Hosted Telecom Solutions

Economic slowdown should not mean slowdown in carriers' network expansion

Back in the late nineties, voice switches were priced at $100 per DS0. A decade later, a switching port in a leading next-generation switch costs the same $100. In an age when prices for dark fibre shrunk ten times and revenue per wholesale minute dropped 80%, the cost of carrier-grade switching equipment barely changed and this presents one of the biggest challenges for growing carriers today.

Upfront costs of geographical expansion are colossal and the bulk of these costs are attributed to capital expenditures. Furthermore, banks are not eager to provide credits due to the credit crunch and a general lack of understanding of the telecommunications industry.

But this does not mean that carriers should shelf prospective plans for expansion. Facility outsourcing – creating virtual Points of Presence (vPoPs) – is a viable option for growing carriers. Facility outsourcing provides numerous benefits but may not suit all carriers. The advantages and disadvantages of each option are summarised in the table below.

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BENEFIT ANALYSIS FOR VOICE CARRIERS EXPANDING NETWORK PRESENCE

	Virtual Point of Presence (vPoP)	Building-out Facilities
Initial capital outlay (capex)	**Zero capex.** Network design and build-out is often provided free of charge by the outsourcing company.	Prepare to pay **$100 per DS0** that would include network design services, carrier-grade switching facility purchase, installation and maintenance charges, initial co-location and IP connectivity expenses.
Lead time	**One day** for VoIP switching facilities and up to a week for SS7 facilities turn up, including continuity testing.	From **2 to 12 months** depending on project scale and engineering experience. Work with numerous service vendors (equipment, co-location, connectivity) adds complexity and increases chances of project delay.
Effect on human resources	**No additional human resources are required.** Service manuals and free training are provided to existing employees. It is recommended to assign an engineer to monitor the vPoP and to work directly with the service provider's engineering team.	Set up of remote facilities may require **most skilled engineers to make extended trips** to the new site. Based on deployment scale, a part-time or full-time local employee may be needed to maintain the equipment. Back office operations and costs are not affected.
Effect on operating expenses	**Operating expenses are tied to revenues.** The interests of the vPoP provider and the vPoP customer are fully aligned – both parties are striving to grow traffic volumes over the new platform. Operating expenses are based on number of minutes switched and are generally higher than monthly expenses of "in-house" solution.	**Fixed operating expenses.** Per minute switching cost can be higher or lower than analogous outsourced solution. Use this calculator to compare: www.r-rtele.com/mycost.asp
Effect on cash flows	vPoP services are provided on a post payment basis to qualified clients. **No effect on cash flows:** revenue collection and service expenses are coinciding in time.	High capex and long leading time **significantly drain company cash flows**. After sunk costs are paid, cash flows are not negatively affected.
Effect on revenue	Since vPoP service providers and customers have aligned goals, **expect to receive sales leads and local market tips.**	**Sales support is limited** and is in the more passive form of co-location facility customer lists, IP bandwidth provider referrals, etc.
Effect on taxes	Operating expenses are tax deductible in most countries.	Capital expenditures for telecommunications equipment are **amortised for 7 to 10 years**.
Exit strategy	Standard vPoP service agreement has a 12 month term after which **customers have a choice** to extend service agreement, build-out own facilities or exit the market altogether.	**Exit strategy is costly** and involves equipment de-installation, even if uninstalled equipment may not find further use. Staying in the market and not scrapping equipment can lead to sub-par financial decisions that do not lead to profitability.
Organisational fit	**Best fit if vPoP is established in a non-core market or for a specific new project** (unless company is pursuing a strategy of total network outsourcing).	**Best choice for companies who are proud of their own network footprint** (even if growing network is not optimal from a financial point of view).

Here at R&R, we believe that switching facility outsourcing is the way to outsmart financial crisis. ■