Unified communications
Collaboration simplified

pwc

Turning buzz into business

Unified Communications, or 'UC', *is a common buzzword in today's ICT marketplace. But there is still a long way to go to turn all that buzz into business.*

The concept of Unified Communications was born back in the 80s and 90s with the digitisation of previously analogue networks. The ability to carry voice over a data connection (VoIP) opened the floodgates to a convergence of the long disparate worlds of telecom and IT.

Adoption of UC by SMEs

55%

"UC 1.0" adopted

21%

"UC 2.0" adopted

Source: PwC SME survey, Feb 2015, (n = 400)

Today, a generation or so later, **roughly half** of UK SMEs remain stuck in either an entirely **pre-UC world** or one whereby selected disparate UC functionalities are **employed in a limited capacity, but not integrated**.

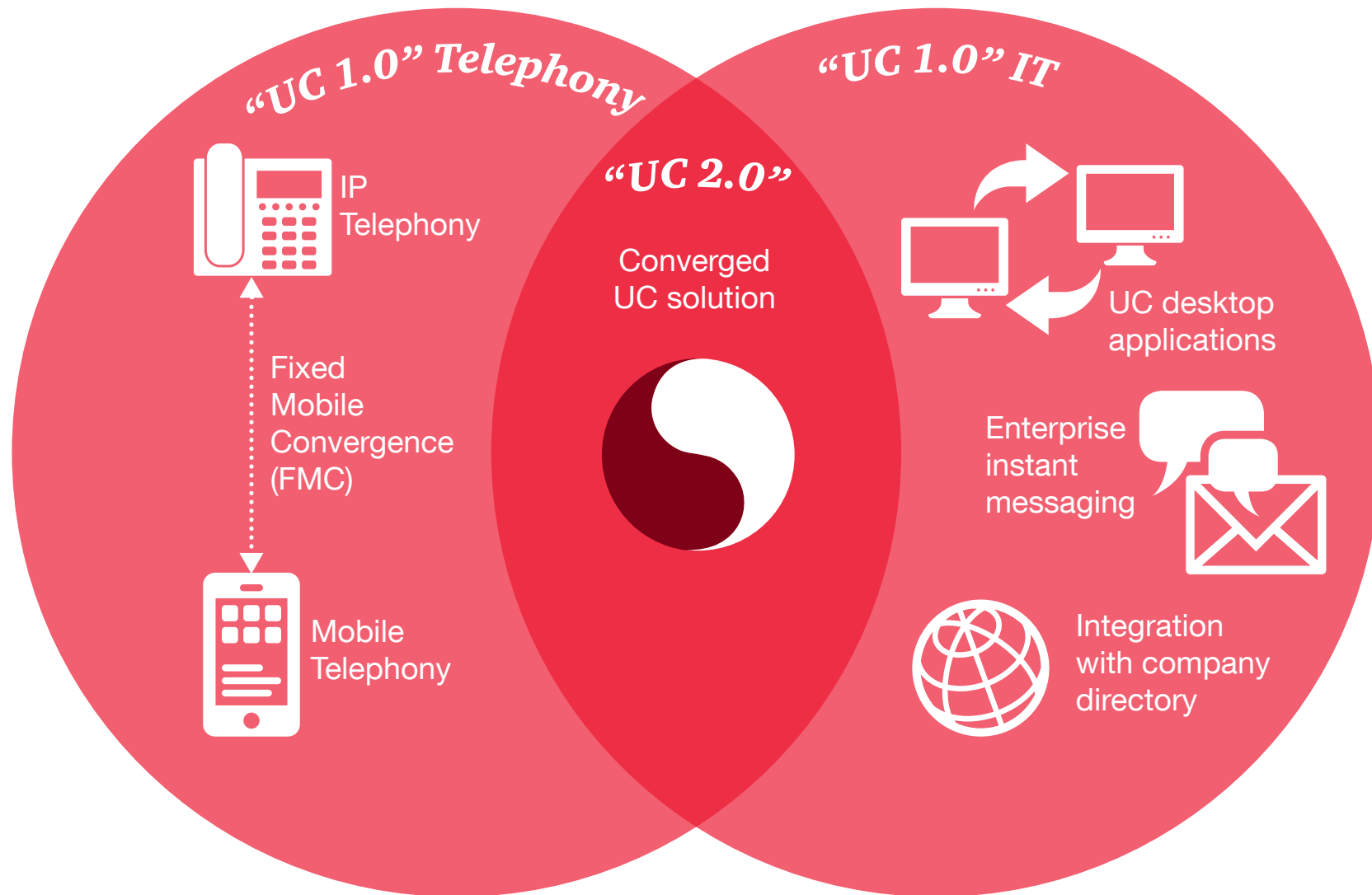## Companies that have adopted UC fall into two camps:

The first, which we have dubbed **"UC 1.0"**, occurs when a company enjoys *either* a degree of integration between its fixed and mobile telephony routing and billing (known as Fixed Mobile Convergence, FMC), *or* uses a desktop based UC application that offers a minimum of integration with the company's directory in order to offer presence, staff information and IM. **55%** of UK SMEs fall into this bucket.

The second degree of sophistication is when both FMC and desktop-based UC applications are present, with the desktop (and/or associated mobile device) typically now the hub for office communication via a mix of real time (softphone voice and desk-based video conferencing) and non-real time (integrated instant messaging, presence and directory services) modes of communication. This may also include access to enterprise social networking, data sharing and integration with other business software. **21%** of SMEs enjoy this **"UC 2.0"** status.

UC adoption by service type

"UC 1.0" Telephony

"UC 1.0" IT

"UC 2.0"

Converged UC solution

IP Telephony

Fixed Mobile Convergence (FMC)

Mobile Telephony

UC desktop applications

Enterprise instant messaging

Integration with company directory

Smaller companies have historically been slower than medium-sized companies to embrace collaboration technology, with usage of UC 2.0 amongst 10-49 person companies **less than half that of companies larger than 50 employees**. This has today created a significant market opportunity for providers.

Some industry verticals are also slower adopters than others. While professional services firms enjoy high UC 1.0 penetration, other areas, for example the public sector (utilities, admin, education) lag.

UC 2.0 uptake

10%

26%

26%

■ 10-49 person companies   ■ 50-249 person companies   ■ 250-999 person companies
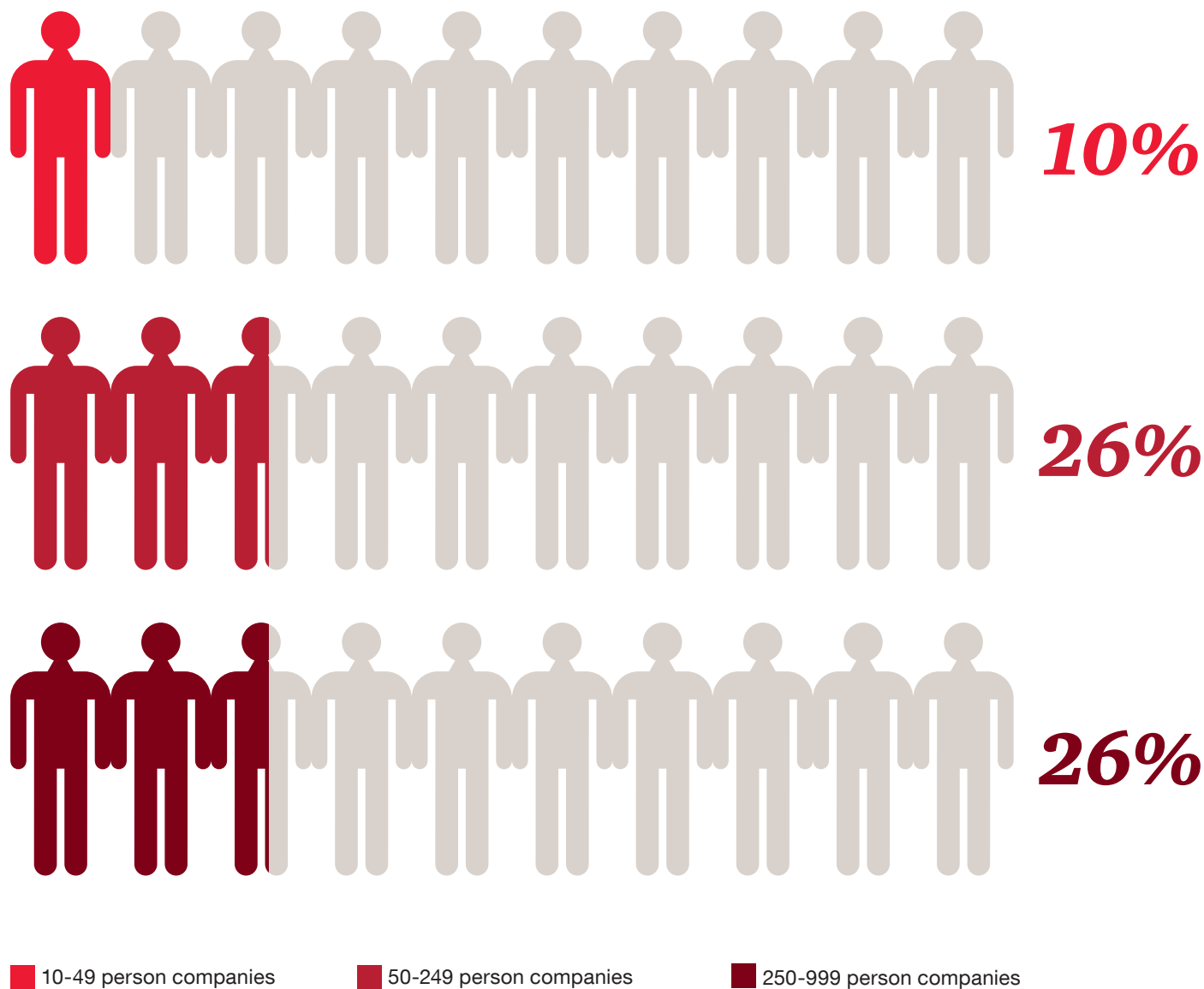
Source: PwC SME survey, Feb 2015, (n = 400)

Part of this low penetration can be attributed to inertia on the part of buyers; the rest can be pinned upon a supply-side failure to offer a compelling proposition that is delivered at the right price point with the right level of handholding[1]. Slowly, the bug is catching, though. Unprecedented levels of investment in UC applications from Silicon Valley and elsewhere means that now fully **66%** of SMEs surveyed are aware of leading Enterprise UC suites such as Microsoft Lync or Cisco WebEx/Jabber. Affordable per-user pricing and maintenance-free SaaS offers should continue to drive adoption going forward.

More than ever, it is the user that will play a big role in keeping up this adoption momentum. The ***user's own personal experience*** – whereby there exists today a dizzying array of modes of communication – informs his/her expectations for the office. Seamless interaction across 10s of common forms of communication (both real time and non-real time) is already second-nature to Millennials. "Generation X" IT Managers are taking note…

*Millennial communication habits*

Millenial communication habits

1 For all SMEs surveyed, Price/"Monthly Cost" cited as most important Key Purchasing Criteria in our survey, 44%; "Customer service" was cited by 30%

Adoption driven by bottom-line benefits

The UC market remains small relative to the overall market, but is growing at an impressive pace. Versus a traditional telephony market of **$1.65tn** worldwide, growing at **2%** per annum, today's **$21.1bn** UC market is set to grow at a CAGR of **11%** through 2018.

10% CAGR

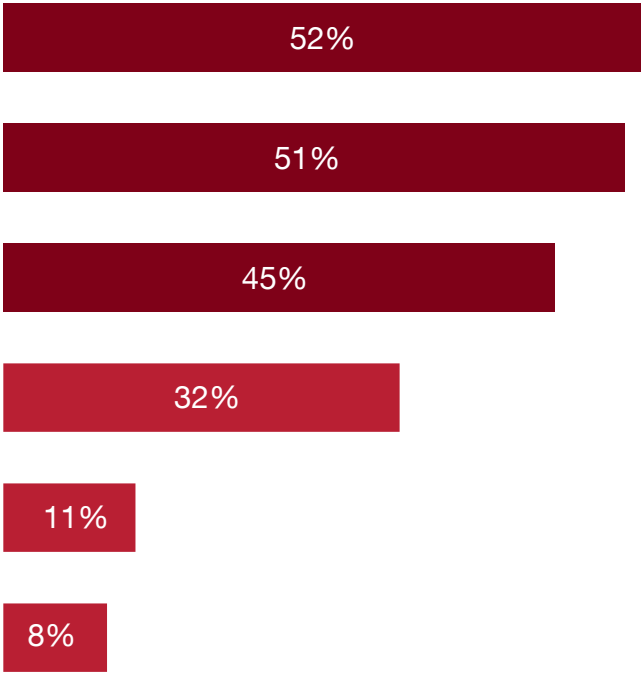|		
18	24	32
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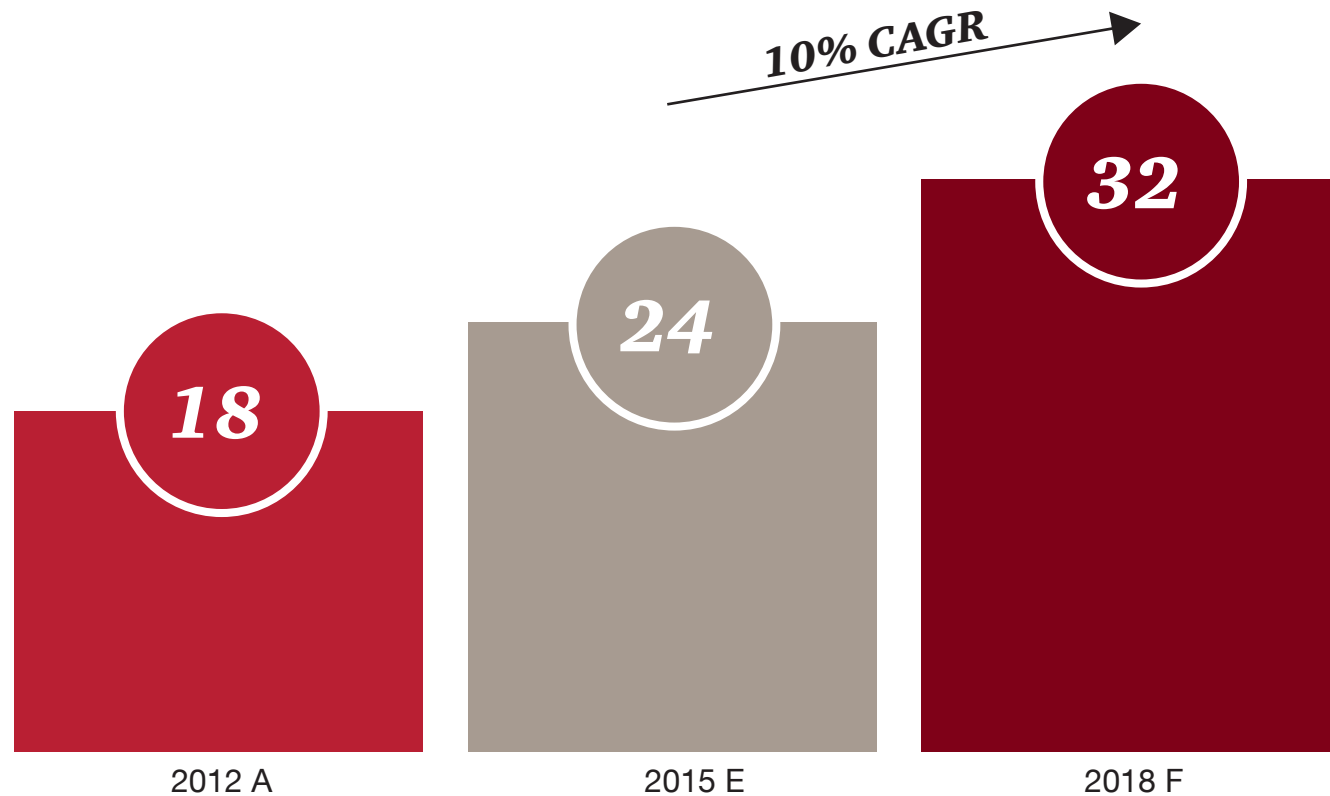
Source: IDC

Buyer drivers of adoption are most commonly 'hard', bottom line-oriented benefits. **Productivity gains** represents the most commonly cited factor, identified by **52%** of buyers; other benefits that rank highly include **Opex savings** and **Efficiency gains**, with **51%** and **45%** respectively. Fully **93%** of buyers saw at least some benefit realised post-deployment.

But softer benefits, such as collaboration, employee demand and morale are also important. While initially less highly prized, **62%, 57%** and **54%** respectively of all UC buyers reported realisation of these 'soft' benefits for their organisation post-deployment.
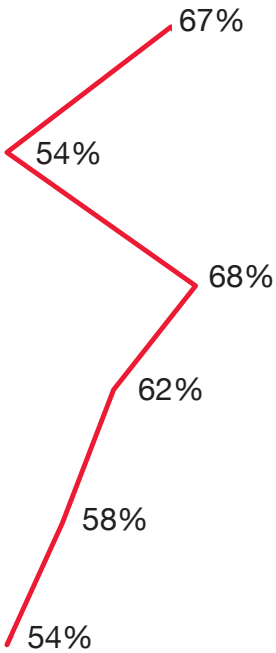
Drivers of UC adoption

Expected benefits

Realised benefits

	Expected benefits	Realised benefits
Productivity	52%	67%
OPEX savings	51%	54%
Efficiency gains	45%	68%
Collaboration	32%	62%
Employee demand	11%	58%
Employee well-being	8%	54%

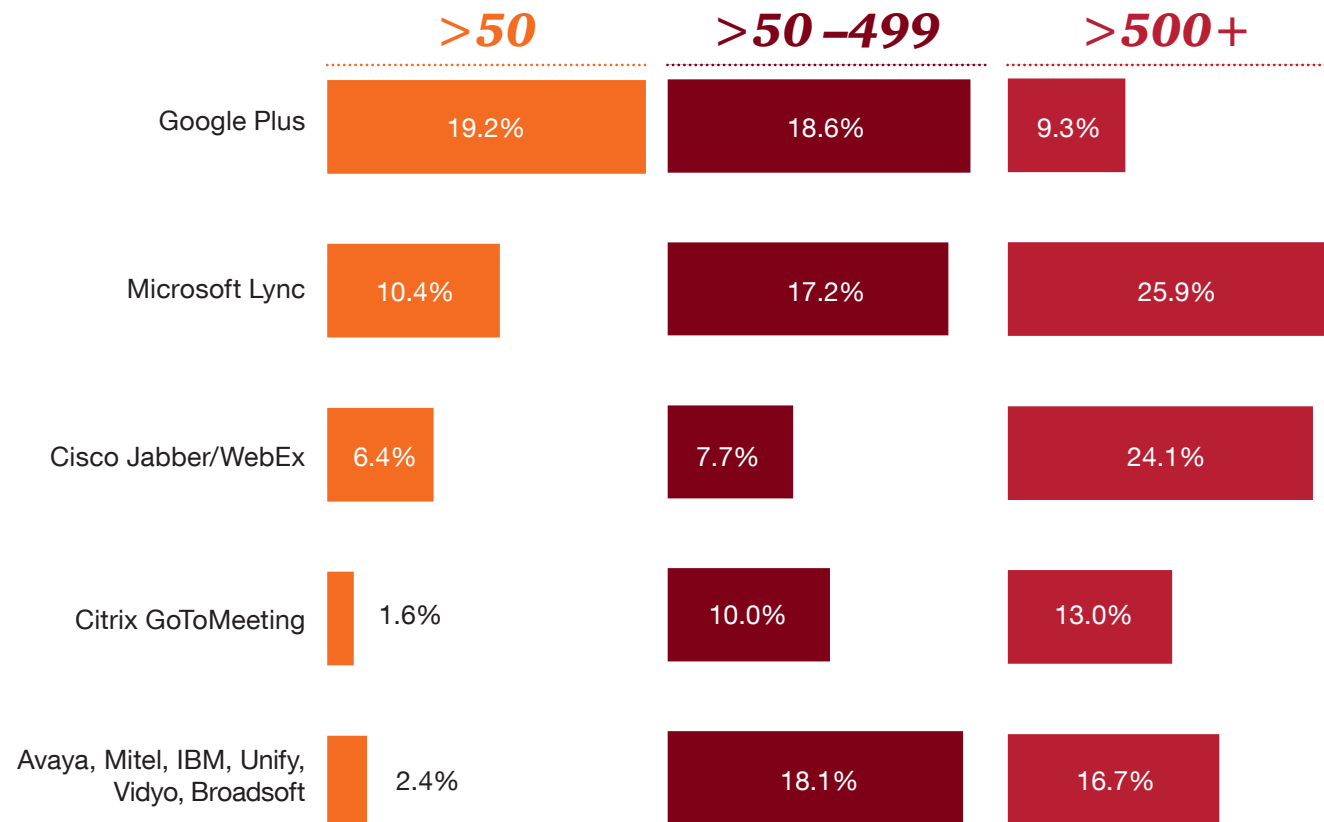*Source: PwC SME survey, Feb 2015, (n = 400)*

Technological change is also a strong driver of take-up, with the growing popularity of the cloud and the birth of new technologies such as Web Real Time Communication (WebRTC) offering further reason for optimism.

Hosted UC services, representing **38%** of the market, is expected to grow at **14%** per annum through 2018. Characterised by an OPEX model and boasting quick implementation, scalability and automated upgrades, it is also particularly well suited to SMEs. **39%** of SMEs surveyed said that they were already inclined towards an (at least partly) cloud-based deployment of UC, and attitudes continue to evolve at a rapid pace.

Meanwhile, WebRTC, a collaboration technology backed by Google that runs directly from the browser (no download required), offers the prospect of a potentially lower price point and more straightforward access of UC services. Despite its position at the early stage of development, **76%** of buyers aware of the technology are either already using or plan to adopt the technology within the next 12 months.
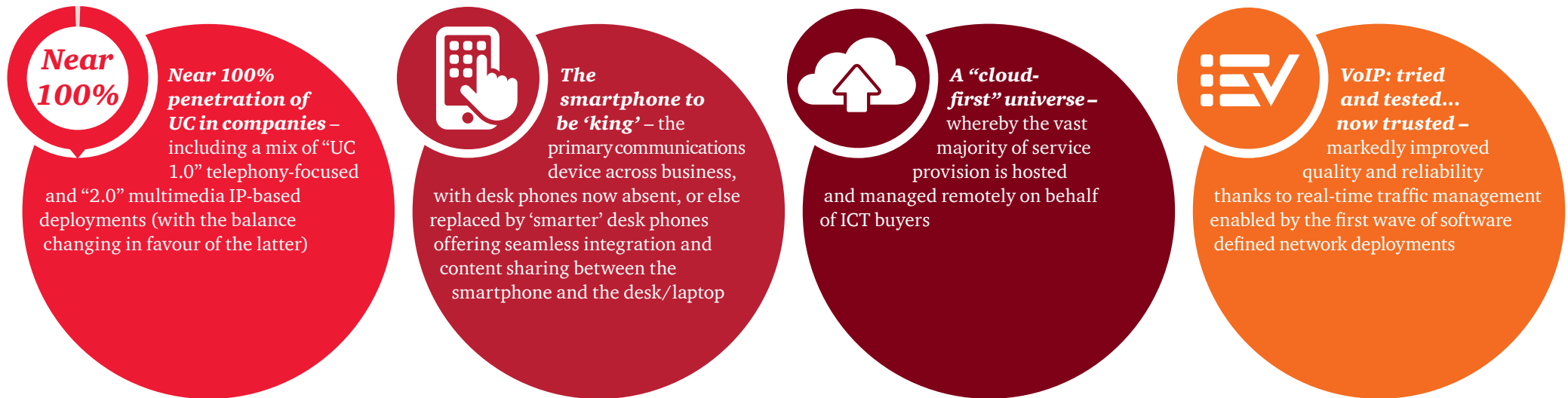
Buoyed by these technology tailwinds, it is evident that UC application take up is growing rapidly. Hosted applications from Google and Microsoft predominate, with newly WebRTC-enabled Cisco WebEx also popular, particularly amongst larger SMEs.

UC application usage, by customer size

	>50	>50 –499	>500+
Google Plus	19.2%	18.6%	9.3%
Microsoft Lync	10.4%	17.2%	25.9%
Cisco Jabber/WebEx	6.4%	7.7%	24.1%
Citrix GoToMeeting	1.6%	10.0%	13.0%
Avaya, Mitel, IBM, Unify, Vidyo, Broadsoft	2.4%	18.1%	16.7%

Source: PwC SME survey, Feb 2015, (n = 400)

By 2020, we expect:

Near 100%

Near 100% penetration of UC in companies – including a mix of "UC 1.0" telephony-focused and "2.0" multimedia IP-based deployments (with the balance changing in favour of the latter)

The smartphone to be 'king' – the primary communications device across business, with desk phones now absent, or else replaced by 'smarter' desk phones offering seamless integration and content sharing between the smartphone and the desk/laptop

A "cloud-first" universe – whereby the vast majority of service provision is hosted and managed remotely on behalf of ICT buyers

VoIP: tried and tested... now trusted – markedly improved quality and reliability thanks to real-time traffic management enabled by the first wave of software defined network deployments

The game is well under way, with players scrambling to make a mark

Competition has been intensifying in the UC market, with both traditional and non-traditional players contesting a share of the growing pie, with varying levels of success. Telcos today account for fully **87%** of service provision, with **13%** of our survey's SME UC buyers customers of ICT resellers and UC specialists.
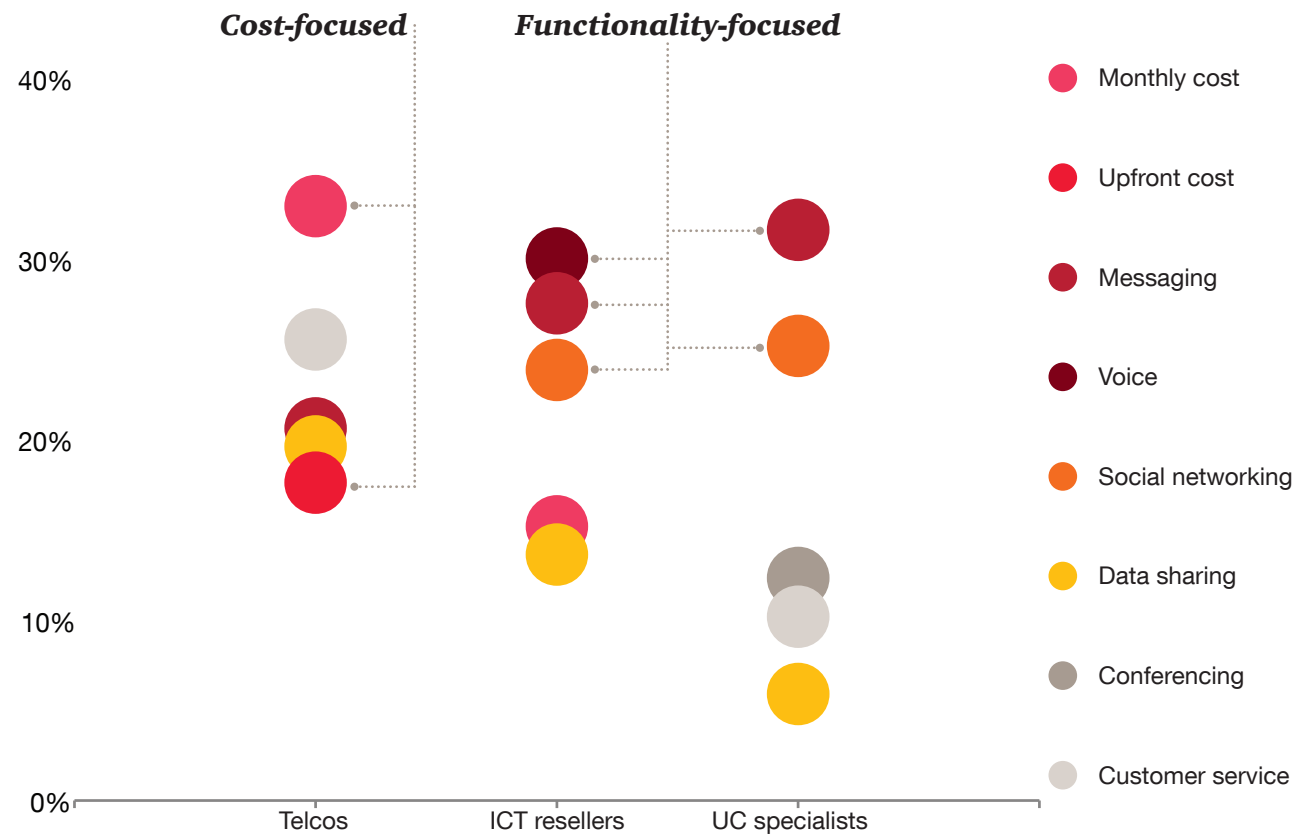
That service provision is dominated by the largest players with the highest name recognition is not surprising. The picture is very different, however, when we look at the number of UC services purchased by buyers: customers of UC specialists purchase an average of **5.7** services, as compared to **4.7** and **3.6** for Telcos and ICT resellers respectively.

Customer satisfaction levels in the industry also offer a more nuanced picture. With an average NPS of just **-22%**, the industry as a whole has work to do. Amongst Telcos and ICT resellers this stands at **-21%** and **-37%**; UC specialists fare better at **+14%**.

Chief gripes amongst Telco customers include **Monthly Cost** and **Customer service**, with ICT resellers and UC specialists perceived to be at least in part addressing these gaps with their own service provision.
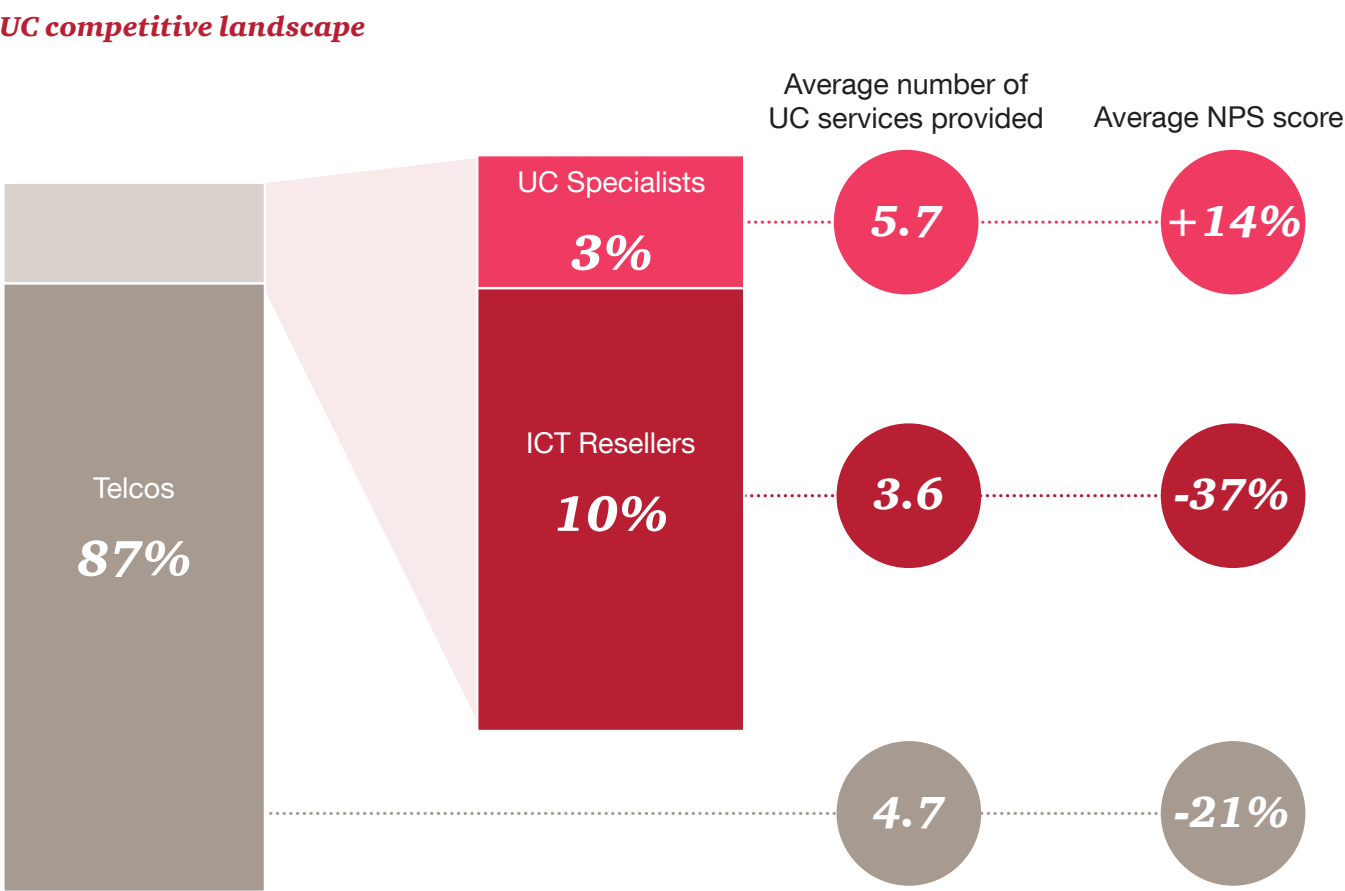
Top five identified service provider limitations

Percentage of respondents picking criteria as a limitation

Cost-focused **Functionality-focused**

Legend:
- Monthly cost
- Upfront cost
- Messaging
- Voice
- Social networking
- Data sharing
- Conferencing
- Customer service

Source: PwC SME survey, Feb 2015, (n = 400)

Service providers most able to understand how to address the drivers of low satisfaction and perceived gaps in the offerings of UC software applications are those who will be well positioned to profit. We believe that supply-side limitations are currently one major obstacle to higher penetration, particularly in the SME segment. In service provision, there exists significant opportunity for disruption by smaller, niche players that offer greater specialist expertise to introduce companies to an increasingly broad definition of UC.

UC competitive landscape

Average number of UC services provided

Average NPS score

	UC Specialists 3%	5.7	+14%
Telcos 87%	ICT Resellers 10%	3.6	-37%
		4.7	-21%

Source: PwC SME survey, Feb 2015, (n = 400)

What will the winners look like?

The UC market is becoming increasingly competitive, and to make it, market participants will need to be prudent in picking the right strategy.

Winners will:

Invest in the right technical skills

The shortage of personnel and relevant skills is an industry-wide issue in the Unified Communications (UC) market. Market winners will have the foresight to invest in accreditations that are highest in demand. While standard installation and configuration of software and applications can be relatively straightforward, integration services require higher levels of complexity, and architects with the necessary skills are not easy to come by.

33%

of UC buyers recognise "technical expertise" as a KPC, (highest ranked KPC besides price)

Offer genuinely differentiated customer service

Competition is intensifying in the UC market, and in addition to enhancing technical capabilities, one can stand out from the pack by offering higher and more personalised levels of customer service and account management, especially on a local geographical level.

One of our clients operates on a strict '3-ring pick up' policy for its technical support team, for example. A simple customer promise such as this one can be a major differentiator in a fragmented and highly competed market such as that for UC.

29%

of UC buyers recognise "customer service" as a KPC, (3rd highest)

Source: PwC SME survey, Feb 2015, (n = 400)

Deliver pain-free deployment/installation

Particularly in the SME segment, where low costs and easy mobility are a principal consideration, it is important that solutions are largely 'off the shelf'. Where 'plug and play' solutions are not an option, a migration service must be provided to assist customers who do not have the expertise in-house.

12%

of UC buyers recognise "ease of deployment/install" as a KPC, (7th highest)

Offer a range of pricing models

Most UC adopters, as indicated by our survey, prefer to have their UC services customised to their specific needs, rather than receiving a prefixed package. Therefore, it is important that providers give customers the flexibility to purchase in a modular, incremental fashion over time, adding product/ services as required.

There is a clear upsell path to help grow SME customers, by building a foundation on basic hosted telephony to FMC, before adding on wider UC functionality with integrated email, IM, presence and desktop-based collaboration tools; each additional element charged at a modular extra fee.

15%

of UC buyers recognise "flexible pricing" as a KPC, 6th highest; 5% of UC buyers recognise "a la carte offering" as a KPC, (9th highest)

Develop trusted advisor relationships with customers

Businesses' transformation into a UC environment is often a long-term process.

To build the foundation for a long-lasting relationship, providers need to position themselves to customers as trusted business partners and technical advisors. Most critical is the ability to understand and respond to customer needs with the right 'solutions' rather than blindly pushing product.

1%

only a very small number of UC buyers recognised this as a KPC; a unique opportunity to turn this on its head?

PwC commissioned a piece of primary market research that surveys the attitudes, adoption and satisfaction levels of Unified Communications (UC) service provision amongst c.400 UK Small and Medium Enterprises (SMEs – defined here as companies with 10-1000 employees). The survey was carried out over January-February 2015.

This report references these results, with a view to informing market participants on the key issues facing the market, and the requisite skills for driving success in the UK Unified Communications (UC) market.

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