

Frost RADAR[®] in the Hosted IP Telephony and UCaaS Industry

North America

A Measurement System to Spark
Companies 2 Action (C2A) – Innovation
that Fuels New Deal Flow and Growth
Pipelines



Industry Overview

Steady Growth Trajectory

- The North American hosted Internet Protocol (IP) telephony and unified communications-as-a-service (UCaaS) market is experiencing steady growth as the small-business customer segment gradually matures and penetration in the mid-market and enterprise segments accelerates. Evolving technologies and business models, along with increasing customer awareness of cloud communications benefits, are driving adoption across different business sizes and industries and creating growth opportunities for service providers.
- Businesses can choose from an expanding array of options as providers of various backgrounds and skill sets launch hosted IP telephony and UCaaS offerings to address growing customer demand. Providers differentiate based on brand; technology foundation; UCaaS feature set, price, and service performance; broader portfolio; network footprint; customer service and support; and other factors. However, UCaaS buyers are increasingly savvy and are applying greater scrutiny when selecting their providers.

Customer Purchasing Criteria

- A Q4 2018 Frost & Sullivan's survey of U.S.-based UCaaS investment decision makers reveals that buyers are well informed about existing UCaaS solution and provider options. UCaaS providers' fervent sales and marketing activity is raising overall UCaaS awareness and determining individual provider mindshare and adoption among businesses.
- Vendor reputation ranks highest among factors playing the largest role early in the UCaaS provider selection process. UCaaS adopters—25 percent of current users and 34 percent of future users—identify vendor reputation as an important criterion in initial provider evaluation.

Industry Overview (continued)

- UCaaS buyers report four critical factors in their final vendor selection, as follows:
 - reliable service (53 percent of current users; 56 percent of future users)
 - security (52 percent of current users; 61 percent of future users)
 - good user interface (47 percent of current users; 41 percent of future users)
 - cost per seat (41 percent of current users; 31 percent of future users)

Shifting Innovation Frontier

- Unwavering commitment to innovation and a robust growth vision can determine a provider's ability to address elevated customer requirements and succeed in the increasingly competitive hosted IP telephony and UCaaS marketplace. Innovation scalability (i.e., solid innovation processes), size of research and development (R&D) investment, breadth and depth of solutions portfolio, mega trends leverage, and customer alignment (i.e., integration of customer feedback into solution design) play a critical role in enabling a provider to deliver innovative solutions and a strong value proposition.
- As provider ability to launch new hosted IP telephony and UCaaS features gradually plateaus, the innovation frontier is shifting toward the employment of flexible application programming interfaces (APIs) to integrate communications functionality into third-party software and devices. This is giving rise to the “new UC”—e.g., productivity UC, vertical UC, Internet of Things (IoT) UC, and so on.
- Other areas of significant provider focus also include:
 - cognitive and contextually-enhanced user experiences
 - rich, yet intuitive user and admin portals augmented with advanced analytics, artificial intelligence (AI) and machine learning (ML) capabilities
 - enhanced service performance: reliability, security and regulatory compliance

Industry Overview (continued)

Key Growth Strategies

- Current market shares and historical growth rates determine a provider's present market power. A solid growth pipeline, a visionary growth strategy and effective sales and marketing execution will determine the provider's ability to sustain or boost market share and future growth rates.
- A strong UCaaS offering and a broad portfolio of additional services—such as contact center, broadband, multi-protocol label switching (MPLS), software-defined wide area network (SD-WAN), content collaboration, network security, etc.—enable providers to capture a more substantial share of the customer's wallet. However, organic technology development and growth are often insufficient to withstand intensifying competition.
- Many UCaaS providers are engaging in mergers and acquisitions (M&A) to augment their product portfolios, in-house expertise, and market presence (e.g., customer base, network reach, data centers, support and sales resources). Going forward, M&As will continue to supplement internal product development and growth efforts.
- To accelerate growth and scale, providers are also leveraging various sales channels, including direct sales, agents, resellers, and white/private-label partners. Indirect channels enable providers to reach larger geographic areas and a broader spectrum of customers, as well as deliver valuable additional products and services including: end-user devices; networking equipment; assessment, implementation and life-cycle services; vertical software; and more.
- To fully capitalize on the unique skill sets and other benefits that various channel partners bring to UCaaS deployments, providers must offer compelling partner programs with a variety of sales incentives, marketing collateral, training, sophisticated partner portals, and more.

The Frost RADAR®

North American Hosted IP Telephony and UCaaS Market



Company Profile: Mitel

- Well known for its compelling premises-based solutions portfolio, Mitel has become one of the largest platform and services providers in the cloud communications space.
- The 2017 ShoreTel acquisition significantly boosted Mitel's U.S. cloud portfolio and presence. Summit, formerly Corvisa, complements Mitel's cloud UCC and contact center portfolio with off-the-shelf solutions as well as CPaaS capabilities.
- MiCloud Connect and MiCloud Flex are the company's lead retail solutions in the North American UCaaS market.
- Mitel's network of 4,000 channel partners plays a significant role in the company's global expansion as they offer customers with more options in terms of local services and support as well as additional products, services and skill sets.

COMPANY DIAGNOSTIC



FROST RADAR POSITIONING



- Organic growth and complementary acquisitions have catapulted Mitel to the second position in the North American hosted IP telephony and UCaaS market in terms of both installed users and revenues. It also received the third highest combined innovation and growth leadership score in Frost Radar.
- Based on Mitel and ShoreTel communications technologies and strong performance track record, Mitel cloud solutions can meet the needs of the most demanding customers.
- The main tenets of Mitel's growth strategy and key success factors include its unique architecture, strong focus on innovation, channel expansion, and the ability to deliver complementary premises-based and cloud solutions.

- Different architectures used in MiCloud Connect and Flex provide specific benefits to various types of customers.
- Single software stream (within the same technology stack) for both premises-based and cloud-based solutions enables smoother transitions between the two delivery models and more tightly integrated hybrid deployments.
- A comprehensive applications suite (including conferencing, mobility, etc.) addresses the needs of a diverse user base.
- Mitel's proprietary technology enables the company to innovate more rapidly and scale more cost-effectively.
- Mitel's modular solutions allow customers to deploy only the capabilities required today and add others as needs change.



STRENGTHS



OPPORTUNITIES

- Continue international expansion to tap into new markets and better support multinational corporations.
- Expand white-label and wholesale partnerships to better leverage partner brands and relationships.
- Promote hybrid capabilities and development expertise to gain greater appeal among larger organizations with more complex communications requirements.
- Focus on businesses with existing Mitel and ShoreTel technology and expertise to leverage hybrid capabilities and offer better cloud migration path than competitors.
- Carefully position its various UCaaS solutions to capture a broader customer base.