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RESEARCH STRATEGY REPORT

# SME BUNDLING STRATEGIES FOR OPERATORS: BUILDING AN ICT PORTFOLIO FOR SMEs

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# About this report

This report analyses the opportunity for operators to sell ICT[1] services alongside traditional connectivity services to small and medium-sized enterprises (SMEs) as a single ICT bundle.

This report provides recommendations for operators on how to build an ICT portfolio for SMEs and the best ways in which to fully capitalise on this opportunity.

Bundling ICT and connectivity services will have three primary benefits for operators. It will:

- boost enterprise portfolios and revenue
- reduce churn by introducing stickier products
- provide a strong differentiator in saturated markets.

This report is based on:

- interviews with operators
- Analysys Mason's internal research including global enterprise forecasts and our global survey of 1600 enterprises.[2]

**KEY QUESTIONS ANSWERED IN THIS REPORT**

- What are the challenges hindering operators' potential in the ICT market?
- What are the best methods for operators to use to overcome these challenges and penetrate the ICT market?
- What are the best methods for selling these services alongside traditional connectivity?
- What reforms to sales and support structures are needed for this transition to be effective?

**WHO SHOULD READ THIS REPORT**

- Strategy teams and individuals from operators' enterprise or SME divisions that are interested in exploring the opportunities in the SME and ICT market.

[1] We define ICT services as those that go beyond traditional connectivity services, including security, cloud, unified communications, SaaS, PaaS, mobility and desktop management.

[2] For further information, please see *Analysys Mason's* [Telecoms services for small and medium-sized enterprises: worldwide forecast 2017-2022](). 

# Executive summary

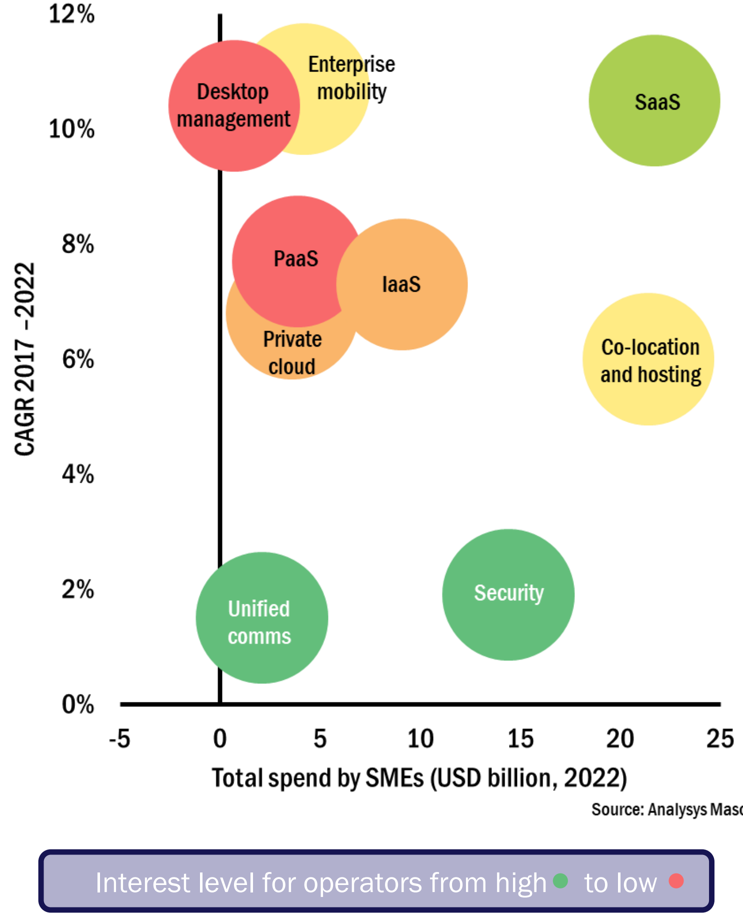
**Enterprise revenue is declining for most large telecoms operators in high-income countries but interest in ICT services is rising as a new and growing source of revenue. Operators are well positioned to bundle ICT services with traditional connectivity services, but they will need to gain the necessary capabilities and alter their sales and support structures to fully capitalise on this opportunity.**

This report provides recommendations for operators on how to bundle ICT and connectivity services for SMEs. Few operators have been successful in doing this and ICT services only account for 5% of operators' revenue from SMEs worldwide.

This report summarises the potential for bundling, and the major challenges currently hindering operators' potential in ICT services. To enhance their position in the ICT market, we recommend that operators:

- carefully select which ICT opportunities to pursue and ensure that they align with the operators' core strategy
- gain the necessary capabilities through acquisitions and partnerships
- reform sales and support structures through comprehensive training schemes and the acquisition of experienced ICT sales and support personnel.

Figure 1: Levels of interest for operators in ICT services




Source: Analysys Mason

# ICT services give operators the opportunity to offset declining legacy revenue with new and growing forms of revenue, but there are challenges

**Declining revenue from traditional connectivity services is placing enterprise revenue under threat for most operators in high-income countries. Operators have the potential to offset this downturn by advancing their ICT portfolios, but they often lack the capabilities to be major ICT providers.**

The diminishing returns from legacy services mean that there is a greater importance for operators to diversify their ICT portfolios and benefit from new and growing sources of revenue.

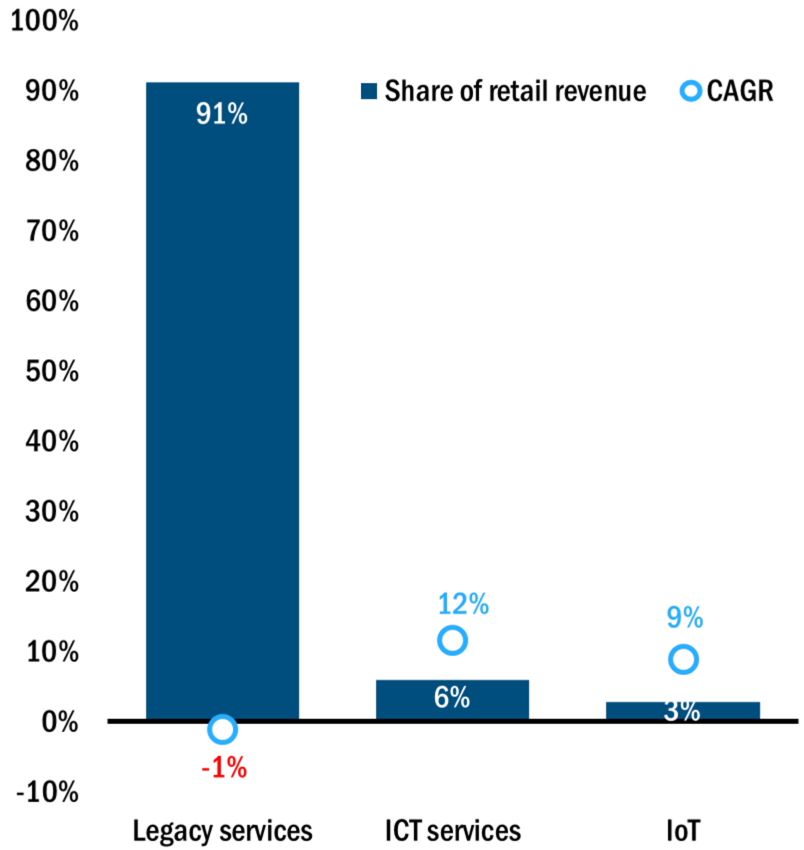
Operators have struggled to gain ground in ICT services: traditional voice and connectivity services still account for over 90% of operators' revenue from SMEs in Western Europe (Figure 2).

Indeed, ICT services, such as security and cloud, currently represent only a small portion of operators' revenue from SMEs (6% in Western Europe). However, with a CAGR of 12%, such services are growing rapidly and will rise in importance and potential for operators.

These potential advancements are not without their challenges. Operators often lack the skills, experience and capabilities to be major ICT providers. Sales teams, in particular, do not have the incentives or the knowledge to sell ICT services.

The market for ICT services is also relatively mature in most high-income countries, leaving little room for operators to enter the market organically.

Figure 2: Breakdown of operators' revenue from SMEs in terms of the share of the total revenue, 2017, and CAGR, 2017-2022, Western Europe




Source: Analysys Mason

# Operators will need to carefully select opportunities, partners and acquisitions, and address the challenges in sales and support

**Operators should carefully select which ICT services to pursue in the SME segment, create an ecosystem of partnerships and acquisitions to gain the necessary capabilities to be ICT providers, and address the challenges in sales and support to effectively penetrate the ICT market.**

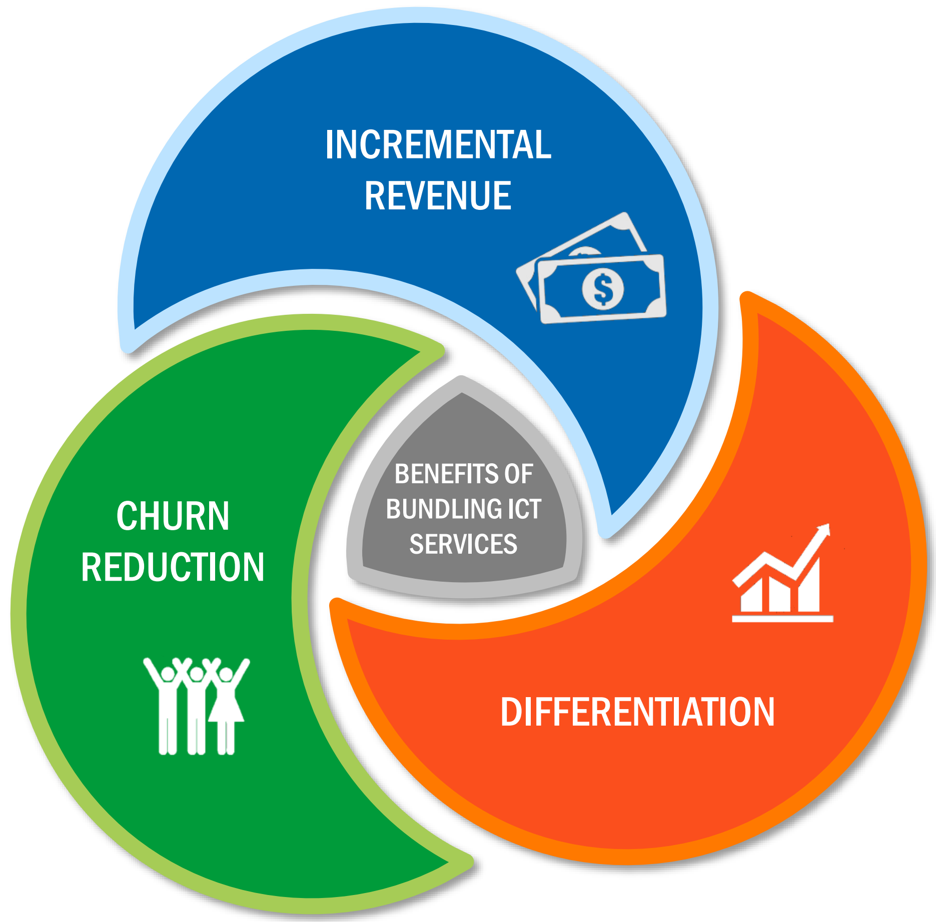
This report is separated into three sections, analysing each of the fundamental considerations for operators in ICT services.

The first section provides a market analysis, identifying the key services that should be considered by operators. However, operators will need to build from a base of solid connectivity services to succeed in the ICT market – SMEs who are dissatisfied with their basic connectivity services will be unlikely to purchase additional services from their operator.

Operators will need to use partnerships and acquisitions to gain the appropriate ICT capabilities. This has been demonstrated by the large number of operators who made ICT-related acquisitions from 2015–2017 in order to advance their enterprise portfolios (Figure 11). Partnering can be an effective means of obtaining the right products, and acquisitions can supply operators with experienced ICT sales and support staff and processes.

Selling and supporting ICT services may be the biggest challenges facing operators. Operators should follow a simple, structured approach to bundling ICT and connectivity services in order to benefit SMEs and sales staff.

Figure 3: The benefits of bundling ICT and connectivity services for operators




Source: Analysys Mason

# Recommendations

1

**Operators should select ICT opportunities that are closely aligned with their core connectivity services.**

Operators should consider ICT services that are within the scope of their overall strategy and carefully select which opportunities to pursue. Operators should focus on simple ICT products that can easily align with their core services and address the bulk of the SME market. However, operators will need to build from a base of solid connectivity services to succeed in the ICT market – SMEs who are dissatisfied with their basic connectivity services will be unlikely to purchase additional services from their operator.

2

**Operators should gain the necessary ICT capabilities through acquisitions and partnerships.**

ICT markets are already relatively mature and many providers have a strong position. Rather than try to compete directly with existing ICT providers, operators should seek acquisitions and partnerships. Partnering with ICT providers can help operators to obtain the products and reach to sell ICT services, and acquisitions can supply operators with specialised technology and sales and support staff. Ultimately, operators should work towards an ecosystem of acquisitions and partnerships to create an integrated and differentiable ICT portfolio.

3

**Operators should address the difficulties in sales and support and tailor their strategies to each segment.**

Selling and supporting ICT services is likely to be operators' greatest challenge in the ICT market. Operators should tailor their sales strategies and services to each SME segment, with differing complexity and support in line with SME size and requirements. Exploring sales strategies beyond simple bolt-on methods, such as tight bundling and vertical strategies, can help operators boost the sales of ICT services. Acquisitions and partnerships will be essential to effectively sell and support ICT services.

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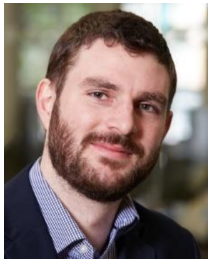
# About the author



**Terry van Staden** (Research Analyst) is a member of Analysys Mason's Enterprise and IoT research practice and is mainly focusing on enterprise research reports and associated commentaries. He is conducting research into telecoms operators' enterprise revenue in addition to a cost analysis of their various enterprise services. Prior to joining Analysys Mason, Terry studied his masters in economics under full scholarship in South Africa where his research papers won, or were nominated for, several national awards. He is a member of the Golden Key International Honour Society and the recipient of the Gold Duke of Edinburgh's Award.

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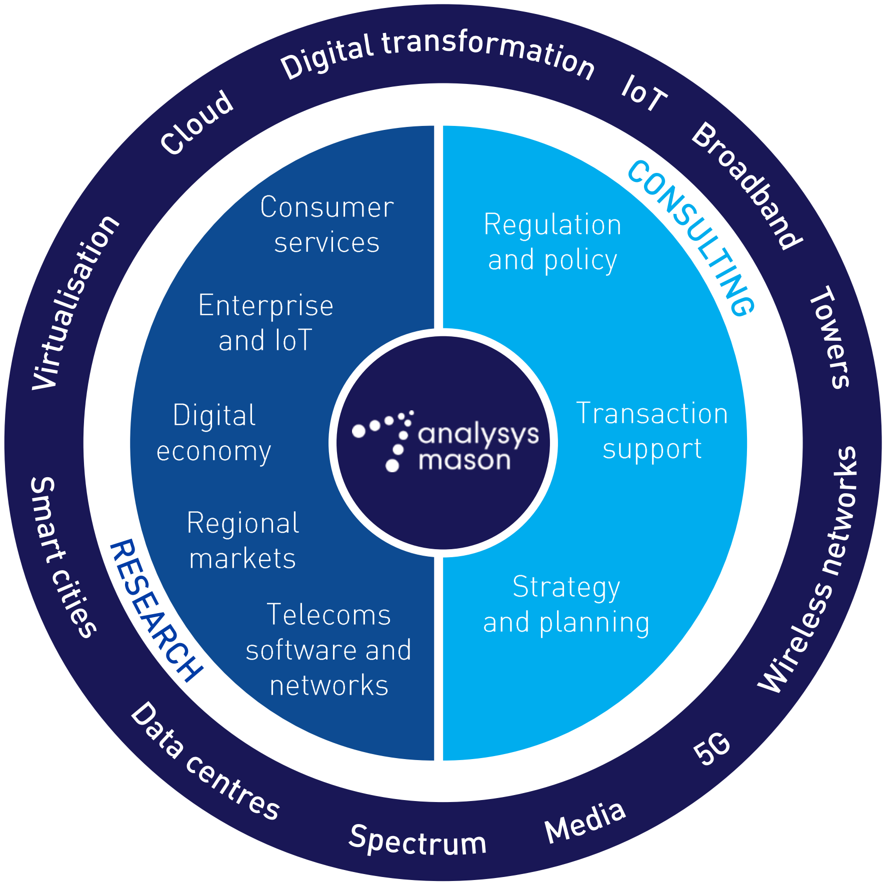


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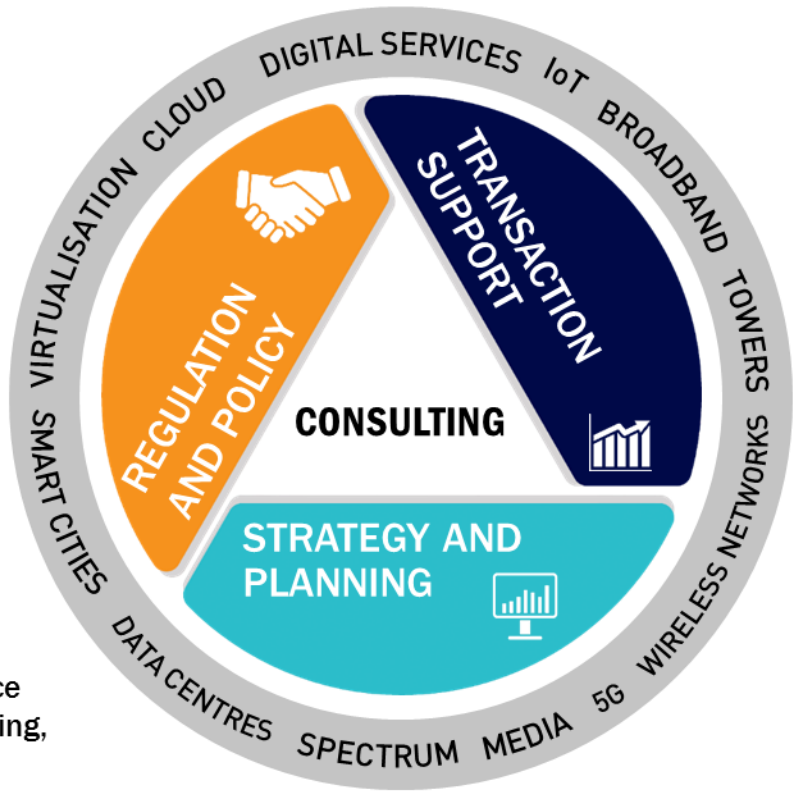


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