BearingPoint® // Beyond

Mind the gaps: six reasons why CSPs could miss out on the multi-trillion-dollar enterprise IT opportunity

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Introduction

Business-to-business is possibly the last market segment that represents a sizeable revenue opportunity for Communications Service Providers (CSPs) in saturated markets. Split between large enterprises and small to medium businesses (SMBs), there is a general sense in the telecoms industry that CSPs have failed to gain significant traction in the business-to-business (B2B) market, beyond the provision of basic telecommunications services.

As with any sizeable revenue opportunity, there is intense competition for the range of technology services that businesses consume. Systems integrators, value-added resellers and large technology vendors are going head-to-head with CSPs for this opportunity. Theoretically, CSPs are in a strong position – enterprise CIOs increasingly want to buy everything as cloud services to reduce costs and enable scaling. More broadly, enterprise business leaders want to drive the digital transformation of their operating models, via IoT and other connected services, and introduce new digital services to their customers capitalizing on AI, Machine Learning and 5G. CSPs have the potential to support this. The critical question, therefore, is: how can CSPs compete and win?
To answer to this question, we need to understand the 'gaps' that exist between CSP intent and execution, and the demands of business customers.

To support CSPs in defining successful B2B strategies, BearingPoint//Beyond commissioned a large-scale primary research study. Conducted in Q2 2019, research firm Coleman Parkes interviewed 250 technology decision makers from 100 enterprises and 150 SMBs based across Europe, Asia and the U.S. 90 senior executives within CSP B2B functions (Head of B2B and Head of B2B sales – equal split) were also surveyed, to help understand how CSPs are matching up against what enterprises and SMBs want now, and in the future.

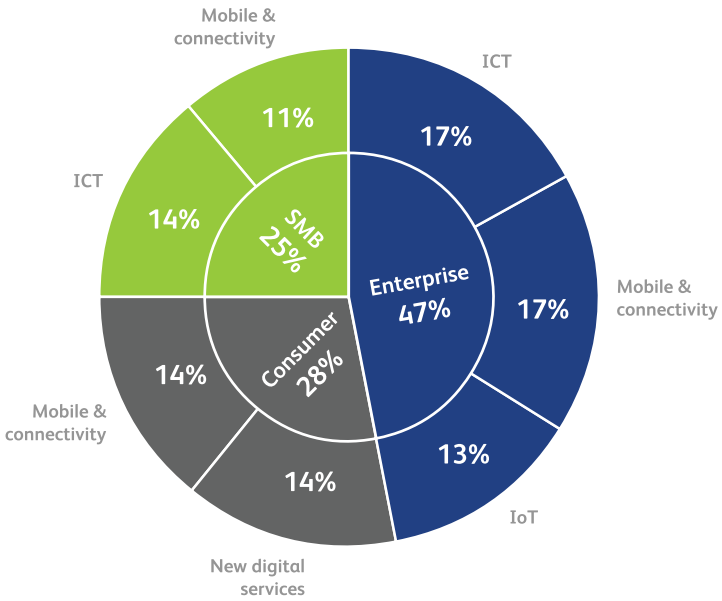
The research generated vast swathes of data, and this first executive summary focuses on the largest B2B opportunity facing CSPs: the enterprise market.

The enterprise market: potential and opportunity

Global enterprise IT spending is expected to reach $3.6 trillion by 2022, with a CAGR of 3.4%[1], and some analysts believe, that with an attractive new business model that moves into this adjacent market, CSPs can capture as much as 16%[2] of this spend. In contrast, over the past five years with existing business models, telecom operators recorded an average CAGR of -0.4%[3] in the B2B sector. Enterprise IT spend is very different to traditional enterprise telecoms spend, and BearingPoint analysis suggests that connectivity will only account for approximately 5% of global enterprise IT spend.

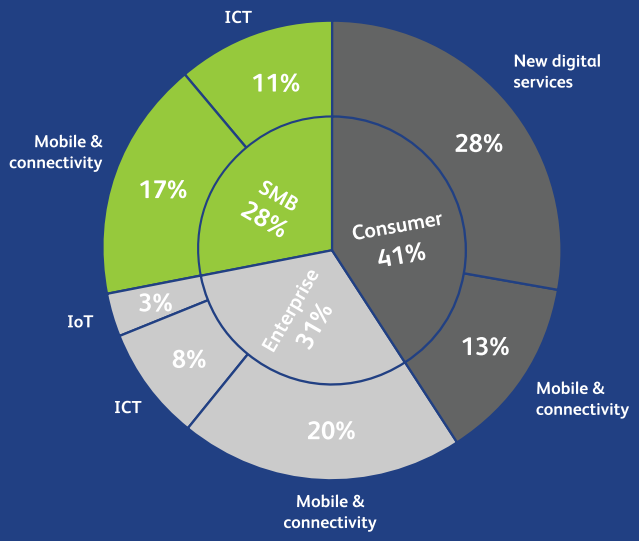
It's clear, then, that the opportunity is for CSPs to move beyond traditional connectivity-driven products and services when targeting the enterprise – the IT market is significantly bigger than the enterprise connectivity market, and it's growing a lot faster.

B2B CSP executives share this belief. In the next two-to-three years, 47% of CSPs expect enterprise services to make up the lion's share of their total revenues (17% enterprise connectivity solutions, 17% enterprise ICT solutions, 13% IoT and vertical solutions). Consumer services will be the mainstay for 28% of CSPs (14% consumer mobile and data services, 14% new consumer digital services), and SMB for 25% of CSPs (14% SMB ICT solutions, 11% SMB mobile and connectivity solutions).



What will be the main source of revenue for your company in the next 2-3 years?

1 Gartner
2 Analysys Mason
3 PwC



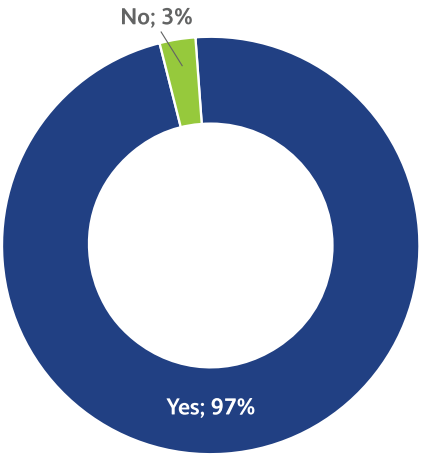
What will be the main investment focus for your company in the next 2-3 years?

However, there is a major disparity between where CSP executives expect opportunities to lie in order to grow revenue, and where their companies are focusing investment to achieve that growth. This is the **first major 'gap'** that CSPs must overcome. While 47% of CSP executives expect the enterprise segment to be their main source of revenue in 2-3 years, only 31% expect it to be the main focus of investment. By contrast, 28% of CSP executives expect consumer to be the main source of revenue in the next 2-3 years, but 41% expect it to be the main focus of investment. CSPs are expecting enterprise revenues to rise, despite limited planned investment. The traditional 'consumer-first' mindset is holding CSPs back from capitalizing on the multi-trillion-dollar enterprise opportunity.

This must be frustrating for CSP executives with B2B responsibilities – 18% of whom cite management decision making and business priorities as one of the top five internal challenges in getting new B2B offerings to market. When 30% consider new growth engines like ICT and IoT as a source for future revenue while only 11% believe they will be a main investment focus, more support is needed from senior management to capture the enterprise market. It's time for CSPs to let go of the past and follow the money.

To be able to capitalize on the enterprise opportunity, CSPs must shift their entire business and operations to support and invest in enterprise. If this is where the growth is, this is where investment needs to go. While industry leaders are starting to understand that 5G monetization depends on enterprise use cases, appropriately prioritizing investment is proving more challenging. An enterprise-focused business is very different to a traditional, mass consumer, ARPU-driven business. The latter is high volume and repetitive, the former is far more complex. It requires CSPs embrace fundamental change: shifting marketing and sales efforts, putting in place new financial KPIs, restructuring their organizations, building different operational models and developing new relationships with the ecosystem around them.

Excitingly, our research points to a major revenue opportunity and an 'open door'. An amazing 97% of enterprises would consider purchasing new technology solutions from CSPs.

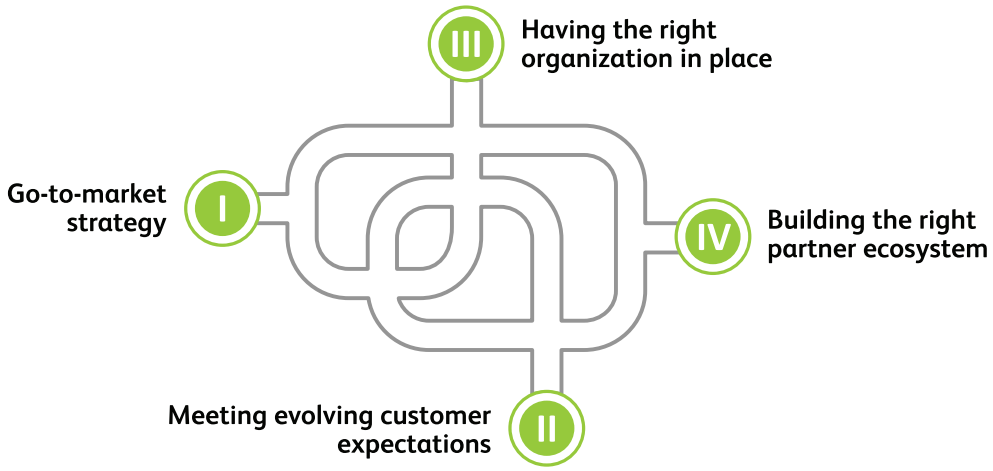


Would you consider purchasing new technology solutions from CSPs?

Maximizing the enterprise opportunity – four dimensions of complexity

It's clear that CSPs must re-examine their investment priorities to better align them with areas of potential. But this is just the tip of the iceberg – there is a lot more to do. Today, 96% of enterprises report challenges in working with CSPs, only 4% classify themselves as completely satisfied customers.

So, what else is preventing CSPs from capitalizing on the enterprise opportunity? Where are the 'gaps'? BearingPoint// Beyond has identified four clusters of challenges CSPs must tackle when expanding their enterprise businesses. These 'dimensions' are:

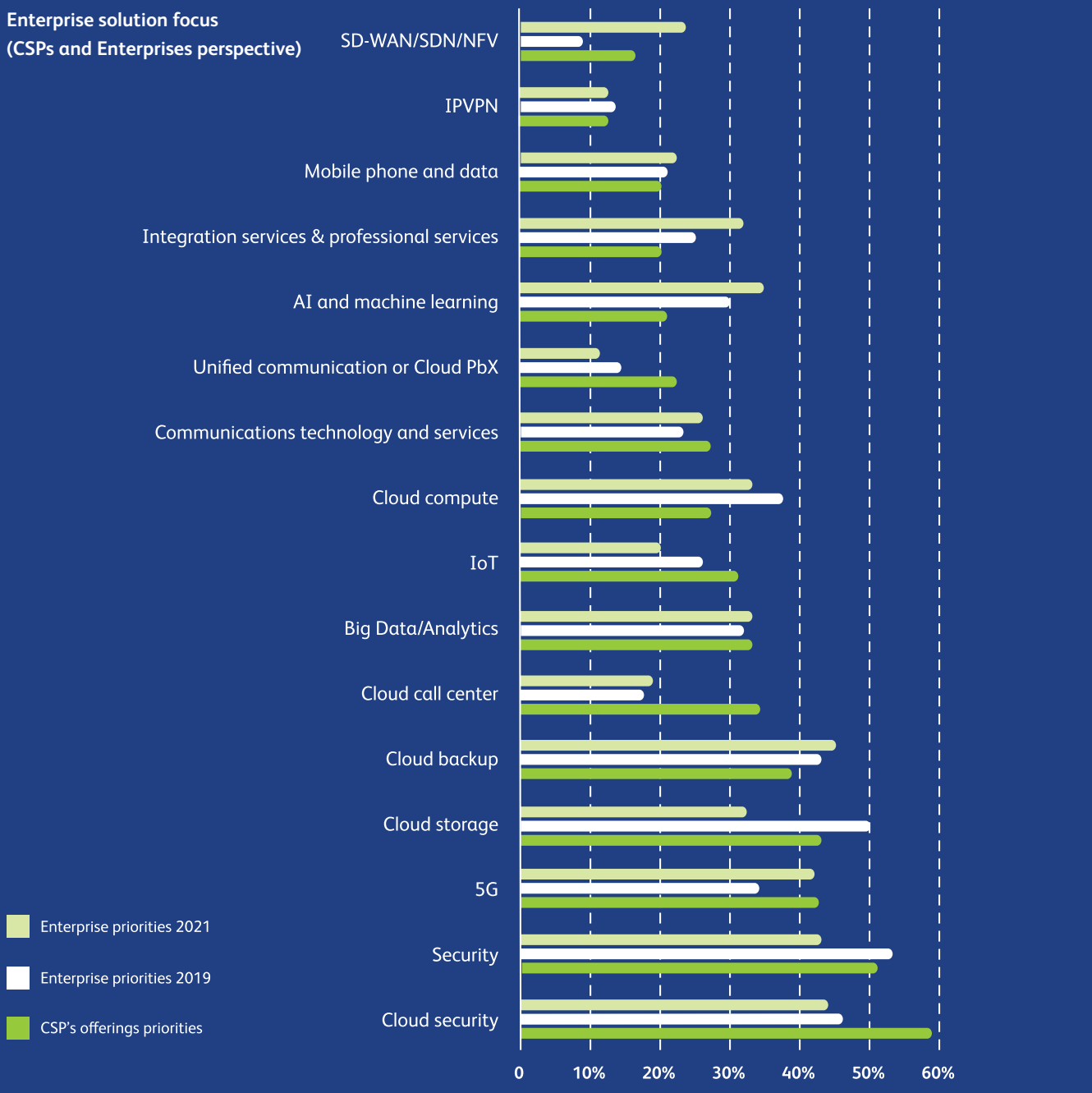


Go-to-market strategy

If the 'enterprise' is the source of new revenues, then CSPs must ask themselves: how do we go-to-market? When? How do we differentiate? How do we make ourselves relevant?

What are CSPs bringing to market?

CSPs are focusing on offering a range of services for enterprises today.
In general, these are consistent with what enterprises are looking to invest in during 2019 and 2021

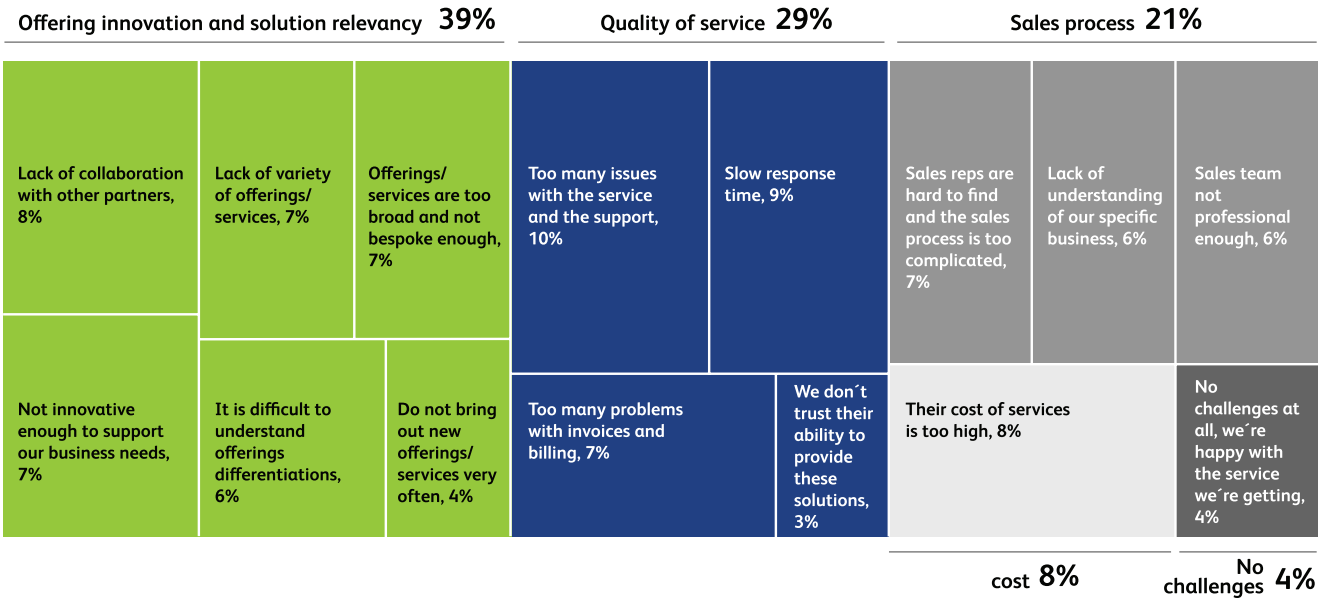


However, there are some notable areas of misalignment: machine learning and AI is a priority investment area for 30% of enterprises today, growing to 35% in 2021, but is a focus for only 21% of CSPs. Unified communications is a priority for 22% of CSPs today, but only 14% of enterprises in 2019 and 11% in 2021.

This misalignment between what CSPs are offering and what enterprises want to buy is not significant enough to be regarded as a 'gap' on its own. However, when we dive into delivery and execution, we see a major gap.

Delivering speed, innovation and relevance

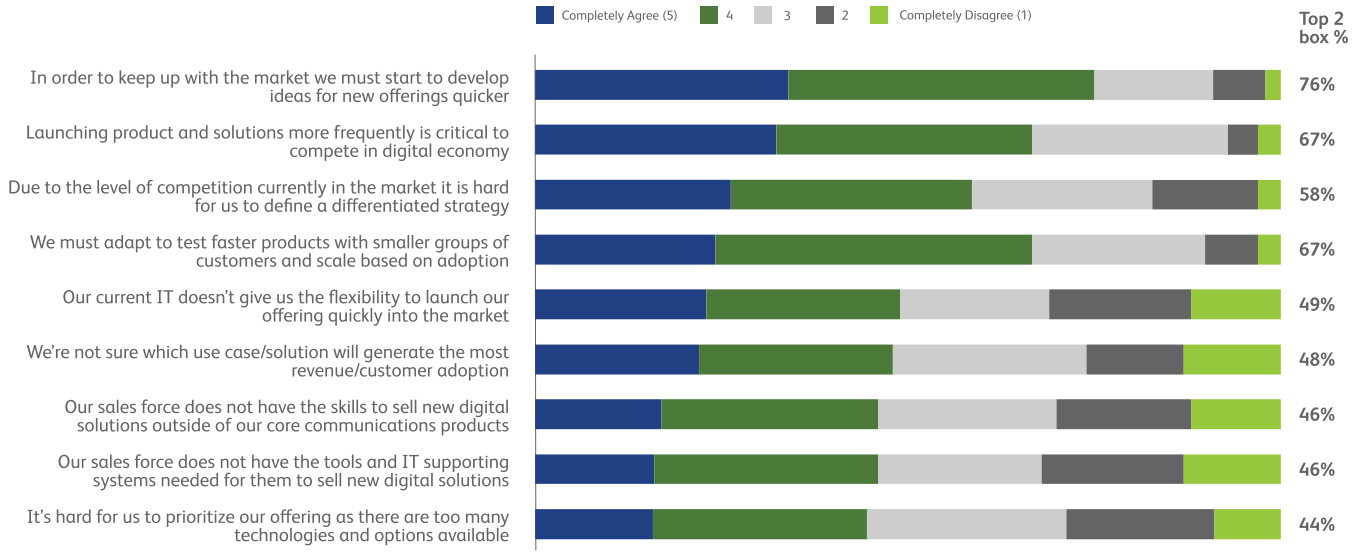
To quote philosopher George Santayana "to know your future, you must know your past." So – how have CSPs traditionally delivered in the eyes of enterprises? It's not great news. 39% cite issues around innovation and solution relevance as their main challenges in working with CSPs. 29% point to quality of service, 21% experience challenges with CSP sales processes. Cost is a concern for 8%.



Currently what is the main challenge you face when working with CSPs?

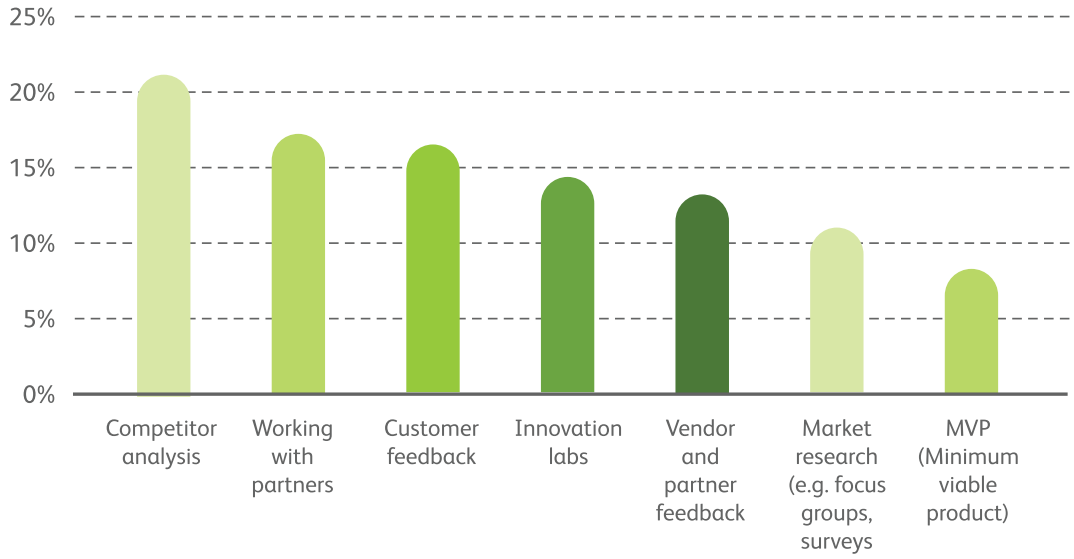
For 55% of enterprises, the drive for investing in new technologies is to modernize their businesses – so relevance and innovation is key. Based on their experiences to date, enterprises do not see CSPs as especially innovative or relevant. It's therefore important that CSPs up their game in this department. Helpfully, they understand this.

CSPs believe they must accelerate the speed of innovation, bring new offers to market more frequently and adopt a more experimental mindset. Doing so is a challenge. When asked what the main internal blockers were to taking new business offerings to market, the top five were time to market (27%), understanding market demand (20%), figuring out packaging and pricing (18%), management decisions and business priorities (18%) and understanding customer needs (17%). Our **second major 'gap'**, therefore, is the **enterprise's demand for innovation and offer relevancy and the CSP's ability to deliver.**



To what extent do you agree or disagree with these statements (CSPs' perspective)

It is even more interesting to consider the potential reasons for this misalignment and look at the strategies CSPs deploy when deciding on which products to develop and launch. One in five (21%) use competitor analysis – a 'keeping up with the Joneses' approach which is likely to diminish innovation. Only 14% deploy innovation labs, and less than 8% build minimum viable products and test them. CSPs need to change their approach and learn from digital natives by adopting a more experimental mindset – innovating faster with shorter iteration cycles and more active customer engagement.



How do you currently decide what to launch to the market? Please select the key method you use.

Obviously CSPs are lacking the ability to drive innovation and agility that digital natives take for granted. Most CSPs have 'product launch processes' that are complex and lengthy to avoid risk and losses. However, the same processes that were there to protect them in the past are no longer relevant today. The governance mechanisms created by CSPs to productize and protect their businesses are diametrically opposed to the experimental, 'fail fast' mantra of digital natives. They are proven to be costly, with high rates of failure and, critically, they prevent CSPs engaging directly with their customers. So while the list of offerings seems aligned, in reality there is a gap in a CSP's ability to rapidly develop differentiated, innovative offerings that are relevant to the needs of their enterprise customers.

II Having the right organization in place

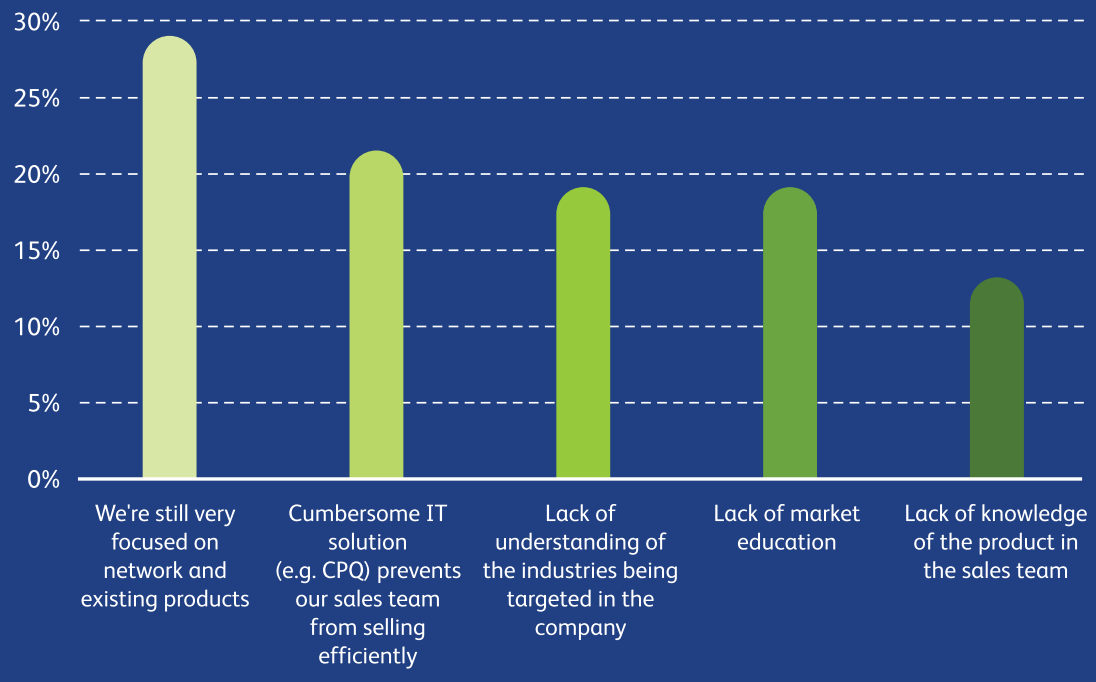
There are a number of organizational challenges that CSPs must overcome to be able to take advantage of the enterprise opportunity. There are many components to this, but customer-centricity, agility and innovation and sales competencies stand out as areas of friction.

Customer-centricity

When asked about the main challenges to selling new propositions into enterprises, CSPs point to a range of internal problems...

29% believe they're still too focused on selling connectivity, 21% said their IT systems prevent them from selling effectively, 19% believe they lack the understanding of the industries they're targeting, 19% pointed to a lack of market education and 13% blame a lack of product knowledge in the sales team.

Fundamentally, there is **a knowledge gap – our third 'gap'** – at work here. This knowledge gap is another indication that CSPs are not investing enough in understanding the dramatic shift in the needs of enterprise customers. Enterprises are looking for partners and technology solutions that will help them transform their own businesses, increase efficiency and help them to accelerate innovation to develop new services that grow revenue.

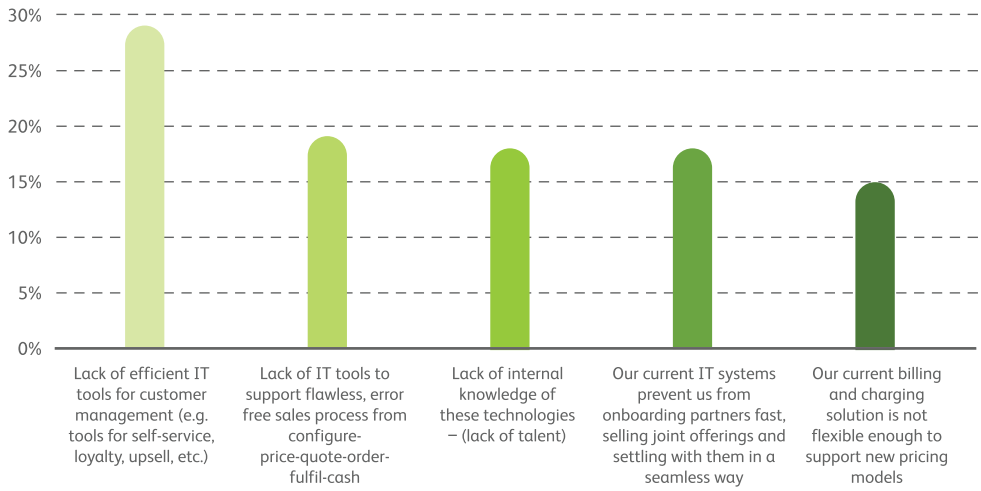


What is the main challenge to selling these new B2B offerings?

Operational agility

Nearly half (49%) of CSPs recognized that their current IT set-up does not give them the flexibility to launch offerings quickly into market. These barriers to increasing speed will have major, negative ramifications for CSPs. Consider, for a moment, the agility of the digital disruptors. Speaking to Forbes in late 2018, Andy Jassy, CEO of AWS said: "If you look at the continued pace of innovation in AWS this year, we'll launch a little over 1,800 significant services and features in 2018, up from 1,400 a year ago. And a thousand the year before that. The pace of innovation is getting faster and faster."

CSP IT challenges are multiple and diverse. Focusing on the top five challenges, lack of efficient IT tools for customer management topped the charts for 29% of CSPs. 19% turned their ire on lack of IT tools to support sales processes, and 18% on the lack of internal knowledge about new technologies. Interestingly, 18% of CSPs felt their IT systems effectively prevented them from onboarding partners – enabling joint offerings and seamless settlement. 15% pointed to billing and charging systems not being flexible enough to support new pricing models. Our **fourth 'gap'**, then, is the misalignment between what CSPs know they need to do and what their **IT systems** will enable them to do.



What is the main internal operational/technical challenge to taking these new B2B offerings to market?

Sales competencies

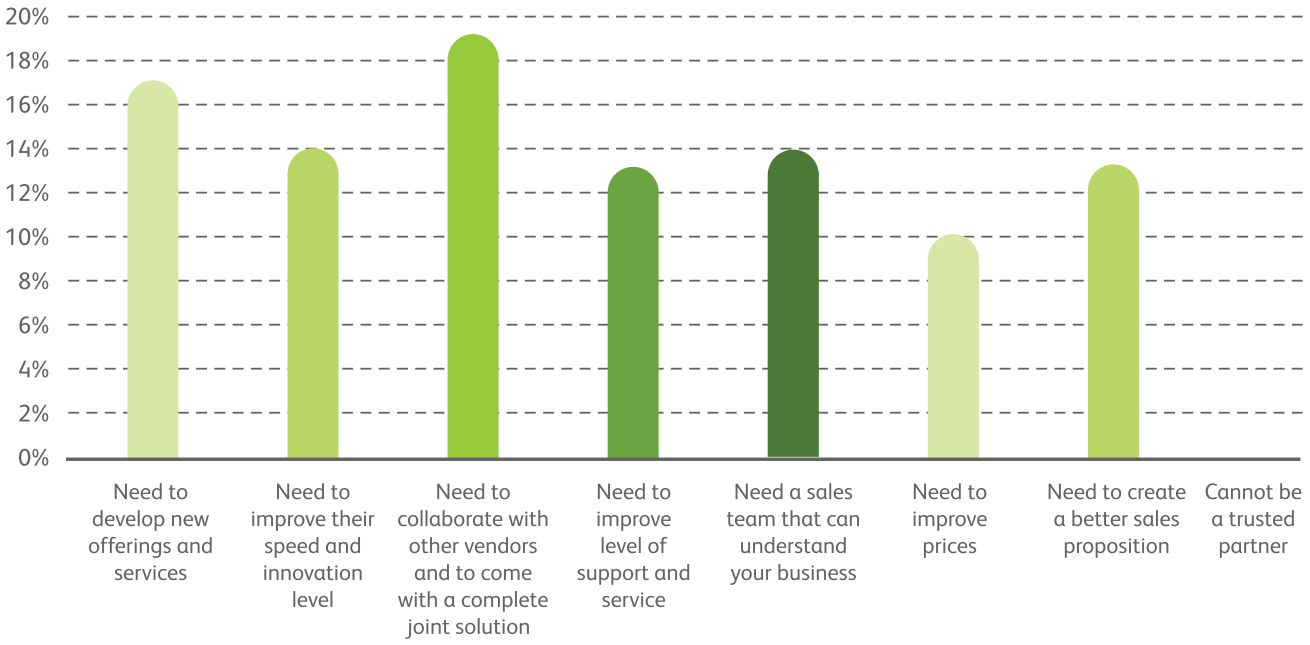
Probably one of the most worrying result with regards to organizational competencies, was the answer to the question: "How confident would you say the sales team is when selling new technologies embedded in your B2B products/offerings?" Just 36% of CSPs said they were confident. 22% were undecided. But 42% of CSPs do not feel they have the B2B sales teams they need in place in order to be successful. In short, CSPs don't have faith in their sales teams. When attempting to enter the enterprise arena, this is severely concerning. Supporting and enabling sales is a critical element in a CSP's ability to shift their business from consumer to enterprise, and from connectivity to ICT solutions. Making it easier and more rewarding for sales teams to sell new solutions is key. CSPs need to create solutions that are easier to sell, rethink their incentive plans, use IT tools that will simplify sales processes and increase their network of channels partners to help them expand their market reach, get to new audiences and close knowledge gaps.

Meeting evolving customer expectations

Much like an enterprise's future technology investment plans, their needs will grow and change over time. How do CSPs best support the growing needs of B2B customers? How do they help put themselves in contention as valued partners?

Enterprises are increasing their spend on new technologies. On average, 17% of their current financial year budget is focused on new technology. In 2020, it will increase to 19%. The main driver for these investments is to modernize their businesses via digital transformation, reduce operational costs and grow revenues.

When asked how CSPs can position themselves as preferred partners for new IT investments, enterprises outlined their expectations. The need to improve prices is proposed by 10% of enterprises – the lowest scoring answer. 13% of enterprises want CSPs to develop better sales propositions, 13% would like CSPs to improve levels of support and service. 14% want CSP sales teams that better understand their business, another 14% to improve speed and innovation. Ranked second (17%) is the need for CSPs to develop new offerings and services. But in first place, 19% of enterprises demand that CSPs collaborate with other vendors to provide complete, joint solutions.

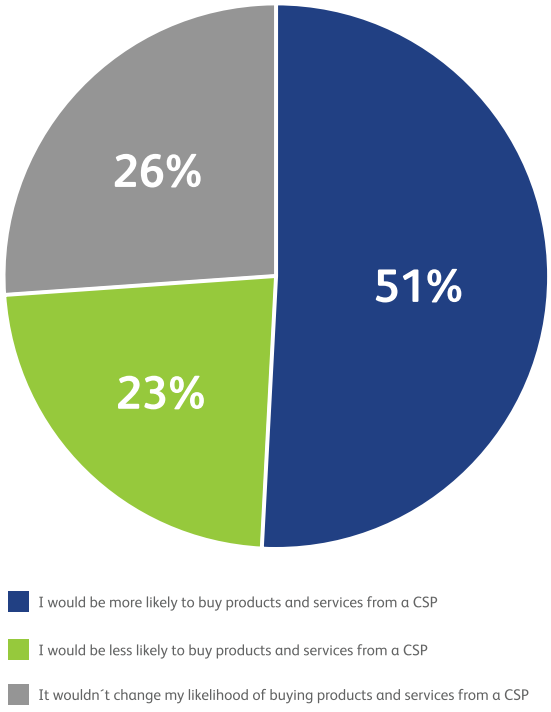


What do you expect CSPs to do to position themselves as your preferred partner for the adoption of these new ICT solutions?

In some respects, these answers are unhelpful when defining a traditional CSP strategy. Enterprises want CSPs to offer more services, more speed and innovation, more understanding, more support and more compelling propositions. But actually, the most popular answer – collaboration with other vendors – provides an important lens through which to meet the expectations of enterprise customers. In short, enterprises don't want CSPs flogging them products, but they do want them to integrate a range of products and capabilities into a series of solutions that make it more straightforward for enterprises to transform their businesses.

Ecosystems of partners amplify the number of services available, the ability to build solutions that better address needs, drive speed and innovation, bring specialist knowledge to bear, provide better support and create more compelling offers.

Indeed, in a follow-up question, enterprises were asked: "if you were approached by a CSP offering a solution resulting from collaboration and joint development with an ecosystem of partners, would you be more or less likely to buy products and services from them?" 26% of enterprises felt it would not change their likelihood of purchasing from a CSP. But 51% of enterprises claimed they would be more likely to buy from CSPs. Partner ecosystems, then, would appear to play a critical role in helping CSPs meet evolving customer expectations.



If a CSP approached you with a complete solution that was a result of collaboration and joint development with an ecosystem of partners, would you be more or less likely to buy products and services from them?

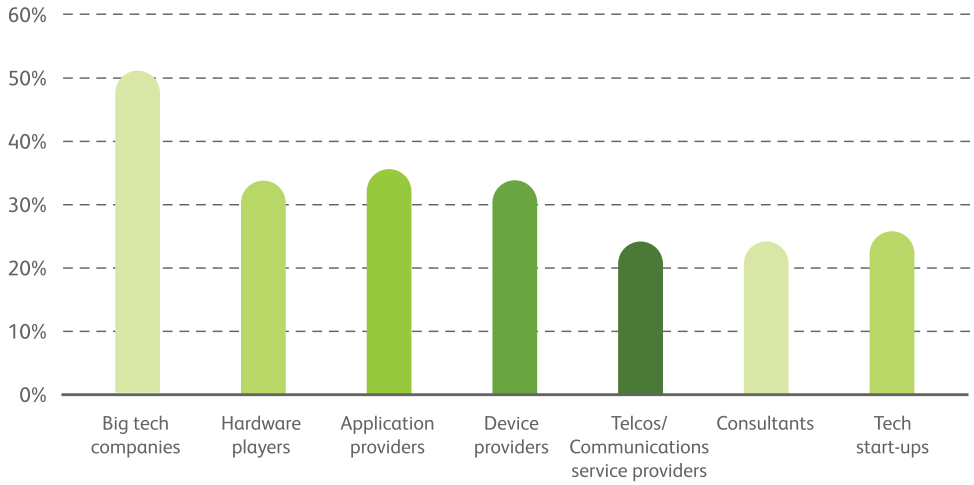
IV Building the right partner ecosystem

During this analysis, the case has been steadily building for partner ecosystems to support CSP enterprise go-to-market strategies, create the right kind of organizational capabilities and to meet the evolving needs of customers. The majority of CSPs agree that growing a partner ecosystem will help diversify their B2B offerings (68%), increase their reach (67%) and drive innovation (66%). But what role will CSPs play? Who should they be partnering with? What barriers do they have to overcome? And how is this move to ecosystems manifesting?

The role of CSPs in ecosystems – the enterprise view

97% of enterprises are clear that – given the speed of technological change – key players need to collaborate to provide them with better services. But, perhaps because the telecoms industry has been slow to the partnership game, only 26% of enterprises see CSPs as a key player needing to collaborate. The only type of company they felt was less important were start-ups (22%).

Furthermore, CSPs rank joint last (along with consultants) among the key players from whom enterprises feel they need to buy products and services from.



Who do you see as the key players from whom you will need to buy services and products? (Enterprises' perspective)

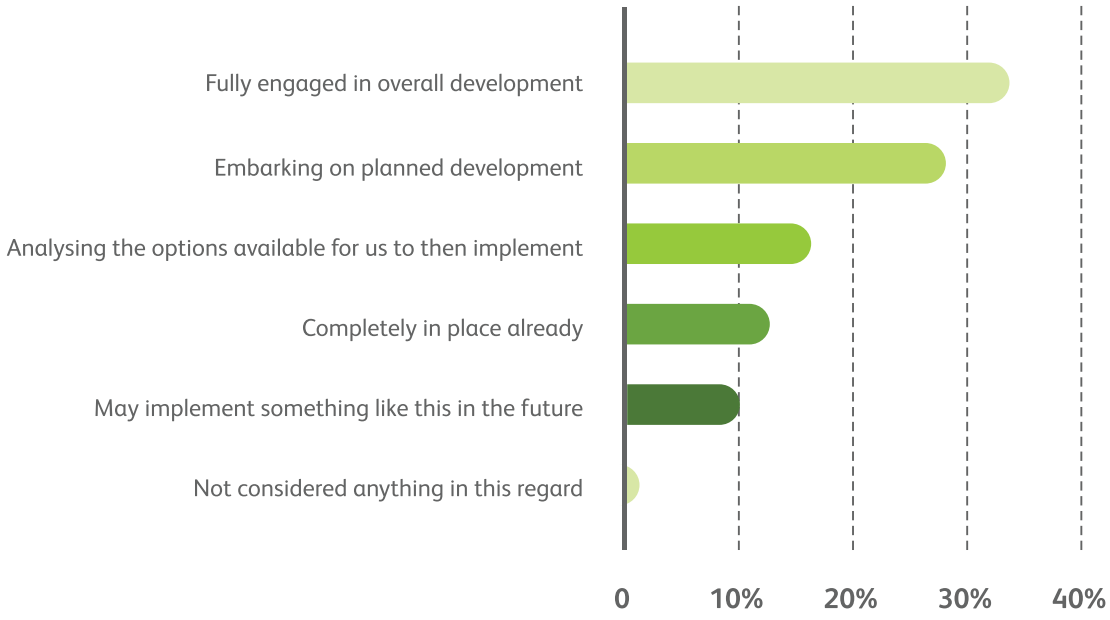
To achieve relevance with enterprise buyers therefore, CSPs will have to offer complete solutions from a range of partners that support the needs of enterprises to increase efficiency and operational agility, while introducing new offerings to their customers. In fact 74% of enterprises agree, believing it's important for CSPs to extend collaboration across the ecosystem to develop solutions that would better fit their needs. Positively, 96% of enterprises believe CSPs have a bigger role to play in the market beyond connectivity.

The role of CSPs in ecosystems – the CSP view

Thankfully, CSPs are on board with the theory. 86% think that collaboration is important, with only 4% believing they can go it alone. But are they on board in practice?

When asked how advanced they were in terms of building ecosystems of partners to offer B2B products and services, just 12% said they had them in place already. 33% of CSPs are fully engaged in developing ecosystems. 28% are planning their ecosystems, but 27% are either in early analysis stage, considering whether or not to build an ecosystem, or have not thought of it at all.

Despite this relatively low level of execution against partner ecosystem plans, 78% of CSPs expect to **play an influential role in ecosystems** – our **fifth 'gap'**. To be influential they must own the customer, be the destination where customers head, and orchestrate those elements of the value chain that are valued by the customer, otherwise they will be disintermediated.

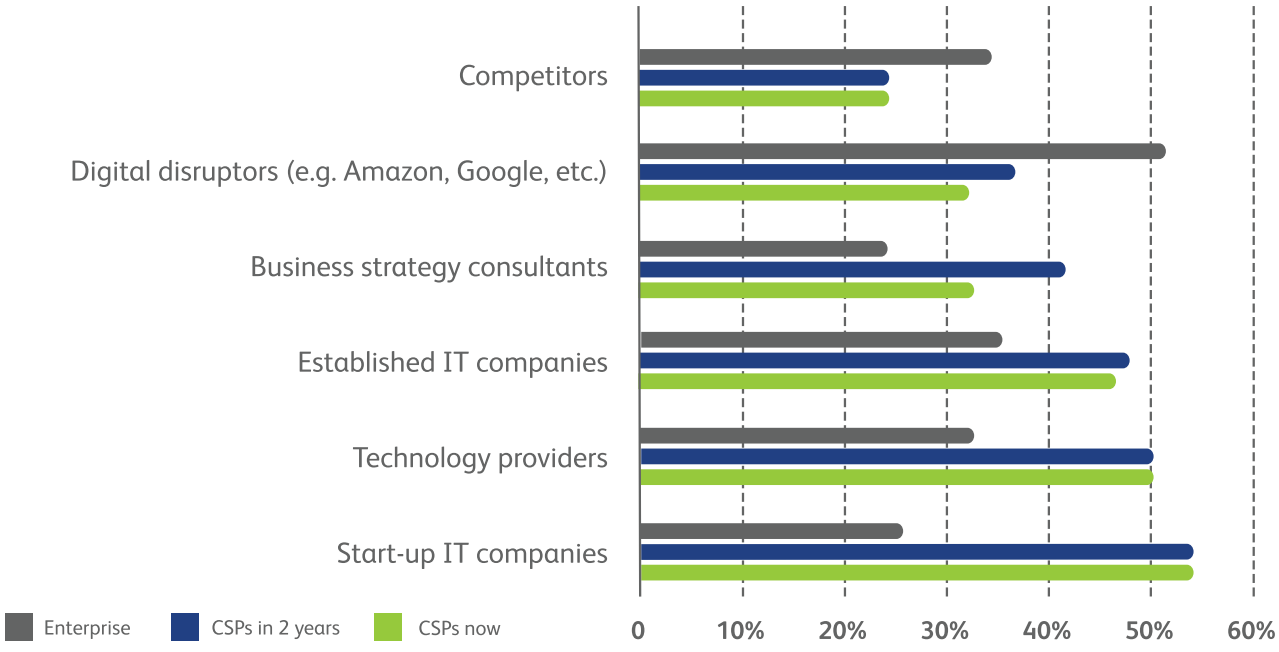


How advanced would you say your company is at building an ecosystem of partners to offer B2B products and services? (CSPs' perspective)

Who should CSPs prioritize partnerships with?

When comparing the type of companies that enterprises expect to buy from with the type of companies that CSPs are partnering with now, and in the future, there is some notable misalignment This is our **sixth 'gap'**.

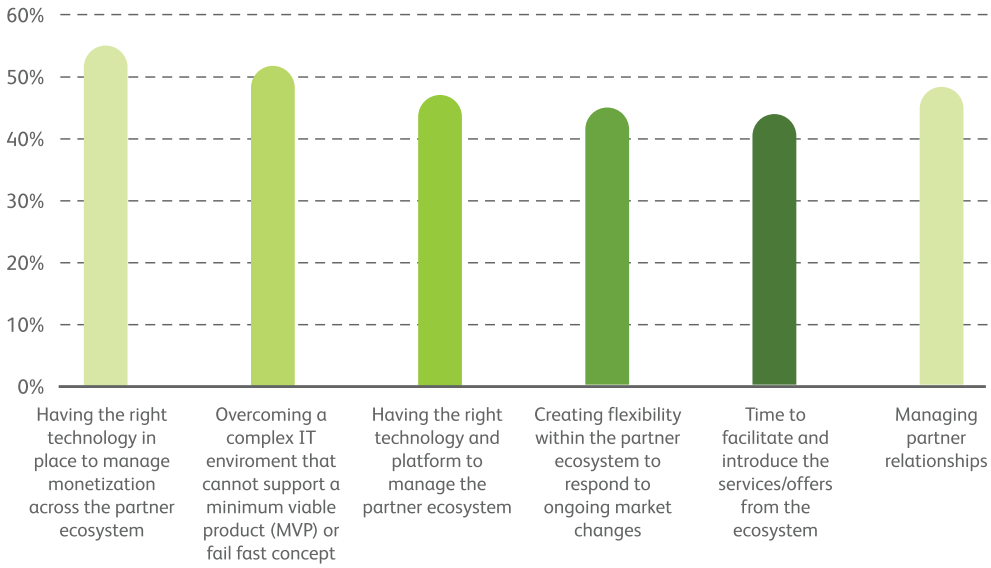
Start-ups are the major partnership focus for CSPs (53% today and in two years), but only 26% of enterprises see them as key players who they will need to buy from. Large technology providers (Cisco, HP etc.) are a focus for CSPs (50% today and in two years), but only 32% of enterprises. Digital disruptors (Google, AWS etc.), on the other hand, are seen as key sources of products and services by 51% of enterprises – however, only 32% of CSPs are partnering with them today, and only 37% of them expect to be partnering with them in two years. It's another example of how CSPs are still reluctant to open up. They prefer to work with traditional partners such as Cisco and HP. The consumer-driven 'OTTs will eat our lunch' narrative has led CSPs to see the web scale digital disruptors as competitors in all areas – pushing them further away from delivering what enterprise customers really want.



Which of the following entities should CSPs partner with to develop these solutions?

Ecosystem barriers

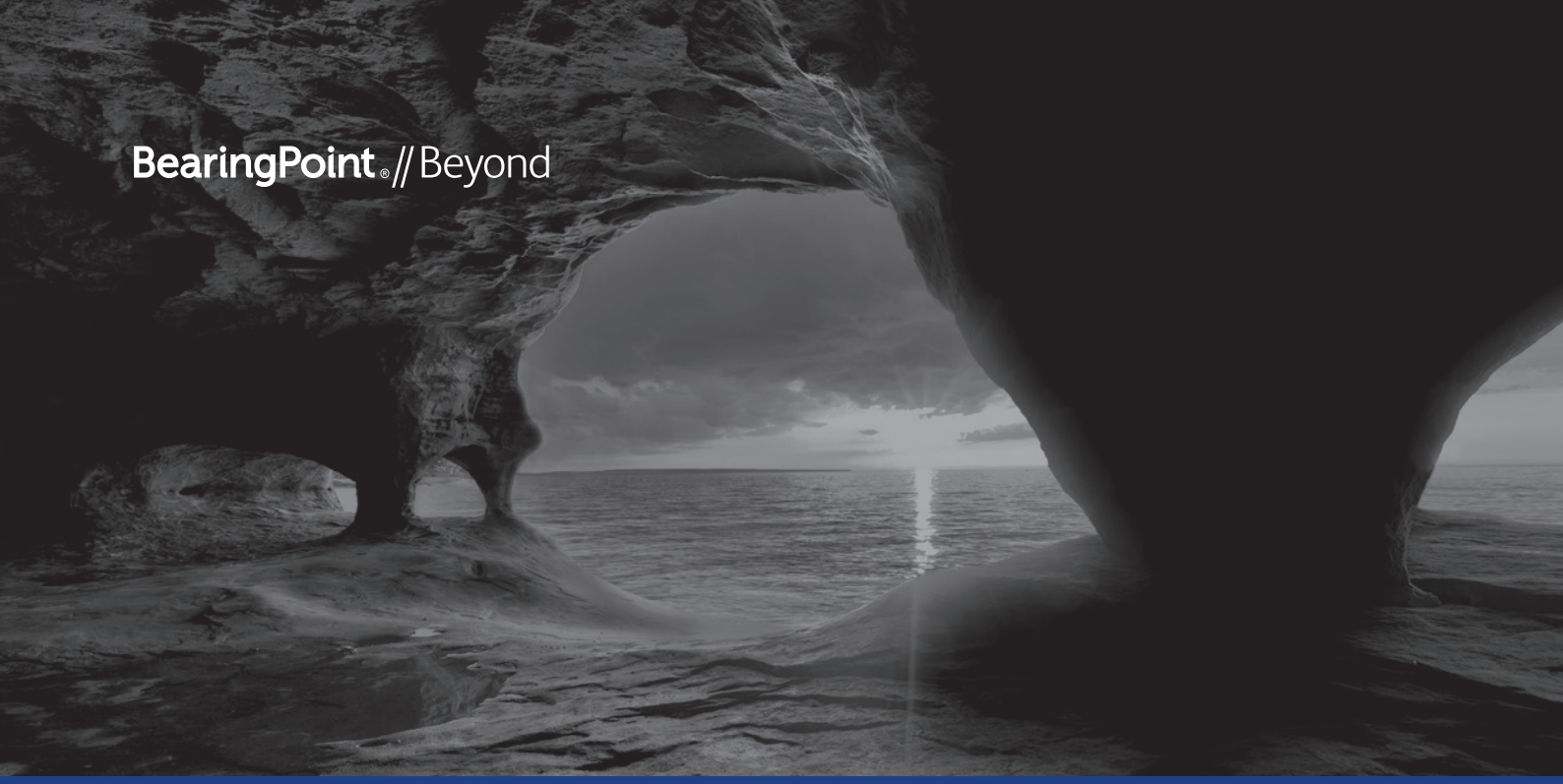
In previous studies, IT systems came under major fire for being an inhibitor for ecosystem creation for CSPs. Of the 19 potential challenges outlined in BearingPoint//Beyond's 2018 report "Partner ecosystems: the silver bullet for telco woes?", four of them were technology oriented. However, three of these made the top four challenges facing CSPs in managing and enhancing their partner ecosystem.



What are the current challenges with managing and enhancing the partner ecosystem?

Today, still 54% of CSPs felt their current IT system does **not** support seamless orchestration and settlement of a partner ecosystem. This would suggest that, in some cases, front-end, customer manifestations of ecosystems – portals with a range of offers, for example – are in place. What is missing is the flexible, dynamic platform that helps manage, orchestrate and monetize the complexity of innovating and launching joint offerings with an ecosystem of partners. This reinforces the fourth 'gap' – CSPs must invest in their IT systems to give them the flexibility they need to work with partner ecosystems.

CSPs said that, if some of these barriers could be resolved, they would anticipate a 17% increase in sales.



Conclusion & BearingPoint//Beyond's view

On the surface, it appears that CSPs are ready to take on the enterprise market. It's incredibly valuable, it's growing, and 97% of enterprises would purchase new technology solutions from CSPs. But dig a little deeper, beyond the top-level ideas and concepts, and the 'gaps' start to appear – six major ones. It's imperative CSPs close these 'gaps' in order to compete and win in the enterprise market:

1. Re-align investment priorities with revenue engines
2. Experiment more, accelerate speed, innovation and frequency of service launches to stay relevant in the face of growing competition
3. Close significant knowledge gaps and better understand enterprise clients
4. Make sure IT systems power CSP business agility
5. Develop and harness a growing partner ecosystem
6. Choose the right partners

Today, enterprises recognize these gaps and, while they are willing to work with CSPs, they are taking their business elsewhere. CSPs must react and close these gaps, urgently – if they are to succeed.

CSPs boards have to make some tough decisions. They have to make enterprise their top priority and allocate the required resources to support it – from marketing and sales budget, through to financial KPIs, IT investments and more, even at the expense of their consumer businesses.

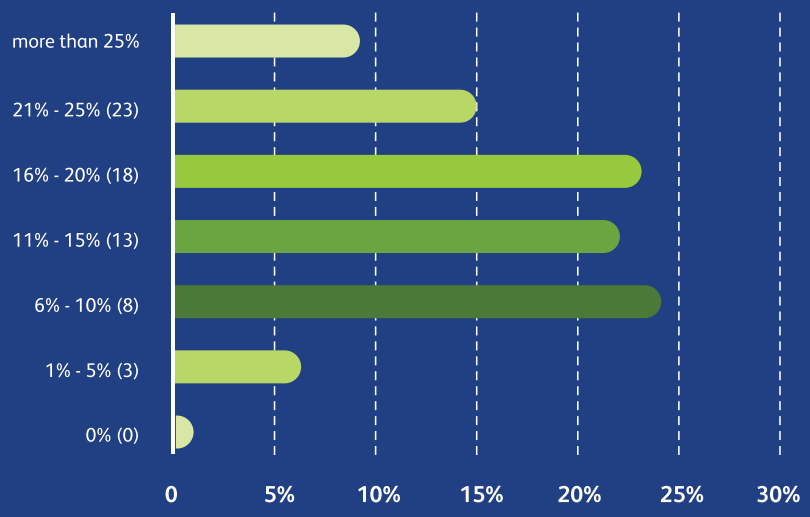
They have to remove the product development and launch policies that were designed to control cost and risk that are now strangling their businesses. Today, CSPs say it takes 6-9 months to launch a new enterprise offer, as every launch needs to involve many units such as legal, finance and IT. This approach means that CSPs are losing enterprise business to more agile digital players. CSPs need lean and agile processes that accelerate speed to market and innovation. They need to test more offerings in the market with real customers to gain validation ahead of a full-blown launch, and they need to do it fast.

At the same time, CSPs need to evolve their relationships with enterprise customers – understanding their ambitions and industries. They need to identify the different buying personas inside enterprises, the problems they are trying to solve and the solutions that will help them. Enterprises are looking for partners that will help navigate their own complexity – helping them to increase efficiency and agility, enabling them to reinvent their business models and introduce new services at speed to grow revenues. With this in mind, CSPs need to get more familiar with new technologies and how to combine them into the right solutions, with the right partners, to support their enterprise customers.

CSPs must recognize that working with an ecosystem of partners is the only way they can meet evolving enterprise needs. Yet, while a lot has been said in the few last years on the importance of ecosystems, CSPs still struggle with their execution. They still focus on selling products rather than providing solutions. CSPs can leverage their experience and capabilities to play a significant role in ecosystems. They can do the 'heavy lifting', they can take many partners and package up bite-sized, pay-as-you-grow solutions, but they must become the destination for enterprises, the orchestrators of diverse technologies and parties for different needs. Ecosystems immediately plug CSP knowledge, technology and solutions gaps. They help CSPs drive differentiation, accelerate the speed and frequency of new solutions launches. They enable innovation and experimentation. With the right partner ecosystems in place, CSPs become trusted partners for enterprises. CSPs know this – and believe that if they can overcome the barriers to introducing these solutions, they would expect a 17% increase in turnover.

CSPs have identified IT systems as a major hurdle to innovation, speed, working with partners and getting closer to customers. It is time that CSPs address this challenge, but they are reluctant to do this as they fear that changing IT systems will involve high costs, will take a long time and heighten risk. However, it doesn't have to be this way. Shifting to a platform-based IT architecture with simplified, smart and automated business processes across different IT and business environments will remove many of the barriers preventing CSPs from succeeding in the enterprise sector.

Finally, this hard work will be rewarded. 47% of enterprises would increase their spend with CSPs by more than 16% if they can meet their expectations. That is tens, perhaps hundreds, of billions of dollars of revenue waiting to be addressed. But CSPs have to be brave – prioritizing the enterprise opportunity, they have to be bold – stripping away the processes strangling their business, they have to be proactive – engaging with enterprises in a new way, and they have to move quickly – establishing an ecosystem of partners using new IT platforms, or they'll lose out on this lucrative market for good.



If CSPs were able to meet your expectations and make it easy and worthwhile to purchase complete solutions from them, by what percentage do you anticipate you would increase your spend with them?

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BearingPoint//Beyond helps organizations reinvent their business model and achieve revenue growth through innovation. Our SaaS digital business platform solution provides CSPs with the start-up advantage to capitalize on Cloud, IoT, 5G and AI and move rapidly from ideas to concept to revenue, with minimum risk and cost. Based on open APIs and the award-winning Infonova software, the platform enables you to build connections between systems and partners, bring you closer to your customers, and become more agile in the face of digital disruption.

We serve customers across Asia-Pacific, Europe, Africa and the Americas, spanning industries from telecommunications, media and entertainment, to tech and IT, financial, and automotive.

BearingPoint//Beyond is part of BearingPoint, an independent management and technology consultancy with European roots and a global reach. A worldwide consulting network with more than 10,000 people, BearingPoint supports the world's leading companies and organizations in over 75 countries, engaging them to achieve measurable and sustainable success.

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For more information about BearingPoint//Beyond and how we can help transform your business, please contact infobeyond@bearingpoint.com

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