Sharing the load

A flurry of deals suggests that mobile networks may become a shared utility

Will mobile-phone networks become a utility of sorts, shared by mobile operators and run by the firms that make telecoms gear? Until recently such a question would have seemed otherworldly. But after a series of deals it no longer seems so far-fetched. On March 23rd Telefónica and Vodafone, two of the world's largest operators, said that they would share network infrastructure in several European countries. And three big European operators—France Telecom, KPN and Vodafone (again)—have recently decided to outsource the running of their networks in some countries to equipment-makers: Nokia Siemens Networks, Alcatel-Lucent and Ericsson respectively.

Neither network-sharing nor outsourcing is new. But they used to be marginal phenomena. Sharing, for instance, was mostly limited to "site sharing" in rural areas, in which operators use the same antenna masts and equipment cupboards. Only in developing countries, where capital is scarcer and networks have to be built quickly, have sharing and outsourcing been more common. In October Chinese regulators ordered the country's operators to share parts of their networks to curb duplication in investments, for example.

Such practices are now becoming more widespread in developed countries as the financial crisis puts pressure on operators to cut costs and to reduce their need for capital. In Britain, for instance, O2 (owned by Telefónica) and Vodafone expect to be able to reduce the number of the sites that make up their networks by about 25%. As for outsourcing deals, they can cut costs by at least 10%, say industry analysts. Because equipment-makers run more than one network, they need fewer staff, have lower overheads and can apply cost-saving tricks that have been shown to work elsewhere.

But there are other motives, particularly when it comes to network-sharing. Governments are prompting operators to hook up, either by introducing environmental regulations that make it more difficult to set up new network sites, or by extending universal-service requirements. In Britain, for instance, the government may soon require operators to provide blanket mobile-broadband coverage, which is expensive for a single operator in rural areas. In addition, the rapid uptake of mobile broadband has operators looking for ways to limit the increasing costs of hauling traffic to and from the internet. This is why Telefónica and Vodafone want to share not just sites, but "backhaul" transmission links.

However, operators are reluctant to share one thing: the radio gear, known as the "radio access network" (RAN), that communicates with subscribers' handsets. Telefónica and Vodafone have ruled out such sharing, at least for now. One reason is that firms which have competed for years on the quality of their networks still see the RAN as a source of advantage. Moreover, regulators in many countries do not want operators to get too chummy, because it could limit competition. In some countries RAN sharing is not allowed.

Yet these barriers will be overcome, says Margaret Rice-Jones, chief executive of Aircom International, a telecoms consulting firm. Ultimately, she predicts, mobile networks will be shared and outsourced—much as electricity grids and gas pipelines are. The next generation of mobile networks, which will offer high-speed internet access based on technologies called LTE and WiMAX, will be built with that in mind. Operators, for their part, will increasingly focus on things such as branding, segmenting customers and service.

To be sure, it will take time for this "end-game", as Ms Rice-Jones puts it, to play out. And some operators, she says, will always want to keep their own networks. But the recent sharing and outsourcing agreements are a sign of greater co-operation. "In recent years we have seen

a lot of chest-beating," says Vittorio Colao, Vodafone's chief executive. "Now all of us are thinking much more about how to use our assets efficiently together."

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