Opportunities for new players in the B2B cloud and connectivity space

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The market for B2B telecommunication services is experiencing multiple changes including the growth and maturity of private/public cloud services, the introduction of software defined (SD) technologies and services and an increased focus on cybersecurity. These changes create both opportunities and threats for investors and operators. This article provides an overview of the main trends in B2B telecommunication services and their implications with a focus on fixed connectivity and adjacent services.

The following points illustrate some of the threats in this area.

- It is likely that there will be some commoditisation of fibre connectivity as dedicated (and expensive) traditional point-to-point links are gradually replaced by services offered over FTTH-based fibre deployments, and clients expect to upgrade their links to higher speeds while, at the same time, wish to pay less.

- There will be a decoupling of connectivity from traditional value-added services such as voice and video calls that increasingly tend to be provided through OTT solutions from dedicated global providers (such as BlueJeans or Skype for Business). These services have significant economies of scale and are specialised for their specific solutions, allowing them to be more agile and focused.

- MPLS VPNs that previously replaced traditional leased lines (at lower prices) may now be exchanged for SD-WAN solutions (again, probably at lower prices). As a next step, SD-WAN solutions could potentially decouple basic connectivity from the valued-added services of creating and managing secure private (virtual) networks.

Opportunities include:

- traffic growth driven by the continued outsourcing of workloads to data centres and cloud solutions (of different types), which leads to an increasing demand for high-speed connections
- increased revenue driven by a realisation from some clients that the business-critical traffic loads caused by moving key enterprise applications off business premises and into the cloud (or into data centres) lead to a requirement for high quality connectivity (and hence traffic management) that they are willing to pay a premium for
- the possibility of outsourcing the management of access to multiple clouds to a single connectivity provider, as value chains become increasingly complex and involve multiple providers such as UCC providers, large-scale international SaaS providers, more localised IaaS providers and service integrators operating across a mixture of different private and public clouds
- a potential new revenue stream for providers of cybersecurity-related services, caused by an increased awareness of cybersecurity requirements.

These opportunities can be captured through organic growth/repositioning or through inorganic initiatives (such as the combination of connectivity and cloud-focused operators).

The market developments in B2B telecommunications services are likely to lead to growth opportunities for providers that match the following requirements.

- Providers that find clear market niches that they can serve with specific propositions. Competing head-on with incumbents across the board is unlikely to bear fruit whereas there are opportunities to build strong tailored propositions for specific clientele types (as Interoute has done for European cross-border businesses) or in specific geographic areas where network assets and commercial organisations can be focused.

- Those that have strong customer service and technical sales organisations that allow them to provide superior value compared to OTT-providers. This value can be provided through offering one-stop shops and tailored solutions and services to clients that may not be large enough to matter to the global OTT providers or sophisticated enough to be able to build best-of-breed solutions from multiple different providers.

- Providers that strike the right balance between standardisation and tailoring of services. Standardisation reduces the provisioning time and improves the scalability and overall economics, whereas tailoring can allow a provider to more effectively meet customer needs.

- Providers that invest in the right SD-WAN and other SDN/NFV-based solutions and networks at the right time. Customers are not likely to see these services as a requirement yet as enterprises, from our surveys, seem to be more concerned about customer service than about SD-WAN. These solutions are, however, likely to become requirements soon. This means that operators need to decide whether they want to:

  — be early adopters, positioning themselves at the forefront of technology developments, with the risk of investing into (often non-standardised) solutions that can later become obsolete
  — take a 'wait-and-see approach' while technologies and standards mature, with the risk of being left behind by the early adopters.

- Those that have limited exposure to legacy services such as PSTN voice or traditional leased lines.

- Those that have strong cloud and data centre solutions and skills. Advanced cloud services tend to be more complex to sell than connectivity services, meaning that it may be easier to upsell connectivity services to cloud services rather than the other way around. IaaS/PaaS solutions appear to be best-placed for bundling with connectivity services whereas SaaS solutions are instead likely to be provided by specialised (often global) providers or through service integrators.

- Providers that are able to bundle cybersecurity solutions in an attractive way.

Analysys Mason has recently worked with a range of providers of cloud and connectivity services operating in the B2B market. We have provided support on issues ranging from commercial and technical due diligence to advice on sales organisations, product portfolios and technical solutions. We have, for example, recently assisted the funds F2i and Marguerite with their acquisitions of three local Italian cloud and connectivity providers that are being merged in order to create a larger B2B focused player.

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