



Cloud VPN & The Role of the Service Provider in Disrupting the VPN Market

Delivering Winning Customer Experiences With SDN/NFV

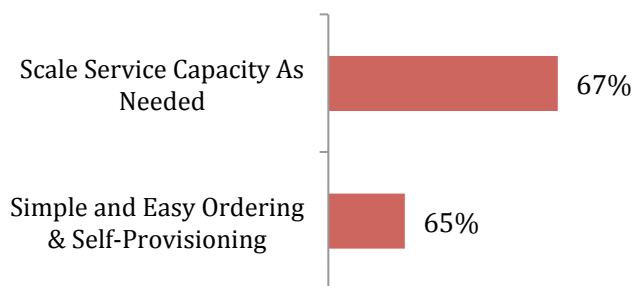
Easier Is Better

Delivering a compelling user experience has become increasingly critical for businesses as they seek to innovate and grow revenue. One way that we see leading businesses strive toward these ends is through reducing friction in the purchase process for the consumer. For example, retailers like Best Buy and Macy's reduce the amount of time consumers have to spend shopping and standing in line in physical stores by enabling them to make purchases online and pick the purchased items up in store. Improved experiences like these drive revenue for businesses and they also drive consumer preference and loyalty.

SMBs and Large Enterprises Also Want Easier Purchasing and User Experiences

Consumer preference for better user experiences drives innovation in the consumer space and it also drives the same for SMBs and Large Enterprises (LEs). This is primarily because SMB and Large Enterprise IT Decision makers often bring a "consumer mindset" with them when making IT purchasing decisions.

SMBs Desired IT Services Characteristics



Our research shows that a significant porportion of global SMBs and LEs want the IT services they purchase to be flexible and scalable (67%) as well as easy to order and self-provision (65%).

SDN & NFV Technology Enables Service Providers to Deliver Compelling User Experiences to SMBs and LEs

Software Defined Networking (SDN) and Network Functions Virtualization (NFV) technology enabled IT services can give Service Providers the ability to meet SMB and LE's needs by enabling the delivery of services that provide them with an easy way to choose, sign up for, activate and self-provision IT services that can scale with the SMB and LE business.

Whereas SMBs are traditionally considered a challenging market for Service Providers to reach due to high acquisition and support costs coupled with SMB price sensitivity as it relates to more complex IT solutions, SDN and NFV technology can drive a 78% cost reduction for delivering IT services which can in turn allow Service Providers to sell SMBs more complex IT services at more affordable prices.

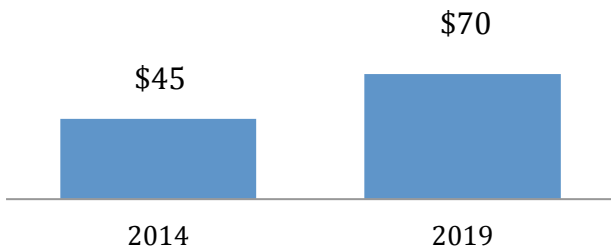
SMBs and LEs Concerned About Security

As cybersecurity attacks are growing in frequency, scale, visibility and sophistication, SMBs and LEs are increasingly looking to affordably secure their IT infrastructure. One of the ways they are looking to do this is by using SDN and NFV enabled Cloud VPN solutions.

What Does This Mean For the Overall VPN Market?

The SMB and LE concern about cybersecurity coupled with other factors will drive strong growth in the overall VPN market through 2019 (9.3% CAGR).

Total VPN Market Forecast (billions)



Other factors driving VPN growth include:

Affordability - As mentioned earlier, SDN and NFV technology significantly reduce the cost service providers incur to deliver IT services like Cloud VPN. As these cost savings are passed along to SMBs and LEs, we expect a strong uptick in demand.

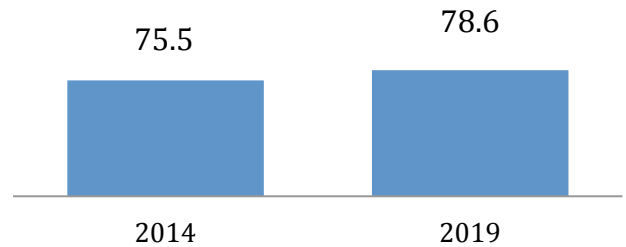
Site expansion – Our tracking surveys indicate that SMBs are planning to increase their geographical footprint over the next 12 months. As they expand their businesses to include more sites, VPN will play a pivotal role in how businesses secure data and applications across sites.

New Site Growth Rate (next 12 months)

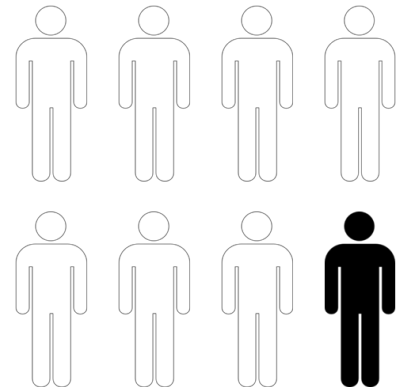


New Businesses - Not only will existing firms add locations, we also expect new business formation to add another 3.1mm businesses through 2019. This will drive demand for IT security services like VPN.

All Businesses Worldwide (millions)



Mobile workforces – more than 1 out of every 8 SMB employees are mobile. We expect to see increased VPN adoption as SMBs look to provide their mobile employees with secure access to business applications when they're on the go.

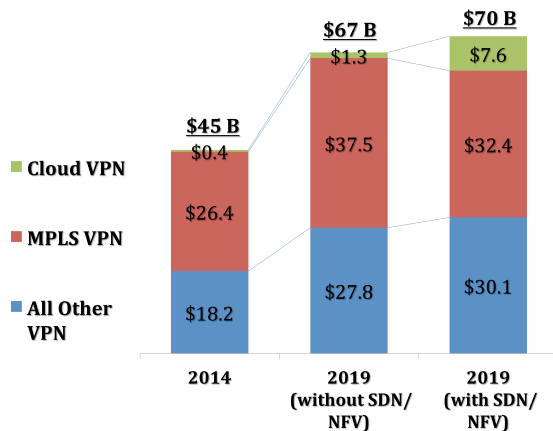


Superior Technology – Technology like SDN/NFV-enabled Cloud VPN that provides business users with the ability to easily scale self-provisioning services up or down through a simple user interface makes the VPN category more accessible and more attractive to the SMB and LE.

What is the impact of SDN/NFV technology on the existing VPN Market?

Prior to the introduction of SDN/NFV-driven Cloud VPN, Cloud VPN subcategory growth was driven by OTT providers like Pertino, Viptela and Cloudgenix. However, as Service Providers begin to introduce SDN/NFV-driven Cloud VPN to the market, we expect to see significant uplift to the VPN market and Cloud VPN subcategory.

Our forecasts, inclusive of the SDN/NFV impact, call for the VPN market to grow from \$45B to \$70B by 2019. This growth represents an additional \$3B and 1.2% CAGR uplift over our previous estimates as shown in the figures below.

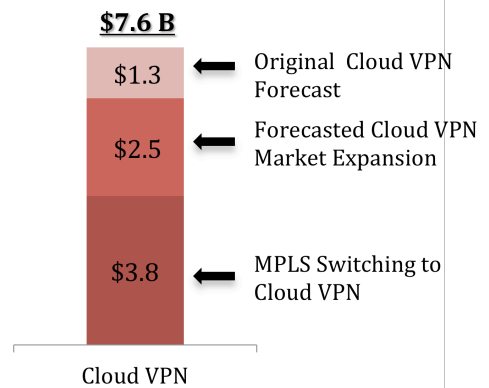


	CAGR 2019 (without SDN/NFV)	CAGR - 2019 (with SDN/NFV)
VPN Category	8.1%	9.3%
Cloud VPN	25.7%	80%
MPLS VPN	7.3%	4.2%
All Other VPN	8.8%	10.2%

The incremental VPN category growth is primarily driven by Cloud VPN, which has two sources of growth. Just under 40% of incremental Cloud VPN

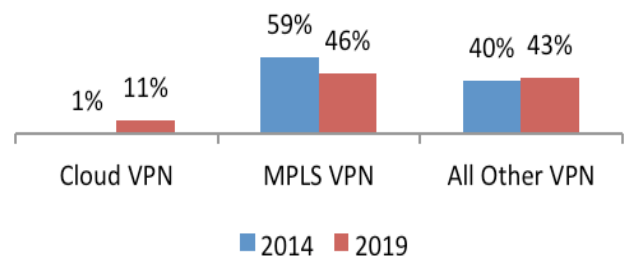
growth is derived from market expansion. Interestingly, over 60% results from MPLS VPN users switching to an SDN/NFV-driven Cloud VPN solution. This switching is driven by the comparative benefits of SDN/NFV-driven Cloud VPN over and above MPLS VPN, namely lower price, faster provisioning time (48hrs vs 6-8 weeks for MPLS VPN), on-demand scalability, and the simple and easy ordering and self provisioning that it offers.

Cloud VPN Market Composite 2019



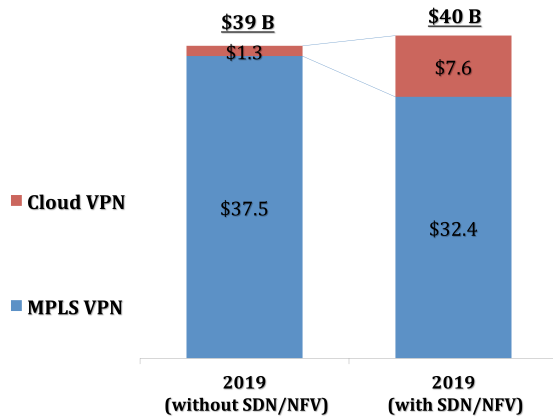
Although the MPLS VPN subcategory will continue to grow through 2019, it will grow at a rate nearly 20x slower than the Cloud VPN subcategory. This difference in growth rate will drive a shift in Cloud VPN and MPLS VPN's share of the overall VPN market with Cloud VPN gaining significant share at the expense of MPLS VPN.

VPN Solution Share of VPN Market



What Are The Implications For Category Spend?

We see three concurrent movements in the VPN category that result from the introduction of SDN/NFV-driven Cloud VPN: Reduction in MPLS VPN spend, Increases in Cloud VPN spend and overall VPN category expansion.



Solution switching from MPLS VPN to Cloud VPN by SMBs and LEs will drive a decrease in MPLS VPN spend which will ultimately be recaptured by Cloud VPN. We also project VPN category and Cloud VPN subcategory spend expansion as SDN/NFV-driven Cloud VPN makes enterprise grade VPN solutions more accessible to the SMB market.

Also, as the majority of SMBs and LEs across all global regions indicated their intention to expand their use of IT Services within their company to more users if those IT Services were SDN/NFV driven, we project a 20% incremental VPN Purchase uplift as users switch from MPLS VPN to Cloud VPN.



This incremental uplift will be driven by accelerated solution rollout time frames and an expansion of non mission critical services to more users across the organization.

What Are The Implications For Service Providers?

The shift in the VPN market represents a critical opportunity for Service Providers. As business customer’s preferences change, Service Providers must plan to adapt their service offerings to meet the needs of their existing and prospective customers.

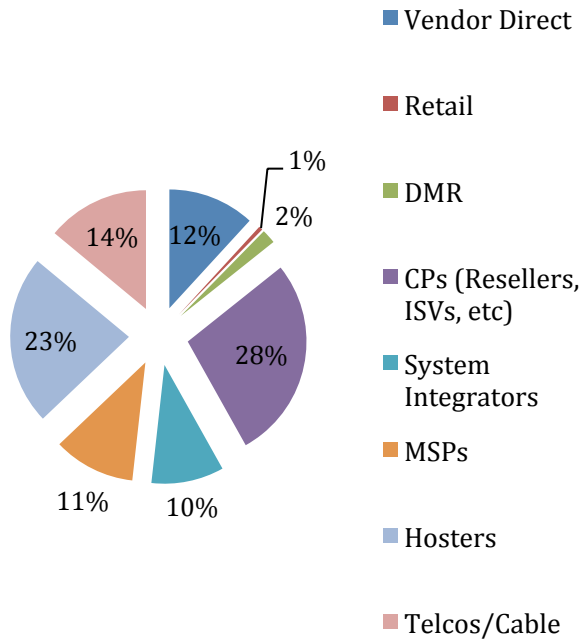
Expanding service offerings to include SDN/NFV-driven Cloud VPN will be critical for Service Providers as they seek to retain existing customers whose VPN solution preference may shift over time and to acquire new customers who are entering or switching solutions within the VPN category.

How Should Service Providers Bring SDN/NFV-Driven Cloud VPN To Market?

Successful customer acquisition and retention will require that Service Providers build and execute a robust channel strategy.

Businesses acquire IT services from a wide variety of routes to market and they often look to channels like VARs, MSPs, System Integrators and Hosters as both trusted advisors and purchasing channels.

WW VPN Purchasing Channels



In order to successfully reach the SMB and LE markets that are looking to adopt SDN/NFV-driven Cloud VPN solutions, Service Providers will need to work to establish relationships with VARs, MSPs, Systems Integrators and Hosters.

Service Providers should look to both build advocates for their services within channels and they should seek to deliver their SDN/NFV-driven Cloud VPN solutions through the channels as a service.

It will also be critical for Service Providers to leverage the inherent capabilities of Software Defined architecture, like open APIs, as they build relationships with channel partners. Open APIs will enable end customers to easily join their mission critical IT solutions with SDN/NFV-driven Cloud VPN technology.

Methodology

AMI-Partners conducted 350 telephone and online surveys with businesses of all sizes (small, medium and large) across 11 countries – North America: USA, Canada; LATAM: Mexico, Brazil; MEA: Saudi Arabia, South Africa; APJC: Japan, Australia; WE: UK, Germany; CEE: Poland.

Another 25 telephone surveys were conducted with various service providers across the same set of countries.

These businesses were screened to ensure all were using a mix of some online services and representative of a cross section of various vertical industries and revenue levels.

Key decision makers (CIOs/CTOs/IT Directors/Non-IT Sr. Management/LOB Managers, and Network/ Operations Managers) were surveyed amongst both businesses and service providers. This exercise was executed during January-February of 2015 and results prepared in March 2015.

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