

The positive impact on connectivity services could justify operator investment in enterprise cloud services

August 2018

Catherine Hammond

Cloud services continue to proliferate, with multi-cloud solutions becoming commonplace. This has led to greater potential for cost savings and improved business capabilities for enterprises, but also to increasingly complex deployments and more reliance on connectivity services. As a result, new opportunities are opening for operators to maintain their core connectivity revenue by supporting enterprise cloud adoption.

This article is based on our case studies report, *Operator approaches to IaaS: case studies and analysis*, which profiles the approaches of nine different operators to delivering IaaS in support of their broader ICT portfolio. This article highlights some key opportunities for operators to win a share of new revenue in the IaaS and adjacent markets.¹

Many enterprises lack the skills and toolsets to manage complex cloud solutions

As cloud services have evolved, the range of options available to enterprises has increased rapidly. Many enterprises are now using multiple public cloud platforms alongside private cloud deployments.² It is rarely cost-effective, even for the largest enterprises, to manage all the complexity of these deployments themselves. In the key area of security for example, it is well-established that there exists a shortage of qualified staff.

This complexity provides an opportunity for operators to support enterprises by bringing together the elements needed to successfully implement a multi-cloud solution. These elements include WAN connectivity, cloud connect services, security and regulatory compliance, as well as multiple public and private cloud instances.

¹ Some of these opportunities are discussed further in our report: *Opportunities for operators in the IaaS market*.

² According to the RightScale State of the Cloud Report (2018), enterprises are using an average of 4.8 public and private clouds.

Figure 1: Operators can support adoption of cloud solutions by managing some of the complexity on behalf of enterprises



Source: Analysys Mason

Operators must continue to adapt their cloud strategies as markets evolve

Over the last few years, many telecoms operators have used their datacentre assets to provide enterprises with co-location and hosting and private cloud services. As cloud markets continue to evolve, and with growth in enterprise use of these datacentre services slowing, operators must look for alternative opportunities. We outline below some key areas in which operators are actively pursuing new opportunities.

Collaboration with the hyperscale public-cloud providers

Many operators have long-standing relationships with hyperscale public-cloud providers, but the extent of this collaboration has increased recently. This benefits operators because they can capitalise on the growth in popularity of the hyperscale platforms; it also benefits enterprises, particularly those wishing to integrate their connectivity and cloud service delivery.

Areas of collaboration with the hyperscale public-cloud providers include the following.

- **Provision of direct connectivity to public-cloud platforms**, either directly or via partner networks. Most large enterprises rely on Direct Internet Access (DIA) to connect to cloud platforms, but as bandwidth

requirements grow, enterprises will need dedicated, flexible, on-demand links to individual cloud platforms. Many operators, including pure-connectivity providers such as Colt, have developed this capability over the past couple of years.

- **Acting as a managed service provider.** Some operators, such as KCOM in the UK, have been acting as a managed service provider for Amazon Web Services (AWS) for several years. Others, such as Telefónica and Tata Communications (who have previously tended to focus on their own cloud services), have recently gained accreditation to offer managed AWS and Azure services.
- **More wide-ranging partnerships in specific countries or vertical markets.** An example of this is Etisalat's partnership with Microsoft to support delivery of its public cloud in the UAE, investing in joint infrastructure (Microsoft will use Etisalat's datacentres) and becoming a cloud solutions provider.

Multi-cloud management platforms

Several operators have recently launched or enhanced cloud management platforms that support hybrid and multi-cloud deployments. This enables operators to deliver cloud solutions to enterprises in an integrated manner and to provide associated security and other support.

In order to keep pace with constantly evolving requirements, operators typically partner with specialist providers to deliver these services. For example, Telstra launched its global Cloud Sight platform earlier this year in partnership with RightScale and Dome9, and is providing a unified dashboard for security, compliance, optimisation and multi-cloud management.

Professional services support

The complexity of a multi-cloud environment makes professional services essential for many cloud deployments. Systems integrators and specialist IT firms are already well-placed to deliver professional services and many operators have relied on such firms to support IT delivery. However, a growing number of operators are seeking to develop their own professional services capabilities. Evidence of this includes recent acquisitions that bolster the capabilities of several operators, for example:

- Orange Business Services purchased Business & Decision in June 2018, providing Orange with international consulting and systems integration expertise
- Telstra acquired Company85 in the UK and VMtech in Australia in 2017, both of which had significant professional services expertise.

Some operators view professional services primarily as an enabler for other services, but operators also have the opportunity to generate revenue. For example, KPN reported 5.6% year-on-year revenue growth for its professional services and consultancy in the period to 1Q 2018 and Telstra's growth in domestic cloud revenue in 2017 was attributed partly to provision of professional services.

The potential benefit to operators goes significantly beyond the immediate revenue opportunity

The total addressable market for cloud services is vast and rapidly growing. However, it is also very competitive and market share for operators is likely to remain low in most cases. At the same time, the reliance on partners to provide many of the inputs for cloud services acts as a squeeze on operator margins.

The biggest impact on operators of a successful cloud business may in fact be in terms of benefit to their core connectivity markets, particularly when end-to-end SLAs integrate both connectivity and cloud services. Customer loyalty will be positively affected and offering enhanced cloud services is also a defensive play to some extent— those with good take-up of cloud services are likely to be strong contenders in many other adjacent markets including security, UC and collaboration, and the emerging analytics and AI markets.