

IHS TECHNOLOGY

UC as a Service (UCaaS)

Scorecard: North America Excerpts

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Contents

Top Takeaways	1
Background	2
UCaaS Leadership Scorecard	3
8x8 Analysis	5
Leadership Metric Definitions	8
Service Definition	8

List of Exhibits

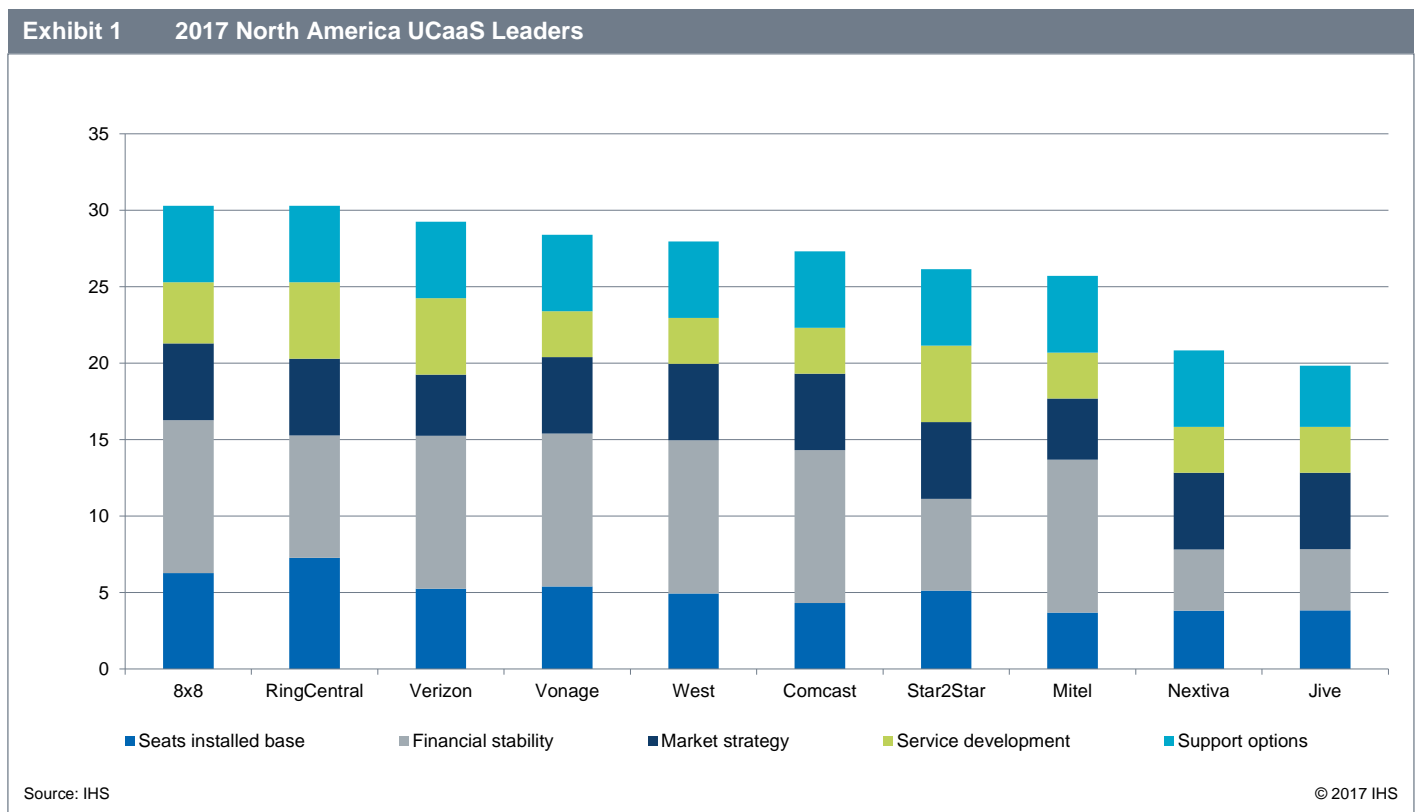
Exhibit 1	2017 North America UCaaS Leaders	2
Exhibit 2	8x8's Scores vs. Average Scores of Top 10 UCaaS Providers	6



Top Takeaways

In this *Scorecard* we look at the top 10 UC as a service (UCaaS) providers in North America. Over the past 7 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 2016, the providers that made the cut had over 425K hosted VoIP and UC seats each, and at the high end had over 700K seats. There are a number of providers that did not make the cut that have an installed base of 100K–400K 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:

- This year for the first time we have co-leaders in the UCaaS market: 8x8 and RingCentral. RingCentral made the biggest jump in this year's report due to improvements on the financial side coupled with its market leading installed base. RingCentral has been consistently moving its product forward with new developments, international growth, and a focus on serving larger businesses with investments in professional services and customer care.
- For the 4th year in a row 8x8 is on top, 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 4 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.
- Verizon also caused a shift in this year's *Scorecard* by moving upward into third place due to a significant acceleration of customer growth across its 3 UCaaS services. Most significant for Verizon was the launch of its mobile-first service One Talk that offers a new twist on UCaaS services and has no competitive comparison in the US. Verizon is one provider that is working to attach multinationals, the mid-market, and small businesses on a global basis with a portfolio of services and resources that are hard to match for pure-plays.
- 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 Fuze, Broadview Networks (being acquired by Windstream), NetFortris, ShoreTel, Cox, CoreDial, Masergy, Megapath, TDS Telecom, CenturyLink, Intermedia, and EvolveIP.



Background

This 9th annual *UC as a Service (UCaaS) Leadership Scorecard: North America* complements our *Business Cloud VoIP and UC Services and Subscribers* regional market report.

The purpose of this *Scorecard* is to determine which service providers currently lead the market for UCaaS 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, Alcatel-Lucent, 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 2016 report, there is some shifting in the rankings; Comcast and Jive moved into the top 10 and Broadview Networks and Fuze slipped off the list. 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** and **RingCentral** are co-leaders. 8x8 has continued to be a leader for the fourth year 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. The company has made significant upgrades to its service and support options, including dedicated customer support managers for enterprise customers.

RingCentral has high marks across the board with the exception of financial stability, which has improved over last year's scorecard. It has moved from 4th in last year's scorecard to co-leader. 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 continued advanced service development in 2016 building on its acquisition of Glip in 2015.

Verizon and **Vonage** follow 8x8 and RingCentral in the rankings. Verizon edges out Vonage by a narrow margin through strong service development in 2016 on the UCaaS front. Verizon made a significant leap with the introduction of its mobile-first UCaaS offering; there is nothing else in the US market like the mobile UCaaS service One Talk that is fully deployed through the mobile network of a provider and brings together natively one number across multiple devices. Verizon completed the acquisition of XO in February 2017, so we don't include XO's business in this analysis as it is based on data as of year-end 2016.

Vonage is the third largest provider in terms of installed base of seats. In 2016, the company continued to work through integrating its 3 BroadSoft-based acquisitions. Vonage's UCaaS services are centered on 2 service areas, Essentials and Premier, that the company has done a good job of marketing to a cross-section of SMBs and larger enterprises. During 2016, most of Vonage's development efforts centered on its CPaaS platform, Nexmo, which we don't cover in this report.

West rounds out the top 5 UCaaS providers. The provider has the sixth largest installed base and is focusing on the growth of customers on the Cisco HCS platform (including bringing on Spark in 2016, though it remains a small portion of users today) while sustaining customers on its homegrown platform. West is a leading Cisco partner for cloud services. West's strong financial position gives it an edge 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.

In our February 2017 *Unified Communication (UC) 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, financial stability, and device options. 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 cutoff for this report but are worth highlighting. First and foremost is Broadview Networks, which Windstream recently announced it was acquiring. In the past 8 scorecards, Broadview Networks was a top 10 provider but narrowly missed the list this year. If we take the combined installed base of the 3 providers as of year-end 2016, Windstream would be the third largest UCaaS provider behind RingCentral and 8x8. This has the potential of making it a powerhouse in the market when taking into consideration its suite of data and networking services. However, Windstream's challenge will be to simplify its service portfolio and continue best practices from Broadview Networks on partner management and service development while maintaining customer satisfaction and growth through what will likely be a challenging portfolio rationalization.

Other providers falling right below the top 10 include Fuze, NetFortris, ShoreTel, Cox, CoreDial, Masergy, Megapath, EvolveIP, TDS Telecom, CenturyLink, and Intermedia. Fuze just missed the cutoff by less than 40K seats, which illustrates how tight the competition is. 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 three 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 2017 we expect further market consolidation, which has the potential to bring some shifts within the top 20 providers, as we have seen even in the past few months. The chart below shows each provider's total leadership score, calculated as noted in the previous section.

8x8 Analysis

8x8 is a co-leader of the North American *UC as a Service (UCaaS) Leadership Scorecard* being at the top for the 4th year in a row due to its financial position, continued strong growth of its installed base, service development, and commitment to staying the course on its market strategy. The one area where 8x8 stood out in 2016 is extensive improvements to its customer support options. 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, instant messaging, and Virtual Office Meetings web and video conferencing via desktop and mobile applications for Windows, Mac, iOS, and Android. 8x8 offers analytics and interactive dashboard reporting tools for businesses to view communications activity and trends within their organizations. Some of its more recent enhancements include updates to the Virtual Office mobile app with integrated meetings, conferencing, and messaging including the addition of Callkit for iOS and Room Connector, which allows for third-party H.323 and SIP video conferencing solutions to participate in Virtual Office Meetings. 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.

Focusing more on enterprise customers' needs, 8x8 has a comprehensive set of mobile clients, offering customers flexibility in where and how they communicate. Beyond features and applications they also have service level agreements (SLAs) guaranteeing end-to-end service uptime, reliability, and call quality over any broadband network—including public Internet or MPLS network.

In the area of team collaboration, 8x8 acquired SameRoom in March 2017. SameRoom offers interoperability and aggregation across disparate team collaboration services. The goal is to integrate SameRoom into 8x8's service portfolio over the coming year. It's yet to be seen what 8x8 does with SameRoom beyond its existing capabilities.

A big push for 8x8 has been international expansion to better serve large, multinational companies. 8x8's Virtual Office Global Reach Network spans 12 datacenters across the US, Canada, Brazil, the UK, the Netherlands, Australia, Singapore, and Hong Kong. Language localization includes full native support for English, Spanish, Dutch, French, German, Portuguese, and Italian.

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 or an MPLS network where desired.

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.

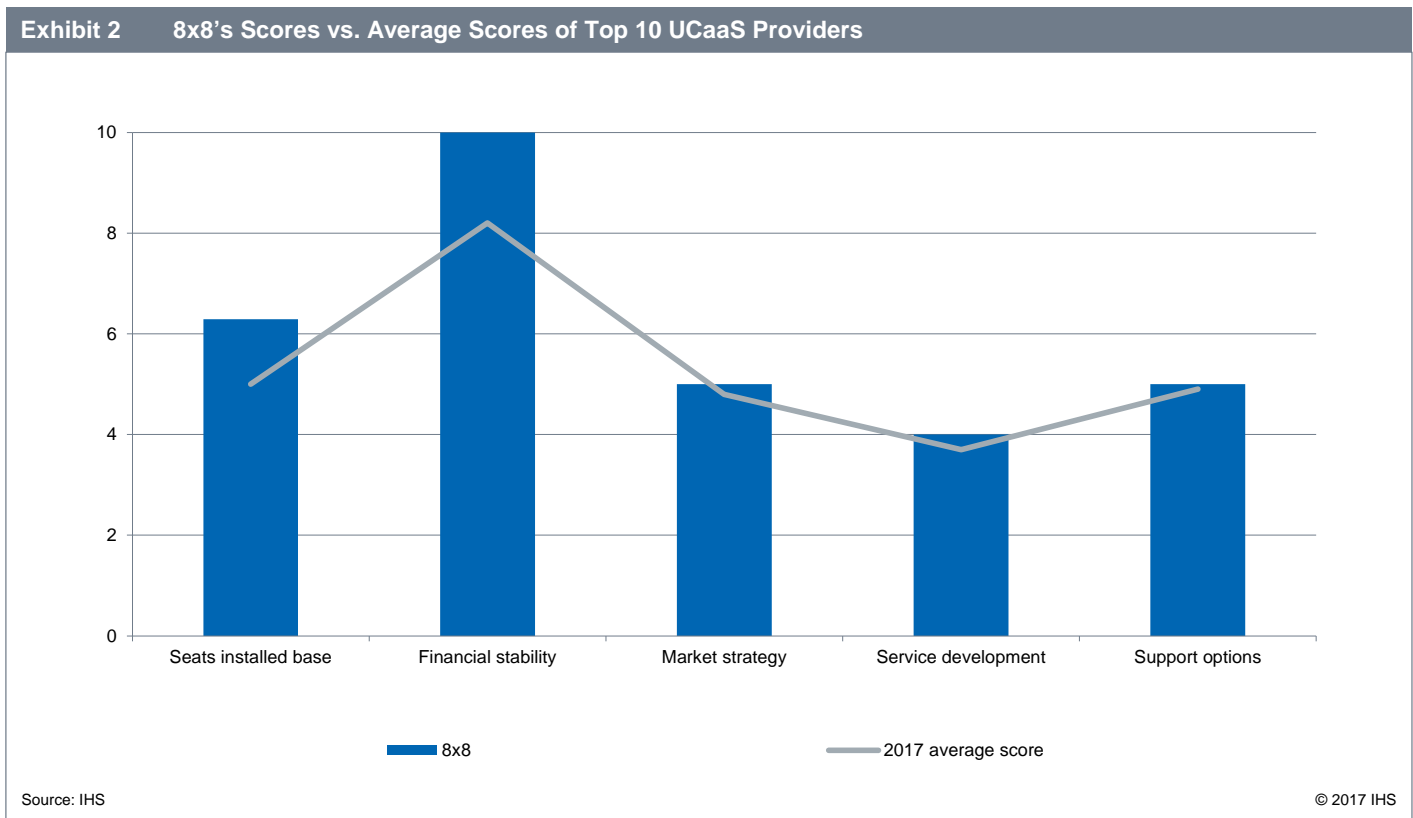
Though 8x8 initially focused on building its hosted PBX/UC business with small businesses of fewer than 100 employees, in recent years it has built a practice focused on businesses with 100-2,000 employees. 8x8’s enterprise communication as a service portfolio includes Virtual Office, Virtual Contact 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. Key customer wins include NetSuite, a provider of cloud-based ERP and omnichannel commerce software, selected by 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 calendar 4Q16, the company’s average revenue was \$414/month per business customer (up from \$369/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.

8x8 has made a number of improvements to its customer support in the past year. It launched a customer training center, the 8x8 Academy, which includes videos, webinars, user kits, and training modules to help on-board customers. The company expanded its global support centers, which now span the US, the UK, Romania, and the Philippines. A big leap was the implementation of customer success managers to support large enterprise customers from deployment all the way through post-implementation support. The customer success manager becomes the single point of contact for customer support needs and provides quarterly service reviews and phone consulting.



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 2016.

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.

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