

The Ngena Alliance: Mining the Midmarket Enterprise

Wholesale platform will speed partner service provisioning

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Camille Mendler



Summary

In brief

Deutsche Telekom and its partners have inaugurated a landmark global alliance that delivers on-demand enterprise networking services based on emerging virtualization technologies. The Next Generation Enterprise Networking Alliance (ngena) is backed by Deutsche Telekom's venture arm, with other investors including major competitive operators in the United States and Asia-Pacific working with lead technology partner Cisco. With a remit that explicitly includes midmarket multinational firms, ngena – which is seeking more partners – aims to reinvent how service providers enable enterprises to buy, provision, and manage cross-border digital services.

Ovum view

Ngena takes a fundamentally different approach from previous international service provider alliances in its structure, operations, service portfolio, and, not least, end-user beneficiaries. Ovum believes that the ngena alliance is important on several counts:

- Its scope extends from large enterprise and multinational corporations (MNCs) right across to small and medium-sized enterprises (SMEs), which have had little access to global services until now.
- In particular, ngena addresses a key complaint among SMEs: that their local and regional service providers offer poor geographical service coverage.
- Ngena reinforces the prospect that software-defined networking (SDN) and network functions virtualization (NFV) technologies will create new revenue opportunities for service providers.
- That alliance confirms that the telecoms wholesale market (traditionally based on the transactional resale of excess capacity) is evolving into a more sophisticated value proposition attracting focused investment.
- Ngena provides evidence that service providers are increasingly willing to collaborate in new ways in order to grow revenues.
- Ngena opens opportunities across all enterprise segments where untapped market potential may lie.

What is ngena and what does it do?

- Ngena is a new global network and cloud services operating company. It is building a cloud services delivery platform across 25 data centers or hubs worldwide, all based on Cisco Intercloud. Network connectivity is provided by telecoms carrier partners that belong to the alliance.
- Deutsche Telekom and Cisco have together established ngena, but at least 20 more telcos are expected to join the operator alliance, which already has recruited CenturyLink (United States), Reliance Jio (India), and SK Telecom (South Korea) as members.

- Ngena means “join in” in Bantu, the language family spoken across most of Africa. It also provides an acronym for Next Generation Enterprise Network Alliance. Ngena is an independent firm rather than a joint venture or joint go-to-market project between carriers.
- Ngena’s mission is to provide end-to-end network services across the Cisco Intercloud, with network-to-network interface (NNI) connections based on simple layer-2 Ethernet, enabling standardized and faster provisioning of cloud services. The knock-on effect is to reduce cycle times in business applications and process outsourcing.
- Ngena does not serve enterprises itself, but enables smaller (local, midsize, or tier-2 and -3) service providers to respond to changing needs of local enterprises through a portfolio of wholesale services.

International B2B competition is getting tougher

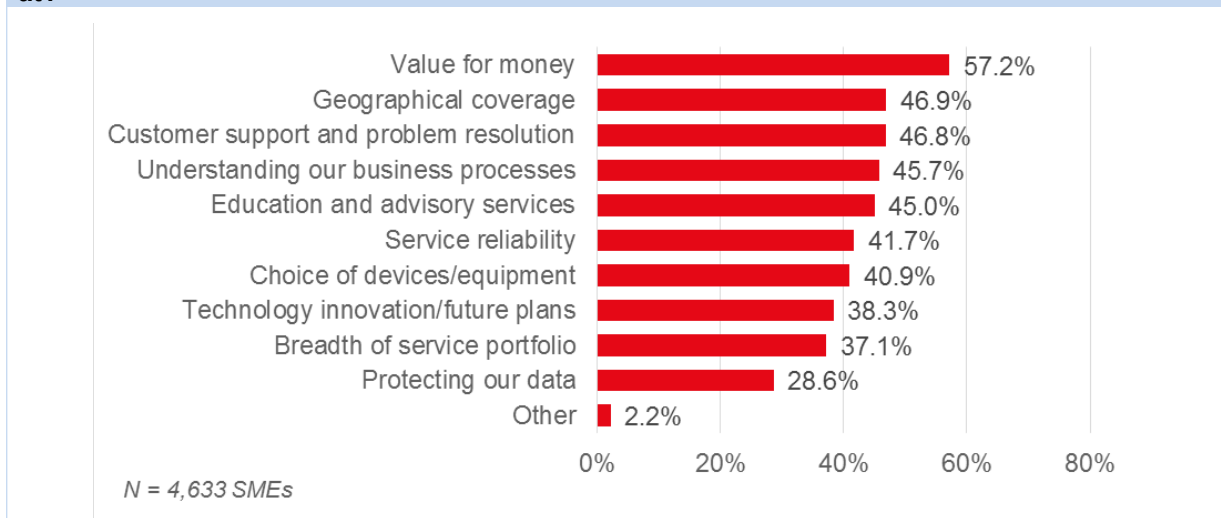
Regional and global service providers with dedicated B2B divisions targeting multinational corporations (MNCs) tend to focus on the world’s larger enterprises. Customer acquisition and management costs in the MNC segment can be considerable, and this has driven a natural focus on larger deals and larger firms in order to secure a return on investment.

Capturing a decent piece of the action in the existing MNC market has never been easy. But stakes are rising as deals are becoming proportionally larger across an increasingly sophisticated competitive field (see the report *2016 Trends to Watch: Global Services*, which tracks trends in networked ICT deals worth \$1m or more). Equally, many MNCs are behaving differently. Decision-making is devolving regionally in many organizations, complicating established MNC account acquisition processes within service providers.

The scale of competition and rising ICT skills required to operate at the high end of the MNC market is driving some service providers to rethink where their addressable growth opportunities really lie. Outside the narrowing global MNC leader group, dozens of service providers serve large and smaller enterprises with significant international service needs.

Ovum research shows an increasing number of mid-sized enterprises have regional-to-global roadmaps and are looking for connectivity and services. This is difficult for network operators to provide and forces them to broker multiple, often ad hoc deals with other operators in regions where they lack facilities. Figure 1 shows that for small and mid-sized enterprises, network coverage is the biggest complaint about their telecoms service provider after costs.

Figure 1: Small and medium-sized enterprises: What is your telecoms service provider worst at?



Source: Ovum 2016 SoHo and SME Insights Survey

While many national and regional service providers possess a B2B client base, these clients do not justify targeted investment in dedicated international infrastructure, so a project like ngena could be compelling for them and their enterprise customers. Some bilateral service provider alliances exist to serve these needs, but more often national and regional service providers buy ad hoc capacity from national and international wholesale service providers.

Ngena is designed for 21st-century enterprise needs

Ngena’s management aims to mark out new territory in digital service provision and avoid the mistakes of past cross-border service provider alliances. Describing ngena as a wholesale carrier’s carrier does not do justice to its key differentiators, which include:

- **a focus on next-generation virtualized services:** Ngena is entirely focused on leading-edge services.
- **standardized interfaces and processes:** Cisco’s presence as a founder partner in the alliance, and the choice of Cisco Intercloud as the basis for cloud service interconnect, means ngena starts up with a unified, vendor-based infrastructure that is still open source. Operationally, this should make development of the ngena platform quicker, simpler and more predictable.
- **an independent operating structure:** Ngena is structured as an independent firm into which partner service providers take a stake. This is a departure from many service provider alliances that have foundered on matters of control. The company is independent of its founders, although initially funded by Deutsche Telekom.
- **a membership of local competitive operators:** Besides Deutsche Telekom, which is the incumbent in its home country and several Central and Eastern European countries, other alliance members are leading competitive operators. According to ngena management, the goal is to attract more “local heroes” rooted in their local geographies, but presumably lacking the operational and infrastructural baggage common among former monopoly operators.

- **pooled assets:** In the short term, ngena will lease data center space and network connections in order to provide 20–25 international connection points. Further out, it could consider acquiring or building its own facilities.

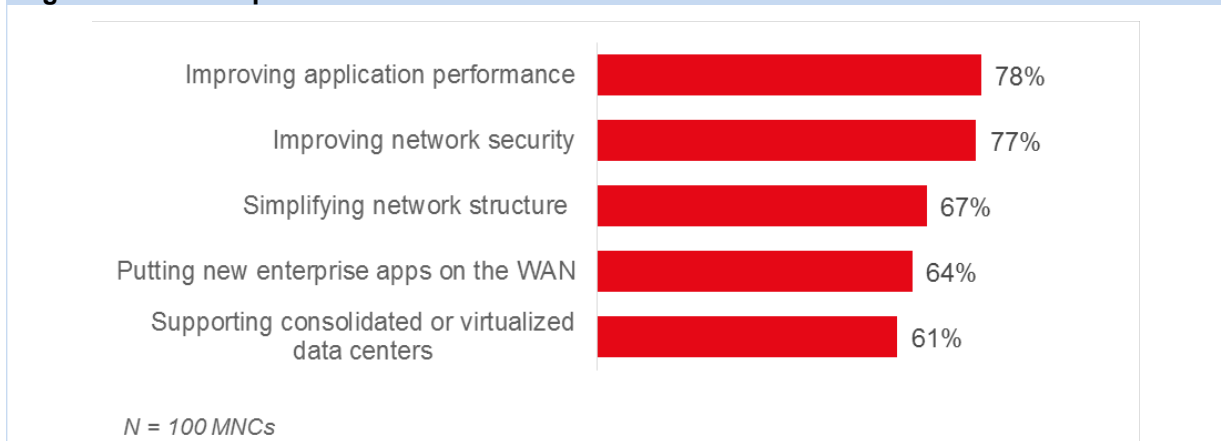
Targeting the midmarket is a smart move

Ngena’s management recognizes that midmarket firms are an important component of the B2B universe. Formal definitions of the midmarket vary by geography and institution, but these firms – with employees numbering in the hundreds rather than thousands – are acknowledged as the engine of growth in many economies, not least in Germany’s. So important is this sector to Europe’s largest country that a term exists to describe it: the *Mittelstand* (the middle class).

Midmarket firms tend to punch above their weight in terms of value-added contribution to economic growth. This is because such firms include a significant number of “hidden champions” – leaders in niche market segments. In Germany, for example, the *Mittelstand* is largely composed of specialist high-value manufacturing firms. Relatedly, a majority of midmarket enterprises trade internationally. They tend to be digitally astute, and many have outposts abroad.

Only one in five firms with that require international networking really understands how NFV and SDN technologies work, according to a 2015 Ovum survey. Nevertheless, these enterprises’ networking investment priorities reflect issues that virtualization technologies were designed to address (see Figure 2).

Figure 2: MNCs’ top five drivers of network evolution over the next 12 to 24 months



Source: Ovum 2015 Enterprise SDN/NFV Survey

In this market environment, ngena can provide solutions for enterprises that want SLA-based network and cloud resources internationally. Figure 3 shows how ngena defines its five service tiers or service levels, which it calls Access Designs, underpinning the first set of VPN network and cloud services.

Figure 3: Service levels in the ngena platform

Global ngena VPN Services	ngena Value Added Services	
	Cloud Connect Services	Cloud Connector to public cloud services for optimized access (secure and performant)
	Advanced Security Services	Advanced Security Services from Firewall and Web-Security up to DDOS protection
	Application Optimization Services	Application optimization and acceleration end to end
	Advanced Network Services	Internet breakout (local, regional, central), multi-VPN, Nomadic Access
	ngena Access Designs	
	XL	Global and secure hybrid VPN Service with built-in Application Awareness fully redundant execution of all components, with no performance losses when backup is used. The structure includes geographically separate redundant components
	L	full redundancy of all components based on Ethernet Access
	M	partially redundant implementation, mixed Ethernet and Internet Access; performance losses may occur when backup is used
	S	partially redundant implementation with backup; dual Internet Access
XS	simple structure with singular components; non-redundant Internet Access	

Source: Deutsche Telekom

To provide global hybrid (Ethernet and Internet access) VPNs, ngena links the networks of all partners to form one global network across which business clients will be assured high-quality VPN services. The technical backbone for the network will consist of Intercloud services, in a software-defined networking (SDN) architecture. The network integration is executed via end-to-end infrastructure resulting in stable connectivity. In addition to founding members, ngena aims to include about 20 more partners over the coming years, so network coverage potentially will extend beyond any single global service provider's to reach the most remote areas.

First services from ngena will be IP VPN-based networking that makes more or less use of public Internet resources (hybrid VPN) and associated services, especially security. This offer for different levels of service based on private and public networking is a big step up for network operators that have been on the back foot, as vendors such as Aryaka, CloudGenix, VeloCloud, and Viptela roll out network management tools that effectively provide overlay network services. Since most of these are based on Cisco dynamic VPN technology, there's scope for fixed operators to host these new vendor-based services in their main networks as additional services.

Further developments in the services portfolio are expected to extend to full international VPN functionality, application performance management (APM), WAN/LAN management and optimization up to additional built-in services such as unified communication and collaboration (UCC), advanced security services, and platform APIs for industry-specific use cases (e.g. WLAN analytics for retail).

Conclusions

Network operators' MPLS networks might receive high marks for network performance management and quality of service (QoS), but their process and provisioning times in service activation do not, particularly when they are dependent on wholesalers and other third parties. Overall, Net Promoter Scores (NPS) and customer satisfaction (CSat) index scores are rising, but delivery speed is increasingly valuable. For many enterprises, the ability to turn up network connections and new sites as fast as they provision servers with IaaS is compelling – and they are getting a strong message that this is possible from disruptive hybrid VPN service providers.

The Internet won't be a complete alternative for QoS or provisioning. But ngena's founders aim to persuade enterprise sourcing managers that they do not need to abandon the managed network service approach, because ngena reconciles the requirements of competing suppliers and enterprise customers making it possible for:

- SMEs as well as large enterprises/MNCs to get direct access to multinational services
- enterprise line-of-business managers to get class of service (CoS) across the Internet
- telco partners to get a dynamic VPN platform, offsetting the competitive threat from software-based network vendors
- software-defined WAN providers to get a new platform they can also use to reach remote sites.

Ngena's partners have not yet addressed IT services, software, or applications in the enterprise network or cloud. Its message may be lost on enterprises that worry less about security or QoS and are happy to source applications from public SaaS providers, paying less attention to network provisioning. But any enterprise with a growth roadmap should have a network and cloud services roadmap too.

Ngena potential benefits for enterprises

- **Improved responsiveness:** In time, the predictability and consistency of service definition and provision should result in faster supplier response to enterprise needs.
- **Consistent service experience:** Enterprise customers should obtain the same service, management tools, and service-level agreements across alliance members, enhancing service consistency to internal stakeholders.
- **Simplified management:** Enterprise customers should also benefit from standardized interfaces, helping reduce the need for staff training, improve service monitoring, and allow for greater autonomy over service configuration and self-provisioning if desired.

Ngena potential benefits for service providers

- **Simpler service provisioning:** By using common interfaces across alliance members, wholesale and enterprise service activation should be faster and easier.
- **Faster time to revenue:** Faster service activation should also result in faster time to bill and recognize revenues.
- **Lower operational costs:** Common interfaces and service standards contribute to lowering costs incurred to fulfill and manage cross-border services for enterprises.
- **Delivery of software-defined WAN services at scale:** Dependent on an expanded service provider partner base, service providers can deliver these new WAN services where and when enterprises need them.
- **Competitive differentiation:** The provision of an on-demand framework for service delivery.
- **Shared expertise:** Smaller service providers (local, midsize, or tier-2/3) can benefit from the experience and professional services of larger alliance members.

Pitfalls for prospective ngena members

Telecoms history is littered with failed service provider alliances. Major past initiatives – such as Concert, Global One, and Unisource – reflect a time when fixed-line incumbents attempted to ally in

order to fend off new competitors in a liberalizing global market. Then virtual network operators such as Vanco also emerged to solve the conundrum of serving enterprises' international needs without incurring high capex and opex.

Mobile network operator alliances have proven more resilient, although national MNOs have a common interest to defend high-level roaming rates and revenues. But combinations such as FreeMove and Bridge Alliance have not produced global mobile services yet.

Ngena could successfully inaugurate an airline code sharing–type of alliance for digital services, like the Star Alliance and others. These have proven effective where partners benefit equally from sharing the resource and have a practical business interest to maintain it.

Nevertheless, various risk factors also exist:

- Marketing costs for ngena services: we do not know what these will be, but the new company will need to formulate a global marketing plan and avoid start-up “burn rate” trends
- Other local heroes could replicate the ngena proposition: ngena is not the first next-gen network alliance; Tata Communications' IZO network solution also aims to provide business-grade SLAs across a series of networks managed by member operators, many of them local and regional partners
- Established MNC service providers could move down-market to target the Mittelstand: Ovum's global deals analysis shows that the shape of the deal for global telco service providers from AT&T Business Solutions to Vodafone Global Enterprise has already shifted into the midmarket.
- Customer relationships: ngena is a big and ambitious network engineering project and its QoS performance record will need to be 100% to maintain user confidence
- Localized sales engagement: local market conditions matter to all enterprises, whether MNCs with overseas branch operations or SMEs with commitment to their market of origin, which is often the source of their service appeal.
- Service-level management: service support operations do not need to be at scale for a global operator, but they need to be consistent, and regional members need to be consistent with them.

Finally, the success of an alliance like ngena depends on the willingness of participants to cooperate rather than focus on competition, and the wholesale market that ngena is rooted in is inherently more interdependent, cooperative, and collaborative than retail markets. Relationships in the wholesale market are complex and multidimensional – they demand maturity, understanding, and flexibility from participants, and that should give positive assurance to prospective end customers for ngena.

Appendix

Further reading

SDN/NFV: Enterprises Get Ready, TE0005-000713 (June 2015)

IZO Internet WAN from Tata Communications , TE0005-000708 (August 2015)

“Akamai gives Orange's and T-Systems' WAN services a new lease of life,” TE0005-000760, (November 2015)

“Developing the human side of wholesale,” TE0012-000563 (December 2015)

2016 Trends to Watch: Global Services, TE0005-000782 (February 2016)

Author

Camille Mendler, Practice Leader, Enterprise Services - SoHo and SME Services

camille.mendler@ovum.com

David Molony, Practice Leader, Enterprise Services - Networking and Cloud

david.molony@ovum.com

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