

2009 Predictions for Unified Communications Market in Asia Pacific

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Unified Communications (UC) entails unifying the different communication applications such as voice, email, instant messaging, conferencing & collaboration to deliver productivity gains for the users, better team collaboration and increased agility for the enterprise.

The ultimate aim of unified communications is to embed communications into business processes to deliver quicker and better decision making, enhanced collaboration across geographically diverse teams, and to improve overall efficiency in the business process to make the enterprise more agile and competitive. In order to achieve this, the multiple communication applications that operate in complete silos need to be integrated with one another, and also integrated with business applications.

Key Highlights for UC Market in 2008

The UC market has created a lot of buzz in the enterprise communications industry since its popularity in mid 2006. The market saw growth and increased adoption for Unified Communications in 2008; however, most of the UC deals were for stand-alone applications such as collaboration, mobility, instant messaging. The UC market opportunity* in Asia Pacific in 2008 is estimated at \$4.6 Billion, and grew at a rate of 3.6% over 2007. In 2008,

- ***Unified Communications saw greater acceptance from enterprises.*** CIOs have begun to appreciate the benefits of UC and the value of integrating the multiple communications applications. In a 2008 Frost & Sullivan survey of over 600 CIOs & IT Managers from across verticals in key markets in Asia Pacific, around 70% of respondents were aware of the concept of Unified Communications and understood the benefits of integrating desktop & telephony communications.
- ***Strong vendor push in the market.*** Aggressive application bundling & licensing strategy from vendors has helped the early adopters to deploy UC. Most vendors including Cisco, Avaya, Nortel developed attractive UC packages and competitive licensing models to attach applications such as unified messaging & basic collaboration with telephony upgrades & refresh. Cisco's CUWL (Cisco Unified Workspace Licensing) saw good traction in the market, while Nortel's UC 1-2-3 program led to several customers migrating to IP telephony with some UC applications attached. Microsoft leveraged its Enterprise Client Access License (CAL) strategy to offer its existing enterprise customers

an attractive option to upgrade their messaging & other Microsoft infrastructure and deploy Office Communications Server (OCS) 2007.

- ***Security, Business Case Justification & Interoperability were top concerns for UC.*** In a 2008 Frost & Sullivan survey of CIOs and IT Managers in the region, more than 40% of the respondents ranked security as one of the top challenges for UC deployment, while almost 30% of the respondents mentioned business case justification and interoperability with existing infrastructure as hindrances to adopting UC. Security concerns associated with mobile applications, collaboration with external parties, and integration of multiple communications platforms were top of mind for CIOs. The high cost of UC deployment and lack of tangible ROI was also a cause for concern.
- ***Role-based UC packaging getting popular, however results are mixed.*** In a bid to improve UC adoption, vendors positioned different UC applications for different users within the enterprise depending on their role e.g. tele-workers with more desk phone capabilities, executives with mobility access, deskbound workers with click-to-call and unified client capabilities. While this message definitely resonated with enterprises, lack of tangible ROI and successful case studies proved to be the dominant buying criteria.
- ***Unified Communications in the Contact Center.*** Embedding & extending UC applications into the contact center emerged as a key message, following the announcement from Microsoft & Aspect Software early in the year. Cisco has also been pushing this message in the market. The idea of extending the contact center into the enterprise to improve first call resolution has been around for some time, however, with UC this can become a reality. Success for such deals has been very limited in 2008, as decision making for contact center infrastructure & applications continue to be independent of the IT and Communications infrastructure within the enterprise. However, the contact center definitely offers strong opportunities for contact center application vendors such as Avaya, Genesys Labs (an ALU company), Nortel, Aspect Software to upsell UC applications such as Presence, Instant Messaging and Collaboration to contact center agents, and extend the contact center into the enterprise.
- ***Significant Vendor Consolidation & Partnerships.*** 2008 saw a lot of activity from the vendor community.

Microsoft announced its partnership and equity investment into contact center applications vendor Aspect Software to target the UC opportunity in the contact center market, and broaden its UC offering to compete with the other telephony vendors such as Cisco and Avaya. Microsoft also launched OCS Release 2 in the later part of the year

that extends voice, mobility & conferencing functionality. Microsoft also launched Microsoft Online services in the US, where customers can get Microsoft Exchange, Microsoft SharePoint and Microsoft Office Communications Server on a hosted basis/SaaS model. These services are expected to be available in Asia Pacific in 2009.

Cisco made two strategic acquisitions of email & calendaring software company PostPath Inc. and presence engine & messaging software vendor Jabber Inc. The Jabber acquisition gives Cisco presence aggregation capabilities from multiple platforms, and also a competitive edge as Jabber already had deep engagements with the likes of Avaya for the presence engine capabilities. The PostPath acquisition will help Cisco offer a complete software-as-a-service (SaaS) based collaboration & communication platform including email, instant messaging, voice, video, data and web 2.0 applications. Coupled with the Webex acquisition in 2007, these acquisitions position Cisco strongly against competitors like Microsoft and Avaya. The launch of Webex Connect and these acquisitions make Cisco's hosted/SaaS strategy clear.

In early 2008, Aastra Technologies acquired Ericsson enterprise communications business, and in the second half of the year, Siemens Enterprise got acquired by the Gores group.

Other major vendors such as Avaya, Alcatel-Lucent and Nortel continued to deepen their partnerships with Microsoft and IBM with new product releases that integrate with OCS and Lotus Sametime. Nortel acquired Pingtel that offers software-based unified communications solutions.

Most of these acquisitions & partnerships are critical for the industry since UC brings together multiple communications systems to deliver a seamless communications experience, and a UC deployment would require multiple vendor products to interoperate with one another. Hence, UC is not expected to be a single vendor solution. In a bid to control and capitalize on the growing UC opportunity, vendors are looking to broaden their product portfolio by getting access to newer segments such as Postpath for Cisco, Aspect alliance for Microsoft; try new models such as Microsoft Online services and Cisco Webex Connect; and partner with each other to offer a complete UC solution to customers.

Predictions for UC Market in 2009

2009 is expected to be an interesting year for the Unified Communications market, as the dynamics of the industry will now also be governed by the economic climate that we are currently facing. Most enterprises are prioritizing their need to preserve cash. ICT budgets are beginning to take a hit and CIOs are faced with the challenge of making the organization more agile, productive and customer-centric by delivering value through ICT investments whilst reducing costs. These predictions are driven by the current economic climate that is expected to continue for the most part of 2009, the state of the UC industry, and the evolving demands of the enterprise users.

- ***Collaboration will be the No. 1 UC Application.*** The economic slowdown is already leading to travel budget cuts and restrictions. This coupled with the initiative to reduce carbon footprint and be “green” is expected to drive the need for conferencing & collaboration applications in 2009. Web-based collaboration & conferencing solutions, either as part of a UC system or even as a stand-alone solution is expected to gain traction in 2009. Video Conferencing solutions from desktop video to boardroom video conferencing solutions & Telepresence systems are expected to see good growth in 2009.
- ***Demand for point solutions, not a complete true UC solution.*** Like 2008, enterprises are expected to continue to demand 1 or 2 key applications rather than the entire UC application stack. In 2009, we can expect enterprises to be even more selective and cautious when it comes to UC deployment. Hence, applications & projects that have tangible ROI and benefits such as IP migration, Conferencing or Instant Messaging are expected to continue, while solutions that have more intangible benefits will be pushed back in the deployment schedule. Vendors are expected to continue to offer aggressive bundles & price competitive licensing models to increase their application attach rate and capture market share.
- ***Security, Cost & Complexity of Deployment to remain top of mind concerns for CIOs in 2009.*** CIOs are concerned about the high cost of UC deployments as well as the hidden costs associated with moving to a UC roadmap such as upgrades of existing telephony and email infrastructure, and increased bandwidth costs due to more voice/video on the network. In 2009, this is expected to continue to be a leading challenge given the economic climate. While UC bundles are addressing some of these issues, tighter budgets in 2009 will lead to delay in decision making for UC adoption in some enterprises.

- **More education on the benefits of Unified Communications in the Contact Center, however, adoption in 2009 to be lukewarm.** The market is expected to see more education efforts on the benefits of UC in the Contact Center, driven by leading UC and Contact Center vendors. However, given the current economic climate, contact centers are expected to invest more in technologies such as voice portals and performance optimization. Early adoption for UC in the Contact Center would begin in 2009, however, mainstream adoption can be expected in 2010 and beyond.
- **Hosted & Managed UC Services will see growing demand.** As companies strive to preserve cash, and CIOs are unsure of the tangible benefits of UC, Hosted & Managed UC services are expected to gain traction in the market. Enterprises are expected to adopt hosted services to try out applications for select departments before they decide on adopting them enterprise-wide. The Op-ex based pricing model will be extremely attractive to most enterprises, especially SMBs. For large enterprises, who are looking to migrate to IP telephony or deploy elements of UC are expected to go with system integrators (SIs) or service providers (SPs) who are offering managed communications services. Services from players such as Cisco (Webex), Microsoft (Online Services), Nortel (Multimedia services), HP (Halo TelePresence) are also expected to see good adoption in the market. Frost & Sullivan expects the Hosted & Managed UC Services market to grow at a rate of 14.0 % in 2009.
- **Increased play of GSPs, Incumbent SPs and SIs in the UC market.** Given the growing demand for Hosted & Managed services, larger system integrators are expected to actively engage in the UC market by offering op-ex pricing models and managed services for telephony and UC deployments. Vendors are expected to support through financing schemes to help SIs offer such services in the market such as the Zero Percent Progress Payments program from Cisco Capital. Global Service Providers (GSPs) such as BT, Verizon Business, Orange Business Services as well as Incumbent SPs such as Telstra, SingTel, PCCW are expected to aggressively offer hosted & managed UC services and spur the adoption of UC in the market.

The complexity of the UC deployments, interoperability issues with multiple applications & vendors involved and the heterogeneous communications environment that exists within enterprises today, system integrators with skills in both telephony and desktop communications will be critical enablers for the success of UC, and it also opens opportunities for SPs to offer a hybrid on-premise and on-demand UC solution.

- **Govt. & Education, Healthcare, Telco & Hospitality – Key Growth Verticals in 2009.** The current economic crisis is expected to slow down investments from the Banking, Financial Services & Insurance (BFSI) sector and the Manufacturing sector in some countries on communications infrastructure and applications. The Government sector and the Education sector are expected to continue to spend on the communications infrastructure, especially in developing economies, and the educational institutes in more developed economies of the region. The Hospitality sector has been going through a technology refresh which is expected to continue in 2009. The Telco sector is expected to pick up in the growth markets of India, China, Vietnam as subscriber population continues to rise, while in other markets, telcos are eyeing the hosted and managed services opportunity with UC.
- **Vendor Consolidation to continue in 2009 and beyond.** The UC market currently has many players who are each providing a piece of the entire picture, from telephony and email vendors, to presence & IM vendors, to stand-alone conferencing vendors, and contact center vendors. As the market matures, the UC market landscape is expected to have fewer players, each offering a broader and more complete UC solution. The global economic crisis would make it harder for some vendors to aggressively sell in the market as they announce cost cutting measures and reduced head count. This might negatively impact their market performance as other vendors who will continue their momentum in the UC market gain prominence and market share. M&A activity will continue as vendors acquire to get into new market segments, or to simply acquire market share.

According to Frost & Sullivan, the Unified Communications Market Opportunity* in 2009 is expected to be worth slightly over US \$5.0 Billion, growing at 7.7 % over 2008.

**Note: UC Market Opportunity includes Enterprise Telephony, Email, Instant Messaging (Unified Client), Unified Messaging, Conferencing & Collaboration (Audio, Video & Web), Mobility, Presence & Integrated UC Applications, and Core Contact Center Applications.*

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