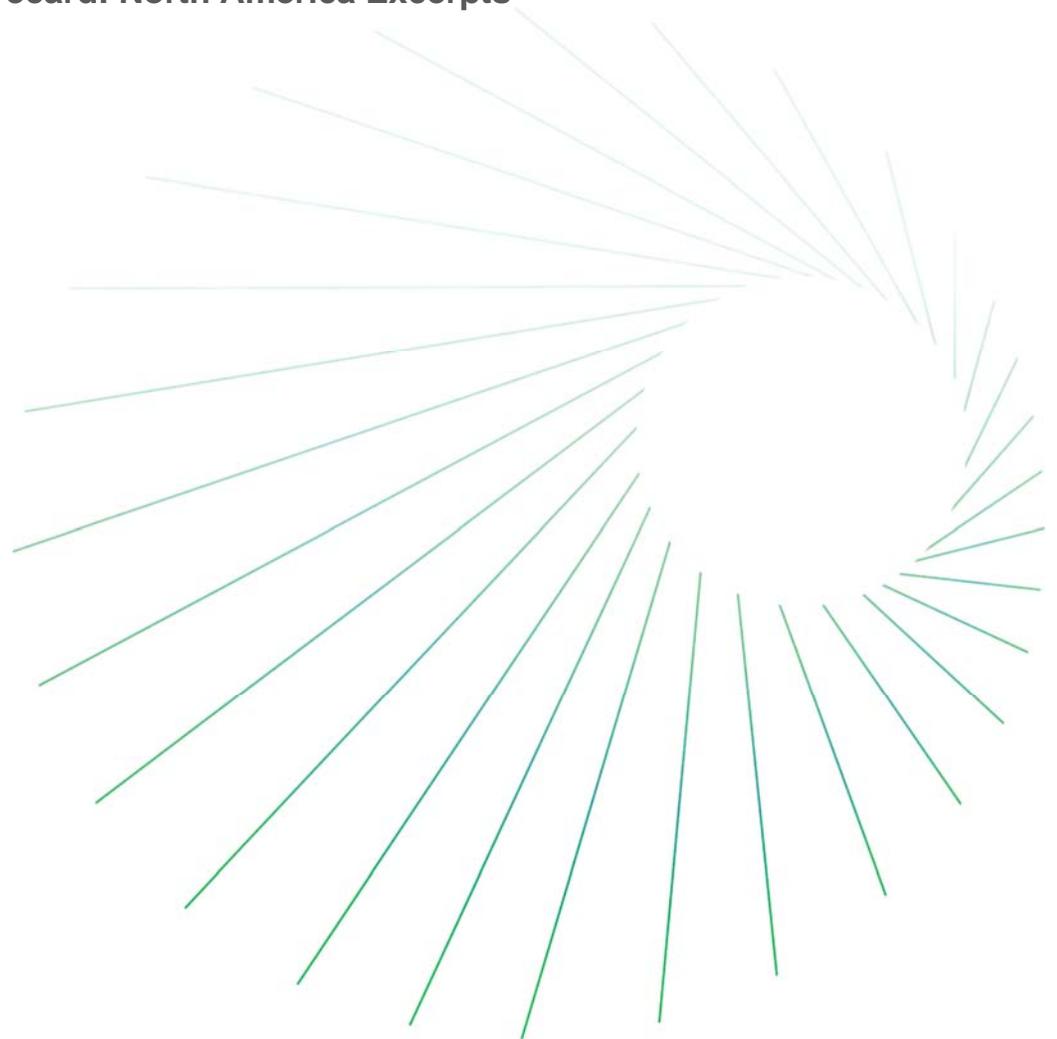


UC as a Service (UCaaS)

Service Provider 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 eight years, there has been slow and steady consolidation of business VoIP providers in North America. However, despite the mergers and acquisitions, there are still a large number of UCaaS 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 2017, the providers that made the cut had over 460K UCaaS seats each and at the high end over 1M seats. There are a number of providers that did not make the cut that have an installed base of 100–450K seats. Consolidation continues with each passing year, but the market still cannot sustain the large number of providers long term, so we will see further consolidation or providers closing down.

In this year's report, we changed the criteria slightly. For financial stability we went with a standard z-score, which takes a cross section of financial metrics into account. If a provider scored below a 1 or a negative z-score, they were given a 1 for the financial score. Additionally, we replaced market strategy with market momentum in order to value growth. Market momentum looks at the rise of an individual provider's installed base relative to overall market growth.

Among the leading UCaaS providers, a few stand out:

- As the market share leader and with above average market growth, RingCentral came out on top in this year's scorecard as the number one provider by a small margin. Over the past few years, RingCentral has worked hard to expand its customer base, continually moving upmarket with a focus on servicing larger businesses. Its investments in professional services and customer care have paid off.
- 8x8 had far and away the strongest financials among the top 10 providers, demonstrating its ability to expand its business while keeping a solid balance sheet. Its strong financial position is what puts 8x8 in the second position by a slim margin of 0.02 points. In terms of market share, it is the fourth-largest UCaaS provider. The company has also been expanding its presence up-market with larger businesses and growing its channel partners.
- Only 0.09 points separate the top three providers in this year's scorecard with Verizon rounding out the top three. In last year's scorecard, Verizon showed strong acceleration in customer adoption, which continued through 2017. Verizon is now the third-largest provider based on seats, up from fourth the previous year, demonstrating that it can take share and should not be dismissed as a formative competitor. The operator had the highest momentum score (tied with Mitel), which, if it can continue to grow at above average growth rates, will keep it in position as a top UCaaS provider. 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.
- This year's scorecard shows that although the leading pure-play providers are a force, they have serious competition, particularly among older, more established companies—namely incumbent operators (Verizon), traditional UC vendors (Mitel), and cable operators (Comcast). The ongoing demand for UCaaS services is vast with a broad set of customers and requirements.
- Mitel had the most significant jump, moving from eighth to fourth due in large part to its acquisition of ShoreTel, which added to its UCaaS customer base and gave it a platform to more aggressively sell its own branded services to the mid-market and smaller companies. Mitel had the strongest market momentum in 2017, which was calculated on a combined basis of Mitel plus ShoreTel for year-end 2016 and 2017 to make for an accurate year-over-year growth measurement. Because of the acquisition and growth, Mitel is now the second-largest UCaaS provider in North America
- There is a broad mix of providers outside the top 10 that are growing and doing interesting things in regard to product innovation, channel strategy, and customer service. These include CenturyLink, Dialpad, Windstream (acquired Broadview Networks and EarthLink), Jive (being acquired by LogMeIn), NetFortris, Cox, CoreDial, Masergy, Intermedia, Megapath, CallTower, TPx, and Evolve IP.

Background

This 10th annual *UC as a Service (UCaaS) Leadership Scorecard: North America* complements our *UCaaS* 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 identified 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 share momentum
- Service development
- Support options

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

We rate each service provider in each of the four areas on a five-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

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, Microsoft, Alcatel-Lucent Enterprise, and Avaya continue their push into the cloud either directly or through platforms sold to providers.

The top 10 providers have been fairly consistent over the past few years. Compared with our 2017 report, there is some shifting in the rankings; Fuze moved back into the top 10 and Jive missed the cut. The consistency of the top providers indicates that many continue to do the right things, in some cases expanding through acquisitions and growing organically.

In this year's *Scorecard*, **RingCentral** came out on top as the leader by a slim margin due to its market share position as the largest provider in North America with its Office offering. In addition to its market share, RingCentral grew above market average, which helped cement its leadership position. RingCentral operates its own platform and is focused on meeting the needs of larger businesses. Through its acquisition of Glip in 2015, RingCentral was the first provider to offer a truly integrated hosted PBX and collaboration experience that includes enhanced meetings and team collaboration.

8x8 and **Verizon** came in together with only 0.02 points separating them. 8x8 has consistently been near the top of our *Scorecard* and is a long-standing stalwart of the UCaaS market. The provider has a strong position with small businesses and continues to expand up-market and through channel partners. Its strength this year—and why it rose above providers with larger installed bases—is its market-leading financial position, which stood out in this year's scoring. Moving forward in 2018, we will be monitoring the success of its new X-Series of packages, which bring together UCaaS and cloud contact center into combined service packages in an effort to simplify service consumption.

Verizon is the one traditional telco that has successfully made the transition to advanced business voice services, including UCaaS. It is now the third-largest UCaaS provider in North America serving small, mid-market, and large enterprises. Additionally, it is in a unique position through Verizon Wireless to sell a true mobile first UCaaS service, which it has been successfully selling for well over a year. In 2017, Verizon grew well above market average, demonstrating its ability to capture an increasing share of the market.

Mitel makes a significant jump in this year's report due to its acquisition of ShoreTel and its UCaaS installed base, along with organic growth of its original service base. Mitel is the one traditional PBX and UC vendor to put a big push into the retail UCaaS market and through the ShoreTel acquisition vaulted itself into being the second-largest UCaaS provider in North America. With the acquisition and having multiple hosted platforms, Mitel has settled on two offerings: MiCloud Connect (formerly ShoreTel Connect Cloud), its multi-tenant based service for the SMB market, and MiCloud Flex (formerly MiCloud Enterprise) for larger enterprise requirements.

Comcast rounds out the top five UCaaS providers. In the past year, Comcast has become the fifth-largest provider in terms of installed base of UCaaS seats, moving up from seventh as it continues to outpace average market growth. Although Comcast may not have the same marketing presence as pure-plays in the UCaaS market, it does have an extensive installed base of customers, particularly in the SMB space. This installed base along with its sales force gives it an advantage over many competitors. Comcast also received a solid financial score compared to most in this scorecard.

In our February 2018 *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 four criteria, rated *very important* by the most respondents, are security, QoS guarantees, service and support, and financial stability. 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 can 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. These providers include Dialpad, Windstream, Jive (being acquired by LogMeIn), NetFortris, CoreDial Cox, Masergy, CenturyLink, Intermedia, Megapath, CallTower, and TPx. The competition is very tight with Dialpad just missing the cutoff by less than 40K seats. These are all important providers to watch, and many are doing interesting things with applications and go-to-market strategy focused on specific verticals, market segments, and next-generation services.

One important trend in the UCaaS market is the growth of larger enterprise deals in the past four years. As adoption has risen, we see changing requirements around quality, support for hybrid environments, security, and support for data networking. 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 to chasing and winning them.

In 2018, 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 year. The chart below shows each provider’s total score, calculated as noted in the previous section.

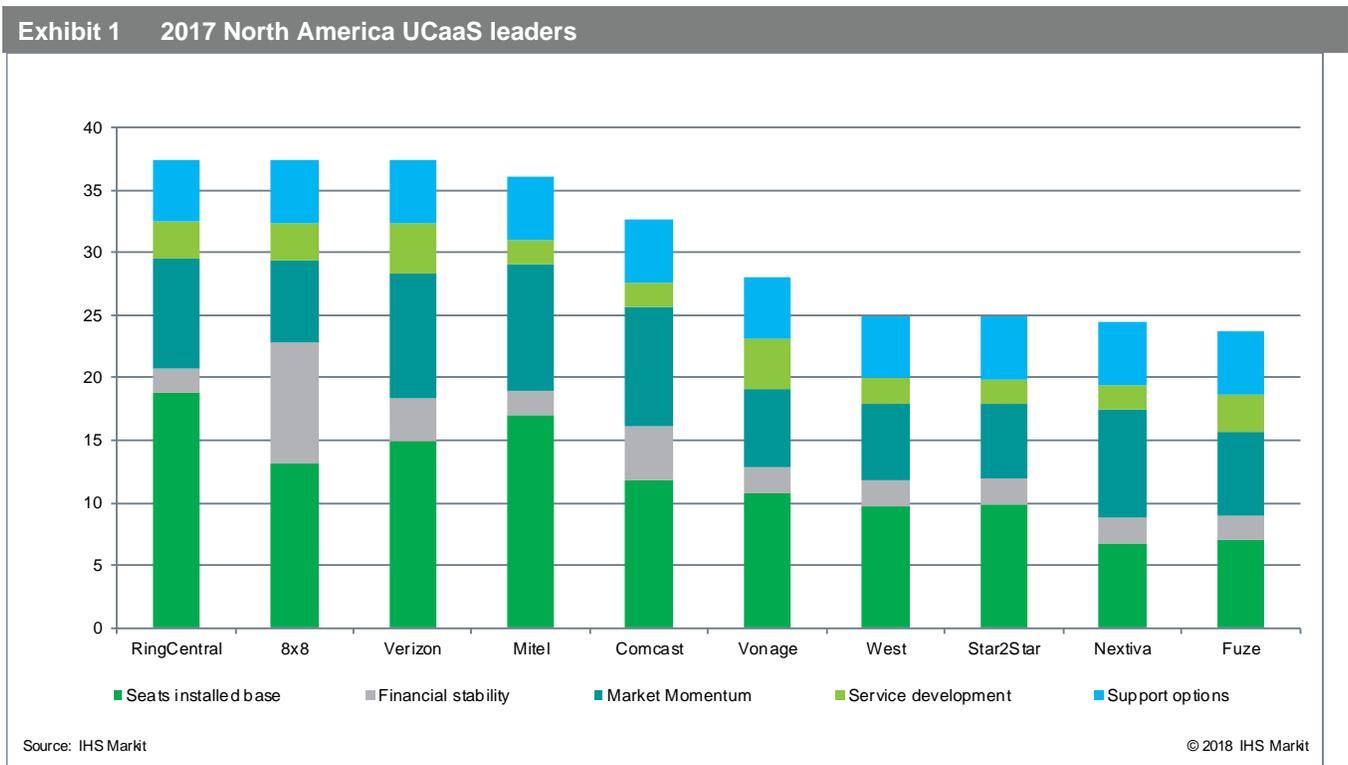


Exhibit 2 2017 North America hosted VoIP leadership scorecard

Service Provider	Installed Base	Financials	Market Momentum	Service Development	Support Options	Total
RingCentral	18.8	2.0	8.7	3.0	5.0	37.5
8x8	13.1	9.8	6.5	3.0	5.0	37.4
Verizon	15.0	3.4	10.0	4.0	5.0	37.4
Mitel	17.0	2.0	10.0	2.0	5.0	36.0
Comcast	11.8	4.3	9.6	2.0	5.0	32.6
Vonage	10.8	2.0	6.2	4.0	5.0	28.1
West	9.8	2.0	6.1	2.0	5.0	24.9
Star2Star	10.0	2.0	5.9	2.0	5.0	24.9
Nextiva	6.8	2.1	8.6	2.0	5.0	24.4
Fuze	7.0	2.0	6.7	3.0	5.0	23.7

Source: IHS Markit

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UCaaS provider analysis

RingCentral

RingCentral caps a strong year, coming in as the 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. Even with the largest installed base, it continues to outpace average market growth, which helped solidify its leadership position.

RingCentral got its start by focusing on small businesses with the flexibility of bring-your-own bandwidth but has grown up-market, securing mid-market and large enterprise customers. While it maintains a significant customer base of small businesses, primarily 100 users or fewer, the onboarding of larger customers including ones with over 10,000 seats in service has in large part driven its growth. The mid-market and enterprise segment is RingCentral's fastest growing part of the business, with revenue in this segment up 76% YoY in 2017. The push into larger enterprises has fueled architecture initiatives around MPLS network options, SD WAN capabilities, and emergency survivability.

RingCentral operates its own platform with continued enhanced service development but is not averse to technology acquisition. Most notably, the acquisition of Glip in 2015 gave RingCentral key team collaboration capabilities, which it integrated with RingCentral Office and made part of its core service packaging (versus a separate subscription) that sets RingCentral apart from many UCaaS providers.

The work RingCentral has done around team collaboration and Office mark important product development steps. 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 50 integrations such as Confluence, Salesforce.com, and ServiceNow. In 2017, key developments included enhancements to administration and analytics, along with expanded integrations with third-party applications such as Google Hangouts, Slack, and Amazon Alexa Skills. In 2018, RingCentral launched a stand-alone collaborative meeting offering that will include team collaboration. Although we don't include stand-alone meetings services as part of UCaaS, we do view this as an initiative worth keeping an eye on, particularly in light of Cisco's newly focused efforts around WebEx Meetings and WebEx Teams, which RingCentral hits at the heart of.

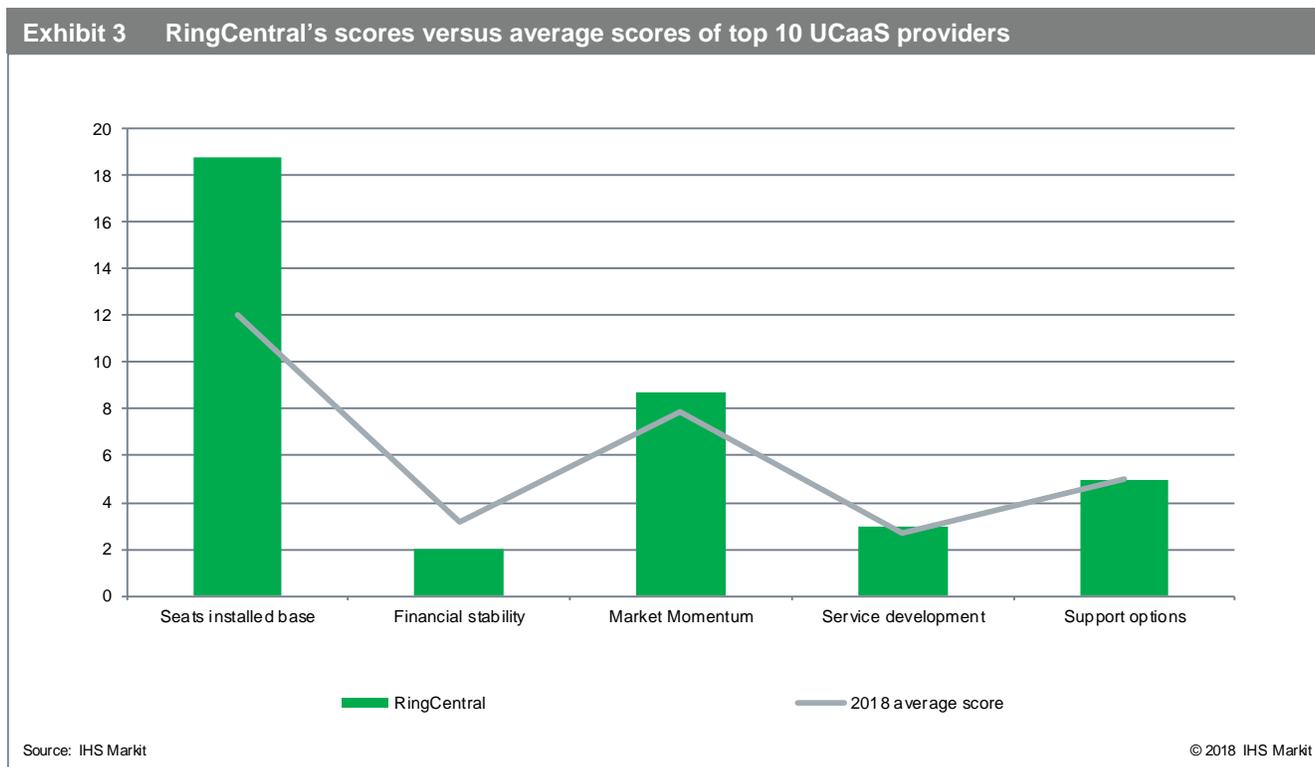
One differentiator is the company's no-contract requirements for RingCentral Office, but pricing becomes more attractive with contracts. There are four editions of RingCentral Office—Essentials, Standard, Premium, and Ultimate—with pricing ranging as low as \$19.99 per month per seat with an annual contract for Essentials edition for a 2–10 user company, and up to \$52.99 per month per seat for Ultimate edition on a month-to-month basis with 100–999 seats. Larger sized deals for Ultimate (over 1,000 seats) get a discount at \$49.99 per seat. Additionally, the provider offers Global Office Unlimited, which allows for unlimited international calling to over 100 countries and is available to enterprise customers in the US. RingCentral Global Office extends its Office capabilities for multinational businesses in up to 37 countries and starts at \$9.99 per month per user added on to the Standard Global Office service plan. 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, Cisco, or Yealink IP phones. All editions include integration with Google, Box, Dropbox, and Outlook. The Premium and Ultimate editions include integration with Salesforce, Zendesk, Microsoft Dynamics, and Desk.com.

RingCentral has opened up its platform by exposing APIs for developers. The APIs fall under two categories: Private 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, Zoho, and Salesforce. RingCentral has 10,000 developers using the APIs and 140 ISV integrations for Office, Contact Center, and Glip.

RingCentral offers cloud 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 informal 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 RingCentral obtain business from some of the top service providers including Telus and BT. The goal of these partnerships is to take advantage of their broad customer base with co-branded services. RingCentral also works with more than 4,200 channel partners such as Ingram Micro, ScanSource, Carousel Industries, and CDW.

On the support front, in the past year RingCentral has upgraded its service and support options with dedicated customer success managers focused on individual accounts at the enterprise level, quarterly account reviews, and RingCentral University for customer training. The company also introduced quality of service analytics, which gives administrators a dashboard to diagnose voice quality issues in real time. The customer service organization has also greatly expanded its professional services offerings to include advanced implementation, planning and design, project management, and on-site deployment services. RingCentral continues to invest in this area with expansion of the team in 2017 as well as multiple language support as it expands internationally.



Leadership metric definitions

The leadership metrics are defined as follows:

Installed base: We determined the top service providers based on number of or seats reported as of the end of calendar year 2017.

Measurement: Share of seats in relation to the overall market

Financials an analysis of a provider's financials; a strong financial position improves long-term viability and allows a company to stay ahead of the competition by investing in R&D and/or acquiring other companies/technologies; this score is based on the Altman Z-score non-manufacturing model.

Measurement: Altman Z-score for every publicly traded company. Private companies were scored a 1 unless financials were provided.

Market share momentum: A provider's year-over-year growth in the UCaaS market based on installed base of seats.

Measurement: We determine the average market growth, and how many standard deviations each provider's growth deviates from the market average; 1 standard deviation equals 1 point on the rating scale, and the market average is set to a score of 3; therefore, growth 1 standard deviation below the market average results in a score of 2.

Service development: Continued 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, application integration, analytics, HD voice, and video solutions.

Measurement: First, determine if service provider has developed new and enhanced service capabilities in the past year. If no new development occurred in the past year, provider would receive a rating of 0, if there is a roadmap or vision for moving in that direction, a rating of 1 applies. A provider that has developed and launched either a set of new and unique capabilities a rating of 5 is given.

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 score of 3. Lacking either of these options brings the score to 2, and lacking both brings it to a 1. Beyond the 2 core support options, a score of 5 includes options such as online chat support, self-diagnostic tools, and SLAs, and a score of 4 would have 1 or 2 of these additional options.

Service definition

UC as a service (UCaaS): Hosted, multi-tenant solutions that replace a premises-based PBX or key system, including value-added applications and unified communications (UC); 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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