Operators can accelerate the growth in ICT spend by addressing local market constraints

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Almost half of all large enterprises in Western Europe already report using at least one cloud service.[1] However, adoption and spend rates vary widely between countries, particularly for more sophisticated ICT services. There is no obvious reason why such a difference should persist in the medium to long term, and we would expect the rates of adoption and spend in all countries to gradually reach those of the more advanced ones. In the countries that currently lag behind, such as Germany and Italy, telecoms operators have an opportunity to accelerate the growth in ICT spend, and thereby gain an increased share of this new revenue.

ICT adoption and spend varies widely in Western Europe

Across Western Europe, the reported adoption rates for cloud services by large enterprises (those with at least 250 employees) vary by a factor of almost two. Figure 1 illustrates data from Eurostat on the adoption of cloud services ranging from 'low cloud services' (comprising email, office software and file storage), through to 'medium cloud services' (which also include database hosting) and 'high cloud services' (accounting and CRM applications and IaaS).

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[1]   49% of enterprises with at least 250 employees (excluding the financial sector) in the EU15 reported buying cloud computing services used over the Internet in 2016 (Eurostat, 2017).

Figure 1: Percentage of large enterprises using cloud services, 2016[2]

■ **High cloud services**　　■ **Only medium cloud services**　　■ **Only low cloud services**
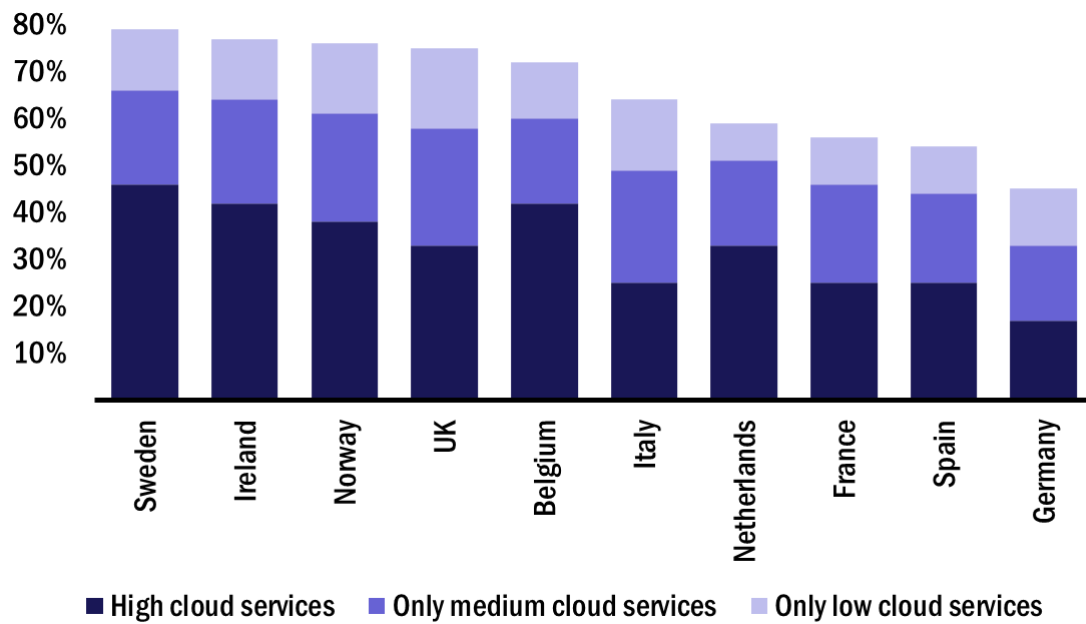
Analysys Mason's recently updated enterprise forecasts for Western Europe[3] highlight a similar variation in enterprise spend on ICT services including colocation and hosting, security and public and private cloud services. For example, we estimate that large enterprises in Sweden spent an average of EUR540 per employee on ICT services in 2017, compared to just EUR280 per employee in Germany. There is a similar level of difference in spend for smaller enterprises too. This variation indicates a degree of pent-up demand, which operators may be able to address.

Operators can lower the barriers to the adoption of cloud services in less mature markets

Several factors explain why the adoption of cloud services may be more limited in some countries. The majority of these are short-term in nature and could be addressed by national operators.

- **Lack of local language services and expertise.** Many cloud applications were initially developed for English-speaking North American markets and most software companies have tended to target anglophone countries first. Operators with a national presence are well placed to address this issue by providing local language services and expertise. It is notable that NTT in Japan has been more successful in gaining ICT services market share than many European operators, partly due to its competitive advantage in terms of local presence and language capabilities when compared to global IT providers.

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2   Large enterprises are those with at least 250 employees (excluding the financial sector). Low cloud computing services are email, office software and storage of files. Medium cloud computing services are email, office software, storage of files and hosting of the enterprise's database. High cloud computing services are accounting software applications, CRM software and computing power.

3   See Analysys Mason's DataHub and enterprise country reports including data from Belgium, Ireland, the Netherlands, Norway and Switzerland.

- **Concerns about the storage of data beyond national boundaries.** Data security concerns have limited the adoption of cloud data services in some countries. The growth in the number of local data centres that comply with national data regulations should address this. Deutsche Telekom has had some success with its IaaS services, which are popular within the financial sector and local government because the data is stored exclusively in Germany.

- **Lack of widespread availability of low-cost, high-speed data connectivity**. Although the main business sites of large enterprises tend to rely on dedicated connections, smaller sites often use broadband services, which may not always be suitable for running cloud applications over. As fibre networks continue to expand across Europe, operators should look to target enterprises not only with higher-speed connectivity, but also with the new services that this connectivity enables.

- **Lack of awareness and confidence in new services.** Enterprises in many countries are often more cautious than their Scandinavian counterparts, which have tended to be the earliest adopters of ICT services alongside a wide range of other new technologies. National operators with trusted brands have an opportunity to raise broader awareness and confidence in new services, provided that they are also able to achieve good levels of customer satisfaction for their core connectivity services. Telefónica cites stimulating demand in this way as one of its strategies for growing ICT service adoption among small and medium enterprises (SMEs).

- **More limited requirements for ICT services in some industry segments.** It should be recognised that not all industries have the same level of requirements for ICT services. Countries with significant high-tech and professional services industries are always likely to have slightly higher adoption rates than those without. However, we would expect the impact of this at a country level to be relatively limited in the long term.

The challenges for operators are, nevertheless, considerable

Many operators are already investing heavily in ICT services, with a swathe of acquisitions taking place across Europe. However, to make the most of these investments, there is also a need for operators to stimulate demand in new services by addressing some of the factors highlighted above.

In addition, operators must be willing to adopt different sales and support models. Sales teams need to be provided with the right training and incentives to offer ICT services alongside traditional data connectivity. More hands-on implementation support will also be needed, which may require new channel partners or a significant development of in-house skills.