Magic Quadrant for Asia/Pacific Network Service Providers

For multinational corporations with regional networks in Asia/Pacific, the choice of network service providers has never been better. However, because of price competition and high support costs, it won't last.

What You Need to Know

The number of network service providers (NSPs) with the capability to support pan-regional corporate networks in Asia/Pacific has increased significantly, providing multinational corporations with a wider choice of service providers, better service quality and lower prices. The big improvement is largely because of aggressive network expansion, especially by laggards eager to catch up with the leaders. However, the business environment is deteriorating quickly because of escalating price competition and high costs for local service and support. This will force weaker players off the field, leaving network managers with less choice. However, a big shakeout is unlikely, as most NSPs are large players backed by strong home markets. Because many are making a new foray into the region, they will evaluate the market for a period of time before deciding their next move. The likelihood of a sudden market collapse in the next two years is low.

During the longer term, NSPs without the economies of scale to sustain a strong regional presence are likely to conduct a managed withdrawal from Asia/Pacific. They may scale back their network and local presence and revert back to partnerships with stronger players to support their customer's connectivity to this region. Service continuity may not be a big issue, but a change in network operations can have a significant impact on service quality and consistency.

Enterprises can look forward to very good deals in the next two years. They should not limit their choice to leading players, as some challengers and niche players are more price competitive and, in some instances, offer comparable or even better service quality for connectivity within Asia/Pacific. A trade-off often exists...
between price and overall service quality. Network managers need to strike a balance.

Analysis

Many large carriers aspire to be global players. The vision looks good on paper — until they come to the Asia/Pacific region, where they are confronted by a host of issues, including the large and fragmented geography, the regulatory barriers, and the high cost of local service and support.

Despite the challenges, the major NSPs have executed surprisingly well. At least one dozen providers offer connectivity to most of the major markets in Asia/Pacific. Service quality has improved, and pricing is declining fast because of more competition. Most of the recent improvements came from laggards and newcomers eager to catch up with the leaders, especially in terms of pan-regional network infrastructure. For geographic coverage and essential product offerings, the gap between the players has become quite narrow — at least compared with the past.

For network managers, it means that it's now easier to pick a service provider because there are more players to choose from, and the risk of making a big mistake is low. However, in another sense, it's more difficult to pick the most appropriate provider because the differentiation between players is becoming fuzzier. Subtle as well as big differences exist between some carriers. Also, many players are investing heavily ahead of the market. If revenue doesn't quickly commensurate with their investments, some players may cut back on their operations or even withdraw from the market. So the future is far from certain.

To help network managers sort out the leaders from the challengers, Gartner developed a Magic Quadrant on NSPs supporting the multinational corporations in Asia/Pacific. In our evaluation, AT&T and Equant are the leaders. But they face strong competition from several Asia/Pacific carriers, in particular Singapore Telecom (SingTel) and Nippon Telegraph and Telephone (NTT) Communications. Pacific Century CyberWorks (PCCW), MCI and KDDI remain significant challengers, even though each is wrestling with its own issues. Telstra and Infonet are also stepping up their activities, heating up the competitive landscape even more. Trailing them at a distance are British Telecom (BT) and to a lesser extent, Sprint and Cable and Wireless (C&W). They are working hard to rebuild their presence in Asia/Pacific, with varying degrees of progress. Newcomers Asia Netcom (previously Asia Global Crossing) and XA TMI are not far behind, presenting a serious alternative to the established players (see Figure 1).
Figure 1
Asia/Pacific NSP Magic Quadrant, 2003

Challengers
Leaders

Ability
to Execute

Completeness of Vision

Niche Players
Visionaries

Key
• British Telecom (BT)
• Cable and Wireless (C&W)
• Nippon Telegraph and Telephone (NTT) Communications

Source: Gartner Research (September 2003)

Evaluation Criteria

The objective of this Magic Quadrant is to evaluate NSPs that provide international telecommunications services to multinational corporations in Asia/Pacific. Global and Asia/Pacific carriers are included in the evaluation, as long as they have a strong regional presence. For services, the focus is on data and voice, including managed services. We also take into account new services such as hosting, call centers and IT services.

Only NSPs that can support pan-regional corporate networks are included. Ideally, an NSP must provide connectivity to at least 12 major markets in Asia/Pacific using their own backbone network infrastructure. Players that offer services over other players’ backbones are considered, but they will get lower ratings. Players that don't have pervasive coverage now but have firm plans to expand their network infrastructure within the next 12 months are also included. However, they will get lower ratings than those with pervasive coverage today.

Fourteen NSPs were selected for the evaluation. We included global players such as AT&T, Sprint, MCI, BT, C&W, Equant, Infonet and NTT. We also considered Asia/Pacific players such as KDDI, Singapore Telecom, PCCW and Telstra. Two
newcomers, Asia Netcom and XA TMI, were also included, as they present an alternative to the large players.

The NSPs are rated based on two major criteria — Completeness of Vision and Ability to Execute (based on the vision). When referring to the Magic Quadrant, network managers should pay particular attention to Ability to Execute, as the Asia/Pacific presents more hurdles than North America or Europe. The criteria are as follows:

**Completeness of Vision**
- Business/financial strategy
- Product strategy
- Market/sales strategy
- Technology strategy
- Operations strategy

**Ability to Execute**
- Service portfolio and coverage
- Client relationship (quality, service and support)
- Market position and "mind share"
- Pricing
- Corporate viability

**Leaders and Challengers**

**AT&T**

AT&T is big and it has never been nimble. When it set up Concert with BT and acquired IBM Global Network Services, it got even more unwieldy. The result was average performance. However, it has taken big steps to resolve the problems. It dismantled Concert, taking over its Asia/Pacific network. Next, it consolidated its multiple networks into a unified IP Multiprotocol Label Switching (MPLS) backbone, adding more capacity and destinations, with full redundancy for every node where possible. The result is a highly robust network in the region. It also built an advanced operation support system, which will improve service delivery and support. The investments in infrastructure are heavy, and it’s a strong demonstration of its long-term commitment and the scale it can bring to network development. AT&T is surprisingly nimble when it comes to IP-virtual private network (VPN) services. It introduced a full range of IP-VPN services, with a low-cost best-effort option, when most other players were still promoting legacy services. AT&T is still not as
nimble as it could be, because of residual integration issues with staffing. It is also expensive, even though it's becoming more flexible with pricing. Its overheads are high, a disadvantage in today's price-sensitive environment. However, it has laid a strong foundation for future growth.

**Equant**

Equant has no equal when it comes to geographic coverage. It's the only international player that can provide significant in-country coverage in the region, especially in large developing markets. Recently, it upped the ante again by being the only international carrier that can provide seamless services in China. Under a unique 10-year agreement with China Netcom, Equant can extend frame relay, asynchronous transfer mode (ATM), IP-VPN, remote access and Voice over IP (VoIP) services to 18 cities in China, using a dedicated network built by China Netcom for the exclusive use of Equant's customers. Equant has a reputation for reliability and good service guarantees. It outperforms many other carriers on IP-VPN services, but the service quality for other services is average. To be fair, it connects to more remote locations than others, which may explain its service quality. Equant has strong processes for provisioning and fault restoration, but it's also inflexible. It has consistently focused on managed services, but it charges a high premium and is reluctant to discount prices. But as with AT&T, it's changing. It now allows account managers to bypass procedures to quickly resolve a problem. It's also more willing to negotiate on pricing. It also started offering international leased lines instead of only managed services. With the changes, Equant is now more in line with market requirements.

**Singapore Telecom**

While some of the Asia/Pacific carriers dream of becoming a global player, Singapore Telecom is focused on being a top regional player. It has consistently executed against its vision. It was the first Asia/Pacific carrier to build out its own regional backbone. It also teamed up with the carriers in Southeast Asia to build a separate backbone, called Acasia, to deliver superior connectivity to this subregion. It also built its own subsea cable system, with wider geographic coverage than most other cables, reaching underserved markets such as India, Indonesia and Thailand. It built a network of data centers across the region to support hosting services. Singapore Telecom is known for its high-service quality, except for frame relay. Over the years, it has also caught up with the Japanese carriers in terms of local service and support. Singapore Telecom has investments in cellular and fixed-line business in many Asia/Pacific countries and has leveraged its regional presence to support its corporate
services. But there are some downsides. It no longer has a distinct advantage in Southeast Asia, as increasing liberalization has allowed other international carriers to terminate connections in Southeast Asia. Also, most of the traffic growth is now in North Asia, which favors Hong Kong and Japan. The heavy infrastructure investments in the cable system and data centers have increased its costs, which may make it harder for the carrier to compete on pricing. Singapore Telecom is price competitive, but it's not a price leader. But it has become more nimble to build market share. In addition, it is expanding its presence in North Asia to tap opportunities there.

**NTT Communications**

Of all the Asia/Pacific carriers, perhaps only NTT has a chance of becoming a global player. It can draw on its big home market, where it's the incumbent carrier, for international expansion. NTT is late in the market, but it has swiftly built out a sizable global network, with good coverage in the Asia/Pacific. It has also set up support offices in many countries for local service and support, especially in developing markets such as China. As with Singapore Telecom, it has built a network of data centers across the region for hosting services. Its prices are relatively high, but the service quality is consistently good across all services. It has also shown increasing willingness to reduce prices to gain market share. The big hurdle for NTT is that it is perceived to be a Japanese carrier for Japanese companies, even though it has made some inroads into Western companies. Another problem is the severe price competition, which has already forced NTT to slow its international expansion. Despite the challenges, NTT is one of the strongest regional players.

**PCCW**

PCCW was one of the best regional players in the region, with a balanced mix of high-service quality, good customer service and competitive pricing. However, the company took on too much debt, which inadvertently resulted in painful downsizing and sometimes loss of expertise. It also embarked on too many new ventures, which resulted in reduced focus on its corporate business. Yet the company retains a lot of its strengths and is still a serious competitor. It delivers services via Reach, a regional backbone operator it jointly owns with Telstra. Reach operates an extensive network in the region, supporting voice, Internet and corporate traffic. By consolidating traffic from its parent companies over a single infrastructure, it aims to achieve the economies of scale needed to drive down costs and pricing for its parent companies. The downside is that Reach is a separate company. Although it works closely with PCCW, it's not as integrated into PCCW as an internal unit could be. Overall,
PCCW's service quality is average but it remains one of the most price-competitive carriers. It also has good experience extending networks into China, a key destination today.

**MCI**

By all measures, MCI is a good service provider. It has wide geographic coverage, service quality is good and it is price competitive. It's also a big proponent of low-cost Internet-based VPN services. However, the company lacked focus and was not perceived to be a leading player in the corporate market. The company's reputation was tarnished by its recent financial problems, probably compounded by its aggressive price discounting. To be fair, the company acted quickly to reduce the impact on customers' confidence. Churn is believed to be relatively low, but there's a general reluctance among network managers to trust their entire network to MCI until the Chapter 11 problem is resolved. Barring unforeseen circumstances, there is a strong likelihood that MCI will emerge from bankruptcy protection by the end of 2003 or early 2004. MCI remains a significant challenger.

**KDDI**

In the past, KDDI was the strongest regional player in terms of service quality. However, it lost its international focus after its merger with DDI, which is focused on domestic and cellular markets in Japan. Today, KDDI only has a limited regional backbone of its own, preferring to resell Infonet's services, of which it's a shareholder. But surprisingly, its service quality remains high; much of this is the result of high-quality local service and support provided by its support offices across the region. Unlike in the past, KDDI is also very price competitive. Without its own network infrastructure, it will be difficult for KDDI to be a market leader. But it's still a challenger, especially for connectivity from Japan.

**Visionaries and Niche Players**

**Infonet**

Infonet's biggest strength is its partnership model. It typically works with incumbent carriers in each market in which they provide local service and support and resell its services. This allows Infonet to cover this vast region with a small number of staff members, keeping its costs down, an important consideration in today's business environment. However, the partnership model is also its weakness. Its partners generally lack full commitment, which results in below-average local service and support. To be fair, service quality is reliable. Some
partners are also pursuing their own international ambitions, building their own regional backbones and competing directly with Infonet. Infonet still has two strong partners in Telstra of Australia and KDDI of Japan, but increasingly it is forced to take a more direct role to get more visibility and sales in the region.

Telstra

Telstra was one of the fastest-growing players in the regional hubbing market. However, in the past few years, it has focused more attention on defending its home market. At the same time, most of the traffic growth was in North Asia, far from its home base. Telstra is now pushing out of Australia again, expanding its presence in other countries to tap opportunities there. Telstra does not operate its own network. It uses either Reach (a backbone operator it jointly owns with PCCW) or Infonet (where it’s a shareholder), depending on which is most suitable. Infonet is more mature in terms of service and product development, operating experience and reach outside the region, but Reach is stronger in high-capacity services, including leased lines and IP-VPNs. In a sense, Telstra is getting the best of both worlds. Telstra’s service quality is reliable because of its strong processes, but it lacks the total control over service quality that comes with operating its own network. Its prices are also high, which lessens its ability to compete in this increasingly competitive market.

C&W

When C&W sold Hongkong Telecom and Optus, it lost a big part of its regional presence. However, it still has a foothold in the region through its ownership of IDC, an international carrier in Japan. During the past 18 months, it has also aggressively built out its network in the region. The network is complete and is almost as extensive as the established networks. The company has set up support offices in seven major markets, including India, where it specializes in setting up contact centers. Service quality is quite good, largely because of the good network in place. C&W owns capacity in most major cables nodes in Asia/Pacific, which gives it more diversity. Overall, C&W has been good at executing its comeback in the region. But it still has large hurdles to cross. It has low visibility, except perhaps in Japan. It needs to expand its local presence and support into more countries, which is costly. Its prices are high, partly because of its high operating costs. The company also plans to exit from the U.S. market, which means that it may lack the critical mass to sustain a strong regional presence.

Asia Netcom
The company, previously known as Asia Global Crossing, started out as a wholesale player with its own regional cable system. It's still in the wholesale business, but it's now focused on being a retail player after it was taken over by new investors. Its major shareholder is China Netcom, a fixed-line carrier in China. In terms of network infrastructure, it already connects the main markets and is now expanding to the fringe markets. Its relationship with China Netcom is yielding benefits. It has an agreement with the Chinese carrier to offer seamless IP-VPN connectivity into China, initially with two Classes of Service, which will later be increased to three. It's also permitted to own and sell end-to-end cable capacity to China, a privilege not extended to other foreign carriers. Asia Netcom is aggressive in pricing for international leased lines and IP-VPNs, but it's getting increased competition from other carriers. However, it lacks a track record in the corporate market and needs time to establish market confidence. It's beginning to make some headway, and the future is now a bit brighter for the company.

**Sprint**

Sprint has a long history operating in the region, just as with AT&T and MCI. However, it has always lagged behind its bigger and more-aggressive rivals. Every few years, it would expand aggressively into the region, only to wane before it established a solid presence. It lost its Asia/Pacific presence when it sold out of GlobalOne. Service continuity is not an issue, as it uses Equant to deliver the service. But it recognizes that it can't be a reseller and still be a serious player. As expected, Sprint is making a comeback — this time bigger than before. It has quickly built a big network connecting the major markets in Asia/Pacific. But extensions to fringe markets will be on a need basis, a disadvantage for users that want pan-regional connectivity. In terms of ground presence, Sprint is a lot smaller than the major U.S. players. Service quality is below average, but its Layer 2 service, based on L2TPv3, is fairly innovative as it provides a migration path from legacy services to IP. It's price competitive for bandwidth services, such as leased lines, but not for other products. Sprint must expand its regional presence to be a serious challenger.

**XA TMI**

Compared with the big players, XA is small. However, this newcomer is no walkover. It has put together a pan-regional network connecting 13 countries, including hard-to-reach countries such as Vietnam and India. This is a big achievement, considering that even large players have problems extending their networks to developing countries. In fact, several large players have used XA to extend their coverage to these markets.
XA’s strength is that it’s small, which gives it the flexibility to operate nimbly, a key attribute when constructing partnerships in developing countries. XA has experienced management and runs a tight ship; however, it’s also lucky. The glut in international bandwidth has made it possible for XA to acquire capacity at very low costs, which allows it to compete head-on with carriers with their own cable systems. For all its nimbleness, XA is still a small player in a field of very large players; however, it has a reasonable chance of making it as a niche player.

**BT**

When it comes to vision of providing pan-regional services in Asia/Pacific, BT was the original leader. Its problem was execution. It misjudged how difficult it was to break down the regulatory barriers. Its Concert venture weighed it down further. It has since dismantled Concert, giving up the Asia/Pacific network to AT&T and losing its presence in the region. Service continuity is not an issue as it delivers services via AT&T. However, the reduced Asia/Pacific presence has resulted in below-average service, in particular local service and support. Pricing is also high. The good news is that BT is making a comeback. It has started rebuilding its backbone in Asia/Pacific. It has installed its own nodes in Japan, Hong Kong, Singapore, Australia and India and another five countries will go live by early 2004. Unlike the past, it will not attempt to take on the region single-handed, reducing its risks of re-entry. It's seeking partners in each market, which will provide not only local service and support, but also network assets such as cable capacity, backhaul or hosting facilities. Most of BT's partners are alternative carriers and some are significant players in their own markets. BT still has substantial cable assets and experience in the region. When it rebuilds its network and presence, it will pose a new challenge to the leading players.

**Bottom Line:** There is a wide choice of service providers in the market today. Although the most obvious answer is to go with the leaders, enterprises should not discount the challengers and niche players, as some can provide better value for the money. However, there’s often a trade-off between price and overall service quality. Network managers must strike a balance. There is a risk of industry consolidation beyond the near term, which can have an impact on service continuity, consistency and quality. Network managers can mitigate their risks by reducing the contract terms, providing for the right of contract review if there’s a substantive change in service delivery and appointing multiple service providers for the network.