Existing market positions are dictating service providers' strategies for SD-WAN

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"There are only two ways to make money in business: One is to bundle; the other is unbundle." – Jim Barksdale[1]

MPLS wide-area networks were historically bought together with connectivity in almost all cases. However, the introduction of SD-WAN has decoupled these elements. This separation makes it possible to offer new bundles of services (such as SD-WAN plus managed IT services), allows for unbundling (that is, selling SD-WAN as a standalone product) and provides a new version of the connectivity-plus-WAN bundle (that is, connectivity plus SD-WAN).

Our latest case study report looking at service provider SD-WAN highlights how the different approaches to SD-WAN listed above are being adopted. It is not yet clear which of these approaches will be the most successful. Various approaches may coexist if each serves a different type of customer or need. All service providers that are interested in SD-WAN need to watch developments closely and be ready to adjust their approach if necessary.

Service providers' current approaches to SD-WAN are influenced by their existing positions in the market

Most service providers are allowing their current overarching strategies and target customer bases to dictate their SD-WAN strategies. SD-WAN is important for both defending existing assets and breaking into new areas of the market (much like Iceland on a Risk board).

We consider the SD-WAN approaches of each of the following service provider groups.

- **Challenger operators** are typically focused on gaining a greater share of the connectivity market, mostly by winning customers from incumbents. Challenger operators often sell a simpler set of products than incumbents, resulting in a cleaner proposition that may be easier to sell and support, and one that is less likely to create conflict with partners. However, the limitations on what challengers want to do may reduce revenue opportunities beyond connectivity.

- **Incumbent telecoms operators**, faced with this pressure from challengers, are offering SD-WAN to remain competitive, but are also hoping to use it to gain a greater portion of the business spend on IT services (such as managed Wi-Fi). New innovative services, such as using the SD-WAN server as a gateway for IoT devices, may also emerge. However, the resulting propositions may become complex and hard to understand, thereby creating challenges for sales teams, support staff and customers alike.

1 Barksdale was President of Netscape at the time of the quote. Harvard Business Review (2014). *How to Succeed in Business by Bundling – and Unbundling*. Available at https://hbr.org/2014/06/how-to-succeed-in-business-by-bundling-and-unbundling.

Incumbents may threaten the territory of partners, such as systems integrators, by offering more IT services in the LAN.

- **Managed service providers (MSPs)** typically manage services in the LAN (for example, servers, routers and endpoints). SD-WAN can provide them with a greater share of the telecoms/connectivity spend. The addition of SD-WAN increases the complexity of their offers, but incremental steps should be manageable. For example, Cisco Meraki offers a version of SD-WAN and is already used by many MSPs for Wi-Fi networks.

- **SD-WAN technology service providers** offer SD-WAN as a standalone solution. Trying to sell a new product without the benefit of having an existing customer base may be challenging, but this does give these players the potential to be disruptive in terms of pricing models, agility (for example, quickly adding new features) and the customer interface. Many customers may not want to work with new players, but more-sophisticated customers who are more open to new technologies will be keen to be early adopters, taking away initial opportunities from the established telecoms operators and MSPs. Businesses in countries with high MPLS costs or with limited competition from alternative operators may also be attracted to these players.

The different approaches to offering SD-WAN with other services are summarised in Figure 1.

Figure 1: Strategies for bundling SD-WAN with other services (green = core part of the bundle, orange = area of potential revenue growth, red = area of limited interest)

	Connectivity	SD-WAN	IT and LAN services
Incumbent operators (e.g. BT, Orange)	Green	Green	Orange
Challenger operators (e.g. Macquarie Telecom, Fastweb, Comcast)	Green	Green	Red
Managed service providers (e.g. ConvergeOne)	Orange	Green	Green
SD-WAN technology players (e.g. Aryaka, Citrix)	Red	Green	Red

Source: Analysys Mason, 2019

Service providers may need to change their strategies if dominant bundling models emerge

It is not yet clear which SD-WAN strategy will be the most successful. It may be that different strategies do well in different vertical market segments. For example, the pure-play SD-WAN players may do better with technology companies, while the more-conservative retail banking sector may prefer to work with its established telecoms providers. We may also see some differences by country or region. MSPs and DIY options appear to be more successful in the USA, perhaps because there is a greater arbitrage opportunity than in Europe (that is, businesses can save more on connectivity by buying SD-WAN and a direct internet access circuit separately).

However, a dominant model for providing SD-WAN may emerge. If this happens, service providers will need to be flexible enough to change their approaches, regardless of their existing positioning or target markets. For example, if challenger operators see that bundles including IT services are gaining traction for incumbents, they may need to move more aggressively to match these offers. Equally, if technology providers start to gain market share from providing standalone offers, other service providers will need to see how they can match this 'unbundling' approach.

Service providers need to move out of their comfort zones to be successful

Service providers will need to move out of their comfort zones to make a success of their current SD-WAN strategies. MSPs will need to show that they can manage WAN solutions and incumbents must demonstrate that they can manage LAN services for smaller customers. SD-WAN technology firms will need to show that they can sell and support the technology, and not just develop it.

Furthermore, for any of these strategies to work, service providers will need to change how their potential customers perceive them. Providers attempting to bundle services will need to be seen not just as a connectivity provider, an IT helpdesk or a technology developer, but as a mixture of all of these things. The service providers that transcend their origins are likely to be the most successful, even if it is these origins that appear to be dictating their current strategies.