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A study into Outsourcing of Services by Telecom Companies Introduction
Company Bellsouth Corporation Company 2 - T-Mobile Czech Republic
Introduction

Almost all the Telecommunication Companies went through a boom-bust economic cycle. The boom period arrived with the passage of the Telecommunications Act 1996. During the boom period after the passage of the 1996 Legislation, the telecom industry received over \$ 1.3 trillion from the equity markets, according to Forbes.

In 2000, the tides turned on the telecom players. A slowdown in economic growth and a meltdown in Internet stocks created a profound change in market psychology.

The public markets slammed the capital windows shut and cash-strapped carriers found it difficult to raise money.

As a result, the Telecom Industry fell into a downward spiral, with more than \$ 1 trillion in market value.

Due to these severe losses, the telecom industry was and continues to be under severe pressure to reduce capital and operating costs.

In a remedial move to cut back on operating costs and increase profits, telecom companies also started to cut back on Capital spending.

They also began to look at ways to decrease operating expenses.

IT spending was one of area that caught their attention. It is often estimated that IT spending is about 20% of the total budget of a telecommunications company.

Offshore outsourcing of costly IT and back-office services is particularly appealing to telecommunications services firms, especially in an environment where companies are fixated on controlling IT operation costs,

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and yet provide more services.

From the following, we can determine why and how Telecom Companies managed to cut operational costs by outsourcing their IT requirements.

Company 1 (Bellsouth Corporation)

Issue Identified as in the Scenario - Bellsouth Corporation, like others in the telecommunication services industry went through a bad patch where it was not able to generate more capital to meet its growth demands. As a result of this, Bellsouth Corporation had to cut its operating costs and on capital spending. Since IT and back office services constitute about 20% of the company's operating costs, outsourcing the same to countries where services are cheap was an ideal way of cutting costs for Bellsouth.

How the company applied the concepts in response to the issue (Project Horizon)

Bellsouth tied up with Accenture in 1998 as its IT outsourcing strategy partner to help it achieve improved service levels, on budget performance and on time delivery. To cut the rising costs of ongoing maintenance and enhancement of IT applications and to maximise profits in order to utilize the same for future capital expenditure, Bellsouth began strategically evaluating its offshoring capabilities to further reduce IT costs and Project Horizon was born.

Project Horizon's business objectives include offshoring resources to reduce maintenance and development costs of IT applications while maintaining the same workload and service levels and taking advantage of the differential cost savings.

Project Horizon involved moving one third to one half of Bellsouth's IT

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application work to professionally managed organizations in India.

Results of application - The cost-savings initiative will enable Bellsouth to reduce IT expenses and save 45 - 70 % in outsourcing costs, which translates into an estimated savings of \$ 275 million over five years (2003 - 2007)

Company 2 (T Mobile International)

Issue Identified as in the Scenario - T Mobile, the telecommunications giant has been looking to outsource its IT operations to reduce operating expenses, and also serve as an opportunity to increase its customer base in order to maximise profits.

How the company applied the concepts in response to the issue- T- Mobile Czech Republic and T - Systems Cech have signed a contract for the outsourcing of the administration of Information Technology (IT) operations. In a press report, the Managing Director of T-Mobile Czech Republic, Mr. Roland Mahler said that the lowering of IT operation costs was a significant reason for the tieup, but was not the only reason. Another significant factor for this tie-up was the possibility to further improve current capabilities for T-Mobile.

Results of application - The outsourcing of IT operations which is a seven year contract has enabled T-Mobile to save on its operational expenses over a long period of time thereby allowing T-Mobile to save on costs and utilize the same as capital expenditure and also increase revenues for T-Mobile.

References

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