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Smart multisourcing i Telenor

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Telenor at a glance

Among the largest mobile operators in the world

Telenor global

- Mobile operations in 11 markets across the Nordic region, Central and Eastern Europe and Asia

- A stake of close to 40% in VimpelCom Ltd, operating in 10 markets

- Headquartered in Norway

- Approximately 31 000 employees

- Among the top performers on Dow Jones Sustainability Indexes
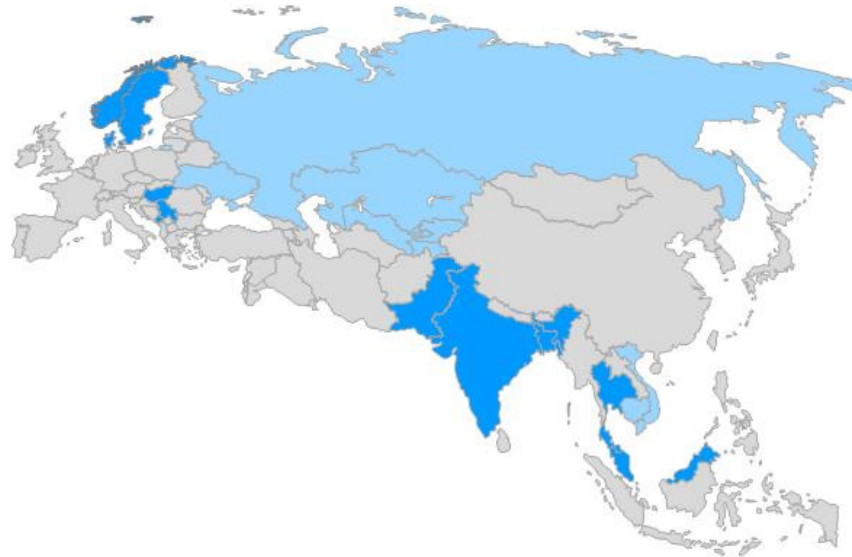
195 million mobile subscribers*

Present in markets with 2 billion people

Telenor Norway

- 4 400 employees in more than 30 locations across Norway – incl. Spitzbergen

- Offers fixed line and mobile telephony, broadband, cable TV, Internet services, and coastal radio service

- 0,9 M fixed line subscriptions

- 0,8 M broadband subscriptions

- 3.1 M mobile subscriptions

- 0.5 M cable TV subscriptions

Telenor Group is an international provider of tele, data and media communication services

* 104 million customers in consolidated operations and 91 million in VimpelCom Ltd

Source: Telenor

1

Large-scale and complex IT operation

Telenor Norway IT volumes

Project deliveries per quarter
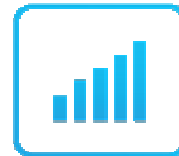- 55 projects, 500 systems
- 500 persons from IT
- 100 000 hours

Smaller changes
- 4500 service – and change requests per year
- 150-520 per month

Test
- 1000 test case per project
- More than 98% test-efficiency
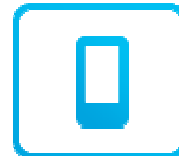- Discover 3 times more in SI/ A test than the vendor

Release
- 1300 releases last year

Per release:
- 2-3 large projects
- 2-3 medium projects
- 20-40 systems

Invoice
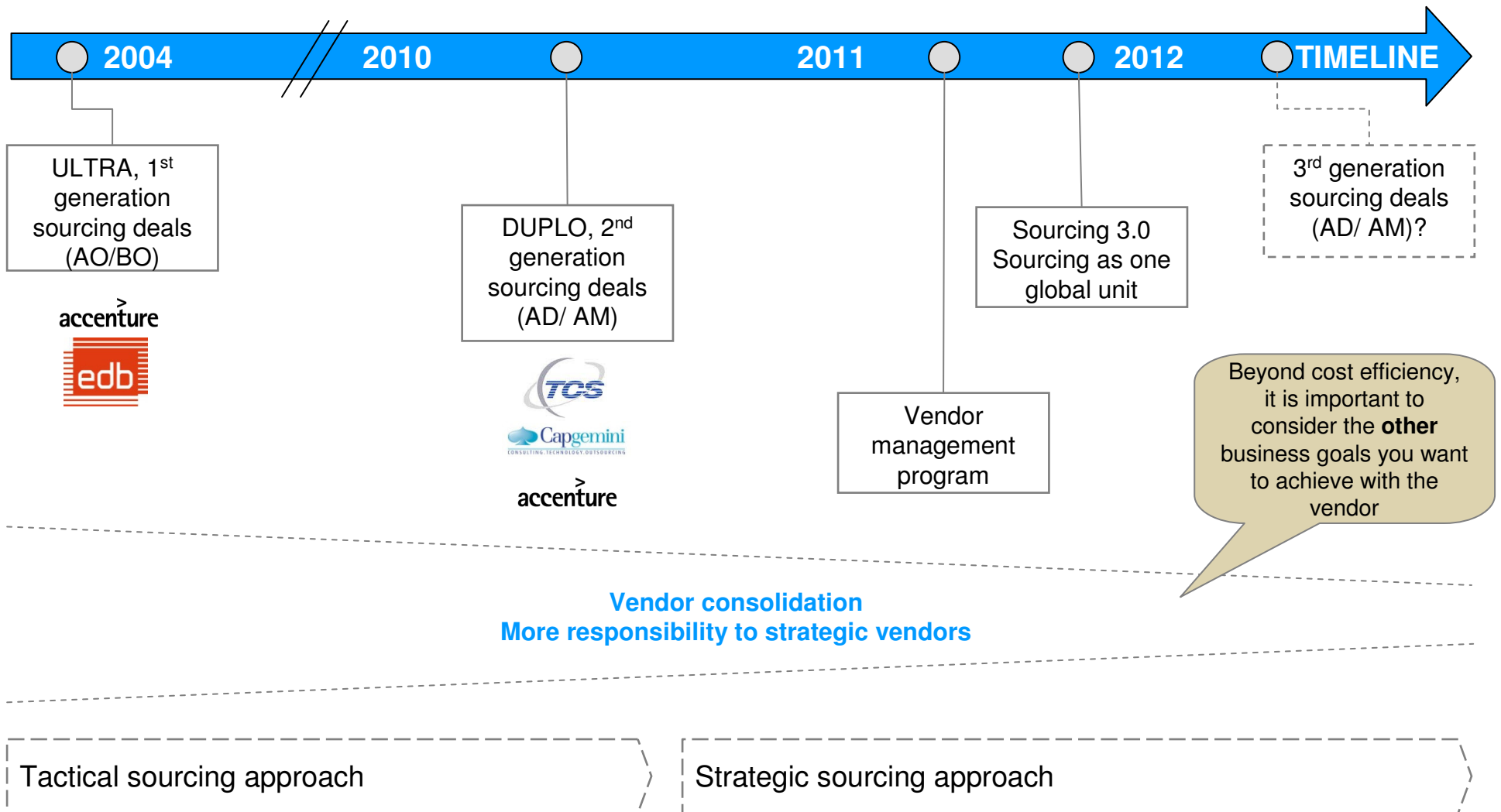- >15 millions per year
- >1,5 million per month
- >30% electronic

Mobile billing
- 10% increase data volume per month
- 107% increase since last year
- 4,2 million subscriptions

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Telenor Norway IT sourcing journey

From diversified complex IT infrastructure towards simplification and consolidation

2004 | **2010** | **2011** | **2012** | **TIMELINE**

ULTRA, 1st generation sourcing deals (AO/BO)

accenture

edb

DUPLO, 2nd generation sourcing deals (AD/ AM)

TCS

Capgemini
CONSULTING.TECHNOLOGY.OUTSOURCING

accenture

Vendor management program

Sourcing 3.0 Sourcing as one global unit

3rd generation sourcing deals (AD/ AM)?

Beyond cost efficiency, it is important to consider the **other** business goals you want to achieve with the vendor

Vendor consolidation
More responsibility to strategic vendors

Tactical sourcing approach

Strategic sourcing approach

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Business and IT challenges accelerated need for change

Overall link between business challenges and IT

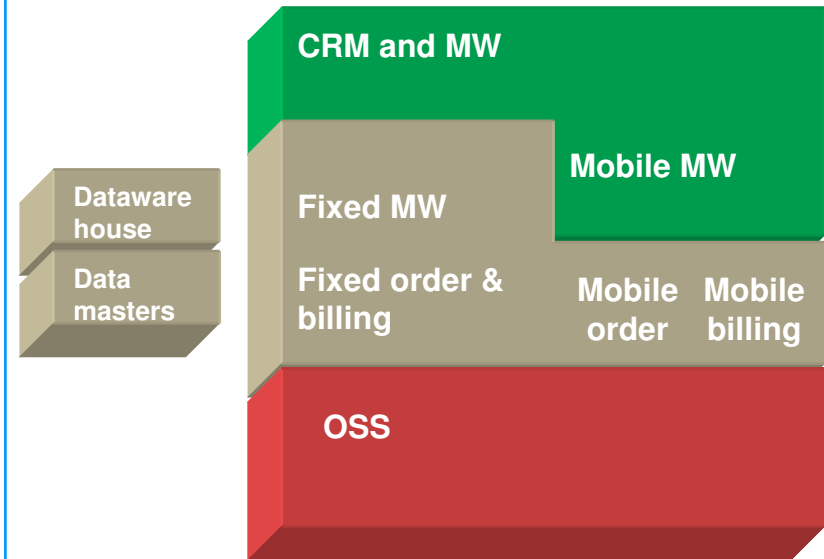| Driver	Telenor business challenge		IT challenge
Cash flow priorities	Telenor seeks to reduce costs in order to support the cash flow targets	▶	• **Fragmented application landscape** leading to high volume of AM and system integration • **Lack of competition and limited off-shoring** leading to uncompetitive price levels • **Large vendor portfolio** leading to high overhead costs
Time-to-market	Continuously increasing competition, Telenor needs to quickly respond to market needs	▶	• **Limited capacity of legacy competencies** leading to project delays at peak periods • **Fragmented vendor set-up** leading to long project mobilization • **Fragmented application landscape** leading to long project realization and testing periods
End user quality	Telenor needs to serve the market with high quality in customer service and products	▶	• **Fragmented application landscape** and complex projects with short time of delivery may result in compromise of quality • **Large vendor portfolio** and many parties involved leading to many possible sources of error
Business flexibility	Telenor needs strategic and operational freedom to cope with future structural changes	▶	• **CAPEX restriction and urgent business projects** leading to limited funds available for up-front investment in modernization • **Governance and vendor interface challenges** leading to limited momentum to drive change • **Dependency on competencies at small providers and individuals** leading to increasing operational risk

Source: Telenor

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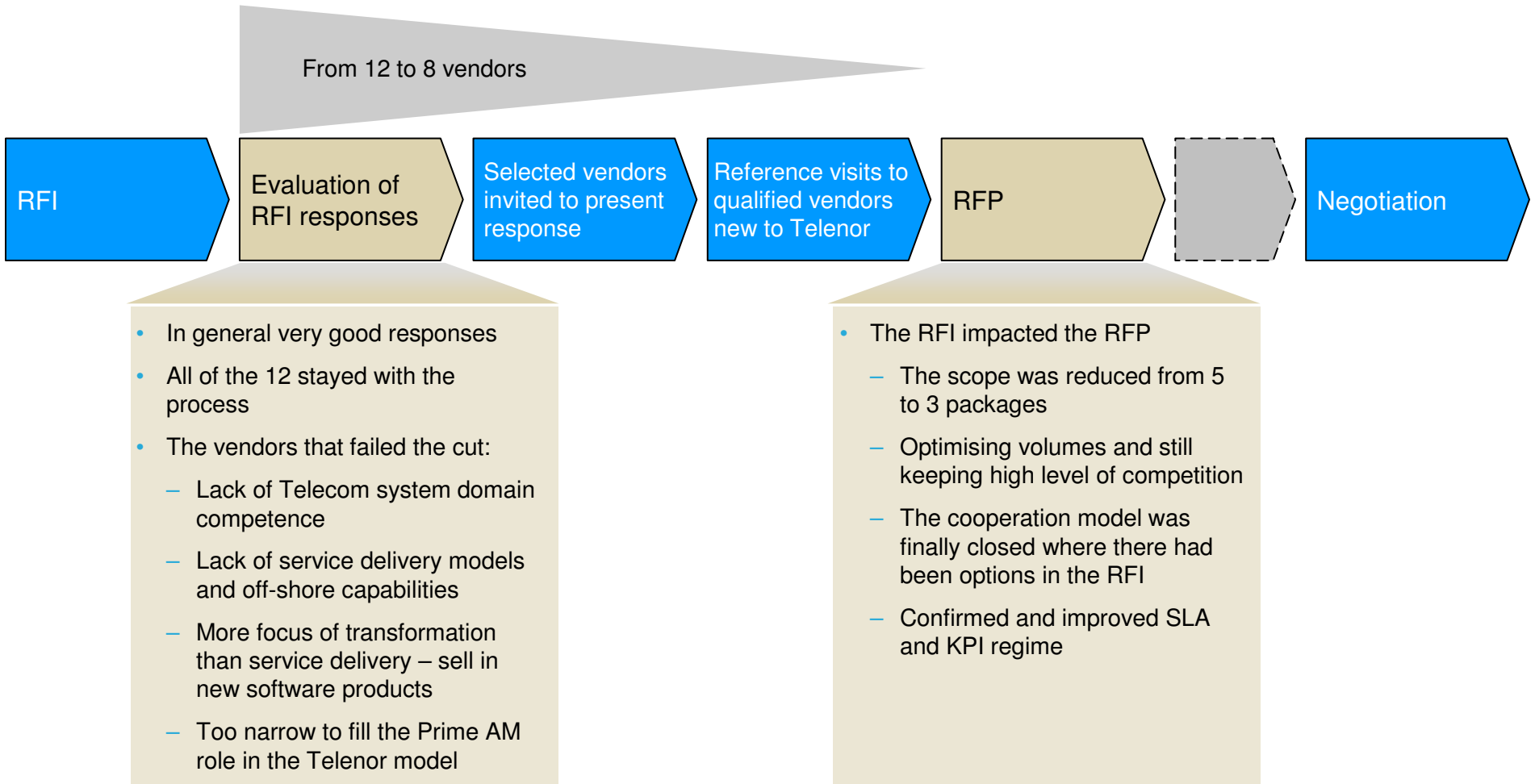# The Duplo program
2nd generation sourcing deals

Content

- Application Maintenance (AM) and Application Development (AD)
- Second generation souring program
- Out-sourcing and re-sourcing of 170 applications
- Vendor consolidation, increasing volumes per vendor
- Multi-vendor model with defined cooperation mechanisms
- Competition regime for new AD projects
- Well defined governance regime
- International best practice contract
- Reduce costs and cash spending within IT
- Financing modernization of the systems portfolio
- Keep the high levels of service quality and project deliveries
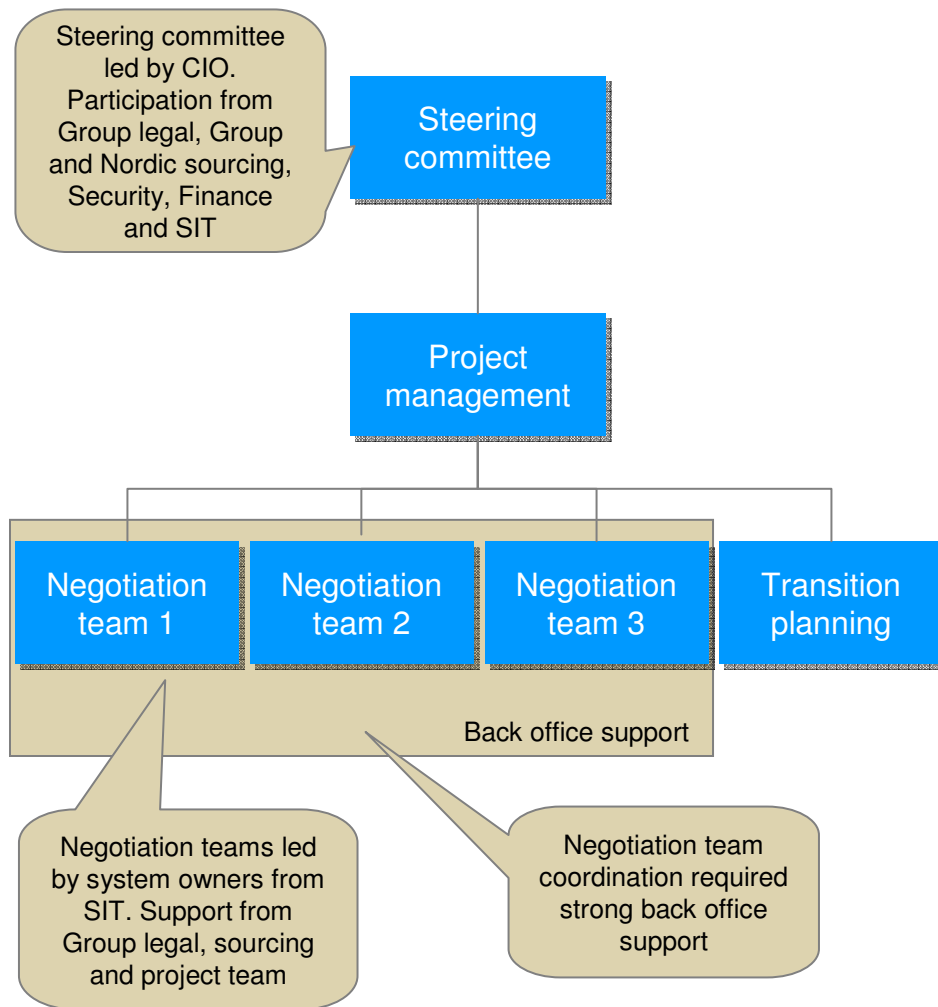
Scope

Dataware house

Data masters

CRM and MW

Mobile MW

Fixed MW

Fixed order & billing

Mobile order

Mobile billing

OSS

RFI to negotiation

Learning process with valuable input to optimize final solution

From 12 to 8 vendors

| RFI | Evaluation of RFI responses | Selected vendors invited to present response | Reference visits to qualified vendors new to Telenor | RFP | | Negotiation |

Evaluation of RFI responses:

- In general very good responses
- All of the 12 stayed with the process
- The vendors that failed the cut:
  - Lack of Telecom system domain competence
  - Lack of service delivery models and off-shore capabilities
  - More focus of transformation than service delivery – sell in new software products
  - Too narrow to fill the Prime AM role in the Telenor model

RFP:

- The RFI impacted the RFP
  - The scope was reduced from 5 to 3 packages
  - Optimising volumes and still keeping high level of competition
  - The cooperation model was finally closed where there had been options in the RFI
  - Confirmed and improved SLA and KPI regime

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Structured and thorough negotiation process

Negotiation with 4 vendors for 3 packages required intensive planning and coordination

Steering committee led by CIO. Participation from Group legal, Group and Nordic sourcing, Security, Finance and SIT

Steering committee

Project management

Negotiation team 1

Negotiation team 2

Negotiation team 3

Transition planning

Back office support

Negotiation teams led by system owners from SIT. Support from Group legal, sourcing and project team

Negotiation team coordination required strong back office support

Key takeaways from the negotiation

1 Parallel negotiations with all vendors

2 Addressed the same topics with all vendors simultaneously

3 Each topic was "closed" and agreed upon before moving to the next

4 Loyal to the contract lay-out, ensuring identical contracts for all participants and not accepting individual adjustments

5 No price discussion before last step of negotiation

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Revised IS Sourcing strategy

Duplo addresses both business and IT challenges

1 Cash spend reductions for operation (AO/BO), application management (AM) and rates for application development (AD) services.

2 Renegotiation of AO/BO services contract including transformation program for virtualization, network clean-up and off-shoring

3 Consolidation from many different AM vendors to a few selected Prime AM Vendors into a domain based multi-sourcing regime, demanding a high percentage of off-shoring.

4 New co-operation model, requiring co-location of AO/BO and Prime AM vendors together with Telenor 1st line Service Desk at Fornebu.

5 Increased responsibility for modernisation projects (AD) for selected Prime AM Vendors.

6 Competition for AD projects through RFx-processes with selected vendors.

7 In-source strategic domains

Results and lessons learned from Duplo

With the Duplo program Telenor has achieved:

Results form Duplo

- Average price reduction for IT Application Maintenance of 50% with improved SLA's

- Substantial reduction in hourly rates for Application Development. Average hourly rate reduced with 40% from January 2011 to June 2012

- Reduced internal IT organization

- Consolidation from more than 100 AM/AD vendors to three: Capgemini, TCS and Accenture

- Competence shift in IT from performing operational tasks to professional vendor management and follow-up

- Established engagement model with vendors that provides for further off-shoring as Telenor organization matures and vendor competence grows

Lessons learned

- Vendors have sufficient competence and capabilities to support the strategy

- Offshore delivery capabilities have matured

- Cost benefits are substantial

- Develop and follow your own sourcing strategy and time schedule - not the vendors'

- Operational risks and security issues, including data security, have to be managed

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Source: Telenor
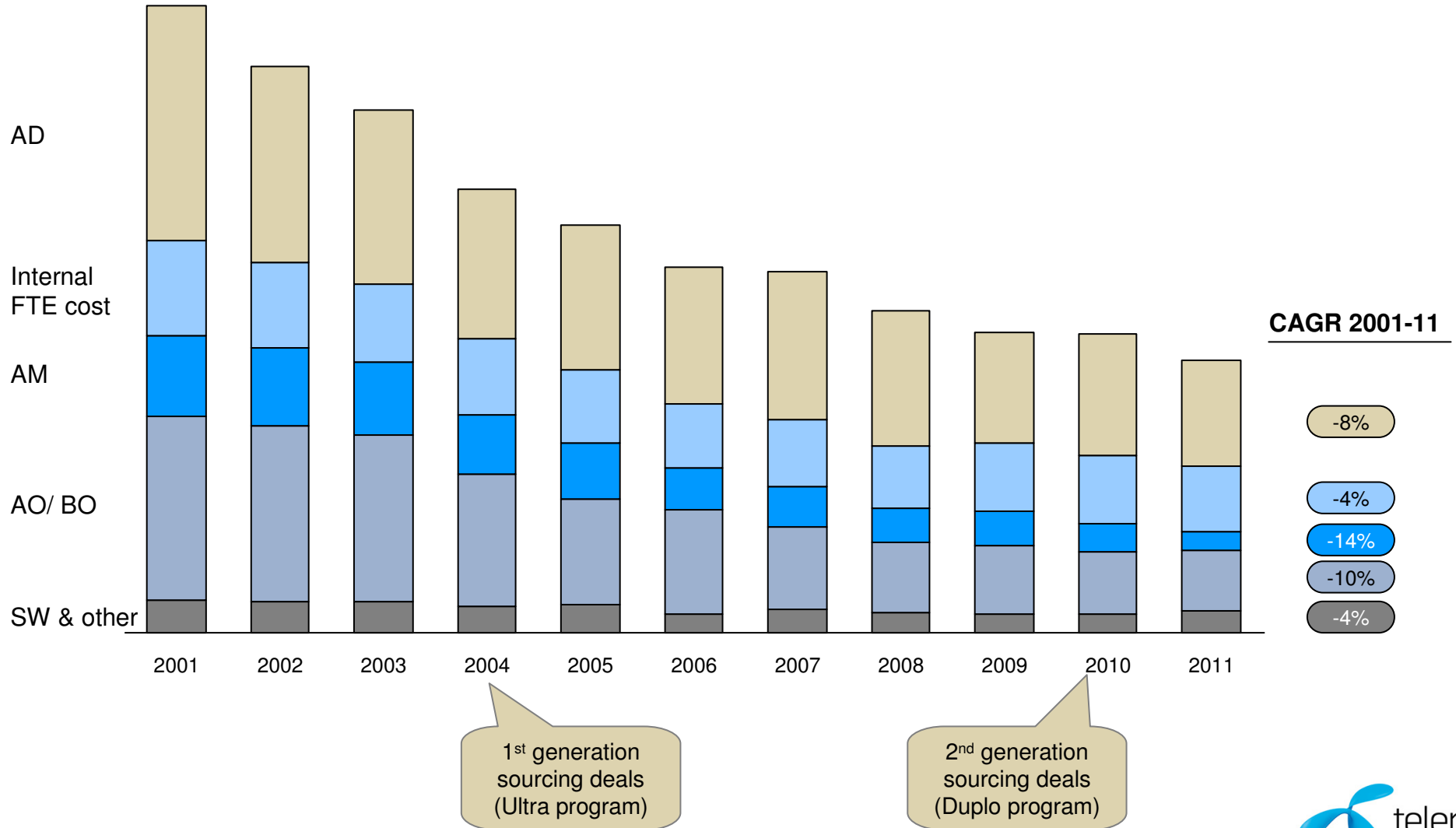
But there are still areas of improvement:

1

Benefit of clustering and strategic vendors is not fully realized
- Telenor still acts as separate units toward vendors, following up on a system per system level
- Vendors do not take full integration responsibility within their cluster and across clusters

2

Vendor competence is insufficient for complex AD and system integration
- Insufficient value chain and architect competence
- AD volumes are too low to build and maintain sufficient competence

3

Cooperation between AD/ AM and AO/ BO vendors is not optimal
- Handover and coordination of vendors requires too much resources

4

Modernization of the IT portfolio is still lagging
- Modernization plan is not followed. This impacts modernization and simplification of the IT value chains necessary for system "outsourcability"

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When considering possible engagement models

No out-of-the-box solutions, will depend on business objectives in scope

Model considerations/ goals

A The engagement model should give substantial and sustainable IT-cost reduction in a TCO perspective

B The model should enable vendor(s) to take an increased end-to-end responsibility and to optimize interfaces

C Vendors should take an active responsibility for simplification and modernization

D The new model should enable customers to hold vendor(s) accountable for achievement of agreed business objectives (output oriented/ black box)

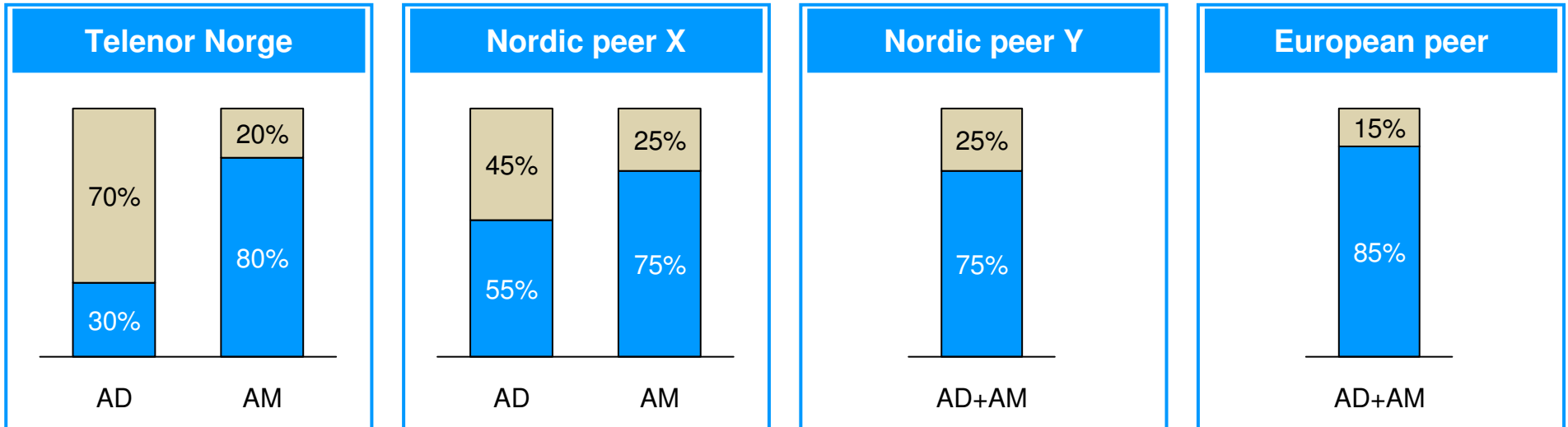**E** The model must address Pain Points/ challenges that the customers are currently facing

Telenor observations

1 Vendor market immature/ little innovative when it comes to suggesting engagement models

2 Shift in engagement model may require fundamental internal changes in way of work

3 No out of the box models that solves all challenges

4 The vendor market "promises" substantial IT cost reductions when utilizing higher offshore ratios

5 High willingness to of end-to-end responsibility for AM services and AD projects

6 Demand management critical success factor

7 The optimal engagement model will be based on the risk acceptable, how much of own organization you are willing to change, and the objectives that you want to achieve

Source: Telenor

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Offshore ratios for other telecom operators

Given the cost pressure in telecom, operators move towards full exploration of offshoring

Telenor Norge

	AD	AM
Onshore	70%	20%
Offshore	30%	80%

Nordic peer X

	AD	AM
Onshore	45%	25%
Offshore	55%	75%

Nordic peer Y

	AD+AM
Onshore	25%
Offshore	75%

European peer

	AD+AM
Onshore	15%
Offshore	85%

Forrester industry generic offshore ratios

Service	Bystanders	Experimenters	Committeds	Full Exploiters
AD	100%	60%	50%	30%
	0%	40%	50%	70%
AM	100%	100%	30%	10%
	0%	0%	70%	90%

Source: Telenor/ Forrester Research, Inc

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Sourcing 3.0 – Global sourcing power

Leveraging group scale across BU's to maximize sourcing effects

- Discounts by coping all group volume
- Standardization
- Similar equipment/ systems across the group
- Competition essential

Leverage group scale/ volume for best market rates

Global consolidation of vendors to build Telenor competence

- Need help from vendors with telecom/ Telenor competence to change
- Transferring more responsibility to vendors
- Use vendors across BU's
- Simplification
- Efficient and strong vendor management

- Move towards more global standardization and more unified operation
- Enabling more efficient organization
- Standardization of agreements across BU's

Common sourcing strategies across different BU's

Ensure attractiveness from vendors to value Telenor as a strategic customer

- Secure further price reductions by apposing the market as one
- Long term relationships

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Takk for oppmerksomheten!
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