Alternative models for the delivery of SD-WAN services threaten operators' position as retail providers

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Operators are an important route to market for many SD-WAN technology providers. Operators command a strong position in the market due to their existing customer relationships and ability to provide end-to-end managed services that include the underlying local access and backbone networks. However, technology providers are also developing alternative routes to market, often with new models for delivery and more-aggressive or innovative pricing. This article outlines the threats posed to operators by these alternative delivery models, and argues that operators must deliver effective SD-WAN solutions of their own, with good levels of customer satisfaction, in order to defend their connectivity revenue.

This article draws on our recent report, SD-WAN technology providers (volume II): nine case studies and analysis, which provides a more-detailed assessment of many of the SD-WAN technology providers, including Citrix, Fortinet, Oracle and Silver Peak.[1]

A growing number of SD-WAN vendors are looking to operators as an important route to market

A significant number of SD-WAN vendors (including Nokia/Nuage Networks, Versa and VMware) have built their go-to-market strategies around partnerships with operators; Cisco also relies heavily upon this channel. Other players such as Fortinet, Oracle and Silver Peak are also developing relationships with operators in order to extend their market shares as the SD-WAN market grows, and as the emphasis shifts to managed SD-WAN rather than DIY deployments.

Most major network operators have already selected SD-WAN partners, but some vendors have ambitions to become an additional supplier. Silver Peak, for example, has recently become an SD-WAN provider to Verizon, alongside Cisco (Viptela) and Versa. Others are targeting smaller operators that have not yet launched SD-WAN, or are seeking to provide SD-WAN solutions that deliver against certain criteria such as low costs for the SME market (for example, Ekinops) or high levels of application intelligence (for example, Infovista).

Vendors seeking to gain market share via alternative routes to market could pose a significant threat to operators

Many SD-WAN technology providers sell services either directly to enterprises or via alternatives to operator channels such as systems integrators (SIs), managed service providers (MSPs), network integrators and resellers. The Master Agent channel is also an important route for many providers in the USA. Some technology providers (such as Aryaka and Cato Networks) consider themselves to be direct competitors to operators.

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We have identified a number of threats to operators' SD-WAN services (and to their business connectivity services more generally) that may come about as a result of these players' strategies.

- **The use of the MSP channel is likely to grow strongly.** Many of the vendors that we interviewed highlighted the MSP channel as being important. We believe that this channel poses a significant threat to operators, particularly if MSPs are also able to manage the underlying local access networks. There is a growing emphasis on managed SD-WAN rather than DIY deployments in both North America and across Europe, the Middle East and Africa (EMEA) and Asia. Operators are well-placed to meet this change in emphasis, but MSPs can also deliver managed SD-WAN services. Many vendors additionally partner with SIs to meet enterprise requirements for managed SD-WAN services.

- **Procurement may become more application-focused and less network-focused.** Many SD-WAN technology providers (especially those selling independently of operators, such as Citrix and CloudGenix) emphasise their relationships with application providers (such as Ring Central and Salesforces, as well as hyperscale cloud providers) rather than network providers. The customer relationship with network operators remains valuable, but procurement is likely to become increasingly application-led, and pricing and SLAs will be based on application performance rather than bandwidth provisioned. This has the potential to disrupt traditional customer relationships.

- **The provision of global backbone connectivity is increasing.** Several SD-WAN vendors, including Aryaka and Cato Networks, operate private backbone networks to avoid routing international traffic via the internet. Procuring backbone services from data centre players such as Equinix is also becoming more common. This threatens operators' ability to differentiate their SD-WAN services to international businesses on the basis of global backbone connectivity.

In addition, the sheer range of alternative models being explored is itself a threat. Lots of non-operator models are being experimented with. These include those based around security (Fortinet) or applications (Citrix), and those that emphasise cost savings by dropping MPLS (Aryaka and Cato Networks). In contrast, most operators rely on a single, network-integrated model for SD-WAN. It is not clear which of the alternative models might emerge as winners. However, from the weight of experimentation, it is likely that some models may emerge with clear advantages that operators will struggle to counter.

Operators must ensure that they deliver effective SD-WAN solutions of their own

At present, operators continue to control key customer relationships and access to established sales channels. Their ability to deliver end-to-end managed services that integrate the underlying local access and backbone networks with SD-WAN and legacy connectivity services remains an important consideration for many technology providers and businesses alike.

Business customers that are reasonably satisfied with the services received from their current supplier are unlikely to switch to an alternative provider without good reason. Surveys consistently report that most businesses are very cautious about switching their fixed supplier. However, if operators fail to deliver good levels of customer satisfaction, they risk losing a significant share of the retail business connectivity markets.

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