PBX Market Update: Confusion, Uncertainty and Opportunity

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2001 PBX Market Highlights

• Total PBX market demand declined for second consecutive year
• IP-PBX shipments grew as expected
• Industry downsizing (suppliers, employees)
• More indirect sales/service channels, and declining direct sales/service support
• Customer confusion regarding current PBX market and IP Telephony continues
PBX Market Shipments
(USA, only)

Upgrades: station additions to an upgraded installed system
Adds: station additions to an installed system (no platform upgrade)
New: station shipments with a newly installed system

SOURCE: TEQConsult Group 2002
Why the Decline?

• Recession economy
  – Budget cutbacks
  – Employee downsizing
  – Uncertain political climate (9/11 aftermath)

• Installed base upgrade & enhancement migration
  – Smooth port/feature/function migration path
  – Cost effective alternative to new system

• IP-PBX system paradigm
PBX Shipment Forecast
(USA, only)

Source: TEQConsult Group
IP-PBX Systems are Here Today!

• IP-PBX offerings from leading traditional system suppliers finally available
  – New client/Server design
  – IP-enabled converged design
• Continuing feature/function enhancements from “new” suppliers
• Improved pricing, increased reliability, clearer understanding of benefits
Why Buy an IP-PBX Today?

• Upfront capital cost savings
  – Green Field location (unified cabling system)
  – Consolidation of multiple systems across network into one system
• Teleworker/very small office requirements
• Reduced maintenance/service expenses
• Reduced network expenses (VoIP)
• New desktop applications (web browser phone)
Why IP Telephony may NOT Dominate Anytime Soon

• Costs
  – LAN/WAN upgrades
  – IP telephone prices

• Standards concerns (H.323 vs SIP, voice codecs,)

• Reliability and QoS

• Product upgrade issues

• Life cycle
PBX IP STATION SHIPMENT FORECAST
(SYSTEMS > 40 STATIONS)

SOURCE: TEQConsult Group
PBX Solar System (USA)
USA PBX Market Leaders: Portfolio Offerings

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<tr>
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<th>Voice Communications</th>
<th>Data Communications</th>
<th>Contact Center</th>
<th>Messaging</th>
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USA PBX Suppliers: Portfolio Offerings

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Global PBX Market Leaders: IP-PBX Capabilities

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<th>Client/Server IP-PBX</th>
<th>LAN/WAN Solutions</th>
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IP-PBX Product Positioning

Client/Server IP-PBX

Converged IP-PBX

Cisco
3Com
Mitel

Sphere
Intecom
Ericsson
Shoreline

Avaya
Siemens
Nortel

NEC
Alcatel
General Comments re Major PBX Suppliers

• Traditional PBX suppliers have suffered from marketing myopia disease
  – Vast marketing resources devoted to IP telephony to the harm of everything else
  – Ignoring value of traditional features and functions
  – Poor product announcement materials

• Disastrous decline in resources to support sales gatekeepers: press, analysts, consultants
PBX Supplier CALPs in Turmoil

Top-Notch End-user Consultant Program

N E C

Cisco

Siemens

Nortel

Alcatel

Mitel

Avaya

3Com

Ericsson

Intecom

No Program

No Program

No Program

No Program
Supplier Commentary 1

• **Avaya**
  – Big communications system revenues tumble in F2001
  – Strongest voice solutions portfolio of any supplier
  – Increased focus on CRM & Unified Communications, to detriment of PBX systems solutions
  – Downsized direct sales & support structure, e.g., CLP

• **Nortel Networks**
  – Refocusing on enterprise communications after other business groups collapsed
  – Succession platform appears behind schedule, and Meridian 1 architecture is aging at an exponential rate
  – Must gain back lost customer confidence to move forward
Supplier Commentary 2

• Siemens
  – Very strong and solid corporate infrastructure
  – Announced new HiPath systems to strengthen previously weak IP-PBX offerings
  – Needs greater North American market focus to improve market perception, and gain market share

• NEC
  – Slow IP-PBX system pace picking up rapidly
  – Strengthened market position in both messaging and LAN/WAN
  – Late 1990’s strides in marketing support programs slipping of late
Supplier Commentary 3

• **Mitel Networks**
  – Good move: Back under ownership of original founder
  – Innovative product line, but historic weaknesses in large/very large market spaces continue
  – Plans for an IPO imply continued investment to remain competitive, but must improve penetration rate into competitive bases, and increase contact center sales

• **Ericsson**
  – Low visibility in local market, and very slow migration towards IP-PBX system platform
  – 100% indirect sales strategy a risky venture in large systems market
  – Need more people, more money, and more products to keep competitive in USA market (or else!)
Supplier Commentary 4

• Alcatel
  – Appears to be making in-roads after a slow market start; distribution channels and support structure in-place
  – Corporate focus on carrier networks may limit enterprise system potential
  – Competitive PBX offerings may not be enough: more marketing/promotion $’s needed to raise USA profile

• Cisco Systems
  – Continued improvements in IP telephony systems offering, but major feature/function gaps remain
  – Has strongly leveraged LAN/WAN position to sell voice systems to data managers, but finding competitive wins more difficult versus established suppliers
  – Finally realizing that voice is not just another LAN server application, and 99.999% reliability is not a myth
Supplier Commentary 6

• Intecom
  – Stuck in large systems market niche; poor migration path for large installed base of aging systems
  – IP-PBX system innovator ironically not well positioned in emerging market space

• 3Com
  – Primarily selling into Hybrid/PBX market space: port capacity and feature limitations restrict market reach
  – Can be successful in SME market, but LME too risky

• Shoreline, Sphere, Vertical Networks
  – One-time unique market niche offerings no longer unique (increased competition from old-line suppliers with recent IP-PBX)
  – Have distanced themselves from other contemporaries, but future success is not guaranteed
PBX Market Tomorrow

• PBX sales will soon get back on track, but not until later this year, and growth rates will be moderate
• Continued strong growth of IP telephony, but circuit switched converged platforms will dominate for the foreseeable future
• Unique IP telephony features and applications, beyond web browser phone, are needed to drive IP-PBX system sales
• More suppliers will leave market (not voluntarily)
• Customers will continue to value system reliability & survivability, and maintenance & service support over technology innovations