

The new Ericsson joint venture (NewCo): an important piece of a complex puzzle

As the ink has started to dry on the recent announcement by Ericsson and 12 major telcos about the formation of a JV to buy, aggregate and sell network application programming interfaces (APIs) to the global developer community, many in the industry are questioning whether this will really accelerate telco API monetisation. Our view is that overall, this is a positive move for the industry – and a smart one by Ericsson, but there are still a lot of other pieces of the puzzle that have to fall into place to successfully scale this opportunity.

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The new JV is a positive move for the industry and a smart step for Ericsson…

As an initial response to the news of the joint venture and the analyst briefing delivered on Friday, 13 September, we believe this is a really positive move towards the monetisation of network APIs, which makes a lot of sense for Ericsson as a play. There are three reasons for this:

1. Accelerating global aggregation and simplification
2. Driving commercial freedom and innovation
3. Signalling active commitment to network APIs as an opportunity.

1. Accelerating global aggregation and simplification

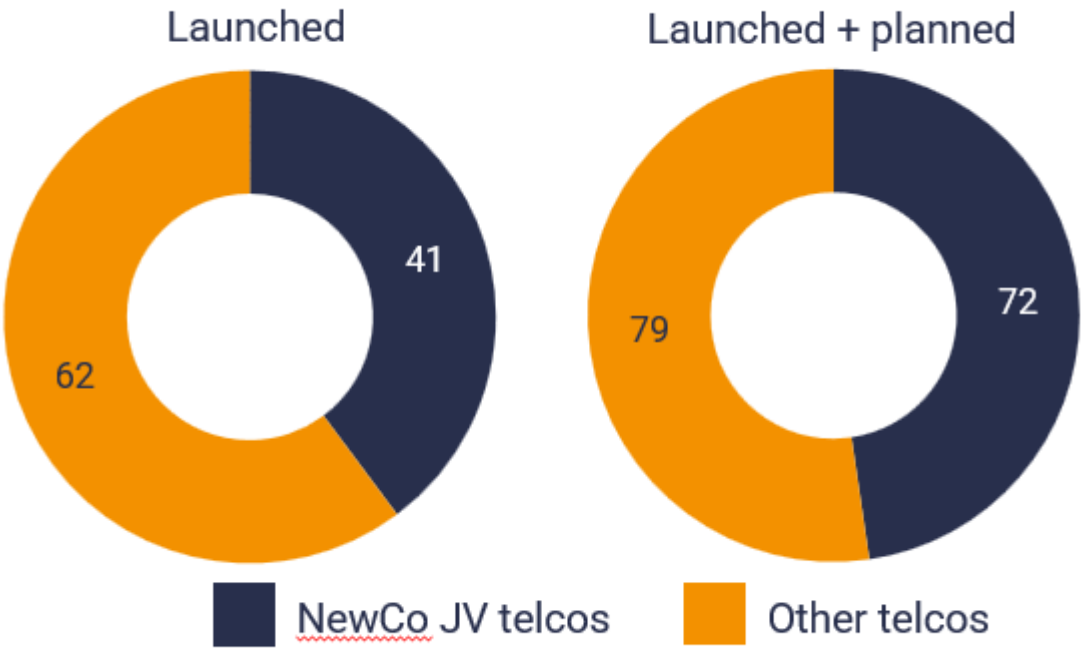
The JV is to become a supply-side aggregator. It will wholesale the APIs from individual operators (not just the 12 telco shareholders but any telco putting its APIs available through the JV), repackage them and sell them to developers through multiple distribution channels, such as hyperscalers, systems integrators (SIs), communications platform as a service (CPaaS) providers and other telcos. The JV will take away the headache of negotiating and setting up individual contracting agreements with each participating telco, and create a global API abstracted from the underlying infrastructure. The commercial agreement will be between the end users of the APIs and the JV, superseding the need for the demand side to negotiate with each individual telco. So, the JV will look after things such as:

- Routing of the API calls, authentication
- Contractual agreement, consent management, compliance with local regulatory requirements
- Price setting and billing mechanisms.

On the face of it, this is no different to what any supply-side aggregator does, but the strength of the JV is its clout and that it already has the APIs of 12 major telcos to offer (which collectively had launched 40% of the 100 or so network APIs commercially available through the Open Gateway as of September 2024 – see figure below): in the same way as the operators have aligned on a technical roadmap as part of the Open Gateway, they will continue to do so with the weight of commercial action behind it through the new JV and use that experience to steer the direction of the next CAMARA APIs. Ericsson, a 50% shareholder, will obviously bring its considerable technical knowledge (and will move some of its staff to the JV) and will leverage its experience in building a developer community around its own initiative(s): for instance, it has built a developer community around 5G automation in the RAN and its Ericsson Intelligent Automation Platform (EIAP).

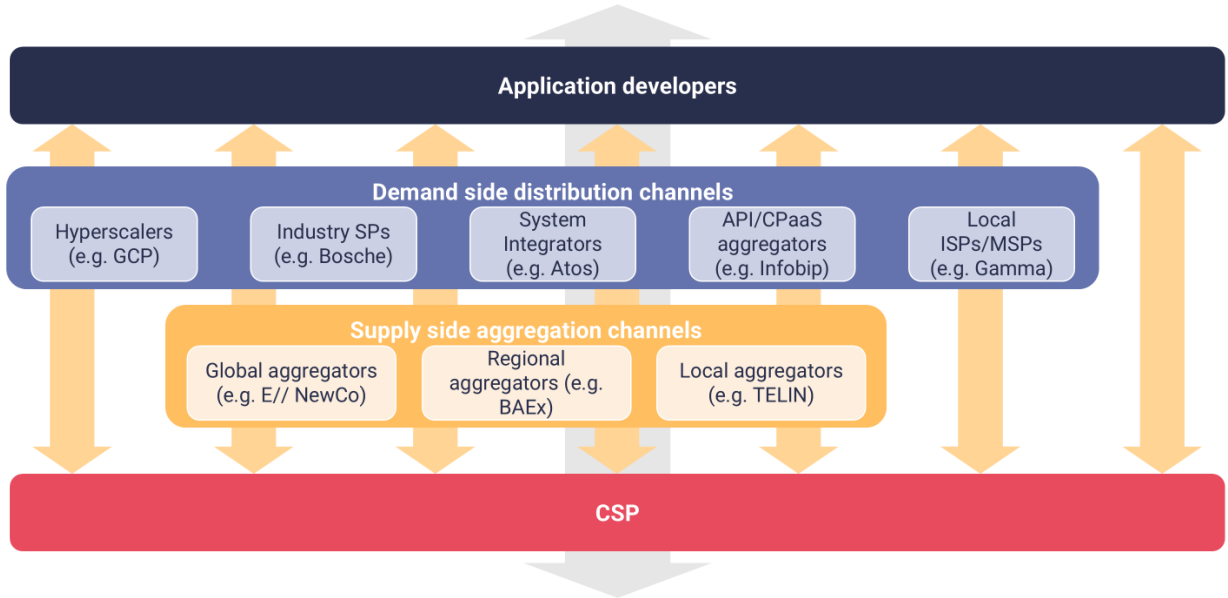
Number of GSMA Open Gateway network API public launches (and plans of) as of September 2024

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Expected consolidation in the middle of the sandwich

There has been a proliferation of players in the filling of the API sandwich. If telcos are the bread at the bottom and developers act as the top layer, the middle is split into supply-side aggregators and demand-side distributors (see graph below).



In our 'MWC2024: More than AI and APIs' report from March 2024, we pointed out that "everyone wants to aggregate everyone: telcos want to aggregate other telcos, service integrators want to aggregate, network

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equipment providers like Nokia and Ericsson want to aggregate, the hyperscalers want to distribute and aggregate, communications platforms as a service players want to aggregate."

We anticipated that there would be consolidation in the aggregation space, especially around larger, horizontal, global platforms. This new JV is one step in this direction and does create a powerful global aggregator which can hopefully accelerate the go-to-market (GTM) for telco APIs. It is a real commercial entity with a mission to drive adoption and distribution of APIs, and we feel this is an important step for the industry.

2. Driving commercial freedom and innovation

Something that was made clear through the briefings and the subsequent conversations with participants is that the JV isn't being set up to drive profits. It will operate on little to no margin and is not anticipated to pay out big dividends – instead, reinvesting revenues in growth. This is a big difference between the JV (which will be partly owned by operators) and the parent/legacy telco. Telecom operators are valued by the markets as a dividend stock – shareholders expect a high yield (upwards of 10% for many telcos) and consistent returns. This puts a big emphasis on immediate revenues and ROI, limiting the risks that telcos can take, creating a more short-term approach and limiting innovation in the business model.

This isn't a good combination for scaling a platform – they usually take time and continual investment to scale and are frequently measured on success metrics beyond revenues. By moving some of the commercial burden to the JV, the parent operator can (to some extent) simplify its own routes to market in the early years of development by wholesaling to the JV – appeasing the need for faster revenues and buying time/resource to continue developing new capabilities and a more direct approach for the enterprise business. The JV, which is not governed by dividends or shareholder value through yields, can then focus on the best commercial models and GTM options to scale API adoption (note – scale API adoption, not drive revenues).

The JV may also provide some freedom to Vonage. It's fair to assume that Vonage has probably struggled to date (Ericsson has impaired USD4 billion of the USD6.2 billion it paid for the platform). Vonage sits (or sat) at an awkward junction in its positioning, trying both to engage individual telcos as an aggregator (and exclusively selling in Ericsson's global platform), as well as engaging developers as a distribution channel and building up its ecosystem of northbound partners. So, it seems that Ericsson has decided to strategically relinquish the supply-side to the new venture and have Vonage work with it as a non-exclusive distribution channel partner. It remains to be seen how much (if any) of an advantage Vonage will have in dealing with the new JV, but we predict that the focus on distribution this creates for Vonage will help it bring out what it has been doing successfully in the CPaaS space.

3. Signalling active commitment to network APIs as an opportunity

Over the past two years, since the launch of the Open Gateway, we have been asked what was different this time. Telcos have tried – and failed – to monetise APIs before (even with GSMA-driven initiatives such as the OneAPI Exchange), so why will it work now and what's different about the JV?

Parking some of the technical aspects of what is new this time around versus previous attempts (e.g. softwarised networks, prevalence of CPaaS, mass adoption of cloud technologies and principles), the key difference about this JV is that it's a commercially driven and empowered business with real financial backing. Unlike forums or standards bodies, which don't have the remit to contract and drive a GTM, the sole purpose of the JV is to reach commercial scale. This is about operators (with Ericsson) putting real money on the table

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and collaborating with each other to accelerate the business side of the organisations. Telcos, their partners and the standards bodies are good at the technical – but this is adding more significance to the commercial.

Furthermore, the fact that there is real money behind the JV gives more weight to the API initiative as an opportunity. It's not just a science project or a technical experiment, but something telcos are placing a real bet on and investing resource in trying to make work. Operators and Ericsson are moving their own staff to the JV and recruiting new hires to join its ranks, demonstrating that this goes well beyond marketing posturing or headlines. Some of the more cynical among us would call it desperation – telcos striving to find any way to monetise their 5G network investments. The other way to look at it is urgency which will hopefully bring a bit of speed to proceedings, as well as a commitment to find a way to make it work…

… This is only one (important) piece of a complex puzzle

Should Nokia beware?

The obvious question here is what the JV announcement means for Nokia. Its Network as Code (NAC) platform was launched in September 2023, focusing on supporting telco network exposure for next-generation capabilities. NAC has a particular focus on Quality on Demand (QoD) rather than anti-fraud types of use cases (which fall more within Vonage's remit and, of course, the CPaaS players). Nokia has links to Infobip and its platform also runs on Google Cloud since June 2024. At the time, it had signed up 13 telcos to its platform (around 20 now and aiming for 30 by the end of 2024). Furthermore, Nokia recently launched its Network Exposure Platform (NEP) to support further on the supply side of API exposure. So, given that Ericsson owns 50% of the new JV, does its announcement mark warning signs for Nokia?

While there's no doubt Nokia will be watching what happens next very carefully – and that the new JV is going to be a powerful aggregator in this space – it's not all doom and gloom for the Finnish vendor. Many of the telcos that have signed up to the new JV are existing NAC customers and will remain so. The JV is non-exclusive – its aim is to accelerate API adoption through whatever means (with a focus on the commercial). So, while it plays *a* role in aggregation, it doesn't play *the* only role. Nokia will also play a part through both NAC and NEP, supporting the telco GTM with a different set of distribution and exposure capabilities (some of which may plug into the JV). The market will end up as a classic coopetition model.

So, while we believe the JV creation is a positive move for the industry and is an important step in scaling network APIs as an opportunity, it will not solve every single challenge and capture a 100% share. There is still (a lot of) white space left which other players (incl. Nokia) must fill – and the ecosystem must effectively collaborate to make a success. No one single player (or one single JV for that matter) can do it all. We see white space in three areas:

1. Network exposure
2. Local/regional aggregation
3. Distribution.

1. Network exposure

It is unclear how much of the actual network exposure layer (e.g. network exposure function – NEF) the JV will be involved in. Our assumption is that it should focus as much on the commercial GTM as possible and leave

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as much of the technology side of things to standards bodies such as CAMARA and vendors looking to support with network exposure capabilities (e.g. Nokia, Ericsson, Comviva, Nabstract).

This frees up time and resources to focus on the global aggregation capabilities, contracting with more operators and building a strong set of distribution channels. We therefore expect that opportunities will remain for those vendors able to support operators (literally) plugging into the JV (and indeed other aggregators) across the full array of APIs that operators will want to expose. Capabilities which operators will want to purchase from those vendors include exposure for specific functions and the creation of operators' own gateways.

It's important to note here that not all the opportunity for network APIs will be served through aggregators at all – there will be domestic businesses with local use cases which do not require a global aggregation channel. In such cases, either a local operator can work across the other telcos to provide a domestically aggregated API (if the service spans across many networks) or when the enterprise use case only requires a single operator network (e.g. an on-premise IoT platform solution), then no aggregation is needed. If this is the case, there is no support from an aggregator which again leaves space for vendors that can help with the exposure or the building of applications that would ingest those single telco APIs.

2. Local/regional aggregation

Though the JV has made a great start in getting 12 of the leading operators globally signed up (and intends to continue to add telcos as southbound partners), it is unlikely to get total world domination. There are players such as Bridge Alliance with its API exchange – BAEx, which have a head start in certain regions and which will also play a role in building more targeted distribution channels. While we expect consolidation at the global/horizontal aggregation level, there will be regional players that have core strengths and advantages working in their local ecosystems. For example, at the time of writing, the JV currently has no operators in the Japanese market signed up for the platform and it may be that those telcos that have less of a group-level global reach work with more local or regional channels (as the value of a global player is diminished).

3. Distribution

Last, but not least – it appears that the JV announcement fails to address how it will actually put the APIs in the hands of developers and how it will build solutions that create concrete value for the end user. Taking into account that the customer ecosystem is split by a number of factors in terms of size, vertical, type (B2B vs B2B2C; enterprise vs independent software vendor, or ISV) and geographical exposure (regional vs global), it is important to note that all of these aspects change the ideal distribution channel. Meanwhile, developers want to access capabilities through the channels that they're used to using. Therefore, the industry needs to think about distributors and channels based on these factors and to assess which capabilities can serve the various needs in this area. A prime example here is Vonage which doesn't really have a route into the mission-critical healthcare provider community or the developers building automated guided vehicle (AGV) solutions for the manufacturing industry. This is where SIs, ISPs and managed service providers (MSPs) come into play.

Related to the above, it is also important to re-emphasise that industry players must not lose sight of the most crucial part of the whole exercise – in the end, it is about building solutions rather than simply selling APIs. The end customers don't care about APIs (which only serve as a gateway to access information) – it's the solutions that are based upon those capabilities they want to buy.

As it stands, the telco sector is still lacking ways to show the ROI opportunities that would be unlocked through network exposure and the creation of open APIs. In a similar fashion to many other endeavours within

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the industry, there is also a pressing need for all parties involved to define the use cases that stand to showcase the opportunities from these new APIs.

So, it is clear to see that the creation of the JV by Ericsson and a dozen of some of the largest telcos globally is a step in the right direction, and there is a notion that the entity will boost both commercial freedom and innovation, while scaling up API adoption and unloading the burden off telcos' shoulders. However, as the move raises questions around the level of network exposure, the competition from regional aggregation players, and the API distribution goals and means, there is still a lot to be done on the path to a successful and transformative future driven by network APIs.

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