Technology

Getting mileage from the XT outages

Michael Wigley

The XT outage is a good example of how chief information officers and chief financial officers can use an incident to squeeze more services for the same money, or less, from their ICT suppliers.

For example, an insider at a large systems integrator told Chris Keall in an *NBR* Online report that, "I have a client, a national company which has been sticking it to Telecom, purely as leverage to negotiate a better long term deal and handset subsidies, by threatening they will go to Vodafone – when the reality is they have no genuine intention of changing."

More publically, Fonterra has put its transition from Telecom CDMA and Vodafone 3G on hold following the XT network failures.

It's also a useful illustration for dealings with other vendors, whether inside or outside the ICT sector.

Handled carefully, organisations have an opportunity to achieve substantial cost reductions including before a contract ends.

Re-negotiation of contracts is usually possible mid-term. In fact it's common due to changes in the organisation's needs.

But critical to success is a careful strategy and well-planned approach. This is designed to optimally pull commercial, legal and – in the case of Telecom and its telecommunications and IT services division Gen-i – regulatory levers.

The vendor can win too: this is not necessarily a win/lose situation.

Back to our example, many organisations have high-value agreements with Telecom and Gen-i for wide area networks, telephony, outsourcing, IT and other services, as well as for XT.

Telecom/Gen-i are able to use their dominant market position with some of their services, such as various telecommunications services.

They can bundle together those and other services in a way that is hard for other suppliers to match.

This can give them a strong position relative to other suppliers and customers.

Putting together bundles of services can play out favourably for particular customers, but not so for others.

Think bigger

Too often an organisation will pick out a single issue (such as the XT outages) and

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seek mileage out of that. Invariably this will not achieve more than minor gains, if anything. But something like the XT outage can be part of the overall plan of attack.

Even if the agreements with Telecom/Gen-i tie up the organisation, there may still be commercial, legal and regulatory ways around this. This could fit well with commercial strategies and objectives for the organisation (and, handled carefully, for Gen-i as well).

Seeking the best outcome calls for a "circling wagons" approach, to help overcome the market place strength held by Telecom. Anything short of this will probably be batted to the boundary. This is why a cohesive and careful strategy is needed.

Key steps include:

■ **Establish the objectives.** What does the organisation ideally want during and after the current term? This can take account of changing needs, transition opportunities and challenges, what would happen at the end of the contract period and so on. Of course the cost and hassle of transitioning out to other providers can be substantial. However, in the end the result may be that the organisation stays with Gen-i on more favourable terms. Using other vendors only as a stalking horse to push down prices in the Gen-i deal is not a good long-term strategy. Other vendors tend to sniff this out and are reluctant to participate in the process, or later.

■ **Legal and regulatory.** What do the contracts say, and what legal/regulatory issues arise? An early termination fee may be an important consideration. That may need to be looked at closely by lawyers, taking into account not just the contract terms but other factors. The analysis does not end with the contracts. For example, Gen-i might have stated something in the sales process which overrides the contract. Or there could be something in the regulatory framework that helps, even though it is primarily aimed at wholesale services.

■ **The market place:** Does the organisation have alternatives to Telecom? Maybe some of the required services are only provided by Telecom, such as data links to some towns (with only limited offering by other providers over the same infrastructure). Is there a way to deal with that, such as taking particular services from other suppliers? Are there changes on the horizon that can be used to create leverage, such as new competing services in two years' time? Telecom/Gen-i might do a deal now to lock in the organisation beyond the two years, for example. If Telecom/Gen-i conclude that there is no realistic prospect of the organisation moving on, because it is effectively captive, negotiations won't go far. Knowing what the alternatives are is important for negotiating strength. Often a situation that initially looks bleak can produce some good options. What does the organisation want/need? For example, organisations often want to change the mix of services they get during the contract period. Or maybe they just seek to optimise the position at the end of the contract. Planning for that should start well ahead of the end of the contract term.

■ **Getting alignment in the organisation:** This is one of the most important points. If management are not aligned on the strategy (and the objectives such as reduced price or better services), this will soon be uncovered and leveraged in negotiations. Divide and rule is a classic and effective approach. What's in it for Telecom/Gen-i? If they can get wins too, it's all a lot easier.

■ **Choosing the method to go to the market:** This can range from discussions only, in our example, with Gen-I, through to a full scale RFP (although public sector agencies have additional considerations).

What initially looks challenging may turn out to be easier. The XT outages can be part of a "circling wagons" approach.

But in the end, of course, organisations may discover that what they are getting from their supplier – such as Gen-i – really is good value for money.

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Toy box

Ipad conquers US, AWOL in NZ

Apple has sold out of its iPad tablet, swamped by pre-orders days ahead of the new gadget's launch (on April 4 NZ time).

That's been fantastic news for Apple and American publishers such as *The Wall Street Journal* gearing up special iPad editions.

Apple quickly revised sales estimates from 650,000 to 1.12 million for the iPad's first quarter on the market, ending June. (By comparison, about three million units of Amazon's Kindle e-reader are now in the market).

But it's not such great news for Kiwis. Apple initially told all-comers that the low-end version of the iPad would be available in New Zealand "late March" (with no time-line for the 3G-enabled model, or the iBookstore download service).

But approached by *NBR* this week, an Apple rep vague-ified the company's line to "no details have been announced." That giant sucking sound you hear is down-under iPads being diverted to the larger North American market.

One publishing industry insider told *NBR* that the iPad won't be available locally until August, and then with constrained supply. Apple is welcome to contradict that statement.

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PRINTOUT

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Kiwi search engine in Hong Kong

As predicted by *NBR*, Google found a compromise to its stand-off with the Chinese government. Last week, the US search giant relocated its China operation to Hong Kong. Residents of Hong Kong – a special administrative region – will be able to view uncensored results. Those in mainland China will still see politically-sensitive searches censored, with the Communist government's filter able to selectively block Google's now Hong Kong-based service, just as it can censor any traffic coming in from outside its border. In their new home in Hong Kong, Google staff will rub shoulders with a tiny Kiwi outfit which has set up shop in the city. Tauranga's Pingar has already made a modest splash in the UK, being named on Library House's list of the hottest 100 IPO contenders (Pingar remains private), and securing a member of the House of Lords technology committee, Lord Erroll, as a member of its advisory board and recruiting former Excite.com executive Timothy Burgess to open a London office.

Chinese version of Pingar

The Bay of Plenty company is working with Hong Kong's Compose Systems (best known as a prepress production house for publishers) to create both simplified and traditional Chinese character versions of its search engine, which it bills as "taking the browsing out of browsing." Pingar's software looks inside documents posted on the web, then presents search results as a single Adobe PDF or Microsoft XPS document rather than the traditional series of links returned by Google et al (XPS is a Microsoft alternative to Adobe's ubiquitous document format). More: nbr.co.nz/pingar

2degrees' aversion to on-net pricing

Previously, 2degrees has howled at on-net pricing (offering cheaper rates for calls or txts to those on the same network). On-net plans like Vodafone's Best Mates were anti-competitive, helping to lock out newcomers, said the new mobile operator – especially when ring-fenced by mobile termination rates (charges for calling other networks) that made it more expense to place calls to friends who belonged to a competitor. You could only offer such on-net plans if you had critical mass, 2degrees argued, but by their very nature, plans like Best Mates, coupled with "high" termination rates, would deny its attempts to build a customer base.

Regardless: a world-beating launch

However, neither mobile termination rates nor on-net plans have, so far, proved much of a barrier to 2degrees' success. In February, the company announced it had secured 206,000 active customers (about 4.5% of the mobile market) in its first 180 days – more than double analysts' most optimistic projections. A deal brokered by the outgoing government that sees 2degrees pay less than it admits on MTR that it let on it in its droptheratemate.co.nz campaign, has helped fuel growth (read more at nbr.co.nz/secretdeal). "They've had the most successful launch of any telco entering a fully-subscribed market anywhere in the world even with current MTR rates," said a manager at 2degrees rival, who did not want to go on record. "Now they're also offering on-net pricing after slagging us off for it."

Now: on-net pricing from 2degrees

Now, with a healthy army of customers, 2degrees has overcome its on-net pricing qualms, and from Wednesday this week was to launch a new rate of 2c a txt (down from the regular 9c) for 2degrees customers who txt each other (the fine print is that you've got to have used your regular monthly top up first, at the headline rate – a clever wrinkle that may help increase average revenue per user). 2degrees' very success attracting customers and its conversion to the merits of on-net pricing, make it less likely that Communications Minister Steven Joyce will lean in the newcomer's favour when he makes his decision whether to regulate mobile termination rates (the Commerce Commission has recommended, in a split decision, that he accept voluntary cuts offered by Telecom and Vodafone which, crucially, involve MTR being wiped altogether for txt). But, equally, the newcomer is looking less and less as if it needs a ministerial leg-up.