



WHITE PAPER

Integrated Communications as a Service: Framing the Market

Sponsored by: RingCentral

Amy Lind
Courtney Munroe
January 2014

Robert P. Mahowald

IDC OPINION

Businesses are redefining how and where their employees work, spurred by the proliferation of mobile devices, the bring your own device (BYOD) phenomenon, and the consumerization of IT, all of which are also enabling the growing trend of bring your own application (BYOA) within enterprises of all sizes. The increasingly distributed, mobile, and virtual nature of workforces is also giving rise to a dramatic shift in how businesses operate and contributing to the growing need for a seamless business communications solution that connects multiple applications. This has resulted in increased demand for "best of breed" integrated communications solutions across the enterprise.

At the same time, cloud services models are transforming the unified communications (UC) market, with implementations changing from being predominantly premise-based solutions to more hosted and cloud-based deployments. Although some providers are evolving from the old on-premise systems to unified communications as a service (UCaaS), the single-vendor solution remains a core tenet of these legacy vendors. The growing popularity of mobility, videoconferencing, and social business applications and services, coupled with increased demand for integrated, best-of-breed cloud solutions from multiple vendors rather than a single solution from one vendor, is further transforming the UC market. As a result, a new category has emerged: integrated communications as a service (iCaaS).

This IDC white paper examines cloud-based communications as a service and defines and explores the emerging iCaaS segment. It also discusses the benefits of implementing a cloud-based iCaaS solution.

SITUATION OVERVIEW

Business communications are evolving as companies migrate from the siloed, legacy telephony platforms of old to new cloud and software-as-a-service (SaaS) solutions. Yet more than a decade since unified communications made its debut, confusion still exists about what it is and is not, primarily because UC is a vague, often overused term that describes a wide range of features and functionality. IDC defines UC as a solution that combines advanced telephony and call management with unified messaging (email, voice, and fax messaging combined), instant messaging, conferencing (Web, audio, and video), and presence, all accessible through common user interfaces on desktops and mobile devices using voice or tactile control.

The majority of UC implementations to date have been capital-intensive, single-vendor, premise-based platforms from vendors such as Cisco, Avaya and, more recently, Microsoft. However, growing business comfort with cloud service delivery models has led to faster-than-expected business uptake of hosted/cloud-based UC solutions delivered by a single communications service provider (CSP). Recent IDC survey data supports this trend: Among current users, on-premise UC deployments and hosted/cloud UC deployments are on par (41%). But among respondents that planned to implement UC in 2013, nearly 40.4% said they planned to deploy a hosted/cloud solution compared with 34.9% that intended to implement an on-premise platform.

Although many service providers are still defining their UC go-to-market strategies, two hosted/cloud-based business models have emerged and are defined as follows:

- **Hosted UC.** Often an extension of a hosted VoIP service, hosted UC is typically positioned as a basic service with limited features and functionality, although some CSPs are expanding the features and functionality available in an effort to differentiate their service offering. Hosted UC primarily targets small and medium-sized businesses (SMBs), with most hosted UC implementations at 500 or fewer seats.
- **UCaaS.** UCaaS solutions are marketed by most CSPs as a fully featured, cloud-based premium UC solution that typically includes some level of customization. UCaaS is targeted primarily to medium-sized and large businesses as well as multisite, distributed large enterprises with 500 or more seats. UCaaS pricing is on a per-seat basis with additional features and functionality available for an additional cost.

Hosted and cloud UC solutions are based on a shared multitenant SaaS architecture, with all the features, services, and applications that constitute the solution delivered by a single vendor/CSP. Although businesses purchase software applications from different vendors to obtain the best-of-breed offering for each application, most UC solutions are delivered utilizing the single-vendor/CSP model rather than the best-of-breed approach. However, growing business demand for cloud-based solutions that are fully integrated with best-of-breed applications has led some CSPs to revise their go-to-market strategy and incorporate a best-of-breed approach that allows them to move beyond "unified" communications to more value-added "integrated" communications.

FUTURE OUTLOOK

From UC/UCaaS to iCaaS

Cloud-based communications solutions appeal to companies – particularly businesses that lack dedicated IT staff or want to reduce the dependency on IT – that want a CSP partner to host and manage the solution for them. In addition to growing adoption of cloud delivery models, several other key trends are transforming the communications services market:

- The rapid adoption of mobile devices and solutions in the workplace has given rise to a dramatic shift in communications behavior across the enterprise, one that requires communications solutions to be device agnostic. In the legacy communications environment, solutions were designed primarily around on-premise hardware and connected desk phones. But the proliferation of mobile devices and the growing BYOD phenomenon have resulted in

an increasingly mobile work environment, with a growing number of users requiring their smartphones and tablets be seamlessly integrated as fully functioning business devices.

- The rise of cloud services has ushered in a new era where businesses realize they are no longer beholden to one vendor or provider as they used to be. As a result, many businesses are not as inclined to buy all of their services, solutions, or applications from one vendor or CSP, even if doing so saves them money by "bundling" everything together from the same provider. Instead, businesses are increasingly looking for "best of breed" services or applications that easily and seamlessly integrate with other cloud services, solutions, and applications as they strive to improve productivity, foster collaboration, and reduce complexity.
- Although "unified" is an aspect of unified communications, many companies are looking beyond the limitations of a single vendor providing applications such as email, file sharing, voice, video, and chat to a more seamlessly integrated solution that combines "best of breed" applications with the services and applications that end users really need and use. Moreover, with BYOD and the consumerization of IT, the ability of IT to "force" end users to adopt the services and applications that IT demands has been significantly reduced.
- Owning or leasing the underlying network is less important than it once was for most CSPs; conversely, the value of being able to offer over-the-top (OTT) solutions (i.e., solutions that are not tied to the network and/or are transported independently) has expanded exponentially. Essentially, being device, transport, and location agnostic translates for most CSPs into being more nimble, flexible, and able to respond more quickly to rapidly changing market dynamics.

Until recently, most vendors and CSPs emphasized the unified aspects of their UC solutions such as unified messaging, with few hosted UC and UCaaS solutions offering fully integrated applications and services. However, the growing popularity of mobility, videoconferencing, and social business applications, coupled with growing demand for communications-enabled business processes and the desire for more integrated, best-of-breed applications from multiple vendors, is giving rise to a new category of integrated communications solutions.

Integrated communications is the seamless integration of core advanced telephony applications capabilities with mobility solutions, business applications and processes, centralized administration, and collaborative applications (integrated messaging, conferencing, presence, and social business). More importantly, integrated communications solutions are device, location, and network agnostic and enable employees to communicate and collaborate internally and externally with customers, partners, suppliers, and others wherever, whenever, and on any device they want. When delivered via the cloud in an as-a-service model, integrated communications becomes integrated communications as a service.

RingCentral's iCaaS Solution

RingCentral is a SaaS provider that delivers cloud business communications solutions to business customers of all sizes based on a custom-developed architecture that leverages the flexibility and scalability of the cloud. RingCentral's cloud platform is a mobility-centric design based on shared, multitenant SaaS architecture and does not require the deployment of on-premise hardware. The platform is location, device, and transport independent and is easy to activate, manage, and use from smartphones and tablets.

RingCentral's mantra – simplicity, flexibility, and scalability – resonates with the company's core customer base. Initially, RingCentral targeted small and medium-sized businesses, and even though it is making inroads into the enterprise market, it remains focused on the midmarket (1,000 or fewer seats). RingCentral is one of the few CSPs that offer all-inclusive pricing. Additionally, the company is an OTT provider, meaning that it is technology agnostic and thus does not require (or supply) specific transport or data connectivity to its customers.

RingCentral's strategy has been to embrace the rapidly evolving iCaaS trend in enterprises. At the heart of the strategy are out-of-the-box integrations with other cloud business solutions like salesforce.com, Box, Dropbox, and Google. As this iCaaS trend takes further hold, RingCentral will likely begin integrating with numerous other applications to support a holistic best-of-breed approach.

RingCentral has more than 2,000 resellers and serves more than 300,000 businesses in the United States, Canada, and the United Kingdom across a wide array of industries ranging from healthcare to financial services to legal, retail, and real estate. The company also has a relationship with AT&T under which it offers the co-branded RingCentral Office@Hand from AT&T service to SMB customers. RingCentral has experienced rapid growth in the past several years, with revenue doubling from \$50.2 million in 2010 to \$114.5 million in 2012, and as of the end of 3Q13, the company had an annualized revenue run rate of over \$167 million.

RingCentral's flagship solution is RingCentral Office, a business-class cloud-based communications solution with voice, text, fax, and video capabilities available across multiple devices including smartphones, tablets, PCs, and desk phones. Additionally, smartphones and tablets can be used to configure and manage company, department, and user settings from anywhere. Administrators are able to specify and modify company auto-receptionist, call handling, and routing rules and to add, change, and customize users and departments, while users have the ability to change their personal settings instantly and to communicate via voice, text, and fax.

RingCentral Office comes in three editions: Standard, Premium, and Enterprise. Capabilities include:

- Integrated voice, fax, and business text
- RingCentral Meetings capabilities, which provide multipoint HD videoconference and Web share on smartphones, tablets, and PCs
- Mobile and Web apps that are simple to use and manage without requiring extensive technical skills
- Customizable call management and conference calling
- Out-of-the-box integrations with other cloud solutions including salesforce.com, Box, Dropbox, and Google

Because RingCentral Office is a cloud-based solution, no maintenance is required on the part of end users, with updates and new features automatically delivered when they become available. Three tiers of services are available, differentiated by functionality – Standard, Premium, and Enterprise – and include no setup fees, no contracts, and 24 x 7 free support (for subscribers with two or more users).

CHALLENGES/OPPORTUNITIES

IDC sees challenges and opportunities facing RingCentral as it develops and establishes itself as a leading iCaaS player.

Challenges

RingCentral faces the following challenges:

- The UC market (including hosted UC, UCaaS, and iCaaS) is highly fragmented with a large and diverse array of competitors ranging from premise-based vendors to incumbent carriers and smaller CSPs, including the following:
 - **Premise-based vendors.** Vendors such as Cisco, Avaya, and others represent the greatest near-term competitive threat. Implementing RingCentral's cloud-based solution requires businesses to scrap or "rip and replace" their existing and often expensive investments in premise-based platforms. While some SMBs may be willing to forgo their existing investments, others, particularly medium-sized and large businesses, are more likely to be reluctant to do so.
 - **CSPs.** Incumbent carriers such as Verizon and AT&T's portfolio of UC solutions range from hosted UC based on BroadSoft's platform to Cisco HCS-based UCaaS to managed UC&C solutions from vendors including Avaya and Microsoft, which potentially places them in competition with RingCentral. Other potential competitors include cable operators like Comcast and Cox, both of which have gained traction with their hosted offerings, although they currently have limited features and functionality and little-to-no integration with other cloud solutions.
- RingCentral has been successful at developing a brand cache, further differentiating its offerings and increasing brand awareness in an already crowded and competitive market serving SMBs.
- Although RingCentral's all-inclusive pricing strategy is a key differentiator, there are many competitors willing to compete on price and to position their solution as an alternative to RingCentral.
- RingCentral's roots are in the SMB market. The company is pursuing a strategy of moving upmarket and penetrating more deeply into the larger enterprise business sector, but it needs to successfully execute on this strategy. RingCentral also must ensure that it is not perceived as abandoning its roots and investments in its core SMB customer base because this segment is crucial to the company's continued growth and success.
- Because RingCentral is a cloud-based solutions provider, it relies on third parties for network connectivity and datacenters. Interruptions or delays in service from these facilities could hinder the company's ability to provide services to its customer base.
- RingCentral's revenue has increased steadily over the past several years, growing from \$50.2 million in 2010 to \$114.5 million in 2012, and as of the end of 3Q13, the company had an annualized revenue run rate of over \$167 million. However, like other rapidly growing cloud solutions providers, it has yet to be profitable.

Opportunities

RingCentral delivers a compelling iCaaS solution that meets the needs and budget constraints of its core customer base: small and medium-sized businesses.

Key strengths of RingCentral's solution include the following:

- Seamlessly integrated cloud-based communications capabilities are combined with a flexible delivery model that is highly scalable. These are key considerations for the company's core SMB customer base, which often lacks the dedicated staff or skills necessary to implement more complex on-premise or cloud-based UC solutions.
- RingCentral's mobile-centric approach taps into the growing popularity of mobility, the proliferation of mobile devices, and the BYOD trend and is a key point of differentiation. User interfaces are designed for nontechnical administrators and users and leverage a touch-based approach, making the mobile app intuitive and easy to use.
- RingCentral Office is a fully integrated, cloud-based solution that requires no capital investment or additional investment in maintenance or upgrades, making it quick to deploy and easy to manage. It is also highly scalable, allowing customers to easily add (or remove) users regardless of their location as business needs change, without having to purchase additional hardware or software upgrades.
- The "best of breed" approach delivers tight integration with leading cloud-based applications and solutions including salesforce.com, Box, Dropbox, and Google.
- Because RingCentral is location and device agnostic, distributed and mobile employees are able to seamlessly connect, communicate, and collaborate wherever, whenever, and on any device they want. As an OTT provider, RingCentral is also transport agnostic, meaning that it does not require (or supply) customers purchase specific transport or data connectivity.
- 24 x 7 customer support is available to customers with two or more users, which is essential for many SMBs because they often lack the resources and/or skills necessary to maintain and support UC solutions.
- RingCentral has traditionally targeted SMBs but the company is looking to expand its customer base by focusing on the enterprise market for cloud communications solutions. Enterprises are more likely to have mobile and distributed workforces, purchase premium services, have lower churn rates, and enter into longer-term contracts.
- The partnership with AT&T has the potential to create new revenue streams for RingCentral and opens the door for the company to more deeply penetrate into the midmarket.

CONCLUSION

Businesses are redefining how and where they work at the same time that business communications are evolving from the siloed, legacy telephony systems of old to new cloud solutions. The growing popularity of mobility, videoconferencing, and social business applications and services, coupled with increased demand for fully integrated, best-of-breed solutions from multiple vendors rather than a unified solution from one vendor, is further transforming the market and giving rise to integrated communications-as-a-service solutions.

Business users looking to implement an iCaaS solution should consider the following:

- **Mobility.** The rapid adoption of mobile devices and solutions in the workplace coupled with the BYOD phenomenon has created a dramatic shift in communications behavior across the enterprise requiring cloud-based integrated communications solutions to be device agnostic. RingCentral's mobile-centric approach taps into the growing popularity of mobility, and the company's mobile app is intuitive and easy to use even for nontechnical users, making mobility a key differentiator for the company.
- **Integrated, best-of-breed applications.** Businesses are looking for best-of-breed applications as a means to improving productivity, fostering collaboration, and reducing both costs and complexity. At the same time, although "unified" was and still is an essential aspect of unified communications, growing demand for a more integrated, holistic approach to communications services delivery is propelling the market beyond the limitations that "unified" implies. Additionally, the advent of cloud-based services delivery models and growing business comfort with all that the cloud implies are further extending the notion that integrated best-of-breed applications and services are essential to continued business adoption of hosted and cloud-based UC solutions. RingCentral is at the forefront of this trend as evidenced by its integration with leading cloud-based apps and solutions including salesforce.com, Dropbox, Google, and others. Moreover, RingCentral's partnership with AT&T further demonstrates the company's commitment to delivering the integrated, best-of-breed communications solutions that its customers want and are increasingly demanding.
- **Enterprise market.** A number of CSPs, including RingCentral, have achieved success offering hosted and cloud-based UC solutions to SMB customers. But many are now looking to expand their customer bases by focusing on the still largely untapped medium-sized and large enterprise markets. Enterprises are more likely to have mobile and distributed workforces, purchase premium services, have lower churn rates, and enter into longer-term contracts. RingCentral's mantra of simplicity, flexibility, and scalability is likely to resonate as well with larger businesses as it has with the company's core SMB base. Furthermore, as an OTT provider, RingCentral is location, device, and transport agnostic, meaning that distributed and mobile employees are able to seamlessly connect, communicate, and collaborate wherever, whenever, and via any device.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1000 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For more than 48 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-insights-community.com
www.idc.com

Copyright Notice

External Publication of IDC Information and Data – Any IDC information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Vice President or Country Manager. A draft of the proposed document should accompany any such request. IDC reserves the right to deny approval of external usage for any reason.

Copyright 2014 IDC. Reproduction without written permission is completely forbidden.

