The new CIO:
a trillion-dollar operator opportunity

The rise of the all-digital business is creating a different type of CIO, and opening doors into the enterprise for unexpected ICT players. But it's not just about Google or Amazon. **Operators have a golden chance to create new growth** by changing the face of the enterprise communications market – and to solve a few CIOs' problems along the way.

> "A horizontal, open and modular approach will eventually define the way businesses communicate and collaborate. Operators can be a catalyst for accelerating this process"

▶ **AS DIGITAL TECHNOLOGIES** and business models transform companies in every sector, CIOs face an increasingly challenging future. Today's CIO is responsible for much more than networks and data centers – he or she is also expected to be a business enabler who drives innovation and helps the company differentiate its offerings and processes in the digital marketplace. One influential theory suggests that we are now in the third era of enterprise IT – while the first, pre-1990s era was technology-centric and the second, recently concluded era was process-centric, the current era is firmly business-centric [1].

At the same time, global IT budgets are expected to remain broadly flat in the coming years, meaning that the CIO is essentially being asked to achieve more with what (in real terms) will probably equate to less [2].

As a direct result of the new demands being placed on them, an increasing number of CIOs are looking for alternative technology and business partners. In fact, 70 percent are planning to change their relationships in these areas over the next two to three years [3]. Traditional enterprise vendors such as Cisco Systems, Oracle and SAP are losing out to previously consumer-focused businesses like Google and Amazon. These new players are viewed as more capable of responding to changing business requirements, while the need for established vendors to monetize investments in legacy platforms is often seen as a hand-brake on their capacity to innovate.

There's no doubt we live in interesting times. But we believe there is another side to this story. Our view is that increasingly challenged CIOs and the difficulties of traditional vendors represent the opportunity of a lifetime for telecom operators – and that missing this chance is not an option.

TRANSFORMING INDUSTRIES

The theorist Charles H. Fine writes that all industries eventually undergo a transformation from vertically integrated organizations to a horizontal, open and modular set-up. This process is primarily driven by three dynamic forces:

▶ **i.)** The relentless entry of niche competitors hoping to pick off discrete industry segments
▶ **ii.)** The challenge of keeping ahead of the competition across the many dimensions of technology and markets required by an integral system
▶ **iii.)** The bureaucratic and organizational rigidities that often settle upon large, established companies [4].

The transformation happens at different speeds in different areas – for example, it overtook the computer industry as far back as the early 1980s. In the enterprise, there are more recent cases – Hewlett-Packard's server business is challenged by the Open Compute Project, which openly shares designs of data-center products, while SAP's grip on sales software is being loosened by Salesforce, a provider of cloud-based, on-demand customer relationship management (CRM) software services. Fine also makes the important point that modular organizations are not necessarily more stable than the vertical set-ups they replace, and that the switches between the two should ultimately be viewed as cyclical. But given the scale of these transformations – as well as the extended timeframes involved – the most important aspect of a company's strategy is finding the right positioning as they take place.

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The enterprise communications segment will be no exception to this rule. A horizontal, open and modular approach will eventually define the way businesses communicate and collaborate. Our conviction is that for operators, the right position is to become a catalyst for accelerating this process.

INSIDE THE SET-UP

What do we mean when we talk about a horizontal, open and modular set-up? We understand it as based on networking equipment and support systems that are purposely built and optimized for telecom operational models. We see it giving operators a strong competitive advantage in terms of scalability and agility, as well as higher cost efficiency and lower total cost of ownership. And in our view, it is the key to increasing operators' share of spend in the enterprise market.

Critically, operators bring the integration, consolidation and industrialization capabilities that this approach requires in order to work on an industry-wide scale. They have the ability to handle the incredible behind-the-scenes complexity of the new enterprise IT landscape – all a CIO needs to do is decide what he or she wants, and the operator can orchestrate and deliver.

Furthermore, owning the network infrastructure behind an enterprise's communication platforms is also a huge advantage, since it gives operators the ability to control the quality of experience and manage expectations, rather than rely on the lottery of best-effort delivery. This is a key selling point for enterprises that are increasingly reliant on digital communication and collaboration tools in almost every part of their business. The ongoing US rollout of Google Fiber – Google's independent, ultra-fast fiber network [5] – reflects the value of owning these assets, and may mark the start of a trend towards ICT businesses becoming more like telecom operators, just as telecom operators have spent recent years positioning themselves as ICT businesses. But matching operators in this area will take time, even for players with the resources of Google, and operators remain in an enviable position.

CIO BENEFITS

Let's bring the discussion back to where we started and ask how all this helps CIOs. Firstly, a horizontal, open and modular approach driven by operators offers CIOs a platform on which their enterprises, as well as third-party developers, can innovate and create digital solutions and applications just as fast as Google or Amazon can manage. Secondly, and as noted above, CIOs gain a quality-assured service that enables the enterprise communication and collaboration experiences vital for success in a digital world.

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Thirdly, it's about economies of scale. Solutions from traditional IT vendors are not designed to scale, and in the long term this can cost their customers a lot of money. Google and Amazon's approach of supplying solutions as services, meanwhile, is limited to their own business and operational models. In comparison, operators' horizontal, open and modular set-up is optimized to deliver flexible, scalable and cost-efficient offerings that meet business customers' needs, regardless of company size. Given today's constraints on IT budgets, that's almost a sales pitch in itself.

MAGIC TRIANGLE

The opportunity here is enormous. In Figure 1, we divide the market into three unequal sections. The section on the left represents a set of enterprises – usually the largest multinational corporations – who want to build, own and control their own enterprise communication networks. There remains a significant market for the traditional IT vendors to sell best-of-breed equipment into these businesses, although even this may shrink as more enterprises switch from a capex to opex model for every IT service.
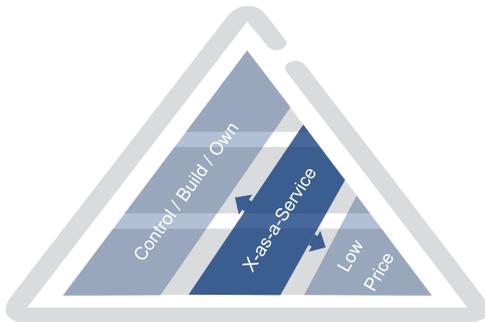

Figure 1: the enterprise communications market

The section on the right represents the companies for whom IT in general is not a strategic asset, and for whom the cheapest, most commoditized solutions are sufficient. The number of these companies is declining as transformation impacts more and more industries – a trend that will only accelerate in the coming years.

Most enterprises come in the middle of the diagram, and this is where the operator opportunity lies. For these companies, getting the best network performance that money can buy isn't as important as having a network that works and helps meet business needs. Here it is important to stress the distinction between quality of service as described earlier in this article, and the quality required by the largest multinational corporations. Quality of service in this context describes the level of user experience sufficient to meet a company's needs – and no more. In other words, quality is definitely a nuanced concept.

THE TRILLION-DOLLAR OPPORTUNITY

It's clear that the enterprise communications market will undergo a radical transformation from vertically integrated set-ups to horizontal, open and modular ways of working. This is how all industries work, and it's also very much in the interest of CIOs looking to meet the challenges and opportunities of a digital world, as this new approach helps them innovate, communicate and collaborate in a more effective way.

Traditional IT vendors are struggling to meet changing customer demands, while new players don't yet have all the answers. By positioning themselves as the catalyst for this change, operators have a unique chance to disrupt the market and stake a strong claim for relevancy as enterprise communications transform.

This article is just an initial sketch of an opportunity. More work is needed to fill in the details and develop the picture further – but there's no doubt that this is a job worth doing. Internal analysis indicates that we are looking at a market that could be worth up to USD 4 trillion in a few years, and even though companies like Google and Amazon will take a sizeable chunk of this market, the right approach from operators could still secure decades of growth.

And in doing so, they might just make the lives of CIOs around the world a bit simpler too. ●

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