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Netcracker's summit focuses on innovation and highlights why CSPs must prioritize agility

Ovum view

Summary

Communications service providers (CSPs) are losing market share to internet content providers (ICPs) at an alarming rate. With decreasing customer loyalty and new ICPs entering the market, CSPs will need to evolve and innovate or continue to see declining revenue and market share. At this year's Mobile World Congress (MWC) Los Angeles, Netcracker hosted a leadership summit showcasing strategies and customer stories to support hyperscale innovation. During the summit, Netcracker customer Rakuten Japan was showcased along with its plan to disrupt the Japanese market with its impending mobile network operator (MNO) launch. Rakuten's efforts have demonstrated how ICPs are a threat to the traditional CSP business model. Despite their efforts to transform IT capabilities, CSPs will only be able to innovate once they have found a balance between IT and cultural transformation, through the adoption of agile IT and operating principles.

CSPs need to prioritize investment in innovation

Declining revenue, fleeting customer loyalty, and increased competition have created a dire need for CSP innovation. ICPs such as Google, Amazon, and others are quickly gaining market share at the expense of CSPs. According to Ovum's Communications Provider Revenue & Capex Tracker, CSP revenue has been declining at a CAGR of -1.2% since 2013. ICP revenue, on the other hand, has been growing at double-digit rates and now accounts for more than 41% of revenue in the telecoms industry.

To turn around their fortunes, CSPs will need to diversify their service offerings and carve out a new niche for themselves in the market. Achieving this, however, will be no easy feat, and CSPs will need to undergo a digital transformation of IT capability and operations.

Understanding the digital transformation strategies that will enable hyperscale innovation was the focus of Netcracker's leadership summit, which took place at MWC Los Angeles in October. The event included discussions around strategies for improving the customer experience, enabling a digital partner ecosystem, automating operations, and accelerating the digital transformation process. Additionally, customer case studies from Vodafone, Deutsche Telekom, and Rakuten Japan showcased digital transformation strategies and lessons learned from the industry.

Rakuten Japan MNO launch highlights the growing threat of ICPs

Among the customer stories highlighted during the summit was that of Rakuten Japan, which is set to become Japan's fourth operator when it launches its mobile network in 2020.

Rakuten is an e-commerce giant with more than $130bn in revenue, more than 100 million customers in Japan and over 1 billion customers worldwide. The company operates a number of brands and services across more than 70 industries, including fintech and digital content. Its e-commerce arm, Rakuten Ichiba, is the largest e-commerce platform in Japan and is also the country's largest internet bank and credit card company by transaction volume. Founded in 1997, over the years Rakuten has diversified its service offerings through the acquisition of global brands such as Ebates, Play.com,

Viber, OverDrive, and Wuaki.tv (among many others) in hopes of becoming a mobile-first, one-stop-shop services hub for consumers.

To support its MNO launch, Rakuten Japan announced in February that it had selected Netcracker to be its full-stack IT provider. As a part of the agreement, Netcracker will complete a greenfield deployment of its end-to-end operations support system and business support system (OSS and BSS) platforms. The vendor will also integrate the BSS with Rakuten's existing "Super Points" loyalty platform, making the rewards program available to its mobile customers. The integration of the BSS with Rakuten's existing loyalty program – which enables customers to redeem points for goods and services – will put the company in a favorable position to poach its digital services customers away from their existing telecoms provider and on to Rakuten's network.

Once its mobile network is launched in 2020, Rakuten will become a CSP unhindered by legacy networks or IT, with a large and diversified portfolio of cross-industry digital services. In an instant, Rakuten Japan will have realized the vision that many CSPs have been working toward in their digital transformation journeys.

While it is yet to be seen how successful Rakuten's MNO launch will be, the company's foray into the telecoms industry highlights the vulnerability of CSPs' market share. CSPs are now attempting to navigate into new industry verticals and are gradually building a portfolio of cross-industry services. They are also struggling with legacy IT and network infrastructure, which limit their ability to move quickly with the market. On the other hand, companies such as Rakuten, Amazon, and Alibaba have built diverse services portfolios and amassed a large and loyal base of customers. These players are also not hindered by legacy IT and have the financial means to deploy their own mobile networks. For these digital-first players, the hard part is done; investing in a network deployment is the easy part. CSPs, by comparison, have their hands full.

Netcracker's refocused product strategy better aligns with shifting CSP priorities

Digital transformations have been underway for several years. However, as the urgency to deliver digital and innovative services has increased, CSPs have shifted their buying behaviors. Rather than invest in individual best-of-breed or full-stack IT systems, CSPs are investing in IT solutions that are outcome driven and that incorporate capabilities across multiple IT domains to solve specific business challenges.

The fast-evolving telecoms market has also forced CSPs to constantly reassess their IT capabilities and needs in order to keep up with both the competition and their customers' expectations, leading to a need for continuous releases of IT systems from vendors. Transitioning to continuous releases rather than periodic updates of IT systems or domains gives CSPs the agility to evolve quickly.

Netcracker has, consequently, evolved its product strategy to help address these business requirements. The vendor has embraced a continuous-release schedule for the past few years in order to more quickly meet CSP requirements. Moving forward, the vendor will continue to support the evolution of the Netcracker 12 platform while also focusing investments on enhancing its solutions that address CSP business challenges. This includes the Netcracker Business Cloud, 5G/IoT Monetization and Operation, Network as a Service, and Cloud-based Online Charging System products, all of which bring together IT capabilities from across the vendor's product portfolio.

Continuous-release updates are the logical next step in vendor support as more IT systems are deployed in a cloud environment. Cloud delivery of IT enables vendors to easily push out updates to customers over the air as soon as they are ready. Furthermore, as IT systems mature, vendors can use continuous releases to differentiate their products and services in the market by releasing new IT features and capabilities faster than their competitors.

Embracing agile principles is essential to innovation

While stories of innovation and disruption like Rakuten Japan's are captivating, becoming an innovator, especially for the majority of CSPs, is no small feat. Simply upgrading legacy IT systems does little to enable innovation on its own. However, by embracing agile operating principles in addition to agile IT, CSPs can put themselves in a position to innovate.

Microservices and containerized architectures offer more agility and scalability than legacy systems; however, without agile principles in place, the benefits of adopting agile IT will be limited. The waterfall-style decisioning that is currently used within most CSP organizations is not conducive to the fast pace CSPs need to operate at in order to become innovators. Instead, CSPs need to embrace agile operating principles such as DevOps and continuous integration/continuous delivery (CI/CD).

Despite the increased adoption of more agile technology such as microservices, CSPs are overwhelmingly not ready to embrace agile operating principles. In Ovum's *ICT Enterprise Insights 2019/20* survey, only 28% of CSPs stated that moving to DevOps and agile operations would be an important IT project for 2020. This means that vendors will need to lead the discussion and guide CSPs toward adopting DevOps and other agile methods.

More than anything, DevOps is a cultural shift that enables companies to remove operational silos and facilitate collaboration. By having stakeholders from across the organization involved in the development of products and services, CSPs can limit bottlenecks and improve time to market among other benefits. Furthermore, the implementation of CI/CD helps to create a "fast fail" business model in which products and services are quickly brought to market, where they can either gain traction with consumers or be quickly retired, thus minimizing financial and time commitments.

Vendors can help CSPs embrace DevOps by providing consulting services either directly or through partnerships with consultancies to help CSPs make the cultural shift. With more nontraditional CSPs entering the telecoms market, it is clear that CSPs can either invest now to compete with the Amazons, Googles, and Rakutens of the world or they can continue to lose ground to these innovators.

Appendix

Further reading

ICT Enterprise Insights 2019/20 – Telecoms & Media: Telecoms, PT0160-000005 (October 2019)

IT Investment Essentials for 5G Monetization, SPT001-000079 (September 2019)

Vendor Product Review: Netcracker Digital Business Enablement, IT0012-000211 (September 2017)

Communications Provider Revenue & Capex Tracker: 2Q19, GLB007-000301 (September 2019)

"Netcracker launches Business Cloud to fully support customers in network transformation," SPT002-000144 (October 2018)

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We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum's consulting team may be able to help you. For more information about Ovum's consulting capabilities, please contact us directly at consulting@ovum.com.

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