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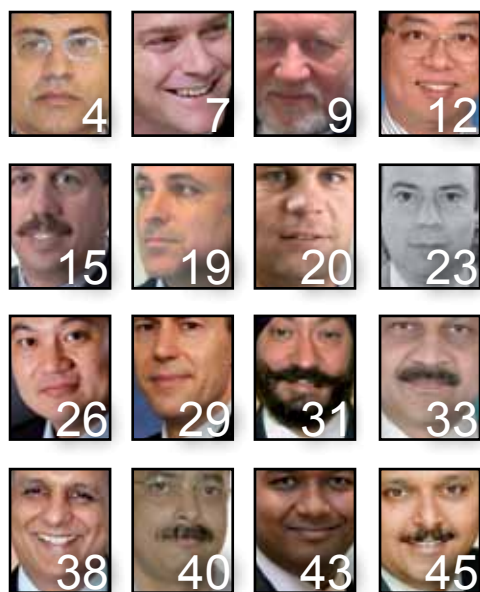
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A young man and woman are sitting on the floor, looking at a laptop together. The woman is on the left, wearing a light blue and white striped sweater and blue jeans. The man is on the right, wearing a dark blue and light blue striped polo shirt and blue jeans. They are both smiling and looking at the laptop screen. The laptop is white and has the text "SHRINKING EQUIPMENT, A SHRINKING WORLD" on it.

**SHRINKING EQUIPMENT,
A SHRINKING WORLD**

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State of the 'Telco Nation'

by Greg Russell, Senior Vice President, Telstra International, Asia

Technological convergence, market liberalisation and free web-based services such as file sharing, instant messaging, email and social networks and VoIP push the exponential growth of traffic, put downward pressure on prices and commoditise services. This makes it difficult for service providers to make the capital investments needed to deal with dynamic markets and changes in consumer perceptions. A new managed services model - called whole-of-business - joins providers who might otherwise be competitors to meet end-customer needs within a sustainable partnering framework.



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Telecommunications are an essential part of modern business, education, social, cultural and political activities. The pervasive nature of the Internet, relative ubiquity of personal computers and the increasing number of digitally connected devices have dramatically changed the way people collaborate, resulting in ever-changing modes of interaction and ever-increasing volumes. According to industry researcher TeleGeography, international voice traffic reached 343 billion minutes in 2007 and should reach 385 billion minutes in 2008¹.

Smartphone devices have been a key driver of this development, with a recent IDC report stating that global shipments had grown in Q3 2009 by 4.2 per cent year-on-year to 43.3 million units, despite economic conditions². This trend is likely to continue given the impact of developing nations which in 2000 accounted for around one-quarter of the world's 700 million mobile phones, growing to three-quarters of 4 billion mobile phones by 2009³. International Internet traffic also accelerated by 79 per cent in 2009, up from 61 per cent in 2008, with the fastest growth in

emerging markets such as South Asia where traffic grew well over 100 per cent in 2009⁴.

With technological convergence and market liberalisation a new 'culture of free' is emerging, people expect to share and access free communications technologies such as web-based services such as file sharing, instant messaging, email and social networks and Voice over IP. Exponential growth is increasingly commoditising services and an unrelenting downward pressure on prices continues to erode margins, often keeping service provider revenues flat. Alarming, many of the new disruptive communications technologies often associated with a 'culture of free', such as Skype, have typically been the benefactors of years of service provider-led capital investments in infrastructure, but rarely, if ever, have reinvested profits back in - if they have made a profit at all.

Given this operational landscape, how can service providers countenance ongoing capital investments with dynamic markets and changes in consumer perceptions? What does this mean for enterprises?

With intense price competition, current economic conditions and the demand for rapid innovation, there are strong signs pointing toward an acute need for radical changes in service provider partnering models. Those interviewed for a recent Ovum biennial survey of wholesale customers, cite organisational flexibility and a willingness to establish long-term relationships as being more important than ever⁶.

The telecommunications industry is facing a seismic shift similar to that seen in the changes the newspaper and the recorded music industries have endured over the last decade. Service providers that previously planned investments for a 10 to 15 year period now have to adapt to address the challenges and opportunities brought about by disruptive technologies, dynamic markets, and the bleed over of consumer perceptions into corporate buying behaviour.

The speed of this change is forcing many service providers to review how they operate in global telecommunications markets to identify new frontiers for sustainable

¹ TeleGeography, International long-distance is going mobile. http://www.telegeography.com/cu/article.php?article_id=26510

² IDC, Worldwide Converged Mobile Device (Smartphone) Market Continues to Grow Despite Economic Malaise, Says IDC. <http://www.idc.com/getdoc.jsp?sessionid=&containerId=prUS22070109>

³ The Economist, Mobile marvels. http://www.economist.com/specialreports/displaystory.cfm?story_id=14483896

⁴ TeleGeography, Internet traffic growth not slowed by recession. http://www.telegeography.com/cu/article.php?article_id=30081&email=html

⁵ David Coxon, World of IT blog. <http://worldofitblog.wordpress.com/2009/05/25/the-culture-of-free/>

⁶ Ovum, Telecom wholesalers have improved but still have work to do. <http://www.ovum.com/news/euronews.asp?id=8259>

growth. This trend is especially evident in Asia, the fastest-growing telecom region⁷, where providers need to move with speed and enthusiasm to keep up with exponential growth and innovation. One can expect a new business model will emerge - let us call it *Whole-of-business*.

Whole-of-business: a new frontier for sustainable growth?

Whole-of-business is not about trying to pit service provider versus service provider, undercutting each other on price, but on the contrary seeks to cultivate an environment where partners coalesce around mutually rewarding strategic ambitions and end customer needs. It promotes the need to develop a sustainable partnering framework that enables an open and transparent focus on end-customer requirements to draw out specific value propositions, which in turn can help define jointly provided services that can be executed profitably and sustainably. This is not an entirely new business concept but one that maximizes winnable outcomes for both service providers and end customers.

How is whole-of-business relevant to service providers and enterprises? The reality is that most enterprises already acknowledge that no single service provider can execute in every geographical territory. Increasingly, they are indicating a preference to deal with regional specialists or a key carrier partner in Asia that can not only deliver the services they need, but who can also leverage an ecosystem of partners to optimise quality and value for money. Here are two examples of how whole-of-business benefits the end customer and service provider partners collectively:

- A major international service provider has customers in South Africa but does not own any core assets in these locations, procuring services instead from key strategic partners. All parties have entered into arrangements for the collective benefit of the end-customer. The provider's partners benefit from an additional revenue opportunity and access to emerging markets in Asia; the end-customer has the reassurance of an end-to-end business solution provided against a consistent Service Level Agreement (SLA). The end result is a win-win for all.
- The international provider partners with a major European provider expanding into Asia, who is focusing strategically on providing systems integration and managed services for enterprises. What initially might be considered a threat, actually results in an

opportunity for this international provider to offer a suite of personalised retail white-labelled services. The service provider rapidly scaled its Asia business whilst enjoying the flexibility to build out its own resources and capabilities in line with its business growth. The end customer benefits from the combined value of the services provided by both organisations, managed through one primary relationship.

Whole-of-business is especially relevant to enterprises that recognise challenges of building out and managing networks that are not core to their business. As a result, many are choosing to leverage managed network service providers to improve network performance and flexibility. A carefully structured whole-of-business partnership can tap into this need. According to a Frost & Sullivan study we sponsored, Australian organisations that manage their own WANs can see a cost reduction of up to 38 per cent by engaging third parties to provide managed network services⁸. This approach enables enterprises to productively allocate more time and resources to their core business and rely on experts to run and operate the networks.

Assuming the trend towards adopting managed services unfolds, it will be increasingly incumbent upon service providers to review the approaches used when forming partnerships. Whole-of-business asserts that putting strategic growth intentions and end customers' needs at the centre of the debate is the most flexible aspect of partnering that critical success factors can be designed around. It encourages service providers to seek complementary offerings so that the sum of the parts creates value adding - and margin retaining - propositions, that meet specific needs and achieve sustainable growth.

Key success factors

How can service providers use whole-of-business contracting to succeed?

First, service providers must change their mindset. Instead of viewing each other as suppliers, an evolution of thought is needed to consider each other as a customer and where an end customer is regarded as a joint opportunity, not an exclusive treasure. Once this mindset of cooperation has been established, it then becomes easier to collaborate on the development of value-added services that target incremental revenue streams. One upside of the historical adversarial paradigm is that past capability

building investment strategies have created a substantial, diverse, pool of assets and the potential for the 'sum-of-the-parts' (being greater than the whole) through a whole-of-business approach promises to unleash this.

Second, for a partnership to truly function there needs to be equity involved. This is not about bilateral agreements or pricing; this is about developing a new way to think about doing business for the end customer. Equity can take the form of sharing a like-minded approach to customers. If a customer relationship goes wrong, both parties need to share the pain; if all goes well, both share in the gain. Whole-of-business is contingent on some form of equity involvement. This approach to finding like-minded partners can help accelerate growth into new markets.

Third, standards based interoperability using Network-to-Network Interconnect (NNI) agreements have already proven to be a successful way to open up opportunities for collaboration on a global scale. Such agreements are examples of how service providers gain access to our global portfolio and how end-customers benefit from being able to connect to an increasing list of destinations around the world.

Key 'takeaways'

With a backdrop of exponential growth in voice and data volumes, irregular macroeconomic conditions and the need to countenance long-term capital investments with increasingly dynamic markets and customers, a new form of service provider to service provider collaboration is needed.

Whole-of-business identifies the need for a complete paradigm shift in partnering, akin to that seen in the newspaper and music industry. Is the service provider community ready for such a shift? Can it afford not to mitigate the historical inhibitors to open partnering? Only time will tell.

What is certain is that the world is getting smaller, networks are getting bigger and faster and the buying behaviour of enterprises is being increasingly influenced by consumer trends. Collaboration amongst service providers needs to migrate from engaging on a 'feeds and speeds' basis to something more vibrant and energetic, which puts strategic ambitions and customer needs at the centre of all decision making and targets new frontiers for sustainable growth. ●

⁷ Scribed, <http://www.scribd.com/doc/9692216/The-Asia-Pacific-Region-Has-Become-the-Fastest-Growing-Telecom-Market-in-the-World>

⁸ Telstra International, *Enterprises could cut costs by outsourcing managed WAN services*. Retrieved from <http://www.telstrainternational.asia/news/nid-26/enterprises-could-cut-costs-by-outsourcing-managed-wan-services/>