

Crowded connectivity markets are forcing connectivity disruptors to enter new areas of the IoT value chain

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Disruptors continue to win important IoT connectivity contracts and compete directly with operators. However, the market for IoT connectivity is crowded, and surviving on profits from connectivity alone is challenging. As such, MVNOs and other new entrants are diversifying their IoT businesses and are attempting to lower their dependency on connectivity revenue, as shown in our report [IoT connectivity disruptors: case studies and analysis \(Volume IV\)](#).

At least 30 non-MNOs are trying to disrupt the IoT connectivity market, but as explained above, margins are too thin for sub-scale providers to survive on connectivity revenue alone in the longer term. One response to this is consolidation. Indeed, we have already seen considerable M&A activity and further consolidation is inevitable. Another strategy is to develop capabilities in new areas (see Figure 1). Some players are focusing on a single area of diversification, but many are choosing a multi-faceted approach to add multiple new revenue streams.

Figure 1: Key strategies of connectivity disruptors

Strategy	Description	Opportunities	Challenges
Focus on connectivity	Focus on providing global connectivity to enterprises	Large addressable market	<ul style="list-style-type: none"> • Intense competition • Low profit margins
Enable MNOs/MVNOs	Sell network/platform solutions to MNOs/MVNOs	New revenue source beyond connectivity	<ul style="list-style-type: none"> • Competition with large, established players (such as Cisco and Ericsson) • Small addressable market
Develop horizontal capabilities	Add new capabilities beyond connectivity (such as device/data management)	New revenue source beyond connectivity	<ul style="list-style-type: none"> • Enterprises may prefer to work with specialists • Requires significant investment (especially challenging for smaller players)
Develop vertical capabilities	Develop solutions tailored to specific verticals (such as automotive and healthcare)	Less-intense competition	<ul style="list-style-type: none"> • Vertical-specific challenges (such as regulation) • Investment required • Competition from vertical market specialists

Source: Analysys Mason, 2020

We discuss each of the strategies (other than focusing on connectivity) in more detail in the following sections.

MNO/MVNO enablers will struggle to generate large amounts of revenue from selling capabilities to others

Disruptors are building an enabler business based on their own core network and platform capabilities. They market and sell solutions, such as connectivity management platforms (CMPs), to MNOs and other MVNOs. Most providers are at an early stage with this strategy and do not have commercial contracts yet, but a few (such as EMnify and 1NCE) already have proof points in the public domain.

The enabler strategy is ambitious because players are potentially competing with established providers such as Cisco Jasper and Ericsson. However, there is untapped demand for disruptors' solutions from two sources: small MNOs and MVNOs that are looking for a CMP or core network provider and larger MNOs that may consider solutions from established vendors to be too expensive or complex. Disruptors have thus far had success in targeting small MNOs and MVNOs, but the addressable market for selling to these players is limited. It will be challenging to turn the interest into substantial contracts that bring in significant revenue.

Selling horizontal capabilities beyond connectivity is challenging, as MNOs know

Most disruptors have developed CMPs, but they are also extending their capabilities into other areas of the IoT value chain in order to differentiate themselves. Examples of such capabilities include cloud integration tools and device and data management platforms. Some players, such as Eseye and JT Global, are also developing innovative eUICC propositions. Disruptors are either building these capabilities internally (as EMnify and Soracom are doing) or partnering with vendors. For example, PCCW Global is in the final stages of selecting a partner with which to deliver a platform based on cloud-native architecture; it is also looking for a partner to develop a device management solution with.

These capabilities will deliver more value than connectivity, but will also be subject to intense competition, and it will be difficult for players to differentiate in the longer term. Indeed, MNOs have attempted to sell solutions beyond connectivity to enterprises for many years with limited success. Connectivity disruptors will have to demonstrate to enterprises what they are doing differently to add value, for example, by providing technical capabilities that MNOs lack (such as cloud-native solutions) or offering flexibility in pricing (such as on eUICCs).

Some players are developing vertical capabilities for specific markets

Disruptors are developing solutions to target high-volume, high-value IoT verticals such as automotive, manufacturing and healthcare. Most are developing competencies internally, but some have acquired specialist companies with an existing solution and presence in the vertical. Some disruptors are taking bold steps to realise their vertical ambitions and are competing directly with MNOs in this respect. Examples of such players are as follows.

- **Aeris** is a longstanding supplier to the automotive sector and has developed a comprehensive offering to target multiple automotive use cases, such as vehicle diagnostics and user management. Aeris announced a joint venture with Volkswagen Group America called Ventic LLC in January 2020 to adapt the Aeris Mobility Suite platform to Volkswagen's connected vehicle requirements.

- **Cubic Telecom** is expanding its proposition to provide data insights using its automotive-focused PLXOR solution. PLXOR is a software solution for service control and reporting (for example, vehicle diagnostics and control and reporting of in-car services).
- **KORE Wireless ('KORE')** is looking to move away from providing simple, price-competitive connectivity to all verticals and towards less-crowded and potentially more-profitable vertical markets. KORE acquired Integron, a specialist in connected healthcare and life sciences, in December 2019. Integron has FDA- and ISO-compliant facilities that will appeal to potential customers in the healthcare sector, where regulatory compliance is a concern.

Intense competition will make it difficult for small connectivity disruptors to scale up

The IoT connectivity market appears ripe for consolidation. There are many small players that will struggle to reach the large scale needed to make selling IoT connectivity profitable. The more successful connectivity disruptors may scale up through acquisition or become targets for acquisition themselves, which should, in turn, help them to scale up.

Other players in the market have little choice but to differentiate themselves by offering services beyond connectivity and do more than compete purely on price. Newer disruptors may have some success in reaching new areas of the IoT value chain, though some of the opportunities, such as selling enabling capabilities to small MNOs, are likely to be niche. Established players such as KORE and Aeris are likely to be better-placed to target these new markets because they have built relationships over a long period of time, meaning that they have the necessary scale and reputation to compete.