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Shifting Market Dynamics in UC&C Require the Right Service Provider Partner

A Frost & Sullivan Executive Brief
In Partnership with

metaswitch



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INTRODUCTION

Choosing the right solution to deliver reliable and compelling unified communications (UC) services to customers has always been a complex challenge for communications service providers. While a few providers try to claim differentiation by investing time and resources into home-grown services platforms, most large providers are seeing the value in terms of service innovation and agility by leveraging solutions developed by leading technology vendors. Partnering with a technology vendor, however, can create its own set of challenges. Choosing the wrong third-party platform and partner can result in conflicting product roadmaps, as well as reduced profit margins and fewer customization options. In some cases, a provider might even find itself in direct competition with its partner. In addition, the changing vendor landscape, increased competition from both new and established providers, and rising customer expectations are further changing the relationship between service providers and technology vendors. Now more than ever, it is imperative that providers re-evaluate their existing relationships and seek out vendors and solutions that align most closely with their own business and services strategy.

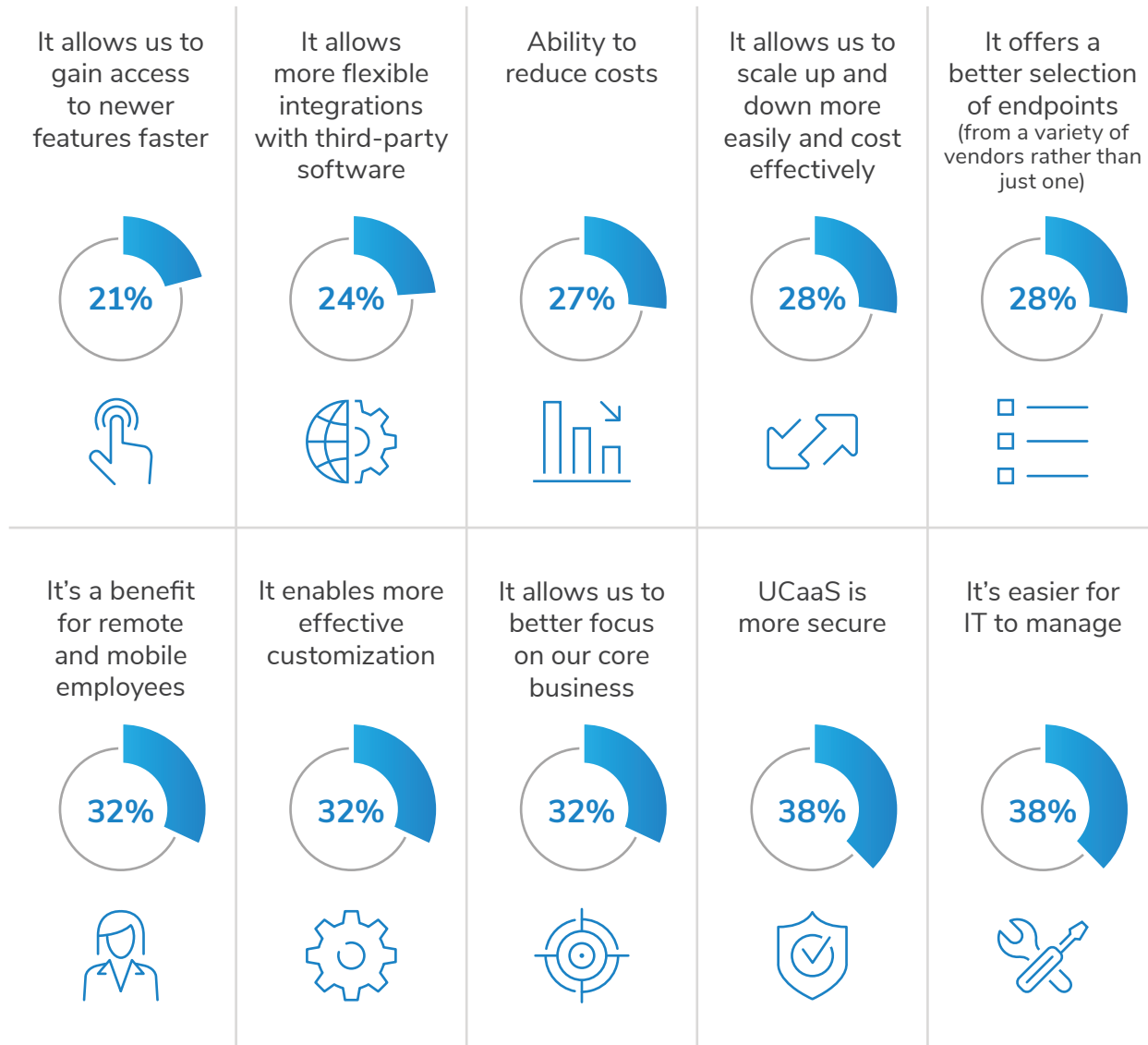
This executive brief explores these new market dynamics and the impact they will have on communications service providers. In addition, the paper highlights some considerations for service providers when evaluating vendor partners.

EVOLVING MARKET DYNAMICS

The transition from traditional telecommunications to end-to-end Internet Protocol (IP)-based solutions has created both opportunities and challenges for communications service providers. More than two decades later, the effect of this disruption is becoming even clearer, and with new high-impact technologies, such as mobility and collaboration, it is even more important that service providers chose carefully. Frost & Sullivan has identified three compelling factors that will impact communications service providers amid the continued advancement of IP-based communications technologies:

Changing Customer Expectations—Put simply, business communications are no longer only about desk phones and voice services. Today businesses are looking for not only reliable and cost-effective business phone service, but advanced communications capabilities, including mobility, rich-media calling and conferencing, and increasingly team collaboration and messaging. In a Frost & Sullivan survey of 127 US unified communications as a service (UCaaS) users completed in the fourth quarter of 2018, respondents were asked to list their top reasons to adopt UCaaS. Along with the more traditional benefits of UCaaS, including easier management for IT and security, mobility and customization ranked very high. In fact, nearly a third of respondents cited the benefit to remote and mobile employees as a top driver for moving to UCaaS.

EXHIBIT 1: TOP REASONS TO ADOPT UCaaS, U.S., 2018



N = 127

Source: Frost & Sullivan

Furthermore, business users overwhelmingly see the value of bundling these services together—not only for presumed cost savings, but also for the simplicity of a unified experience. Among respondents to the same Frost & Sullivan study a large majority, 69 percent, preferred all-inclusive bundles, compared to 25 percent of those who preferred multiple tiers of bundles, with a mere 6 percent wanting a customized feature set to choose from.

Business users are also expecting to have a choice of interfaces at their desk (traditional desk phones and soft clients), as well as on their mobile devices. In addition, businesses increasingly insist that their business services operate with the immediacy of software as a service (SaaS) applications, meaning

near-immediate provisioning of services, and the flexibility to add or remove features on demand, as well as to scale up or down as needed for their business.

Changing Competition—The UCaaS market is experiencing a flood of competitors, including cloud companies looking to extend their presence in the enterprise, traditional telephony vendors shifting to the cloud to remain relevant in the business communications market, and a new wave of collaboration service providers that are adding voice alongside their existing messaging, video, or conferencing offerings to offer full-stack UC solutions. Many of these competitors are delivering their services using over-the-top (OTT) applications on top of regular Internet broadband, forgoing the traditional quality of service (QoS) and reliability capabilities that are often wrapped into UC services delivered on the carrier-grade networks of traditional service providers. In addition, competing OTT services require businesses to manage the service independently of their other providers, meaning separate on-boarding processes, separate billing and management portals, and no opportunity to bundle services for a better price.

Changing Vendor Landscape—The entire enterprise communications marketplace is experiencing frequent and disruptive rounds of consolidation, with new mergers and acquisitions announced every month. The market segment for the infrastructure that service providers can deploy to offer UCaaS solutions is no exception. High-profile acquisitions and the resulting business model, product roadmap, and pricing changes that inevitably follow are ultimately forcing a change in the relationship between service providers and their vendors, as well as limiting the options and potentially profit margins for providers. Other solution providers are switching to selling directly to the enterprise, pitting themselves in competition with service providers.

THE SERVICE PROVIDER IMPERATIVES

Based on the disruptive forces impacting the entire enterprise communications market, Frost & Sullivan believes it is essential that communications service providers develop strategies to address these challenges directly with their communications services portfolio and work with vendor partners that most closely align themselves with that strategy. Service providers, in particular, need to consider several imperatives to aid their success:

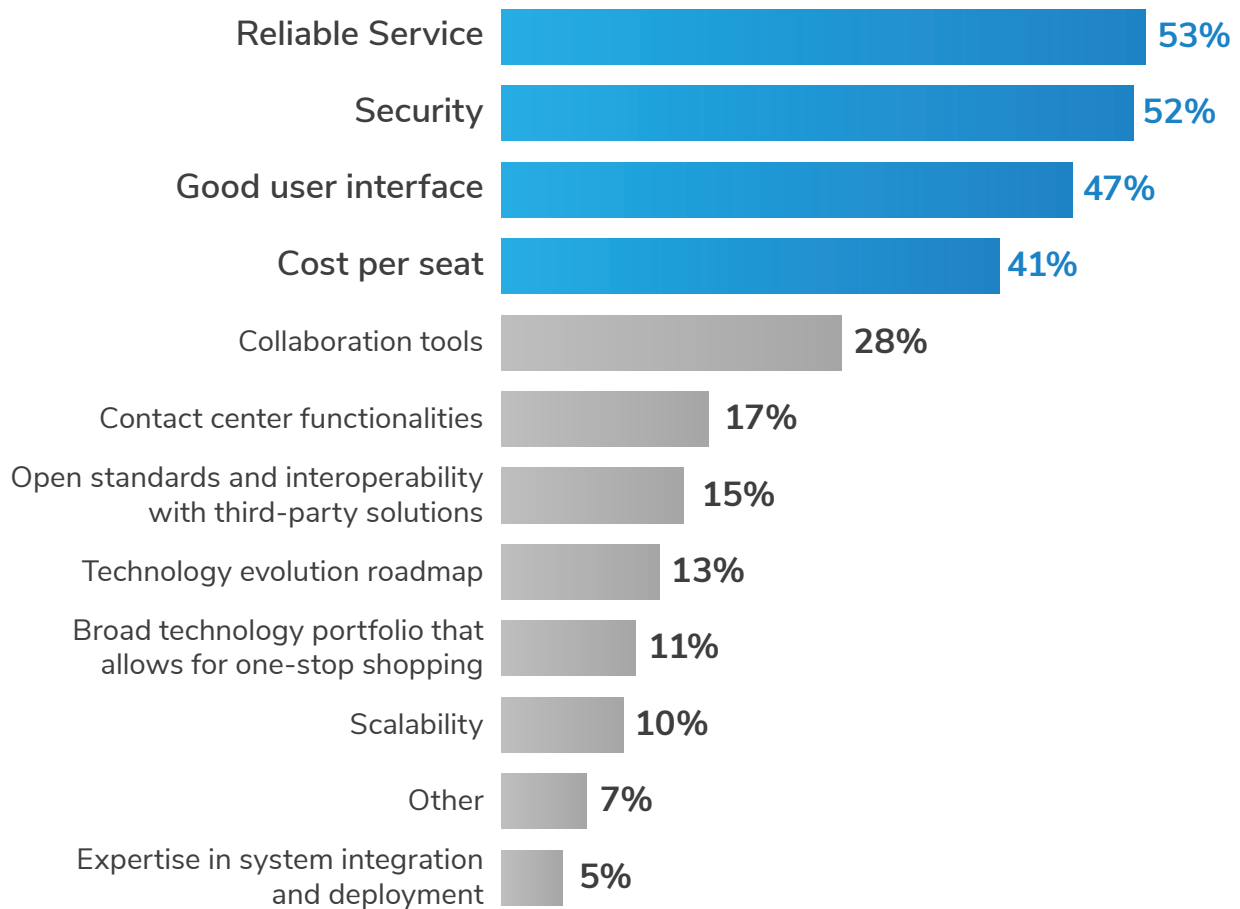
Navigate Customer Expectations—Faced with rapidly rising customer expectations, many service providers that built home-grown UC solutions are struggling to keep up with user demands. Forward-thinking service providers working closely with aligned vendor partners are delivering communications and collaboration offerings that are tightly integrated to facilitate seamless business communications across all modalities (voice, video, and data) with native mobility access on end users' devices of choice. In addition, it is vital that these platforms are highly extensible and enable service providers to quickly offer a new range of services to their customers. In other words, the platform chosen by providers must not only meet business customers' needs today, but also be prepared for the "next big thing" that is just beyond the horizon.

Navigate the Competition—Standing out in the crowded UCaaS market is a key requirement for any competitor in the space. The strength and reliability of a service provider's network along with

brand recognition are key differentiators in the eyes of business customers. In 2019, Frost & Sullivan surveyed global IT and telecom decision makers, and a full 37 percent of them cited reliability as a top factor in their purchase decision, and second only to security in importance. With reliability ranked as such an important factor, it should come as no surprise that many of those same respondents rated broadband as the most important tangential service offered by their UCaaS provider. Similarly, carriers that deliver services over their own managed network consistently rank among the top providers that business customers are likely to consider for their UCaaS services.

Put together, the reliability achieved from delivering UCaaS offerings on their own network, and the strong brand recognition enjoyed by network providers, offers a very compelling starting point for differentiation in the crowded UCaaS market. From this inherent differentiation, service providers should prioritize building out the depth of communications services they provide, incorporating contact center, advanced collaboration and conferencing, and mobile-first capabilities, to further enhance differentiation and customer value. As such, native collaboration and contact center features, a mobile-first user experience and rich platform integration should be among the key criteria when evaluating technology vendors and their UCaaS platforms.

EXHIBIT 2: DECISION-MAKING FACTORS IN FINAL UCaaS PROVIDER SELECTION, U.S., 2018



N = 127

Source: Frost & Sullivan

Navigate the Vendor Landscape—It's more important than ever to identify a technology partner that aligns closely with the needs of both the service provider and, ultimately, end customers. Vendors should be evaluated against the provider's own product and service delivery strategy. Evaluations should not only include the feature set and white label options, but also factor in the following:

- **Operational Efficiencies:** A vendor's platform has a direct impact on the service provider's ability to offer a highly reliable UCaaS service and meet service level agreements with customers. As such, modern platforms also need to be able to support the provider in terms of size and scale. In addition, flexible deployment options, including the provider's private cloud and public cloud environments, are being leveraged by forward-thinking service providers. A chosen platform needs to support a mix of these environments while maintaining carrier-grade availability. Finally, a platform should offer a high level of automation, in terms of provisioning new businesses and users, as well as overall management and administration of services. Through automation of common tasks, a service provider can streamline internal processes, offer accelerated on-boarding, and ultimately, lower operational expenses and improve profit margins.
- **Flexible Platform Investment Options:** Many vendors in the service provider enablement market are moving almost exclusively to OpEx models for their UC platforms. While an OpEx approach may appeal to risk-averse service providers, this model can also cut into a provider's already thinning services margins.
- **Open Standards and Broad Third-Party Support:** Service providers need solutions that support a broad range of communications endpoints, both to support existing customer investments as well as to avoid being locked into a specific vendor's solution. In addition, modern UC platforms for service providers should include flexible application programming interfaces (APIs) to enable tight integration with established billing, provisioning, and orchestration/automation systems within the service provider's ecosystem.
- **Commitment to Service Provider-Focused Roadmaps:** It is important to consider the level of commitment that a vendor has in regard to service provider needs and capabilities. Agile development, active R&D, a clear approach to customization, and a clear understanding of how a provider operates and succeeds in the UCaaS market are all essential elements.

It is clear that choosing an infrastructure vendor to partner with requires careful evaluation that goes beyond the technology or feature set. Not all vendors in the market today can address the requirements of progressive service providers in the fast-evolving UCaaS landscape.

VENDOR SPOTLIGHT: METASWITCH

Metaswitch and its MaX platform is an excellent example of how a third-party platform enables service providers to address the challenges in today's UCaaS marketplace. Metaswitch is a well-established vendor exclusively serving the communications service provider market, and has been recognized as one of the leaders in the space. The Max UC solution is a full-stack UC platform designed to address

the service provider imperatives outlined in this paper. The platform is deployed within a service provider's data center, and unlike many competing solutions, offers not only business voice services, but also video calling, collaboration tools, and messaging, delivered on the strength and reliability of the provider's core network.

In addition, the MaX platform addresses multiple customer types (consumer with MaX One, small businesses with MaX Micro, and mid-to-large enterprises with MaX UC) on a single platform. The MaX platform enables service providers to create multiple product lines, customizing the user experience and feature set for each offering based on the targeted customer segment. A single platform that supports multiple product offerings can create significant operational efficiencies for service providers by streamlining maintenance and administrator duties to a common set of tasks, allowing provider personnel to focus on a single set of skills rather than juggling multiple platforms, and optimized license management.

Finally, the MaX by Metaswitch platform enables a high level of differentiation for service providers. With a high level of customization options, application integration and a mobile-first approach to unified communications, the MaX platform empowers service providers to tailor the UC experience to match both their brand and design options as well as satisfy the exact expectations of their customers.

KEY TAKEAWAY

A service provider's success in the communications marketplace is determined by the platforms that it deploys, the clarity of its vision, and its ability to effectively and efficiently execute on that vision. The changing market landscape and customer expectations make both vision and execution even more critical.

Partnering with the right vendor, rather than going it alone, will position service providers well to compete and win.

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