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The Enterprise is redefining applications and the business model thanks to the possibilities opened up by Ethernet services, and the operators and the vendors that serve them will need a greater vertical focus and strong professional and managed service offerings to survive and thrive.

**Telecom Strategy Partners kicks off its multi-part series on innovation in the vertical markets and the impact on operators, vendors, and how we all live and work.**

Transport has always tended toward commoditization, though there are cyclical swings in that trend that rejuvenate transport infrastructure markets for a period of time that are driven by innovation. But ultimately it is the application or hosted service that is driving demand for transport from the Enterprise - and this is why there is greater opportunity for long-term differentiation in software, managed services, and even software as a service.

Until recently, there were always existing software applications and tools at the Enterprise that were accepted parts of the business but existed only in decentralized "islands" because there was not enough scalable, cost effective, high availability bandwidth with the performance to meet differentiated service requirements. The focus of the telecom industry vendors was largely to provide more bandwidth in smaller footprint at lower cost - enabling greater sharing of what information and resources the Enterprise already had. For instance, LAN interconnect was an initial driver for Ethernet services. CapEx was king for years - at least operators convinced vendors of that...as TCO was always the real driver except in periods of capital constraints. But more recently, as transport requirements have scaled and operations costs have grown, operators have become much more forthcoming with vendors in working toward defining infrastructure enhancements that minimize OpEx as well.

The Ethernet services market has matured a lot in the past couple of years, and now Carrier Ethernet services are providing the scalability, performance, and cost points that are helping Enterprises use their IT infrastructure more cost effectively. The result has been the move toward server consolidation and networked SAN extension as means to lower costs and better enable business continuity and disaster recovery. Essentially, networking is helping the Enterprise more cost effectively, quickly, and reliably do what it had essentially already done before.

But now Ethernet services have matured significantly. And as a result, there is a lot more at stake than the Enterprise having the ability to share infrastructure and information to serve existing applications and processes. After all, those applications and processes were developed within *the context of the limitations of the network available at the time*. And since applications and processes are expensive and time consuming to develop and are often mission critical in nature, they tend to have great momentum and inertia that make them hard to change quickly, and unlikely to be changed unless there is great incentive to do so.

Ethernet services have matured to the point that the vertical markets are finding the potential to use the network not simply to better support and optimize existing processes. It has become a compelling opportunity for them to change those processes, create new applications, and enhance the way in which they do business. The market is evolving past deciding how much information can be collected, stored, and processed locally versus how much can be shared cost effectively over the network. We are entering a new phase of network-enabled IT, one where innovation in applications, processes, and business models are going to drive sweeping change in the vertical markets over the next 10 years, changes that will help define the future, change largely enabled by Ethernet services.

The challenge for the various vertical markets is clear: they must discover how they can take advantage of what Ethernet services can offer to build competitive advantage before competitors beat them to it. The challenge for the service operator is very different - and that is that bandwidth continues its long trend toward commoditization - interrupted occasionally by spurts of innovation. Service operators cannot simply depend on providing bandwidth as the source of their

revenues. If they do, the result ultimately will be significant consolidation both for them and the vendors and components suppliers.

Rather than allow their market opportunity to further commoditize and hope to be among the survivors by achieving stronger cost optimization than any other operator, service providers need a more realistic approach. Cost optimization is always going to be a factor, but greater concentration on differentiated services is critical. For vendors and operators alike, professional services and managed services are key revenue opportunities that must be fully exploited, and as conventional barriers in thinking about business models break down, there will be increasing opportunity for software as a service.

There are seeds of strong innovation being driven by the vertical markets right now that are not only changing the way they do business and how we live, but are also defining a new path to service operators' profitability and to the profitability of the vendors that serve them.

Telecom Strategy Partners will be looking at some of that innovation in vertical markets in the coming weeks, and will take a look at how that is impacting operators. We will also share selected highlights publicly in *Views on the News* and upcoming conferences.

### Telecom Strategies Online

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