UC as a Service (UCaaS)

Scorecard: North America Excerpts

Contents

Exhibits

Top Takeaways

In this *Scorecard* we look at the top UC as a service (UCaaS) providers in North America. Over the past six years, there has been slow and steady consolidation of business VoIP providers in North America. However, despite the mergers and acquisitions, there is still a large number of VoIP service providers in the region, including traditional premises-based PBX and UC vendors, pure-plays, incumbent operators, cable MSOs, CLECs, ISPs, and system integrators. At the end of 2015, the providers that made the cut had over 200K hosted VoIP and UC seats each, and at the high end had over 600K seats. There are a number of providers that did not make the cut that have an installed base of 100K–200K seats. The market cannot sustain the large number of providers long term, so we will see further consolidation or providers closing down. Among all these VoIP business providers, a few stand out:

- 8x8 is a leader in the UCaaS market for the third year in a row, building on the second largest installed base with a solid financial position and a market strategy that it has been executing on for the past three years. Its strategy is centered on maintaining a focus on delivering high value to small businesses while expanding up-market to mid-market and enterprise customers.

- Vonage made another jump to second place in this year's *Scorecard* by accelerating its customer base through yet more acquisitions—Simple Signal and iCore Networks in 2015. Vonage has a clear mandate to grow its business services group which is centered on cloud UC services and it is using a 2-platform strategy—one it developed directly for the low end of small businesses, and the other is from BroadSoft for mid-market and enterprise customers.

- West fell to third place in this *Scorecard,* not because it is doing anything wrong but because of Vonage's leap in installed base. West continues to be focused on large enterprises, with a heavy focus on the Cisco HCS platform as its premier cloud service offering. West has worked diligently to take advantage of businesses loyal to Cisco that have a desire to move to the cloud while staying with a Cisco solution. West benefits from this and also has a solid operating system to scale its business.

- The competitive landscape for hosted UC services continues to be impacted by the traditional UC vendors such as Cisco, Microsoft, Mitel, and ShoreTel. Although Microsoft's Skype for Business is now available as a multi-tenant solution in conjunction with Office 365, to date most deployments are in private cloud environments. These companies continue to make gains, but pure-play providers and competitive carriers have not been adversely impacted.

- There is a broad mix of providers outside the top 10 that are growing fast and doing interesting things in regard to product innovation, channel strategy, and customer service. These include Comcast, Cox, CoreDial, Windstream, Masergy, Megapath, Fonality, Intermedia, CenturyLink, Earthlink, and XO.

Exhibit 1   2016 North America UCaaS Leaders

Source: IHS   © 2016 IHS
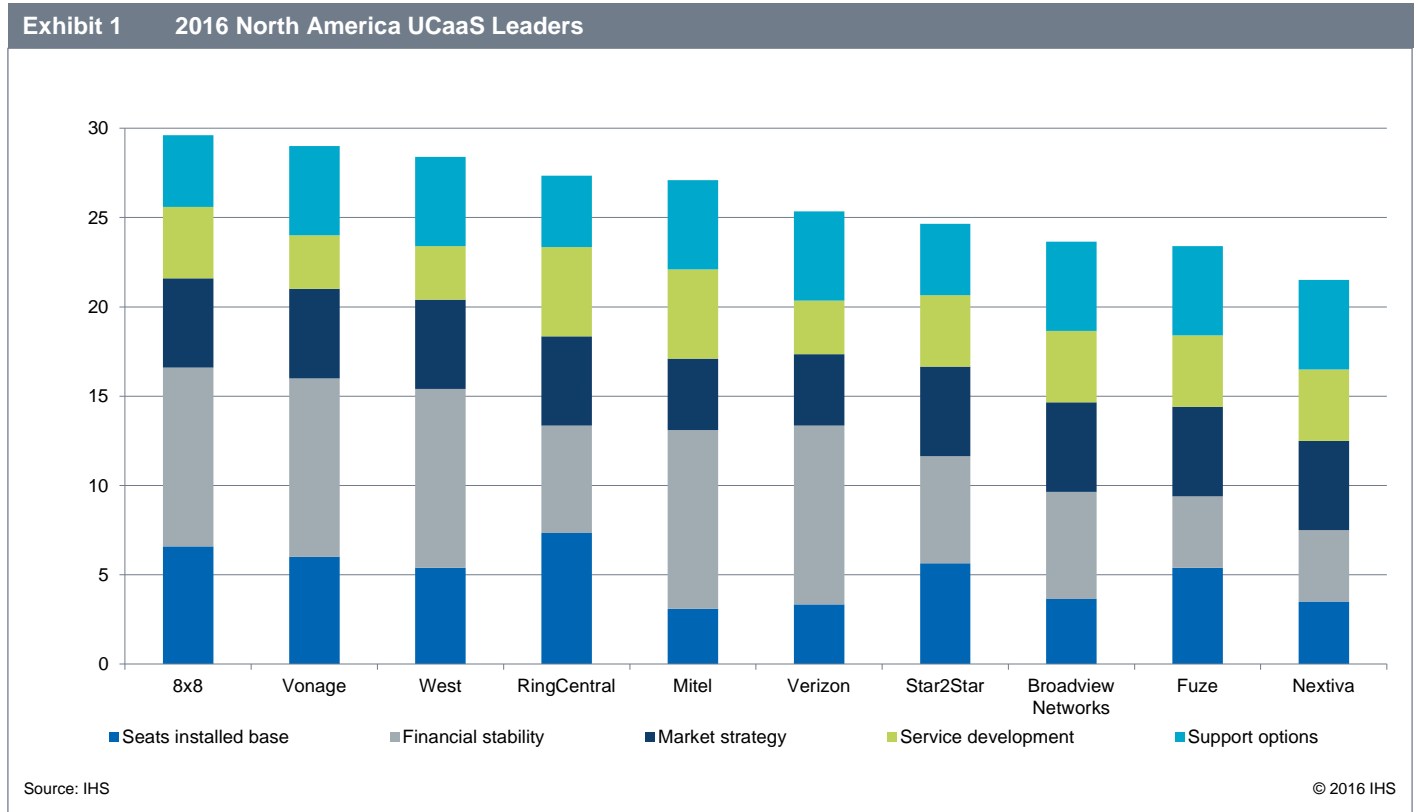
Background

This 8th annual *UC as a Service (UCaaS) Leadership Scorecard: North America* complements our *VoIP and UC Services and Subscribers* regional market tracker.

The purpose of this *Scorecard* is to determine which service providers currently lead the market for UCaaS (we use the term interchangeably with "hosted PBX/UC") and are best positioned to succeed in the long term based on a set of criteria.

First, we determined the top service providers in terms of the number of seats for UCaaS. We then evaluated them based on the following four criteria:

- Financial stability

- Market strategy

- Service capabilities

- Support options

Please see "Leadership Metric Definitions" at the end of this excerpt.

We rate each service provider in each of the 4 areas on a 5-point scale and then apply a weight:

- 5 = leading the market

- 4= advancing

- 3 = moderately positioned

- 2 = limited position

- 1 = market laggard

- 0 = no activity/not applicable

The combined score for each provider was then tallied to provide their leadership score.

UCaaS Leadership Scorecard

The UCaaS market in North America is marked by a large and dynamic provider landscape. Mergers and acquisitions continue as providers look to gain scale, new capabilities, and long-term survivability. Additionally, traditional PBX and UC vendors such as Cisco, Mitel, Unify, ShoreTel, Microsoft, and Avaya continue their push into the cloud either directly or through platforms sold to hosted providers.

The top 10 providers have been fairly consistent over the past few years. Compared with our 2015 report there is some shifting in the rankings and Comcast dropped off and Nextiva moved into the top 10. The consistency of the top providers indicates that many continue to do the right things, enabling them to maintain low churn and expand to new customers.

In this year's *Scorecard*, **8x8** maintains its strong leadership due to its large installed base of UCaaS seats, financial position, and continued execution on its market strategy. 8x8 has consistently been near the top of our *Scorecard* and is a long-standing stalwart of the hosted PBX and UC market, with a strong position with small businesses and continued growth up-market.

Vonage and **West** follow 8x8 in the rankings, with Vonage edging out West through a larger installed base the result of acquisitions. Vonage continues its rise up the rankings by driving scale through acquisitions. In 2015, Vonage acquired BroadSoft-based providers Simple Signal and iCore Networks and has been vocal in its plans to pursue acquisitions. The past year has been spent on integrating the acquisitions and getting all the companies working as one through a common provisioning system along with sales and marketing.

West is the fourth largest provider in terms of installed base, with a focus on the growth of customers on the Cisco HCS platform (including bringing on Spark in 2016) while sustaining customers on its homegrown platform. West is a leading Cisco partner for cloud services. West's strong financial position puts it ahead of RingCentral in the rankings. West has done a good job of continually growing its installed base through a focus on mid-market and large enterprise customers.

RingCentral comes in only 1 point below West as a result of its financial picture, despite improvements at the end of 2015. RingCentral operates its own platform and continues to expand its capabilities to meet the needs of larger businesses. RingCentral is the largest UCaaS provider based on installed base of users, with its Office offering and the most advanced service development in 2015 (with the acquisition and integration of team collaboration provider Glip into the service portfolio).

Mitel rounds out the top 5 hosted providers. Though Mitel may be in the bottom half in terms of installed base, its financial position along with some key service enhancements gives it a boost. Development Mitel has done with the collaboration capabilities of MiTeam integrated with its MiCloud services puts it in line with the next round of UC services. In previous years, the focus has been on mobility, analytics, and application integration; those are still important, but now we are looking forward to new areas such as team collaboration.

In our March 2016 *UC Cloud and On-Premises Strategies and Leadership North American Enterprise Survey,* we asked the respondents who are implementing at least part of their UC solution through UCaaS to rate criteria for selecting providers. The top 4 criteria, rated *very important* by the most respondents, are QoS guarantees, security, ability to support hybrid deployments, and pricing. This corresponds with informal discussions with enterprises that express concern about going with a provider that is stable, can offer a high quality service, and support their needs to grow.

There are a handful of UCaaS providers that just miss the top 10 cut-off for this report but are worth highlighting. They include ShoreTel, Comcast, CoreDial, Cox, Windstream, Masergy, Megapath, Fonality, Intermedia, CenturyLink, XO, and Earthlink. These are all important providers to watch, and many are doing interesting things with applications and go-to-market strategy.

One important trend in this area of UCaaS is the growth of larger enterprise deals in the past two years. As adoption has risen, we see changing requirements around quality, support for hybrid environments, security, and support for dedicated data networking. And we are talking about multi-tenant-based or multi-instance-based services. These are public and private sector firms ranging all the way up to tens of thousands of endpoints. Many of these larger deals are with organizations that are highly distributed, where the benefits of cloud across many locations is readily apparent. With the rise of these opportunities, many providers are evolving their businesses to chase these deals down. However, not all cloud providers are suited for the rigors of large enterprise deals, and there are risks chasing and winning them.

In 2016 we expect further market consolidation, which has the potential to bring some shifting within the top 20 providers, as we have seen in the past. The chart below shows each provider's total leadership score, calculated as noted in the previous section.

8x8 Analysis

8x8, for the third year in a row, is the leader of the North American UCaaS leadership *Scorecard* due to its financial position, continued strong growth of its installed base, service enhancements, and commitment to staying the course on its market strategy. The company remains focused on growing its mid-market and large enterprise business. 8x8 is a publicly traded company and has done a solid job of growing revenue and posting non-GAAP profits with a positive cash flow.

8x8's services go beyond standard voice features, with collaboration and enhanced capabilities. Through its Virtual Office portfolio, the solution delivers integrated directory, presence, chat, unified messaging, and Virtual Office Meetings web and video conferencing through choice of desktop and mobile applications for Windows, Mac, iOS, and Android. Its most recent enhancements to its Virtual Office Meetings is HD video and audio. Its integrated suite of services, including the Virtual Contact Center solution, has been a strong differentiator but has been replicated by a growing number of other hosted providers. In 2015, 8x8 added analytics and interactive dashboard reporting tools for businesses to view communications activity and trends within their organizations.

Focusing more on enterprise customers' needs, 8x8 has comprehensive mobile clients, offering customers flexibility in where and how they communicate. Beyond features and applications they have also have service level agreements (SLAs) guaranteeing end-to-end service uptime, reliability, and call quality over any broadband network customers use—public Internet or an MPLS network. Additionally, 8x8 also has an international service footprint to better service companies with operations in North America, Europe and Australia.

8x8 runs its services over its own platforms, allowing them to control feature development. Most customers run the 8x8 service over their own broadband connections, but for larger businesses, 8x8 will work with partners for dedicated bandwidth for a MPLS network where necessary.

The company's flagship unified communication as a service (UCaaS) offering is Virtual Office. Virtual Office Pro is an add-on bundle that adds Virtual Office Meetings, , call recording, and Internet fax to the core Virtual Office offering. Virtual Office comes in 3 plans that customers can mix and match to meet their requirements:

- Unlimited Extension includes unlimited calling to the US and 8 international locations. Extension to extension calls are unlimited regardless of location.

- Metered Extension provides a 250 minute limit for outbound calls in the US and Canada. Any minutes over the limit are 2.9 cents plus international tolls. Calls to and from other 8x8 extensions are unlimited. Extension to extension calls are unlimited.

- For companies with high international calling requirements, 8x8 offers Global Extension, which provides unlimited calling to the US and over 40 international locations.

Though 8x8 initially focused on building its hosted PBX/UC business with small businesses of fewer than 100 employees, in recent years it has built a practice focused on businesses with 100-2,000 employees. 8x8's enterprise communication as a service portfolio includes Virtual Office, Virtual Contact Center, Analytics, SLAs, an MPLS network connectivity option, and high-touch onboarding and support to target mid-market and enterprise deployments. 8x8 has compliance certifications including HIPAA, FISMA, and PCI-DSS.

8x8 has found success with highly distributed companies in verticals such as retail, technology, manufacturing, and services. Recent customer wins include Auto Europe, an international car rental provider, who has chosen 8x8 to roll out cloud communications to manage its global office telephony for 600 users and call centers for 300 seats across the US, Australia, and Germany. NetSuite, a provider of cloud-based ERP and omnichannel commerce software, selected 8x8 to replace its existing legacy communication system for 4,500 employees worldwide. And Regus, a global workplace provider that operates over 2,500 business centers worldwide across 106 countries uses 8x8.

As of 4Q15, the company's average revenue was $369/month per business customer (up from $305/month a year prior). Many of its smaller customers move to 8x8 from basic business lines, which results in higher value service capabilities and features.

8x8 uses direct sales as well as a global channel partner program to sell its services. The global partner network includes organizations such as CDW, Arrow, Insight, Level 3, Intelisys, SaskTel, Bell Canada, Elite Telecom, Freedom Communications, and CSG.

Exhibit 2	8x8's Scores vs. Average Scores of Top 10 UCaaS Providers

Source: IHS

© 2016 IHS
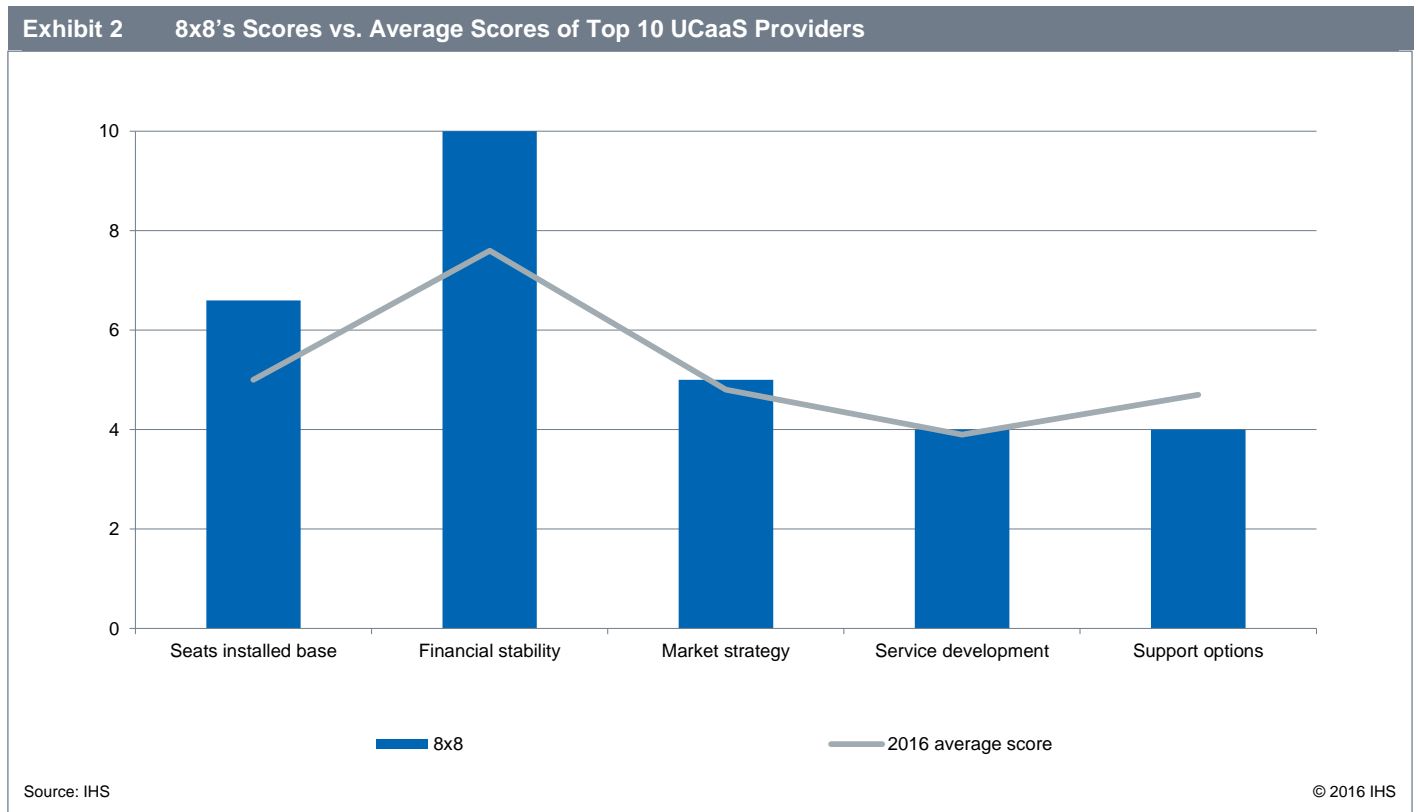
Leadership Metric Definitions

The leadership metrics are defined as follows:

Installed base: We determined the top service providers based on number of lines/trunks or seats reported as of the end of calendar year 2015.

Financial stability best positions a provider for long-term success (i.e., provides the ability to maintain the business as a standalone entity and to take advantage of investing in new services and infrastructure). Financial stability is also extremely important for business customers that are entering into multi-year contracts.

Market strategy: Though voice services continue to experience downward pricing pressure and competition abounds from other providers and alternative solutions, UCaaS providers must have a strong market differentiation for long-term success and commitment to the market. How a service provider executes its market strategy is extremely important and includes channel programs, target market development (e.g., verticals or customer size segmentation), and geographical strategy.

Service capabilities: Service differentiation provides the ability to maintain or increase average selling prices while growing an installed base. We look at the degree to which the service provider is adding UC applications, team collaboration, integrated web conferencing, Web 2.0 mashups, analytics, HD voice, and video solutions.

Support options: Business customers' top buying criteria include reputation, reliability, and service and support; this is particularly true for fully hosted services that include services down to a user's desktop. Comprehensive service and support policies are critical in maintaining customers and reputation of high quality services will position providers in maintaining customers.

Service Definition

UC as a service (UCaaS): Hosted, multi-tenant solutions that replaces a premises-based PBX or key system, including value-added applications and unified communications (UC); UC integrates multiple and disparate communication modes (voice, e-mail, fax, chat, etc.) into a unified and cohesive communications experience. UCaaS aggregates telephony, presence/IM, messaging, collaboration and conferencing into a unified service delivered to multiple devices that is managed and sold as a subscription based model.

Contact

Diane Myers
Senior Research Director, VoIP, UC, and IMS
+1 408.583.3391
Diane.Myers@ihs.com