Closure of TRL

Telstra at risk as expertise stripped
comment | Michael Sainsbury
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IS THERE a brain drain under way at Telstra, as it cuts back its information technology and network staff, or is the company simply keeping up with global trends?

The telco giant, which at June 30 last year employed about 52,000 full-time staff equivalents and contractors, began cutting back its IT staff this week, with plans to shed about 30 per cent of the nearly 2200-strong IT workforce.

The company's venerable research and development arm, Telstra Research Labs, has already been cut back to its bare bones. This, in particular, has disturbed some insiders who say that the TRL boffins have been working as an excellent pre-sales force, scoping and designing unique networks and solutions for large corporate and government customers.

Last Friday, a senior executive, Ken Benson, left its networks division. Only two months ago, he was running the company's fixed and mobile networks.

A personality clash is said to be behind his departure and, if talk inside the company is right, more of his senior colleagues will follow him in coming weeks and months. No surprises there really; new management - and it is there in spades at Telstra - tends to clean out the old.

More executive departures are rumoured, but the axe wielded by operations chief Greg Winn will soon be felt throughout the company's network division.

Of course, these cuts are not news - they are all part of the 12,000 or so heads chief executive Sol Trujillo wants to remove, if his five-year strategy is executed according to plan.

(The standoff with regulators and the Government over whether Telstra will build its $3 billion residential fibre network may change these numbers).

As well, market analysts' view that Telstra is travelling well compared to its global peers on labour costs.

In Telstra's IT division, labour is only about 13 per cent of operating expenses, so perhaps headcount is not the company's main cost issue.

Many senior Telstra people are concerned that a renewed push towards third-party providers of technology services - widely known as outsourcing, or in the case of India, offshoring - may permanently rip technology knowledge out of what is, after all, a network and technology company.

That is what Telstra sells, and all the marketing and customer service folk in the world are useless unless they have something reliable to sell.

The companies that stand to benefit from increased outsourcing are global IT services giants that tend to be based in either the US or India.

Accenture has emerged as the flavour of the month at Telstra and, like its peers, it has huge facilities in India, with China also on the rise as a centre of cheap, well-educated labour.

But does it really matter if jobs are done inside or outside a company like Telstra?

After all, if you are tapping into companies of innovation and excellence with best-cost practice, customers and shareholders should benefit.

In the old world of incumbent monopolies, of which Telstra is one, network smarts lay within the telcos and their R&D labs.

Now that new standardised networks are based on internet technology and software rather than hardware-heavy ones, the intelligence increasingly lies with global equipment vendors and systems integrators. Telstar vendor partners like Alcatel, Ericsson and Cisco.

Telecom New Zealand is a prime example of a company that has unashamedly outsourced its network to one vendor. Still, the big risk for companies like Telstra and TNZ is that they outsource their core competency and competitive advantage and can never get it back.

So, are Trujillo and his amigos really only following a global trend? Yes and no.

At one of Australia's other huge IT infrastructure companies - the Commonwealth Bank - the trend is in reverse.

In 1997, the CBA signed what was then a landmark outsourcing deal with US-based IT Services firm EDS. The value was $5 billion, or thereabouts.

The bank has spent three years getting ready to cut EDS loose, at least part of the way, and has restocked its internal tech team.

Optus has decided to rationalise and insourced its own data centres at the same time as Telstra prepares to reverse an internal decision and re-sign with IBM to operate its main data centres.

Yet Optus is ahead of Telstra, if you like, in moving its customer call centres offshore. It has 300-400 customer service reps in Mumbai, India, out of about 3000, and will send more.

So it's swings and roundabouts. Sol Trujillo's program is similar to those seen elsewhere in the sector; it has been set at a cracking pace, adding an extra level of execution risk.

But it's not so much as what is right or wrong but getting the balance and execution right. And only time will tell.

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