

Predictions for enterprise communications in 2018: operators must enter ICT markets and counter threats

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Telecoms operators in high-income countries had a difficult year with their enterprise businesses in 2017. Most faced a gradual decline in revenue, largely because of strong price competition, especially in mobile. Operator revenue in middle-income countries continues to grow, but these operators will face the same pressure as those in high-income countries when service penetration saturates and competition intensifies.

Operators need to seize the opportunities in the growing ICT services market if they are to succeed in 2018.

In this article, Analysys Mason's analysts and consultants outline our expectations for operators in the enterprise market in 2018.

Disruptive products

- **Web companies may threaten operators in surprising ways.** Moves by 'web-scale' companies (such as Amazon and Facebook) in providing unified communications and collaboration services could increase the threat to the operator position in enterprise voice and messaging market. Further moves by these 'web-scale' players, possibly including acquisition, could also reduce the opportunity for telecoms operators to provide advanced enterprise communications solutions.
- **More operators will launch SD-WAN to counter competitive threats.** Many operators have been uncertain about SD-WAN because they are unwilling to cannibalise existing MPLS revenue, but they are fearful of the danger of more-nimble operators (and non-operators) launching first and winning customers. As the threat from competitors becomes increasingly real, more operators will launch SD-WAN in 2018 on the basis that it is better to see revenue decline than disappear. For disruptive players, SD-WAN still presents opportunities, but they are diminishing.

Revenue growth

- **Growth in spend by large enterprises will depend on the success of new services.** For large enterprises, particularly those in high-income countries, dedicated high-bandwidth connectivity, managed security solutions and unified communications are already well-established business essentials and migration to cloud services is well underway. Growth in this segment in 2018 is likely to come from newer services such as sophisticated collaboration tools, more-advanced cyber-security solutions and, for some operators at least, supporting the migration to the cloud.
- **Medium-sized enterprises will increasingly adopt cloud services.** We expect medium-sized enterprises to adopt the services that large enterprises are already using, particularly cloud services deployed using SaaS, IaaS and security-as-a-service (SECaas) models.
- **Small and micro enterprises will adopt or upgrade basic services.** Among small and micro enterprises there is still considerable scope for increasing penetration of mobile handset data and fixed broadband

services and for migrating to higher bandwidth services such as those made possible by fibre and vDSL deployments. It will be a similar picture for some medium-sized enterprises in middle-income countries. We do not expect more than a small number of micro enterprises to adopt cloud services during 2018, but improved data connectivity will lay the foundation for faster growth in future years.

Mergers and acquisitions

- **We expect further consolidation in the reseller market.** In many countries, there continues to be excess capacity in the reseller market. In the UK, we estimate that there may be 15 or more resellers in the GBP5 million to GBP30 million revenue bracket. Further M&A is inevitable. Liberty Global and MXC Capital formed a joint venture in November 2017 with the aim of consolidating this market. We expect others to be active also.
- **More telcos will buy to bolster their ICT proposition:** AT&T, KPN, Telia, and Telstra all made acquisitions to improve their position in ICT services in 2017. We expect this activity to continue in 2018 as more operators look to buy the skills they need to enter the cloud, security and UC markets. Unlike other growth areas for telecoms, such as banking and IoT, where operators may need to spend hundreds of millions to enter new markets, in ICT, operators are looking for smaller ‘bolt-on’ capabilities. As such, acquisitions may be relatively small (for example, under USD10 million) and will be made by operators of all sizes.

Customer satisfaction

- **We expect operators to pay more attention to customer satisfaction.** Most operators will need to focus on new products if they are to increase revenue, but improving satisfaction is an essential first step. Our surveys have shown that [enterprises will not consider buying services from an operator unless they are satisfied with basic connectivity products](#) (most are not).¹ Many operators have an enterprise NPS in single figures, but need to target 20 or more. Those that fail to address this risk a continuing decline in enterprise revenue.

Telecoms data ‘as-a-service’

- **Regulation is taking the USA and Europe in different directions in terms of using customer data.** In the USA, operators can sell their customers’ browsing history to advertisers without the users’ consent, something that is not possible in Europe even before the introduction of GDPR. Operators in the USA, such as Altice (with Teads), AT&T and Verizon (with Oath), will increasingly see customer data and advertising as a source of revenue. This opportunity will be smaller for European operators because they will have to rely on selling anonymised and aggregated data, such as footfall information, to retailers and transport providers.

¹ For more information, see Analysys Mason’s Enterprise telecoms survey: operators must do more to overcome customer dissatisfaction. Available at www.analysismason.com/enterprise-survey-satisfaction-rdmz0.