Cloud Strategy Snapshot: NTT Com

Powering ahead with its global ambitions

Ovum view

Summary

Telecoms service providers have a patchy history of making acquisitions, but they have fared no worse than their IT counterparts. Many have struggled to integrate newly acquired entities seamlessly into their existing operations and leverage expertise across all business units, making it hard to create long-term value, sustainable differentiation, and synergies.

NTT Com has been the one of the most acquisitive telecoms service providers globally over the last five years. Its acquisition spree has been fueled by its bold ambition to establish a much bigger presence outside Japan and to bolster its ICT capabilities. Over the last three years it has made acquisitions worth an estimated $3bn across its divisions, including its cloud/hosting business acquiring RagingWire in the US and Frontline in Australia. Over the years, NTT Com has built an impressive estate ofmore than 140 data centers globally; its enterprise cloud coverage now extends to 13 markets, including Japan, Singapore, Thailand, China, Australia, the UK, the US, France, and Germany.

Ovum estimates that NTT Com's global cloud revenues were approximately $1bn in 2014, making it the largest cloud service provider in the telco community and the first to cross the $1bn mark. Ovum believes that the vast majority (an estimated 80%) of its business comes from its home market of Japan. Few telcos can legitimately claim to be global cloud service providers; NTT Com perhaps comes closest. Given its global data center footprint and string of affiliate and sister companies (e.g., Dimension Data), Ovum believes that NTT Com has a viable chance to strike a perfect equilibrium in an industry that is experiencing two seemingly contradictory realities: a rapidly growing market that is in a race to the bottom in terms of pricing.

Ovum view

- **Global data center assets will be its biggest strength.** Global scale is now one of the main prerequisites for any cloud service provider to thrive. Although NTT Com has not built a sizeable cloud business internationally, its data center assets are a step toward building that scale. Its core customers, Japanese MNCs, have significant presence internationally and many are themselves making large acquisitions outside Japan in search of growth. Japanese MNCs represent a good market for cloud services, especially given that most have huge presence in countries such as China, Singapore, Germany, the US, and the UK where NTT Com has cloud-enabled data centers. The telco can easily provide an extension of the cloud engagement that it has with them in Japan. The next challenge for NTT Com will be to gain credibility with non-Japanese MNCs for its cloud services. This is an undertaking that should not be underestimated given the level of competition in the global market and NTT Com's lack of brand recognition with MNCs and enterprises outside Asia-Pacific. This would involve an intensive amount of brand marketing and seeding of opportunities by its sales team to raise its brand recognition.

- **Cross-cloud orchestration offering.** NTT Com has pulled together a comprehensive orchestration platform for customers that are envisioning a hybrid environment. Its cross-cloud orchestrator gives IT an integrated platform for all the various public and private

clouds. It is designed to give IT managers and CIOs both end-to-end visibility and absolute control and management via a customer portal. This facilitates service management of cloud services for the entire enterprise; it includes provisioning, authentication, and control, which remain a challenge for many enterprises with hybrid cloud environments. The cross-cloud orchestrator will be launched in December 2015 as part of the Next-Generation Cloud platform.

▪ **Leveraging affiliates as extended channels.** NTT Com's affiliates or sister companies across the globe have great potential as extended channels. The most prominent are Dimension Data and NTT Data, but a series of other acquisitions globally has opened the possibility of penetrating mid-size enterprises in selected countries. Many of these entities have their own cloud ambitions but few will have the same cloud data center assets as NTT Com or even the skill sets in respective countries. Ovum believes that NTT Group should take the lead and direct a lot of energy toward encouraging and incentivizing cross-selling of cloud services by all the affiliates. Cross-selling encourages collaboration among this sprawl of valuable entities, which is ultimately always the best way to accelerate growth. This requires a lot of sales training and the creation of incentives to encourage it; many operational reforms would be necessary for this to be executed well.

▪ **SDN networks underpin cloud services agility.** NTT Com has been one of the most aggressive telcos in terms of promoting SDN-enabled network services. It was the first telco to launch an SDN-enabled cloud service globally. SDN networks allow enterprises to have network agility built into their cloud services. Any surge in cloud consumption will be accompanied by a corresponding increase in network capacity, scaling back down when consumption subsides. Enterprises are looking for networks that are agile enough to support fluctuating demand in cloud services.

Cloud services overview

Cloud portfolio

NTT Com is the telecoms subsidiary of NTT Corp and one of the largest telcos in the world. Ovum also believes that it is the largest telecoms cloud service provider globally, with revenues estimated at $1bn in 2014. This makes it not only the largest telco cloud service provider globally, but also the first telco to surpass the billion dollar revenue mark. This is a commendable achievement in a market where almost all its telco peers have struggled.

NTT Com's cloud division falls under its ICT business unit and is its fastest-growing segment. It launched Global Cloud Vision (GCV) in 2011; thisis the service vision and guiding principal for all its services. There is no one unifying brand for NTT's cloud portfolio, but its public cloud (i.e., IaaS) and virtual private cloud offering are globally known as Cloudn(a low-priced service for web development and others). Enterprise Cloud (designed to support core workloads) remains its flagship cloud service.

NTT Com focuses almost entirely on serving large Japanese and global MNCs locally and internationally, with its primary target being mid-size to large MNC customers. NTT East and NTT West target SMEs domestically in Japan. Its other cloud services include UCaaS, VDI, Microsoft Office365, and, most recently, Oracle Database as a Service. NTT Com offers hybrid cloud, interconnecting the Enterprise Cloud, co-location, and customer's on-premise locations using

virtualized networks. It is able to offer cloud migration using the same IP addresses as customers' on-premise systems, facilitated by the use of network virtualization technology. It has a dedicated team of more than 200 consultants to help MNCs migrate workloads into a cloud environment. This is a real differentiator for NTT Com – MNCs need guidance in their cloud journey, especially with regard to the impact on their overall ICT infrastructure. Uncertainty breeds hesitancy and if NTT Com can instill confidence in its customers their cloud journeys can be accelerated.

Enterprise offers

NTT Com announced its GCV in 2011. Its cloud vision was designed to be an intrinsic part of its overall ICT strategy, leveraging its strengths in networks and security, its data center footprint, and its customers' transition to cloud-based ICT services. An increasing proportion of its ICT engagements have a cloud element; NTT Com is positioning itself as a one-stop managed ICT and global WAN provider for its clients. It is also helping its customers to migrate their IT to its data centers and/or cloud-based platform.

Global data center offering with robust security and orchestration capabilities

NTT Com's greatest strength is its network of more than 140 data centers globally. During FY2015, the telco's enterprise cloud will be available in 16 data centers across 13 countries and regions around the world. This includes countries such as the UK, Germany, the US, Singapore, Thailand, Malaysia, Japan, France, Hong Kong, and Australia, with Spain, China, and India in the works. This makes it one of the few telcos that have a strong presence across most major geographies globally. Africa and Latin America remain the two regions in which NTT does not have any cloud data centers.

These are critical assets and make it unique among telcos. They also allow NTT Com to scale globally and support its MNC customers. The telco provides both public and virtual private cloud services to MNCs. Its orchestration platform responds to some of the concerns of CIOs/IT managers. It gives them full visibility and service management capabilities for "all clouds" in a hybrid environment, allowing for self-provisioning and management. In addition, NTT Com cloud platforms are safeguarded by a series of managed security services powered by WideAngle.

Extended channels of affiliates are advantages

NTT Group has been very acquisitive over the last few years via its subsidiaries, NTT Com being one of them. The list of acquisitions includes Netmagic, Frontline Australia, and RagingWire (by NTT Com); perhaps the most significant acquisition remains Dimension Data by NTT Group. Most of these acquisitions are integrators and data center providers with strong cloud ambitions. Extensive global channels are critical for any cloud service provider that has global ambitions.

These acquisitions, along with existing NTT Group affiliates such as NTT Data, are excellent channels for NTT's cloud services. The challenge is for these affiliates to be incentivized in such a way that encourages both cross- and upselling of NTT Com cloud services to customers that have cross-border requirements. There is already some evidence of this happening, but Ovum believes that these channels can be leveraged better.

Software-defined networking brings agility to cloud services

NTTComwas one of the first telcos to deliver cloud services using software-defined networking (SDN). It is the first provider globally to leverage SDN within its data centers to deliver seamless network and

cloud services. The telco is using the technology to enable cloud migration services and offer Enterprise Cloud, its global IaaS and the first global SDN-enabled cloud service.

By leveraging SDN, NTT Com can enable customers to automatically connect cloud and WAN services and migrate services to its cloud platform without the hassle of changing the IP addresses of existing on-premise systems. By utilizing SDN technology in cloud infrastructure (within/between data centers, between cloud co-location, cloud-VPN), NTT Com has realized self-service, on-demand deployment, and immediate configuration of network function by customers themselves. Thanks to virtual network technologies, customers can change the settings of functions through the Customer Portal.

The Next-Generation Cloud platform

NTT Com plans to launch its Next-Generation Cloud platform in December 2015. The platform will enable customers with aggressive plans to migrate their on-premise systems to a cloud environment. The offerings related to this include:

- a combination of dedicated resource types (hosted private cloud, bare metal) and shared resource type (public cloud) supported by SDN
- a multi-hypervisor environment (ESXi, Hyper-V, etc.)
- a multi-cloud management portal that allows customers to manage all existing cloud services for their customers, including public clouds such as AWS and Azure.

Go to market

Structure

NTT Com has a regional sales approach for cloud services. In Japan and Asia-Pacific its focus is almost entirely on Fortune 1000 Asian MNCs with complex ICT needs. It has a sales team across major cities in Japan as well as across the region. NTTCom has 16 global premium accounts and 75 international premium accounts; these accounts are classified as strategic and have ambitious targets attached to them.

In North America NTT Com targets the top 2,000 MNCs, as well as regional companies via acquisitions such as Virtela and RagingWire. Its target customers include SMEs as well as large enterprises.

The telco has almost 35 sales offices across Europe, which have been strengthened by recent acquisitions including Arkadin, Secode, Integralis, and Gyron. It positions itself in Europe as a complete ICT provider, with network, security, and application management capabilities. Its target segments include large MNCs as well as smaller enterprises and SMEs in Europe.

Go to market and partners

NTT Com largely employs a direct approach for cloud services, especially for full-scale ICT implementation. This is particularly the case in Japan and Asia-Pacific, where it focuses on large MNCs. However, the telco is increasingly leveraging its affiliates (especially new acquisitions) as a channel to market. Ovum expects a larger proportion of its cloud revenues to be derived from these channels in the near future, especially in North America and Europe.

NTT Com is also relying on partner channels to gain further momentum. Its cloud partner ecosystem includes Accenture, PLDT, Toshiba, SAP, Infosys, and Infor. Other notable partners include Microsoft (Microsoft Office365, Dynamics, and Exchange).

Ovum's assessment

Achieving global scale to compete with industry leaders

NTT Com has one unique advantage: it has more than 140 data centers around the globe. Presently, 13 of these data centers (in 10 different countries) are cloud enabled and more are expected to be converted in the near future. The telco is able to provision cloud services in most of the major cities of the world; Latin America and Africa are the only two regions where it does not have any cloud data centers. Although no plans have been publicly announced, Ovum believes that there is enough demand in both regions to justify NTT Com making investments there. The question remains whether NTT Com has the sales resources and customers in both regions to justify the investment. MNCs are expanding in both regions and are looking for cloud providers to engage with. Global scale has become one of the main prerequisites for any cloud service provider to thrive.

NTT Com's biggest challenge will be to upskill and incentivize its sales force to accelerate cloud migration with its large installed base of customers. It should focus on winning new customers outside Japan; Ovum believes that there is very little evidence that NTT Com has won significant new customers, especially outside its home market. This can be partly attributed to its lack of strong brand recognition outside Asia-Pacific, but is also a result of enterprises not being aware of NTT Com's cloud capabilities. The telco needs to change its marketing spin on cloud to a more business-minded approach or risk sounding out of tone with the industry. The world has moved beyond the cost-savings arguments around cloud and messaging should focus on being more competitive in the digital era.

Workload conversations require specialist skills

Cloud conversations are increasingly wrapped around workload migration journeys and the challenges that accompany them. Telcos are not generally perceived by enterprises as trusted advisors on workload migration; this is probably any telco's greatest shortcoming. However, telcos are bolstering these capabilities by focusing on Microsoft and SAP.

The manufacturing, retail, and logistics verticals form the backbone of Japanese MNCs and it would be advantageous for NTT Com to build strong expertise in this area. Doing so would lend it credibility, especially in Europe and North America, where it faces a battle against better-known incumbents. NTT Com should also further leverage the capabilities of NTT Data and Dimension Data, which have deep knowledge in SAP and Microsoft. Despite increased collaboration between these entitles, there remain many silo approaches to engagements – most still operate independently, with their own specific goals and targets.

On-premise private cloud capabilities as an extension of hybrid environments

NTT Com does have a strong offering for enterprises that want a hybrid cloud environment. A significant number of enterprises will want to keep certain workloads on-premise because of governance and security issues. Some may also want a dedicated hosted cloud environment, but with no capex and delivered on a public cloud model. These enterprises will engage with service providers

that are capable of building private cloud infrastructure that will orchestrate well with all existing public clouds. Both models require integration and implementation capabilities. NTT Com can leverage its relationships with Dimension Data and NTT Data better; doing so could increase its ability to address a significant part of the overall cloud market.

Differentiation with vertical solutions and nurturing ISVs

NTT Com's cloud offering is largely horizontal in nature. Although this can be profitable, it will become harder to differentiate in the marketplace. Cloud service providers, including telcos, are increasingly launching cloud solutions that are vertical in nature, that cater to industry-specific needs, and that are embedded with industry-specific governance. Examples include cloud "retail in a box" solutions that comprise mobile point of sale, CRM, and web analytics bundled with fleet management and transportation solutions for logistics companies. Industry solutions are increasingly "cloudified" and represent a good way to drive a different set of conversations with enterprise customers via their business leaders rather than the IT department or the CIO.

NTT Com has shown little appetite for nurturing ISVs or developer ecosystems via a PaaS offering. Such ISV relationships can often lead to new, innovative solutions that can be integrated into telcos' overall cloud portfolios; they also allow enterprises to test and develop in the cloud environment. The latter often leads to further migration to the cloud by enterprises once they feel comfortable with new workload production in the cloud environment.

Appendix

Further reading

Cloud Strategy Snapshot: Telefonica, TE0005-000697 (March 2015)

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Ovum Consulting

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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