WAINHOUSE RESEARCH **SEGMENT REPORT**

North American Hosted/Managed Unified Communications Services Forecast

UC Market Strategies, Solution Offerings, and 5-Year Forecast

WAINHOUSE Research

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Executive Summary

Throughout the spring of 2010, Wainhouse Research (WR) conducted an independent assessment of the hosted and managed unified communications services market in North America. This in-depth study is intended to provide a description of the current state of the North market, assess current trends, identify risks and opportunities, and provide assistance on market approach, services and prices. Current market data and analysis and forecast information is included in this report. Data from this report should assist clients in determining and establishing marketing strategies and product offerings, and in setting budgets and sales expectations.

Report data consists of both quantitative and qualitative information, providing current and forecast data on the UC services revenues the North American market. Each subscriber to this report is encouraged to contact the authors for a one-hour online briefing where specific information can be discussed according to client needs.

Hosted/managed unified communications services are a nascent opportunity at the cusp of becoming a big business. We estimate the 2009 North American market to be less than $204 million, but growth is clearly on the way. All of the vendors with established unified communications services offerings are reporting double-digit growth and significant interest in the markets they address. We project this sector to grow by leaps and bounds over the next 5 years, becoming a billion dollar business.

HIGHLIGHTS

- The North American hosted and managed unified communications services market is forecast to grow be with a CAGR of 71% through 2014.
- The forecast is divided into hosted UC services and managed UC services. For each segment, voice-enabled UC services and UC services without voice are forecast.
- The North American hosted and managed UC services market will grow to approximately 15 million licenses by 2014.
- Many smaller providers of hosted/managed UC service offerings are active in the North American market, all with double-digit growth.

Wainhouse Research has prepared this report to provide decision makers and technology strategy planners with an unambiguous resource that describes the unified communications services market and the forces driving large and small companies toward a hosted or managed UC solution. In a unique analysis, we rigorously compare the total cost of ownership of a hosted UC solution to a premises-based UC solution over a three-year operating period.

We have prepared a solution overview for 26 UC services providers in North America. For each offering, we describe the value proposition behind the vendor's solution and show how the solution works; we also provide a solution snapshot describing solution components, indicate the geographical availability for each solution, and present our analysis and opinion. Offerings include those from network service providers, conferencing services providers, mobile network operators, and new hosted services offerings such as Microsoft's BPOS service, IBM's LotusLive, and Cisco WebEx Connect. We also describe emerging offerings from Skype and Google, two companies with significant hosted UC capabilities. We review hybrid offerings that include hosted PBXs from Cisco and Avaya coupled with premises-based Microsoft's Office Communications Server deployments.

Table 1: Hosted and Managed UC Services Providers Described in this Report.

8x8, Inc.	IBM
Accenture	InterCall
Alteva, LLC	Microsoft
AT&T	Orange Business Services
Broadcore	PanTerra Networks
BroadSoft	PGi
BT	Qwest Communications
CallTower	SimpleSignal
Cisco Systems	Skype
Cypress Communications	Sprint Nextel
Dimension Data	Unison
Engage Incorporated	Verizon Business
Google	WorkSpace Communications

178 pages, 63 figures, 23 tables

Hosted/Managed Unified Collaboration is Emerging

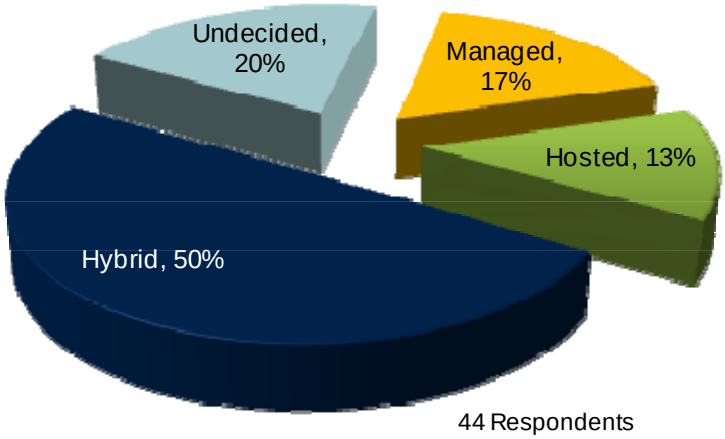
Based on input and activity from end users, network service providers, and system integrators, Wainhouse Research (WR) believes we are earnestly beginning a 10 year transition in which disintegrated communication, messaging, and collaboration will migrate toward unified communications. The foundation for significant growth has been laid. That foundation is the global transition to IP communications, networks with significant bandwidth, quality of service and quality of experience management solutions, and the ability to provide industrial-grade security *at the network level*. The foundation also includes communication, messaging, and collaboration platforms and services that are compatible and which can be integrated together *even though they may be from competing vendors*. Finally - and perhaps most importantly – end users are now recognizing the value of integrated communication services - based on presence – and how these services can drive personal and organizational productivity and significantly cut costs. Senior management is aggressively seeking to realign internal IT resources toward areas where they can add value to the business process. CIO's are seeking to eliminate commodity functions from IT and push them into the cloud. This combination of a secure network with plenty of bandwidth for voice and video, compatible building blocks for integrated services, and a ready market for cloud-based services is rocket fuel for the emergence of hosted and managed unified communications.

Over the last few years, we have seen an increasing number of on-premises unified communications (UC) deployments – within large global 1,000 organizations as well as small-to-medium businesses. In the last year, we have seen tremendous interest and momentum toward managed services and in augmenting on-premises UC elements with those from hosted services providers (hybrid deployments). Beginning in 2010, and growing aggressively throughout the five-year forecast period, managed and hosted services will increasingly compete with premises-based solutions for the greater share of UC deployments.

Although there are well-publicized stories of companies rolling out UC to their entire global organization, our research indicates that this is the exception rather than the rule and that any large deployment will take time. Panasonic's global deployment of IBM's LotusLive hosted collaboration solution will begin with less than 10,000 in the first year, with most of these being in North America. In Europe, Royal Dutch Shell is in the process of deploying a 150,000 seat hybrid solution with on-premises telephony integrated with Microsoft Office Communications Server capabilities delivered by AT&T.

The combination of cost, complexity, and the back-to-basics focus demanded by the recent economic downturn provides a perfect storm for a new breed of unified communications solutions providers to emerge, which has the skills and geographic reach required to offer unified communications and collaboration solutions as a fully hosted or as a managed service. We are clearly not alone in our supposition that UC services are a huge opportunity. Our research indicates that nearly every network service provider in the world and all of the largest conferencing service providers (CSPs) either are now offering or are planning to offer hosted or managed unified communications solutions of one type or another. Many of these offerings take best of breed solutions from telephony and software vendors, add in the network, and provide a fully managed or hosted UC service that is flexible, customizable, and compelling for companies wishing to benefit from unified communications. Given the sheer number of new entrants combining to forge a new market, we anticipate that the nascent hosted/managed UC services market will grow dramatically over the next decade.

Figure 1. End user responses to the question: "If you are currently using or planning to use UC solutions from a vendor are they/will they be on-premises (CPE), managed, hosted, or hybrid?



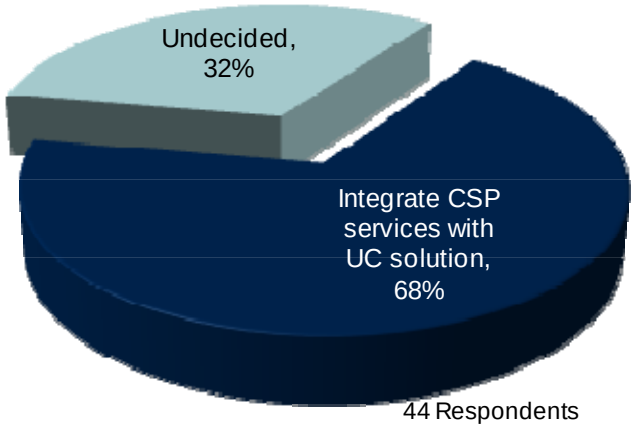
44 Respondents
30 greater than 10,000 employees
10 greater than 1,000 employees

Source: Wainhouse Research, March 2010

Nor are the service providers alone in their optimism regarding hosted and managed UC services. End user companies are also considering these solutions. In a recent survey of 40 multinational companies from North America and Europe with 1,000 or more employees, not one company indicated that it would deploy a UC solution entirely on-premises, while half of the responding companies indicated they would deploy a hybrid UC solution.

A further boost for UC services providers comes from the same survey in which 68% of respondents indicated that they intend to integrate their existed conferencing services with their UC solution.

Figure 2. End user responses to the True/False question, "My organization intends to integrate our existing CSP Services with our UC solution?"

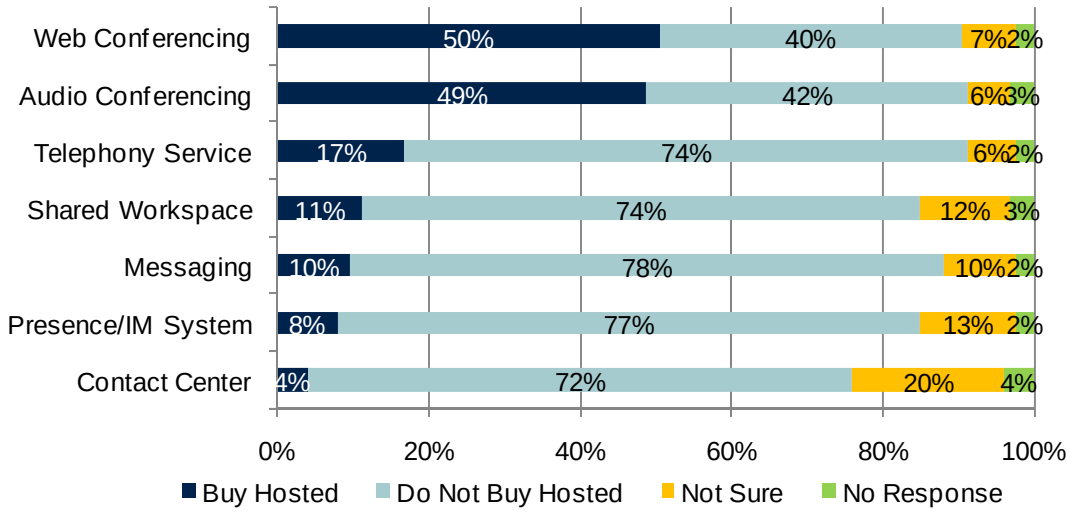


44 Respondents
30 greater than 10,000 employees
10 greater than 1,000 employees

Source: Wainhouse Research, March 2010

To put these figures in better perspective and to match them with current trends in the hosted market, consider the data from a July 2009 survey in which companies were asked what they were currently buying from service providers. As shown in the figure, there is tremendous room for growth in hosted services, particularly in telephony, shared workspaces, messaging, presence/IM, and contact centers.

Figure 3. Percentage of end user respondents purchasing UC elements from a hosted services provider.



Source: Wainhouse Research, March 2010 125 respondents, 90 with more than 1,000 people

Given these opportunities, it should be no surprise that several vendor companies including Cisco, Microsoft, and IBM have recently entered the hosted services market providing precisely these kinds of services including messaging, shared workspaces, presence/IM, and in some instances telephony. Nor should it be surprising that most of the network service providers and CSPs are positioning themselves toward expanding their traditional conferencing services offerings to include unified communications.

In the report that follows, we lay out the driving forces that detail why end user companies may be ready to consider UC services. We discuss the trends we see in the market by providing a global perspective along with emphasis on the North American UC services market where distinctions are warranted. We describe the hosted/managed unified communications and collaboration offerings from 26 service providers who are currently conducting business in the United States and Canada. We conclude with our estimate of the current market size (2009) and provide a 5-year forecast for the growth of UC services in North America.

Broadcore

Address:	5454 Beethoven Street, Suite 200 Los Angeles, CA 90066 USA
Corporate Structure:	Privately Held
Website:	www.broadcore.com
Year Incorporated:	2004

Solution Snapshot

Unified Offering Capabilities	☐ PC Presence ☑ Phone Presence ☐ Calendar Presence ☑ IM ☑ Integrated Voice ☑ Mobility ☑ Audio Conferencing ☐ Web Conferencing ☐ Video Conferencing ☐ Calendar ☐ Shared Workspace ☑ Unified Messaging
Presence/IM Engine	Broadcore Unity
Voice	BroadSoft BroadWorks
Mobility	Broadcore Anywhere Broadcore Unity
Audio Conferencing	BroadSoft BroadWorks
Web Conferencing	None
Video Conferencing	Polycom VVX1500 CounterPath Bria
Messaging Platform	BroadWorks with Broadcore Unity enhancements; Integrate with Exchange
Federation	None
Shared Workspace	None
Service Options	Hosted
Offer SIP Trunking	Yes
Offer Network Connectivity	Yes
Geographic Footprint	North America

Company Overview

Broadcore is a national provider of business-class hosted unified communications services. Broadcore is an outgrowth of a 20-year old value-add reseller and installer of premises-based telecommunications equipment. Since its inception in 2004, Broadcore's goal has been to offer its business clients comprehensive hosted unified communications services. Broadcore has installed over 10,000 hosted unified communications seats and is a founding member of the Cloud Communications Alliance. Broadcore is privately held and debt-free with no venture capitalists involved.

Offering Overview

At its core, Broadcore uses the BroadSoft BroadWorks carrier-grade voice platform. We have described the BroadSoft solution in detail under the BroadSoft section in this report. In addition to

providing hosted IP telephony, Broadcore offers a number of enhanced services including unified voicemail, instant messaging, presence, conferencing, mobility, video calling, call center, call recording, call accounting, SIP trunking, broadband access, and customer integration.

Broadcore distinguishes itself from other BroadSoft solution providers in several defining ways:

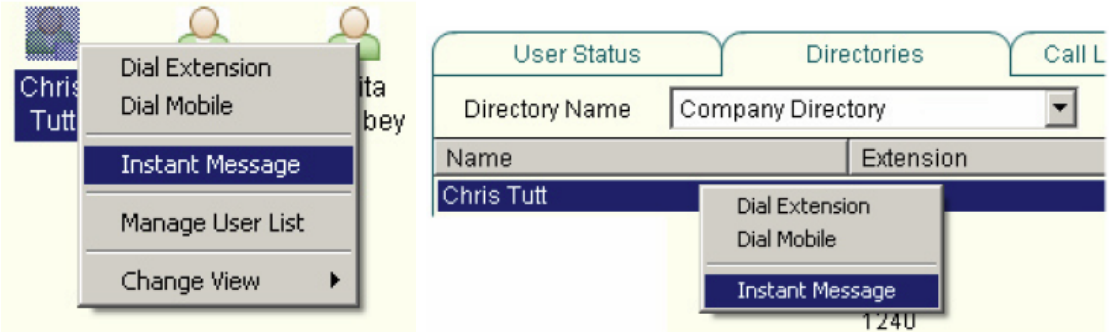
1. The company has developed a unique desktop client and interface, branded Broadcore Unity, that provides a custom dashboard and easy-to-use operating environment for customers to place and manage calls, listen to voice messages, and see presence information.
2. Broadcore's executive team has significant real-world on-premises telephony experience, and they know how to provide voice services customers value and need.
3. The company is flexible in that it can provide the QoS-enabled network with full monitoring and management, or the customer can provide a QoS-enabled network if desired.
4. Broadcore can provide its service fully hosted, or it can integrate with third party solution providers who may offer hosted Exchange or Office Communications Server.
5. Broadcore has built a deep level of integration with the BroadSoft's billing platform creating an online call accounting system. Customers can get the normal CDRs; however, Broadcore's integration allows its customers to mark each phone with a different account code so that managers can track expenses, call usage, durations, down to the individual department or the individual user.

Broadcore's Unity software is clearly Broadcore biggest differentiator. Unity allows users to control calls and messaging from an easy-to-user interface running on a Windows PC. Besides the ability to place and receive calls, the user status and directory section of the window provides a user's telephony presence state as well as the ability to instant message with other users.

Figure 15. Broadcore's Unity call control dashboard and client interface.

Four presence states exist: available , ringing (user's phone is ringing), on the phone , and unavailable . Users can right click on the status icon above a person's name or on a person's name within the group directory to see a pull-down menu with the instant messaging option. To receive an instant message, the recipient must have Broadcore Unity open.

Figure 16. Instant messaging from within Broadcore Unity.



Broadcore has successfully completed interoperability tests with Microsoft OCS and Exchange, and provides integration with these two platforms for customers who wish to keep their Exchange and OCS systems. However, Broadcore reports that most of its clients are quite satisfied with its Unified Voicemail solution where voicemails are sent to any email inbox in .WAV format. As market conditions change the company is prepared to include hosted Exchange service in its service offering.

Audio conferencing is also part of Broadcore's offering – up to six people can be sequentially added to a call using the standard BroadSoft softswitch. Alternatively, Broadcore provides a 6-port "meet-me" conferencing bridge as part of the service. Additional meet-me ports can be added as needed.

Broadcore supports point-to-point videoconferencing using the Polycom VVX1500 video-enabled SIP phone. Alternatively, customers can use the CounterPath Bria softphone with Broadcore, and this softphone also provides SIP-based video capability. The company is investigating practical solutions for multipoint video and will likely include this in a future offering.

Broadcore sells its solution direct, and it is actively moving customers from a voice-only service to its UC service that includes Broadcore Unity. The company targets the 50 – 200 user SMBs and is quite competitive in its pricing, which usually includes the network. Redundancy is provided by data centers located in Los Angeles (two of them) and in New York City.

Analysis & Opinion

Broadcore's offering is similar to that offered by many other small BroadSoft-based VoIP providers. The Unity dashboard and control mechanism is very well done, satisfying the purpose for which it was built: to give users an easy way to control calls, voice messages, and instant messaging.

The product is not as fully featured as including OCS or Sametime; however, it seems to meet the need for the customers Broadcore serves.

One of the more interesting aspects of Broadcore is the company's participation in the Cloud Communications Alliance. All seven of the founding companies hope that they can grow the total size of the market using their combined marketing dollars and initiatives. We anticipate that for Broadcore to expand out of the pure hosted voice business and into the UC hosted service provider business, the company will need to create a more robust UC client with additional capabilities. It could do this on its own, or possibly partner with companies who already offer Microsoft's hosted messaging and communications package, such as Chinook.

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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.

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About the Research Team

E. Brent Kelly is a Senior Analyst and Partner at Wainhouse Research and Co-Manager of the Unified Collaboration Practice. Brent focuses on all aspects of unified communications and its enabling infrastructure, and he 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. 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 22 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.

Marc F. Beattie is the Managing Partner and Co-Manager of the Unified Collaboration Practice at Wainhouse Research, LLC. Marc is a member of Gerson Lehrman Group's The Councils of Advisors and Vista Research's Society of Industry Leaders through which he advises worldwide financial clients on technology companies and trends. He has authored public and private reports on product strategies, distribution structures, emerging technologies and industry applications. Marc is the principle author of CSP SpotCheck, the three-volume CSP Market Forecast & Provider Review for North America, Europe, and Asia Pacific, the three-volume Addressable CSP Markets study for North America, Europe, and Asia Pacific, and the Emerging CSP Markets study. He is a featured speaker and moderator at industry conferences and private company events - specializing on the future impact of current technology developments. Marc is the conference director for WR's CSP Summit, an annual one day event for CSPs and their partners. He regularly consults with end users, established vendors, emerging companies, and the financial community. Prior to joining Wainhouse Research Marc was an early member of PictureTel and Polycom - holding positions in product management, business development and sales management - and spent 13 years working within the industry. He has been an independent analyst and consultant since 1998. He can be reached at mbeattie@wainhouse.com.