IDC – Curtis Price, Karl Whitelock

Assessing the Opportunities and Challenges of the Mid/Small Service Provider Market

December 7, 2021

Abstract

- In light of COVID-19's impact on the worldwide economy, IDC conducted a global research study about the state of the Service Providers' digitization efforts — before, during, and as they work their way towards resiliency, post-pandemic.
- Over 400 service providers answered a survey that covered 7 key domains — Infrastructure, Automation, Customer Services, Security, Organization, Business Processes and Analytics.
- **A subset of this group, midsize/small service providers (SPs) is the focus of this discussion.**
  - Midsize/small SPs are entities with one million subscribers or less.
  - These providers have devised digital transformation strategies to compete and differentiate themselves with a limited number of technical staff.
  - Midsize/small SPs have a smaller customer base but possess many of the same business and operational challenges of larger service providers, but their approach to executing business strategy is noticeably different from the rest of the market.

Webinar Presenters

Presentation Team

Curtis Price

Program Vice President, Infrastructure Services, IDC

Karl Whitelock

Research Vice President, Communications Service Provider Operations & Monetization, IDC

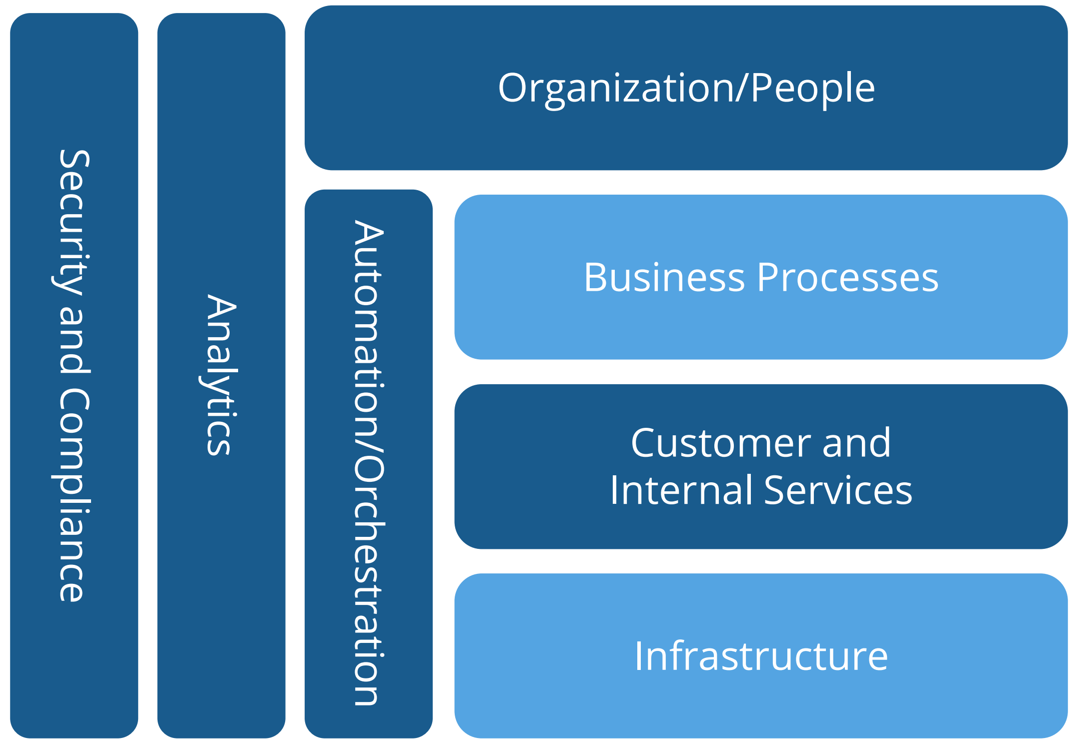
Agenda

- Purpose and Methodology
- Market Forces and Key Business Drivers
- Midsize/Small Service Provider Focus Areas
- Midsize/Small Service Provider Digital Maturity
- Essential Guidance

Purpose and Methodology

The 2021 Service Provider Digital Maturity Index

- **The journey.** The Digital Transformation (DX) journey of a typical service provider (SP) is a complex undertaking.
- **Manageability.** IDC worked with Cisco to simplify the journey by making it manageable and measurable.
- **Index definition.** Research outcome is the SP Digital Maturity Index defined by 7 domains and 35 sub-domains.



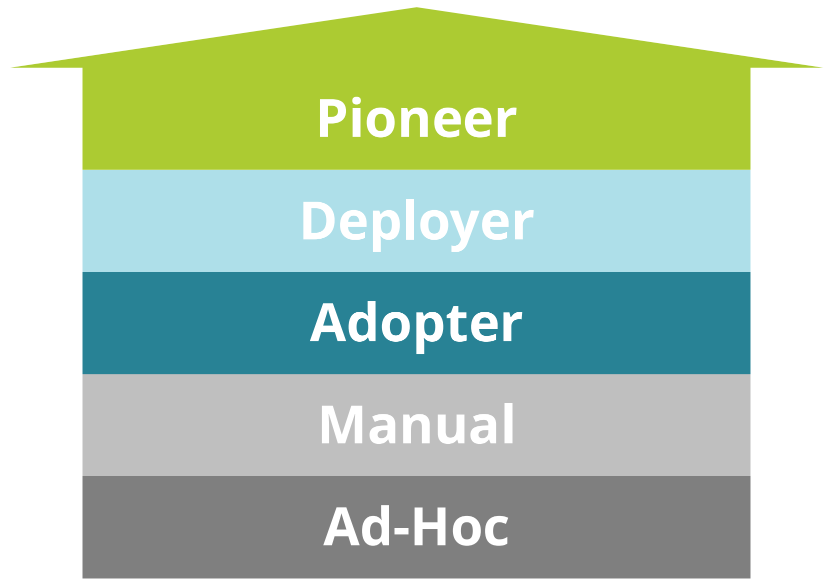
Defined the problem within 7 domains, 35 sub-categories and additional questions to cover the DX maturity levels.

N = 400, Source: IDC *SP Digital Readiness Survey*, 2021

Methodology Used for Digital Maturity Identification

- **Maturity index.** The Index defines five digital maturity levels, which is based on 400 SP surveys from all geographies and several in-depth interviews with small and mid-size SPs.
- **Maturity evolution.** The Index provides a guide to help SPs improve effectiveness of DX initiatives and to measure progress.
- **Composition.** <u>A subsegment of those interviewed are classified as Midsize/Small SPs</u> while the remainder are large SPs.
- **Comparison Analysis.** The two-segment approach enables educated comparisons between large SPs and the Midsize/Small SPs.

Measure the progress per domain from 'Ad-Hoc' to 'Pioneer'



Explore how digital transformation progresses in each domain and sub-category

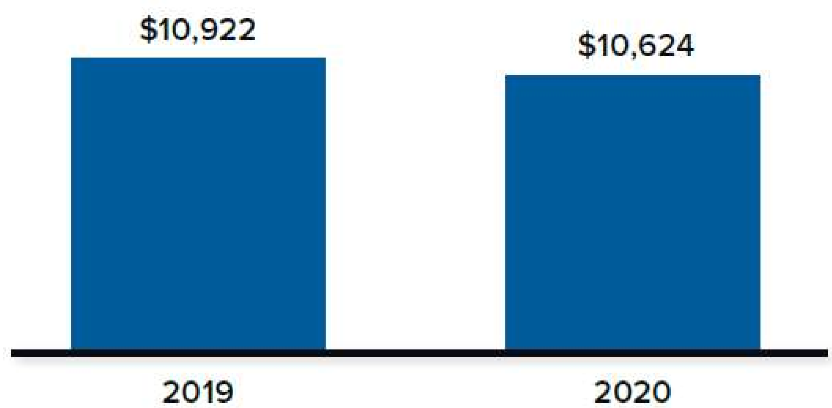
N = 400, Source: IDC *SP Digital Readiness Survey*, 2021

Who are the Mid/Small SPs?

- **Size.** Midsize/Small SPs are entities with <u>one million subscribers or less</u>, while large SPs are more than a million.
- **Midsize/Small SP composition.** Midsize/small service providers include cable TV operators, wireline providers, mobile service operators, and organizations offering a combination of cable, wireline, and mobile services.
- **The numbers.** IDC estimates there are more than 3,000 midsize/small service providers globally, with NA accounting for 80% of this market.

Global Midsize/Small SP Revenue, 2019 and 2020

($ Billion)

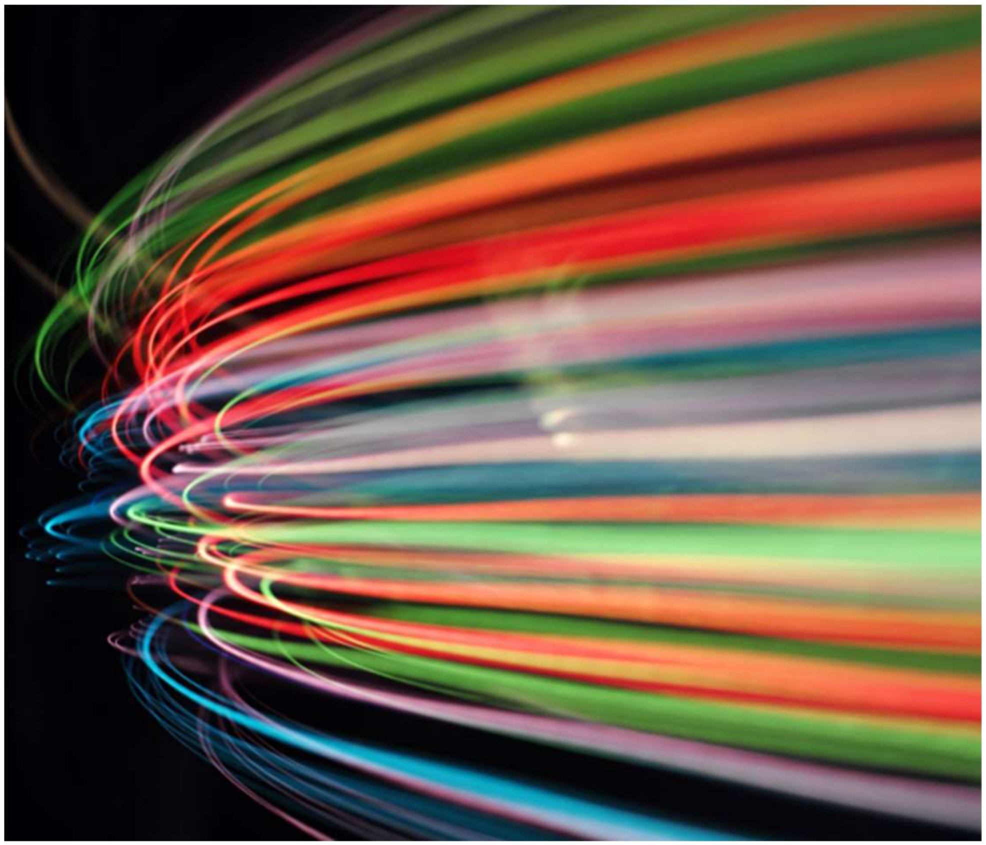


Source: IDC's GTI database, August 2021

Revenue. The 2.8% year-to-year global revenue decline is from impacts of the global pandemic and increased competition from traditional and nontraditional SPs.

Market Forces and Key Business Drivers

What Competitive Pressures are Midsize/Small SPs Facing?



- **Consumers.** Consumers want more for less with services such as adequate bandwidth, VPN connectivity, secure access, streaming content and always available entertainment.
- **Business customers.** Businesses want more by demanding connectivity to cloud and mobile edge compute environments as more workloads are moved to the cloud.
- **New providers.** Geography is no longer a boundary for large or small SPs. Cloud providers, utility companies, and big SPs see value in midsize/small serving territories.
- **New service innovation.** Cloud based capabilities bring competition for customer attention with new service offerings and advanced content.

Changing Technology Challenges for Midsize/Small SPs

- **Hybrid operations.** Midsize/small SPs typically favored in-house solutions over commercially available platforms to save costs. However, new systems to address new technology needs are critical, resulting in added resource commitments to meet hybrid network needs.
- **Security access.** Both large and midsize/small SPs, are experiencing a constant threat from potential security breaches tied to new infrastructure and architecture. Mid/size small SPs have less to invest, potentially making them easier prey.
- **People reluctance to change.** Transformation enablement can be interpreted as loss of job security if not properly communicated to technical staff.

Accommodating Customer Needs and Market Priorities

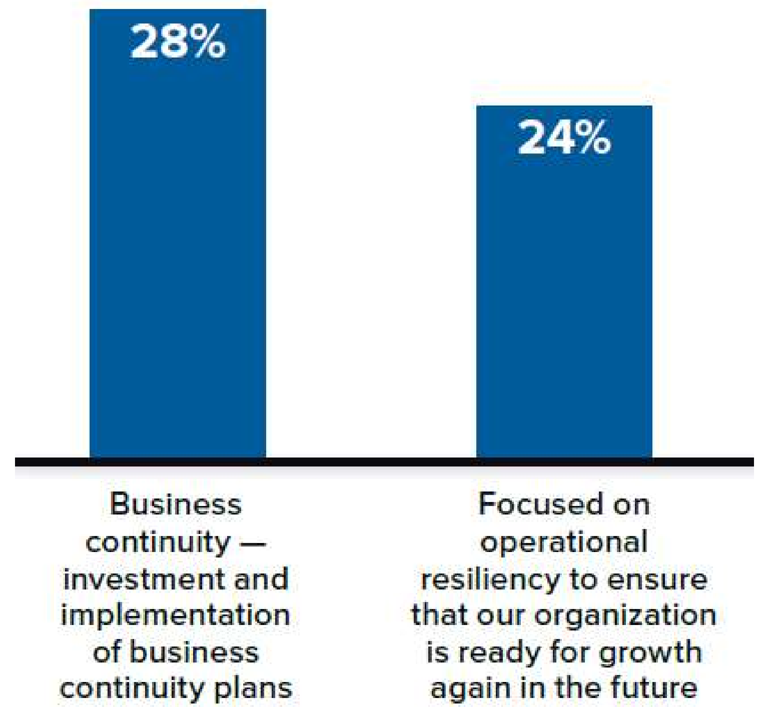
- **New business models.** As-a-service subscription models are popular with enterprises for lowering risk to acquire and consume technology. Mid/small SPs can enable high customer value if updated systems and processes are in place.
- **Partner ecosystems.** Many midsize/small SPs are upgrading internal systems to address seamless partner onboarding and to facilitate cocreation of new services.
- **Managed services demand.** Expertise is not easily available for customers to address complexity and to mitigate risk. Midsize/small SPs have an expanding opportunity to deliver managed collaboration solutions, managed network and endpoint security, managed LAN/WAN, and managed wireless services.

Midsize/Small SP Focus Areas

What Ongoing Concerns are Most Midsize/Small SPs Focused on Today?

- **Business Continuity.** Midsize/small SPs are investing to keep business running. Day-to-day operational challenges remain significant and demands continuous attention.
- **Operational resiliency.** Most midsize/small SPs are recovering from the global pandemic and are now preparing to see new growth.
- **Near-term paybacks.** Improving operations is key if near-term paybacks are achievable. 15% of respondents believe targeted transformational investment for generating growth is good,while another 15% state that innovation tied to new business or operational models is worth doing. Longer term investments continue to be deferred.

Which of the following choices best describe the current focus for your organization?

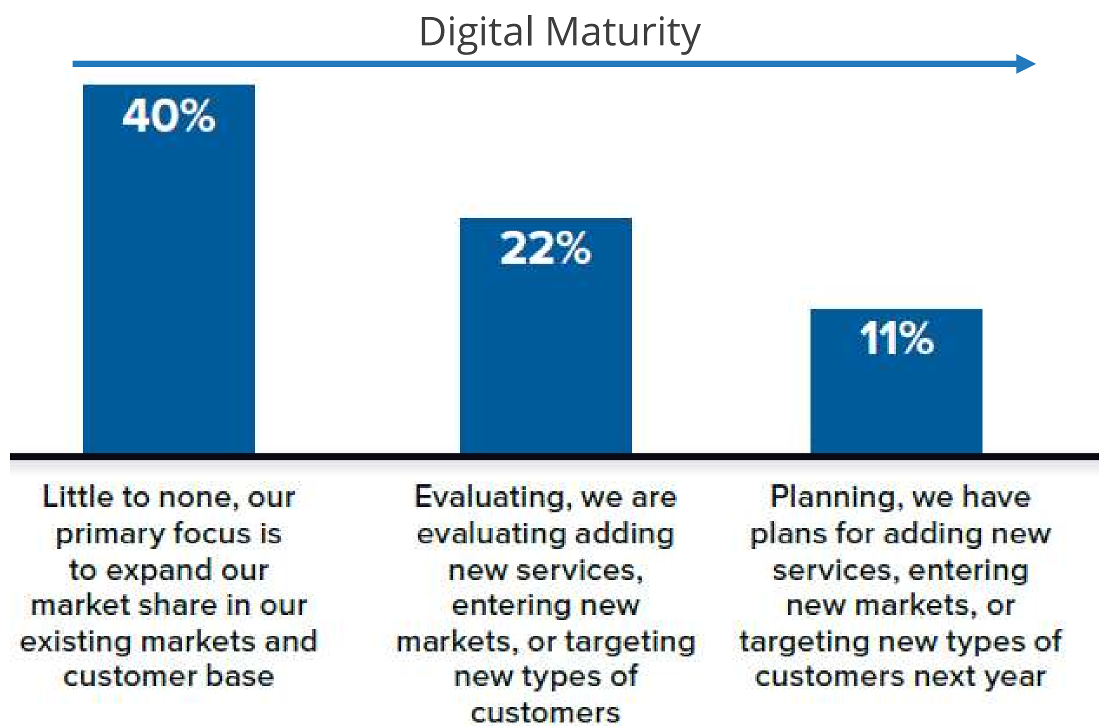


N = 201 midsize and small service providers. Source: IDC's SP Digital Readiness Survey, 2021

Growth is Critical, How are Midsize/Small Service Providers Planning for It?

- **Work with existing customers.** More than 80% of midsize/small SPs are focused on gaining higher efficiency in support of existing customers to drive profitability and expansion with them.
- **Provide demonstrated value.** One third of midsize/small SPs plan to conservatively invest in 5G. They plan to offer customers proven services with demonstrated value. The rest are waiting and observing.
- **New market expansion.** Less than 20% of midsize/small SPs are adding or plan to add new services, enter new markets, or target new types of customers.

What role does growing your business by adding new services, entering new markets, or targeting new types of customers play in your business strategy?

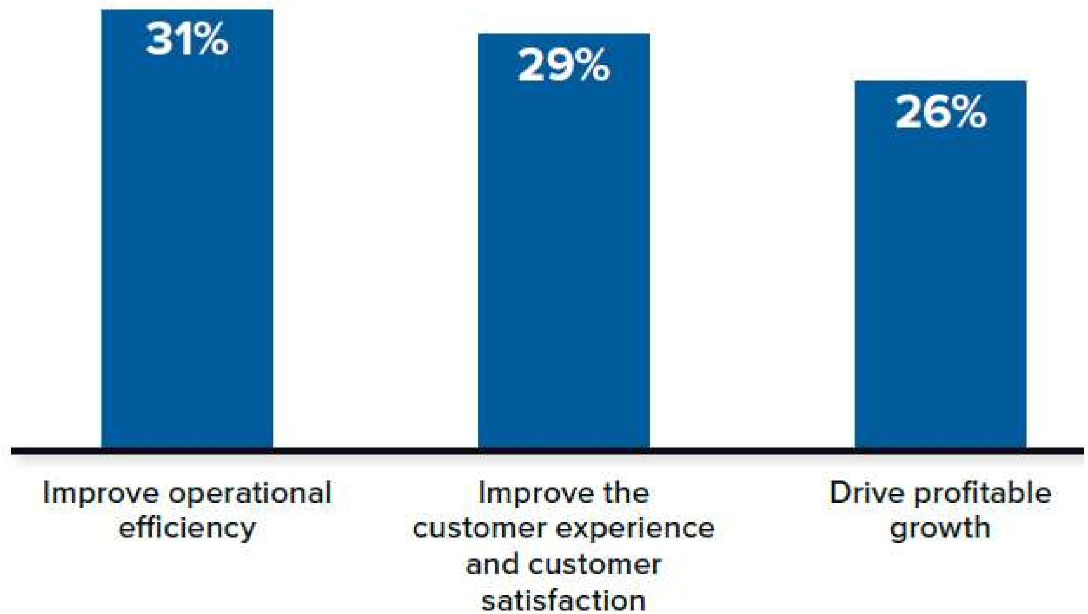


n = 201 midsize and small service providers. Source: IDC's *SP Digital Readiness Survey*, 2021

Existing Customers are Strategic, So What are the Investment Priorities?

- **Operational efficiency.** With a business strategy focused on the needs of existing customers, nearly 1/3 of midsize/small SPs believe improved operational efficiency is a key part of this strategy.
- **Customer experience.** Service improvement is not only a priority, but nearly 30% of midsize/small SPs believe it is essential for driving higher NPS and in creating competitive differentiation.
- **Driving profitable growth.** Automation is essential for areas impacting customer operations and where human involvement is difficult to engage due to the dynamic nature of some new services.

What are the top 3 high-level business priorities for your organization?

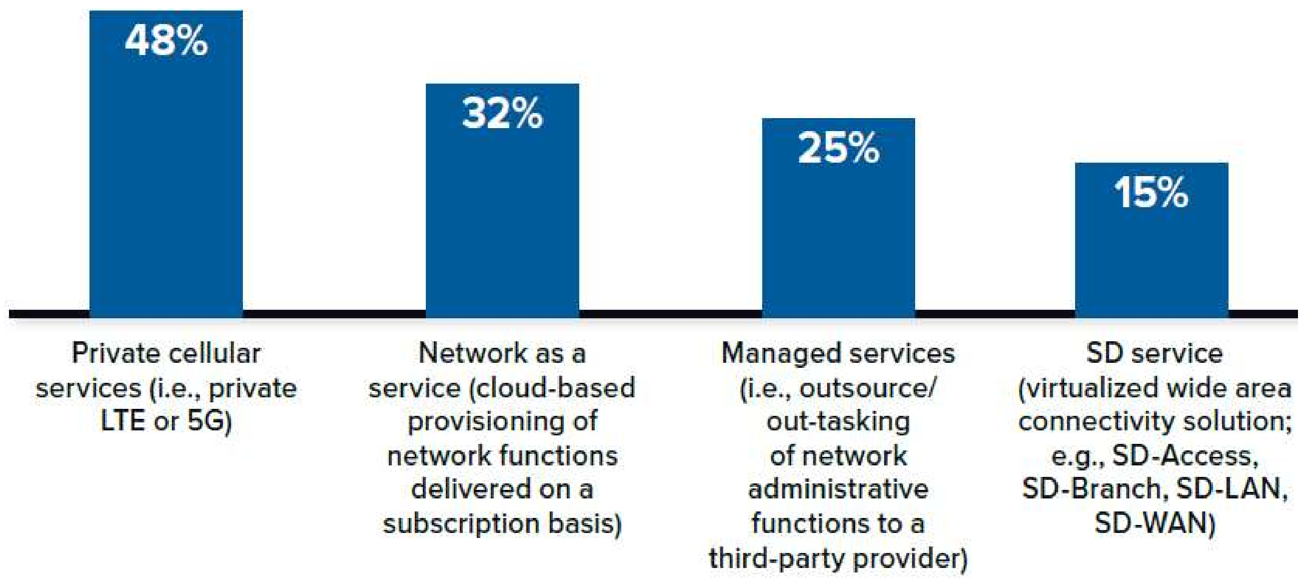


n = 201 midsize and small service providers Source: IDC's *SP Digital Readiness Survey*, 2021

What Will Service Expansion Focus on For Midsize/Small Service Providers?

- **Private networks.** Nearly half of midsize/small SPs believe they will play a significant role in aiding with branch facilities in multiple industries.
- **Network as a Service.** One third of midsize/small SPs believe expanding services to cloud-based functions with existing customers will yield increased revenue.
- **Enhanced operations.** If service expansion is to succeed, all business functions will need updates to address the nuance of new technology implementation.

Which of the following services represent priorities to expand your services portfolio? (Select all that apply)

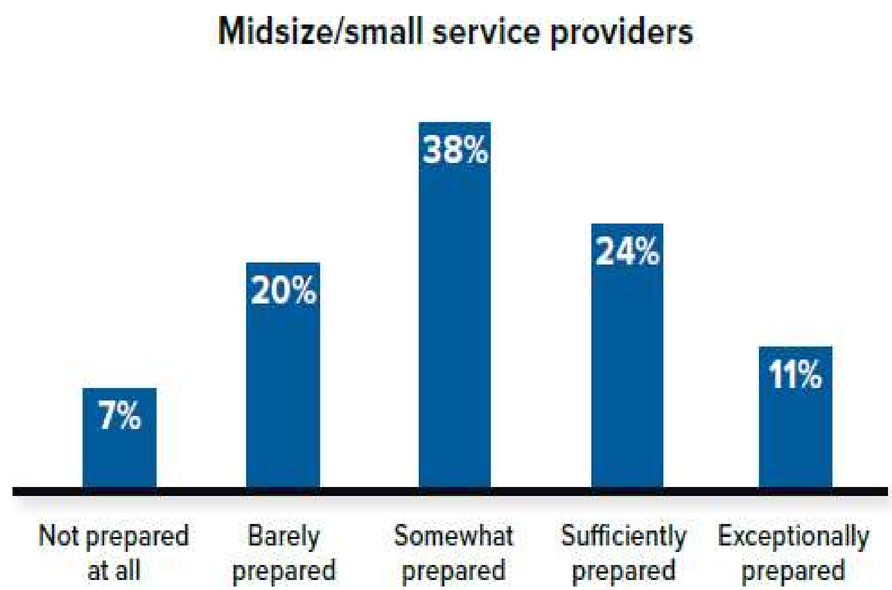


n = 147 customer-facing and internal services respondents. Source: IDC's *SP Digital Readiness Survey*, 2021

COVID-19 Pathway to Recovery for Midsize/Small and Large SPs

- **Preparation.** 35% of midsize/small SPs and 45% of large SPs feel sufficiently or exceptionally prepared as COVID-19 hit.
- **Rethinking strategies.** The pandemic forced midsize/small SPs to rethink how technology enables work from anywhere. This rethink is based on customer needs tied to faster broadband with enhanced security for collaborative apps, video streaming, and online learning.
- **Rural broadband initiatives.** In some areas government funding helped to improve broadband access for underserved communities.
- **Deeper supplier discussion.** Midsize/small SPs increased discussion with their technology suppliers about automation for greater agility.

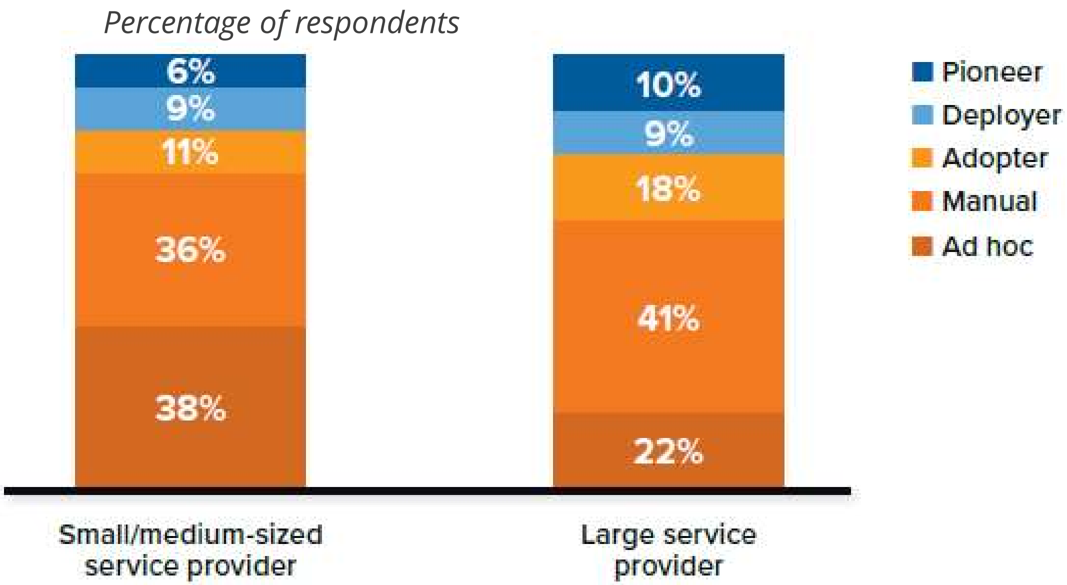
How prepared was your organization to adopt new ways of working in response to the global pandemic?



n = 187 organization and people respondents.
Source: IDC's SP Digital Readiness Survey, 2021

Midsize/Small SP Digital Maturity

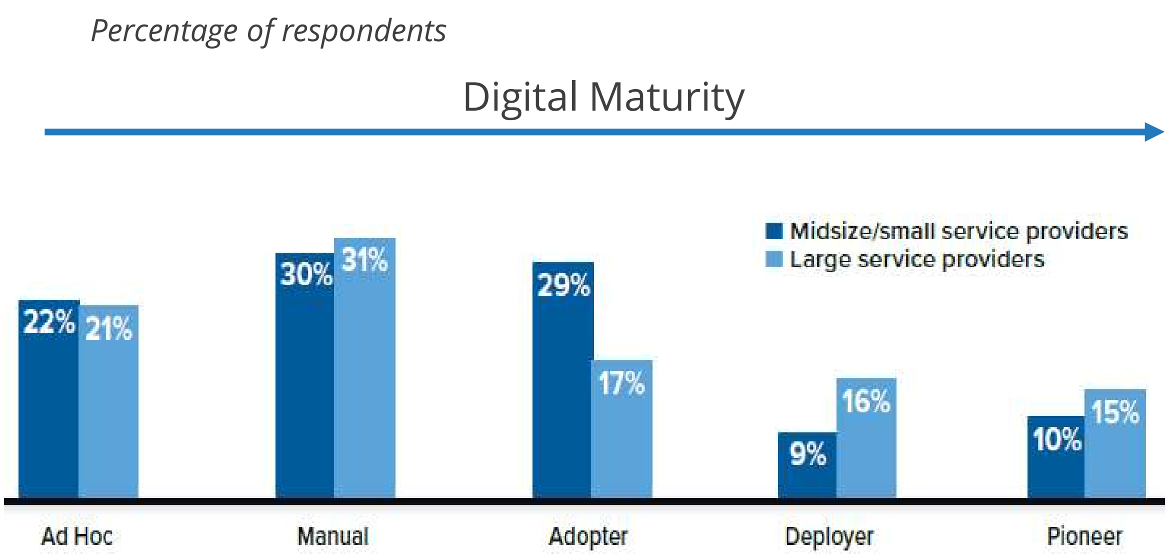
Digital Maturity of Midsize/Small Versus Large Service Providers



n = 401, Source: IDC's *Service Provider Digital Transformation Survey*, 2021

- **High digital maturity.** A small percentage of midsize/small SPs have achieved high levels of digital maturity. The same applies for large SPs.
- **Low maturity.** 75% of midsize/small SPs are in the bottom two digital maturity tiers. IDC believes this is due to their involvement in the early stages of:
  - New technology implementation
  - Moving from manual to automated processes
  - Deploying new services
- **Change is coming.** Many midsize/small SPs state they will be much more mature two years from now in numerous areas.

Midsize/Small SP and Large SP Maturity Comparison – Infrastructure

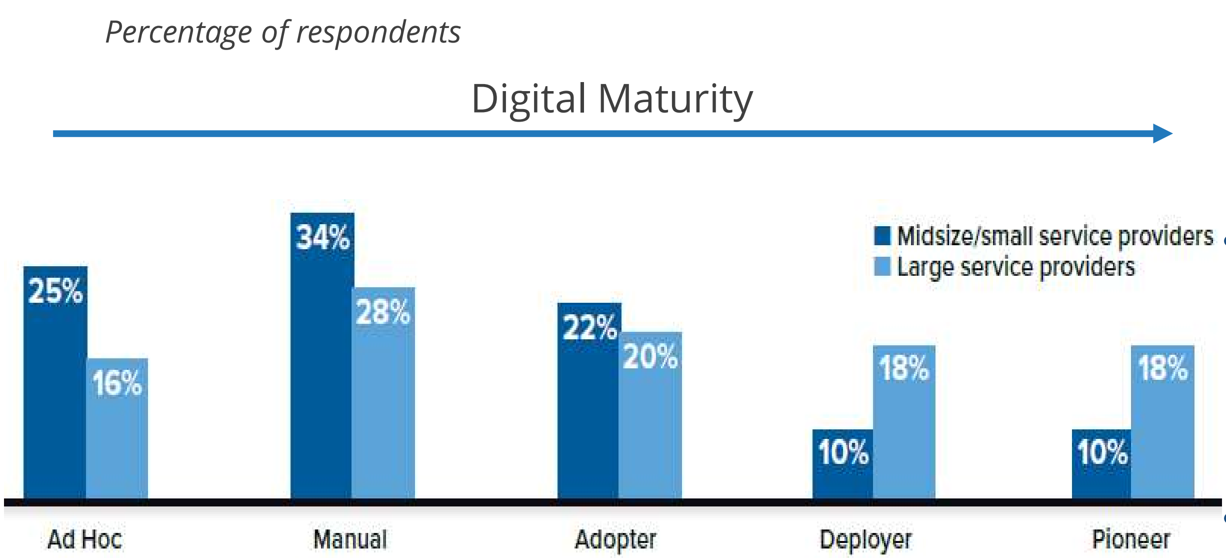


n = 214 infrastructure respondents. Source: IDC's *SP Digital Readiness Survey*, 2021

- **Network Upgrades.** SPs are upgrading to meet customer needs, support increasing traffic volumes, and to take advantage of new opportunities from their 5G deployment strategies. For midsize/small SPs it is a means for survival and eventual growth.
- **Rising competition.** Across the US, government funding for electrical grid management creates new rural bandwidth delivery opportunities. It is happening in other areas too.
- **Telecom and edge infrastructure.** Cross-domain converged, and virtualized networks are combined with cloud facilities to address elastic delivery of applications and services.

IDC

Midsize/Small SP and Large SP Maturity Comparison – Automation

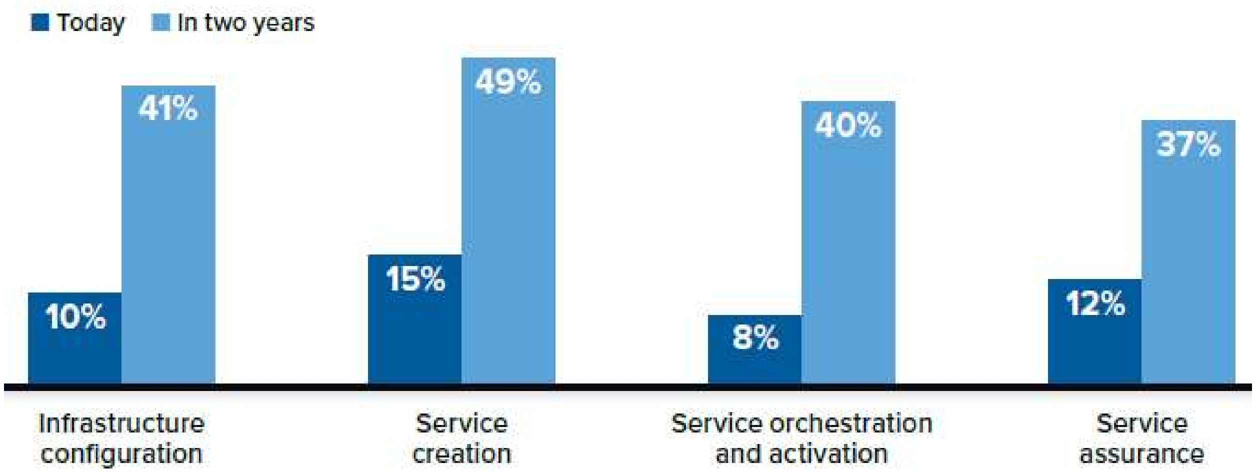


n = 158 automation and orchestration respondents. Source: IDC's *SP Digital Readiness Survey*, 2021

- **Network functionality.** New technology is moving to a services-based architecture. The network is now a changing hybrid of physical devices and software functions.
- **Automation and operations.** The time when automation is the only means by which SPs can address network configurability and service expectations is nearly here.
- **First-mover advantage.** For midsize/small SPs that can deploy services through automation, they will maintain their long-standing advantage over others.
- **Competitive opportunities.** New markets can now open via software.

Midsize/Small Service Provider Maturity – Automation and Orchestration

Percentage of respondents rating their maturity a 5 on a scale of 1 (lowest maturity) to 5 (highest maturity)



n = 73 midsize and small service provider automation and orchestration respondents
Source: IDC's *SP Digital Readiness Survey*, 2021

- **Moving to functional maturity.** For each critical operations function, midsize/small SPs are committed to a major level (3X+) of automation over the next two years.
- **Order management and billing.** Customer functions (ordering and billing) are equally committed. moving from 16% to 37%.
- **Customer services need automation.** New technology deployments for all SPs are dependent on advanced levels of automation for meeting expectations within the customer service delivery, assurance, and experience management processes.

Essential Guidance

Essential Guidance

- Very few midsize/small SPs have reached the top tiers of digital maturity. Increasing competitive intensity and changing customer preferences from rapid technology change will make digital transformation a continuous effort.
- IDC believes that midsize/small SPs will prioritize the following actions over the next two years as they move towards full digital transformation:
  - **Ubiquitous access.** Provide cloud-based network and security functions to ensure secure access solutions for consumer and enterprise customers.
  - **Ecosystem and partner engagement.** Expand partnerships with cloud providers for turnkey cloud and connectivity services along with engaging in cocreation models to expand services.
  - **Customer experience.** Increase AI and analytics investment to offer customers a robust omni-channel experience that includes self-help and drives service recommendations.
  - **Access to technology enablers.** Identify areas where automation will have the greatest impact on business through greater operational insight and accelerated time to market.
  - **Time to market.** Increase automation of end-to-end digital processes for improving time to service creation and delivery of new services.

Questions and Answers

IDC.com linkedin.com/company/idc twitter.com/idc blogs.idc.com