



WORLDWIDE

HOSTED PBX MARKET

2017-2022 REPORT SUMMARY

**EASTERN MANAGEMENT
GROUP'S RESEARCH**

A FOUR-YEAR STUDY OF THE HOSTED PBX MARKET

Introduction

Eastern Management Group research analysts recently completed a four-year study of the hosted market and published the research in a new report, "Worldwide Hosted PBX Market 2017-2022." With data from more than 3,500 IT Managers studied worldwide, dozens of vendors, 187 hosted UC companies and 22 vertical industries, the research delved into hosted PBX business needs of SMBs, mid-market and enterprises, worldwide markets and UCaaS' future.

The market for the hosted PBX is segmented on the basis of service, business size and world region. This document will speak of:

TAM – Total Addressable Market

ARPU – Average Revenue Per User

UC – Unified Communication

UCaaS – Unified Communication as a Service

SMB – Small and Medium-sized Businesses

PBX – Private Branch Exchange

API – Application Programming Interface

CRM – Customer Relationship Management

APAC – Asia Pacific

M&A – Mergers and Acquisitions

HOSTED PBX MARKET REVENUE OPPORTUNITY

- The Hosted PBX Total Addressable Market (TAM) is valued at \$20B at 54M lines/ seats in 2018 alone
- The revenue opportunity will be even bigger with UC applications such as contact center and video and pull-through services such as systems integration and managed LAN

TOTAL ADDRESSABLE MARKET FOR HOSTED PBX GLOBALLY

International Largest Addressable Market for Hosted PBX

Hosted PBX	Addressable Market Today
United States	27%
Rest of World	73%

Businesses in North America are the largest purchasers of hosted PBX but there are emerging inroads in Western Europe and APAC. The five-year TAM for hosted PBX is larger in Western Europe and APAC than in the US.

REVENUE OVERFLOW EFFECTS

The large TAM will expand the resources of capital of hosted PBX providers and will likely go to these ten hosted PBX investments:

1. Expansion of the hosted PBX industry across Europe and APAC as well as LATAM
2. New UC Collaboration services and managed services for enterprises
3. Transition or expansion of established hosted companies into the mid-market as well as the enterprise market
4. Network rollout by hosted companies
5. Channel investments for partner training and direct salesforce growth
6. Buildout of routes to market (there are more than 15 of them)
7. 7. Conversion of remaining premises PBX companies into hybrid premises-hosted providers
8. 8. M&A – larger companies acquiring small players, as well as private equity investments across the board
9. 9. Hosted PBX Buildout by thousands of tier 1, 2 and 3 service providers
10. 10. Venture capital for hosted PBX startups.
11. New and more money will enable better technology and transitioning from customers averaging 10 to 15 seats to mid-market and enterprise segments will be possible. There will also be improvement in service uptime and support as operations expansion put resources nearer the customer, not oceans away.

VERTICAL MARKETS AND VERTICAL INDUSTRY MARKETING

Wealthy Vertical Markets are the Hosted PBX Industry's Future

- Vertical Marketing doubles revenues and creates and improves industry specialization
- Overrun with Hosted PBX providers, vertical industry marketing creates differentiation.

Some large vertical markets are ripe for industry marketing

- In 2018, the worldwide hosted PBX TAM for the manufacturing industry is \$3.1B.
- Retail-wholesale industry is at \$2.4B

SELLING TO VERTICAL MARKETS THROUGH INTEGRATIONS AND PLATFORM

Starting small but targeting big payoffs with vertical markets in different industries:

- Selling through Integrations – an example is bundling integrations for a recruitment agency with several job hunting services.
- Selling through platform – an example is customizing platform for a call center application with call flow monitoring, etc.

Hosted PBX Vendor

8x8

Earthlink

Shoretel (Mitel)

Vertical Market Specialties

Professional Services such as Regus

Retail, Healthcare, Financial

Employment Agencies

PBX SALES AND THE FUTURE

- 18% of All PBX Sales in 2017 (\$5B) is from the Hosted PBX Market coming from 4% in 2010; and the market is still young. Customers replace PBXs with predictable frequency hence decades of sales opportunity.
- Due to the above, everyone wants in on the future with an estimate of 3,000 to 4,000 service providers (not an exaggeration) who will be Hosted PBX service providers in the next decade.

PBX SALES DRIVERS

The market upswing will be driven by these three:

1. Enterprises – About 10% of large businesses have UCaaS. Those that do, already use cloud computing and adding voice is just one more application. As cloud computing grows, so does the enterprise market for hosted PBX.
2. Features – Integrations and API aren't only demanded by businesses that need CRM and other applications to improve productivity, they are a means of growing ARPU (Average Revenue Per User). Vendors bundle suites of integrations for \$10 to \$50 per month per seat.

Business Applications Data Integration

Enterprise Data		Public Data on Companies	Internet/Social Data	Personal Data
Salesforce Momentum	Oracle Marketo	Yellow Pages Yelp	Facebook Twitter	Google Calendar Office 365

3. Unique service providers – 3,000 to 4,000 service providers will enter the market and some will enter with unique vertical market features and enhanced functionality for existing features, new services, custom applications and network capabilities.

CHURN AND CUSTOMER SATISFACTION

- Hosted PBX Churn are small for SMBs (though renowned for churn-inducing activities like moving offices, getting acquired, ceasing operations), even smaller for mid-market and infinitesimal for enterprise customers with about 1,000 hosted PBX seats.
- UCaaS churn is a proxy for customer satisfaction and hosted PBX's customer satisfaction is high worldwide (survey says 85% of users are satisfied with their cloud providers).
 - Churn responds to competition, promotional pricing targeting long-distance callers, customer care and innovative products and services.
 - Also, since only a small TAM moved to cloud, vendors should still focus on customers than to focus on sales to get new business.

DIRECTION FOR IP PBX / TRADITIONAL PBX VENDORS: GET INTO HOSTED UC

Mitel, an example, an old-fashioned traditional PBX Manufacturer, focused on SMB with an average of 30-40 stations. Mitel was easily ignored by competitors with an average sales of 80-100 stations. But just like the large premises PBX players, Mitel has always had a formidable complement of channel partners.

THE SWITCH TO UC

Enterprises will double hosted PBX market share by 2022.

- In 2017, 60% purchased an IP PBX for enterprises' switch. By 2022, less than half of these enterprises will use an IP PBX for most company communications.
- The IP PBX fallout was worse as businesses with more than 20,000 employees were examined.
 - 55% acquired an IP PBX for their most recent PBX acquisition. In 2022, IP PBX will only be used for only 30% of company communication – a whopping 45% drop for IP PBX over the next five years.

THE GLOBAL ENTERPRISE MARKET FOR HOSTED UC

Enterprise Market	Percent of Businesses
North America and the rest of the Americas	50%
EMEA	36%
APAC	14%

WHY ARE ENTERPRISES THE FASTEST GROWING HOSTED PBX MARKET?

Companies with more than 1,000 employees will double their market share of hosted systems by 2022.

- Most enterprises have yet to install hosted PBX as they don't want the loss of control they see as a consequence of embracing cloud.
- Others have yet to use cloud computing.

2018-2020 DRAMATIC SHIFTS FORECASTED

Mobile UCaaS – is native mobile. It is altogether different from original UCaaS. It is the new hosted UC solution from mobile network operators. Mobile UCaaS will pick up from wireless carriers tapping out growth and new revenue streams. The platform is well suited for key technologies like collaboration, conferencing and messaging. The versatility of mobile UCaaS makes it a feature-rich way to hoist ARPU for mobile operators.

Vertical Industry Marketing – will represent the largest change to UCaaS between 2018-2020. It will be integral to the expansion of the market, the launching of startups and the life blood of current hosted PBX providers. There are thousands of vertical industry UCaaS features, APIs, integrations, premises and network equipment products, services, managed services, and network options that hosted PBX providers can tailor-fit offers to specific large industries. As providers move up from SMBs, to mid-market to enterprise customers, they can also offer architecture services, from systems integration to solution planning, designing and implementation. Some examples of ready UCaaS Vertical Markets are professional services, Retail and Travel and Transportation.

CONCLUSION

- 2018-2022 is seemingly lucrative for hosted PBX providers with enough TAM in APAC
- Though vertical marketing is the number one way to go, customer satisfaction shouldn't take a back seat to minimize churn in the market. There are ready vertical markets waiting as companies consider new communication capabilities.
- Movement from SMB, to mid-market to enterprise is only logical as increase in startup hosted PBX providers natural focus is on SMBs for new business.
- ARPU's can and will increase with system integrations, platform customization and other pull-through services bringing the \$20B forecast even higher.

SOURCE: EASTERN MANAGEMENT GROUP

The research shared in this document is from the Eastern Management Group's report - "Worldwide Hosted PBX Market 2017-2022." John Malone, President and CEO of Eastern Management Group, published these on nojitter.com in an eight-part series.

Eastern Management Group is one of the world's premier strategic research companies at the center of the global technology market. Founded in 1979 and headquartered in New York, they believe that quality market and technology research is the cornerstone of effective decision making.

The American research and consulting company has over 500 communications technology clients throughout the world whom they provide marketing consulting and marketing research.