2017 Trends to Watch: Unified Communications
Summary

In brief
The market for unified communications (UC) solutions and services will continue to be highly dynamic in 2017. M&A will shake up the mix of vendors providing underlying technology. UC-as-a-service (UCaaS) will edge closer to the mainstream as providers modernize their offerings, expand into new regions, and introduce services that variously appeal to large enterprises and small businesses. Hybrid cloud deployments will become more commonplace, particularly among large enterprises with complex communications needs. Advanced APIs will change the way communications and collaboration software integrates with business applications. And businesses will continue to kick the tires of team collaboration applications positioned to enhance or replace more traditional UC solutions.

Ovum view

- **UCaaS will continue to gain traction.** Operators targeting large enterprises will see greater adoption as they expand globally, modernize their mix of services, and activate UC licenses that customers purchased but never actually made available to employees. Meanwhile, smaller providers will challenge operators with more cost-effective services for SMEs and a quicker product development cycle.

- **Hybrid cloud will become an increasingly viable option, but mainly for businesses gradually migrating from premise-based UC solutions to hosted UC services.** Though many enterprises may maintain a hybrid UC solution for a number of years, the strategic goal for most will be for UC software to be entirely in the cloud.

- **The landscape of UC vendors will change as the strong get stronger and the struggling get acquired by rivals or private equity firms.** Cisco and Microsoft, both UC market leaders, stand to gain as Avaya and ShoreTel stumble, and Polycom, Unify, and Alcatel-Lucent Enterprise continue to adjust to new ownership.

- **Advanced APIs will transform the way enterprises make communications and collaboration available to their employees.** Communications and collaboration functionality will be accessible from mobile and web-based applications not specifically designed to support voice, video, and messaging.

Recommendations

- **Buyers should proceed with caution.** Vendor consolidation could change the long-term prospects of major suppliers, making continued investments in their solutions inadvisable. Many cloud UC services have been introduced only recently and as such are comparably immature. Enterprises should carefully evaluate their purchasing decisions to make sure solutions and services bought today are likely to be fully supported three to five years from now.

- **Vendors should capitalize on uncertainties swirling around market leaders.** Avaya is examining "strategic options" that could see the company sold in parts or as a whole. Microsoft is transitioning to a cloud-first development model that could see reduced
investments in the premise-based UC software that it previously led with. Cisco is placing heavy emphasis on Spark, a new collaboration platform with a very limited customer base. In each case, the vendors are creating uncertainty about their business or their approach to UC solutions that could confuse buyers. Rivals should be quick to exploit these uncertainties.

- **Providers should take a mobile-centric approach to their hosted UC services.** Mobile devices are used widely within the enterprise and for a diverse set of tasks. This is sidelining traditional business communications devices such as desk phones and softphones. Providers, particularly large operators, are in a unique position to tightly integrate UC with their mobility services.

### Consolidation, crossover, and blurred lines

#### Landscape for UC solutions and services

Generally speaking, the UC market is divided into three groups: UC vendors, hosted UC providers, and managed UC providers. The first is made up of vendors that develop UC solutions that businesses purchase as a capital expense and deploy on premise. Avaya, Cisco, and Microsoft are the dominant players in this space, each commanding large bases of customers and considerable mind share. Alcatel-Lucent Enterprise, Huawei, Mitel, ShoreTel, and Unify each have an established presence overall, and in some cases have a top position in a particular country or region. Meanwhile, many other vendors have either a tertiary place in the market overall or a more dominant position in a particular country or region. Those include 3CX, Acer, Panasonic, Samsung, and Vertical Communications.

The second group comprises providers that offer network-based UC services that businesses purchase as an operational expense and get delivered on a hosted basis. Top-tier operators tend to dominate the market for hosted UC services delivered to large enterprises, with BT, Orange Business, T-Systems, Telefonica, and Vodafone being among the most prominent. Meanwhile, a comparatively new set of providers – including 8x8, Fuze, and RingCentral – tend to be the top-ranking providers to SMEs and midmarket organizations.

The third and final group is made up of providers that offer managed UC services. These differ from hosted services in that businesses tend to have purchased UC technology as a capital expense but rely on a third party to manage it on their behalf. Leaders in this market include Atos, Dimension Data, and West Corp.

#### UC vendors transition to UC providers

There has been a blurring of lines between vendors and providers. On the vendor side, developers of UC solutions have been very active in launching their own hosted UC services. Examples include

- MiCloud from Mitel
- OnAvaya from Avaya
- PureCloud UC from Interactive Intelligence
- ShoreTel Sky from ShoreTel
- Skype for Business Online Cloud PBX from Microsoft
• Spark Calling and Collaboration Meeting Rooms from Cisco

In 2017, vendors will continue to establish themselves as providers of hosted UC services as they seek to retain relevance and revenues in a market where buyers migrate away from premise-based solutions and toward hosted services. This will include expanding existing service offerings internationally, adding features and capabilities to recently introduced services, and fine-tuning incentive programs that result in direct sales departments and resellers actively selling services rather than premise-based solutions.

It is less common to find providers becoming UC vendors, but it is by no means unheard of. Atos, a provider of managed and consulting services, acquired Unify so it could deliver both premise-based UC solutions and hosted UC services to its large enterprise customers. And Windstream, an operator in the US, acquired Allworx, a developer of PBX systems. However, these examples are exceptions rather than the rule. Providers crossing over to become vendors is not a trend in the UC market, and it is unlikely that 2017 will see additional activity of this kind. Moreover, providers that have acquired UC vendors will operate them as separate corporate entities rather than integrate them as a whole into the larger organization. Or, as is the case with Atos, the provider will strip out the vendor's professional and support services practices and integrate those only.

Consolidation delays buying decisions

Avaya, Cisco, and Microsoft dominate the market for UC solutions. Though each sells platforms that support voice, video, messaging, and mobile communications, Avaya and Cisco have been particularly successful with businesses seeking telephony-centric solutions. Microsoft's success, meanwhile, has been with businesses seeking UC solutions that mainly provide messaging and conferencing and can be integrated or enhanced with enterprise-grade telephony as needed.

In 2017, Cisco and Microsoft will continue establishing themselves as UC industry stalwarts. They will do this largely by mining their installed base of customers, convincing businesses to extend existing enterprise license agreements to include UC software.

Avaya will also remain a dominant player, though its path forward is less certain. The company's struggle with a large debt load has been exacerbated by weak financials in recent quarters. This has led management to consider strategic options that will likely include the company being sold off as a whole or, more likely, in parts. Such uncertainty will affect purchasing decisions from large enterprises, whether they are Avaya customers looking to upgrade existing solutions or prospects considering Avaya for the first time.

ShoreTel is in a similar position as its management considers "strategic alternatives" that include selling all or parts of the company. Polycom, meanwhile, was acquired by Siris Capital Group, a private equity firm that outbid Mitel for ownership of one of the UC industry's videoconferencing leaders. Genesys bought Interactive Intelligence, reducing the number of contact center solution developers. And, as noted, Atos took Unify off the hands of Siemens AG, which had long wanted to divest the enterprise-focused business.

Such a large amount of M&A activity will disrupt the UC market throughout 2017. In some cases, product lines will be consolidated, and in other cases strategic initiatives will be reconsidered and potentially changed.
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UC becomes part of the digital workspace

The digital workspace decentralizes business communications

UC technology has traditionally been fairly siloed within the enterprise. PBXs provide telephony; video systems connect conferencing rooms; instant messaging lets employees quickly chat with their coworkers. Voice, video, and messaging components might be integrated with one another to varying degrees, as well as to calendaring and email applications, but by and large they stand alone.

However, that is changing as UC becomes increasingly fundamental to the digital workspace initiatives that many enterprises have launched. The digital workspace is a term that describes a work environment in which a range of content management, portal, search, social software, and other applications are accessible to employees regardless of their location, device, and access method. These are available as desktop, mobile, and cloud applications, presenting employees with the best and most effective way of interacting with one another and collaborating on projects.

Real-time communications applications play a central role in the digital workspace, presenting employees with a flexible set of modalities – voice, video, messaging – depending on the type of interaction that's needed at any given time. Traditional UC platforms might play a role in this, as software-based PBXs or videoconferencing systems are presented as the best way for employees to communicate. But more often, voice, video, and messaging capabilities are built directly into other applications, such as project management or content-sharing software.

In 2017, UC will continue to be decentralized in this way. Rather than a network of PBXs providing the only way for employees to call one another, a range of business applications will present employees with the ability to set up voice calls, videoconferences, and chat sessions. Different applications will be used by different sets of employees, and these applications will fall in and out of favor based on employees' interest in using them.

The digital workspace makes mobility, cloud a UC imperative

Content and collaboration tools that are available from anywhere on any device are central to the digital workspace. Cloud services and mobile applications are central to making this happen. For UC solutions, that result in an even greater emphasis on mobile clients, cloud communications services, and APIs that let developers easily embed communications into business applications.

In 2017, vendors developing UC solutions will increasingly take a mobile-first approach to development. That will see enhancements to mobile clients taking precedence over those of desktop clients, so that mobile users are presented with a set of communications features that are as robust, or even more robust, as those available on nonmobile devices and applications. Meanwhile, providers will lead with UC services that are based on an architecture that is mobile in its core, rather than one in which mobility is more of an afterthought.

Team collaboration apps get better at UC

Digital workspace initiatives will drive communications and collaboration into cloud-based applications. An obvious example is team collaboration applications. These started as persistent messaging apps for project management from start-up developers such as Slack. Using open APIs, they can connect to dozens of other cloud-based applications, providing small groups of users with a highly personalized collaboration experience.
Initially, team collaboration apps did not have much in the way of real-time communications built into them. But as Cisco, Unify, and others entered the market, cloud-based team collaborations have become platforms for a wide range of business communications and tied to existing cloud communications technology used in the enterprise. Examples include

- Cisco Spark, which integrates with WebEx and Cisco telephony platforms and has its own calling service
- Microsoft Skype Teams, which is reportedly in development and will presumably integrate with Skype for Business
- RingCentral, which acquired team collaboration start-up Glip
- T-Systems, which added Unify Circuit to its Managed Workplace service
- Tata Made, which is in beta and creates a video meeting room for each workspace that users create
- Unify Circuit, which integrates with Unify and third-party telephony platforms.

To date, Slack has had the most success in the burgeoning market for team collaboration applications. In 2017, UC solution developers and service providers will seek to gain greater market and mind share, presenting their apps as a more communications-rich and more IT-friendly alternative to Slack.

**CPaaS embeds UC into business apps**

Communications platform-as-a-service (CPaaS) is another related way that UC is impacting the digital workspace. CPaaS is an up-and-coming approach to embedding communications functions directly into web and mobile applications. It presents developers with a set of APIs and SDKs that result in the ability for users to send messages, initiate voice calls, or launch videoconferences from applications that were not otherwise designed to support real-time communications. Using the APIs, enterprises have produced a wide range of typically client-facing applications that streamline communications internally (such as contact center agents sending SMS messages to field technicians directly from Salesforce) or externally with their customers (such as a retailer letting customers contact a sales or support representative directly from its web commerce site).

Initial CPaaS providers were small start-ups, with Twilio being the largest, most established, and best known. But a fast-growing market – CPaaS is estimated to be a $400m market today, growing to $8bn before long – has resulted in established UC vendors and service providers entering the space, including

- Avaya, which developed Zang
- Cisco, which acquired Tropo
- Digium, which developed Respoke
- Genband, which developed Kandy
- Telefonica, which acquired Tokbox
- Vonage, which acquired Nexmo.

In 2017, UC vendors and providers will take a more prominent role in the CPaaS market, presenting enterprises and developers with a straightforward way of embedding voice, video, and messaging into applications that were not otherwise intended for real-time communications.
The digital workspace requires IT to work with LOBs

As UC is tied more closely to digital workspace initiatives, CIOs and IT departments will need to work more closely with other parts of the company. Traditionally, the selection of UC solutions and services has been the purview of IT departments. IT evaluates the options available; compares feature sets, deployment options, price, and other factors; and then makes a decision on what to purchase and deploy. Employees and department managers may be consulted, but UC has been a technology decision made by technologists within the enterprise.

However, digital workspace initiatives are not just IT projects. IT plays a key role in implementing and supporting the underlying technology. But a company’s move toward digital transformation generally stems from the C-suite and draws on the experience and requirements of all parts of the company. How a sales department leverages mobile, cloud, and other digital technology to improve the performance of its employees will differ from how an HR department, a marketing department, or another part of the company does the same. Similarly, there will be regional differences, with employees in different countries leveraging the tools and technologies that are popular in the region.

Different departments and different groups of employees will have different objectives. And they will need to use collaboration technology differently to accomplish those objectives. As businesses execute on their digital transformation initiatives, IT departments will need to

- take the unique goals and objectives of different groups of employees into consideration when selecting communications and collaboration technology
- work with department managers for training and internal marketing of new communications and collaboration technology, since these managers will be specifically tasked with ensuring the success of digital transformation initiatives in their departments
- work more closely with C-level executives who may have little or no technology background, but who are closely involved in formulating and implementing a successful digital transformation initiative.

That makes sense when there is a generally uniform set of collaboration tools made available to all employees. Some employees may work in or away from the office more than others, necessitating a greater or lesser set of mobility features. And it makes sense when employees have generally limited input into the selection process.

UC-as-a-service

UCaaS adopted by businesses of all sizes

Services that deliver UC as a cloud-based application are garnering considerable attention from businesses of all sizes. These services deliver a set of business communications features and functionality comparable to traditional solutions that businesses support on premise. They have proven reliability, a high degree of scalability, and an increasingly mature set of APIs that let them integrate with other applications. Services are available from a wide range of providers around the world, including top-tier operators, regional telcos, OTT start-ups, and value-added distributors. And businesses of all sizes have moved from being actively interested in UCaaS as an alternative to premise-based solutions to actively adopting UC as a hosted service.
In 2017, UCaaS will continue as one of the top trends shaping the market for business communications services. SMEs will turn to UCaaS as a cost-effective alternative to key systems and legacy Centrex services. These smaller companies will seek services that require them to devote little to no IT resources to communications applications, relying instead on third-party providers to deliver communications as an entirely outsourced service. Meanwhile, large enterprises will also actively embrace UCaaS as a way of migrating core business applications to the cloud, replacing complex multivendor PBX networks and moving communications from a capital to an operational expense.

North America will see the greatest adoption of UCaaS. This is due in part to the established position, aggressive marketing, and consistently strong sales of a small group of UCaaS providers in the US. 8x8, Fuze, and RingCentral have each built out a sizeable installed base of business customers and are well entrenched as viable alternatives to larger operators. Specializing in UCaaS, they are less distracted than providers that see business communications as a comparably small part of their overall portfolio of services. Large operators are also actively investing in their own cloud-based UC services. This is evidenced by the recent introduction of AT&T Collaborate and Verizon One Talk. And vendors, resellers, systems integrators, and other types of firms are also releasing UCaaS offerings. The result is a market that will become increasingly dynamic in 2017 and beyond.

Europe is also fertile soil for UCaaS, as a range of established operators and newcomers expand sales operations in the region. Asia, Latin America, and the Middle East and Africa will see increased interest in UCaaS. But adoption rates will lag behind the US and Europe as providers in other regions set up their services, create marketing programs, and ramp up sales activity.

Hybrid cloud provides flexible deployment options

When it comes to the different ways businesses adopt UC, the choice has traditionally been either on-premise solutions or hosted services. A large enterprise might adopt UC using both models, but they would often be entirely separate from one another, with little to no integration between the UC solution deployed on premise and the UC service hosted by a provider. That has changed with the availability of viable hybrid cloud models that let businesses combine both.

Hybrid cloud can take many forms, including the following:

- **Call control both in the cloud and on premise, with separate sets of users getting communications from one or the other.** This is often adopted by businesses gradually migrating from premise- to cloud-based UC.

- **Call control both in the cloud and on premise, with all users getting communications from one and the other being used as backup.** This is often adopted by businesses keeping their UC servers on premise but leveraging the cloud to provide a high degree of reliability.

- **Call control on premise and communications applications in the cloud, or vice versa.**

Hybrid deployment of UC applications can be more complicated than simply having them all on premise or delivered as a hosted service. But it is often the most practical path for large enterprises. Migrating hundreds or thousands of end users from one platform to another, retiring some voice systems but leaving others in place to amortize the investment in them, getting multiple business units to buy into migrating UC to the cloud, and other factors can necessitate an IT department to maintain both premise and cloud UC technology for extended periods. As enterprises continue to adopt UCaaS in 2017, hybrid cloud deployment will become increasingly common.
Appendix

Methodology

This report was written using a combination of primary and secondary data sources. The research included interviews with operators offering UC services, while the secondary data included research from blogs and news sources. The report also draws on information from Ovum's existing internal knowledgebase of consumer surveys, financial data, and vendor product information.

Further reading

Workspace Services News Tracker: 2Q16, TE0005-000865 (November 2016)
Hosted Telephony Platforms: Helping Service Providers Differentiate, TE0005-000820 (June 2016)

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