

ECI Proves Its Services Point with 1Net Services--and a New Managed Services Win

Type: Competitive Intelligence Report **Current Perspective:** Positive
Analyst: J. Marcus **Vendor Importance:** High
Report Date: April 16, 2008 **Market Impact:** Low
Module: Telecom Infrastructure Services

■ Summary

Event Summary

April 15, 2008 -- ECI announced that Schiphol Telematics, the telecom operator at Schiphol Airport in the Netherlands, has selected ECI to provide managed services for its next-generation network. ECI will provide network operations-related services in addition to optical and access network platforms and turnkey implementation services. This follows its launch last month of the ECI 1Net framework for NGN transformation, a new initiative leveraging the vendor's revamped services portfolio.

Analytical Summary

- **Current Perspective:** Positive on ECI Telecom's announcement that it has won a three-year managed services contract to operate the next-generation network for Schiphol Telematics (ST), the telecom operator at Schiphol Airport in the Netherlands. The new deal follows closely on the heels of ECI's announcement last month regarding its new NGN transformation framework, ECI 1Net, which is based on a combination of multi-functional network equipment, integrated solutions, and a new suite of professional services. The ST contract serves as an initial proof point for the services components of the 1Net framework, and ECI's ability to deliver them. ST will utilize the full range of ECI's network planning, deployment, network migration and integration services, in addition to operations-related managed services. ECI is new to the managed services space, making customer references essential for gaining credibility.
- **Vendor Importance:** High to ECI, because the company needs to demonstrate that it can succeed with its revamped services portfolio, announced last month. For ECI's Global Services division, the 1Net announcement was also clearly of high importance. In the past, ECI's services offerings were limited to product-attached implementation and support. With the new portfolio, the Global Services division is key to positioning ECI as a one-stop-shop for network products and services, including managed services, which represents a shift in the vendor's overall approach to the market.
- **Market Impact:** Low on the overall vendor services market and the managed services segment, because ECI is a new entrant just getting its feet wet in turn-key deployment and managed services. Although its success at ST is important in establishing credibility for ECI's new 1Net services offerings, the customer is a niche operator and ECI will not, as a result of this contract, suddenly threaten the market leaders. At the same time, ECI's existing customers should take a fresh look at the company's services portfolio and its commitment to investing in and further developing a broad set of capabilities. ECI's closest peers, such as Tellabs and Ciena, should also take note of ECI's new portfolio and shift in strategy.

Target Markets

ILECs, IOCs, ISPs, IXCs, Mobile Wireless Operators, MSOs, CLECs, Global Carriers

■ Perspective

Current Perspective **Positive**

We are taking a positive stance on ECI Telecom's new services portfolio, which is an integral part of its 1Net framework for NGN transformation, and its announced customer win at Schiphol Telematics, because they demonstrate the newly private company's willingness to adapt to market conditions in order to compete better--and because the contract shows the new strategy can succeed. ECI's new services push comes from the top down, fully endorsed by its CEO and President Rafi Maor, and is not therefore a passing fad within the company. Management and investors have bought into a new business and sales model which requires change by ECI, but which is being driven by demand from the marketplace.

ECI announced that Schiphol Telematics, the telecom operator at Schiphol Airport in the Netherlands, selected ECI to provide managed services for its next-generation network (NGN). ECI will provide network operations-related services in addition to optical and access network platforms and turnkey implementation services. This follows the vendor's launch last month of the ECI 1Net framework for NGN transformation, a new initiative leveraging the company's revamped services portfolio, which extends its previous product-attached service offering to turnkey and operations-based managed services. In addition to the announced contract, ECI has gained initial traction in accounts elsewhere in Europe and in Asia.

The three year deal is a timely proof point for ECI Telecom, which only launched its new portfolio of professional and managed services last month. Reference customers are essential to compete in services, and although ST is a niche service provider, running its operations is no trivial affair given the high standards required for service levels and security in an international airport

environment. More importantly, the win shows that ECI's new strategy can be successful, allowing it to position itself better in competitive infrastructure bids. Operators rarely perform lifecycle services functions in-house any longer, and now ECI is less vulnerable to losing business to services-focused competitors and independent integrators. Key features of ECI's turnkey deployment and managed services offer include a claim to achieve up to a 20% reduction in the total cost of network ownership, an attractive proposition for cost-conscious customers.

There are no serious concerns related to either the new services offerings from ECI or its win with Schiphol Telematics, only minor issues that may reduce their initial impact. For starters, ST is not exactly a big carrier customer, even if it serves thousands of business customers at Schiphol Airport. ECI's 1Net will need to gain traction in larger accounts before it will be considered a threat to services market leaders. References and track record are what differentiates services competitors; without more of those, ECI needs to find other ways to position its offerings beyond its somewhat "me-too" laundry list of service offerings. Finally, ECI's new services offerings are focused squarely on its next generation platforms, and so demand will be impacted by product demand. Since the company has committed to a services-based market approach, it is in danger of falling flat unless it can use its services portfolio at the beginning of the sales cycle to stimulate demand for networks products, and not the other way around. This is easier said than done and requires significant change in marketing, selling and delivery practices.

ECI's services strategy will not have a major impact on the telecom infrastructure services market overall, due to the company's measured approach, and because it is basically starting from scratch. Where customers and competitors should take more notice, however, is where ECI competes with traditional transport and access network peers such as Tellabs and Ciena. Both companies have long track records of running professional services as a business, however, in both cases they remain largely product support organizations. ECI has gone one step further to where Alcatel-Lucent, Ericsson, Nokia Siemens Networks and Nortel have gone by also committing to managed services. It should be noted that managed services have enjoyed greater acceptance in the mobile segment than in these vendors' more traditional wireline customer bases, but that these same competitors are targeting mobile operators' transport needs more aggressively than ever. Managed services, whether out-tasking, build-operate transfer, or full network outsourcing, are on the table in every mobile operator, and in increasing numbers of fixed line carriers. With its 1Net framework and associated new services, ECI is positioning itself better to meet that demand.

■ Positives and Concerns

Competitive Positives

- The Schiphol Telematics win is a timely proof point for ECI Telecom, which only launched its new portfolio of professional and managed services last month. Reference customers are essential to compete in services, and although ST is a niche service provider, running its operations is no trivial affair given the high standards required for service levels and security in an international airport environment. With references in hand for network operations out-tasking, ECI can be confident in making its case to other potential customers for its new offering.
- The vendor's new 1Net framework and go-to-market strategy offers customers a one-stop shop for products, solutions and services that, according to ECI's claims, lowers the total cost of network ownership by 20%. In a market where OpEx optimization is still top of mind for network operators, this can be a very competitive proposition.
- The 1Net framework brings together its portfolio of products targeted at transport and aggregation applications (MSPP, MSTP, optics and Ethernet), a focus on high value solutions (IP transport, NGN voice, triple play and business), expanded services (full life cycle including PM, planning, build, manage, consulting and turnkey) plus a common management system (LightSoft). To this end, ECI can now claim an integrated solution from access to metro core that addresses the scale, OpEx and CapEx requirements for next generation transport networks.
- With the new services push, ECI can position itself better in competitive infrastructure bids. With its network product platforms, ECI can now offer a more complete turnkey deployment package, including network planning and design, network implementation, and system integration services. Outside of network planning, operators rarely perform these functions in-house any longer, and previously, ECI was vulnerable to losing product business to services-focused competitors and independent integrators.
- ECI's approach to the services market is somewhat reactive and opportunistic, but this allows it to focus on real opportunities, deploying resources as needed, and starting with its existing installed base of customers. With this targeted approach, ECI can be more nimble than large competitors and may prove attractive to Tier 2 and Tier 3 service provider customers especially.
- The Schiphol Telematics win is especially positive because it is a new customer for ECI, and because it features the full portfolio of ECI's new services. ECI will deliver planning, design, network migration and implementation services, in addition to full support of the network management, including Network Operations Center (NOC), maintenance and field services. This enhances the vendor's credibility in each of the different segments of the services market, as well as in turnkey and build-operate services.

Competitive Concerns

- ECI is no stranger to working with major operators, but Schiphol Telematics is not exactly a big carrier customer, even if it serves thousands of business customers at Schiphol Airport. ECI's new services portfolio will need to gain traction in larger accounts before it will be considered a threat to services market leaders.
- ECI's services portfolio, despite its rebranding, refocusing, and close packaging with the vendor's next generation platforms, is still a me-too laundry list of functional network-related services. That's fine, since services organizations are differentiated more by their references and resources than their specific portfolio offers, but as a new entrant, ECI must try to find other ways to differentiate itself.

- ECI's new services offerings are focused squarely on its next generation platforms, and so demand will be impacted by product demand. Other services organizations have developed product-independent and multi-vendor services in order to diversify their addressable markets. But at ECI, it appears services must always follow products.
- ECI's services strategy will have to contend with well-established services giants such as Alcatel-Lucent, Ericsson and Nokia Siemens Networks who have significant services staff in place and a decade or more of experience under their belts delivering full life cycle services including operations-based managed services to their Tier 1 service provider customers.

■ Recommended Actions

Recommended Vendor Actions

- ECI Telecom should use its deep relationships with major carriers such as Deutsche Telekom, France Telecom, and KPN to develop a Tier 1 reference for its 1Net framework and new managed services portfolio. All of these major carriers are already receptive to advanced vendor services. While its best opportunities may prove to be in smaller operators and developing markets, a major carrier case study will help develop the résumé or C.V. required for competitiveness in services in all market segments.
- At the same time, ECI needs to distinguish itself from giant services players such as Alcatel-Lucent, Nokia Siemens Networks, and Ericsson, lest it be judged against their strengths in scale and footprint. ECI's customer-level (rather than country-level or region-level) focus will highlight its ability to be more agile and responsive than the market leaders. With the ST engagement, it can also point out that it won despite Ericsson's previous experience with the operator in delivering implementation, operations, and managed capacity services.
- ECI has identified total cost of ownership savings as a key feature for distinguishing its somewhat generic portfolio of services, but it should also look for other metrics to differentiate its position. Since it is basing its offer on its own platforms, ECI is in a position to develop strong network-level KPIs. Network-level (as opposed to product-level) service offerings are challenging to guarantee, but the vendor that succeeds in doing so will find customers are very receptive.
- ECI's 1Net framework offers a cursory nod to legacy platforms by taking into account network migration issues, but it otherwise is focused completely on new generation ECI platforms. ECI needs to account for the fact that while customers are looking for one-stop-shops for products and services, they are also increasingly looking for a single point of contact across network types and generations. Although it is a far from trivial exercise, ECI should come up with a plan for servicing multi-vendor network environments, and be prepared for demand surrounding legacy network operations and maintenance.
- Rather than let it become positioned as a provider of product-attached services, ECI should lead its selling efforts with its services capabilities, using services to get into and eventually close new opportunities. Despite its platform-specific flavor, the services component of 1Net should not be dependent on product implementations, but rather be used to drive it. This will require a new sales approach which can take time to develop and perfect.

Recommended Competitor Actions

- Optical, access and carrier Ethernet vendors should recognize that ECI's position as a point-product supplier is changing and that they will need to react accordingly. Rivals will need to compete with ECI's integrated approach, taking into account its newly promised synergies.
- Ericsson should consider why it was not chosen by Schiphol Telecom's for its new deployment and managed services contract, given the fact that it had already delivered managed services to the operator previously, and that it is more than capable of supplying a similar platform-based solution. Even if Ericsson declined to bid, it should take note of ECI's competitiveness in this account and consider how best to position against it in similar future opportunities.
- Vendors such as Tellabs, Ciena and even Juniper need to re-examine their services strategies in light of ECI's commitment to taking things further by offering managed services for service provider customers. While each of these players has developed a steady-performing professional services business, they remain largely product support organizations. ECI has extended the partnership approach by taking on operations as well as advisory and support services.
- In bid situations, Alcatel-Lucent should position its multi-vendor capabilities and network migration experience against ECI, which will compare very favorably. Even as it plans to put more focus on IP and NGNs in services, these strengths are still powerful weapons for Alcatel-Lucent in any non-greenfield environment.

Recommended End User / Customer Actions

- Existing customers should press ECI on its new strategy and how it will impact their current relationship. The service and solutions-led model requires change on behalf of the customers as well as the supplier, and not all customers will be proactively driving this change.
- Existing customers looking to reduce OpEx should consider ECI's managed services offerings for any new deployments. In addition to cost metrics, they should also look for network and service quality metrics from reference customers such as ST, as proof points of ECI's operational capabilities, and potentially as a basis on which to enter contracts.

- Tier 2 and Tier 3 operators should consider engaging ECI for managed services, including network outsourcing. ECI is in a position to offer a potentially more customer-focused relationship than large market leaders, due to mutual issues of scale and market maturity.
- Potential 1Net customers should press ECI on its readiness in dealing with network migration issues, given its positioning as an NGN-based solution framework. Service providers need reassurances regarding what can be lengthy transition periods, and they are therefore looking for suppliers with expertise across different types and generations of network technology.

All materials Copyright 1997-2008 Current Analysis, Inc. Reproduction prohibited without express written consent. Current Analysis logos are trademarks of Current Analysis, Inc. The information and opinions contained herein have been based on information obtained from sources believed to be reliable, but such accuracy cannot be guaranteed. All views and analysis expressed are the opinions of Current Analysis and all opinions expressed are subject to change without notice. Current Analysis does not make any financial or legal recommendations associated with any of its services, information, or analysis and reserves the right to change its opinions, analysis, and recommendations at any time based on new information or revised analysis.

Current Analysis, Inc.
21335 Signal Hill Plaza, Second Floor, Sterling, VA 20164
Tel: 877-787-8947
Fax: +1 (703) 404-9300

Current Analysis, Inc.
2 rue Troyon, 92316 Sevres Cedex, Paris, France
Tel: +33 (1) 41 14 83 17

<http://www.currentanalysis.com>