Operators struggle in enterprise ICT services – acquisitions may provide a route into this market
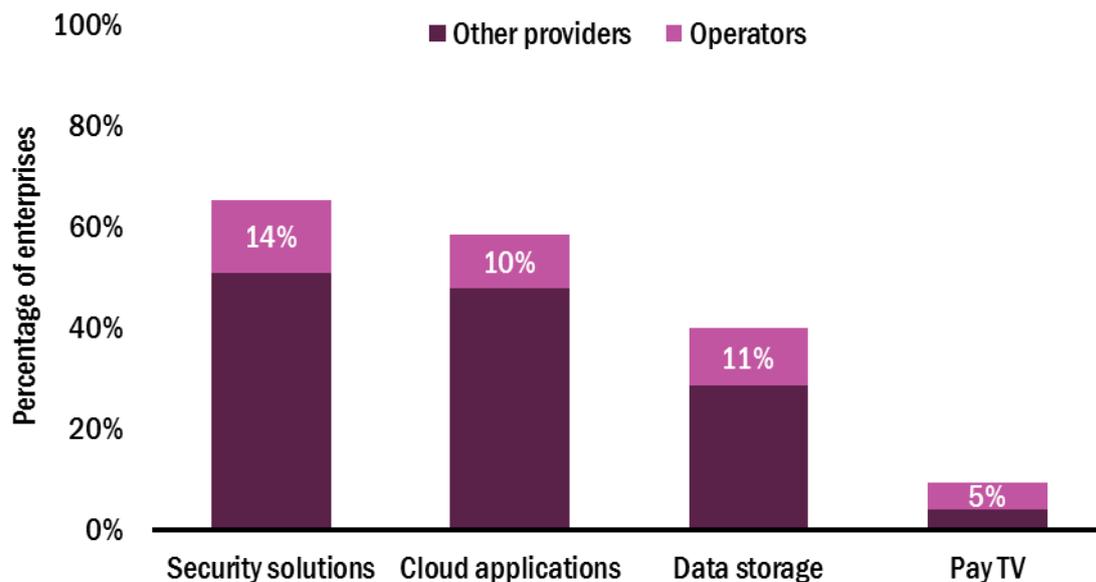
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This article explores enterprises' adoption of and level of interest in ICT services, based on our survey of over 1600 enterprises, and discusses the role of operators in this market. Operators are well positioned to improve their position in ICT services, but they need to build on a base of solid traditional connectivity services. Operators that participate in this market must gain capabilities through acquisitions and improve enterprise customers' satisfaction with their traditional services, which is currently low and will limit operators' ability to sell additional services.

Operators have struggled to gain market share in most ICT services, despite having several advantages

Operators already have the necessary ecosystem to be major ICT providers. They have large customer bases and wide sales and support channels. Furthermore, operators are uniquely positioned to offer multiple ICT services on a single bill. Many enterprises would value having a single provider for all ICT services, especially when seeking support.

However, operators have struggled to gain a significant market share in any service except pay TV (which is only adopted by a small minority of businesses), despite these advantages (Figure 1).

Figure 1: Percentage of enterprises using ICT services by service type and provider

Source: Analysys Mason

Two main factors have prevented operators from gaining significant ground in this market.

- **Sales teams struggle to sell new services.** Operators' sales teams may not have the skills or the incentives to sell new products. Selling ICT services will require sales personnel with advanced and technical product knowledge. Furthermore, sales commission per product is likely to be small, as the incremental revenue from each new service is likely to be low. Sales teams may therefore have little motivation to gain the required product knowledge unless incentive structures are altered.

- **Customers are dissatisfied with core connectivity products.** Most enterprises are dissatisfied with their core telecoms products, making them unlikely to purchase additional services from their operator.[1]

Operators must build on a base of solid connectivity services if they are to compete in the ICT market

Operators will struggle to sell additional services to customers that are unhappy with their core connectivity products. Our research suggests that enterprise customers' satisfaction with legacy and customer services is low in most countries and may be hampering operators' efforts to increase their share of the ICT market.

For example, satisfied customers (who gave their providers scores of seven or more out of 10 when asked how likely they were to recommend their providers) are more than twice as likely to buy security products from their telecoms provider than dissatisfied customers (who gave their providers scores of six or less on the same scale).[2] Fundamentally, operators will struggle to improve their position in this market if they do not provide excellent basic services – good customer support, fast and reliable networks, and simple online tools and portals that enterprises can use to track and manage their services. Operators can only drive their position in the ICT market through the relationships and trust built on high-quality legacy services.

Acquisitions may provide operators with a route into the ICT services market

Operators that are successfully selling ICT services to enterprises penetrated the market through strategic acquisitions. Markets for new products, such as software-as-a-service (SaaS) and security, are not yet saturated, but they are maturing rapidly. This leaves little room for operators to enter the market organically (by building services from the ground up). Instead, operators may need to strategically acquire established vendors to gain the necessary capabilities and increase their market shares.

The large number of acquisitions that have taken place over the last 2–3 years supports this conclusion. Figure 2 provides selected examples of ICT acquisitions where operators have gained key capabilities.

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[1] For further information, please see Analysys Mason's Report *Enterprise survey 2017: fixed services satisfaction and churn for large enterprises*

[2] For further information, please see Analysys Mason's Report *Enterprise survey 2017: ICT services for small and medium-sized enterprises*

Figure 2: Selected ICT acquisitions by telecoms operators

Operator (year)	Company acquired	Value	Capability gained
Telia (2017)	Nebula	USD185 million	Small and medium-sized enterprise cloud services
CenturyLink (2016/2017)	Many, including SEAL Consulting, ElasticBox and netAura	Not disclosed	Security, cloud and IT services
KPN (2016)	DearBytes and RoutIT	Not disclosed	Security and cloud services
NTT (2016)	Dell Services	USD3 billion	Enterprise and vertical IT solutions
TDC (2016)	Cirque and Adactit	Not disclosed	Office 365 and unified communications services
Orange (2015)	Cloudwatt	Not disclosed	Cloud services
Singtel (2015)	Trustwave	USD810 million	Security

Source: Analysys Mason

Operators have a compelling case for building better ICT portfolios

Developing an ICT portfolio can enhance brand recognition, create a strong differentiator and strengthen operators' enterprise offerings – operators with the most advanced ICT portfolios are reporting the strongest enterprise revenue growth. For example, Singtel's enterprise revenue grew by 3.7% between 2015 and 2016, largely due to a 12.9% increase in ICT revenue.[3]

There is a compelling case for operators to expand their ICT portfolios. However, this expansion must be built on a base of strong traditional connectivity services and will require operators to be bold, particularly in making strategic acquisitions.

Analysys Mason is helping a number of clients to develop their enterprise strategies, both through our published research and through consulting projects. For example, we are currently assisting a European operator in developing its approach to new ICT services. For further information, or if you wish to discuss this further, please contact Terry van Staden *(Research Analyst) or* Tom Rebbeck *(Research Director, Enterprise and IoT).*

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[3] For further details, see Analysys Mason's Article *Singtel outperforms a declining telecoms enterprise market*.