

INSIGHT

Motorola Achieves Services Scale Through Joint Venture Alliances

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IDC OPINION

The consolidation that has occurred in the carrier segment of the networking market has forced vendors to reevaluate their product and services strategy to determine how best to compete in this market given the changing competitive landscape. IDC believes that Motorola has developed a strategy for scaling its services business that is in stark contrast to the large acquisitions and mergers that its competitors have pursued. While Motorola's joint venture strategy is a solid move, the success of the joint ventures will depend on the following:

- ☒ Effective management of each joint venture alliance through a strong governance model
 - ☒ Tight coordination between Motorola and its joint venture partners' sales and marketing teams
 - ☒ The development of go-to-market plans around a set of solutions that alleviate any potential technology conflict/overlap
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IN THIS INSIGHT

This IDC Insight analyzes the joint ventures that Motorola announced with Tech Mahindra and Wipro Technologies in July 2006. Both of these joint ventures will play important roles in driving the strategic growth areas of Motorola's services portfolio. This Insight provides a view into the structure of these deals and discusses the opportunities and challenges that Motorola and its partners will face as they move forward with both joint ventures.

SITUATION OVERVIEW

Analysis

Motorola Global Network Services is approximately a \$2.4 billion operation, providing a broad portfolio of network support services to enterprise, government, and network service providers. Services has been highlighted as a key contributor to the future growth strategy of the newly formed Networks and Enterprise division of Motorola. Toward this end, the company has established fairly aggressive growth plans for its services business.

While product-attached support services still represent the majority of the company's service revenue, Motorola is shifting its emphasis and expects growth in services to come from offerings like managed services, security, and its applications business.

However, pursuing growth in services beyond pure support requires a significant commitment to increase spending on headcount as well as intellectual property. Even more important is the need to leverage a product-centric sales force as the primary go-to-market channel for services. Subsequently, IDC believes that cost-effectively scaling resources and effectively training the existing sales force to deliver a value proposition around services represent two major challenges for Motorola as it pursues its growth objectives for the services business.

Given the fact that sufficient internal resource allocation may be lacking to drive services growth, the decision to pursue joint ventures in its services business as a means of providing broad geographic coverage and appropriate technical and business skill sets was a solid decision by Motorola. While many of its competitors have chosen to pursue large acquisitions to create product breadth and service scale, Motorola has taken a different approach.

Earlier in the year, Motorola signed joint venture alliances with two IT services firms, Tech Mahindra and Wipro Technologies, that will potentially play a key role in driving growth in the strategic areas of Motorola's services portfolio.

Motorola Alliance with Tech Mahindra

Tech Mahindra is an India-based services firm with deep expertise across a range of telecom technologies including OSS/BSS, content, and applications integration. Motorola and Tech Mahindra have created a joint venture company, called CanvasM, that will focus on creating a service delivery and management framework that enables service providers to accelerate the introduction of new services. CanvasM will utilize Motorola's Global Applications Management Architecture (GAMA) service delivery platform to implement customized applications developed by Tech Mahindra as well as Motorola's existing application offerings around messaging, location-based services, entertainment, ecommerce, and enterprise applications.

CanvasM will be headquartered in Noida, India, with R&D centers of excellence located in Noida and Bangalore, India. Through the joint venture with Tech Mahindra, Motorola gains access to more than 11,000 professional service experts and can leverage their expertise around OSS and content to help wireless operators drive content-to-consumer services in the mobility space. CanvasM's presence in Asia should complement Motorola's position in wireless operator accounts in the region such as China Unicom, China Mobile, Maxis (Malaysia), BSNL (India), and SingTel (Singapore).

Motorola and Wipro Team on Managed Services

Wipro Technologies and Motorola have established a joint venture, called WMNetServ, to deliver managed services. WMNetServ will focus on providing managed services around planning, deployment, optimization, security, operations, and support. IDC expects spending on managed services by network service providers to increase sharply over the next few years.

IDC expects competition to intensify in this market with vendors such as Ericsson, Lucent, and Nokia having already established an early position in managed services. For Motorola, the WMNetServ joint venture enables the company to better match resources in the managed services space with key competitors like Lucent/Alcatel and Nokia/Siemens that have gained scale and geographic breadth through acquisitions or merger.

Benefits of the Joint Ventures

For Tech Mahindra and Wipro, Motorola's large sales force and presence in North America provides an important channel for expanding operations beyond Asia. Access to Motorola's R&D activities around emerging wireless broadband technologies enables Tech Mahindra and Wipro to establish competency and ultimately develop technical credibility around areas such as WiMAX. Wipro's presence in Asia, the Middle East, and Eastern Europe provides strong points of leverage for Motorola.

Structure of the Joint Ventures

Each joint venture will be led by a representative of the Motorola partner company and will have a board of directors with equal representation from Motorola senior management and the joint venture partner. The level of investment in each joint venture was not disclosed.

Initially, both joint ventures will act as the fulfillment organization for Motorola, Tech Mahindra, and Wipro. The company taking the lead in a certain account will be determined by who has the strongest set of relationships. Therefore, while each joint venture will have its own sales force, CanvasM and WMNetServ will go to market under the Motorola, Tech Mahindra, or Wipro name until they have established strong enough brand recognition to go to market under their own brand.

IDC believes that executive-level sponsorship for these alliances through the creation of a board of directors is critical to the success of each joint venture in terms of establishing the vision and value proposition of the company and developing key success metrics. IDC believes that developing a strong governance model that clearly defines the "rules of engagement" will be very important for both joint ventures.

Perhaps even more important is the alignment of Motorola sales and marketing with each joint venture company, as well as the sales and marketing teams of Tech Mahindra and Wipro. In this regard, alleviating any potential channel conflict will be essential, particularly given the fact that there is some overlap in key areas such as security services.

Service Trends in the Network Service Provider Segment

Over the past 12 months, the competitive landscape in networking has undergone a significant change. This is particularly true in the service provider segment, where Alcatel and Lucent have merged, Cisco has acquired Scientific-Atlanta, and Nokia Networks and Siemens Communications Networks have merged. While the justification for most of the recent M&A activity centers around achieving global scale

and a broader technology portfolio, network infrastructure services have also been highlighted as a key area of focus and a key component of the future growth strategy.

The focus on services underscores a broader trend in the networking market, with vendors emphasizing services as a means of competitive differentiation, as well as deepening their relationships with customers. Virtually all of the tier 1 networking companies that serve service providers have shifted the emphasis of their services portfolio from basic support services to professional services such as consulting, integration, and managed services. IDC estimates that the market for network consulting and integration in the service provider segment will reach \$8.2 billion in 2006 and grow to \$12.1 billion in 2010, representing a compound annual growth rate of 10.7%.

For those companies involved in the recent round of consolidation in the networking sector, achieving greater product breadth and adding to their service resources should bolster their services opportunities, particularly around IMS and emerging technologies like WiMAX. However, these companies will face the following challenges with respect to their services organizations:

- Integrating their service groups, including the service delivery model, processes, and tools
- Rationalizing their service offerings around a new product set
- Effectively training the sales force to articulate a services value proposition focused on high-end professional service offerings

FUTURE OUTLOOK

IDC believes that the CanvasM and WMNetServ joint ventures could potentially serve as templates for other alliances that enable Motorola to achieve its services objectives. Successful penetration of existing and new accounts could also provide important feedback to Motorola's product development efforts. The following sections provide a view into the pros and cons of Motorola's joint venture strategy.

Pros of Motorola's Services Joint Venture Strategy

- Gain technical expertise to drive business in key service areas without the cost of developing or acquiring intellectual capital
- Gain scale to match competitors with more significant services resources due to M&A activity
- Help establish services credibility in emerging wireless technologies without disrupting Motorola's current services operations
- Bolster regional presence in Asia

Cons of Motorola's Services Joint Venture Strategy

- Potential overlap in key areas like managed security services
- Strategy for sales alignment not yet fully developed

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