VOLUME I

analysys mason

ENTERPRISE COMMUNICATIONS:

GROWTH OPPORTUNITIES FOR TELECOMS OPERATORS

Contents

Introduction

All telecoms operators interested in the enterprise market are facing similar challenges

Welcome to our first collection of articles on the enterprise communications market.

Telecoms operators that are interested in the enterprise market are facing similar issues in all countries; they want to defend existing revenue and find new sources of growth. In high-income countries, these issues are particularly pressing because enterprise revenue for most operators declined in 2016. In middle-income countries, operators are under less pressure – enterprise revenue continues to grow – but even here, as markets approach saturation, price competition will intensify and new service revenue will be needed. Operators have the option of providing enterprises with security, SaaS, IaaS, hosting, IoT and pay TV services, but all will require operators to adopt new ways of working.

This collection of articles will help operators to understand these new services, and provides ideas and suggestions for implementing them.

If you want more insight, our research programmes have an expanding range of content on the enterprise market and our consulting team can help with bespoke requirements. We have helped over 100 clients on a range of strategic, regulatory and technical issues relating to the enterprise market.

The articles in this collection cover the following topics.

- **Singtel outperforms a declining telecoms enterprise market.** We explore how a small number of incumbent operators in high-income countries are reversing the trend of declining enterprise revenue.
- **Enterprise telecoms survey: operators must do more to overcome customer dissatisfaction.** This article is based on our extensive survey of operators and demonstrates that low levels of satisfaction are leading to increased churn and reducing the opportunity to sell new services.
- **Security-as-a-service solutions offer operators the chance to boost enterprise revenue.** Security is one of the most promising areas for operators to boost their revenue. This article examines the opportunity with small and medium-sized enterprises (SMEs).
- **KPN analyst day: its focus is on healthcare, government and manufacturing verticals in the Netherlands.** We explore how KPN is trying to become one of the largest ICT providers in its home country.
- **Colt analyst day: Colt focuses on high-quality connectivity services, while other operators diversify.** We outline how Colt is leaving ICT services to others and is instead focusing on customer satisfaction with core connectivity services.

TOM REBBECK - @Tom Rebbeck
Research Director
tom.rebbeck@analysysmason.com

- **Operators in Asia with fixed–mobile convergence ambitions should consider the opportunity presented by small and medium enterprise ICT.** This article provides ideas on how operators can tackle the SME market in Asia.

We hope you find this collection of articles useful. We welcome feedback and encourage you to contact the authors directly if you would like to discuss any of the points raised, or are looking to understand how a specific issue or trend will affect your business.

We look forward to working with you.

Singtel outperforms a declining telecoms enterprise market

"Operators are responding to declining legacy enterprise revenue with strategic acquisitions and more-advanced IT portfolios."

TERRY VAN STADEN - @TerryVanStaden
Research Analyst

The enterprise revenue of most incumbent telecoms operators in high-income countries fell between 2015 and 2016, despite the increasing importance of connectivity for many firms. Most operators are widening their portfolios and providing a broader range of IT services (such as security and cloud) to offset this decline, with some success so far. This article examines the financial performance of operators' enterprise divisions in developed markets and the strategies that operators are adopting to improve results.

Telecoms operators' enterprise revenue streams are under pressure

The enterprise revenue of large operators in developed countries fell by an average of more than 2% in 2016 compared to 2015 (Figure 1). Financial reports for these companies point to three common causes for this decline.

- **Intense price pressure.** The market for basic services (such as broadband) is either already saturated or approaching saturation and strong differentiators are rare, which has led to strong price competition. European operators also face regulatory pressure to limit roaming and termination rates. Mobile ARPUs for enterprise contracts fell by an average of 4.6% year-on-year in 4Q 2016 among those operators that report this statistic. Several operators also reported large public and enterprise contract losses.
- **Product bundling.** Some operators are proactively migrating enterprise customers to discounted converged bundles to counter potential churn. KPN appears to have followed this approach: its number of small and medium-sized enterprise (SME) customers on fixed–mobile packages increased substantially from 58 000 in 4Q 2015 to over 300 000 in 4Q 2016. Swisscom took a similar approach, increasing the total number of SMEs on bundles by 20% over the same period. Discounted bundles can be effective at countering churn, but can impact revenue due to reduced ARPU. Swisscom's 20% increase in bundled subscriptions was accompanied by a corresponding 8% decrease in bundle ARPU.
- **Product substitution.** Adoption of alternatives to traditional services (for example, unified communications solutions, such as Skype for Business, replacing traditional fixed voice minutes) is having a strong impact on operators' traditional revenue streams, with revenue from fixed voice calls suffering the largest decline. Ofcom reported that fixed voice minutes in the UK declined by 11% from 3Q 2015 to 3Q 2016.

Operators are trying to increase revenue with advanced ICT portfolios, boosted by strategic acquisitions

Not all operators report ICT revenue, but those that do are seeing an increase in its share of their total enterprise revenue. The services that operators categorise as ICT vary, but this segment is principally composed of services such as cloud and security, which go beyond operators' traditional

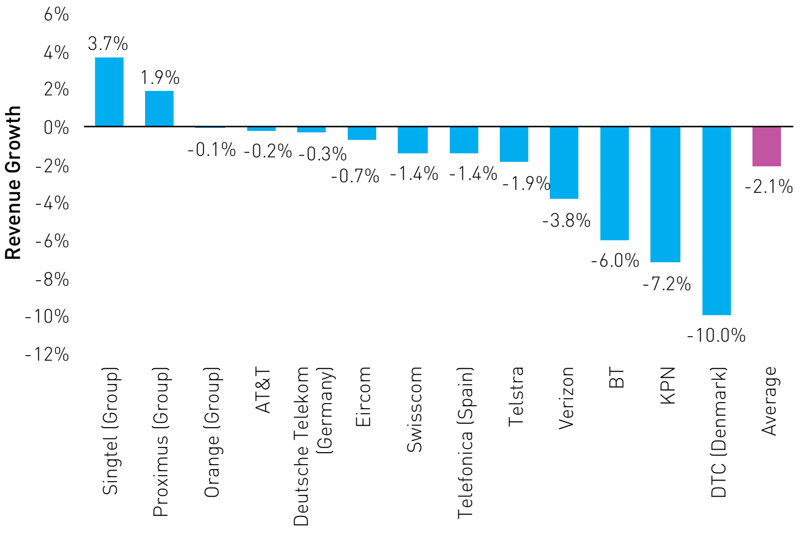


FIGURE 1: GROWTH OF TELECOMS OPERATORS' ENTERPRISE REVENUE, 2015–2016[1]
[SOURCE: ANALYSYS MASON, 2017]

voice and data connectivity products. ICT revenue increased by an average of almost 6% between 2015 and 2016 (Figure 2). Growth in ICT revenue more than offset declines in other enterprise revenue streams for Proximus and Singtel, and growth in ICT revenue partially mitigated other operators' losses. Operators with robust ICT portfolios are also reporting the strongest overall enterprise revenue – AT&T, Orange, Singtel and Swisscom all performed better than the average.

Acquisitions have been key to growing ICT revenue. Singtel bought Trustwave, a cyber security company, in September 2015. Singtel's security revenue increased 10% from 4Q 2015 to 4Q 2016 and accounted for 15% of its ICT revenue in 4Q 2016 as a result. Singtel has since expanded its security services to Japan (in conjunction with a Japanese systems integration company, TIS Inc) and launched a new data centre in Singapore (DC West) to meet increased demand. Other operators also made strategic acquisitions to bolster their ICT credentials in 2016. TDC acquired two cloud-based companies, Adactit and Cirque, to improve its Microsoft Office and Skype for Business offerings, respectively. KPN acquired DearBytes to improve its security capabilities.

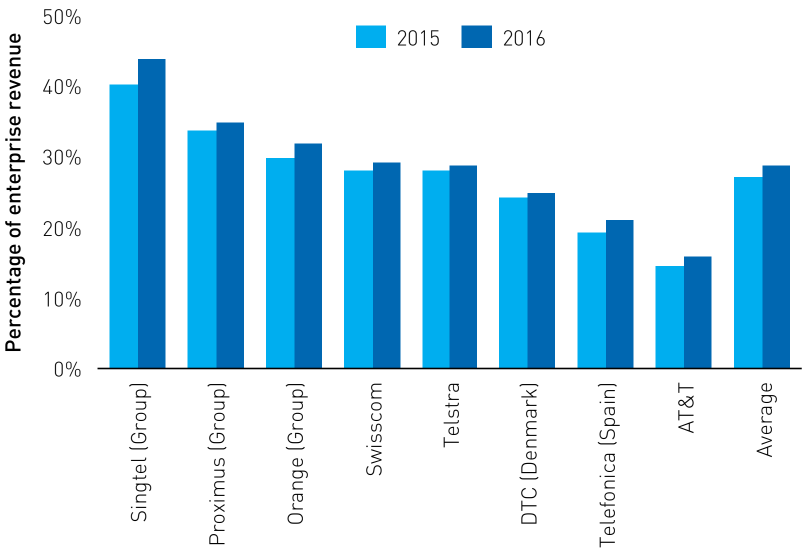


FIGURE 2: ICT REVENUE AS A PERCENTAGE OF TOTAL ENTERPRISE REVENUE BY OPERATOR, 2015–2016 [SOURCE: ANALYSYS MASON, 2017]

Opportunities to develop new revenue streams do exist

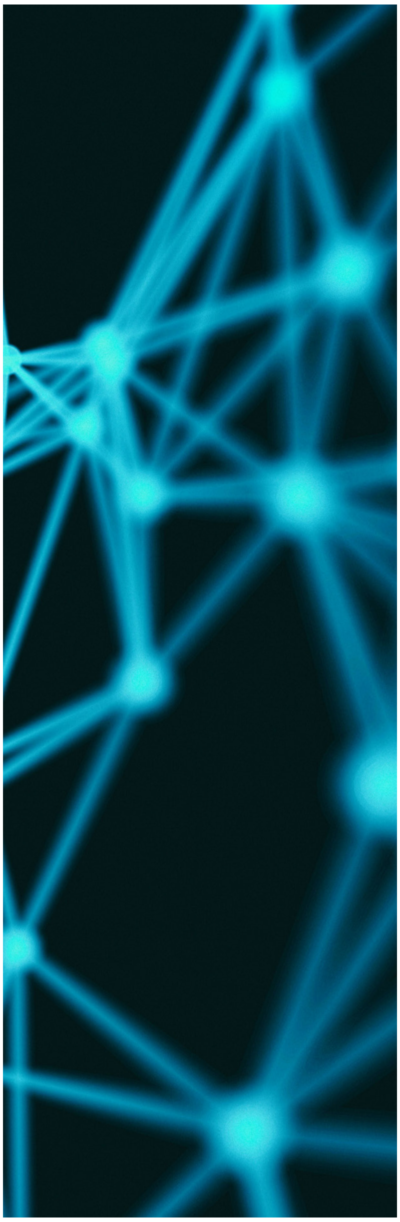
The key factors affecting enterprise revenue in 2017 will be whether strong price competition for traditional services continues and the extent to which product substitution erodes usage of these services. Our recent survey of 1600 enterprises showed that only 21% of SMEs and 45% of large enterprises use unified communications services, which indicates that there is potential for much higher penetration. The survey also showed that 9% of SMEs and 11% of large enterprises are considering purchasing new cloud services in the next six months. Opportunities for operators to develop new revenue streams do exist, if they can successfully position themselves to win them.

Questions?
Please feel free to contact
Terry van Staden, Research Analyst, at
terry.van.staden@analysysmason.com

1 Growth rates calculated using raw quarterly data. Results may vary depending on the accounting standards operators have used to provide comparable or organic annual figures

Enterprise telecoms survey: operators must do more to overcome customer dissatisfaction

"Operators must improve the quality of their traditional services if they are to mitigate enterprise customer churn and generate new revenue streams."



TERRY VAN STADEN -
@TerryVanStaden
Research Analyst

Enterprise revenue is declining for many telecoms operators in high-income countries.[1] It is essential for operators to keep customers satisfied in order to help defend revenue. However, our survey of 1600 enterprises, reveals that enterprise customers are often dissatisfied with the service they receive and this is leading to churn. This article explores the importance of enterprise satisfaction levels in relation to maintaining revenue from existing services and gaining revenue from new services.

Operators can reduce intended churn by 1.6 percentage points for every 10-point increase in their Net Promoter Scores

Our survey showed a clear relationship between levels of satisfaction and whether an enterprise intends to leave their telecoms service provider. Enterprises that were unlikely to recommend their telecoms provider[2], were around three times more likely to be planning to switch to a new provider in the next 6 months. Operators that can improve satisfaction should see a clear reduction in churn (see Figure 1). Regression analysis of 22 operators' intended churn rates and corresponding Net Promoter Scores (NPSs) revealed that operators can reduce intended churn by 1.6 percentage points for every 10-point increase in its NPS.

Price is not the only factor driving churn

As part of the survey, we asked enterprises that said they were intending to change provider, what was driving this intention to churn (see Figure 2). Price

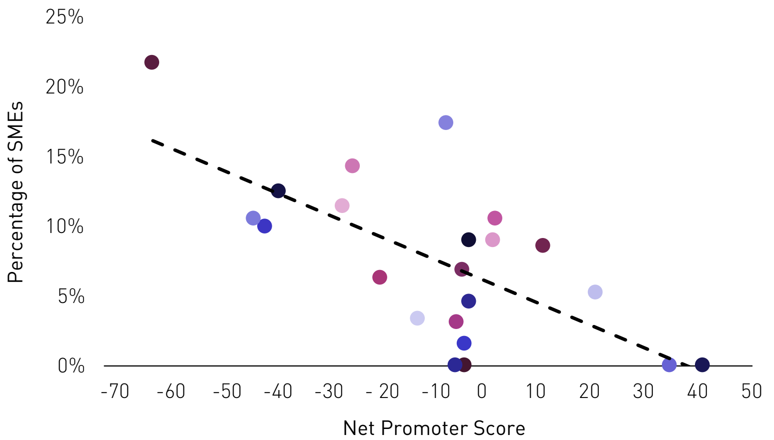


FIGURE 1: PERCENTAGE OF SMEs THAT INTEND TO CHANGE MOBILE SERVICE PROVIDER WITHIN 6 MONTHS AND CORRESPONDING NET PROMOTER SCORE BY OPERATOR [SOURCE: ANALYSYS MASON]

was the main concern for SMEs buying mobile services; for all other products and segments, factors other than price were rated as more important. This suggests that operators have scope to differentiate their services from those of competitors in aspects of quality rather than just on price.

Incumbent operators with high shares of subscribers are especially vulnerable to churn

Our survey found that the highest rates of intended churn were in countries where incumbents have a particularly high share of subscribers – Australia, Malaysia and UAE. This suggests that competitors are starting to gain ground. The exception to this observation is in France where Orange has a high market share but its enterprise customers have a low rate of intended churn. In our survey, Orange had the highest margin in NPS between an operator and its closest competitor, making Orange the top performing operator relative to its competitors, and is a good example of how an incumbent is retaining its market share with a high quality of service. Incumbents in all countries tend to have a higher market share in enterprise than they do in consumer services. If incumbents are to maintain this high share, they need to improve customer satisfaction.

SMEs are less satisfied with their telecoms services than large enterprises are

Satisfaction with fixed and mobile services generally increases with enterprise size, indicating that operators do a poor job of servicing the lower end of the market. Poor customer service and low speeds are the main reasons for this and will drive a lot of the activity described in Figure 1. SMEs awarded a positive NPSs to only 4 operators out of 21 for mobile service provision. Furthermore, SMEs gave their mobile service providers an overall NPS of –5, indicating a general level of dissatisfaction.

NPSs vary widely between countries and operators – market-leading operators should capitalise on this

AT&T, Optus, (relative to competitors) Orange and Verizon were the highest-scoring operators in our survey based on NPS. Operators that perform well in customer satisfaction surveys should use this in their marketing. These marketing messages would have the benefit of enabling operators to attract enterprises that are seeking better services, and would let current customers know that they are subscribing to market-leading providers, which would mitigate churn.

Operators need to improve the quality of their traditional connectivity services if they are to compete in the ICT market

Increasing customer satisfaction will help operators to defend revenue and improve their chances in new product categories. According to our survey, SMEs that are satisfied with their traditional services (when asked how likely they are to recommend their provider) are twice as likely to purchase additional services, like security, from their telecoms operator than those SMEs that are dissatisfied. Operators need to ensure that the basics, such as customer service and network quality, are of a high standard in order to effectively compete in the broader ICT market.

Questions?
Please feel free to contact
Terry van Staden, Research Analyst, at
terry.van.staden@analysysmason.com

Service type	SMEs	Large enterprises
Mobile	**1. Price (62%)**	1. Customer service (45%)
	2. Customer service (36%)	**2. Price (45%)**
	3. Network coverage (36%)	3. Network quality and data speeds (39%)
Fixed	1. Data rates or bandwidth (51%)	1. Customer service (41%)
	2. Price (40%)	**2. Price (41%)**
	3. Customer service (28%)	3. Network coverage (23%)

FIGURE 2: TOP THREE REASONS FOR CHURN BY ENTERPRISE SIZE AND SERVICE TYPE
[SOURCE: ANALYSYS MASON, 2017]

[1] For more information, see Analysys Mason's Singtel outperforms a declining telecoms enterprise market.

[2] That is, enterprise customers that rated their provider 6 or less out of 10 when asked how likely they are to recommend their service provider.

Security-as-a-service solutions offer operators the chance to boost enterprise revenue

PATRICK DONEGAN
Senior Contributor

> “Operators have the assets to capitalise on SMEs’ growing interest in security solutions.”

Deutsche Telekom and M1 (Singapore) are among the first telecoms operators to launch security-as-a-service (SECaaS) solutions for small and medium-sized enterprises (SMEs). Operators have clear incentives for offering such applications, including increased revenue. However, operators must ensure that SMEs understand the risks of **not** buying security solutions, keep costs down and offer applications that are easy to use. This article is based on our recently published report, *Cyber security services for small and medium-sized enterprises: opportunities for CSPs,*[1] and explores how operators should approach this opportunity.

Demand for cyber security is growing at a time when operators need new sources of enterprise revenue

Operators have a clear rationale for investing in SECaaS – operators are seeking new sources of revenue and demand for security solutions is growing. Enterprise revenue is flat or declining for most telecoms operators in high-income countries.[3] SMEs are increasingly threatened by cyber crime and many have underinvested in protecting themselves. The market for cyber-security services for SMEs is expected to grow, but operators are only taking a small share of this market in most countries (see Figure 1).

Operators bring important assets to the SECaaS market

Operators bring two critical attributes to the SECaaS market. Firstly, and perhaps most importantly, they have existing customers of connectivity services. Secondly, the operators have scale;

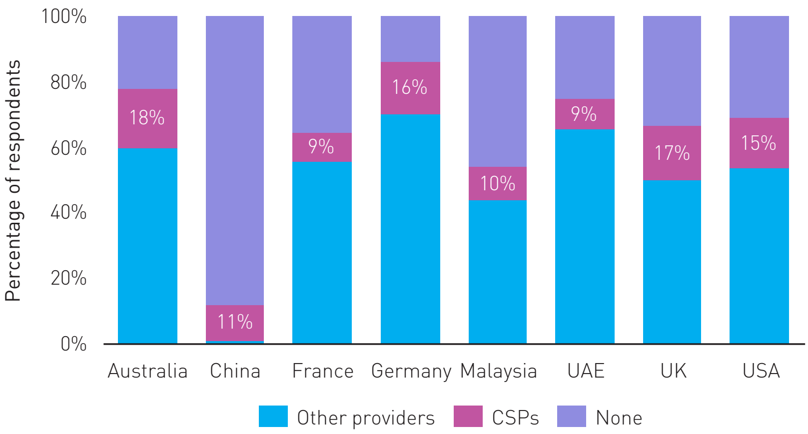
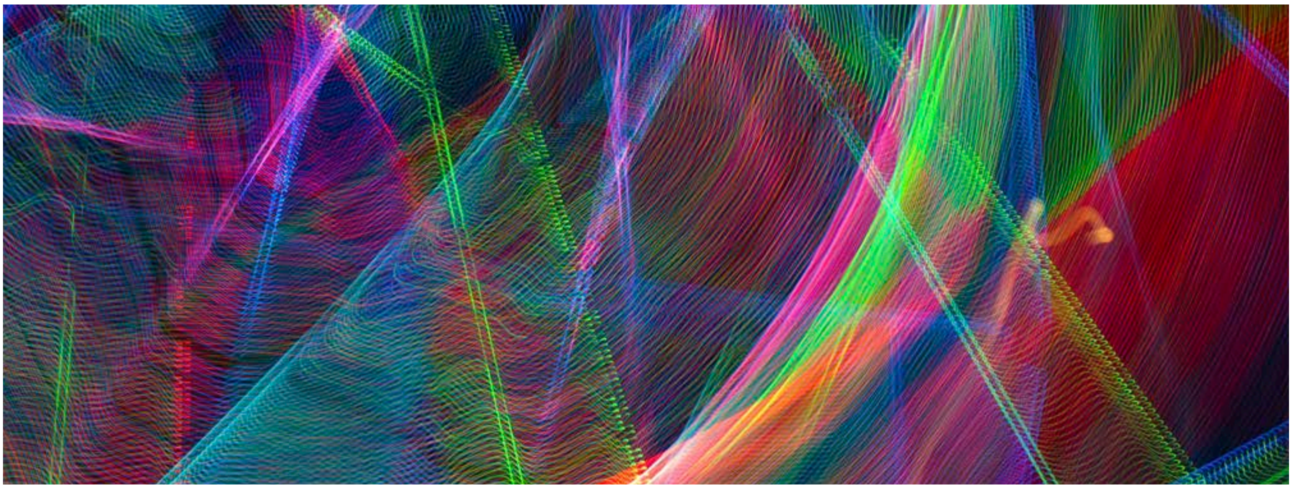


FIGURE 1: ENTERPRISE ADOPTION OF CYBER SECURITY SOLUTIONS BY COUNTRY AND PROVIDER[2]
[SOURCE: ANALYSYS MASON, 2017]

[1] http://www.analysysmason.com/Research/Content/Reports/Cyber-security-services-May2017-RDMZ0
[2] Results based on Analysys Mason’s survey of 1600 enterprises
[3] For more information, see Analysys Mason’s Singtel outperforms a declining telecoms enterprise market.



scale with which to negotiate attractive pricing from security technology vendors and the scale with which to generate a decent RoI by selling SECaaS sales to large numbers of customers.

However, operators face risks as well as opportunities in this market. SECaaS solutions for SMEs are highly replicable, and there should be little or no need for customisation. In contrast, security services for large enterprises often need to be highly customised, which can require specialist resources and drain margins.

Serving SMEs comes with margin risk. Most large enterprises have IT and cyber security professionals to implement and operate security solutions, but SMEs do not. This can result in SMEs calling customer support for assistance in understanding and optimising their solution. It can be challenging for operators to manage margins for security services for which operators can only charge a couple of euros or dollars per user. To counter this problem, telecoms operators must develop SECaaS solutions that are easy for SMEs to use. Any on-site configuration needs to be automatic; manual configuration can be an option but not a requirement. The user interface also needs to be simple to use, for example via a self-service portal. Telecoms operators that are faced with a trade-off between large gains in ease of use or minor gains in the level of security provided, must prioritise ease of use for customers.

Operators can help build demand among SMEs for security solutions

Operators need to lead in communicating the specific threats that SMEs face. Media reporting of cyber crime inevitably focuses on the impacts on large organisations or high-profile individuals. SMEs can think they are not likely to be targeted, or that the consequences of any attack will be limited. SMEs also lack awareness of the specific legal obligations on them to protect third-party data arising from forthcoming data protection regulations such as the General Data Protection Regulation (GDPR) in the EU.

A compelling SECaaS offering must also leverage the potential of virtualised infrastructure solutions. The cost of proprietary vendor hardware has traditionally been a barrier to investing in SME security for both operators and SMEs. Traditional security solutions required SMEs to make sizeable, often prohibitive, upfront investments in dedicated on-premises hardware. In addition, staff training, and the on-site operation and maintenance of the proprietary hardware had opex associated with them. Until recently, an operator looking to invest in a SECaaS proposition found itself similarly constrained. The model often implied a sizeable initial capex investment in the hope of generating enough sales to generate an acceptable RoI. The transformation towards software-controlled networking provides a platform for a more flexible pay-as-you-grow cost model for the operator, the benefits of which can then be extended in part or in full to the SME customer.

A rich portfolio of SECaaS services is key to success for operators

Security priorities vary considerably from one SME to the next. To truly scale, operators need a portfolio that is broad enough to cater for both basic and advanced SME security requirements. Some larger SMEs might want the kinds of 24/7 monitoring from a security operations centre (SOC) that are usually associated with large corporates.

In order to position themselves as protecting the SME before, during and after an attack, telecoms operators should consider reselling value-added services such as cyber security insurance or executive training in leading recovery from the impact of a major cyber attack.

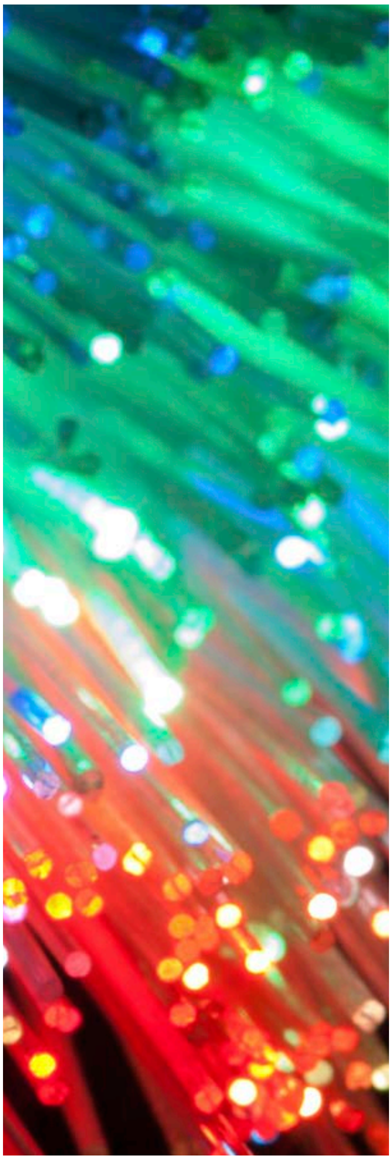
Operators that want to target SMEs need to be open to leveraging new channels to market. Operators are used to working with private sector-run business organisations and confederations, institutes and the like, to reach their large and small business members, including their IT and communications directors. Operators also need to be open to partnering municipal authorities that are investing in cyber-security services for small businesses such as the Mayor of London's London Digital Security Centre (LDSC) in the UK.

Questions?
Please feel free to contact
Patrick Donegan, Senior Contributor, at
patrick.donegan@analysysmason.com

KPN analyst day: its focus is on healthcare, government and manufacturing verticals in the Netherlands

"Customer satisfaction is a central part of KPN's ambition."

TOM REBBECK - @Tom Rebbeck
Research Director



KPN outlined its ambition to become "the best ICT service provider in the Netherlands" at its analyst day on 5 April 2017. It is a bold ambition but one that the operator needs if it is to break the trend of declining revenue in its enterprise business from which it, and many other operators in high income markets, are suffering.[1]

Analysys Mason believes that the focus of KPN's enterprise efforts on sectors with local needs is the right approach, especially because they are being supported by targeted acquisitions. However, reversing the declines in revenue, with enterprise revenue falling by more than 7% between 2015-2106, will be challenging and take time.

KPN is doubling down on the Dutch market

Since 2014, KPN has changed considerably: Telefónica Deutschland bought its German business, and Liberty Global acquired its Belgian arm, following its decision to exit countries where it only had a mobile business. This leaves KPN as purely a Dutch business, a focus it is trying to turn to its advantage.

KPN is concentrating on three vertical markets: healthcare, government and local manufacturing. These were selected because they fit the company's existing strengths: KPN has strong relationships in place and these organisations have unique local needs that KPN is well placed to address. KPN contends that it will be competitive against international IT providers, telcos or technology providers in these nationally bound vertical markets. As Joris van Oers, EVP, stated "not a single IT provider has a better position in the Netherlands than KPN". We believe that this emphasis on the national opportunity is the right approach for many operators, and KPN's strategy mirrors the points discussed in our previous reports.[2]

Growth will come from new ICT services

KPN has around 8% of the Dutch ICT market; a low figure, but one which suggests considerable potential for increased revenue. KPN believes that, even with this low share, it is the third-largest player in a fragmented market.

KPN is confident that as a product-focused telecoms operator it can service the IT market well: Joris van Oers said that "we truly believe that a large part of IT service will be a commodity". KPN is hoping to use its scale and business relationships (very few Dutch businesses do not buy any KPN services), combined with some select acquisitions, to become a larger player in ICT. KPN completed the purchase of RoutIT, an IT service provider, in March 2016,[3] and bought DearBytes in January 2017 to bolster its cyber security positioning.[4] As with other operators, security is an important priority for KPN. Jasper Snijder, EVP, said that "in a couple of years, we won't be able to sell an ICT solution without security".

Customer satisfaction is a central part of KPN's ambition

KPN's net promoter score languished at just –23 back in 2012. The figure has improved every year since, ending 2016 at –3. KPN expects to have a positive NPS in 2017 and move into "solid double figures" in the longer term. The aspects behind this increase were wide-ranging. KPN officials talked of improvements throughout the customer journey, from the accuracy of an initial quotation, reducing lead times and even through to the layout of the invoice. The changes were described as "not an IT project but a business transformation project" by Erik Verkouter, EVP of Customer Experience.

KPN faces a challenging enterprise market

KPN's enterprise revenue fell by 7% between 2015 and 2016 due to a mix of product migration and pricing pressure, and the company does not expect enterprise growth to return until 2019. Despite Tele2's entry to the mobile market in 2015, KPN maintained its market share in telecoms at over 50% by responding proactively to potential price threats. However, continued pricing pressure on core services reinforces the need for revenue growth from ICT services.

IoT continues to be important to KPN's strategy, but in a revised form

Having scaled back from its previous, more-aggressive plans for IoT, KPN's current approach is driven by pragmatism. KPN is offering both a range of connectivity options (with a nationwide LoRa network already operational, and LTE-M expected soon) and support and capabilities for other parts of the solution. For instance, it is helping clients develop proofs of concept, supplying hosting and other components, such as security, for applications. However, KPN is not trying to build or resell full stack solutions. Even if this were its ambition, many of its customers are integrating IoT into existing processes; end-to-end solutions would not be relevant.

KPN's approach involves a slow consultative sale, but this is well adapted to the state of IoT today. KPN assistance reduces the procurement and development challenges for customers that need support in this new domain where technologies are immature and dominant standards yet to emerge. KPN's approach also represents a way for the company to take a greater share of value without needing a grand vision or funding for large acquisitions.

As with other aspects of its enterprise strategy, KPN is maintaining a strong Dutch emphasis for IoT. While it faces competition from DT, Tele2 and Vodafone – three operators with major international ambitions for IoT – KPN is centred on local opportunities that may not get the same attention from the other operators. For example, KPN is supporting the IoT Academy in Rotterdam, which helps local companies develop IoT solutions and allows KPN to position its IoT capabilities.

All European incumbents are facing similar pressures to KPN, with revenue in the legacy business in decline due to saturation. At its analyst day, KPN clearly articulated its strategy with emphasis on becoming the leading local ICT provider. The test will be whether it can grow ICT revenue quickly enough to arrest the decline in its core revenues.

Questions?
Please feel free to contact
Tom Rebbeck, Research Director, at
tom.rebbeck@analysysmason.com

[1] For more information, please see Analysys Mason's Singtel outperforms a declining telecoms enterprise market. Available at: www.analysysmason.com/Singtel-enterprise-market-Apr2017

[2] For more information, please see Analysys Mason's Telecoms operators should avoid competition with tech giants when selecting vertical market opportunities. Available www.analysysmason.com/Vertical-market-opportunities-Aug2016. See also Analysys Mason's Telecoms digital strategies: a framework to help operators evaluate digital service opportunities. Available at: www.analysysmason.com/telecoms-digital-strategies-aug2016

[3] Reuters (4 April 2016), Koninklijke KPN acquires remaining stake in RoutIt. Available at: http://www.reuters.com/article/idUSFWN1740OH.

[4] KPN (The Hague, Netherlands, 5 January 2017), Press release: KPN acquires cyber security company DearBytes. Available at: https://corporate.kpn.com/press/press-releases/kpn-acquires-cyber-security-company-dearbytes.htm.

Colt analyst day: Colt focuses on high-quality connectivity services, while other operators diversify

TOM REBBECK - @Tom Rebbeck
Research Director

"Most operators are exploring new types of product (particularly cloud services) to drive growth, but, in contrast, Colt has been reducing its portfolio."

Colt announced that its new focus would be on core infrastructure service just before being taken private by its main shareholder, Fidelity, in June 2015. Colt's management team provided an update on this approach at its analyst day on 17 March 2017. Colt's strategy is simple (indeed, simplicity is part of its appeal): it focuses on providing a high-quality service to enterprises that require high bandwidth circuits (that is, 1Gbps or more). Most operators are exploring new types of product (particularly cloud services) to drive growth, but, in contrast, Colt has been reducing its portfolio. The open question for Colt is whether high-quality connectivity will differentiate the company sufficiently from its competitors for it to avoid having to compete on price alone.

The analyst day demonstrated how much has changed since Colt went private, almost two years ago. Almost all of the senior management team have been replaced and the shape of the company has changed. The number of employees has also been reduced to 4800 from around 8000, following the sale of the IT services business to Getronics in 2016.[1] Even the offices were new. Colt's CEO, Carl Grivner, was keen to position the company as an aggressive operator following its restructuring – one that is growing and investing at a time when most of its competitors are doing neither. Grivner also referred to the support of the company's shareholder Fidelity for the plan, commenting that "our shareholder wants us to be disruptive." This would return the company to its roots as a disruptor.

Colt asserts that its core strengths are an excellent fit for evolving demand – more customers need very high bandwidth circuits and fewer customers want a single supplier for all their global connectivity. Colt also believes that enterprises want simple ways of buying and managing services, often using self-service tools, and the company is therefore developing systems to support them. Harsha Gowda, Vice President of Service Transformation and Strategy, pointed out that most of Colt's customers are engineers, who may not want to deal with suppliers in person: "if we give them the tools, they will use them."

Colt has five strategic pillars, based on this view of demand.

- **Focus on very high-speed connectivity.** Colt is targeting organisations of all sizes and sectors that require high-speed connections and are located close to its network, rather than concentrating on any particular enterprise size or client type. Colt will pursue this market aggressively: Grivner told the meeting that the company "should not lose any deal that is a gig or greater." Colt also wants higher-speed connections to be standard offerings – Rajiv Datta, CTO, stated that "In the new network, 10Gbps or 100Gbps will be something

standard, not something that needs to be 'looked at'." A central part of this strategy is to provide on-net access to multiple data centres round the world. Colt could then control the end-to-end experience for an enterprise customer, as all the traffic would be on-net. This would be an important differentiator for the company.

- **Leave services beyond connectivity to others.** Colt wants to work closely with data centre providers, but not to compete with them. According to Datta "What we do, and what the data centres providers do, are the two most important elements in this system [cloud services]. Incumbents try to get both parts and more than that if possible." Colt is also not interested in competing on other services: "We offer DDoS, managed firewalls. There are wraps around the connectivity that we want to do, but the line of what we want to do doesn't go too far."
- **Differentiate on quality.** Colt argues that aspects such as latency, dynamic bandwidth, dedicated bandwidth, unified access and privacy, as well as price, can be differentiators for higher-speed circuits, in contrast to lower-bandwidth services where price is the dominant factor.
- **Differentiate on customer service.** Colt claims that it has a Net Promoter Score (NPS) of 24 for operations and one of 32 for relationship, and has a target to increase both to 60 in the longer term. However, its current scores are already much higher than those of other high-speed services operators. The average NPS for operators providing 1Gbps or higher services was just 12, according to our recent survey of enterprises. An NPS of around 60 would give Colt one of the highest scores of any telecoms brand (only a small number of consumer MVNOs have higher scores) and would be comparable with some of the leading technology brands (for comparison, Amazon's NPS is 69 and that of Apple's iPhone is 63[2]). Colt also aims to reduce lead times for delivery of new connections from its current target of 74 days to 30, largely by automating processes, as part of this focus on its customers.
- **Emphasise its leadership in software-defined networking (SDN).** Colt's repeated emphasis on SDN, both for supporting bandwidth-on-demand services and in using SD-WAN as a complement to traditional VPNs, links its twin focuses of connectivity and customer service. SD-WAN was described as "absolutely core to the strategy" and is an area in which Colt considers itself a leader. However, Colt has identified that few customers have a clear idea of what SDN can deliver, although many are interested in it. Colt will need to explain the benefits and manage expectations.

Colt has an investment plan of approximately EUR500 million to support these efforts, of which EUR400 million is for network upgrades, including some in metro networks in Hong Kong and Singapore. The rest of the investment will be in people and tools, including recruitment of more than 200 new sales people.

Colt's strategy was summarised by Rajiv Datta as "we're focusing on connectivity, which means we need to be the best at connectivity." This is a bold strategy and an interesting counter-example to the majority of operators, which are looking beyond connectivity to drive growth. Colt will need to show that its focus on quality is something for which customers are willing to pay and that it can maintain its advantage in customer satisfaction in the longer term.

Questions?
Please feel free to contact
Tom Rebbeck, Research Director, at
tom.rebbeck@analysysmason.com

[1] See https://www.getronics.com/news/getronics-company-news/getronics-completes-acquisition-of-colts-cloud-business-and-launches-new-managed-cloud-services-portfolio/

[2] See https://npsbenchmarks.com/industry/consumer_brands

Operators in Asia with fixed–mobile convergence ambitions should consider the opportunity presented by small and medium enterprise ICT

“SME ICT is an attractive opportunity in a telecoms operator’s fixed–mobile convergence play, but execution requires adopting a delivery model that goes beyond the traditional connectivity business.”

TAYLOR LAM
Principal

While telecoms operators in Asia have found it increasingly challenging to grow consumer telecoms revenues, enterprise ICT appears to provide an opportunity for steady growth. The enterprise ICT space has historically been dominated by fixed network operators. There has, however, been an increasing demand for mobility in enterprise ICT. Providing ICT services to small and medium enterprises (SMEs) could be an attractive growth area for operators in Asia with fixed–mobile convergence ambitions.

SME ICT services are attractive, especially for enterprise market challengers in emerging markets

Revenue is generally concentrated among large accounts in the enterprise ICT market, but SMEs remain a significant, often overlooked opportunity. Analysys Mason estimates that between 40–60% of the overall enterprise market revenue come from SMEs, with SMEs in more mature markets making larger contributions. Analysys Mason Research expects healthy growth from the SME ICT segment in Asia at a CAGR of 4% to reach revenue of USD73 billion in 2020.[1] Emerging markets will drive the majority of SME ICT segment growth at a CAGR of 5%.

For a market challenger looking to make inroads into the enterprise ICT market, the SME segment represents an ideal entry point. This is due to the following general SME characteristics:

- **Simpler ICT requirements** – SMEs have less demanding ICT requirements, and complex ICT set-ups are rarely present. In fact, many SMEs prefer pre-packaged solutions.
- **Easier to win over** – Large enterprises rarely switch their ICT service providers, due to perceived operational risks in changes to legacy systems and networks. SMEs, on the other hand, have lower barriers to switching and can be persuaded to do so relatively easily.
- **Potentially overlooked by incumbents** – There are a small number of mega-accounts delivering disproportionally large revenue streams at the top end of the enterprise ICT market. Incumbent operators in that market naturally focus their efforts on these accounts, which means that the SME segment may be potentially underserved.

Telecoms operators with fixed–mobile convergence ambitions should take an active role in SME ICT

Recent fixed–mobile convergence strategy has centred on consumer broadband and mobile services bundling, network integration and other opex savings, yet SME ICT services could also form a key part of fixed–mobile convergence strategy.

The enterprise ICT space has historically been dominated by fixed network operators. There is, however, an increasing demand for mobile services in enterprise ICT. The SME segment is of particular interest to operators with fixed–mobile convergence ambitions. Many SMEs in Asia, for example, are expected to adopt ICT applications that require both fixed and mobile connectivity, which presents an opportunity.

Even in a highly developed market like Hong Kong, overall enterprise Internet penetration grew from 75% to 80% between 2013 to 2015, with SMEs driving the majority of this growth (see Figure 1). SMEs' increased web presence means that these businesses will also require ICT services beyond pure Internet access, including website hosting, cloud applications and even digital payment capabilities. Adoption of mobile technologies also shows significant growth between 2013 and 2015. The potential for first-time fixed and mobile ICT adoption is even larger in emerging markets in Asia.

Pre-packaged solutions, distributed through enhanced sales and technical support channels, are the key to success

While SME ICT is an attractive opportunity for certain operators in Asia, these players would be required to adopt a delivery model that goes beyond the traditional connectivity business. Operators that aim to successfully tap into the SME ICT market should:

- **Develop pre-packaged solutions that enable savings or convenience** – A key value proposition that operators with fixed–mobile convergence bring to SMEs is a standardised solution. SME decision makers are often business owners with basic ICT skills, therefore cost savings and process simplifications are key selling themes.
- **Build sales channels that are capable of more highly skilled, consultative ICT sales** – ICT sales require more customer education, and salespeople able to propose customised solutions. The latter is a complex skill for those working in typical operator sales channels that only sell connectivity products. Channel partnerships are therefore critical.
- **Establish technical support for all components of the pre-packaged solution** – Similar to the demand on sales channels, servicing SME ICT requires technical support capabilities for all components in the pre-packaged solution. These components are often third-party products. In-house training supported by clearly defined service-level agreements with solution partners are important.

Questions?
Please feel free to contact
Taylor Lam, Principal, at
taylor.lam@analysysmson.com

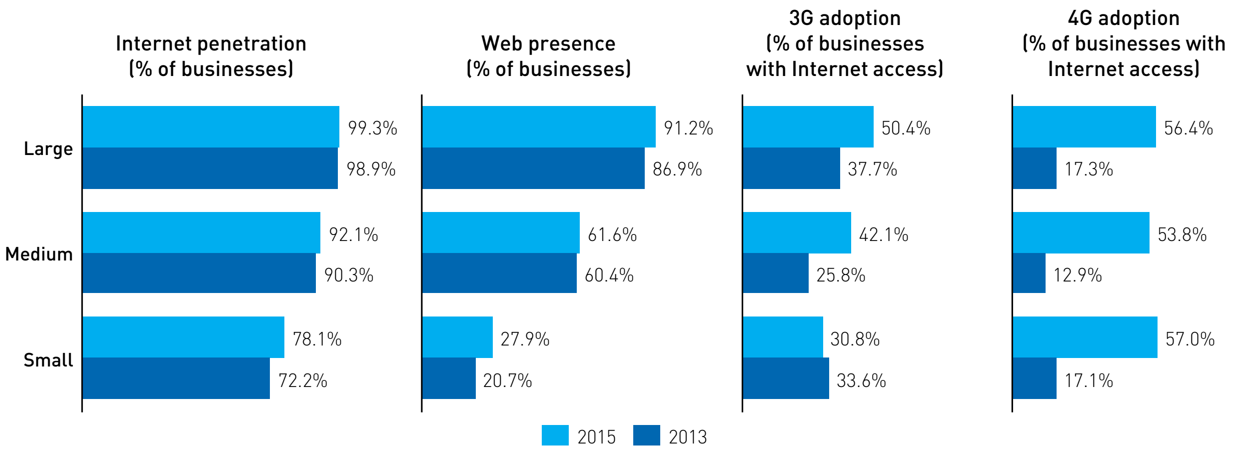


FIGURE 1: ICT ADOPTION AMONG BUSINESSES IN HONG KONG
[SOURCE: CENSUS AND STATISTICS DEPARTMENT, HONG KONG, 2016]

[1] Analysys Mason SME ICT Forecast 2015–2020

Analysys Mason's Enterprise Research

The SME and enterprise communication programmes have a common structure with forecasts, surveys and strategic analysis

	SME Strategies	Large enterprise voice and data connectivity	Large enterprise emerging service opportunities
Forecasts	• Country-by-country forecasts for voice, data and cloud services, connections and revenues, fixed and mobile	• Country-by-country forecasts for voice and data connections and revenues, fixed and mobile	• Country-by-country forecasts for new services opportunities (e.g. security, PaaS, IaaS, SaaS)
Survey	• Survey of 8 countries with over 1000 SMEs interviewed • Questions on current services, satisfaction and future purchase intentions	• Survey of 8 countries with over 500 large enterprises interviewed • Questions on current services, satisfaction and future purchase intentions for voice and connectivity	• Survey of 8 countries with over 500 large enterprises interviewed • Questions on current services, satisfaction and future purchase intentions for new services
Strategy reports & commentary	Reports such as: • Strategies for bundling cloud services with voice and data connectivity • Operator best practice for selling to SMEs	Reports such as: • Approaches to enterprise fixed and mobile bundling • Strategies for differentiating enterprise connectivity	Reports such as: • Strategies for combining IT services and the traditional telecoms portfolio • Best practises of operators selling SaaS to large enterprises

Analysys Mason's consulting and research are uniquely positioned

Analysys Mason is the global specialist adviser on telecoms, media and technology (TMT). Since 1985, Analysys Mason has played an influential role in key industry milestones and helping clients through major shifts in the market. We continue to be at the forefront of developments in the digital economy and are advising clients on new business strategies to address disruptive technologies.

See what clients have to say about working with us: www.analysysmason.com/client-testimonials

ABOUT OUR SERVICES

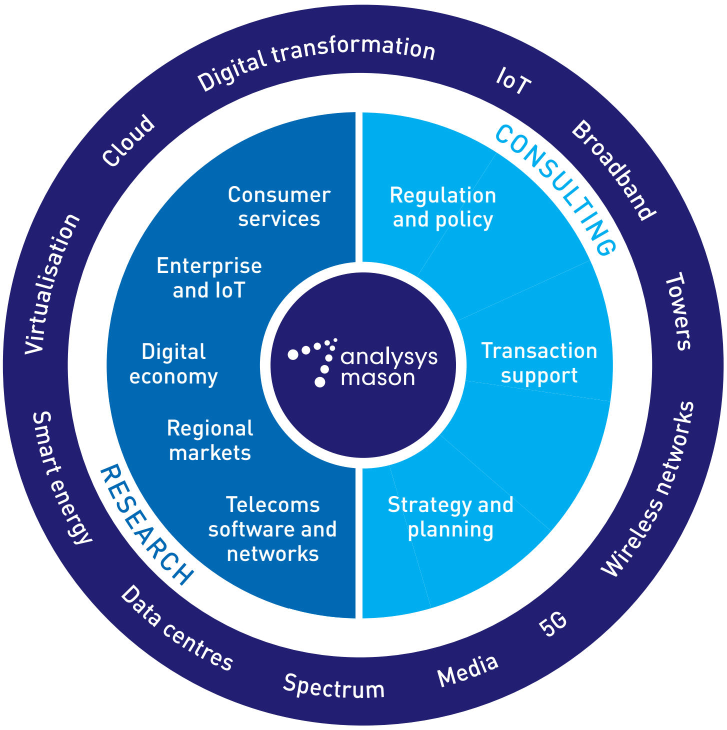
At Analysys Mason, we understand that clients in the TMT industry operate in dynamic markets where change is constant. Our consulting and research has helped shape clients' understanding of the future so they can thrive in these demanding conditions.

CONSULTING

- We deliver tangible benefits to clients across the telecoms industry
- Communications and digital service providers, vendors, financial and strategic investors, private equity and infrastructure funds, governments, regulators, broadcasters and service and content providers
- Our sector specialists understand the distinct local challenges facing clients, in addition to the wider effects of global forces
- We are future-focused and help clients understand the challenges and opportunities new technology brings

RESEARCH

- Our dedicated analyst team tracks and forecasts the services accessed by consumers and enterprises
- We offer detailed insight into the software, infrastructure and technology delivering those services
- Clients benefit from regular and timely intelligence, and direct access to analysts



"Analysys Mason is the global specialist adviser on telecoms, media and technology (TMT). Since 1985, Analysys Mason has played an influential role in key industry milestones and helping clients through major shifts in the market. We continue to be at the forefront of developments in the digital economy and are advising clients on new business strategies to address disruptive technologies."

Stay connected

You can stay connected by following Analysys Mason via Twitter, LinkedIn, YouTube or RSS feed.

- @AnalysysMason
- linkedin.com/company/analysys-mason
- youtube.com/AnalysysMason
- analysysmason.com/RSS/