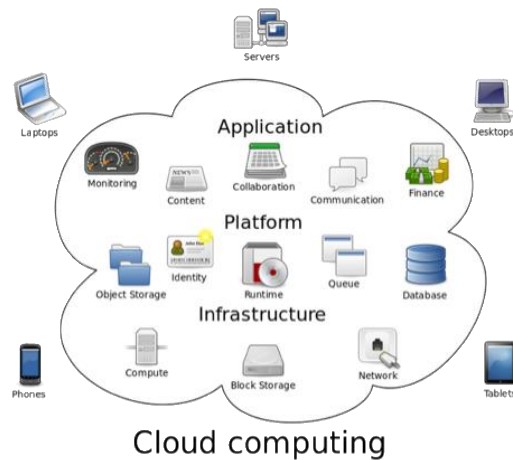**Cloud Comms**
The imperative for differentiation
How to compete in a market that is maturing fast?

White Paper commissioned by:

Author: Marc de Marcillac, The Cavell Group

Introduction

The Cloud Comms[1] market is maturing, and commoditisation is on the horizon – how can providers differentiate to win?

This white paper will examine how Service Providers can best differentiate in this environment and:

- Present evidence of a maturing Cloud Comms market, and the opportunity for Service Providers to differentiate now, based on market demand for higher value services, and the evolving vendor landscape
- Discuss different differentiation strategies and examples, including choice of best-of-breed platform
- Place this thesis into the context of the "three waves of Cloud Comms":
    1. Just voice: the PBX replacement wave
    2. Mobility, and Collaboration from the Cloud
    3. Customer analytics and intelligence.

Market Background and Dynamics

Forecasted penetration of Cloud Comms users US & UK, 2018 - 2022
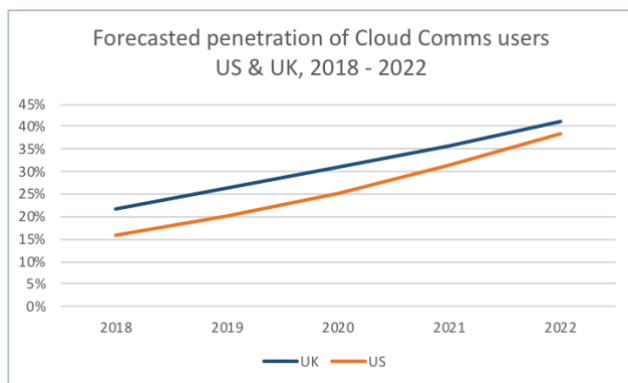
[2]Although not all markets are mature, the US and the UK are the most mature major markets. Even though they continue to grow strongly, within a five-year timeframe they will be highly penetrated, especially considering that many businesses are too small ever to move from mobile only telephony to on-premise telephony. It's also very crowded out there: there are over 90 Cloud Comms providers in the UK and 400 in the US.
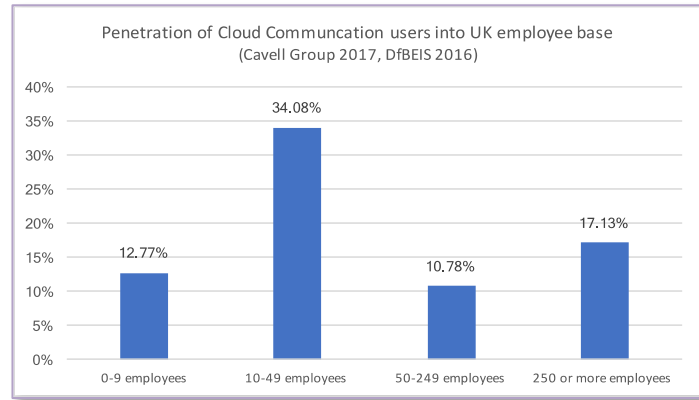
Within individual country markets, penetration differs markedly by customer size[3]. In the UK for instance, the lowest penetrated segments are the smallest segment (0-9 employees) and the mid-market (50-249 employees). The dynamics behind this low penetration are not however all that they seem. The 0-9 segment has low penetration because these micro-businesses largely operate on mobile phones. But this itself presents opportunities for Cloud Comms providers, as is discussed below in "Mobility Comes of Age" on page 8 below.

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[1] "Cloud Comms" is defined as collaboration services, including telephony, delivered as a service from "the cloud".
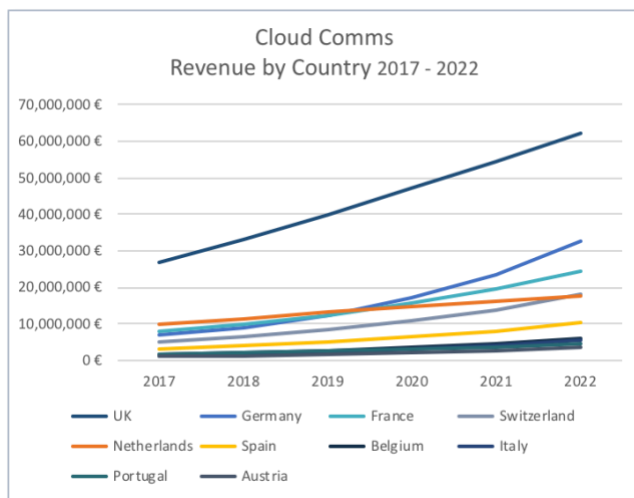[2] Source: Cavell Group and Frost & Sullivan
[3] Source: Cavell Group

The mid-market on the other hand is largely still using on-premise PBX technology, as the replacement cycle for this equipment is long (±7 years) and hasn't been churned yet for cloud telephony. The 10-49 SME segment on the other hand has been seen by the Provider industry as "low hanging fruit" and is already over one third penetrated – largely because of the lower price-based attraction of Cloud Comms over conventional phone systems.

Penetration of Cloud Communcation users into UK employee base
(Cavell Group 2017, DfBEIS 2016)

- 0-9 employees: 12.77%
- 10-49 employees: 34.08%
- 50-249 employees: 10.78%
- 250 or more employees: 17.13%

The implications for the Provider community here are clear:
- The mid-market is the "next big thing" for Cloud Comms
- The micro-business segment is a target for new generation mobile-first Cloud Comms solutions.

Cloud Comms
Revenue by Country 2017 - 2022

Legend: UK, Germany, France, Switzerland, Netherlands, Spain, Belgium, Italy, Portugal, Austria

Looking more widely, Europe[4] is a typical mature market, and whilst Cloud Comms user numbers are still growing, price is declining year on year. It's likely that over the medium term, price pressures will start to depress revenue growth. The US is a much larger country market with similar maturity, with equivalent revenue numbers of €4.1Bn in 2017 growing to €10.5Bn in 2022[5].
We are already seeing a new wave of Cloud Comms, as providers move beyond simple PBX replacement towards collaboration from the cloud.

One obvious consequence of this growth of IP-based Cloud Comms is on the incumbents – in the UK for instance, the market for SIP trunks reached around 51% of total combined market. Providers including KPN, Eir (Eircom), Proximus (Belgacom) and Swisscom are suffering with significant year-on-year declines in fixed line revenues.

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[4] Source: Cavell Group
[5] Source: Frost & Sullivan

These incumbents are seeing their markets being overtaken by pure IP challengers such as Gamm, RoutIT, Blueface and RingCentral.

kpn ↓ 18%　　**eir** ↓ 5.5%　　**proximus** ↓ 7.7%　　**swisscom** ↓ 11%
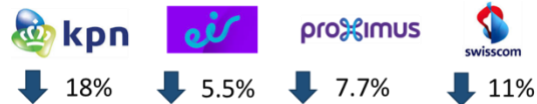
Navigating the three waves of Cloud Comms

The industry generally thinks of three "waves" of Unified Communications evolution, and catching the next wave will be essential for providers to escape commoditisation and margin squeeze.

In the past, Unified Comms advanced features were only sold to a small percentage of the existing base

1. **Just voice: PBX replacement**
This segment is commoditising fast, as the value proposition was around low cost, aimed largely as SMEs
2. **Mobility, and Collaboration from the Cloud**
Adding function like mobility, contact centre etc. creates a richer "stickier" offering, which will allow providers to appeal to the mid-market
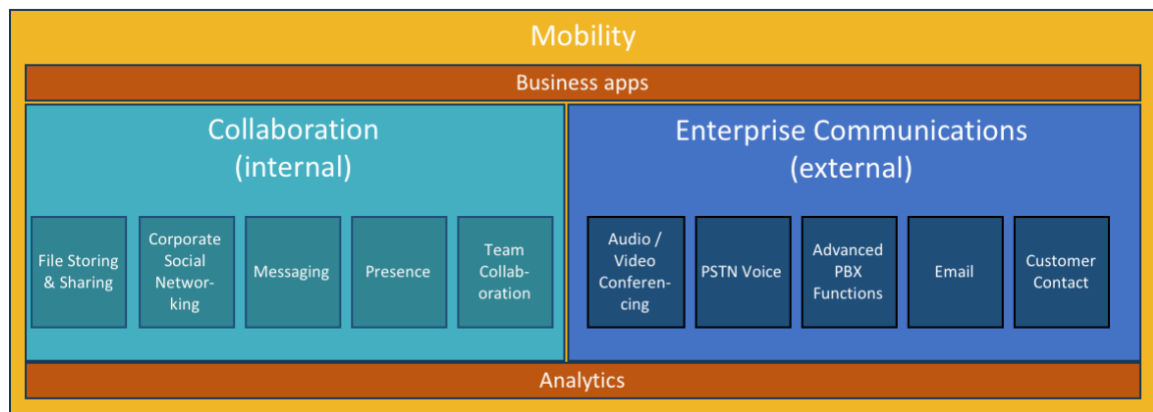3. **Customer analytics and intelligence**
Turning Cloud Comms into a business service with new tools and insights to drive business performance, improving interaction with customers, boosting productivity, and solving real business problems.

The market is starting the transition from Phase 1 – where "just voice" is becoming a price-led commodity – to Phase 2, where mobility will be a key driver. The increasing adoption of smartphones, and workers needing to be as productive on their mobile devices as they could be in the office is a key challenge - but the rise of "mobile-native" millennial generation into the workforce is driving this change.

The Cloud Comms functional landscape

Mobility								
Business apps								
Collaboration (internal)					**Enterprise Communications (external)**			
File Storing & Sharing	Corporate Social Networking	Messaging	Presence	Team Collaboration	Audio / Video Conferencing	PSTN Voice	Advanced PBX Functions	Email	Customer Contact
Analytics								

The diagram above shows the full spectrum of cloud comms – with internal collaboration on the left and external communications on the right – and at least 85% of cloud comms deployments feature just PSTN voice and PBX functions. However, all the other function is starting to trickle down from the Enterprise segment to mid-market and SME – creating an opportunity for Providers to differentiate their offerings.

Note also the "Analytics" and "Business Apps" boxes which span the entire functional stack, as analytics becomes central to managing the customer relationship – even for small companies – and integration with a customer's business apps becomes a key way for Providers to differentiate their offering for specific industries. And finally, "Mobility" – which is driving change at the micro business level but also starting the penetrate every size of company as the Millennial generation starts to enter the workforce.
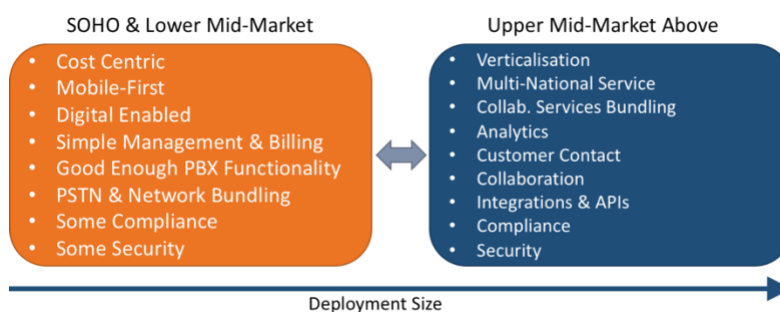
Strategies to Differentiate
So, what are the possible strategies to react to maturing markets?

Firstly, segmentation is key to differentiation, as most Cloud Comms offers are agnostic and functionally similar. The options to segment include:

- By customer size, optimising richness of function to address less sophisticated, smaller companies, or more sophisticated larger ones
- By industry vertical, by integrating the Cloud Comms platform with a widely adopted industry-specific application (see "Verticalisation" on page 6 below).
- Focusing on using cloud comms to facilitate customer interactions (see "Customer Interactions and Experience" on page 6 below)
- Targeting international companies with implementations that cross country borders.

This approach involves segmenting and - crucially - innovating in emerging sub markets or adjacencies, and establishing and adhering to a clear source of differentiation from key competitors. Different approaches could also involve buying rival companies and closing down capacity, innovating by investing in research and development or focussing on new go-to-market strategies and approaches.

Customer Size

SOHO & Lower Mid-Market
- Cost Centric
- Mobile-First
- Digital Enabled
- Simple Management & Billing
- Good Enough PBX Functionality
- PSTN & Network Bundling
- Some Compliance
- Some Security

Upper Mid-Market Above
- Verticalisation
- Multi-National Service
- Collab. Services Bundling
- Analytics
- Customer Contact
- Collaboration
- Integrations & APIs
- Compliance
- Security

Deployment Size

A "one size fits all" approach to serve all segments will likely fail, as products and offerings built for the mid-market (contact centres, disparate workforce, team collaboration, etc) are different from what

is required in the small business market. One of the surprising results of Cavell's primary research is the large number of Providers who operate two or even three separate Cloud Comms solutions. This has recently come to the fore with the concern being expressed by some Providers who currently operate both a Broadsoft and a Cisco solution, and suddenly find themselves running two systems from the same vendor after the Cisco takeover.

Verticalisation

This is one of the key routes to differentiate the offer, as most vendors and providers offer generic feature sets. Most on-premise PBX and Cloud Comms offers are "vanilla" — but different verticals have distinct needs which are currently served by integrators. Key conclusions from Cavell research are that there is no "stand out" vertical that all

Verticals that providers are specifically targeting and seeing success
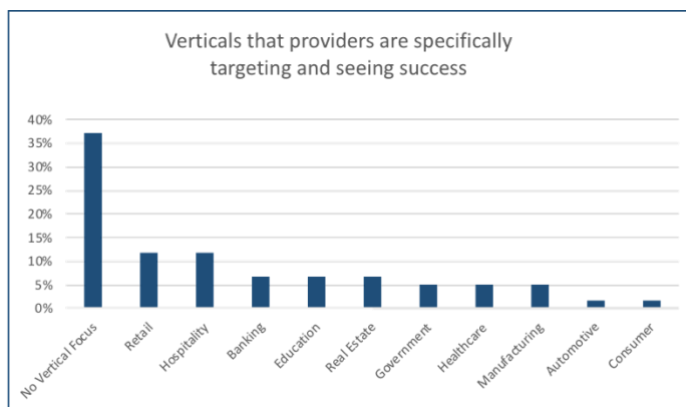
Providers are having success targeting, that Retail & Hospitality are relatively easy to penetrate and differentiate, and that Financial Services offer rich pickings but have very specific and sometimes restrictive dynamics.

Examples of verticalisation include Interesting market segments such as healthcare: spending on this in the US grew 4.3 percent in 2016, reaching $3.3 trillion or $10,348 per person. As a share of the nation's Gross Domestic Product, health spending accounted for 17.9 percent. Accordingly, a number of providers including bluip and NetFortris have focused on integration into this sector.

The Bullhorn application manages the recruitment workflow from candidate sourcing to submittal and placement, and is widely considered best-of-breed in that industry. Not

surprisingly, a number of providers including 8x8 have integrated their Cloud Comms system into this application. Metaswitch has focused on the education sector by integrating its Cloud Comms platform with the Educational Networks of America.

Customer Interactions and Experience

One of the surprising outcomes of the internet revolution and the ubiquity of smartphones is customer "pre-qualification" – this is, the phenomenon whereby potential customers do their own research on a product or service, and either make their choice before contacting a vendor, or at least create a shortlist. Now many of these prospects will then simply

purchase the product on the web, but some will go on to phone the vendor – and this phone call therefore becomes very valuable, as it's not a simple query about a product, but one of the last stages before making a purchase.

This "Now World" phenomenon helps customers define how they interact, and creates a huge opportunity for the communications industry to add value. A wide range of KPIs have been created to define customer behaviour, including Customer Lifetime Value, First Call Resolution, Net Promoter Score and Customer Effort Score. All of these measure different types of behaviour, but all quantify the impact of a poor customer experience on a voice call. After a poor customer experience, 89% of consumers began doing business with a competitor[6]. Customer satisfaction falls by 35%-45% when a second call is made for the same issue[7]. And a whopping 34% of customers who do not get their inquiry or problem resolved on the first attempt are likely to go to your competitors, whereas only 3% of customers whose issue is resolved on the first call are at risk of going to a competitor. Details of some of these customer experience measurements are listed in the Appendix on page 11.

The response of the industry manifests itself in a number of ways, including:
- Analytics & Reporting services
- Cloud Contact Centre
- Advanced Mobility
- Context & sentiment of communication
- Integration into key applications
- WebRTC & CPaaS.

The importance of customer interactions and experience has had the effect of pushing what used to be advanced contact centre features to small companies. Gamma, Nextiva and others sell reporting and wallboarding to SMEs, and the size of the cloud contact centre market is growing at over 20%. Call recording and IVR technologies that are able to detect and take action on caller sentiment are now widespread, and integration into key solutions such as Salesforce, Zendesk, etc.

In addition, SD-WAN is now being seen as a key enabler and revenue opportunity for Cloud Comms Providers, with a full 33% of Service Providers are planning to offer a SD-WAN solution in the next 12 months. Cloud Comms is one of the key services capable of being impacted by SD-WAN, and can offer Providers the ability to offer additional services including security.

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[6] Source: Harris Interactive
[7] Customer Relationship Metrics

Collaboration and Video

Collaboration is starting to gain traction, especially with larger SMEs and mid-market segments, with 93% of Service Providers importance of collaboration services to increase over the next 12 months and Over 50% of Providers see demand for video from customers[8]. The inbuilt human resistance to using video for =collaboration is slowly starting to break down as end-users begin to realise the productivity benefits of actually being able to see their interlocutors.

However, much of the SME market currently uses point solutions such as Webex, LogMeIn, or PGi GlobalMeet but do not source it from their Provider.

And Microsoft Office 365 is a Provider market disruptor.

Mobility Comes of Age

Advanced mobility is driven by the emergence of the mobile-native generation who seek a mobile centric approach, with seamless integration of apps and network through an intuitive User Interface. A range of innovative services have been launched (e.g. OneNet, OneTalk, Digits, MultiLine, etc.), and vendors such as Metaswitch are innovating with products like their MaX offering, which is mobile-native.

For the second wave of cloud comms though, mobility and fixed/mobile integration is *the* hot topic, with more sophisticated collaboration solutions such as Contact Centre & collaboration, as well as Analytics.

Some of the key requirements for this mobile-native approach are around the three topics in the diagram.

| Attract & Retain Customers	Reduce Costs	Work Flexibly
• One Main Business number – with Intelligent call routing • Temporary Numbers • Means never miss a call	• No costly fixed infrastructure • As all services are available • Users can use their existing personal phones initially	• Intuitive Collaboration App / UI • Presence and Secure Chat • Business can simply add and remove temporary users

Cavell's Points of View on the Cloud Comms Market

A number of key trends are shaping the market and likely to bring significant change to the Providers' approach. Firstly, the first wave of Cloud Comms is becoming commoditised, and to survive and thrive, Providers will need to embrace the second wave. They will need to rely not only on platform vendors to provide innovation and differentiation but will look at in-house development and integration.

Mobility, if implemented well with well-designed UI and simple, intuitive operation, will be a game changer, especially in the micro and small business segments.

[8] Source: Cavell Group

Advanced collaboration, especially video, will be the next big thing in cloud comms adoption, and there will be significant product innovation, around AI & Analytics as enterprise seek to improve their interactions with customers.
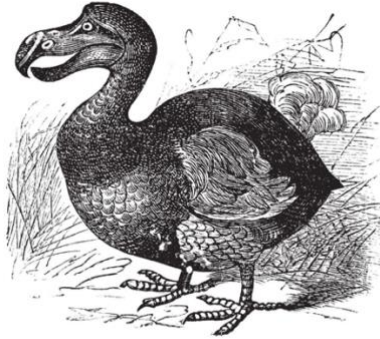
You're next

It is not the strongest of the species that survives,
nor the most intelligent that survives.
It is the one that is most adaptable to change[9]."

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[9] Attributed to, but never in fact quoted by Charles Darwin

About Metaswitch

Metaswitch is the world's leading cloud native communications software company. We develop commercial and open-source software solutions that are constructively disrupting the way that service providers build, scale, and innovate communication services.

We have a strong 35-year history of providing high-performance, hardware-independent software to the communications industry. Our success stems from a unique combination of our deep experience in software engineering with agile development capabilities; a highly-regarded support team; and financial and organizational stability. We now serve more than 1000 fixed, mobile, and converged global service providers with innovative software solutions that transform both communication networks and services that improve operator business models and help quickly create new revenue-generating services.

Metaswitch brings a differentiated, approach to Cloud Communications built on flexible and scalable cloud networks, on open, and secure virtualized software platforms, purpose-built for service providers to enable their delivery of differentiated services for their customers to more effectively communicate, collaborate, and connect with customers in the mobile age. These solutions are in use by over 21m business users and are trusted by over 300 global service providers.

To learn more, visit us at -- https://www.metaswitch.com/solutions

Appendix: Customer Experience Measurements

	First Call Resolution (FCR)	Net Promoter Score (NPS)	Customer Effort Score (CES)
Questions	Did we completely resolve your issue today? How many calls did you make to resolve your issue?	On a scale of 0-10 how likely would you be to recommend [company] to a friend or colleague? What is the primary reason for the score you just gave us?	To what extend do you agree or disagree with the following statement: The organization made it easy for me to handle my issue.
Scales	Yes/No • 1 • 2 • More than 2	Scale from 0 - 10	1. Strongly Disagree 2. Disagree 3. Somewhat Disagree 4. Neither Agree nor Disagree 5. Somewhat Agree 6. Agree 7. Strongly Agree
Essential Thoughts	FCR has a strong correlation to customer satisfaction. This measure reflects both the efficiency and effectiveness of the contact center.	Customers are more likely to share negative experiences than positive ones. By monitoring your detractors and getting them back on board of passives or promoters, you can enhance your NPS score.	"Service organizations create loyal customers primarily by reducing customer effort – i.e. helping them solve their problems quickly and easily – not by delighting them in service interactions."
Method of Measurement	The FCR score is based on the percentage of customers who achieved call resolution in one call.	The Net Promoter Score = % of promoters (respondents that gave a 9-10) – % of detractors (respondents that gave a 0-6)	After aggregating the replies, a high average indicates that your company is making things easy for your customers. A very low number means that customers are putting in too much effort to interact with your company.
Applicability	FCR is versatile because it allows you to ask customers a variety of questions, usually within the context of a CSAT survey.	Able to measure the customer's opinion across channels, contact moments, and experiences.	Easy to pin-point actionable service improvement areas.
Considerations	FCR does not have a strong correlation to customer loyalty Focuses on customer transactions and not on wider relationship with the company.	NPS has a strong correlation to loyalty. Focuses on customer transactions and overall customer relationships.	CES has the strongest correlation to loyalty. Focuses on customer transactions and not on wider relationship with the company.