Leveraging IP Communications to Target the Small to Midsized Business Customer

2015 SMB VoIP Report White Paper

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EXECUTIVE SUMMARY

This white paper validates the opportunity for IP communications and guides service providers in approaching the small and midsized business (SMB) market. For service providers currently in-market or those looking to enter the market, the research shows there is sufficient interest to merit a strong push. Primary reasons revolve around: (a) a large market still using legacy systems; (b) a need to improve productivity and better integrate remote workforces; and (c) greater understanding of how cloud-based solutions can improve flexibility and reduce costs. Reinforcing that are customers that have already made the move to IP. These companies show overwhelming happiness with IP across several criteria, including cost, product performance, and functionality. Based on these and other factors, this analysis provides the basis for developing a winning value proposition to target the SMB market.

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Introduction

The SMB (small and midsized business) market is both vast and complex. With almost 6 million SMBs in the U.S. with fewer than 250 employees each, the opportunity for IP-based communications systems is huge, especially since the majority still uses legacy telephony. Moving these customers to an IP-based service – hosted PBX, IP-PBX, Unified Communications, etc. – is an exciting challenge.

This white paper is based on findings from a market research study conducted in March 2015 by Metaswitch Networks and Edgewater Networks. The information has been distilled by J Arnold & Associates to support service providers that are just entering the VoIP space, as well as those looking to refine their offerings or move into additional markets.

Current State of the Market

Examining the marketplace for IP communications, we find that:

- **SMBs remain entrenched in a legacy environment**, with 70 to 80% of businesses currently using TDM. Among small SMBs, key systems are the most widely used, whereas midsized SMBs are more commonly deploying PBXs.
- **Incumbent carriers and cable operators (MSOs) serve approximately 75% of both small and midsized SMBs**, but are vulnerable to CLECs and OTT providers.
- **The under-50 market has limited in-house IT capabilities**. Small SMBs are prime candidates for a simple, hosted VoIP solution.
- **Midsized SMBs have more in-house IT expertise** and have moved more aggressively to IP-based telephony solutions.
- **Mobile/teleworker acceptance is increasing**, especially among larger SMBs.

The SMBs surveyed have been divided into two groups – those that have not upgraded to IP (legacy customers) and those that have (IP customers). This white paper examines these segments in greater detail. (The research refers to “small customers” as those with 50 or fewer employees and “midsized” as those with 51 to 250 employees.)

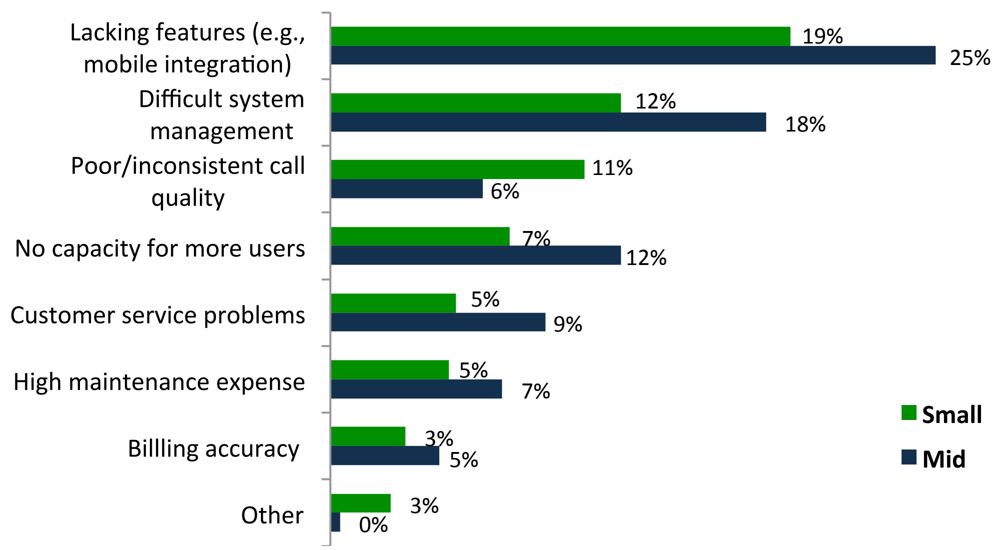
The Legacy Phone System User

A large percentage of the installed base is still using legacy TDM phone systems. The research study takes an in-depth look at these businesses, examining their attitudes and preferences.

Problem Areas for SMBs

When legacy customers were asked what types of service issues they experience, 40% found one or more issues that could be addressed by a product upgrade. As seen in Figure 1, a new IP-based system addresses many of those issues, including feature capability, system management, and capacity. This creates a deep well of customer concerns that can be addressed in both marketing messaging and the sales engagement process.

FIGURE 1: LEGACY CUSTOMER ISSUES

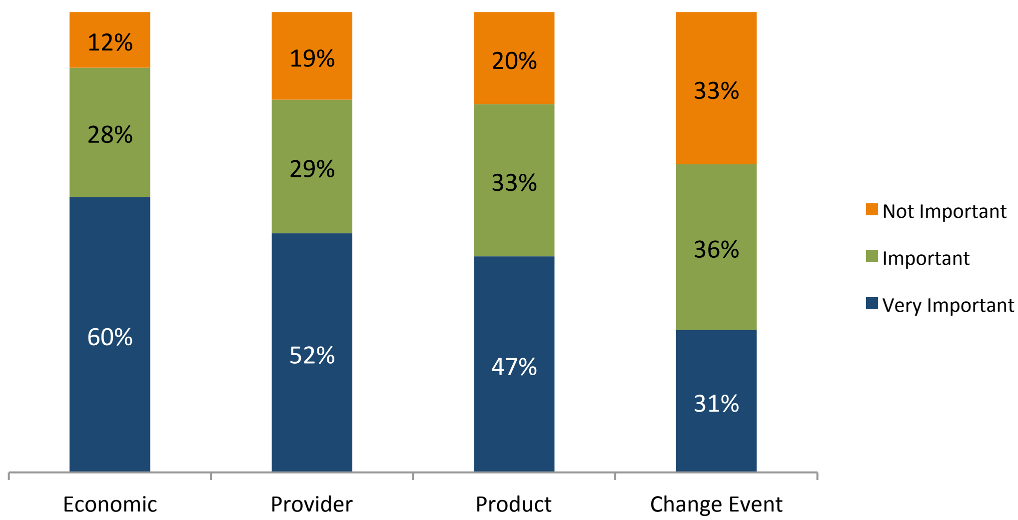


Decision Criteria for VoIP

Legacy users were asked to rate the importance of 16 attributes in considering a move to VoIP, which are summarized in four main categories below – economics, provider, product, and change event (meaning an event that might drive a company to purchase, such as a move).

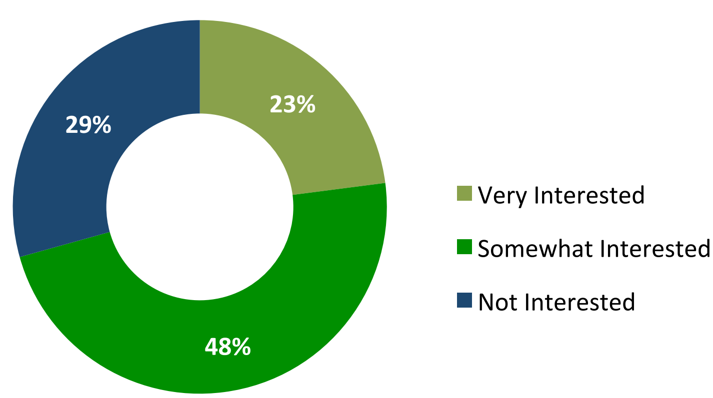
Concerns about total cost of ownership are to be expected as every business purchase seeks economic benefits. In most cases however, IP communications will provide cost savings or deliver additional benefits to justify a higher cost. The service provider attribute speaks to the basic need for SMBs to see VoIP as a low-risk decision – embracing trust, SLAs, ease of management, and customer support. Product elements are obviously big, with 80% citing them as “important” or “very important.” In many respects, the product elements become the discriminating factor for purchase, as price and provider reputation (or your ability to convey them positively) become “table stakes” in furthering the conversation. Lastly, a change event (end of contract, PBX failure) is a somewhat obvious juncture where a purchasing decision takes place.

FIGURE 2: DECISION CRITERIA FOR MOVING TO VOIP



Interest in VoIP

FIGURE 3: INTEREST IN IP COMMUNICATIONS

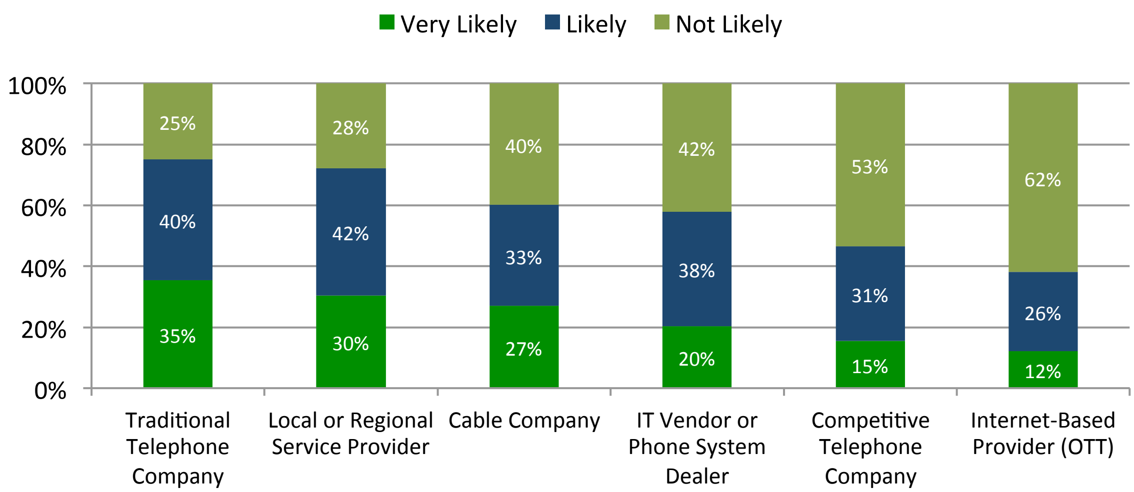


The data confirms that most SMBs are "somewhat" to "very" interested in VoIP. A follow-up question indicates that 45% have an interest in buying within two years. Regardless of how long the decision-making process is, many SMBs are thinking about IP now, which makes for an attractive market.

Service Provider Preference

SMBs appear most comfortable with local providers and MSOs (cable). While the data in this survey points to vendor preference, it does not reflect the actual sales that are taking place. CLECs, for instance, are very experienced selling business services and have been quite successful in selling IP communications. OTT (over-the-top) providers have developed strong product capabilities and are moving the market to price more aggressively with rich packages of bundled features.

FIGURE 4: PREFERRED VENDOR FOR IP COMMUNICATIONS



The IP Phone System User

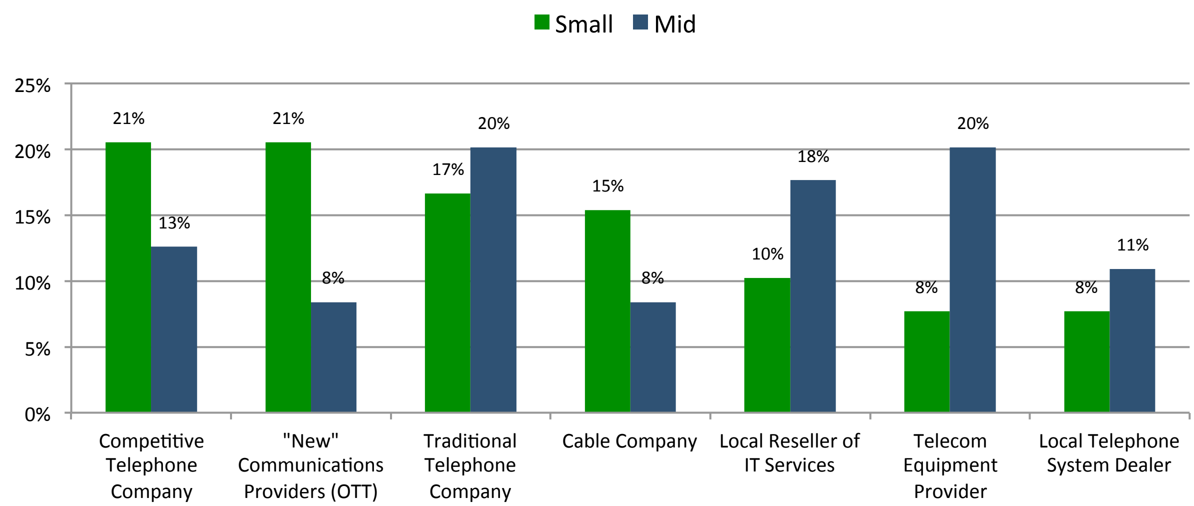
Customers who have already transitioned to IP-based service are able to share their first-hand experiences – including what drove their purchase decisions, how well products performed, and how well their services have lived up to expectations.

Whom Did They Buy From?

In contrast to the findings from legacy customers, customers that have already purchased an IP-based service indicated a much more level playing field among providers. When it comes to actual purchases, nearly all vendor categories have sizeable representation. Note that this is self-reported data and may not represent actual market share. Also note that an IP-based service could represent either a hosted PBX or a premises-based IP-PBX.

From this data we can draw some key conclusions. One is that smaller companies seem to prefer price leaders, which in general are CLECs and OTT providers. Midsized businesses, on the other hand, are more inclined to buy from traditional providers as well as from IT vendors and equipment providers. The takeaway is that no type of service provider dominates, and SMBs are buying VoIP from a wide variety of sources.

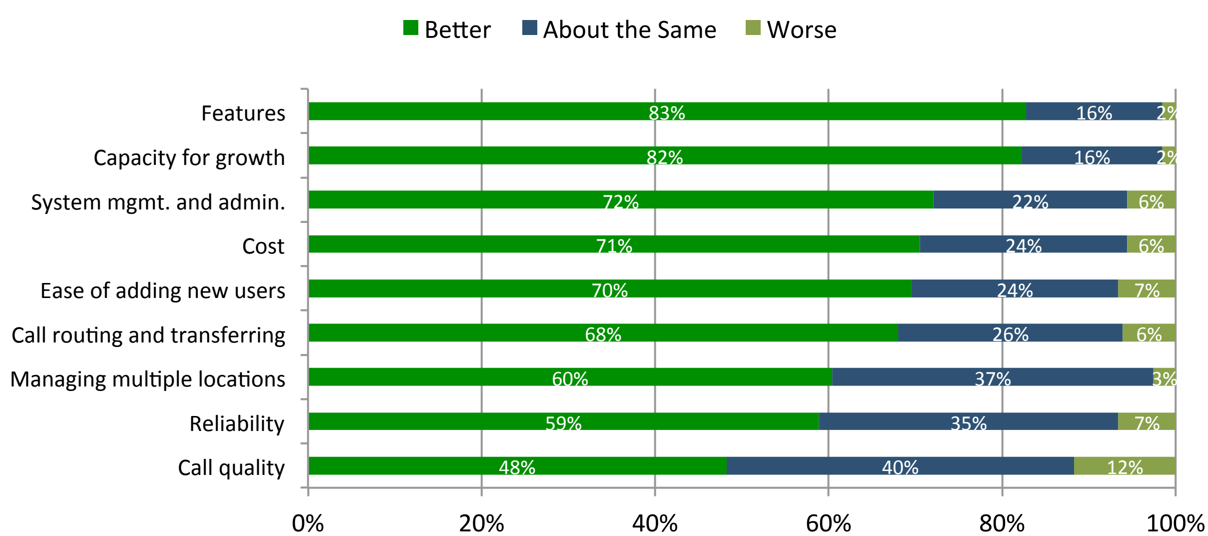
FIGURE 5: SERVICE PROVIDERS OF IP USERS



Satisfaction With VoIP

When SMBs were asked to compare the attributes of IP against the legacy services they were previously using, VoIP was rated higher in all attributes. This speaks to the depth of VoIP's value proposition, which goes beyond cost savings and features. Clearly, other attributes also drive value – namely, the importance of ease of management, growth flexibility, and future proofing.

FIGURE 6: COMPARISON OF IP-BASED SERVICE TO LEGACY SERVICE

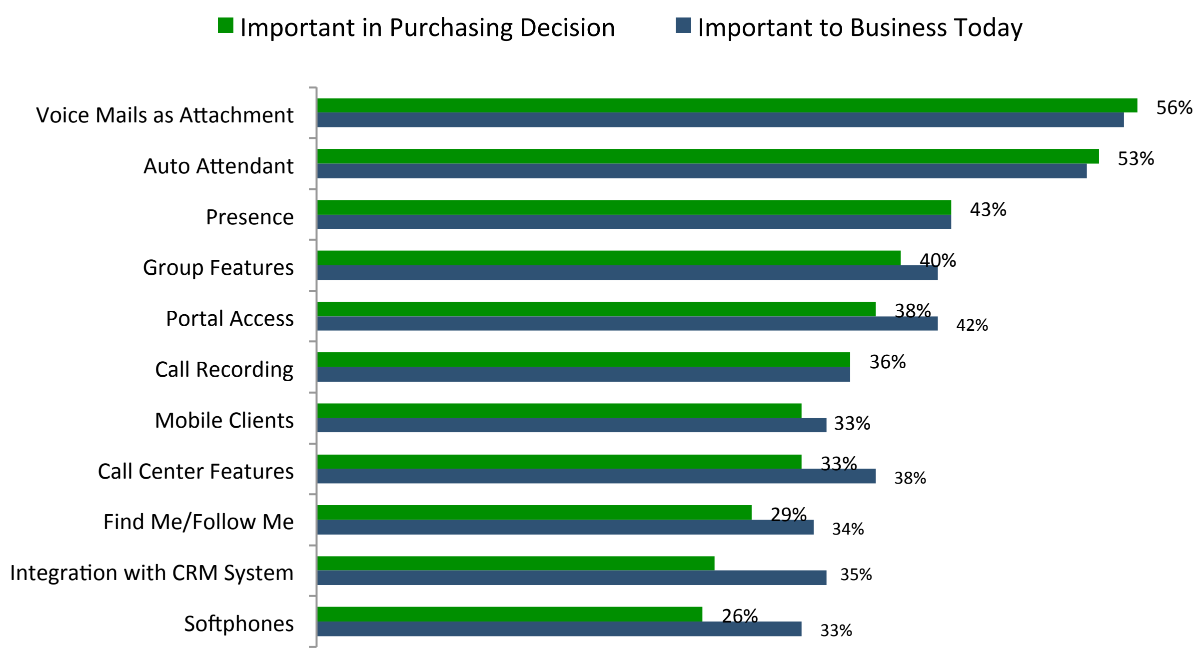


Features They Desire

Drilling a little deeper, the survey asked what features were key to the decision-making process and, subsequently, which features are important to their businesses today. Here the research is clear – advanced Unified Communications (UC) features that bring together the remote and mobile workforce are key to the decision-making process and are heavily used once deployed.

While there are several PBX features (like group functions and auto attendant) seen as important, most of the key features were UC oriented. These include soft phones, mobile clients, “presence” (ability to see the status of co-workers), and mobile integration functions. Indeed, most purchasers are looking to “future-proof” – choosing a provider not only with strong PBX/call control functions, but also with emerging capabilities that UC brings to the table. When asked about UC specifically, between 70 and 80% said they are at least “somewhat likely” to choose a provider that offers UC functions.

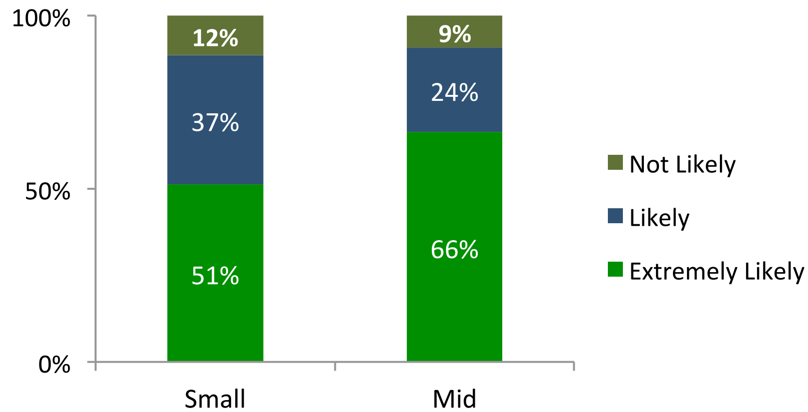
FIGURE 7: FEATURES IMPORTANT TO SMBS THAT HAVE DEPLOYED IP SOLUTIONS



Likelihood to Recommend

As seen in Figure 8, 85 to 90% of SMBs are "extremely likely" or "likely" to recommend IP communications to their peers. Given this, service providers can feel confident that new VoIP customers will serve as strong allies for accelerating their market penetration. Items like case studies and reference customers can reinforce that message and be valuable tools in sales and marketing.

FIGURE 8: LIKELIHOOD TO RECOMMEND SERVICE



Paths to Success

The following presents go-to-market recommendations for service providers looking to either enter the SMB market or expand their footprints.

- The research provides clear guidance regarding decision-making criteria for VoIP. Legacy SMBs need to know that IP telephony will be provided by a trustworthy provider that backs their offers with solid customer service and delivers cost savings.
- While TDM is the dominant mode of telephony, some 40% reported having issues with the service. The most notable issues are limited features, complex system management, and inconsistent call quality. VoIP has a lot to offer here, and these issues represent prime selling points.
- Unified Communication functions are a key component of a well-rounded product offer. Most SMBs are looking for UC as part of the purchasing decision, and most of the market either has UC or will very soon. It's a must-have in your portfolio.
- SMBs mainly rely on Internet-based research and conferring with business peers as information sources for VoIP decision-making. This speaks to the importance of using the Web as a core outreach channel to SMBs and to using your website as a showcase to educate them about the various issues outlined in our analysis. Prime examples are case studies, white papers, FAQs, and how-to guides.

- The main issues SMBs have with their VoIP providers are a lack of training and resources to help end-users get the most out of VoIP. This is especially relevant among small SMBs, given their limited in-house IT resources to support employees.
- It's important to demonstrate how VoIP can extend further than a telephony replacement. The research shows that SMBs are not well aware how VoIP supports mobile and remote workers. Service providers should educate SMBs on the benefits of UC through case studies that illustrate how it makes employees more productive and streamlines everyday operations.

Conclusion

The primary focus of this white paper is to provide industry-based validation supporting the market opportunity for VoIP among SMBs. Legacy telephony may still be dominant, but awareness and interest in VoIP is growing, and that is translating into a strong adoption trend. The opportunity is still early-stage for many SMBs, and the data indicates that current VoIP users are getting better value than what TDM was providing before.

While this provides a solid foundation for VoIP, a secondary focus of our analysis is to help service providers develop targeted go-to-market strategies. The overall SMB market may be substantial, but it is composed of distinct segments, and each will require specific value propositions. Our intention is to establish the need for a segmented approach to the SMB space, and for service providers to build on this research by doing further analysis, not just on which segments to serve, but also on how they should go-to-market. To learn more, Metaswitch Networks provides a wealth of resources, including additional research and educational white papers.