North America Business VoIP Service Scorecard

Excerpts

May 6, 2014

INFONETICS RESEARCH

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North America Business VoIP Service Scorecard
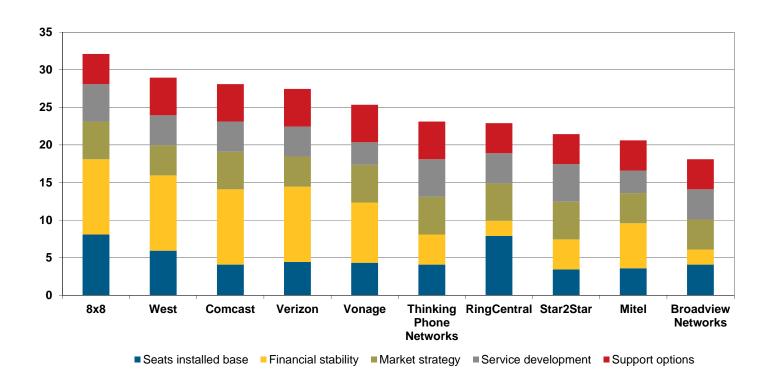## May 6, 2014

TOP TAKEAWAYS

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.

Exhibit 1   **2013 North America Hosted VoIP Leaders**

Legend: ■ Seats installed base ■ Financial stability ■ Market strategy ■ Service development ■ Support options

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.

Gray shading denotes analysis updated since the last edition of this 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
- 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.

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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.

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 selected 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.

Gray shading denotes analysis updated since the last edition of this report.

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

Florida-based **Star2Star** is a new addition to our scorecard this year with a solid, growing base of customers that is currently over 150K business end-users. Star2Star is a privately held company with a unique cloud service strategy that is sells solely through the channel. Its financials are not publicly available, but it has begun posting positive net income. Star2Star develops and runs its own platform based on HTML5 with services delivered over its network. Star2Star operates across 6 data centers in the US and is expanding into the UK in May 2014.

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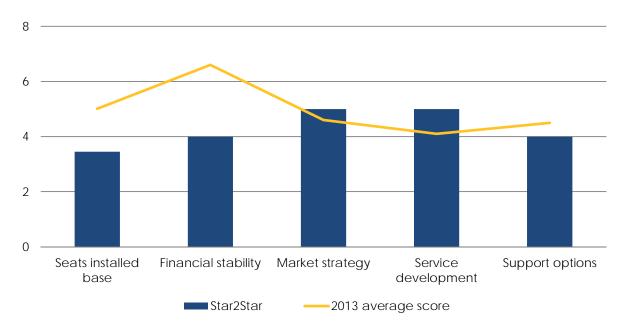
The Star2Star cloud system is a blended architecture with a connection manager on-premise and the applications in the cloud. The StarBox Cloud Connection Manager sits on a customer's location that connects to Star2Star's network and securely routes calls. There are 3 options for the StarBox depending on the size of an individual location, which at the high-end can support 500 users in one location. Toward the end of 2014, Star2Star will release a new StarBox that will scale to 10s of thousands of users per location. All the UC features including mobile clients and enhanced services are accessed in the Star2Star Cloud. The base telephony features can be enhanced with add-on service options:

- Contact center (StarCenter and StarView), conferencing (StarConferencing), CRM integration (StarContact), fax (StarFax), IM (StarChat), and video conferencing (StarVideo)

- Multiple phone options through Polycom, Cisco, Yealink, and Star2Star's softphone.

- Flexible pricing through its channels, allowing partners to offer businesses the best options; pricing is available on a per-seat or a per-line model. Customers can purchase the necessary equipment up front or bundle it as part of their monthly recurring fees.

Star2Star's focus has been with SMBs, with a growing interest from larger businesses. It has had particular success in the mid-market with multi-locations with a strong presence in the retail space. Unlike most other providers this space, Star2Star has never sold its services directly, opting to build out a channel program including interconnects, master agents, dealers, and wholesalers.

Exhibit 3   **Star2Star's Scores vs. Average Scores of All 10 VoIP Providers**

Gray shading denotes analysis updated since the last edition of this report.

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)

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

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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

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.

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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.

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