeovers and mergers. The first of these was its acquisition of NTL Broadcast in 2004, which it renamed shortly afterwards as Arqiva. In 2007 Arqiva took over National Grid Wireless which had earlier been formed from the BBC's privatised domestic transmitter network. This deal, which was worth £2.5 billion, was aimed at providing a converged network for broadcasting and mobile telecoms in the UK.

Working with Cluttons

In order to provide accurate and up to date information for Macquarie, Cluttons provided valuation advice prior to acquisitions of target companies. In 2004 for example some 3,000 freehold and leasehold properties were valued as part of the NTL takeover, including broadcast towers, telecom cell sites (greenfield and rooftop), commercial offices and switch buildings. Again, as part of Macquarie's programme of acquisitions, Cluttons was asked to perform a series of asset valuations in 2006, 2008 and 2010 on a rolling basis with a full audit of all properties in 2006 and 2010 and an interim audit in 2008.

Benefits

Through working with Cluttons specialists, Macquarie was able to understand in detail the value of its assets, quantify the market value of target companies and monitor the value of its total infrastructure investment. This provided timely and valuable input at the time of the key merger and acquisition activity, and also contributed to the quality of management decision making, whether in terms of takeovers or analysis of the growth and value of the infrastructure portfolio to the Macquarie Group as a whole. As a result of its successful investment policy in the UK, helped by this specialist property management service, Macquarie was able to release a significant portion of the infrastructure's asset value through the introduction of a major Canadian investment fund as a large shareholder in Arqiva.

Editor's Footnote: Site Acquisition (Nawras, Oman)

Shortly before going to press, Cluttons signed a site acquisition deal with Nawras, which recently emerged as Oman's largest mobile operator, moving ahead of incumbent player Oman Mobile.

Under the terms of the agreement, Cluttons will provide site acquisition services to Nawras. Until now these services have been conducted either in house or outsourced to equipment vendors. Cluttons has an existing specialist real estate expertise via its ongoing relationships with government organisations throughout the region, as well as private property landlords, major local and international banks and many corporate clients. Cluttons hopes to extend its partnership with Nawras to cover fee reviews, agreement renewals and site share management.

Nawras is emerging as one of the most successful challenger operators in the Middle East region. In March 2010, it managed to cement itself as Oman's largest mobile operator in terms of active subscriptions (ITM estimates it had approximately 1.9 million customers in March 2010 and a 51% share of the market).

Nawras also plans to invest OMR150 million over the next two years in expanding its fixed line services as it looks to take a slice of the sultanate's fixed voice and data networks business.

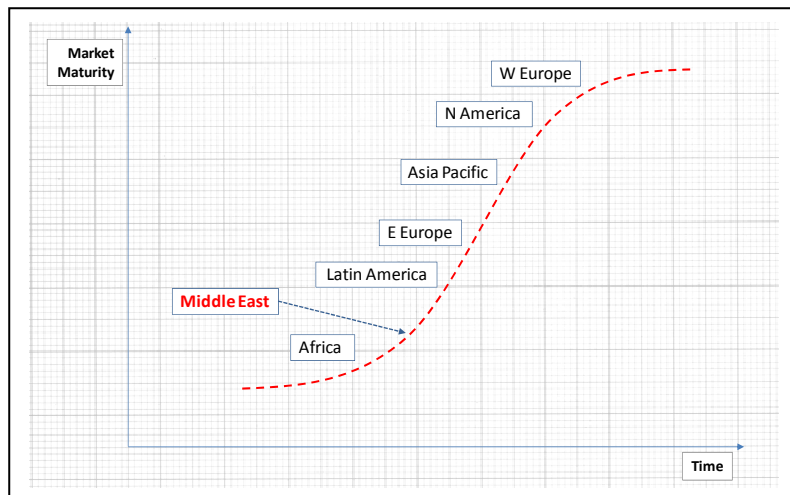
This investment is likely to go towards infrastructure in addition to increased headcount. Whilst only 10% of households in Oman subscribe to a fixed broadband network, Nawras expects its fixed service network to cover more than half the families in Oman by June 2010, with this figure set to rise to 4/5 of families by mid-2011.

Nawras is a 56%-owned subsidiary of Qtel.

3. Middle East potential

In terms of telecoms market maturity, the Middle East region is rapidly developing with high rates of growth for new services and subscriber numbers, in contrast to the mature markets of Western Europe and North America for example. At the same time, there are significant differences across the region, with Saudi Arabia and the United Arab Emirates for example further advanced in terms of new services and technology.

Figure 5: Middle East market development



Source: Informa Telecoms & Media

Middle East market forecasts

Operator revenues from data services will grow more strongly than voice revenues over the coming few years, driven by strong demand for data and the availability of new data services as operators take advantage of new 3G licenses. We estimate that data revenues in the region will more than double between 2009 and 2014, rising from US\$6.9 billion in 2009 to US\$13.8 billion in 2014.

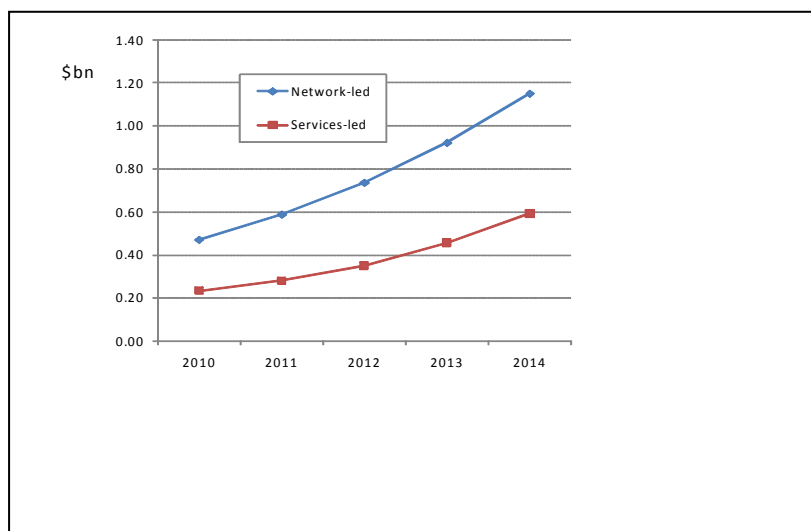
There will be a strong shift from 2G mobile technologies to 3G in the Middle East over the next few years. Currently, 2G and 2.5G technologies account for over 90% of the Middle East mobile market. However, by 2014 3.5G+ will be the biggest single technology segment with a market share of 41%, while 3G will account for 19%. In contrast to today's dominant position, 2G and 2.5G combined will have a market share of 40%.

In the most advanced markets such as Saudi Arabia, operators have high speed (HSPA) networks and the strong demand for data services will mean that this will become the dominant technology in some countries. Operators in other countries such as Bahrain have opted for alternative new technologies such as WiMAX and are engaged in rolling out new services with the help of managed services providers.

Managed services revenues in the Middle East are forecast to grow at a significantly higher rate than the global average over the period to 2014, with an annual growth rate of just over 25%.

While network-led solutions will still account for the majority of spending in 2014 at \$1.15 billion, services-led solutions will more than double by that time to reach almost \$0.6 billion.

Figure 6: Middle East managed services revenues 2010 – 2014



US\$bn	2010	2011	2012	2013	2014	CAGR
Network-led solutions	0.47	0.59	0.74	0.92	1.15	26.2%
Services-led solutions	0.23	0.28	0.35	0.46	0.59	25.0%
Total managed services	0.71	0.87	1.09	1.38	1.75	25.4%

Source: Informa Telecoms & Media

Managed services drivers

While the three main drivers for managed services are similar in mature markets such as Western Europe and developing markets like the Middle East, there are some notable differences, as can be seen from Figures 7 and 8 below. These summarise the responses to a specially-commissioned online survey carried out in April 2010 by Informa Telecoms & Media, which analysed the views of over 120 industry professionals in Europe, the Middle East and Africa.

When asked by Informa how they would rank the top five reasons for using a managed or professional services provider, respondents in both Western Europe and the Middle East placed managing opex, focusing on core business issues and reducing headcount as their top three drivers both currently and in three years' time.

However in the Middle East, respondents were also concerned about managing capex and risk effectively both now and in the future, and also saw the need to launch new services quickly as an important future driver.

Figure 7: Top 5 drivers for managed services – W Europe

Current		Future
1	Manage opex	Manage opex
2	Reduce headcount	Focus on core business issues
3	Focus on core business issues	Reduce headcount
4	Manage capex	Manage network complexity
5	Manage network complexity	Manage risk effectively

Source: Informa Telecoms & Media industry survey 2010

Figure 8: Top 5 drivers for managed services – Middle East

Current		Future
1	Manage opex	Manage opex
2	Reduce headcount	Focus on core business issues
3	Focus on core business issues	Reduce headcount
4	Manage risk effectively	Manage capex
5	Manage capex	Manage risk effectively Offer new services quickly

Source: Informa Telecoms & Media industry survey 2010

One current example of the rapid deployment of new services is Menatelecom in Bahrain, which has worked with Motorola to deploy a WiMAX high speed mobile broadband service across the country within a short timescale. While the deployment of new infrastructure is a focus of this deal, Motorola is also providing a managed contact centre, and this service-led aspect is an interesting pointer for the direction of managed services in the region. The case study is described briefly below.

WiMAX deployment – Menatelecom



Background

Menatelecom is based in the Kingdom of Bahrain, and was founded in 2003. It is a pioneer in the Middle East region as one of the first Satellite Access Service Providers (SASP), providing high speed WAN connectivity and enabling access to the internet through an advanced two-way satellite network. In January 2007 it secured a Fixed Wireless Access (FWA) licence to provide fixed and mobile services across Bahrain for both business and residential customers.

Mena’s services also include international fixed line, international calling cards and broadband applications.

Network and services deployment

In July 2007 Mena engaged Motorola to plan, deploy and manage a nationwide mobile WiMAX and IP multimedia subsystem (IMS) network. This agreement enables the company to deliver wireless broadband connectivity as well as advanced voice and nomadic broadband data services to both business and residential customers across the Kingdom of Bahrain.

The end-to-end network, operating in the 3.5GHz frequency band, comprises WiMAX infrastructure, IMS core, customer premises equipment, voice and data applications, and operational and business support systems. Under the terms of the contract, Motorola will also take responsibility for the customer relationship management systems, as well as the technical operations and management of the entire WiMAX/IMS network. The total service package included in the deal ensures that Mena's WiMAX infrastructure stays up-to-date and responsive to business and residential demand as well as to technological advances.

In the first phase of deployment, a full range of services was rolled out in the Manama area in early 2008. In the second phase, coverage was extended to other areas in the Kingdom by mid-2008, and in 2009 network coverage across Bahrain was extended, giving access to 15Mb broadband to business and residential customers.

Results

The mobile WiMAX network delivers significant advantages over the fixed standard, and Mena's new infrastructure will also be compatible with technology to be embedded in future devices. Currently a feature of the deployment is a personalised MyKey USB stick, which enables access to the network from a laptop.

As part of its overall managed service Motorola will deliver and operate a multi-channel contact centre combined with integrated OSS and BSS capabilities, helping Menatelecom to deliver a differentiated customer experience for business and residential sector customers.

India – site sharing and managed capacity

India can be considered to be the birthplace of managed services in telecoms with the first deal being signed in 2002 between Bharti Airtel and Ericsson for the design, deployment, integration, optimization and management of Bharti's new networks in Assam and North East. This development offers some interesting pointers for the Middle East, notably in the areas of site sharing and managed capacity, which allows an operator's network to grow according to its needs without upfront capex investment.

Similar site sharing deals in the last few years have been instrumental in operator success because they have enabled them to streamline their operations and focus more closely on their customers, leaving the running of the infrastructure network to the experts.

The sharing of network infrastructure is prevalent in India with more than a third of all towers being shared as of mid 2009. This proportion is especially high compared with neighbouring countries such as Bangladesh, where infrastructure sharing is negligible. Active infrastructure sharing is now also permitted but is limited to antenna, feeder cable, node B, radio access network and transmission equipment. At present there is no compulsory infrastructure sharing although there are moves to make it compulsory in some circumstances, such as where land that could potentially be used for cell sites is restricted by the presence of military operations.

The formation of Indus Towers in December 2007 provided a major boost to infrastructure sharing in India. Majority owned by Bharti Airtel subsidiary Bharti Infratel, and Vodafone Essar with a minority share held Aditya Birla Telecom, it owns towers in the telecom regions where all three operate and also shares towers with other operators such as Aircel and Reliance Communications. Its portfolio reached 100,000 towers in May 2009.

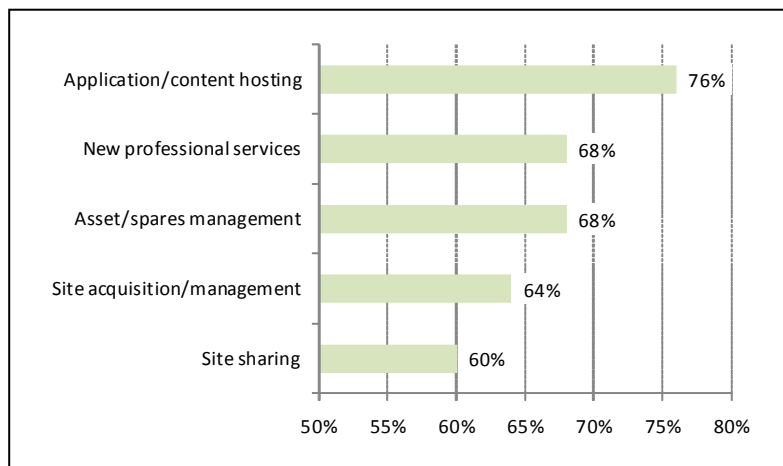
The past two years have seen significant expansion into rural areas by India’s operators, helped by site sharing. Rural areas have a great growth potential but there is still good growth potential in the urban areas. While some urban areas are becoming mature in terms of mobile phone ownership, others are still a long way from maturity.

The need to roll out services quickly across large areas of the country has also underpinned the use of managed capacity agreements in India. Again Bharti has been a pioneer in this regard, adopting a ‘pay as you grow’ model for its outsourcing which bundles infrastructure rollout and network operations into one service charge which is delivered according to an agreed set of KPIs. By focusing on the quality of the service delivered to the end user rather than on technical features, the operator is able to keep pace with its expanding network as well as offering a set of end user services which provide a clear competitive advantage.

Current and future potential for outsourcing

In order to gauge potential for outsourcing, the Informa industry survey asked respondents about a number of key business and technical operations such as asset management and applications/content hosting. As Figures 9 and 10 show, these services are very likely to be outsourced currently, along with new professional services, site acquisition and site sharing.

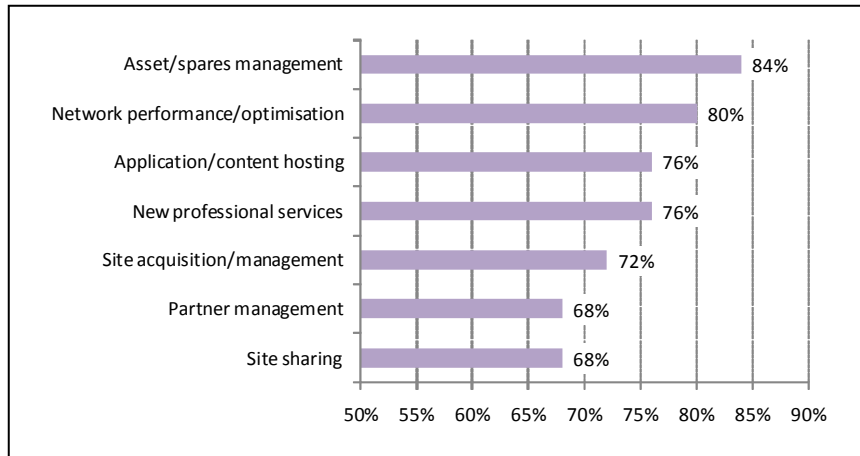
Figure 9: Current potential for outsourcing – Middle East



Source: Informa Telecoms & Media industry survey 2010

Underlining the importance of new service launches in the Middle East, network performance optimisation and partner management were also seen as top candidates for outsourcing in future.

Figure 10: Future potential for outsourcing – Middle East



Note: Percentages refer to respondents rating each service as 1 or 2 on a five point scale

Source: Informa Telecoms & Media industry survey 2010

These results demonstrate the need for new specialist professional services in Middle East markets, along with site acquisition and site sharing as operators seek to optimise their coverage and service delivery. The development of new types of managed service agreement, such as the managed capacity type of business model, is likely to offer considerable potential in the future for service providers either as lead consultants or in partnership with others.