ACG Research Peers into 2011

Benjamin Franklin said, "The only things certain in life are death and taxes." If Ben were alive today, he would no doubt add change in the telecom industry as another certainty. As demand for products and services increases, and technology continues to innovate, change is inevitable. Savvy companies understand that simply recognizing trends and remodeling is not enough; they must also position their business models to capitalize on them. Knowing what may lie ahead can help you plan and thrive in this evolving competitive landscape, and ACG Research has identified emerging telecom industry trends in business, network, devices and applications likely to affect service providers in 2011.

Underlying all the trends in the industry is global economic recovery, which is likely to continue, but at a conservative level. This viewpoint is supported by the International Monetary Fund, which predicts GDP will increase by 4.2 percent in 2011, down from a previous forecast of 4.3 percent. What does this slow growth portend for the telecom industry? Markets will grow but the emphasis will shift from the global economy to one that is more focused; one driven by more spending in areas such as mobility, cloud computing, managed services, and IP consolidation and optimization. Innovation in services and products will likewise continue to drive growth, and start-ups, which will lead this innovation, will garner the greatest wins in 2011. In addition to economic market pressures, vendors will also have to deal with the added squeeze of Chinese vendors making a strong push to penetrate the North America market not just in layer 1 technology but also in layers 2 and 3.

One of the key drivers for spend in 2011 relates to carriers and their unrelenting quest to acquire more intelligent services equipment such as high-capacity core routers, optimization of their optical components and IP consolidation related to LTE deployment. Verizon, for example, has taken a leap of faith in LTE, and AT&T will monitor this closely to gauge how successful Verizon will be. If Verizon is successful, will AT&T’s wait and see position to make significant penetration be “a day late?”

2011 will also be the year of 4G. Although there are a limited number of trials and only a few carriers are generating revenue and profitability in certain sectors, our analysts are seeing a tremendous amount of penetration in the U.S. with Sprint, Verizon and other key vendors deploying. Globally, 4G penetration will be a major trend this year.

The success of the iPhone application model is breeding a new thought pattern where router, switch and optical vendors can now open up APIs and allow trustworthy customers to develop on them. This idea, which has moved from handheld devices, has been in routers for a while but may extend to switches — even optical equipment — this coming year. For the optical market, protocols such as MPLS will become more prominent in the carrier space.

Carriers have also been struggling with the make versus buy quandary related to video infrastructure. Do they develop their own infrastructure or do they outsource to companies such as Akamai or Limelight? We predict the trend of carriers building their own networks will grow as they see the **value asset of video** in their networks, especially as they realize they have the reachability with many of the traditional CDN vendors.

The mobility market will face additional challenges in 2011. Wireless carriers, dealing with the pressures of LTE, 4G and video deployment, will need to revamp their backhaul infrastructure to be able to deliver successful 4G experiences. We predict there will be more tablets sold in 2011 than PCs as more consumers need devices that allow for mobility.

Managed services and cloud adoption will make the largest traction gains. The market demand for more service-oriented IT is mainly being driven by the constant pressure to reduce IT costs by 25 to 30 percent each year, and CIOs must decide between buying IT as a service or investing in a capital outlay to make IT. Factors pushing growth include vendors’ offers of business transformation, cloud growth surpassing CPE on premise devices, applications and customers’ experience demanding more from service providers, and customers’ transformational experience replacing technology offers. Managed services, which is driving the highest growth as indicated by Ericsson and Alcatel-Lucent (read interviews at ACG Research: http://acgresearch.net/news/25.aspx), will continue to be one of the few growth areas for wireline telecom service providers; wireless should see tremendous growth. With all of the smart devices hitting the market, carriers will have to deal with significant complexity, but they also have a major opportunity to deploy more secure and reliable mobility devices.

Focusing on business competencies will be the number one reason to look toward managed services alternatives. Verticals are increasingly looking at outsourcing their noncore tech functions, with banks, financial services and insurance (BFSI) groups contributing over 28 percent market share to the managed IT services market.

Adoption of cloud will continue to grow through better offers from service providers. Carriers realize that they now have enough intelligence in their infrastructures to compete with over-the-top players to become more profitable. Competition will be bolstered by the cloud as carriers have seen the proverbial light (read: profitability) in cloud computing services, which will become more monetized in 2011. Cloud-based services will reach $225.5B in the next five years with cloud representing between 7 and 30 percent of IT budgets. General content delivery will push new architectures into the data center, requiring next generation fabrics as well as virtualization between the data centers based on these demands. Enterprises and SMB will drive this trend as they search for solutions that address IT costs and productivity. The underlying factors driving cloud migration are recession and always on, everywhere access.

Application demand, which is driven by mobility, as well as the improvement of customers' experiences, will continue to increase the adoption of devices such as iPad and smartphones. The migration of complex, hard-to-understand services describing technology will be replaced with transformational language focusing on the customers' experiences. The opportunity for vendors to "power" the application creates another brand extension driven by cloud adoption.

Applications will drive data center intelligence and growth. Many hardware/network vendors will have to ensure they understand the value of each application, their flow and the priority so they can align their technology to integrate these applications and impact data center growth. It is no longer just about latency; it is also about capacity, planning and the experiences delivered from these data centers.

The industry will see more due diligence and consolidation activity in the optical market continuing the trend started in 2010 by Ciena purchasing Nortel and Cisco acquiring Core Optics. Companies such as Foursquare, Facebook and newer iPhone apps, featuring location-based services, will grow targeted advertising. This, paired with location-based services, will give providers new tools to grow revenues. Service providers' business models will become more aggressive as they map technology to service innovation and focus on delivering stronger customer value. Look for service providers to map applications such as IPTV, mobile offering to services, technology, operations and financial domains to increase their profitability and longevity of service.

With all of these changes, one thing we can be certain of is that telecom pricing practices will shake up the market. For example, 100G wavelength pricing will be extremely disruptive, not because the technology is so cost-effective, but because whoever wins the market share in this area will hold service providers' accounts for the next few years. Integrated vendors can make up the margin on routers and other equipment.

For smaller companies, this could be a difficult year. But for all companies, change, for certain, will be the predominant theme in 2011, and as Ben so wisely states, "An investment in knowledge pays the best interest!" Knowing what 2011 may bring will help vendors position themselves to maximize profits and benefit from innovation and change.

ACG focuses on providing market analysis and consulting to help service providers and vendors monetize their existing infrastructures and increase operational efficiency and profitability. Through ROI and TCO analysis, product and service message testing, and business model review, reports and forecasts, ACG gives you strategic and tactical advice, services and products, and timely answers so that you can better understand market dynamics and grow your telecom operations more efficiently and profitably. We help you make business decisions with confidence!