Worldwide Unified Communications Product Forecast

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2009 Unified Communications Forecasts

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Executive Summary

We see tremendous activity in the unified communications product market as large and small vendors try to create differentiated offerings that appeal to a wide variety of communications, collaboration, and conferencing needs. This updated version of the unified communications products forecast covers the period from 2009 – 2013. Although there is not a consensus definition of unified communications, most vendors have created solutions that may include presence/IM, voice, messaging, and rich media conferencing. Many also provide solutions for shared workspaces and some deliver social networking capabilities. In spite of recessionary pressures, many bright spots exist in the UC marketplace showing significant resiliance to the economic climate. Our goal in preparing this report is to provide a comprehensive, unified forecast, offering insights and guidance on the elements that comprise a unified communications products solution and the trends we see in the unified communications products market.

Wainhouse Research has compiled its third comprehensive, worldwide forecast for the unified communications products market. This forecast includes products from the following segments:

- Presence and instant messaging
- Telephony (PBXs—IP and TDM)
- Audio conferencing (premise-based bridges)
- Web collaboration (premise-based)
- Team workspaces (premise-based)
- Unified messaging
- Videoconferencing (bridges, group and desktop endpoints, and telepresence)

HIGHLIGHTS

- The entire unified communications products market is forecast to decline with a CAGR of -1.5%.
- Those UC components that will be deployed as part of a UC solution as opposed to standalone components will comprise two thirds of the market by 2013.
- Bright spots significant increases in seats for IM/presence servers, Web conferencing servers, and team workspaces.
- Videoconferencing is expected to double in revenue over the forecast period.
- The PBX market is expected to shrink in revenue by nearly 40% over the life of the forecast.
- The transition to SIP is well underway, particularly with audio bridging and PBXs, paving the way to make UC truly viable.

Situation Overview

Although unified communications has been in the news and many people talk about it, the fact is that most companies are still in the "try and test" stages of a UC deployment. Many companies are trying to get their arms around what UC is, how it will benefit their organization, and what the ROI will be.

Our belief is that unified communications is an idea or a concept and not a product, and how a company implements UC and which components are deployed may be different for each company.

Consequently, UC has no market size, per se: there are only communications elements that can make up a UC solution. For some companies, unifying voice messaging with email constitutes a UC solution. For others, automating emergency notification and response mechanisms via advanced conferencing technology is a unified communications solution. Still others want to unify their presence and IM engine with the calendar, PBX, directory, and other communications infrastructure via a common interface, and they call this a UC solution. There are companies that want to streamline a business process by adding some communications capabilities; for them, a communications-enabled business process is UC.

As we have tried to quantify the "unified communications market", we have been forced by the reality of the situation to look at the elements that can comprise a unified communications solution and measure these individually. The truth is that companies don't buy "UC systems", they buy UC components that provide value individually, and then if it makes sense, these are unified in some meaningful fashion. An IT manager in a large pharmaceutical said it this way: "You can't sell unified communications… within the enterprise! …But, you can provide voice services, audio & web conferencing, video services, etc. … It is very difficult to define UC, but there is a way around it…the capabilities come first." This statement suggests that the value of the UC components must come first, followed by consideration of the value of integrating them. Consequently, companies entering the hosted or managed unified communications products market will need to be equipped with business process and organizational behavior teams that can clearly articulate the value proposition behind a move to UC solutions and how these can impact the customer's business drivers, its key differentiators, and what it cares passionately about[1].

Although we see some market consolidation with Avaya buying Nortel's assets, Cisco buying Tandberg, HP buying 3Com, and Logitech buying LifeSize, (and numerous smaller acquisitions including Cisco buying Jabber, AT&T buying Interwise, etc), we also see expansion as Google toys with UC capabilities, Skype expands its capabilities by integrating with PBXs, and SalesForce.com and SAP announce enterprise social software solutions. We see an interesting correlation between the email system a company uses and the UC client it deploys. If a company uses Microsoft Exchange/Outlook, in most cases, it will also go with Microsoft Office Communications Server. If a company is using Lotus Domino/Notes, it will go with IBM Sametime. Perhaps this is one reason why Cisco recently purchased an email company to add hosted email to its UC services portfolio.

Clearly video is being pushed very hard by Cisco, which has raised the fortunes of most vendors in the enterprise video space, and it helped video grow, even in the midst of a serious recession. We estimate the video endpoint and infrastructure markets will increase from double in size over the forecast period.

Likewise, IM and Presence servers are resilient to the economic climate. This market segment shows a shift from baseline presence/IM to feature rich IM with clients from Microsoft, IBM, Cisco, Avaya, and others. These clients have many more features and capabilities versus the computer presence and text messages one typically gets with consumer clients. We also more companies investing in these feature rich solutions, so the market is expected to grow from nearly four fold over the forecast period.

[1] See the Technology Accelerators" chapter of the book "Good to Great" by Jim Collins for a discussion of when companies should adopt leading edge technologies.

Furthermore, the average selling price will increase not just because the products are more expensive, but also because the mix of the market is changing to the more feature-rich environments.

We also see growth in the premises-based Web conferencing server market. In spite of falling ASPs, we estimate there will be many more premises-based Web conferencing seats over the forecast period.

The audio bridging market saw a significant increase in ports sold, with many conferencing service providers increasing their capacity in response to overall growing demand for unattended minutes and replacing their legacy TDM bridges with SIP-based gear. Enterprises also bought more audio bridging ports because they see their underlying infrastructure changing to IP with network service providers able to offer SIP trunking services, which enables less expensive premises-based audio bridging. Thus, while ASPs fell, more ports sold will keep revenues growing through the middle of the forecast period, followed by some revenue decline by 2013.

Team workspaces is another bright spot in the unified communications market, particularly Microsoft SharePoint. This is a growing segment, and we anticipate it will double in revenue by 2103.

The PBX market took a beating entering 2009, and we expect 2009 to be 12% - 15% below 2008 in units shipped. Revenues have also fallen off sharply as ASPs declined concurrently with slumping lines sold. The majority of the PBX market is a replacement business, and with the global recession, businesses could delay a replacement without serious business impact. Some companies are also delaying upgrading their PBXs as they wait to see if Microsoft OCS can really act as a PBX replacement and as they try to get their arms around a coherent UC strategy. We believe the PBX market will see some line growth in 2010, but we predict revenue decline throughout the forecast period due to falling ASPs. We note that Microsoft OCS Release 3 will enter the market in 2010, which should make OCS a real contender for PBX replacement. We also believe we will see continued global financial uncertainty due to the huge public deficits and debt in the USA and Great Britain. We forecast the PBX market to decline by nearly 40% over the life of the forecast.

The unified messaging market showed more resilience than we had estimated in our previous forecast, but we anticipate it decreasing in revenues by approximately over 20% by end of the forecast period.

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About Wainhouse Research

Wainhouse Research (www.wainhouse.com) provides strategic guidance and insight on products and services for collaboration and conferencing applications within Unified Communications. Our global client base includes established and new technology suppliers and service providers, as well as enterprise users of voice, video, streaming, and web collaboration solutions. The company provides market research and consulting, produces conferences on technology trends and customer experiences, publishes a free weekly newsletter, and speaks at client and industry events.

About the Research Team

E. Brent Kelly is a Senior Analyst and Partner at Wainhouse Research specializing in unified communications applications and enabling infrastructure. Brent has authored numerous reports and articles on unified communications including unified communications as a service, mobile unified communications solutions, detailed reviews of Microsoft's UC strategy as embodied by Office Communications Server, IBM Lotus Sametime and IBM Lotus' UC^2 Strategy, and Telephony-Based Unified Communications, which is a thorough description of PBX vendor unified communications offerings. He has also written reports about migrating to IP communications, video network service providers, and the collaborative reseller channel. Dr. Kelly has authored articles for Business Communications Review Magazine, NoJitter.com, and he has taught workshops in North and South America, Europe, and Australia as well as at major industry events such as VoiceCon. With over 21 years experience in developing and marketing highly technical products, Brent has served as an executive in a manufacturing firm where he developed and implemented a manufacturing, marketing, and channel strategy that helped land national accounts at major retailers. Previously, he was part of the team that built the devices Intel used to test their Pentium microprocessors. He has also led teams developing real-time data acquisition and control systems, and adaptive intelligent design systems for Schlumberger. Brent has worked for several other multinational companies including Conoco and Monsanto. Dr. Kelly has a Ph.D. in chemical engineering from Texas A&M and a B.S. in chemical engineering from Brigham Young University. He can be reached at bkelly@wainhouse.com.

Andrew H. Nilssen is a Senior Analyst & Partner at Wainhouse Research, where he is the practice manager for audio/VoIP conferencing infrastructure, web conferencing, and IM/Presence technologies. Since joining WR in January 2000, Andy has co-authored several of the firm's research studies and continues to consultant to conferencing and collaboration vendors, network infrastructure vendors, end users, government agencies, and venture capitalists. Earlier in his career, Andy managed the planning and launching of PictureTel's Venue and Concorde group videoconferencing systems, was Vice President of Marketing at Visual Technology, and was a product line manager at Sun Microsystems. Andy has 30 years of experience in high-technology product marketing and market research, earned his MBA and BSEE degrees from the University of New Hampshire, and holds two ease-of-use related patents. Andy can be reached at andyn@wainhouse.com

Andrew W. Davis is a researcher, analyst, and opinion leader in the field of collaboration and conferencing. Prior to founding Wainhouse Research, he held senior marketing positions with several large and small high-technology companies. Andrew has published over 250 trade journal articles and opinion columns on multimedia communications, videoconferencing, and corporate strategies as well as numerous market research reports. A well-known industry guest speaker, Mr. Davis holds B.S. and M.S. degrees in engineering from Cornell University and a MBA from Harvard University. He can be reached at andrewwd@wainhouse.com.