Research Note

March 2023

Amdocs-Microsoft Partnership

A shot across the bow of Salesforce's telco empire

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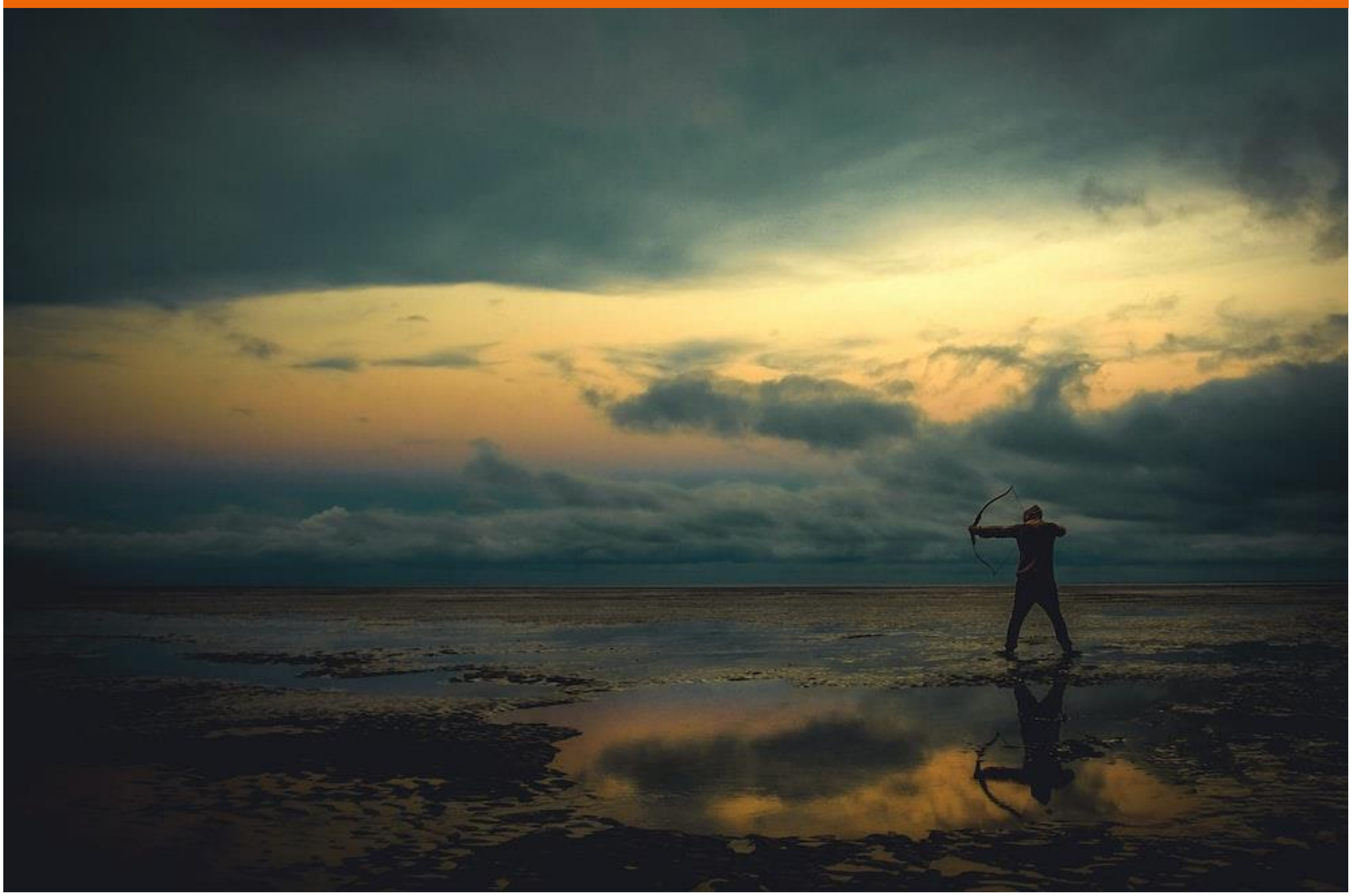

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Published by Appledore Research LLC • 44 Summer Street Dover, NH. 03820

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Publish date: 21 March 2023

Cover image by Zoltan Tasi, Unsplash

EXECUTIVE SUMMARY

The broad strategic partnership between **Amdocs** and **Microsoft** is a significant industry development. In particular, the plans for a new, jointly developed Customer Engagement Platform will introduce a more direct challenge to **Salesforce**, which has risen to a market leadership position in telecom front office software over the last decade.

The Amdocs-Microsoft partnership addresses a wider set of telco strategic priorities, with both companies bringing acknowledged and complementary strengths to the relationship. We see significant potential for this partnership not only to offer CSPs additional choice, but also to advance industry adoption of cloud, AI and the agility and efficiency gains they offer.

On 27 February 2023, Amdocs announced a broad strategic partnership with Microsoft. The announcement, timed to coincide with Day 1 of MWC23, is significant, given the broad scope of this partnership, and had three aspects:

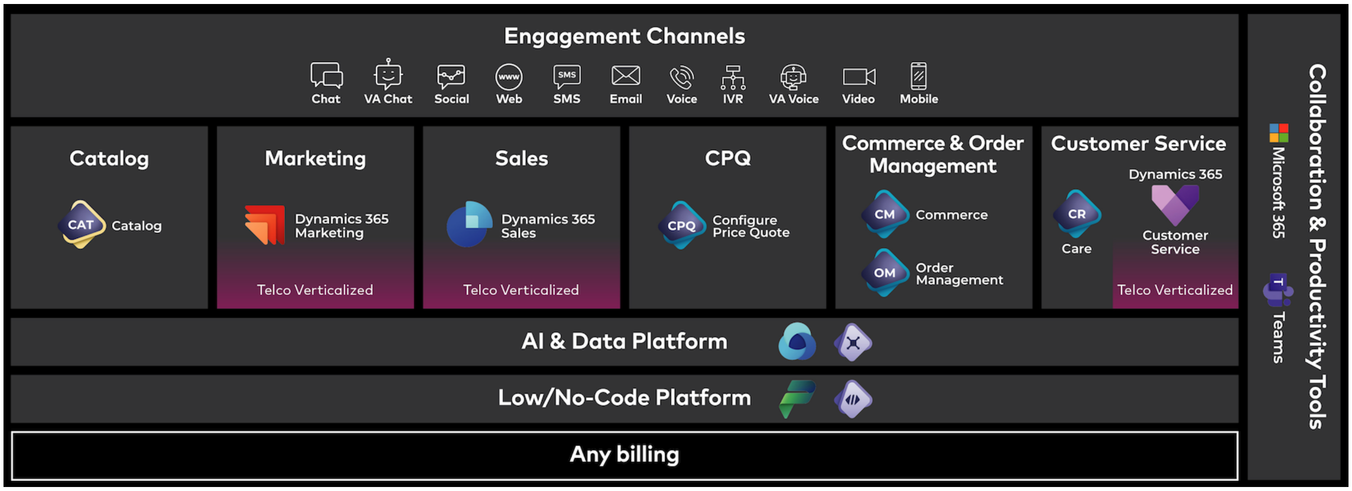
1. An expansion to Amdocs' strategic collaboration with Microsoft Azure to move CSP workloads to the cloud. The announcement is light on details but can be considered as an extension of the collaboration announced in May 2021 to support CSP initiatives to move BSS/OSS components to the cloud.
2. Enhanced cooperation around Azure Operator Distributed Services (AODS) (figure 1). Microsoft first announced AODS at MWC 2022 post the acquisition of AT&T's network cloud assets (AT&T is Amdocs' biggest customer by revenue contribution). This part of the relationship is closely tied to the newly announced **Amdocs Networks** division.

Figure 1: Overview of Microsoft Azure Operator Distributed Services (AODS)

Source: Microsoft

3. Perhaps the most significant part of the announcement is the Customer Engagement Platform (figure 2), which brings together Amdocs' commerce and care suite alongside Microsoft cloud solutions to offer an end-to-end, pre-integrated telco focused vertical stack.

Figure 2: Overview of Amdocs Customer Engagement Platform in partnership with Microsoft



Source: Amdocs

For the Customer Engagement Platform, Microsoft contributes its Dynamics 365 solution covering sales, marketing and support functions while the remaining parts of the stack will be from the Amdocs stable. The Microsoft components will only be deployed on Azure cloud. However, Amdocs will support on-prem, hybrid and multi-cloud deployment options (Dynamics 365 will always be on Azure).

The product roadmap will be decided jointly by the two companies. Amdocs will lead the go-to market leveraging their famed sales machinery and close relationships with Tier-1 CSPs especially on the BSS front. The companies claim they will address both B2B and B2C from the same platform. The solution is expected to become generally available in the second half of 2023.

Microsoft's relationship with Amdocs is believed to be an exclusive one and the company made it clear it does not plan to compete with Amdocs in this segment. Instead, Microsoft is focused on positioning itself as a platform player and intends to bring in other assets and capabilities to the partnership in the future such as Teams and chatGPT.

It should also be noted that Amdocs will continue to work with AWS and Google Cloud who remain important partners supporting multiple customer deployments.

BACKGROUND

The telco customer engagement segment was disrupted around a decade ago by the entry of Salesforce. Salesforce, which at the time was predominantly an enterprise focused vendor, was initially expected to only have a limited impact in the telecom market segment. This was mainly because of its emphasis on cloud-based SaaS delivery models which many CSPs were reluctant to embrace, and also because of its lack of exposure to telco operations frameworks. However, Salesforce was aided by a shift in telcos' approach to customer experience which was increasingly becoming a strategic priority for CSPs. CSPs looked to learn from enterprise best practices and to that extent considered Salesforce a trendsetter with its platform-based approach.

Salesforce's platform-based approach centers around a common platform which can then be verticalized for specific industries (such as telco) through partner offerings. Salesforce partners are pre-integrated on its platform and discoverable through the AppExchange, which is an app store for enterprise solutions that function on top of the Salesforce platform. The AppExchange has an enormously diverse number of enterprise solutions and is considered an important differentiator for Salesforce. The AppExchange has also enabled many smaller vendors gain access to Tier-1 accounts on the back of the Salesforce platform, which has further entrenched Salesforce into CSP operations. Salesforce further cemented its leadership position in the telco market through the acquisition of **Vlocity** in 2020, which helped it better address telco-specific requirements.

Salesforce's strong growth helped the company dominate the telco customer engagement segment and displace Amdocs as the largest vendor. It also put the onus on Amdocs to offer a counter narrative to Salesforce's platform-based approach.

EMERGENCE OF THE B2B PLATFORM

There has been an explosion of interest in the telco B2B segment, in large part because of the emergence of 5G and its potential for transforming the enterprise – and providing telcos with a vector for growth. Even at MWC 2023, coverage and conversations around telco B2B was far ahead of B2C even though telco B2C accounts for over three-quarters of the total spending in customer engagement segment. This is an indication where telco focus will be in the short to medium term. B2B is considered a strategic priority by leading CSPs, and it will be strategically crucial for vendors to be part of this opportunity.

The B2B concept-to-cash system and process flow is under review, with CSPs especially concerned by delayed time to market and the amount of manual intervention required due to a patchwork of solutions from multiple vendors in addition to homegrown systems. Configure-price-quote (CPQ) systems in particular remain an important consideration for CSPs as they are expected to be central to accelerating enterprise sales.

AMDOCS-MICROSOFT CUSTOMER ENGAGEMENT PLATFORM

The announced Customer Engagement Platform will include a new CPQ engine from Amdocs, which is expected to be built from ground-up and not based on previous versions. The capability of the CPQ engine will be central to the success of the new platform. Also important is the role of order management and fulfilment functions, which has remained an area of concern for CSPs especially with the growing necessity to expose and manage network assets through a customer interface in real-time. Leveraging its expertise from the recently launched Networks division, Amdocs will aim to provide end-to-end coverage that is broader than any other offering in the market.

The Customer Engagement Platform will be available in hybrid or multi-cloud options, with the Microsoft components always deployed on Azure. This could lead to a cumbersome architecture framework for CSPs who have AWS or private datacenters as the primary deployment environment. The performance benchmarks and interoperability between clouds and on-prem will be evident only when the solution becomes generally available in the second half of 2023. Pricing will be another crucial aspect to watch out for, especially since there have been concerns around the cost of Salesforce deployments.

Also paramount, especially in the light of chatGPT 4 launch, will be the role of AI. At the MWC analyst meeting, Microsoft was coy about the future implications of chatGPT technology in this collaboration, but it left no doubt that they are actively working on figuring out how best to harness the power of generative AI into this offering (they have since announced that the Microsoft Dynamics 365 Copilot will be part of the Customer Engagement Platform). Generative AI may well be the dark horse in the battle for supremacy in customer engagement platforms, although it remains to be seen how successfully Microsoft can enable partners to leverage the power and ease of use of large language models.

MARKET IMPLICATIONS

The partnership with Microsoft provides Amdocs with two important benefits. First, it provides Amdocs access to the ecosystem of Microsoft applications which over time has the potential to become an alternate platform vis-à-vis Salesforce.

Second, the collaboration also brings on board a partner who has extensive profile and presence in the enterprise, at a time when knowledge of enterprise best practices is becoming an important consideration for CSPs.

Amdocs also has the advantage of having a highly regarded services and delivery division in-house, which allows it greater control over the end-to-end experience. Salesforce remains dependent on partners, technology providers and system integrators, for the delivery of end-to-end customer engagement stack for telecom operators.

For Microsoft, who over the years have struggled to make an impact with their Dynamics 365 portfolio in the telecoms vertical, the collaboration with Amdocs offers a partner with a far more successful track record in telco business applications segment. Microsoft will also benefit from

Amdocs' ringside view of leading CSPs transformation strategies, given their well-entrenched presence in tier-1 telcos worldwide.

For other large vendors such as **Oracle** who continue to have a large legacy customer base, the coming together of Amdocs and Microsoft can be a cause for concern, especially at their mid- and large CSPs customers who are not on board with the Salesforce model.

For smaller vendors who are not committed to the Salesforce platform, it will become more vital that they have an important functional differentiation, or they will need to offer end-to-end capabilities through partners. It is not clear at this point if any opportunity exists for smaller vendors to be part of the Amdocs-Microsoft platform.

Amdocs and Microsoft are also interested in exploring the potential for the Customer Engagement Platform outside of telco, likely leveraging Microsoft's brand and channel access. It remains to be seen how such a move, which is unlikely to be a near-term initiative, will fare.

CONCLUSION

The Amdocs Microsoft customer engagement partnership is uncharacteristic for the two giants, especially in the BSS segment, yet its significance cannot be overstated.

Amdocs has long reigned as the biggest vendor by revenue in the BSS segment, but its dominance has been threatened over the past decade by the emergence of Salesforce. On the other hand, Microsoft's attempts to take its Dynamics 365 portfolio to the telecoms market has been a mixed bag, partly because it was distracted by the broader Azure for Operators narrative.

In this context, we consider this partnership as a win-win, as it addresses specific weaknesses of the two giants in this segment and equips them to better compete with Salesforce.

The Amdocs-Microsoft partnership has the potential to deliver a compelling alternative platform to Salesforce, one that is more end-to-end and has an edge in artificial intelligence and with the added benefit of being managed and delivered by a single vendor with extensive telecom credentials.

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