

# Predictions for business communications in 2019: operators will work hard to create new opportunities

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Success in the business market remains challenging for telecoms operators. Revenue from the business market is increasing for many operators; on average, [revenue from business services grew](#) by 1.8% in 1H 2018 (compared to 0.9% in 1H 2017). However, the situation is much more mixed than this average suggests, and incumbents particularly are facing continued revenue declines. Technology disruption (such as hosted VoIP and SD-WAN) is an opportunity for challenger operators but a potential problem for incumbents. The business spend on cloud and security will continue to grow, but competition from non-operator players is high; operators need to work hard (and often make acquisitions) to establish real differentiators.

In this article, we provide our view on some of the key trends for operators in the business market for 2019. (Our 2018 predictions can be found [here](#).)

## The trend of acquiring IT service companies will spread

The trend of increasing the size of enterprise divisions through acquisition will spread into the Middle East, Africa and Asia, and we expect that at least two operators in these areas will make significant deals. We also expect that there will be further deals in Western Europe and North America.

Operators have bought at least 44 enterprise-related IT and security companies since the beginning of 2017,<sup>1</sup> but activity has been concentrated in North America, Europe and Australia. We foresee operators in other regions making similar acquisitions in 2019. The acquisitions will largely be of people (rather than of customers or technology) countering the more general trend of operators reducing the size of their workforce.

We expect that operators will maintain the brand of any newly-acquired entity, at least in the short/medium term. Operators are very conscious of the need to keep the new employees satisfied if they are to stay after the merger. Keeping the original brand and giving the acquired company a high degree of autonomy will be central to this, even if it does reduce the opportunities to cross-sell services.

## Fixed–mobile bundling will receive extra attention from operators

The growth in the addressable market for operators will come from IT services, which explains much of the acquisition activity described above. For most operators though, a large opportunity remains to cross-sell fixed services to mobile customers, and vice versa. On average, [less than half](#) of all customers with fixed and mobile services currently take them from the same provider. In 2019, we expect that more small and medium-sized enterprises (SMEs) will take integrated fixed and mobile voice bundles.

Operators will need to give customers an incentive to take fixed and mobile services together. Ideally this will be based not on price, but on truly integrated services, such as UC, that work seamlessly across fixed and mobile

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<sup>1</sup> For more information, see Analysys Mason's [Enterprise-related M&A tracker 3Q 2018](#).

services. TDC in particular has been pushing fixed–mobile bundles and exploring incentives beyond simple discounts for potential customers. We expect that more operators will do likewise in 2019. If operators fail to cross-sell the basic connectivity services, it does not bode well for their performance with more complex IT services.

## Large-scale SD-WAN adoption will take time

There will be further SD-WAN launches in 2019, but large-scale adoption will be slow because of established contracts and conservative enterprise buying habits (as evidenced by the slow take-up of hosted VoIP).

However, operators will take a greater share of the SD-WAN market. The initial deployments have been mainly in the USA where there is a legacy of DIY WAN deployment. As adoption begins to extend into Europe and Asia, more procurement will be through telecoms operators.

In anticipation of wider adoption, we expect that there will be increasing collaboration between providers of network security and those of SD-WAN. The Versa-Fortinet partnership is a recent example of this. Furthermore, we anticipate that there will be some M&A activity in this area in 2019.

The threat of SD-WAN will also affect existing solutions. Pricing for MPLS will fall as challenger operators use SD-WAN to undercut more-established technology solutions. The speed of provisioning for connectivity services will improve, driven both by the prospect of competitive pressure from on-demand SD-WAN services and by the ability to use 5G to deliver an interim connectivity solution.

## The decline in fixed voice revenue will bottom out

The decline in fixed voice revenue will begin to bottom out in 2019 because the migration to lower-cost IP solutions is now advanced in many European countries. IP solutions are typically half the price of legacy solutions on a like-for-like basis. The transition to IP solutions, while resulting in decreased revenue, also gives providers the opportunity to upsell UC and collaboration tools.

## Competition from vendors will increase

Telecoms operators will face increased competition from vendors. [Huawei is already pushing business services](#) (cloud services, in particular) through its Enterprise business unit. Nokia will launch its Enterprise division on 1 January 2019. These moves have been brought on by the need for Huawei and Nokia to find new channels for their products due, in part, to their uncertainty about telecoms operators being a route to market.

## The emphasis on customer satisfaction will grow

More operators will use customer satisfaction as a differentiator. Operators' Net Promoter Scores (NPSs) have been extremely low for a long time but are gradually creeping up as operators systematically improve their processes. Technology changes, such as hosted VoIP and SD-WAN, are also making it easier to respond more-rapidly to customer requests, which further improves satisfaction. Our surveys suggest that, while customers want competitive prices, other aspects of services can be of greater importance. Operators that understand this and have a high level of customer satisfaction already will start to promote this fact more-heavily, as business specialists such as Colt and Macquarie Telecom already do.

## **We expect that there will be more deals with public cloud providers**

Operators will look to strengthen their partnerships with the main cloud providers to deliver integrated connectivity and managed cloud services. The multi-cloud strategy of almost all operators includes partnerships with at least AWS and Microsoft. Many larger operators will extend this further in 2019 to include Google, Oracle, and in some cases Alibaba. Some operators may also seek closer relationships with the large SaaS providers such as Salesforce.