IHS TECHNOLOGY

UC as a Service (UCaaS)

Scorecard: North America Excerpts

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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.

Exhibit 1   2017 North America UCaaS Leaders

Source: IHS   © 2017 IHS
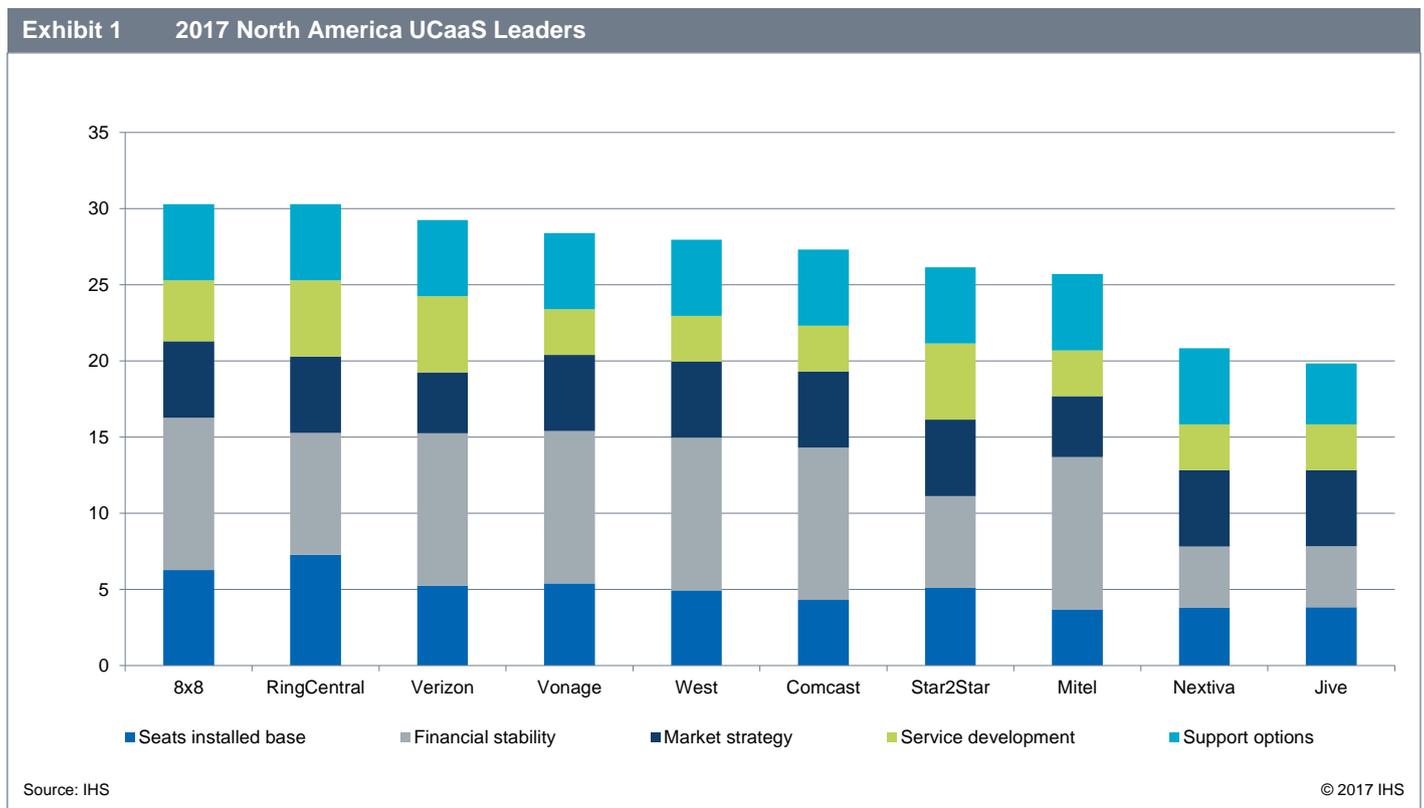
Background

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 continues 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.

RingCentral Analysis

RingCentral caps a strong year, coming in as the co-leader of this year's scorecard due to its position as the largest UCaaS provider in North America in terms of installed base of seats. In 2016, it turned the corner to profitability, which helped it jump in this year's scorecard. RingCentral is expected to continue profitability in 2017, which will help its overall score rise.

RingCentral got its start by focusing on small businesses with the flexibility of bring-your-own bandwidth but has grown up-market over the past several years. Historically, its target market has been small businesses, primarily 100 users or less, but it has a growing number of larger customers including ones with over 1,000 seats in service. The mid-market and enterprise segment is RingCentral's fastest growing part of the business, with revenue in this segment up 92% YoY in 2016. The push into larger enterprises has fueled architecture initiatives around MPLS network options, SD WAN capabilities, and emergency survivability.

RingCentral operates its own platform but is not averse to technology acquisitions and is currently excelling in service development. Although the acquisition of Glip in 2015 put RingCentral into the newest phase of team collaboration, it's the integration of Glip with RingCentral Office and its inclusion as part of its core service packaging (vs. a separate subscription fee, which is common with similar services) that sets RingCentral apart from other UCaaS providers.

The work RingCentral has done around team collaboration and Office mark important product development steps in 2016. Full stack integration between Glip and Office tops the list, but product development also includes a browser-based Glip app with WebRTC, native application for iOS and Android, HIPAA compliance, and API exposure for messaging and collaboration resulting in over 40 integrations such as Confluence, Salesforce.com, and ServiceNow.

One differentiator is its no-contract requirements for RingCentral Office, but pricing becomes more attractive with contracts. There are 3 editions of RingCentral Office—Standard, Premium, and Enterprise—with pricing ranging as low as $24.99 per month per seat with an annual contract for Standard edition for a 2-19 user company, and with 100-999 seats up to $59.99 per month per seat for Enterprise edition on a month to month basis. RingCentral extends its Office capabilities for multinational businesses in up to 32 countries, with more countries planned. All plans include enhanced capabilities such as team messaging, collaboration, conferencing, SMS, fax, online meetings, mobile phone apps, and softphone capabilities. IP phone options include either PolyCom or Cisco IP phones. All editions include integration with Google, Box, Dropbox, and Outlook. The Premium and Enterprise editions include integration with Salesforce, Zendesk, and Desk.com.

RingCentral has worked at opening up its platform by exposing APIs for developers. The APIs fall under three categories Private, Partner, and Public. These allow customers and partners to integrate with the RingCentral platform and develop levels of customization. The public APIs also allow integration with other cloud applications such as Dropbox, Google, Office365, Zendesk, and Salesforce. RingCentral has 5,000 developers using the APIs and 85 Office ISV integrations.

RingCentral has expanded into contact center through a partnership with inContact rather than developing the capabilities in house. Branded RingCentral Contact Center, it is tightly integrated with its Office product as a unified solution. RingCentral provides the telephony, service and support, and hosting for the contact center offering. Additionally, RingCentral recently introduced Live Reports, which provides call analytics and reporting in real-time (for $25 per seat). This capability combined with RingCentral Office provides a solution for small call center needs. Contact center is a key area of focus for most cloud UC providers to drive more revenue per customer and is proving to be a key growth area for RingCentral.

Services are sold directly and through channel partners. Their execution has helped them obtain business from some of the top service providers, AT&T, Telus, and most recently BT. The goal of these partnerships is to take advantage of their broad customer base with cobranded services. AT&T has been RingCentral's longest running partnership and represented more than 10% of RingCentral's revenue in 2016, but that should shift as AT&T has stopped onboarding new customers in favor of its own branded service starting in 2017. RingCentral also works with more than 4,200 channel partners such as Ingram Micro in the US and UK, and Weston its newest distributor for global coverage.

On the support front, in the past year RingCentral has added dedicated customer success managers focused on individual accounts at the enterprise level, quarterly account reviews, and RingCentral University for customer training. The customer service organization has also greatly expanded its professional services offers to include advanced implementation to include planning and design, project management, and on-site deployment services.

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

Source: IHS   © 2017 IHS
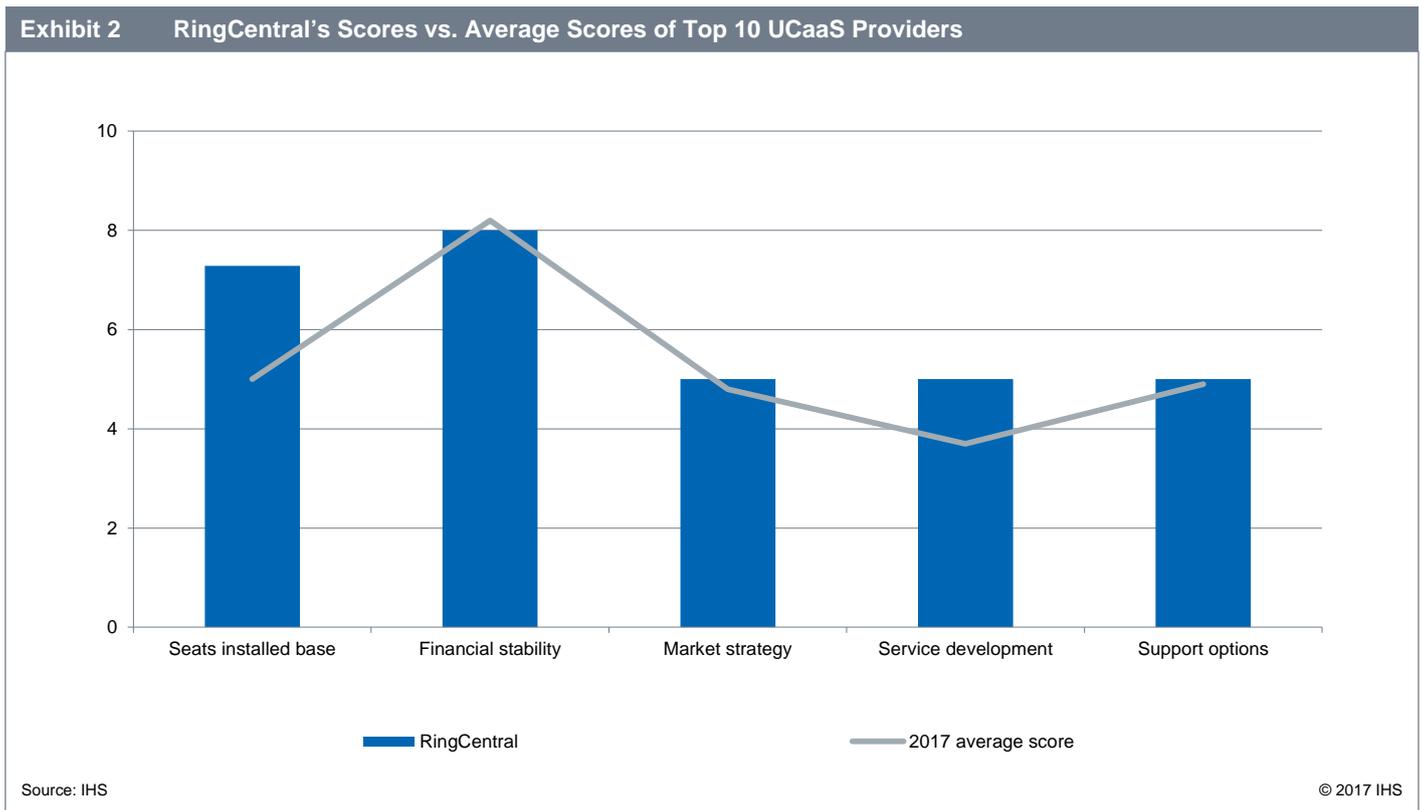
Leadership Metric Definitions

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 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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