Nokia leads its peers in service delivery evolution

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TBR perspective

Nokia’s refined Global Services business is prepared to transition with its customers to a software-defined, information and communications technology (ICT)-centric world. Nokia demonstrated at its Services Analyst Day that it is a relevant and nimble competitor that can bring scale and substantial multivendor ICT expertise to operators that want to undergo technological transformation. Under the leadership of executive management, Nokia has built a world-class service delivery organization that continues to post industry-leading margins and growth in a challenging environment.

Nokia is taking its service delivery organization to the next level of efficiency by leveraging labor automation and cognitive analytics, setting the stage for a sustained competitive advantage over peers, particularly Ericsson and Huawei. Though the future looks bright, Nokia will have to demonstrate that it can obtain significant synergies from the addition of Alcatel-Lucent’s business, which will more than double Nokia’s overall revenue but could distract the vendor from continuing down its evolutionary path. The real test will be how well Nokia can integrate and begin to leverage Alcatel-Lucent. Though the acquisition, which is on track to close in 1Q16, promises substantial cost synergies and new growth opportunities, Nokia must be careful not to lose sight of its vision and how it plans to make it a reality. The company has demonstrated it can successfully transform, evidenced by its recent restructuring, and now is challenged to do so again.

Additionally, Nokia needs to focus on becoming more services-led and relying less on its own product sales to drive services revenue, an issue that will only be exacerbated by the addition of Alcatel-Lucent. Nokia’s competitors are
branching out into growth areas such as OSS/BSS, media and enterprise networking in a big way, domains where Nokia lacks strength. These areas hold a lot of promise, not only from a revenue growth potential perspective, but also from a business diversification perspective. Nokia’s decision to scale back and focus on niche services areas will help the vendor take share, but it will also constrict its addressable market, limiting its long-term revenue growth potential.

**Event overview**

A select group of telecom-services-focused analysts gathered at SAC Wireless’ offices in Chicago to hear from Nokia’s Global Services executives and managers about how the vendor is positioning in the services market and how the division has been performing.

Nokia covered key segments of its services business at the event, including Site Implementation, Network Planning and Optimization (NPO), Systems Integration and Managed Services, all focus areas for the vendor as it transitions into an ICT world. Nokia also highlighted its cloud services and analytics strategies, two areas that are receiving increased attention as customers transform their businesses and bring new revenue-generating businesses to market. At the center of the presentations, Nokia executives spoke in depth about how the company is optimizing its global service delivery organization to leverage new technologies that will help it retain margin leadership and growth in the coming years.

One-on-one roundtable discussions with business unit leads followed scripted presentations and provided analysts time to ask pressing questions and gain further details.

**Impact and opportunities**

**SAC Wireless is a site acquisition powerhouse**

The event kicked off with Joe Sanzo, CIO for SAC Wireless, providing a summary of SAC Wireless’ business model. Nokia acquired SAC Wireless, which is the largest site acquisition company in the U.S. (SAC also offers other services aside from site acquisition), in August 2014, adding substantial resources to help Nokia make good on its LTE RAN contracts with key customers Sprint and T-Mobile. Fifteen months after the acquisition closed, SAC continues to support major RAN builds across the U.S. on behalf of major operators. Nokia intends to globalize SAC’s standardized, highly scalable approach for processing site acquisition (called the SAC Engine Room), which is typically a highly complex service to provide due to the need to meet stringent regulations and real estate requirements. SAC remains a stand-alone entity within the broader Nokia organization, providing it with the autonomy to pursue multivendor engagements with its operator customers. Collaboration between the two companies is increasing, particularly around tools and process standardization, and quality control. Nokia and SAC Wireless are also collaborating on HetNets, small cells and 5G.

**The drones are here**

SAC Wireless was an early adopter of drones, leveraging them to perform certain on-site tasks at cell sites instead of sending an engineer to climb a tower or building. This has enabled SAC Wireless to reduce the incidence of climber fatalities and has also reduced the cost of providing specific services such as line-of-sight testing, radio planning and tower inspections. The use of drones is just one example of how Nokia intends to automate certain functions to remain a cost-optimized leader from a service delivery standpoint.
3D geolocation becomes game changer for NPO

Nokia remains focused on the NPO opportunity, which is a growing subsector within the broader telecom infrastructure services (TIS) market. NPO has been a key growth driver of Nokia’s Global Services revenue in 2015 and much of the company’s success in the space is due to its focus on leveraging innovative tools and processes. One such tool in Nokia’s belt is 3D geolocation, a technology Nokia has developed since it purchased access to a 3D solution from NICE Systems in July 2014. Nokia is building upon and leveraging the platform to improve coverage and capacity in HetNet environments, particularly in cities where there are many tall buildings and greater demands on the network. The platform has been especially useful in reducing the services load to deploy small cells, which has been a limiting factor in the scaled deployments of small cells.

Automation is the next stage of service delivery evolution

Since the company’s transformational restructuring was initiated in late 2012, Nokia has come a long way in overhauling its service delivery organization into a more streamlined and efficient entity. As a result of these moves, Nokia’s Global Services business now consistently obtains industry-leading margins compared to its closest competitors. However, Nokia is not content with this success and is continuing to evolve its service delivery organization. The next stage of evolution is centered on labor automation and cognitive analytics. Nokia is actively experimenting with different ways to automate delivery, including using drones, augmented reality, crowdsourcing, big data analytics and other methods to increase efficiency and reduce the cost of service delivery.

TBR views Nokia as being at the forefront of labor automation among its closest peers, particularly Ericsson and Huawei, which remain focused on labor rate arbitrage (i.e., shifting resources from high-cost, onshore locations to low-cost, offshore locations) as their key method of keeping service delivery costs under control. Though these vendors recognize the importance of and are actively working toward labor automation, TBR believes Nokia is ahead in this department and is building a meaningful time-to-market advantage over the competition. Nokia expects to deliver over half of its services remotely in 2016, up from 34% in December 2014. Nokia’s ultimate goal is to migrate from a proactive and predictive model to a cognitive and contextualized model, which offers higher levels of efficiency. TBR believes the investments Nokia is making now in its service delivery organization will translate into a sustained margin advantage over its closest competitors over the next few years.

Consulting gets wrapped into solutions, not stand-alone offering

Nokia has bucked the trend for vendors to offer stand-alone consulting services. Rather, Nokia is focused on tightly integrating consulting into its broader services solutions to enhance overall value to the customer. Nokia is focused on helping telcos pick the right transformation strategy as they migrate toward software-defined architectures and employ new business models such as mobile advertising.

Nokia made it clear that it is not trying to be a traditional consultant, such as Deloitte or Accenture, which focus on the business side of consultancy. Rather, Nokia is focused on the opportunity in technical and process change consulting, which are critical services to provide as operators undergo transformational changes from a technology perspective. This focus differs from what Nokia’s closest competitors are doing in consulting, but Nokia’s approach is arguably more sound because it allows Nokia to do what it does best — helping its customers apply innovation to solve technical problems. Though this does limit the company’s addressable market in the rapidly growing professional services market, the narrow focus will help the vendor take share and become a viable niche player.
Nokia building up IT competency to pursue ICT engagements

Nokia is putting some of its services personnel through VMware, Hewlett-Packard Enterprise (HPE), EMC, Juniper and other vendors’ certification programs to build IT competency. These skills will enhance Nokia’s ability to help customers employ new technologies, such as network functions virtualization (NFV)/software-defined networking (SDN) and cloud. This will help Nokia target converged projects that employ communications technology (CT) and IT infrastructure. Though Nokia’s closest competitors are taking a similar approach to IT, Nokia is able to improve its positioning against IT suppliers, which in most cases lack the CT side of the equation. However, Nokia will run into stiff competition from its historical competitors Ericsson and Huawei in this domain, because both of those vendors are also making substantial investments to bolster their IT competency.

Conclusion

Nokia’s focus on evolving its service delivery organization to a cognitive and contextual foundation that emphasizes remote service delivery using automated processes is the way forward for the industry, particularly as the telecom industry migrates to a software-defined, ICT-centric world. Though Nokia is at the early stages of realizing the full potential of new innovations in these areas, TBR believes the company is moving in the right direction.

Further, Nokia’s focus on niche areas in the broader services market (i.e., NPO, technical transformation consulting and out-tasking) keeps the vendor from pursuing noncore activities and helps it leverage existing expertise. TBR believes this niche focus will help Nokia capture a larger share of a smaller addressable market rather than focusing on being everything to everyone, as its closest peers are attempting to do, to spur long-term revenue growth.

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