

UC as a Service (UCaaS)

Service Provider Scorecard: North America Excerpts

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IHS Markit Technology | **Vendor Scorecard**

Contents

Top takeaways	3
Background	4
UCaaS Leadership Scorecard	5
UCaaS provider analysis	8
RingCentral	8
Methodology	11
Service definition	11

Exhibits

Exhibit 1	2018 North American UCaaS leaders	6
Exhibit 2	2018 North American hosted VoIP leadership scorecard	7
Exhibit 3	RingCentral's scores versus average scores of top 10 UCaaS providers	10

Top takeaways

In this *Scorecard* we look at the top 10 UC as a service (UCaaS) providers in North America. Over the past nine 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 2018, the providers that made the cut had over 500K UCaaS seats each, with over 1.3M seats at the high end. A number of providers that did not make the cut have an installed base of 150–500K 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.

Among the leading UCaaS providers, a few stand out:

- As the market share leader and with above average market growth, installed base, and financial score, RingCentral came out on top in this year's scorecard by a large margin. Over the past year, RingCentral has separated itself from the rest of the pack through continued focus on expanding its customer base, addressing large enterprise requirements and investments in product development, professional services, and customer care.
- Mitel jumped again, moving from fourth to second as it kept pace with the market and grew its installed base enough to solidify its second-place ranking. The company has focused on MiCloud Connect as its lead UCaaS offering and spun the cloud business off into its own division in 2019 to allow the business to run more like a UCaaS pureplay than an arm of a legacy PBX and UC vendor, which we believe is a good move for the company.
- 8x8 had an all-around solid year, growing enough to keep its installed base at number three. Its installed base, service development, and market average growth and financials keep it in the running as a top provider. 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.
- Verizon rounds out the top four UCaaS providers. The operator had above average financial score and has the third-largest installed base. The company is heavily tied to Cisco (through its BroadSoft acquisition) for its service UCaaS portfolio. Verizon is working to attach multinationals, the mid-market, and small businesses with a portfolio of data, security, and professional services and resources that is hard for pure-plays to match.
- 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 and Windstream), traditional UC vendors (Mitel), and cable operators (Comcast). The ongoing demand for UCaaS services is vast with a broad set of customers and requirements.
- 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 Fuze, GoTo (formerly Jive), NetFortris, Cox, CoreDial, CenturyLink, Dialpad, Fusion, Masergy, Intermedia, CallTower, Digium, and Evolve IP.

This document is an excerpt; please contact IHS Markit for the full report including all service provider profiles.

Background

This 11th 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 in North America. We then evaluated them based on the following four criteria:

- Financial stability
- Market share momentum
- Service development
- Support options

Please see “Methodology” (excerpted methodology is at the end of this document; the full version, with a more detailed description of the scoring process, is available from IHS Markit).

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 2018 report, there have been some shifts in the rankings with RingCentral pulling away from the pack in 2018. The other noteworthy change was Windstream coming back into the top ten and Fuze just falling off. 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** led by the largest margin we've had in this report because of its market share position as the largest provider in North America with its Office offering, as well as the strongest financial score. In addition to its market share, RingCentral grew well above the market average, which helped cement its leadership position. RingCentral operates its own platform and is focused on meeting the needs of businesses of all sizes. RingCentral has been aggressive with customer acquisition, and has maintained an edge in service development on the UC front with enhanced meetings and team collaboration.

Mitel made another jump in this year's report because of its UCaaS installed base and solid momentum in growing its user base; it is the second-largest provider in North America. Mitel is the one traditional PBX and UC vendor in the scorecard and has operated more like a traditional equipment vendor than a nimble, pure-play UCaaS provider. Having sold the company to private-equity firm Searchlight Capital in 2018, the UCaaS business was split into its own unit in part to get the company moving in that direction. Mitel has two UCaaS offerings: MiCloud Connect, its multi-tenant-based service for the SMB market, and MiCloud Flex for larger enterprise requirements.

8x8 and **Verizon** came in together for the second year in a row 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 and mid-market businesses and continues to expand up-market to large enterprises directly and through channel partners. This year was about executing on its new X Series of packages, which brought 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 the third-largest UCaaS provider in North America and serves small, mid-market, and large enterprises. Verizon 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 2018, its financial strength gave it an edge over smaller, privately held providers.

Nextiva rounds out the top five UCaaS providers, having made the largest jump in this year's report because of its strong growth, which gave the provider the largest market momentum score. The company utilizes Cisco BroadWorks for call control but has done its own development on UC and enhanced applications, which has given it control over the user experience. Although the company is privately held, it has taken no outside financing and continues to expand and invest through its own resources.

In our February 2019 *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, financial stability, service and support, and managed service provisioning. 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 Fuze, GoTo (formerly Jive), NetFortris, CoreDial, Cox, Masergy, CenturyLink, Dialpad, Avaya, Fusion, Intermedia, Digium, CallTower, and TPx. 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 five years. As adoption has risen, we see changing requirements around quality, support for hybrid environments, security, and support for SD WAN. 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 2019, 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 five years. The chart below shows each provider’s total score, calculated as noted in the previous section.

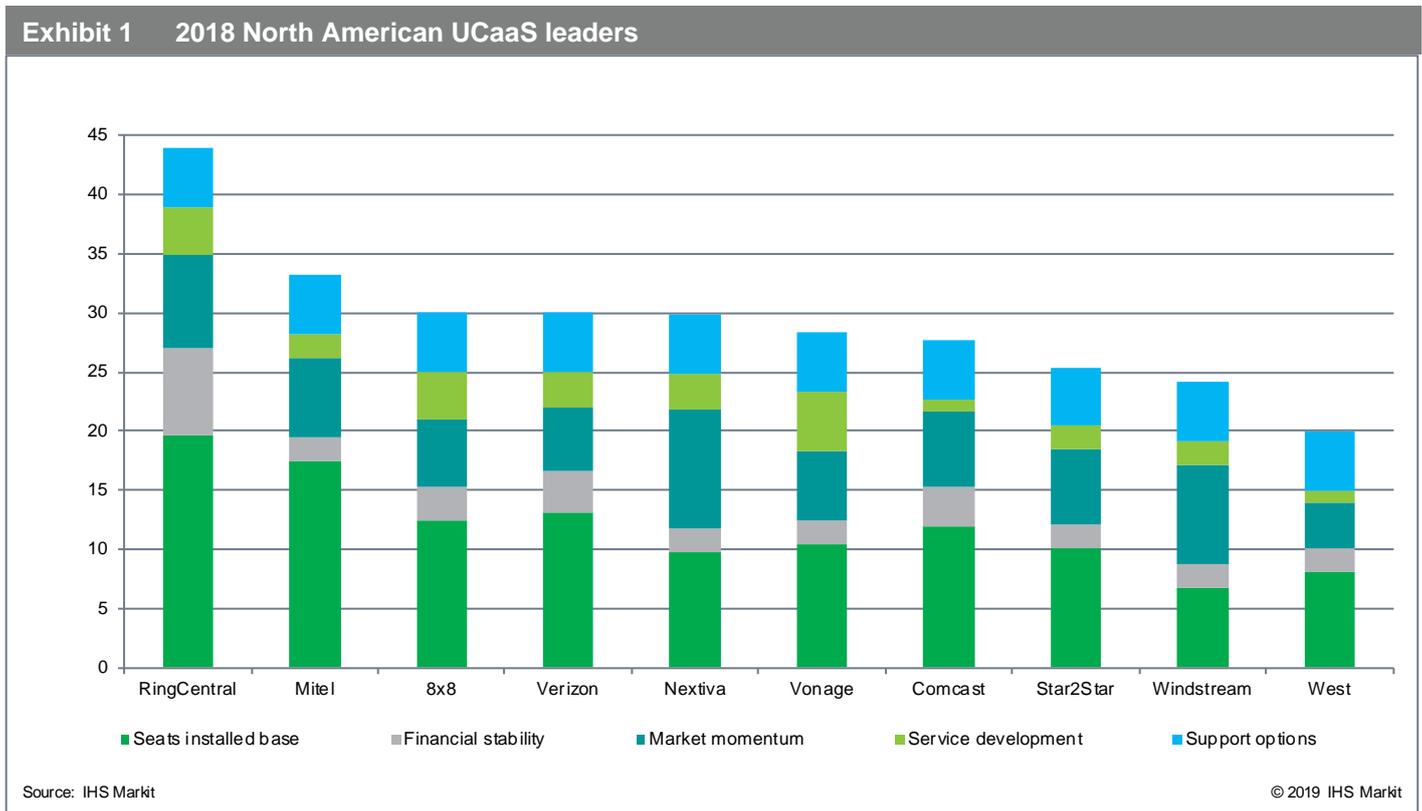


Exhibit 2 2018 North American hosted VoIP leadership scorecard

Service Provider	Installed Base	Financials	Market Momentum	Service Development	Support Options	Total
RingCentral	19.6	7.4	7.8	4.0	5.0	43.9
Mitel	17.5	2.0	6.7	2.0	5.0	33.2
8x8	12.5	2.8	5.7	4.0	5.0	30.1
Verizon	13.2	3.4	5.4	3.0	5.0	30.0
Nextiva	9.8	2.0	10.0	3.0	5.0	29.8
Vonage	10.5	2.0	5.8	5.0	5.0	28.3
Comcast	11.9	3.5	6.3	1.0	5.0	27.6
Star2Star	10.1	2.0	6.3	2.0	5.0	25.4
Windstream	6.7	2.0	8.4	2.0	5.0	24.1
West	8.1	2.0	3.9	1.0	5.0	20.0

Source: IHS Markit

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UCaaS provider analysis

RingCentral

RingCentral finished another strong year, solidifying its place as the leader of this year's scorecard owing 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 has helped it break away from the competitive field. Rounding out RingCentral's breakaway leadership scoring this year is the strongest financial score of the group. Its financial z-score was strong due in large part to a strong balance sheet.

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 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 annualized recurring revenue (ARR) in this segment up 73% YoY in 2018. 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. Other recent acquisitions for the company include Dimelo and Connect First.

RingCentral has led the way in integration of team collaboration, meetings within its core Office stack in addition to a wide range of user interfaces including a browser-based application with WebRTC, native application for iOS and Android. In 2017, key developments included enhancements to administration and analytics, along with expanded integrations with third-party applications such as Google Hangouts Chat, Slack, and Amazon Alexa Skills. In 2018, RingCentral launched a standalone collaborative meeting offering that includes team collaboration with meetings, which is an emerging trend with a number of providers. The company made enhancements to its PBX capabilities to better meet the needs of large enterprises, including items such as failover capabilities and boss/admin support. RingCentral added IMS core integration to provide a module for its partner Ericsson and others to deliver UCaaS capabilities to Ericsson's IMS carrier customers.

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 \$42.99 per month per seat for Ultimate edition with an annual contract with 100–999 seats. Larger sized deals for Ultimate (over 1,000 seats) get a discount at \$39.99 per seat with an annual contract. 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 41 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 and Outlook. The Premium and Ultimate editions include integration with Box, Dropbox, Salesforce, Zendesk, Microsoft Dynamics, and Desk.com.

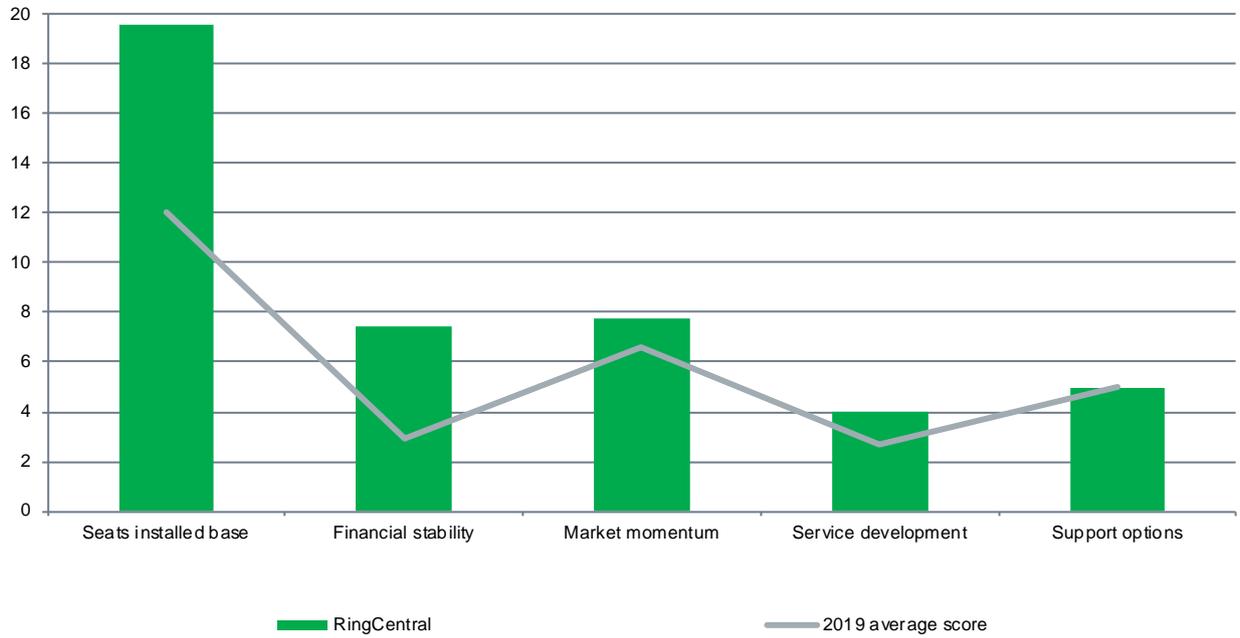
RingCentral has opened up its platform by exposing APIs for developers. Developers can choose to build integrations as one of two types: Private and Public. These allow customers and partners to integrate with the RingCentral platform and develop levels of customization. The public APIs also allow integration with other cloud applications such as Dropbox, Google, Office365, Zendesk, Zoho, Hubspot, Microsoft Teams, and Salesforce. Much of the enhancements in 2018 focused on making its platform more extensible through 55 new APIs including active call control, Glip calendar, and international SMS support so businesses can integrate RingCentral into their workflows. The company also launched its embeddable capability, which delivers a web widget for developers to quickly add voice and text to web applications. RingCentral has 20,000 developers using the APIs and 170 ISV integrations for Office, Contact Center, and Glip. API exposure for messaging and collaboration resulting in over 50 integrations such as Confluence, Salesforce.com, and ServiceNow.

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, which includes service providers. Their execution has helped RingCentral obtain business from some of the top service providers including Telus and BT, as well as AT&T, which announced a renewed partnership in 2018. The goal of these partnerships is to take advantage of their broad customer base with co-branded services powered by RingCentral. RingCentral also works with more than 9,00 channel partners such as Ingram Micro, ScanSource, Carousel Industries, and CDW.

On the support front, RingCentral's service and support options include dedicated customer success managers focused on individual accounts at the enterprise level, quarterly account reviews, and RingCentral University for customer training. The company also has quality of service analytics, which gives administrators a dashboard to diagnose voice and video 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 maintains multiple language support as it expands internationally.

Exhibit 3 RingCentral's scores versus average scores of top 10 UCaaS providers



Source: IHS Markit

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Methodology

The UCaaS market leadership was based on the following steps:

1. Identified the top service providers by the installed base of North American UCaaS seats, based on actuals provided by providers
2. Calculated each of the service providers' share based on total seats, which was then converted to points
3. Calculated financial score based on Altman Z-score non-manufacturing model
4. Calculated market share momentum
5. Determined two additional metrics important to leadership and long-term success: service development and support options
6. Rated each provider on a 1–5 scale for the categories. The following are general definitions:
 - 5 = leading the market
 - 4 = advancing
 - 3 = moderately positioned
 - 2 = limited position
 - 1 = market laggard
7. Weighted each metric (based on relative importance in determining market leadership): installed base of lines/trunks or seats (4), financials (2), market momentum (2), service development (1), and support options (1)
8. Calculated results

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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