Microsoft's acquisition of Nuance will strengthen its position in the telecoms customer engagement market

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Microsoft entered into an agreement on 12 April 2021 to acquire Nuance Communications (Nuance), a provider of conversational artificial intelligence (AI) software, for USD19.7 billion. The deal is expected to close by the end of 2021. This acquisition builds on an existing partnership agreed between the two companies in 2019 and represents Microsoft's second-largest acquisition since it acquired LinkedIn in June 2016 for USD26 billion. Microsoft is well-established across many industry verticals. The company has been investing in a range of emerging technologies, especially AI, to help it to build intelligent cloud and edge computing platforms. Microsoft has also been developing its cross-industry expertise through industry-specific acquisitions, and this acquisition will enable the company to expand its conversational AI capabilities to create an integrated customer engagement offering for communications service providers (CSPs) that want to deliver an improved customer experience.

In this article, we analyse the impact that this acquisition is likely to have on the customer engagement market and discuss the benefits for CSPs.

Nuance's intelligent voice and speech technology will enable Microsoft to optimise its customer management processes

Customers' digital behaviours and expectations, which Covid-19 has further amplified, continue to be shaped by emerging technologies. CSPs are making considerable investments in self-service channels both to improve their engagement with end customers and also to reduce their operating costs. Analysys Mason's report *Virtual assistants: a game-changer for CSP customer engagement* discusses how CSPs are struggling to deliver a high-quality customer experience at a lower cost, and explains how the virtual assistant (VA) is set to become a mainstream channel. Microsoft's acquisition of Nuance will help position the company attractively in CSPs' eyes, as they embark on an urgent program to digitise their touchpoints with a strong emphasis on automation, as enabled by VA technologies.

Although Microsoft products are extensively used across CSPs, the company's presence in telecom specific software solutions has been very limited until recently. Dynamics CRM was the company's most popular telecom software deployment. Of late Microsoft has been increasing its focus on becoming a key player in the telecoms software space, as evidenced by its acquisition of Affirmed networks and Metaswitch in 2020 and Microsoft's ambitions to position Azure as the cloud stack for 5G network functions. Nuance will likely help Microsoft further expand into telecom software in a fast growing and strategic segment such as conversational AI, which is expected to become a primary engagement channel in the medium term.

Nuance, which was founded in 1992, is a publicly traded company based in the USA with over 7100 employees. It provides conversational AI solutions to thousands of organisations worldwide in industries such as telecoms, healthcare, education, financial services and retail. Its customer engagement solutions and services portfolio include voice, behavioural and conversational biometrics and digital virtual assistant capabilities with inbound and outbound customer service and engagement in over 85 languages. Nuance's intelligent voice and speech technology will be integrated with, and enhance, Microsoft's customer engagement solutions (such as Microsoft Dynamics) to deliver an end-to-end customer experience. This combination will advance Microsoft's ability to help CSPs to optimise their customer management processes.

This acquisition highlights Microsoft's ambition to improve its market position in the telecoms sector

Microsoft's ambitions to strengthen its portfolio have been realised through the strategic acquisition of over 200 companies to date. Prior to Nuance acquisition, Microsoft developed and launched its own VA Cortana in 2014. Although Cortana launched with much fanfare, it fell behind other leading VAs in the market such as Amazon Alexa and Google Assistant. Microsoft reduced its investments into Cortana in 2019, and in early 2021, it decided to stop supporting the Cortana app for mobile (iOS and Android). The Nuance acquisition marks a major move into the VA space for enterprises following its phase-out of Cortana.

Nuance has a series of AI products that are tailored to various industry-specific use cases. Healthcare has been one of the company's main areas of focus, but its omni-channel platform and professional services have also attracted a strong base of CSP customers. The company's telecoms-specific offerings are designed to increase account enrolments, reduce operating costs and boost customer satisfaction. Microsoft will be able to strengthen its market position in the telecoms sector by combining its own cloud-based services together with Nuance's conversational AI technology to develop a turn-key solution that delivers end-to-end VA functionality. The capabilities that Nuance provides will enable Microsoft to compete more effectively with other companies, and also improves its relevance within the telecom segment, which is actively pursuing new capabilities around digital engagement solutions.

The acquisition will have a wide impact on various players within telecoms industry

Microsoft's acquisition of Nuance will have impact on Microsoft, CSPs and other vendors in different ways.

- **Impact on Microsoft.** Microsoft's acquisition is a sign of its growing ambition to verticalise its business. The company will be able to provide highly specialised, industry-specific support with enhanced VA and voice AI capabilities. This acquisition will further strengthen the company's position in the telecoms VA segment, which is set to grow by 25% between 2019 and 2025.[1]

- **Impact on CSPs.** CSPs will benefit from this acquisition. CSPs have a growing emphasis on improving their ability to better engage with the customers on digital channels. However, when it comes to VAs, the market is far from mature. The absence of integrated, end-to-end offerings has held back widespread adoption. This acquisition will provide more options for CSPs and given how it will be well-integrated with the broader Microsoft portfolio, it is likely to be an attractive proposition for operators wanting to experiment with VAs.

- **Impact on other vendors.** This acquisition gives Microsoft a competitive advantage over other telco-focussed vendors in the space. Nuance is well-regarded as a capable platform, and its ability to leverage the broader Microsoft portfolio will make it an attractive proposition for CSPs. This may trigger other new partnerships or acquisitions in the market, as other vendors attempt to improve their capabilities especially

[1] For more information, see Analysys Mason's *Virtual assistants: a game-changer for CSP customer engagement*.

around VAs. Smaller vendors maybe force to either partner or sell-out as the larger vendors expand their influences into the segment.