

3G Procurement – A Challenge

a report by

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The decision whether to invest in 3G telecoms equipment and services is one of the most important, if not the most important, investment decisions that a telecoms operator will ever make. The result of this decision will have far-reaching consequences, regardless of whether the decision is to invest in 3G telecoms equipment or not. If the decision is made to not invest, then the operator will face major challenges in ensuring that its current business and 2G telecoms equipment is future-proof, and this gives the operator the ability to compete with operators investing in 3G telecoms equipment. Alternatively, the operator must explore the possibilities of using the telecoms equipment of other telecoms operators. Should the decision be made to invest in 3G telecoms equipment, the telecoms operator will be faced with other major challenges related to the actual procurement of the equipment.

A number of key aspects need to be considered when the decision has been made to invest in 3G telecoms equipment.

The first key aspect is related to standardisation. Since there exist several different 3G standards (for example WCDMA, CDMA 2000, etc.), it is vital to ensure that the standard you decide to procure is compliant not only with the licence you have for operating a 3G network in the specific country, but also your business objectives. Choosing the right standard for your specific country may have a major impact on the success of your 3G business. This has proven to be the case for many operators' 2G (for example GSM or TDMA) businesses. Since not all suppliers support all different 3G standards, the decision regarding standard will also have an impact on the number of possible suppliers of your 3G telecoms equipment.

Once the decision regarding standard is made, you also need to protect yourself against changes to that standard. Since more or less all 3G telecoms equipment is subject to rapid development, it is important to control the risk for changes in the relevant standard that may make telecoms equipment that has already been procured obsolete or in need of major upgrades.

Another key aspect is related to the interoperation between your (if any) existing 2G telecoms equipment and the new 3G telecoms equipment. Since both the 2G and 3G telecoms equipment will be operated in parallel in most cases, it is vital that the respective telecoms equipment is fully interoperable, enabling a seamless 2G/3G operation. Should this not be the case, this can, for example, lead to unnecessary or investments too early in 3G telecoms equipment, lack of reuse or inefficient use of the 2G telecoms equipment. Even though the intention is that more or less all 2G and 3G telecoms equipment from the different suppliers will be interoperable, this is not always the case in practice. Any major deficiencies in the interoperability may also have an impact on the number of possible suppliers of 3G telecoms equipment.

A third key aspect is related to minimising the investments you have to make. There are several different challenges in this respect.

One major challenge is, of course, related to price. Due to the fact that the equipment is highly complex and consists of so many different hardware and software components, and the market is developing at a very rapid pace, it is very difficult to determine the market price at a specific point in time and whether you are paying the 'right' price or not. This is made even more difficult by the fact that a major part of the cost related to 3G telecoms equipment consists of various kinds of software licence fees. To predict the software licences that will drive the 3G business case and the 3G related cost (main cost drivers) is extremely difficult for two reasons. The first reason is that no-one really knows what the 3G business will look like (i.e. what services will drive the 3G business). Second, very few operators have made a realistic, detailed business case that can be used for procurement purposes. The objective here must be to have a very detailed business case specifying the main cost drivers, enabling the procurement team to give these main cost drivers its full attention.

Another major challenge in this respect is related to identifying ways of reducing the volumes of 3G telecoms equipment that needs to be procured. Here,

for example, different kinds of new antenna technologies become of interest. Should certain new antenna technologies provide increased coverage compared with existing antenna technologies, then this will have a major impact on the volumes of radio access equipment (base stations) that need to be procured. Therefore, many operators currently have this issue in focus. Another way of reducing investment is to explore the possibilities of sharing the 3G telecoms equipment in whole or in part with other operators. Many suppliers are now in the process of developing 3G telecoms equipment with the capability of handling more than one operator. It should be noted, however, that the possibility of sharing equipment could be affected by competition law and requirements from local licensing authorities.

A fourth key aspect is related to ensuring that the delivery of 3G telecoms equipment and the payment is linked to the delivery of 3G handsets/terminals. In order to avoid a situation like the one when the 2G networks were introduced, i.e. a situation where the 2G networks were available initially but not related 2G handsets/terminals, it is key to ensure that delivery of and payment for 3G telecoms equipment is linked to the delivery of 3G handsets/terminals. Without access to 3G handsets/terminals, the 3G telecoms equipment is more or less worthless. No revenue is generated for the operator until larger volumes of commercial 3G handsets/terminals are available. This needs to be addressed by the operator during the procurement of the 3G telecoms equipment in order to secure maximum leverage.

A fifth key aspect is related to the 3G telecoms equipment suppliers available on the market. There are also several different challenges in this respect.

In general, it is crucial for an operator to select a supplier that is able not only to deliver requested and agreed 3G telecoms equipment, but also to assist the operator actively in making its 3G business a success. The supplier selection becomes even more important when considering that the existing 2G telecoms equipment will probably be operational for another 10 years (which requires a motivated supplier) and that the selected supplier will become a business partner for the next 10–15 years. This will, in practice, mean two things. First, the 2G telecoms equipment and the related supplier(s) need to be taken into account when the supplier for 3G telecoms equipment is chosen. Second, the business culture of the supplier will become a factor together with the suppliers' ability to survive (and deliver new and enhanced 3G telecoms equipment competitively and continuously) in the future. ■

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