

North America Business VoIP Service Scorecard

Excerpts

May 6, 2014



This is an excerpt of the report provided at no charge that provides detailed information on 8x8, key summary information, detailed information on 8x8's assessment, and the methodology behind the report. The full report can be purchased from Infonetics at www.infonetics.com.



TABLE OF CONTENTS

TOP TAKEAWAYS: 8X8 LEADS HOSTED PBX AND UC MARKET..... 1

BACKGROUND..... 2

HOSTED VOIP AND UC LEADERSHIP SCORECARD..... 3

 Hosted UC Provider Summary5

METHODOLOGY..... 7

 Leadership Metric Definitions8

LIST OF EXHIBITS

EXHIBIT 1 2013 NORTH AMERICA HOSTED VOIP LEADERS..... 2

EXHIBIT 2 2013 NORTH AMERICA HOSTED VOIP LEADERSHIP SCORECARD..... 5

EXHIBIT 3 8X8’S SCORES VS. AVERAGE SCORES OF ALL 10 VOIP PROVIDERS..... 7

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

Copyright © 2014 by Infonetics Research, Inc. All rights reserved.

TOP TAKEAWAYS: 8X8 LEADS HOSTED PBX AND UC MARKET

Over the past 4 years there has been slow and steady consolidation of business VoIP providers in North America. However, the mergers and acquisitions have not significantly lowered the number of VoIP service providers in the region, due to the emergence of new providers, particularly traditional premises-based PBX and UC vendors. At the end of 2013, the top hosted providers had well over 150K VoIP and UC seats each. That leaves many providers with fewer than 100K seats, but a good number of providers have 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:

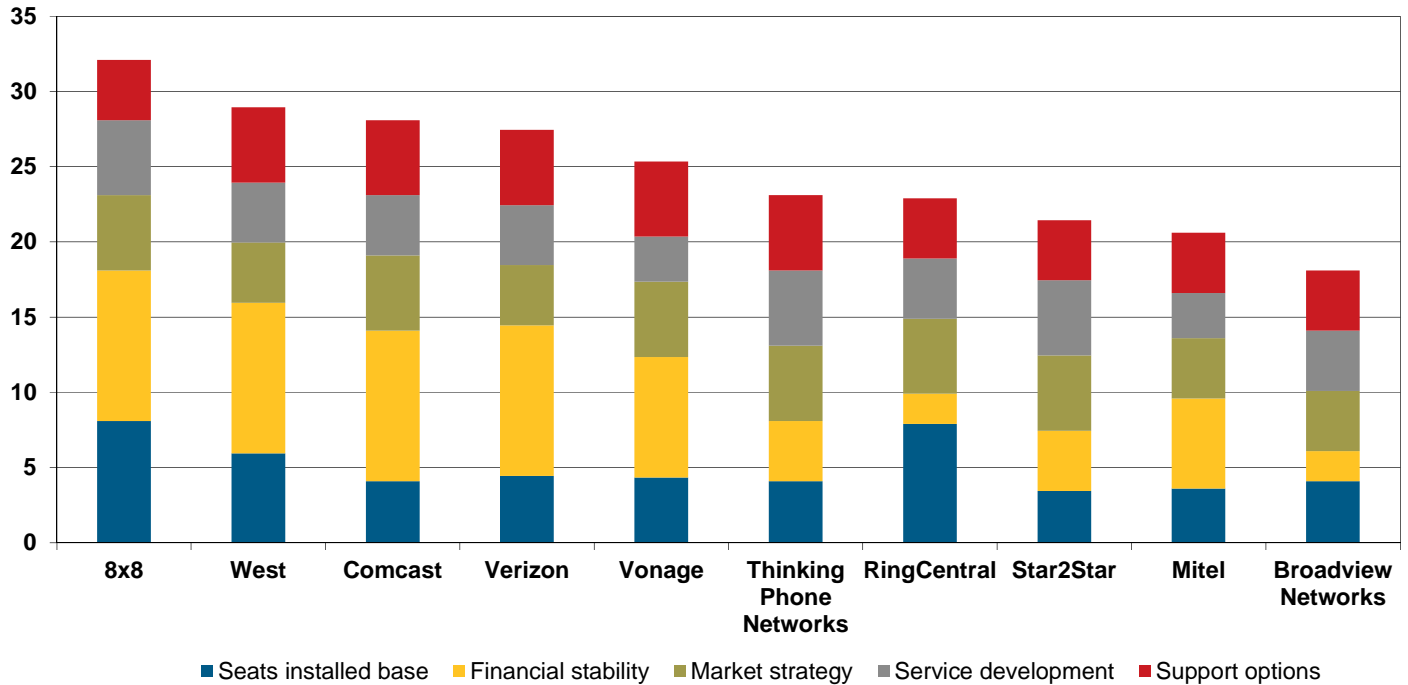
- 8x8 is a decisive leader in the hosted VoIP market, building on its solid financial position over the past 2+ years and on its continued focus on service enhancements and geographic expansion. Though it still serves predominantly small companies, it is finding increasing success with larger businesses.
- West IP Communications is in second place with the hosted scorecard through continued focus on large enterprises, with a shift toward the Cisco HCS platform as its premier cloud service offering away from its own platform. West has worked diligently over the past year to take advantage of businesses loyal to Cisco that have a desire to move to the cloud while staying with a Cisco solution. West is benefiting from this and also has a solid operating system to adequately scale its business.
- The competitive landscape for hosted VoIP services continues to be impacted by the traditional UC vendors. Mitel, in large part due to its merger with Aastra, landed in this year's scorecard. And Microsoft is making more forays into the cloud, with partners hosting Lync and with suggestions Office 365 will soon offer PBX capabilities. The work of the traditional vendors will lead to more fragmentation in the market.

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

Copyright © 2014 by Infonetics Research, Inc. All rights reserved.

Exhibit 1

2013 North America Hosted VoIP Leaders



BACKGROUND

This 6th annual *North America Business VoIP Service Leadership Scorecard* complements Infonetics Research's *VoIP and UC Services and Subscribers* worldwide and regional market share, size, and forecast report.

The purpose of the leadership scorecard is to determine which service providers currently lead the hosted VoIP and UC market 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 hosted PBX/UC. We then evaluated them based on the following four criteria:

- Financial stability
- Market strategy
- Service capabilities

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

- Support options

Please see *Methodology* for definitions and weighting for each criterion, and a full description of how we evaluated each provider.

We rated each service provider in each of the four areas on a 5-point scale and then apply a weight; see *Methodology* for the specific rating definitions for each metric and the weights we assign; the following are general definitions:

- 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.

HOSTED VOIP AND UC LEADERSHIP SCORECARD

The hosted VoIP and UC market in North America continues to change with a highly dynamic provider landscape. Most notably is the rise in offerings either directly or as a platform to other service providers from traditional PBX and UC vendors. This includes vendors such as Cisco, Alcatel-Lucent, Mitel, NEC, Unify, ShoreTel, Avaya, and Toshiba.

In this year's leadership scorecard, **8x8** is a strong and convincing leader due to having the largest installed base of hosted seats, solid financial statements, and continued execution on its service strategy. 8x8 has always been near the top of our scorecard and a long-standing stalwart of the hosted PBX and UC market, with a strong position with small businesses.

West follows 8x8 with a growing base of hosted customers running off the Cisco HCS platform while sustaining customers on its homegrown platform. The company leapt from 4th position in last year's report. West has consistently focused on mid-market and large enterprise customers, thereby achieving the third largest installed base of hosted seats.

Comcast and Verizon round out the top four hosted providers and stand out, along with West and 8x8, with top scores in financial stability. Comcast is focused on one hosted offering, and Verizon has several service offerings that allow it to target multiple customer segments. Verizon and Comcast stand out as two of the largest services providers in North America with a focus on a broad suite of service capabilities.

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

The hosted VoIP market has had a steady stream of mergers and acquisitions over the past five years. Two of the most recent include Vonage's acquisition of Vocalocity in November 2013 to expand into business services in the face of tough conditions on the residential side. And in January 2014, Fusion acquired long-standing business VoIP provider BroadVox's retail business, three years after BroadVox merged with Cypress Communications. We anticipate more consolidation in 2014.

In our March 2014 *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 in the cloud to rate criteria for selecting a hosted provider. Service and support was rated *very important* by the most respondents, followed closely by quality of service guarantees. This corresponds with informal discussions with enterprises that express concern about going with a hosted provider that is stable and can offer a high quality service.

Mitel and Star2Star, two newcomers to our scorecard this year, have a handful of providers close behind them who are right below the installed base cut-off for this report. They include ShoreTel, Telesphere, Nextiva, MegaPath, XO, and Fonality. These are all important providers to watch, and many are doing interesting things. ShoreTel and MegaPath have been in our previous leadership scorecards but narrowly missed this year, as others were able to grow their installed base more aggressively.

One important trend in this area of cloud communications is the rise of larger enterprise deals in the past 8 months. We continue to hear from providers of a growing interest from businesses that represent multiple thousands of seats evaluating hosted options. 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. These deals will change the competitive landscape.

We expect 2014 to bring further changes to the mix as consolidation continues and PBX/UC vendors push heavily into hosted services. We are actively monitoring the traditional UC vendors as they continue to push into the hosted service market. The chart below shows each provider's total leadership score, calculated as noted in the previous section.

Exhibit 2 **2013 North America Hosted VoIP Leadership Scorecard**

Service Provider	Installed Base	Financial Stability	Market Strategy	Service Capabilities	Support Options	Total
8x8	8.1	10.0	5.0	5.0	4.0	32.1
West	6.0	10.0	4.0	4.0	5.0	29.0
Comcast	4.1	10.0	5.0	4.0	5.0	28.1
Verizon	4.5	10.0	4.0	4.0	5.0	26.5
Vonage	4.4	8.0	5.0	3.0	5.0	25.4
Thinking Phone Networks	4.1	4.0	5.0	5.0	5.0	23.1
RingCentral	7.9	2.0	5.0	4.0	4.0	22.9
Star2Star	3.5	4.0	5.0	5.0	4.0	21.5
Mitel	3.6	6.0	4.0	3.0	4.0	20.6
Broadview Networks	4.1	2.0	4.0	4.0	4.0	18.1

Hosted UC Provider Summary

8x8 is the leader of this year’s VoIP leadership scorecard due to its solid financial position and the continued strong growth of its installed base. The company’s services go beyond standard voice features, with collaboration and enhanced capabilities, including Virtual Room video conferencing, Virtual Meeting web conferencing, and Virtual Office Mobile applications. Its Virtual Contact Center has been a strong differentiator and is starting to be replicated by other hosted providers. It’s a complementary service particularly suited businesses that cannot afford dedicated contact center solutions or do not require large formal contact centers. Over the past year, 8x8 has expanded its security adherences with HIPAA compliance and has broadened service capabilities to include more comprehensive mobile clients, offering customers flexibility in where and how they communicate. Additionally, 8x8 has increased its service footprint internationally to capture businesses with international offices.

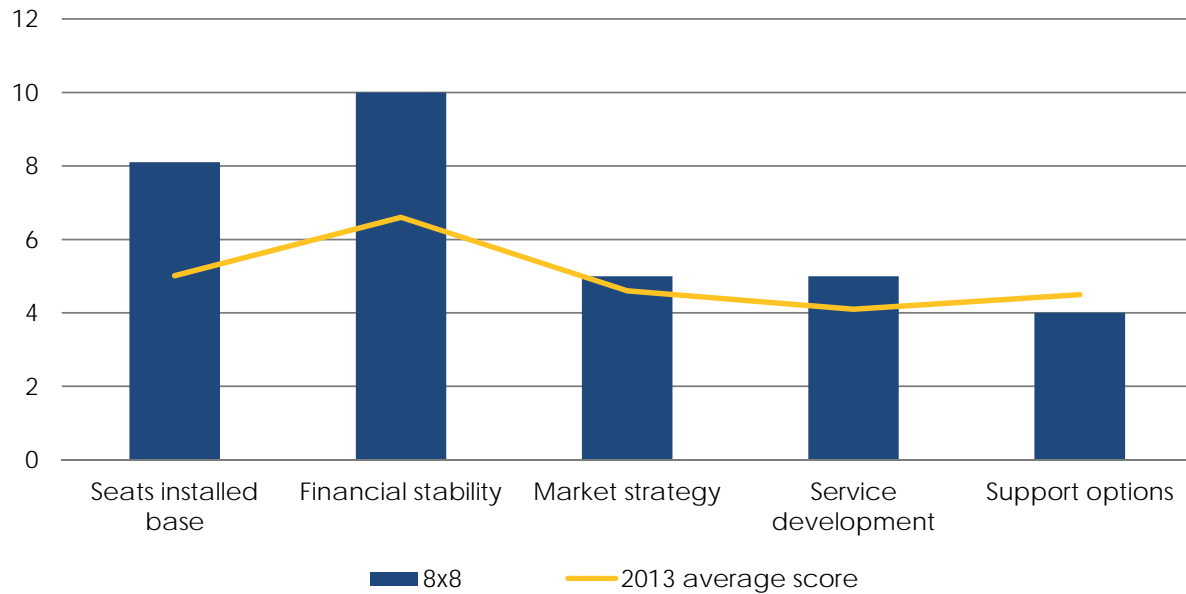
This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

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 in the case of larger businesses, where necessary 8x8 will work with partners for dedicated bandwidth through its MPLS network.

- 8x8 is a publicly traded company and has done a solid job of growing revenue and posting net profits with a positive cash flow.
- 8x8 has 2 key UC as a service (UCaaS) offerings: Virtual Office, its flagship service, and Virtual Office Pro, its premium service, which includes the same phone features of Virtual Office plus unified messaging, presence and IM, web conferencing, call recording, and Internet fax capabilities. Virtual Office and Virtual Office Pro each come in 3 plans that customers can mix and match:
 1. Pricing hasn't changed over the past year. The list price for Unlimited Extension is \$29.99/month per user, and Unlimited Extension Pro is \$49.99/month per extension. The service includes unlimited calling to the US and 8 other countries. There is an option to pay for a full year upfront for a discount.
 2. The list price for Metered Extension is \$24.99/month; Metered Extension Pro is \$49.99/month per user and provides a 250 minute limit for calls to the US and Canada.
 3. The list price for Global Extension is \$79.99/month. Global Extension Pro is \$104.99/month per user. Provides unlimited calling to the US and over 40 international countries.
- Though 8x8 has been highly focused on building its hosted PBX/UC business with micro businesses of fewer than 100 employees it has, in recent years, built a practice focused on businesses with 100-1,000 employees. 8x8 has carved out a niche within the transportation industry. In 2012 it won TMW Systems, a transportation company that represents approximately 1000 lines across seven locations, where the individual sites look and feel like micro businesses but collectively make up a large enterprise. In 2014, the company won KC Integrated Services, which spans 14 locations across 6 US states and Ontario, Canada. 8x8 has positioned itself through competitively priced services and a focus on highly distributed businesses. As of 4Q13, the company's average revenue was \$274/month per business customer, with an average of 13 extensions per customer. Many of its customers move to 8x8 from basic business lines, which results in higher value service capabilities and features.
- 8x8 uses direct sales and a channel partner program to sell its services. It has been growing channel sales over the past year with telecom agents and VARs. Additionally, 8x8 uses its hosted contact center business to pull through the hosted PBX solutions to those customers.

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

Exhibit 3 8x8's Scores vs. Average Scores of All 10 VoIP Providers



METHODOLOGY

The VoIP services market leadership was based on the following steps:

1. Identified the top service providers by the installed base of business lines/trunks or seats, depending on VoIP service category (IP business connectivity and Hosted VoIP & UC), based on actuals provided by operators and Infonetics estimates
2. Calculated each of the service providers' share based on total lines/trunks or seats, which was then converted to points (e.g., 50% = 5 points)
3. Determined four metrics (in addition to installed base) important to leadership and long-term success: financial stability, market strategy, service capabilities, and support options (see the next section for definitions)

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

Copyright © 2014 by Infonetics Research, Inc. All rights reserved.

4. Rated each provider on a 1–5 scale for the 4 categories, based on Infonetics Research's opinion. See the next section for the specific rating definitions for each metric; the following are general definitions:
 - 5 =leading the market
 - 4= advancing
 - 3 = moderately positioned
 - 2 = limited position
 - 1 = market laggard
 - 0 = no activity/not applicable
5. Weighted each metric (based on relative importance in determining market leadership): installed base of lines/trunks or seats (5), financial stability (2), market strategy (1), service capabilities (1), and support options (1)
6. Calculated results

Leadership Metric Definitions

The leadership metrics are defined as follows:

Installed base: Determined the top service providers based on number of lines/trunks or seats reported as of the end of calendar year 2013.

Measurement: Share of seats in relation to the other service providers studied

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.

Measurement: Review for profitability, positive cash flow, and a strong balance sheet with capital to invest in development (or alternatively, fresh capital influx). A market leader (rating of 5) has consistent profitability over the past 2 years, positive cash flow, and access to capital. A moderately positioned (3) service provider demonstrates profitability over the past year and has limited capital. A rating of 1 is for a service provider with debt and financial instability who has had consistent negative earnings over the past 2 years. Private companies are evaluated based on longevity and current funding

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

Copyright © 2014 by Infonetics Research, Inc. All rights reserved.

Market strategy: Though voice services continue to experience downward pricing pressure and competition abounds from other providers and alternative solutions, VoIP 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.

Measurement: First, whether the service provider defined its market strategy (e.g., is it using channels, has it defined its target market and geographic strategy), and second, whether it is executing that strategy (e.g., targets large enterprises and can illustrate success, or focuses on a specific vertical such as auto dealerships and demonstrates success). Providers that have a well defined market strategy and are executing on that strategy are rated a 5, providers that have defined a market strategy but have not fully executed as described are rated a 3, and those providers with no clear strategy are rated a 1.

Service capabilities: Service differentiation provides the ability to maintain or increase average selling prices. For Hosted VoIP, we look at the degree to which the service provider is adding hosted UC, integrated web conferencing, Web 2.0 mashups, HD voice, and video solutions.

Measurement: First, determine if service provider is offering enhanced service offerings for hosted VoIP. If no capabilities exist it would warrant a 0, if there is a roadmap or vision for moving in that direction, then a 1 rating applies. Second, for providers with enhanced solutions, we assess current availability and competitive positioning. A service provider with a limited set of enhanced capabilities (e.g., integrated Outlook toolbar for Hosted VoIP) commercially available is rated a 3.

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.

Measurement: At a minimum, service providers must offer 24/7 telephone support and a customer self-service portal, which would garner a 3 rating. Lacking either of these options brings rating to 2, and lacking both brings it to a 1. Beyond the 2 core support options, a 5 rating includes options such as online chat support, self diagnostic tools, and SLAs, and a 4 rating would have 1 or 2 of these additional options.

Analyst Contact

Diane Myers

Principal Analyst, VoIP, UC, and IMS

408-583-3391

diane@infonetics.com

This is a paid service intended for the recipient organization only; reproduction and sharing with third parties is prohibited.

Copyright © 2014 by Infonetics Research, Inc. All rights reserved.