2010 UC Channel Survey

Unified Communications Channel Partners' Perspectives on the Developing Market in Europe

In conjunction with Aastra Technologies

AASTRA

June 2010

FROST & SULLIVAN

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Survey Results Summary

Executive Summary

• The global economic downturn has visibly impacted the growth of unified communications (UC) market. The past few years have been challenging for communications vendors and their channel partners, as the recession forced many businesses to suspend or delay investments in communications technologies.

• According to the channel partners survey conducted by Frost and Sullivan, UC is currently far from being widely adopted on the European market. Only 4.7 per cent of respondents indicated that the majority of their customer base already deployed UC. The current economic environment has influenced the communications investment approach of the customer base. Almost 40 per cent of respondents observed that majority of their customers delayed investment decisions by taking a wait-and-see approach.

• When asked about main barriers to invest in unified communications and collaboration tools in their customer base, most of channel partners pointed out to the cost factors, both that of integration as well as of the license itself.

• Despite numerous barriers, significant market opportunity exists. When asked about their expectations with regards to the demand for UC products and services, overall the channels are very optimistic. Only 5.3 per cent of channel partners predicted a demand decrease and a vast majority expected that the European demand for UC products and services will increase this year.

• Almost 80 per cent of respondents believed that VoIP and IP PBX present them with the best sales opportunities for 2010. 61.5 per cent of channel partners said that fixed-mobile convergence (FMC), which allows companies to seamlessly switch between cellular and corporate networks as needed, was the second best sales opportunity this year.

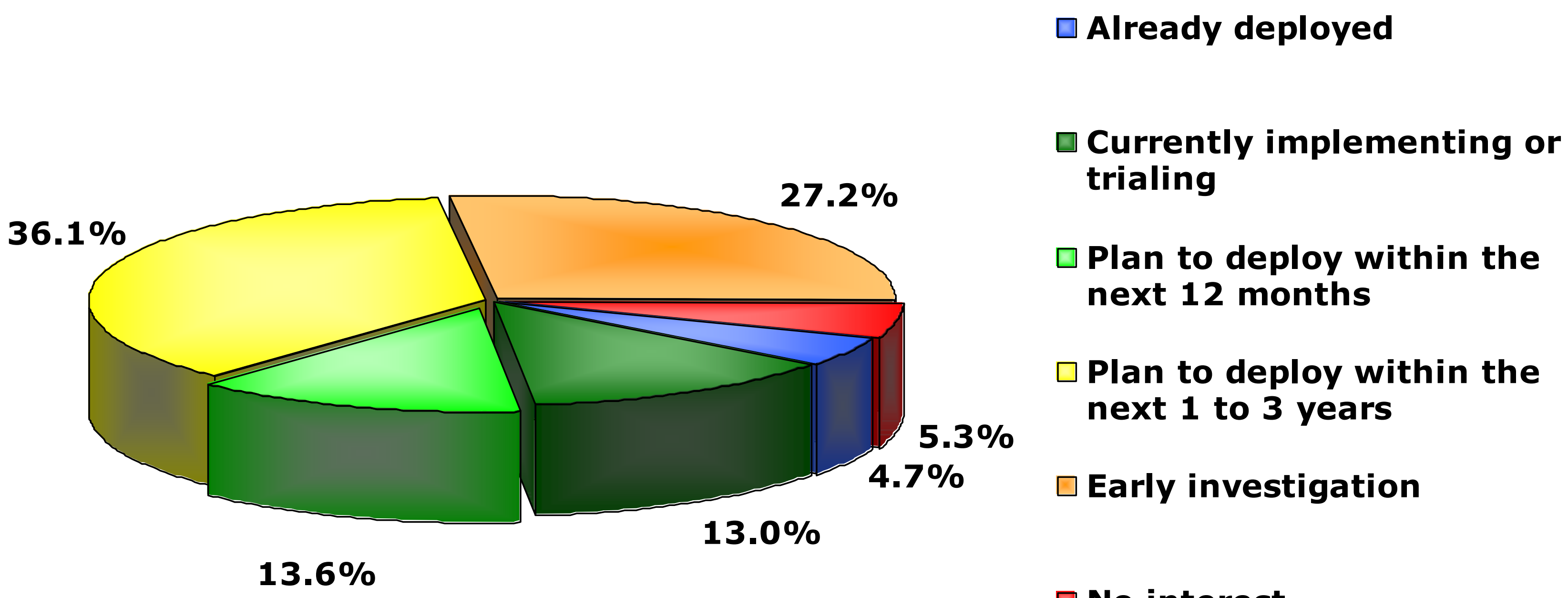
Executive Summary (Contd…)

- The outlook in the small and medium business (SMB) sector, although still optimistic, depicts more cautiousness. Channel partners that solely serve large enterprises showed more confidence in the market growth and none of them believed in demand decreasing in 2010.
- As channel partners are close to their customers, they are very much aware of the importance of the benefits that each type of UC technology can offer to the majority of their customers. Analysing how compelling and relevant expected unified communications benefits are to their customers, respondents pointed out to operating cost savings and productivity increase as their top answers (considered important by 85.2 per cent and 86.4 per cent, respectively).
- The convergence of voice, data, and video has a profound impact on enterprise communications distribution channels. Overall, channel partners themselves seem to be rather positive about the consequences of industry transformation on their business and demonstrate ability to adapt quickly to changing industry conditions. They identified diversification of product and services portfolio as the primary effect on their business (selected as number one choice by 15.4 per cent and top three choice by 38.5 per cent). Channel partners also believe that the merger of telecom and IT allowed them to enter new markets and develop new relationships with customers.
- Effective vendor and channel cooperation is crucial in adoption of UC on the European market. Over half of the UC channel partners expected vendors to share a clearer vision and product roadmaps.

Unified Communications Channel Partners' Perspectives on the Developing Market in Europe

Current UC Implementation Status

Unified Communications Channel Survey:
Stage of Planning or Implementing Unified Communications in the Customer Base (Europe), 2010

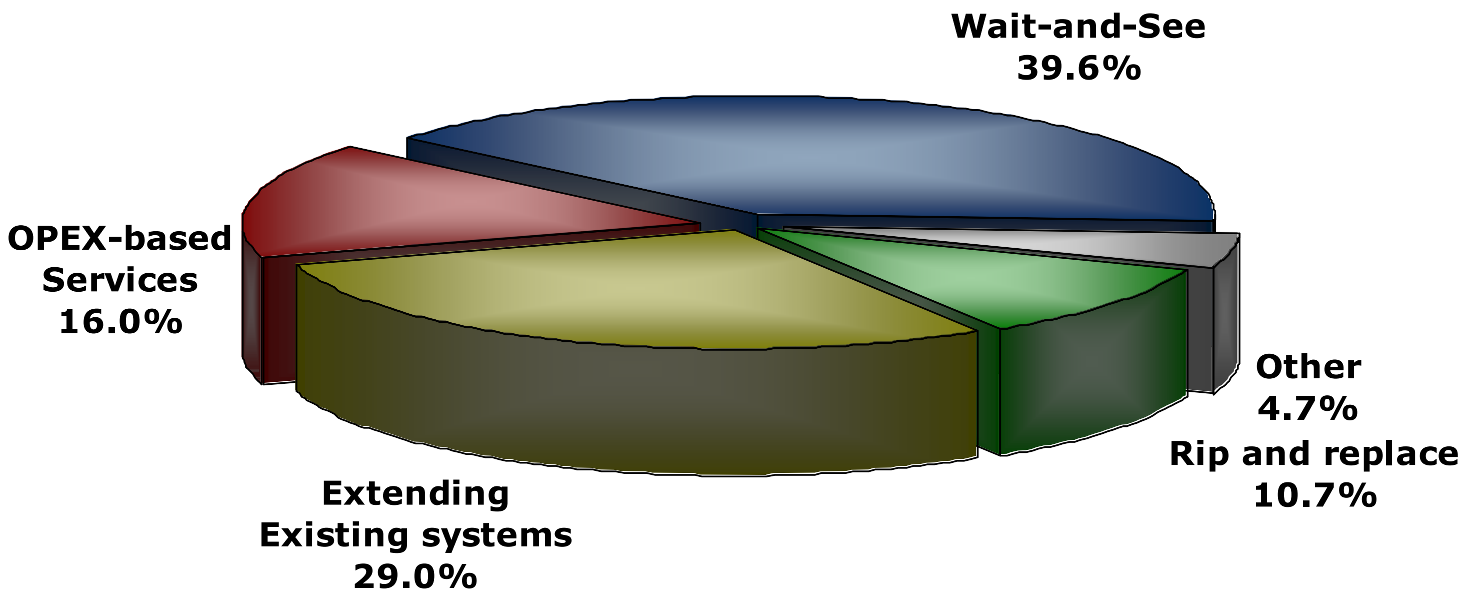


Q1: At what stage of planning or implementing unified communications is currently the majority of your customer base?

Source: Frost & Sullivan

Current UC Implementation Status (Contd…)

Unified Communications Channel Survey: Investment Approach (Europe), 2010

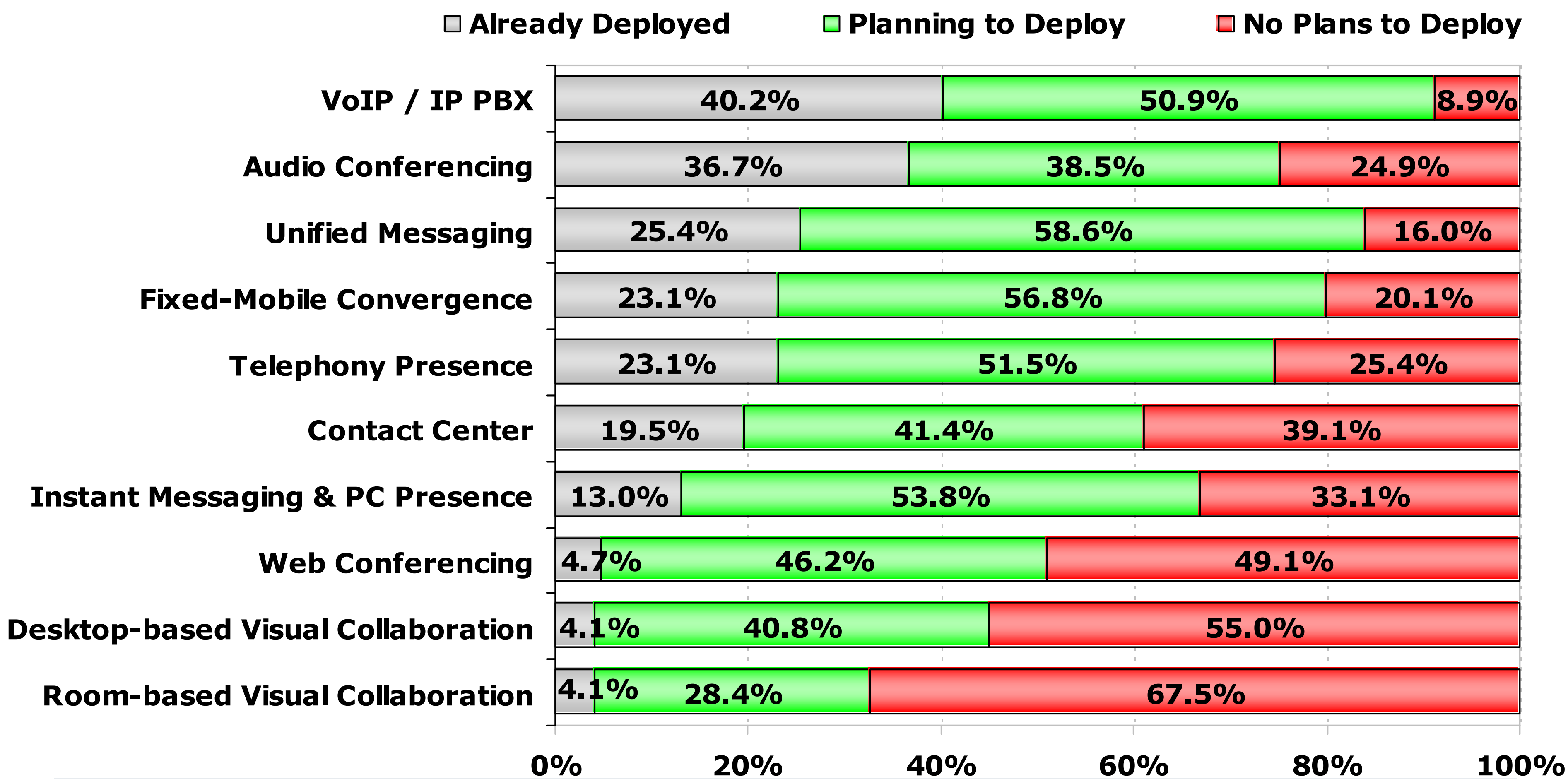


Q2: In the current economic environment, what is the predominant communications investment approach of your customer base?

Source: Frost & Sullivan

Current UC Implementation Status (Contd…)

Unified Communications Channel Survey: Application Approach in Customer Base (Europe), 2010

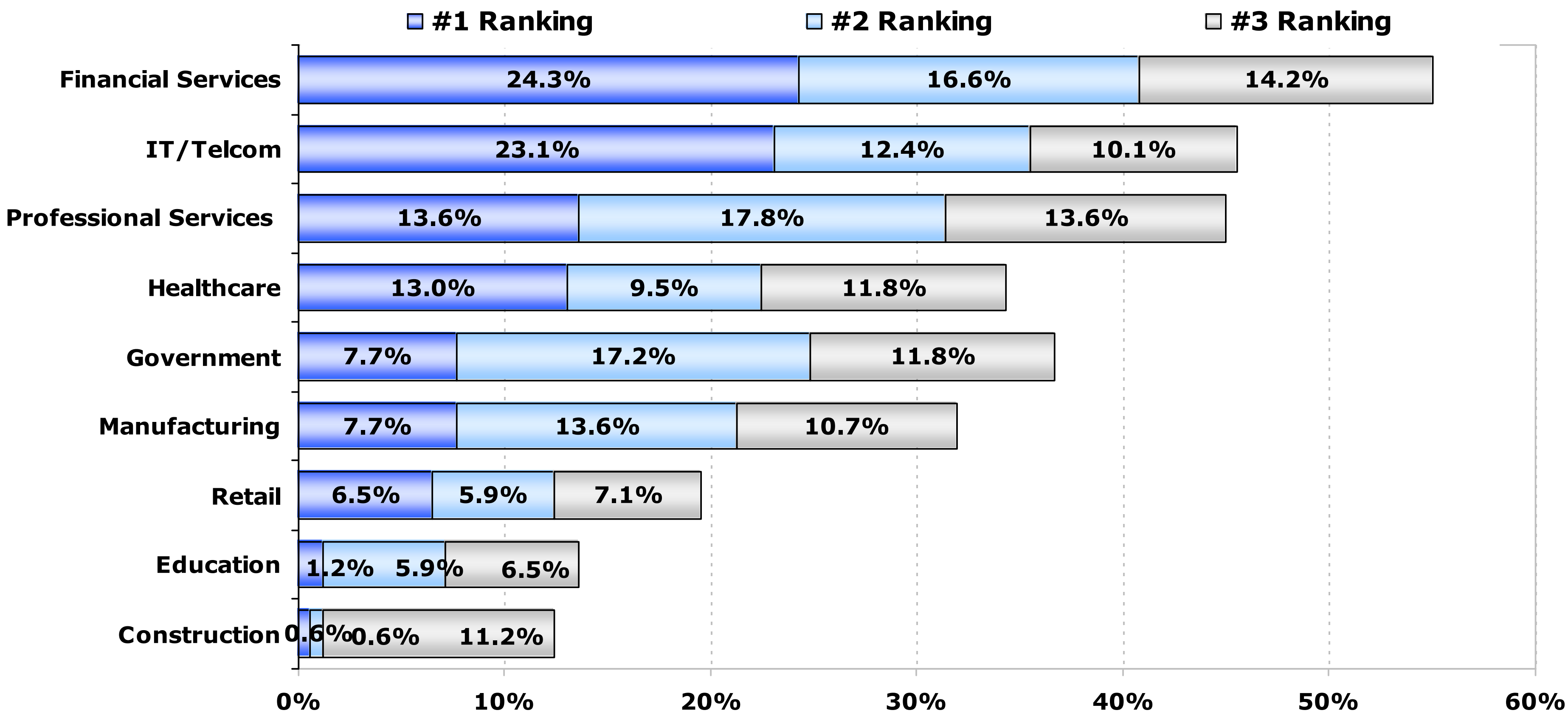


Q4: Please select the approach taken by the majority of your customers with reference to the applications listed below.

Source: Frost & Sullivan

UC Deployment in Various Verticals

Unified Communications Channel Survey: Most Interested Verticals (Europe), 2010



Q10: Which verticals do you believe are most interested in deploying UC applications? Please choose the top 3 most interested verticals and rate them on a scale of one to three, where one is the most interested vertical and three is the least interested one.

Source: Frost & Sullivan

Analyst’s Comments on Current UC Implementation Status

- The global economic downturn has visibly impacted the growth of unified communications (UC) market. The past few years have been challenging for communications vendors and their channel partners, as the recession forced many businesses to suspend or delay investments in communications technologies. Since UC technology is relatively new and untested, and sometimes it is difficult to prove a hard return on investment (ROI), the UC market was affected by the economic conditions as well.
- According to the channel partners survey results, unified communications (UC) is currently far from being widely adopted on the European market. Only 4.7 per cent of respondents indicated that the majority of their customer base already deployed UC. However, UC presents vendors and their partners with a great market opportunity. As little as 5.3 per said the majority of their customer base has currently no interest in implementing UC applications. Importantly, vast majority stated that their customer base is predominantly either trialling UC solutions, implementing them or has plans to do so within the 3 years timeframe.
- The current economic environment has also influenced the approach of customers to communications investment. Almost 40 per cent of respondents observed that majority of their customers delayed investment decisions by taking a wait-and-see approach. Frost & Sullivan expects this economic trend to change, slowly, in late 2010 and into 2011. As economy rebounds businesses will no longer put their technology investments on hold and sales of UC software and services will rise accordingly. Moreover, growing customer awareness and technologies maturing will also enable faster market growth.

Analyst’s Comments on Current UC Implementation Status (Contd…)

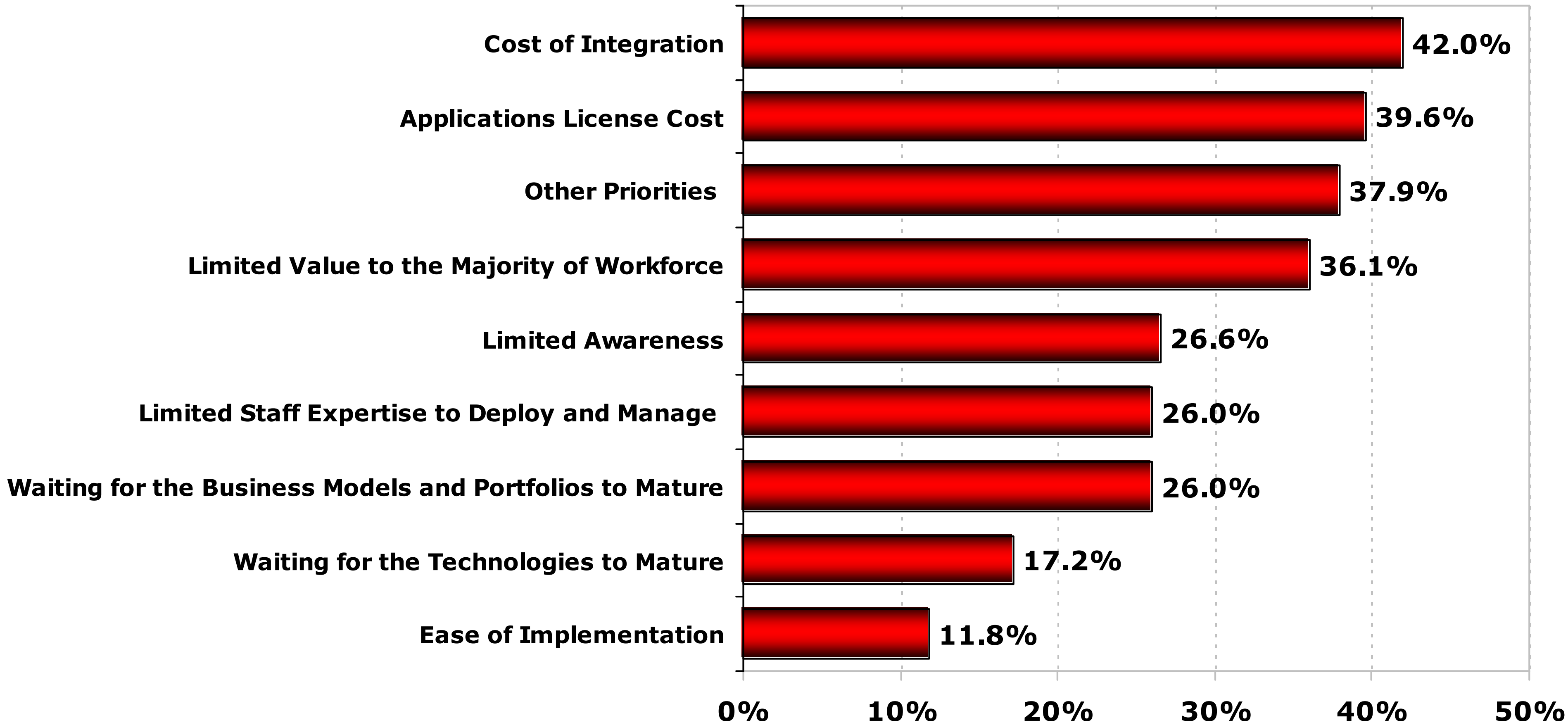
- Additionally, the global recession has generated interest in alternative delivery methods as companies have only limited capital available for investment. However, at the same time, businesses consider UC deployment as they look for ways to cut costs and increase productivity. During the economic downturn, rising costs and declining availability of capital are favouring hosted solutions. Already 16 per cent of channel partners perceived their customer base as predominantly investing in communication services based on operating expenses.
- It is worth emphasising that 29.3 per cent of respondents selected investing in extending-existing systems while only 10.7 per cent ‘rip and replace’ approach. This illustrates how important it is for UC vendors and channel partners to offer solutions that allow leveraging and extending IT and telephony investments already made by the customers.
- With regards to the approach taken by the customer base towards specific applications, it is not surprising that IP PBX is leading the ranking. IP adoption on the European market is growing fast. According to the survey results, 40.2 per cent of channel partners recognised that majority of their customer base has already deployed IP PBX. Looking at the bottom of the same ranking, we would like to point out to the very low percentages related to web conferencing, and both desktop- and room-based visual collaboration tools’ deployment status as well as relatively high percentages indicating lack of deployment plans. These technologies are clearly not being widely adopted yet and they are likely to take longer than most communications to be deployed across and within the vast majority of organisations.

Analyst's Comments on Current UC Implementation Status (Contd…)

• Financial institutions have always been early adopters of modern technologies as technology facilitates processes which, in turn, can help generate higher revenues. All sectors of financial services consider technology as a faster way of completing current processes and as an enabler for performing new business strategies. Therefore, as could be expected, channel partners believe that financial services is the leading sector in terms of interest in deploying UC applications (24.3 per cent picked it as their number one choice). IT and telecommunication vendors and service providers, professional services (including legal, real estate, consulting, accounting, HR, etc.), as well as healthcare sector also present channels with considerable revenue opportunities

Major Market Restraints

Unified Communications Channel Survey: Main Barriers to Implementation (Europe), 2010



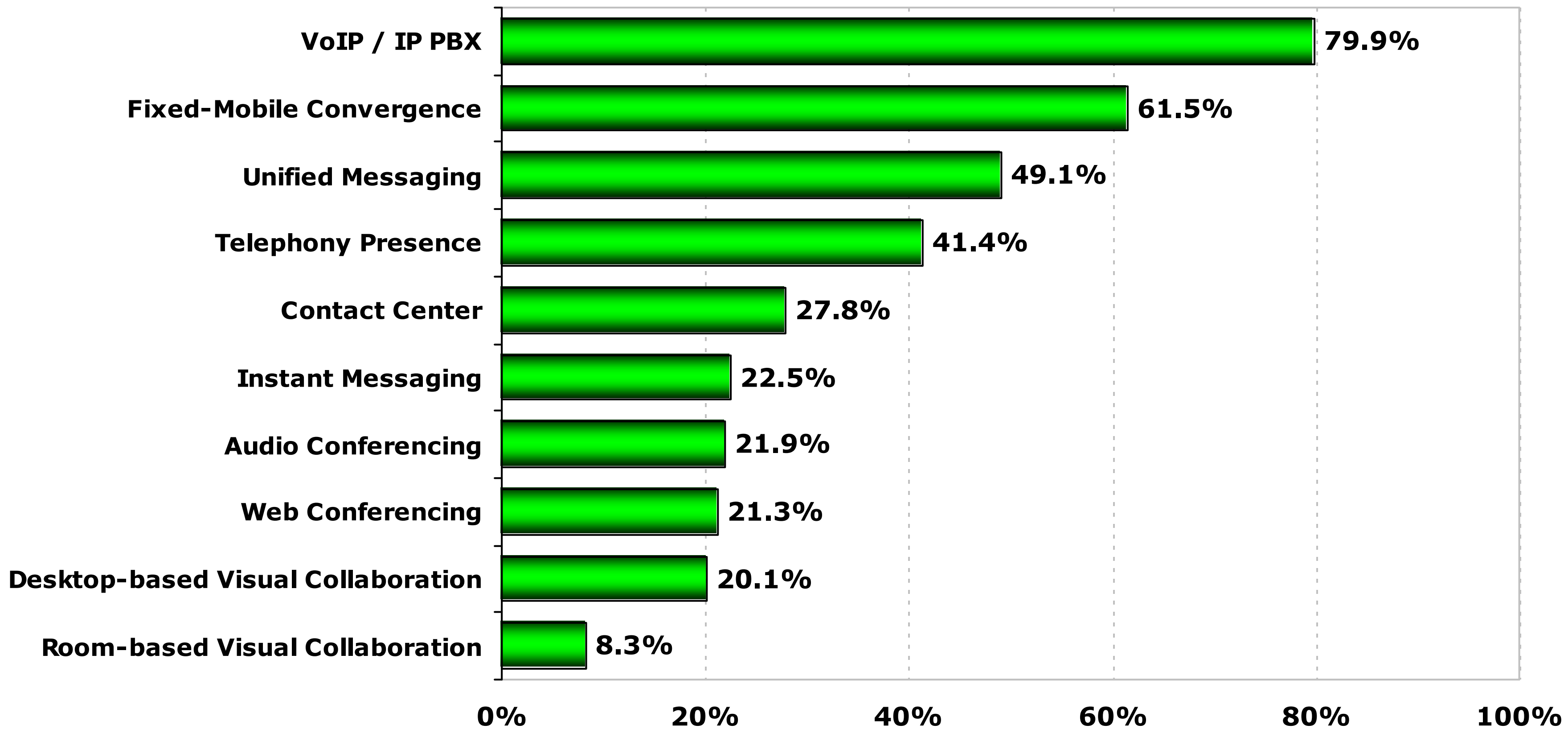
Note: Multiple mention question.

Q3: What are the main barriers to invest in unified communications and collaboration tools in your customer base? Please select all that apply.

Source: Frost & Sullivan

Channel Expectations for 2010

Unified Communications Channel Survey: Best Sales Opportunities (Europe), 2010



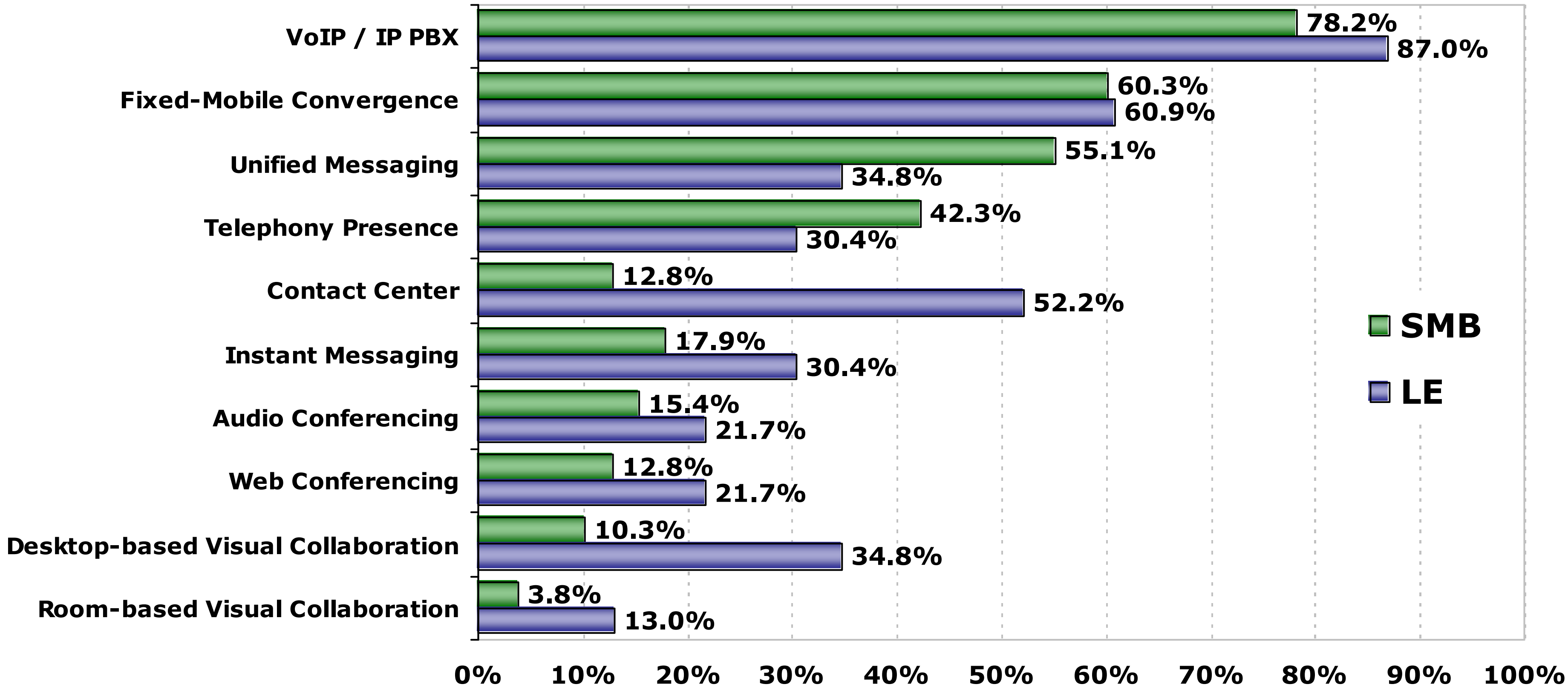
Note: Multiple mention question.

Q5: Which communication tools present you with the best sales opportunities in 2010? Please select all that apply.

Source: Frost & Sullivan

Channel Expectations for 2010 (Contd…)

Unified Communications Channel Survey:
Comparison of Best Sales Opportunities in the SMB and Large Enterprise Sector (Europe), 2010



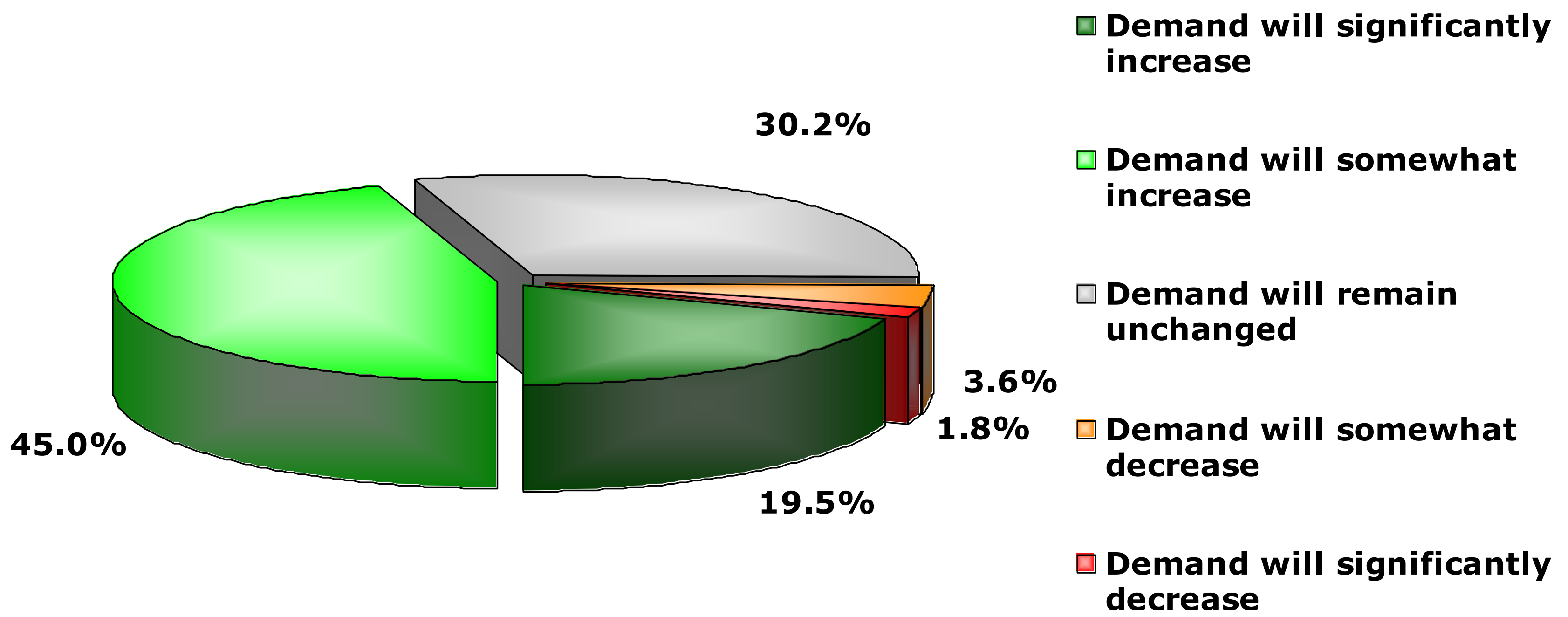
Note: Multiple mention question.
Base - Channel Partners Serving SMB Sector Only (N=78) and Large Enterprise Sector Only (N=23).

Q5: Which communication tools present you with the best sales opportunities in 2010? Please select all that apply.

Source: Frost & Sullivan

Channel Expectations for 2010 (Contd…)

Unified Communications Channel Survey: Demand Expectations (Europe), 2010

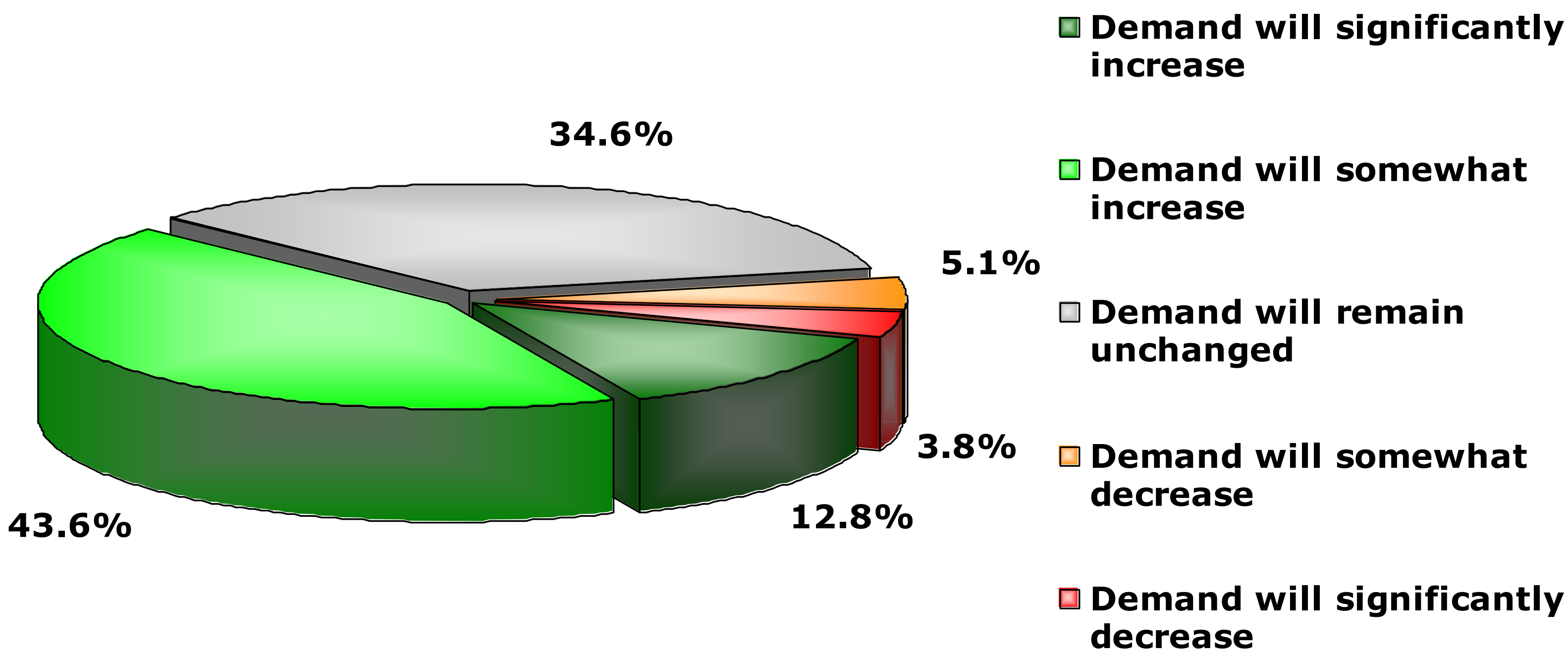


Q6: Thinking about 2010, how would you summarise your expectations with regards to the demand for UC products and services in Europe?

Source: Frost & Sullivan

Channel Expectations for 2010 (Contd…)

Unified Communications Channel Survey: Demand Expectations in the SMB Sector (Europe), 2010



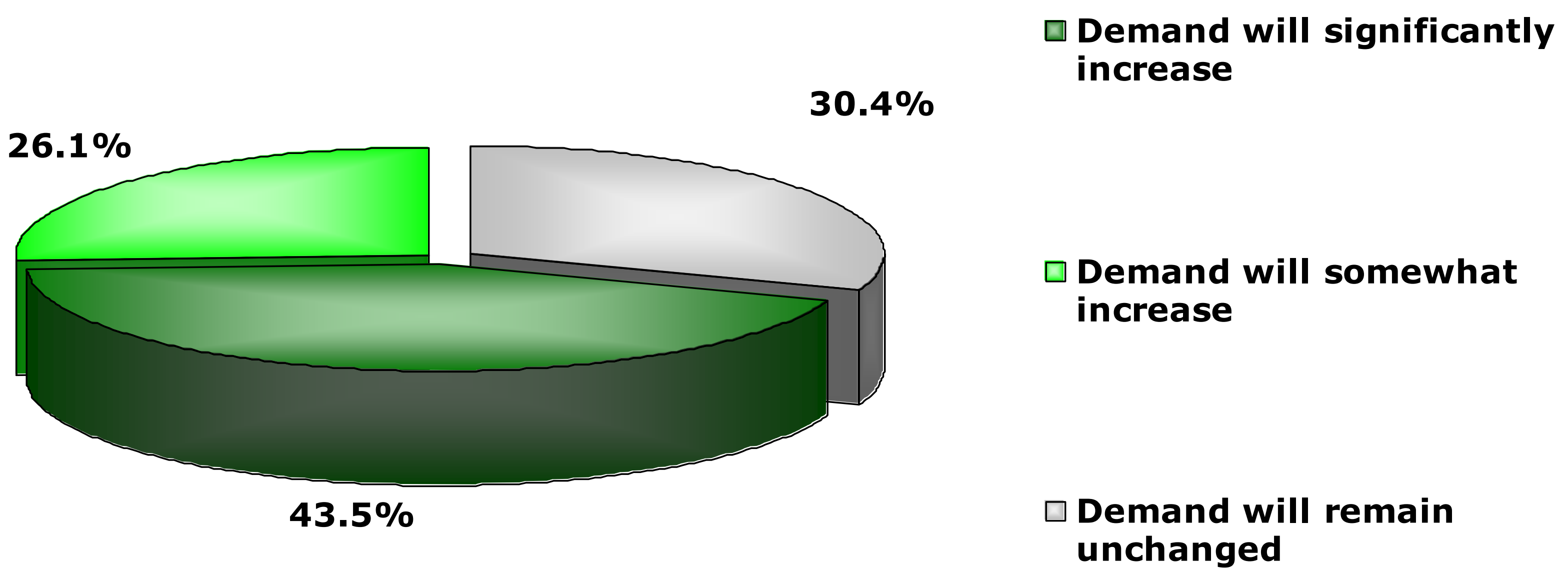
Note: Base - SMB Channel Partners Only (N=78).

Q6: Thinking about 2010, how would you summarise your expectations with regards to the demand for UC products and services in Europe?

Source: Frost & Sullivan

Channel Expectations for 2010 (Contd…)

Unified Communications Channel Survey: Demand Expectations in the Large Enterprise Sector



Note: Base – Large Enterprise Channel Partners Only (N=23).

Q6: Thinking about 2010, how would you summarise your expectations with regards to the demand for UC products and services in Europe?

Source: Frost & Sullivan

Analyst's Comments on Market Restraints and Demand Expectations

• When asked about main barriers to investment in unified communications and collaboration tools in their customer base, most of the channel partners pointed out to the cost factors, both that of integration as well as of the license itself (42 per cent and 39.6 per cent, respectively). The third top obstacle (37.9 per cent) is other priorities such as security, data centre and networking technologies, and others that consume investment budgets, limited by the general economic conditions.

• UC offers considerable value to certain types of business users, however is not a must-have for all. Moreover, many users are not aware of UC capabilities and the benefits it presents.

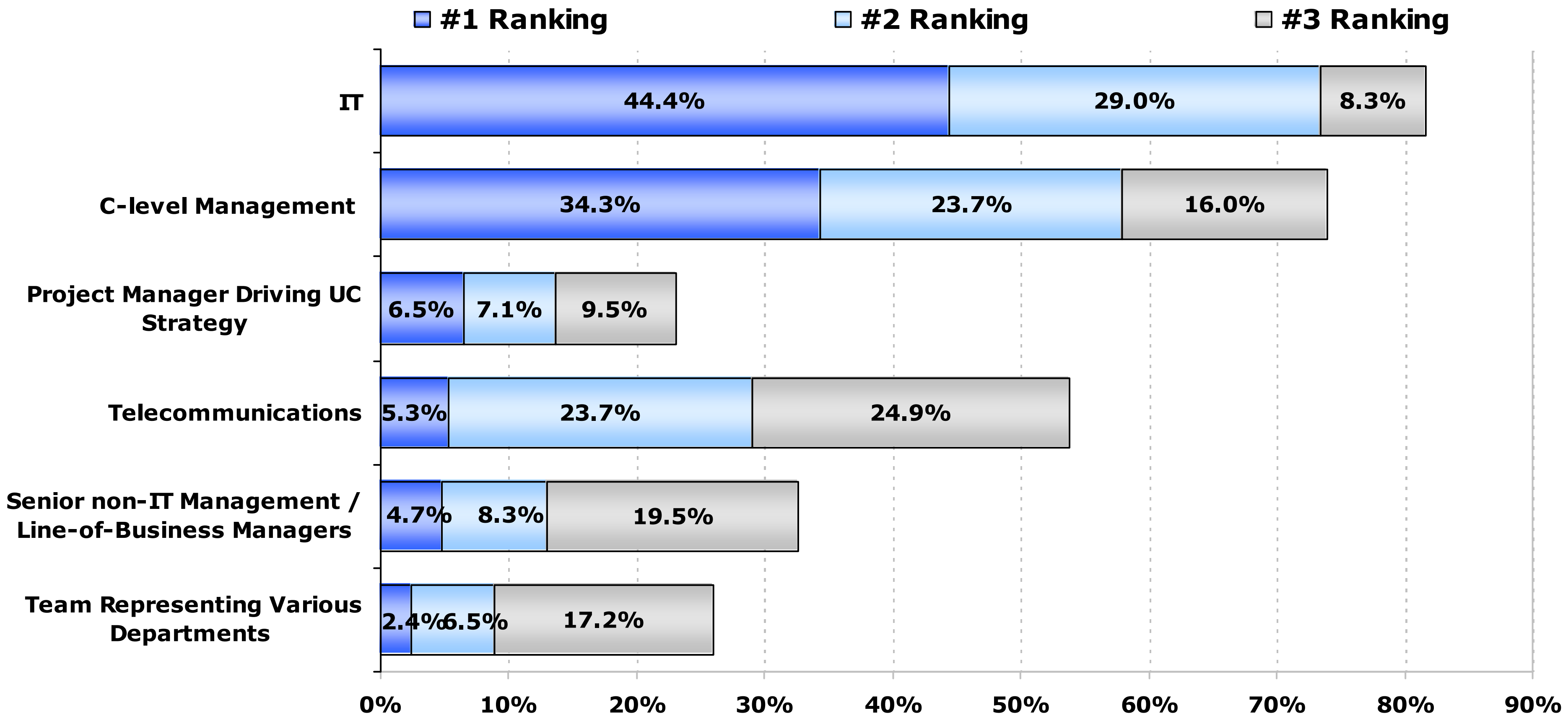
• Despite numerous barriers, significant market opportunity exists. Almost 80 per cent of respondents believed that VoIP and IP PBX present them with best sales opportunities in 2010. Investment in IP PBX can be considered as a starting point for broader UC capabilities. 61.5 per cent of channel partners said that fixed-mobile convergence (FMC), which allows companies to seamlessly switch between cellular and corporate networks as needed, was the second best sales opportunity this year. This illustrates how critical mobility is for many enterprises. Unified messaging and telephony presence are also considered as top business prospects (with 49.1 per cent and 41.1 per cent, respectively). Interestingly, the latter two technologies are likely to present channels with better prospects in the SMB sectors. As expected, contact centre applications remain to be domain of large enterprises. Similarly, instant messaging, as well as audio, web and video conferencing were all perceived to offer much better sales opportunities.

Analyst’s Comments on Market Restraints and Demand Expectations (Contd…)

- When asked about their expectations with regards to the demand for UC products and services in Europe in 2010, overall channel is very optimistic. Only 5.3 per cent of channel partners predicted demand decrease and vast majority (58.6 per cent) expected that the European demand for UC products and services increases this year.
- The outlook in the SMB sector, although still optimistic, depicts more cautiousness. With regards to the SMB sectors, 9 per cent of partners expected to see further decrease in demand, while over half of them (56.4 per cent) forecasted an increase. Current economic slowdown has an adverse effect on SMBs and in particular limits their access to financing. As confidence is restored on the financial markets, resources available for SMBs to grow out of the credit crisis are likely to remain initially scarce. Additionally, European SMB seem to be confident that the downward trend has been stopped. They remain nonetheless cautious about the pace of recovery from the recession.
- Channel partners serving solely large enterprises showed more confidence in market growth. None of them believed in demand decreasing and as much as 43.5 per cent expected demand to grow significantly.

UC Decision Making in the Customer Base

Unified Communications Channel Survey:
Departments and Functions Involved in Decision Making about Deployments (Europe), 2010

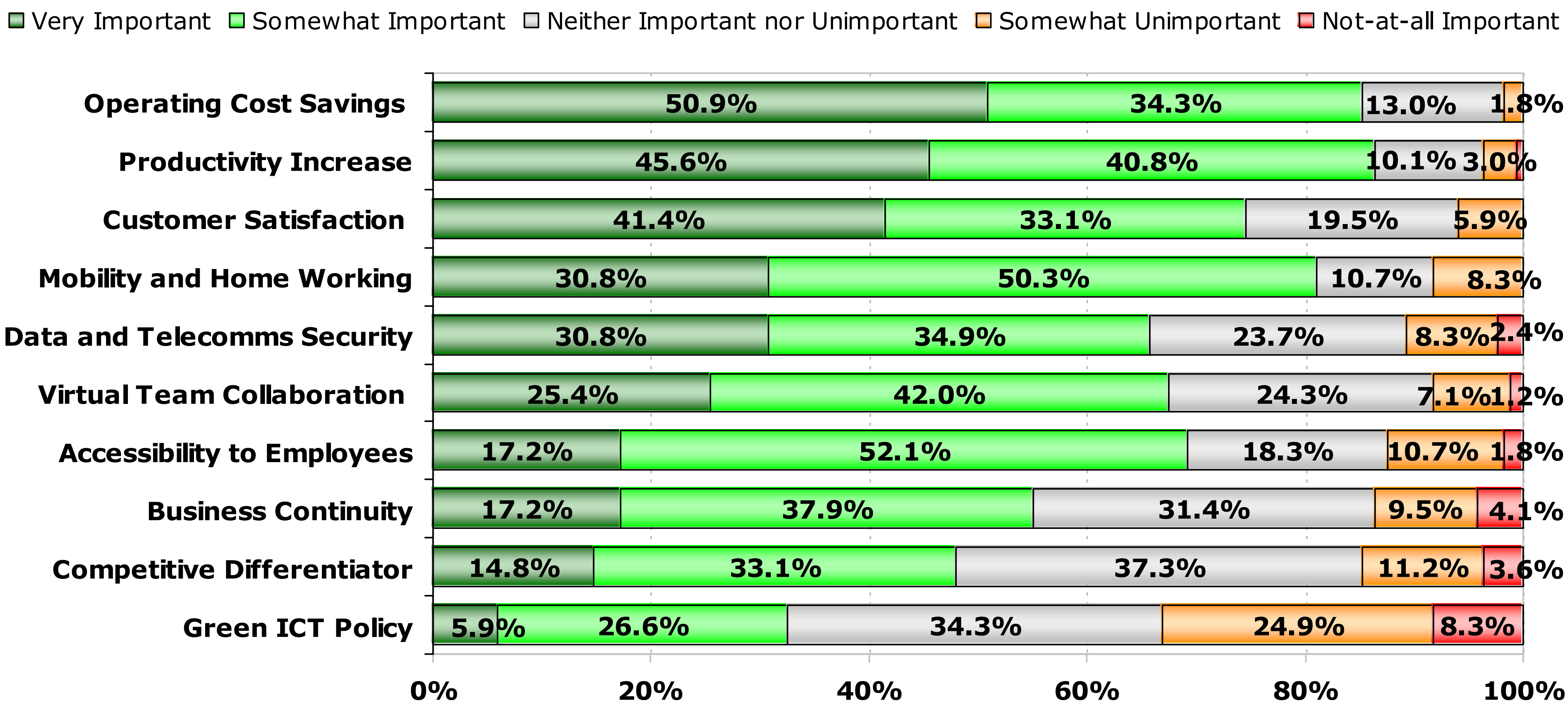


Q7: Thinking about the majority of your customers, please choose the top 3 departments and functions involved in decision making about UC deployments. Please rate the following on a scale of one to three, where one is the most important department and three is the least important one.

Source: Frost & Sullivan

Importance of UC Benefits

Unified Communications Channel Survey: Relevance of Expected Benefits to the Customers (Europe), 2010

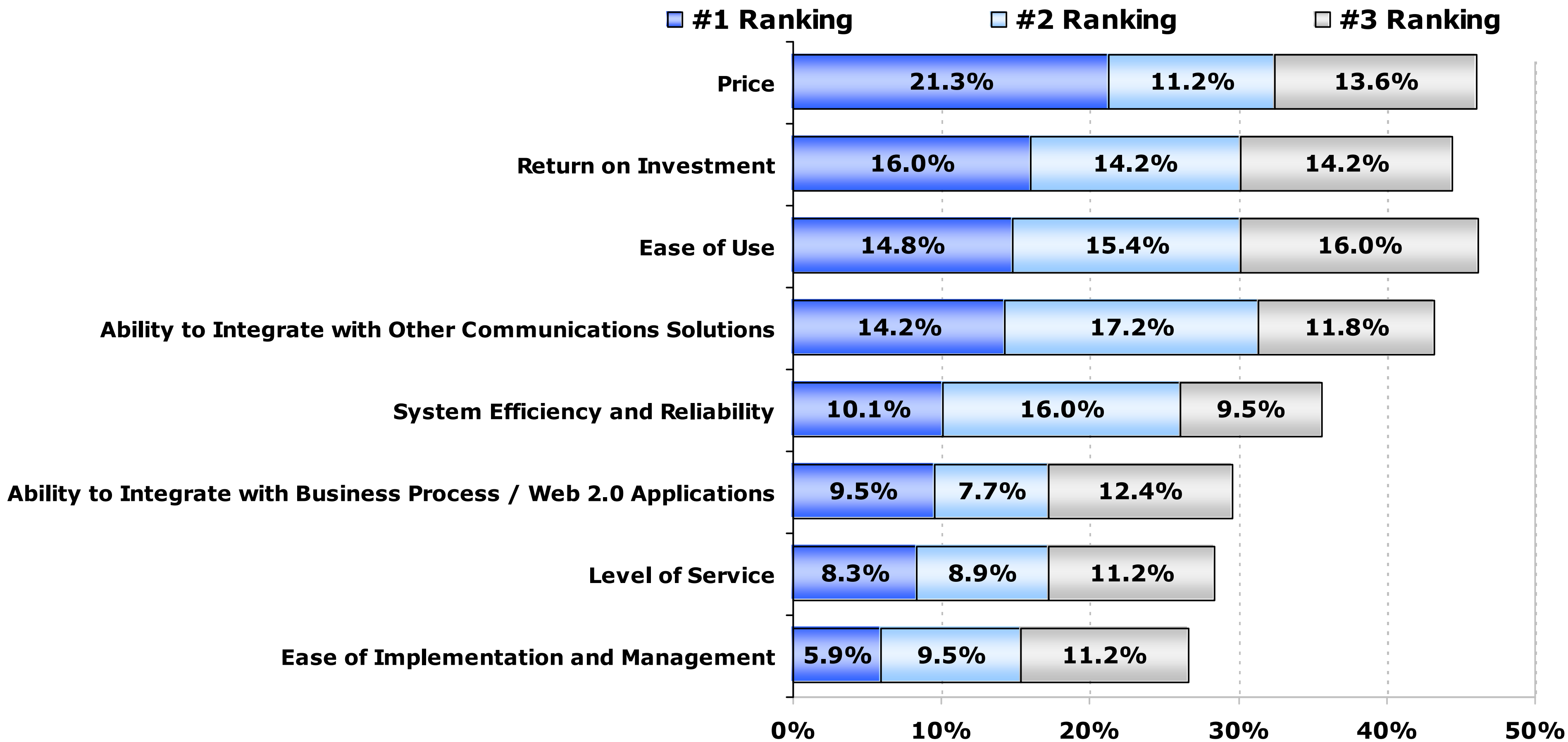


Q8: Thinking about the benefits that each type of UC technology can offer to the majority of your customers, how compelling and relevant are the following expected unified communications benefits to your customers? Please rate the following on a scale one to five, where one is not at all compelling and relevant and five is very compelling and relevant.

Source: Frost & Sullivan

Key Success Factors

Unified Communications Channel Survey: Factors that Help to Win the Customer Over (Europe), 2010



Q9: Which factors help you to win the customer over to implement UC? Please choose top 3 factors and rate them on a scale of one to three, where one is the most important factor and three is the least important one.

Source: Frost & Sullivan

Analyst's Comments on UC Benefits and Selling Points

• Frost & Sullivan asked channel partners to rate departments and functions involved in decision making about UC deployments. IT is absolutely leading the ranking, in terms of both first ranking (44 per cent selected it as the most important function), as well as top three rankings combined (81.7 per cent). As indicated by survey results, C-level Management is also strongly involved in UC investments decision making (with 34.3 per cent of respondents selecting it as number one function and 74 per cent ranking it in their top 3 choices).

• Interestingly, the telecommunications department, which traditionally is responsible for communications and collaboration area, has been loosing its importance and came in the fourth place, with only 5.3 per cent selecting it as the most important department in UC-related decision making. The growing importance of IT personnel and at the same time decreasing role of telecommunications staff illustrates the transformation of the industry from being voice-centric to the one primarily based on data.

• The channel partners are especially close to their customers. They are very much aware of the importance of the benefits that each type of UC technology can offer to the majority of their customers. Analysing how compelling and relevant expected unified communications benefits are to their customers, respondents pointed out to operating cost savings (e.g. reduced travel, lower mobile costs, etc.) and productivity increase as their top answers (considered important by 85.2 per cent and 86.4 per cent, respectively). The majority of benefits, including customer satisfaction increase, facilitating mobility and home working, data and telecommunications security, enhancement of virtual team communication and collaboration, improved accessibility to employees, and securing business continuity were all selected as important by over half of respondents.

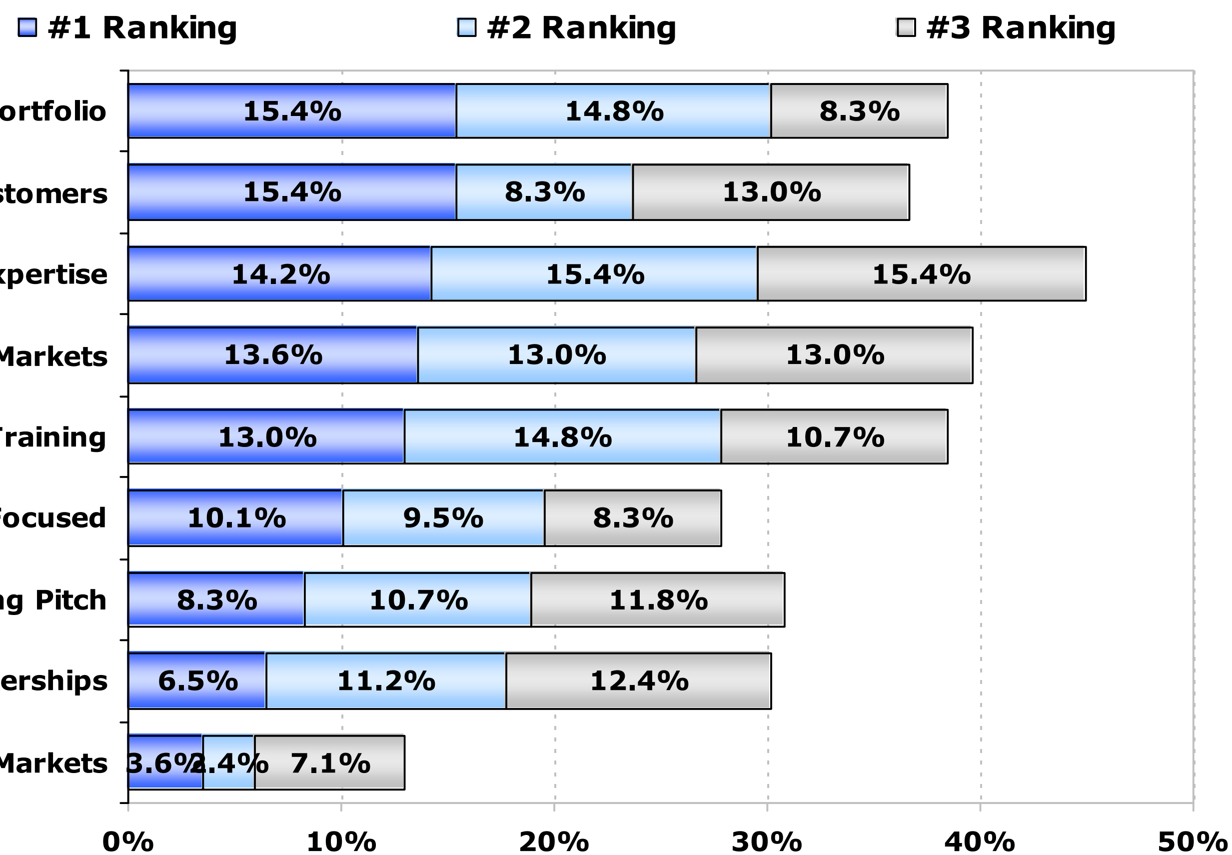
Analyst’s Comments on UC Benefits and Selling Points (Contd…)

• The survey results demonstrate the relevance of UC technologies’ value proposition to the majority of businesses. Vendors and channels partners should focus on explaining and proving how UC can deliver on its promise. Although UC value proposition is fairly universal, channel partners should seek to highlight those features and capabilities of their solutions that address specific customer needs.

• Given the relative “freshness” of the offering and current economic conditions, UC is not an easy sell. Price is key factor (21.3 per cent) that can help in winning the customer over to implements UC. Other vital considerations include return on investment (16 per cent), ease of use (14.8 per cent), and ability to integrate with other existing and planned communications solutions (14.2 per cent). The above four factors were chosen by almost half of the respondents in their top 3 selection.

Industry Transformation

Unified Communications Channel Survey: Impact of the Merger of Telecom and IT on Channels (Europe), 2010

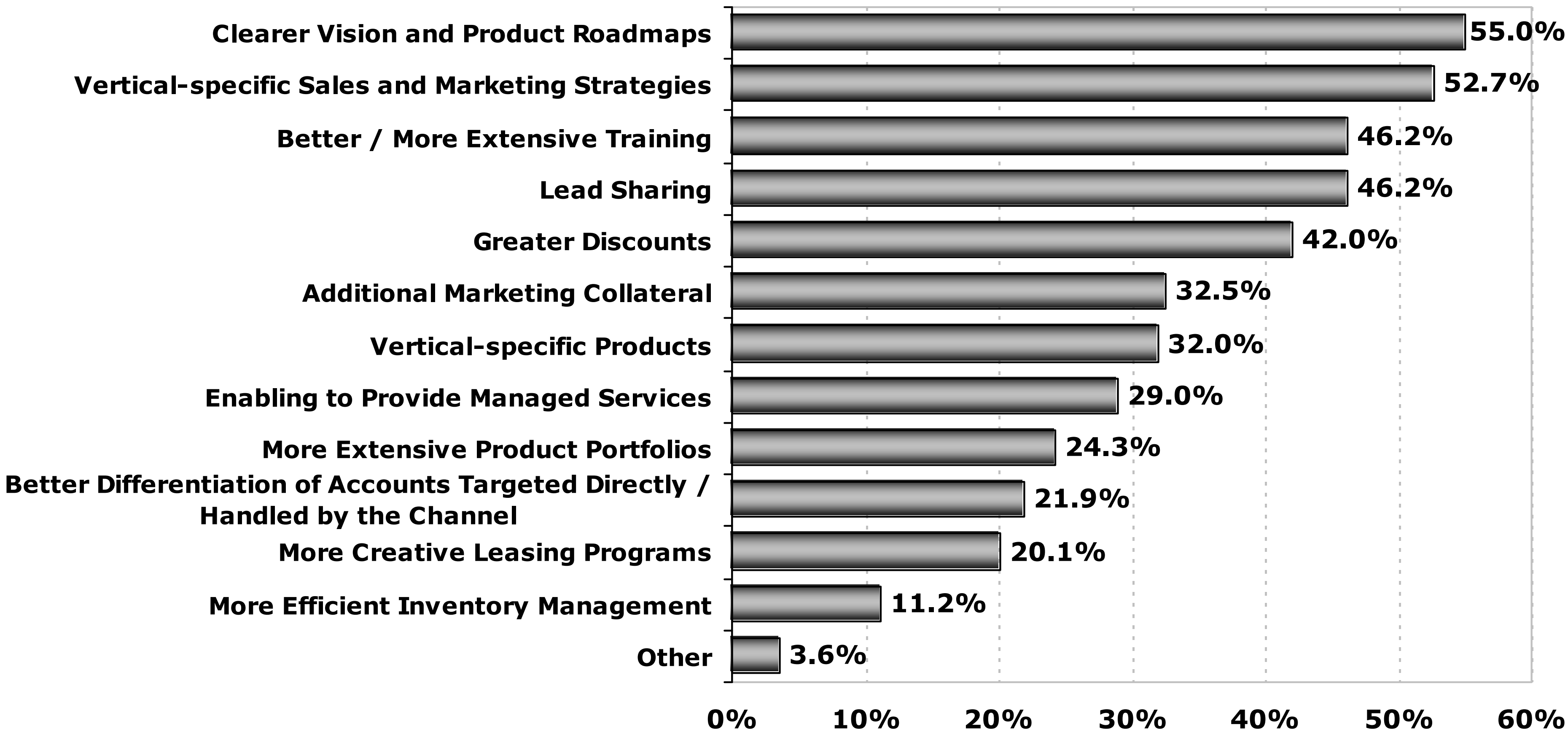


Q11: What impact and consequences is the merger of telecom and IT (due to trends such as network and application convergence, virtualisation, etc.) having on your business? Please choose the top 3 consequences and rate them on a scale of one to three, where one is the most important consequence and three is the least important one.

Source: Frost & Sullivan

Channel Expectations for Vendor Support

Unified Communications Channel Survey: Expectations for Vendor Support (Europe),2010



Note: Multiple mention question.

Q12: By what means can your vendor partner support you better going forward? Please select all that apply.

Source: Frost & Sullivan

Analyst's Comments on Channel Trends and Vendors' Role

- The convergence of voice, data, and video has a profound impact on enterprise communications distribution channels. Overall, channel partners themselves seem to be rather positive about the consequences of industry transformation on their business. They identified diversification of the product and services portfolio as the primary effect on their business (selected as number one choice by 15.4 per cent and top three choice by 38.5 per cent). As a result of the merger of telecom and IT channel partners were required to expand their areas of expertise and retrain their personnel (14.2 per cent and 13 per cent, respectively). However, that allowed them to enter new markets and develop new relationships within customer organisations (13.6 per cent and 15.4 per cent, respectively). Hence in general, channel partners are demonstrating flexibility and ability to adapt to quickly changing industry conditions.
- According to the survey results, the UC channel partners expected from vendors a sharing of a clearer vision and product roadmaps (55 per cent). They also requested that vendors develop vertical-specific sales and marketing strategies (52.7 per cent). Additionally, channel partners believed that their sales efforts could be clearly supported by better and more extensive training, as well as lead sharing (both at 46.2 per cent).
- The complexity of UC implementations, especially in multi-vendor environments, requires a significant vendor and channel partner implementation and integration expertise. Additionally, good cooperation and channel support is crucial in promoting adoption of any new technology, and UC applications in particular.

Survey Methodology and Demographic Profile

Research Objectives

The primary objective of this research is to investigate and understand unified communications channel partners' perspectives on certain key aspects of the developing market for unified communications and collaboration solutions in Europe.

Supporting this primary objective, this research will also:

- Identify current unified communications implementation status;
- Determine unified communications channel partners expectations for 2010;
- Help in understanding the importance of unified communications benefits to the customer base;
- Determine key success factors for selling unified communications solutions;
- Determine the impact of the merger of telecom and IT on channels
- Verify channel expectations for vendor support

Methodology

A web-based survey methodology was utilized. The data was collected in May 2010.

Sample Notes:

Frost & Sullivan conducted a survey with a total of 169 unified communications channel partners in the European market.

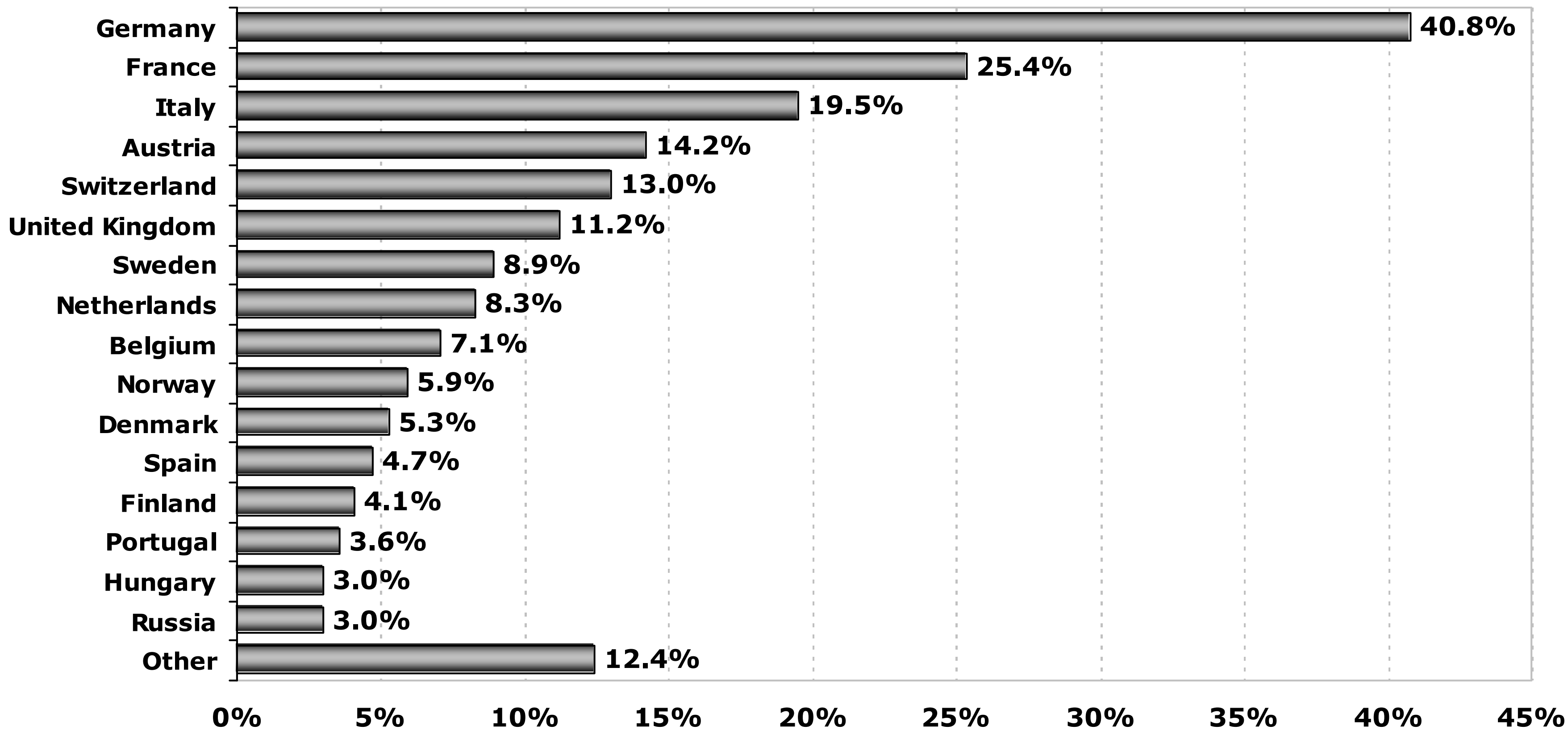
To achieve targeted number of responses, we partnered with Aastra Technologies. Respondents were not compensated for participating in the survey.

Reporting Notes:

Due to rounding, percentages in tables, etc. may not equal 100%.

Channel Partners Demographic Profile

Unified Communications Channel Survey: Channel Partners by Country (Europe), 2010



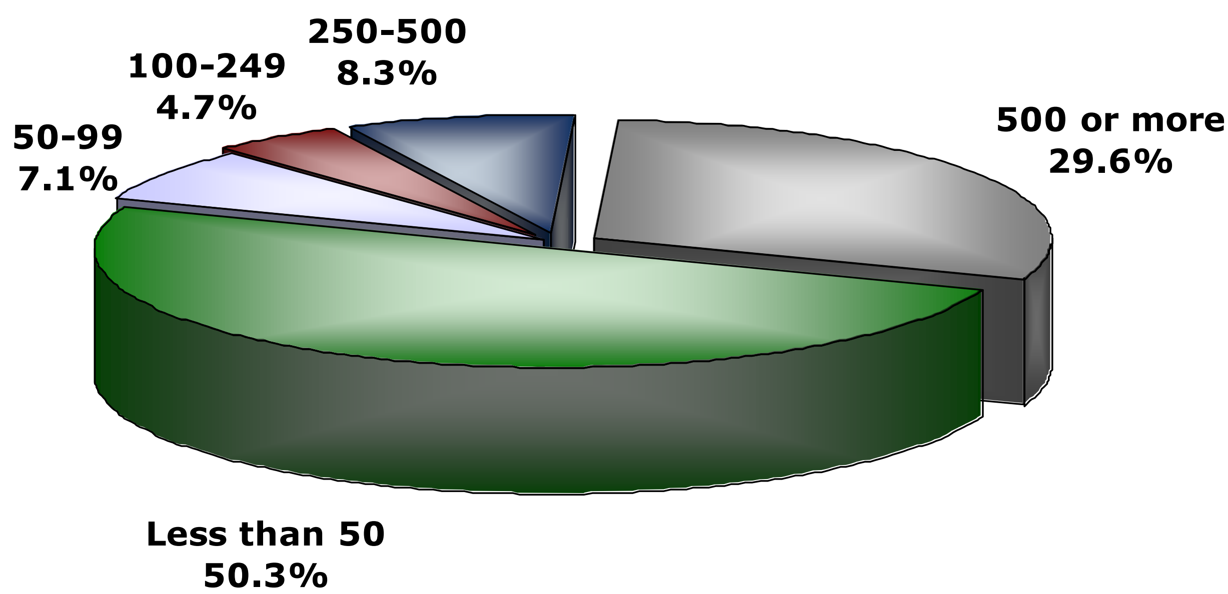
Note: Multiple mention question.
Top Other mentions include Poland, Czech Republic, Slovakia, Croatia and Romania,

Q13: In which countries does your organization operate?

Source: Frost & Sullivan

Channel Partners Demographic Profile (Contd…)

Unified Communications Channel Survey: Channel Partners by the Number of Employees (Europe), 2010

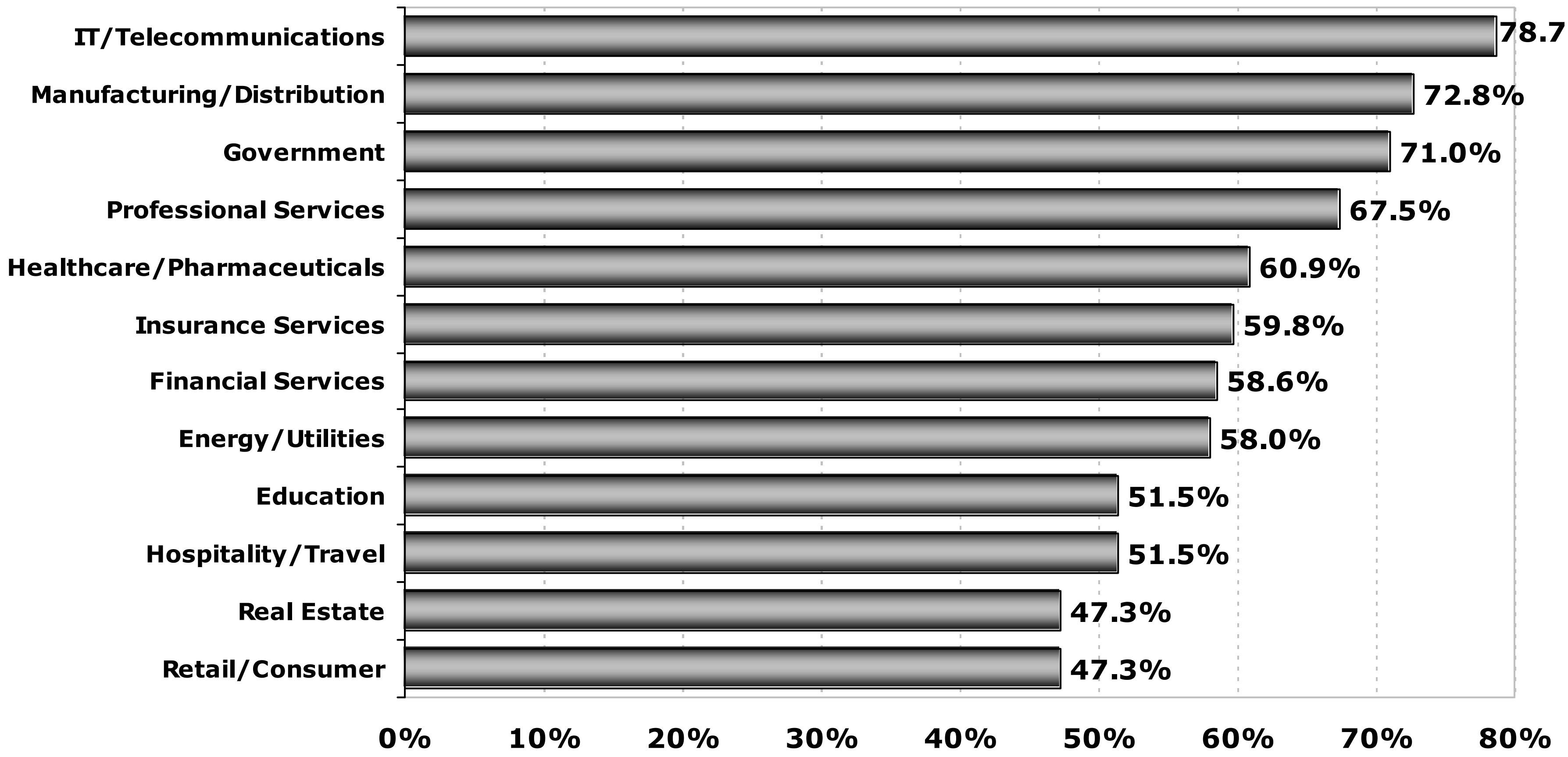


Q14: Approximately how many employees does your organization employ in Europe – including all divisions, branches, and subsidiaries?

Source: Frost & Sullivan

Channel Partners Demographic Profile (Contd…)

Unified Communications Channel Survey: Channel Partners by Industry Served (Europe), 2010



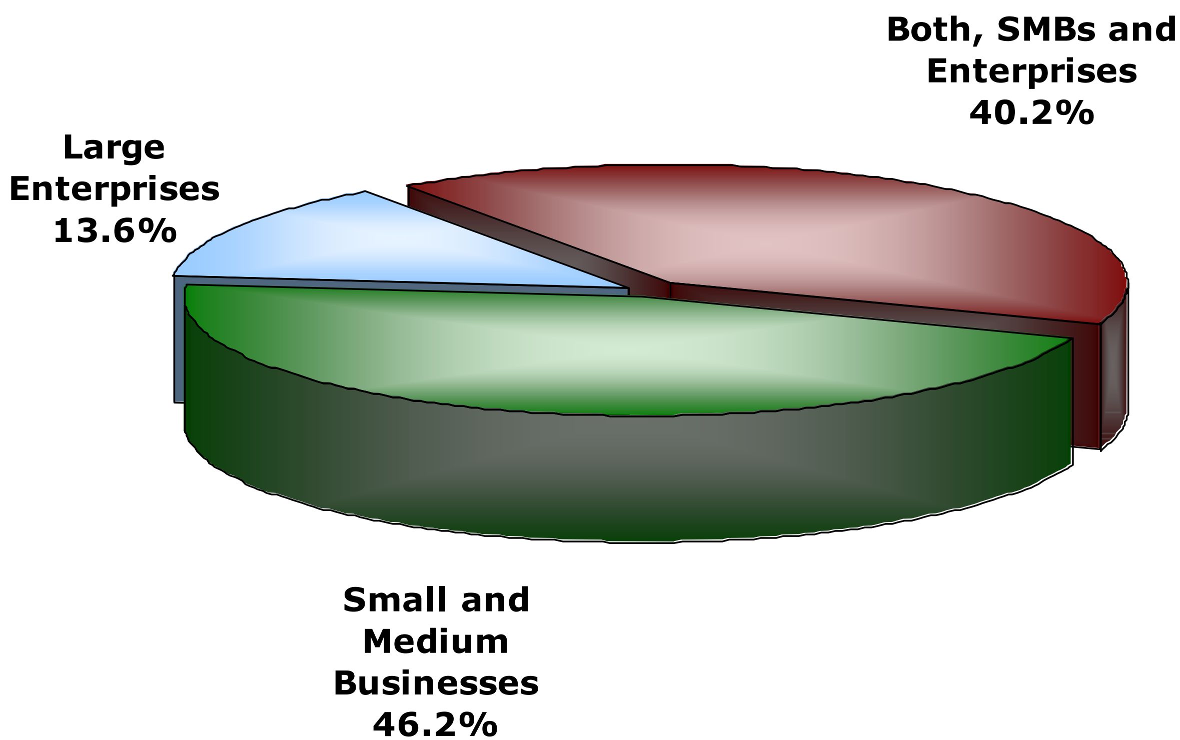
Note: Multiple mention question.

Q15: Which of the following industries/markets does your organization serve?

Source: Frost & Sullivan

Channel Partners Demographic Profile (Contd…)

Unified Communications Channel Survey: Channel Partners by the Sector Served (Europe), 2010

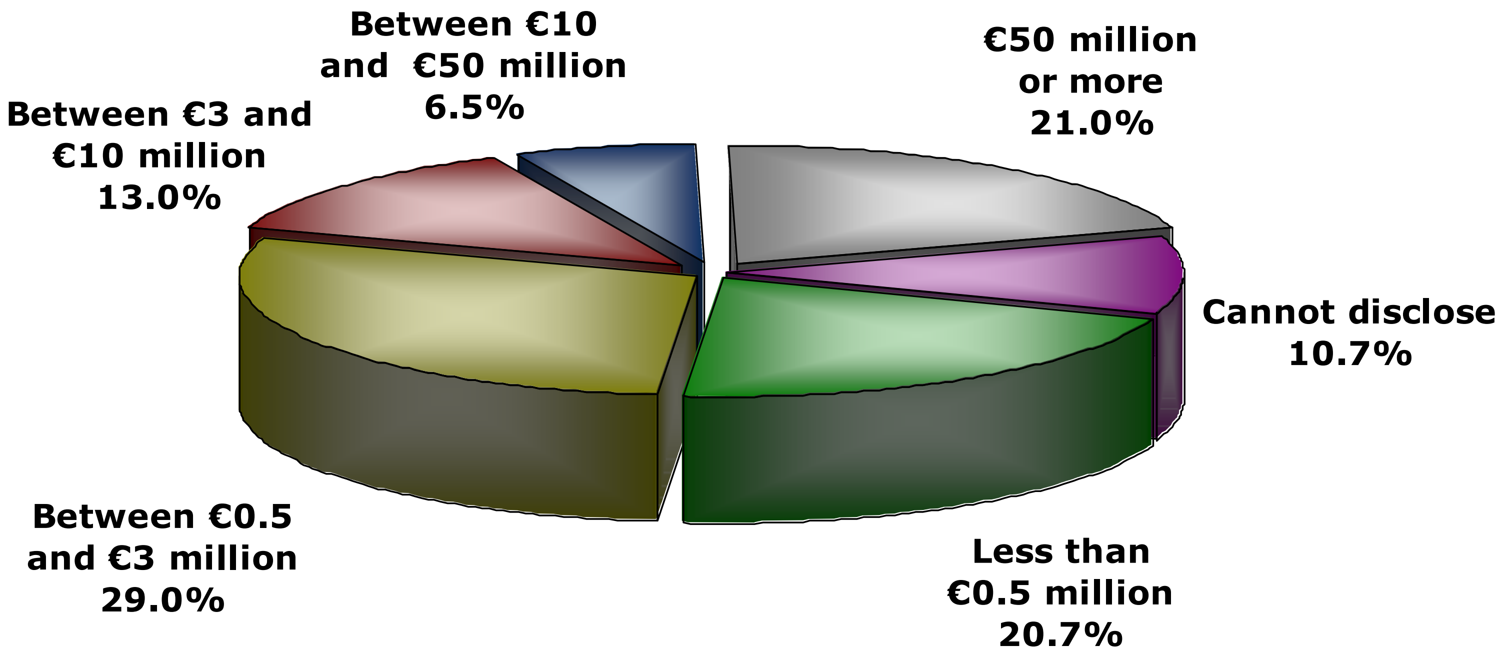


Q16: What sector do you primarily target?

Source: Frost & Sullivan

Channel Partners Demographic Profile (Contd…)

Unified Communications Channel Survey:
Channel Partners by Revenue from Enterprise Communications (Europe), 2010

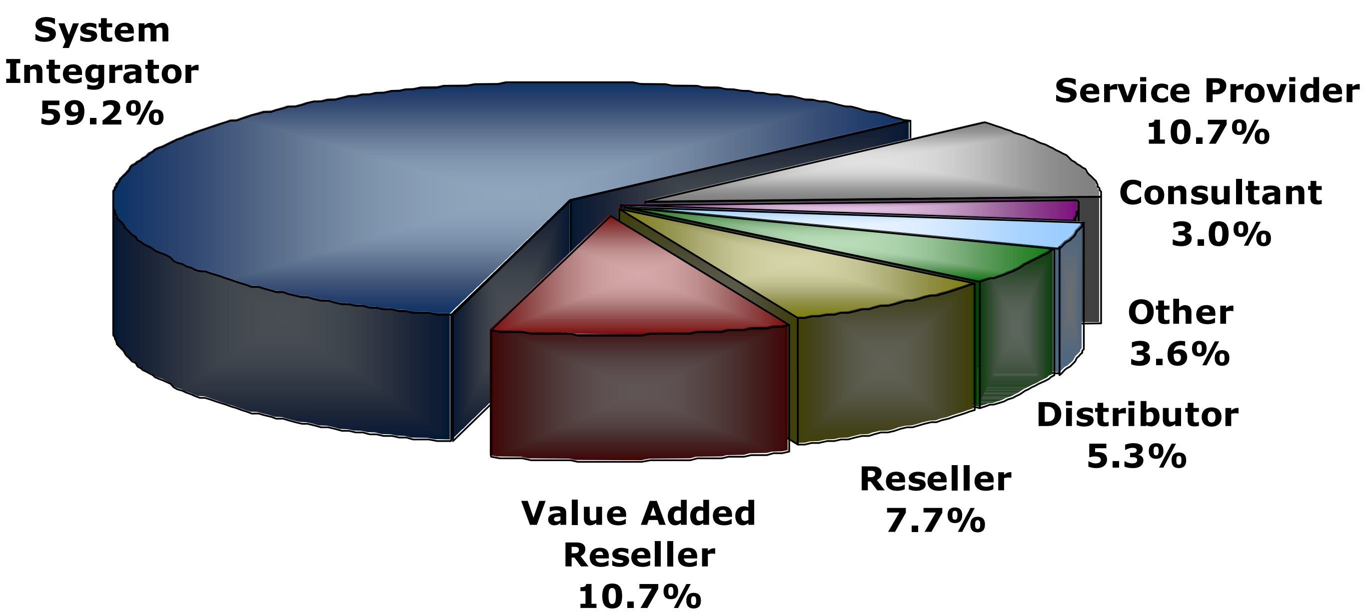


Q17: Approximately what were your organization's revenues from enterprise communications products and services in 2009 – including all plants, divisions, branches, and subsidiaries?

Source: Frost & Sullivan

Channel Partners Demographic Profile (Contd…)

Unified Communications Channel Survey: Channel Partners by Type (Europe), 2010



Note: Top Other mentions include Sales Representative, Solutions and Services Integrator, and Supplier

Q18: Which of the following best describes your organization in relationship to supply of unified communications products and services?

Source: Frost & Sullivan

About Frost & Sullivan

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Econometric	In-depth qualitative and quantitative research focused on timely and critical global, regional, and country specific trends, including the political, demographic, and socioeconomic landscapes.
Application	Insightful strategies, networking opportunities, and best practices that can be applied for enhanced market growth; interactions between the client, peers, and Frost & Sullivan representatives that result in added value and effectiveness.
Market	Global and regional market analysis, including drivers and restraints, market trends, regulatory changes, competitive insights, growth forecasts, industry challenges, strategic recommendations, and end-user perspectives.

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