

SERVICE PROVIDER STIMULUS IN THE INDIAN ENTERPRISE TELEPHONY MARKET VIA BUNDLED PRI/PBX PACKAGE

By: Lavanya Palani Batcha

Asia Pacific Market Insights

Frost & Sullivan's commentary on the Asia Pacific ICT industry, addressing opportunities, best practices, and major events



Overview

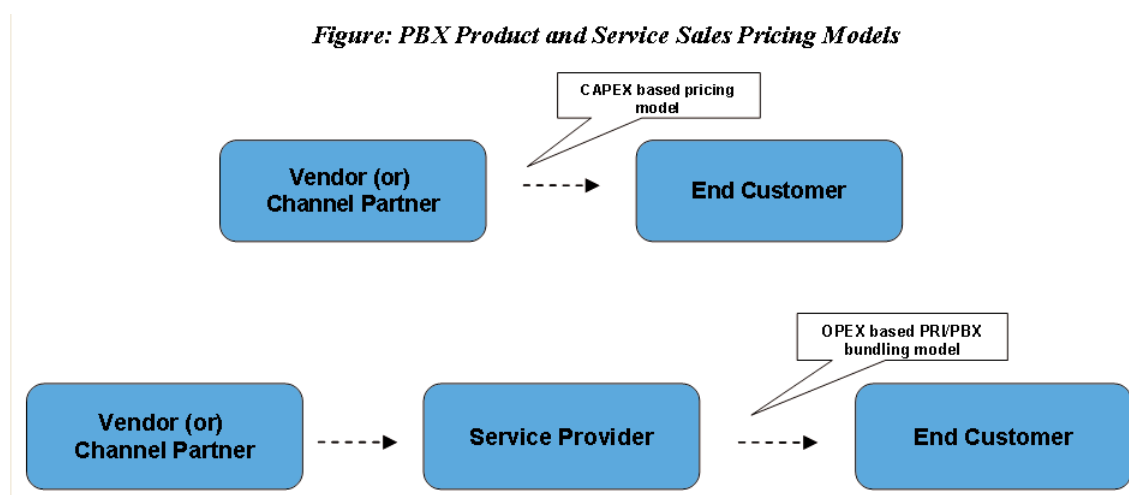
The Indian Enterprise Telephony market in CY 2008 was worth \$321 million. The market has witnessed steady growth over the last few years in terms of adoption of IP PBXs by enterprises with multiple locations. They have embraced IP telephony and its myriad benefits notwithstanding the restrictive regulations.

Apart from the momentum in the market for IP telephony based solutions, there still exists a considerable market for the lower-end analog products, especially in the Small and Medium Enterprise (SME) segment. Large pockets of the SMEs have had to stay contented with analog trunks and analog PBXs; they typically did not have the means to shift to ISDN PRI digital PBXs that could offer superior call quality and better features. The SME segment is price sensitive but value conscious and given the current economic slowdown and recessionary trend, they would be looking at various cost cutting measures to help overcome the downturn.

A recent trend has provided this segment with an appealing opportunity - the upsurge in the ISDN PRI PBX market; which is the end result of the major role played by the Indian telecom service providers such as Bharti (Airtel), Tata Indicom and Reliance. The service providers have devised a distinctive business model that appears to be a win-win situation for all parties concerned.

Bundling of PRI/ PBX in a package deal

The telecom service provider approaches an enterprise offering an ISDN PRI line; with a PBX as the giveaway. A fixed recurring billing commitment is the only requirement expected in return from the enterprise, thereby ensuring recovery of the PBX cost to the service provider; no other rental is charged for the PRI line or PBX. The customer thus gets multiple benefits in a single deal by means of cost savings on capital expenditure of the new PBX, a host of enhanced features such as CLI (Caller Line Identification), in addition to the 30 communication channels.



Target Opportunities

- **The SOHO/SME Market**

Vendors such as Syntel, NEC (Enkay Technologies), Intellicon and so on have reported large volumes of line shipments through their service provider business. Indeed, the SOHO (Small Office Home Office)/SME segment

now represents an expanding bulk of the vendors business. Predominantly, the vendors themselves do not contact the end-customers; all transactions are initiated by the service providers who procure the PBXs from the vendors/channel partners or dealers and then enter into the bundling package deal with the end-customer. However, recently vendors such as Syntel have initiated a more direct line of selling the bundled package to end-customers. The downside to this model of business is that although it has resulted in an impressive leap in terms of line shipment volumes, the average revenue per line accrued by the vendor has decreased, in some cases drastically, representing a decline of 50 to 60 percent of the normal price. The service providers have been able to negotiate for the lowest possible PBX system prices, as they purchase it in bulk. The low pricing, and instant delivery proffered by the service providers' act as key stimulants for the SOHO/SMEs.

- **The Large Enterprises Market**

Large enterprises have traditionally been reluctant to adopt schemes where they do not have full ownership of their equipment. However, if a cost benefit analysis is done and proves beneficial, they are more open towards hosted or managed services models. Interestingly, there have also been cases where some of the larger enterprises such as IT companies, BPOs have gone the service provider way, thereby avoiding substantial capital outflow for equipment. The service providers typically sponsor systems that are valued several times higher than the substantial fixed commitment billing for these larger enterprises.

Market Landscape

- **Vendor Opportunities**

Syntel, NEC, Matrix, Intellicon are some of the market participants garnering considerable PRI/PBX bundling business from the service providers. Panasonic was witnessing receding market share for a while, due to their inability to lower prices to match those of the other local vendors. However, the company decided to tie up with the service providers early in 2008 and despite being a late entrant, expects to regain lost ground. Matrix Telecom, although initially without significant tie-ups with the service providers, has had to enter into this low price war market in cases where the end-customer demanded Matrix systems. However, the company now has witnessed an increase in sales through the service providers.

Siemens does not have a major play in this extremely low priced market, however similar to the case of Matrix, their participation would be required if there is a demand from end-customers. Siemens has had a more significant play in the larger enterprises market via this service provider bundling rather than the SOHO/SME market. On another note, Coral Telecom has a tie-up with the state-owned BSNL and MTNL for provision of customer premise equipment including PBX on rental/ revenue share basis. Here again there is no capital expenditure involved for the end-customer.

Given the success of this service provider led business, it is not entirely inconceivable that even some of the larger vendors in the market may consider such business models in the future.

- **Service Provider Opportunities**

The private service providers Bharti (Airtel), Tata Indicom and Reliance are leveraging this particular business model to their maximum benefit, not only are they helping to increase the up take of digital communication by bundling the PRI lines but also building for themselves a larger customer base. There have been reported cases of state-owned service provider's customers shifting loyalties to the private service providers. It remains to be seen whether the current economic situation might in anyway hamper the service providers in continuing to fund the PBXs. It would be a blow to the significant participants in the market if this business model was to be dropped by the service providers.

Future Challenges

With the lower revenues and tighter profit margins rendered by this bundling model, vendors may find it difficult to sustain good quality support and maintenance. In case the end-customer wishes to change the service provider in the future, he cannot do so without incurring major losses. Initially when the end-customer owned the PBX, different service providers would provide the PRI connectivity which allowed for the flexibility to route traffic over best-priced routes. Under this scheme, the end-customer is tied-down to one service provider.

It is anticipated that the SOHO/SMEs will continue to adopt these bundled offerings business model for their enterprise communications requirements in the near-term. However, once IP telephony restrictions are abolished by the Indian Government, the SMEs would be predisposed to venture into newer innovative avenues that offer enhanced communications at the most affordable prices. SMEs have historically been quick adopters of disruptive and indeed lower priced technologies and schemes that offer good value, as their need to cut down costs is of the essence.

Authored by Frost & Sullivan Analyst: Lavanya Palani Batcha, Senior Research Analyst, SAME, ICT Practice (lavanya.palanibatcha@frost.com)

Contact

Tel: (65) 6890 0999
Email: apacfrost@frost.com
Website: www.frost.com

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