

Magic Quadrant for Global Network Service Providers, 2005

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The number of global network service providers has decreased as some of them retrench to a regional strategy. The leaders in this market continue their domination.

WHAT YOU NEED TO KNOW

In this document, Gartner presents its 2005 Global Magic Quadrant for Network Service Providers. The format and criteria for this Magic Quadrant have changed with this version to reflect the new Gartner Magic Quadrant methodology. This means that direct comparisons with the placement of network service providers (NSPs) between this and previous versions is not applicable.

Based on this criteria, Gartner evaluated the following carriers: AT&T, BT Group, Cable & Wireless, Equant, Global Crossing, MCI, Sprint and Deutsche Telekom (T-Systems). The evaluation criteria are outlined in Table 1. SBC's acquisition of AT&T has been completed and Verizon's acquisition of MCI is imminent, and we have taken these actions into consideration in our evaluation.

At this time, the number of global providers is limited, but the competition is fierce and the quality largely remains high. There are also vendors that were excluded because they did not meet the minimum revenue requirement. However, they could be a good choice for some enterprises. Other possibilities that were excluded include outsourcers and systems integrators that provide global services, usually through the carriers listed in the previous paragraph or combinations of regional providers.

Market Overview

The global NSP market has been characterized by a continuing small number of providers, most of whom have faced considerable turmoil and adversity during the past five years. All have faced

financial challenges, primarily caused by declining revenue and, in many cases, unhealthy debt levels. However, the market is much more healthy today, and all providers have improved their financial status, and a few are in good shape. The number of providers remains low, a trend that is likely to continue as a result of consolidation. New players have been entering this market, but they are not included in this Magic Quadrant because they did not meet the minimum revenue requirements. There are considerable difficulties facing providers seeking to enter the global network market, which is why the number of truly global providers remains low. To enter the global market, providers must build a network, either through their own investment or through partnerships. They also need sales,

MAGIC QUADRANT

Figure 1. Magic Quadrant for Global Network Service Providers, 2005



marketing and support globally, as well as strong relationships with local suppliers around the world.

Market Definition/Description

The global NSP market is a mature market, which has gone through its share of turmoil and problems over the years. There are many carriers that claim to be global, but in our opinion, only a few carriers are truly global. Using our definition for global carriers, a number of providers have been excluded because they did not achieve the revenue, coverage or portfolio requirements. The requirements are for wireline operators, but it is likely that we will require providers to also supply wireless services in the future because of the continued wireless/wireline convergence.

Inclusion and Exclusion Criteria

There are many NSPs that like to call themselves global, but the reality is often different. To be included in the global Magic Quadrant, NSPs must meet the following criteria:

- Revenue must be a minimum of \$250 million per annum
- Enterprise must be at least 30 percent of its business
- Must have a substantial business in fixed/wireline services
- Must be substantially in the retail business
- Must have a market presence as a global supplier
- Must be able to deliver services and/or have a point of presence (POP), if applicable, in the U.S., U.K., France, Germany, Japan, China and India. Delivery of services to smaller but important countries, such as the Netherlands, Belgium and Taiwan, is desirable.

- Must have offices in North America, Western Europe and Asia/Pacific
- Must have a broad range of services in its portfolio, including voice and data. Wireless services either directly or through partnerships are desirable.

Evaluation Criteria

Ability to Execute

Our emphasis continues to be on service quality, pricing and corporate viability. These elements are particularly important for global networks as the issues of infrastructure, language and cultural problems become more complicated and prolonged.

Completeness of Vision

We look for a thorough understanding of what clients want in a global provider, which is different from the requirements of a domestic provider. NSPs should also have a clear and evolving geographic strategy to meet the changing needs of customers. The portfolio should be broad enough to satisfy the requirements of most enterprises.

Table 1. Ability to Execute Evaluation Criteria	
Evaluation Criteria	Weighting
Product/Service	standard
Overall Viability (Business Unit, Financial, Strategy, Organization)	standard
Sales Execution/Pricing	standard
Market Responsiveness and Track Record	standard
Marketing Execution	low
Customer Experience	standard
Operations	standard
Source: Gartner (November 2005)	

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Leaders

Leaders have a full portfolio of voice and data products coupled with above-average service and support, wide global coverage and competitive pricing. They have a strong vision, which they articulate clearly and openly.

Challengers

Challengers exhibit strong operational and exceptional capabilities in the areas of service and support, pricing and coverage. However, long-term plans are sometimes vague, and they may not understand the requirements of enterprises or the market.

Visionaries

Visionaries will have a clear understanding of the market and where it is going. However, they often lack the financial and people resources to execute on these directions.

Niche Players

Niche players are often very strong in a specific element of execution, such as service and support, one part of the product portfolio, or they offer low pricing. However, they usually lack vision and resources.

Vendor Comments

AT&T

SBC has just officially acquired AT&T, with the new combined company having taken the name "AT&T." However, the integration is at a very early stage, and it will take some time for the full impact of this acquisition to be felt by customers. Because of SBC, AT&T is strong financially and has a strong local coverage in parts of the United States. AT&T has a strong portfolio of products, an excellent customer portal called BusinessDirect and better-than-average geographic coverage. Its customer service can be inconsistent, but usually once it's implemented, the network and AT&T perform well. Pricing is usually average. There will likely be investment in AT&T's international holdings. Companies typically prefer AT&T when they have a strong coverage requirement in the United States.

Table 2. Completeness of Vision Evaluation Criteria

Evaluation Criteria	Weighting
Market Understanding	low
Marketing Strategy	low
Sales Strategy	standard
Offering (Product) Strategy	standard
Business Model	standard
Vertical/Industry Strategy	low
Innovation	standard
Geographic Strategy	standard
Source: Gartner (November 2005)	

BT Group

From a global Magic Quadrant perspective, BT's March 2005 acquisition of Infonet enhanced its position because Infonet has been a leader in service and support for many years. While the integration of Infonet has had some problems, such as apparent confusion from a sales perspective, it was an excellent purchase if BT can successfully complete the integration. BT is continuing its movement into what it refers as "new wave" services. These are primarily networked IT services, broadband and mobility services. These are now at the point where the increase in revenue from new-wave services is offsetting the decline in traditional telecom services. BT scored well in nearly all categories, in particular in marketing and product strategy. On the negative side, BT is generally more expensive than its competition. Companies typically prefer BT when they are based in the United Kingdom or Western Europe, requiring broad global coverage or want an outsourcing solution or custom Multiprotocol Label Switching (MPLS) network.

Cable & Wireless

Cable & Wireless's (C&W's) biggest challenge is marketing. C&W sells global services to multinational corporations (MNCs) via an owned and operated backbone network, even in the U.S., but this remains largely unknown, and it is seen by many enterprises as primarily a U.K. carrier. C&W's selling off a number of its assets has helped it to address some of its financial challenges, but in its latest financial report, revenue was essentially flat, increasing by 1 percent, while operating profit decreased by 25

percent. C&W has acquired U.K. carrier, Energis, which will improve C&W's position in the U.K. enterprise market but not beyond. In addition to marketing, C&W scored below average in product portfolio, geographic coverage and some aspects of service, but C&W's pricing remains competitive. Companies prefer C&W if their global network requirements are predominantly in the U.K.

Deutsche Telekom

T-Systems, which is a subsidiary of Deutsche Telekom, is an internationally recognized company. However, in spite of this, T-Systems has not successfully capitalized on its brand awareness outside Western Europe. T-Systems is virtually unknown in the United States. It has, however, made a number of management changes to improve this, and in the future, there will likely be a greater emphasis on T-Systems' networking capabilities, and there might be some acquisitions. Technically, T-Systems is strong in nearly all aspects, but it falls down on marketing and sales. Geographic coverage is also weaker than a number of its competitors. Pricing is competitive or better, and service and support is usually above average. Companies typically prefer T-Systems for strong IT services and networking integration.

Equant

Equant received good marks for geographic coverage and its broad portfolio of products and services. Equant benefits from the financial muscle of its owner, France Telecom. It is also a part of France Telecom's business transformation in which the outcome, if properly executed, will be positive for clients. Equant also scored well in most other categories, with the exception of sales execution/pricing. Equant continues to frequently present initial offers, which are higher than its competition, but if Equant makes the shortlist, it can price aggressively – a sales approach that often costs it a place on customers' short lists. Equant provides above-average service and support, although we have had a higher number of complaints than normal for Equant clients during the past year. Equant is actively working on this. Equant's new CEO since August 2005, Barbara

Dalibard, was previously the France Telecom Group executive vice president in charge of the Enterprise Communication Services Division and chairman of the Equant Supervisory Board. We therefore expect the change in CEO to have no impact on Equant's strategy. Companies typically prefer Equant for strong global coverage and include it on their shortlists for high-quality services, DSL access and outsourcing services.

Global Crossing

Global Crossing's biggest challenge is its finances, but to its credit, it is addressing this challenge. In the second half of 2004, Global Crossing embarked on a transformation program to manage and improve its margins. This includes exiting from unprofitable deals and markets. For Global Crossing to achieve future financial stability, this is a crucial activity, and it has seen significant improvement in a number of financial key performance indicators, such as gross margin increasing to 38 percent from 28 percent one year ago. But revenue for the third quarter of 2005 was \$481 million, a year-over-year decline of 22 percent. Global Crossing's pricing is still competitive, and it has a competitive product portfolio. Companies prefer Global Crossing when seeking a low-cost, secondary carrier.

MCI

Since Verizon's acquisition of MCI is imminent, we evaluated MCI as though the acquisition has been completed. Verizon's financial strength removes the concern about MCI's finances. Customer complaints on MCI's service and support have increased during the past year, which we attribute to continued staff reductions. Verizon's service and support has been below average. Pricing at MCI tends to be better than average, as is its geographic coverage and portfolio of products. After Verizon acquires MCI, it will likely support and invest in MCI's international strategy because this represents a new and potentially significant source of new revenue for the company. Companies typically prefer MCI when they have a strong cost constraint on voice and IP.

Sprint

Sprint's position in our Magic Quadrant reflects a changing strategy. Sprint is increasingly and heavily focused on wireless communications as illustrated by its merger with U.S. wireless provider Nextel. Given that wireless represents more than half of its revenue and is growing rapidly, this is understandable, but in the global NSP Magic Quadrant, we are looking primarily at fixed wire communications. Sprint makes it very clear that it is not abandoning the fixed wire market, but it is also evident where its priorities and

energy are focused. In terms of geographic coverage, Sprint's global network has changed little in the past two years, and it continues to operate as a hybrid virtual network operator (VNO) outside of the U.S. Sprint's service and support is above average in the U.S. and average elsewhere. Pricing is competitive. Companies typically consider Sprint when they want low-cost, high-capacity networks to large European cities as an extension of a U.S. network.

Evaluation Criteria Definitions

Ability to Execute

Product/Service: Core goods and services offered by the vendor that compete in/serve the defined market. This includes current product/service capabilities, quality, feature sets, skills, etc., whether offered natively or through OEM agreements/partnerships as defined in the market definition and detailed in the subcriteria.

Overall Viability (Business Unit, Financial, Strategy, Organization): Viability includes an assessment of the overall organization's financial health, the financial and practical success of the business unit, and the likelihood of the individual business unit to continue investing in the product, to continue offering the product and to advance the state of the art within the organization's portfolio of products.

Sales Execution/Pricing: The vendor's capabilities in all pre-sales activities and the structure that supports them. This includes deal management, pricing and negotiation, pre-sales support and the overall effectiveness of the sales channel.

Market Responsiveness and Track Record: Ability to respond, change direction, be flexible and achieve competitive success as opportunities develop, competitors act, customer needs evolve and market dynamics change. This criterion also considers the vendor's history of responsiveness.

Marketing Execution: The clarity, quality, creativity and efficacy of programs designed to deliver the organization's message in order to influence the market, promote the brand and business, increase awareness of the products, and establish a positive identification with the product/brand and organization in the minds of buyers. This "mind share" can be driven by a combination of publicity, promotional, thought leadership, word-of-mouth and sales activities.

Customer Experience: Relationships, products and services/programs that enable clients to be successful with the products evaluated. Specifically, this includes the ways customers receive technical support or account support. This can also include ancillary tools, customer support programs (and the quality thereof), availability of user groups, service-level agreements, etc.

Operations: The ability of the organization to meet its goals and commitments. Factors include the quality of the organizational structure including skills, experiences, programs, systems and other vehicles that enable the organization to operate effectively and efficiently on an ongoing basis.

Completeness of Vision

Market Understanding: Ability of the vendor to understand buyers' wants and needs and to translate those into products and services. Vendors that show the highest degree of vision listen and understand buyers' wants and needs, and can shape or enhance those with their added vision.

Marketing Strategy: A clear, differentiated set of messages consistently communicated throughout the organization and externalized through the Web site, advertising, customer programs and positioning statements.

Sales Strategy: The strategy for selling product that uses the appropriate network of direct and indirect sales, marketing, service and communication affiliates that extend the scope and depth of market reach, skills, expertise, technologies, services and the customer base.

Offering (Product) Strategy: The vendor's approach to product development and delivery that emphasizes differentiation, functionality, methodology and feature set as they map to current and future requirements.

Business Model: The soundness and logic of the vendor's underlying business proposition.

Vertical/Industry Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of individual market segments, including verticals.

Innovation: Direct, related, complementary and synergistic layouts of resources, expertise or capital for investment, consolidation, defensive or pre-emptive purposes.

Geographic Strategy: The vendor's strategy to direct resources, skills and offerings to meet the specific needs of geographies outside the "home" or native geography, either directly or through partners, channels and subsidiaries as appropriate for that geography and market.