



nemertes
RESEARCH

INDEPENDENCE INTEGRITY INSIGHT

PilotHouse Awards - Top Providers
IP Telephony 2009

IP Telephony 2009

By Irwin Lazar,
Vice President, Communications Research, Nemertes Research

Award Definition

The IP Telephony award recognizes vendor manufacturers of IP call-control servers and handsets. They also typically offer voice messaging, auto-attendant, gateways, and audio conferencing capabilities. This award does not include hosted IP telephony service providers (business or consumer).

Overview

The goal of the Nemertes PilotHouse awards program is to ascertain how well vendors and service providers perform in the eyes of their business customers. In addition to IP telephony, Nemertes gathered ratings on a broad array of technologies, including related areas such as MPLS services, unified communications, video/telepresence, and IP contact centers. Separate reports are available on all 10 areas of coverage, and more detail on the program is available in the methodology at the end of this report.

We issue awards based on customer ratings of their vendors or service providers. The challenge is some providers (Market Leaders) have hundreds or thousands of customers, perhaps millions of users, and significant market share in terms of revenues or units shipped, while others (Market Challengers) have perhaps scores or a few hundred customers, far fewer users, and much smaller market share. Since leaders would get so many more ratings than challengers, we decided to segment the two groups and issue awards within each group. We do provide overall market comparisons, though, since many IT practitioners want a mixture of vendors on their RFP short lists.

What makes this Nemertes project so different from any other research available? The results are based 100% on the views and experiences of actual customers of IP telephony vendors. Nemertes' staff determines the methodology, conducts the research and analyzes the findings. But we have no influence over how any given vendor performs. The opinions rest with real customers. In addition, no vendors sponsor this research.

One key aspect of the IP telephony market is the large number of providers, though a small handful dominates market share. Nemertes received ratings for 39 providers, (including some service providers, despite the fact that they were not part of this project) with nine receiving enough votes to qualify for award consideration. Nemertes provides awards to Market Leaders (those with a significant market presence), as well as Market Challengers (those with smaller market presence who received a significant number of ratings).

We asked IT practitioners with knowledge of the IP telephony products in their organizations to rate their providers on a 1-to-5 scale (1=unacceptable, 2=poor, 3=fair, 4=good, 5=excellent) in five areas: Value, customer service, technology, management tools, and ease of installation and troubleshooting. The awards presented here recognize the best IP telephony vendors using the average scores of all categories across all ratings received. In addition to computing mean scores on each point, Nemertes combined the five for an overall rating. The Nemertes PilotHouse program focuses on three key ratings in its analysis: value, technology, and customer service. We do provide the results of all five rating areas in Figure 1, but focus the rest of the analysis on the core three ratings.

Value

Value ratings are essentially the way customers perceive what they get for what they pay for. Are they getting their bang for the buck? Those who rate higher in value deliver significant benefit with their solutions such that their customers feel they are making worthwhile expenditures. So if a vendor scores well in “value,” it doesn’t mean it is the least-expensive provider (though it could be). It simply means that regardless of the price charged, customers believe they’re receiving value for the money spent. The top provider for value is ShoreTel, with a 4.31 score, followed by Cisco and 3Com, each with a 3.77.

Customer Service

Customer-service ratings define how customers feel their vendors serve them, particularly in the areas of response time to problems, account representative service, the RFP process, and warranty issues. High scores indicate leadership in customer service, while low scores indicate that customers aren’t particularly pleased with all or some areas of service. One key point with customer service, though: It truly is king. Anecdotally, we have found that when customer service suffers, other ratings suffer, too. Even though a vendor may have solid technology, when customers aren’t happy with the service they receive, it often reflects poorly on all areas rated. ShoreTel earns the top score in customer service with a 3.92, followed by Alcatel-Lucent’s 3.88.

Technology

Technology ratings capture how customers view the sophistication of underlying technology of each vendor’s products. Technology ratings also indicate

whether customers believe a particular vendor leads by bringing technology advancements to market. ShoreTel also wins the technology category, with a 4.08, followed by Cisco with a 3.91.

Management Tools

Customers also rated their IP telephony vendors on the sophistication with management tools that come with their equipment. Historically, this has been a weak point with many vendors, and often companies end up buying management tools from third parties. ShoreTel's 4.0 leads this category, followed by Microsoft's 3.69.

Ease of Implementation & Troubleshooting

For this category, IT staffs rate how easy it is to install the vendors' products, and once installed, how easy it is to troubleshoot any problems. This can be one of the biggest pain points or one of the most pleasant surprises of a new technology implementation. Once again, ShoreTel wins the highest score with a 3.92, followed by Microsoft with a 3.76.

Nemertes 2009 PilotHouse Awards IP Telephony Products						
Market Leaders		Market Challengers				
Avaya, Cisco, Nortel		3Com, Aastra, Alcatel-Lucent, Microsoft, Mitel, NEC, ShoreTel, Siemens				
Winners	Value	Customer Service	Technology	Management tools	Installation & Troubleshooting	Overall
ShoreTel	4.31	3.92	4.08	4.00	3.92	4.05
Cisco	3.77	3.79	3.91	3.60	3.57	3.73
Other Vendors						
Microsoft	3.74	3.76	3.83	3.69	3.76	3.76
Alcatel-Lucent	3.71	3.88	3.82	3.65	3.59	3.73
Avaya	3.64	3.48	3.76	3.49	3.49	3.57
3Com	3.77	3.38	3.38	3.38	3.69	3.52
Mitel	3.40	3.30	3.50	3.50	3.40	3.42
Nortel	3.45	3.34	3.53	3.30	3.30	3.39
Rating Scale: 5=Excellent; 4=Good; 3=Fair; 2=Poor; 1=Unacceptable						

Figure 1: Nemertes 2009 PilotHouse Awards: IP Telephony Products

Results Summary

The top prize goes to ShoreTel, which beat every provider in both the Market Leader and Market Challenger categories. (Please see Figure 1: Nemertes 2009 PilotHouse Awards: IP Telephony Products, Page 3.) ShoreTel itself is a Market Challenger, and its 4.05 score was not only one of the highest in the entire PilotHouse program across all technologies; it was significantly higher than any of

its IP telephony competitors. The Market Challenger's group also includes Microsoft (3.76), Alcatel-Lucent (3.73), 3Com (3.52) Mitel (3.42) and Siemens (3.10).

In the Market Leader category, Cisco took the honors with an overall score of 3.73, significantly ahead of fellow leaders Avaya (3.57) and Nortel (3.39). (Please see Figure 1: Nemertes 2009 PilotHouse Awards: IP Telephony Products, Page 3.) Cisco won on each rating; with its highest margin of victory coming in customer service.

Analysis

The most notable aspect of this year's awards is that the challengers beat the incumbents in a variety of areas, with ShoreTel gaining top scores among all vendors in all areas rated. ShoreTel's margin of victory was large in all areas except customer service, where Alcatel-Lucent nearly came closest to a ShoreTel rating, with a 3.88 versus ShoreTel's 3.92.

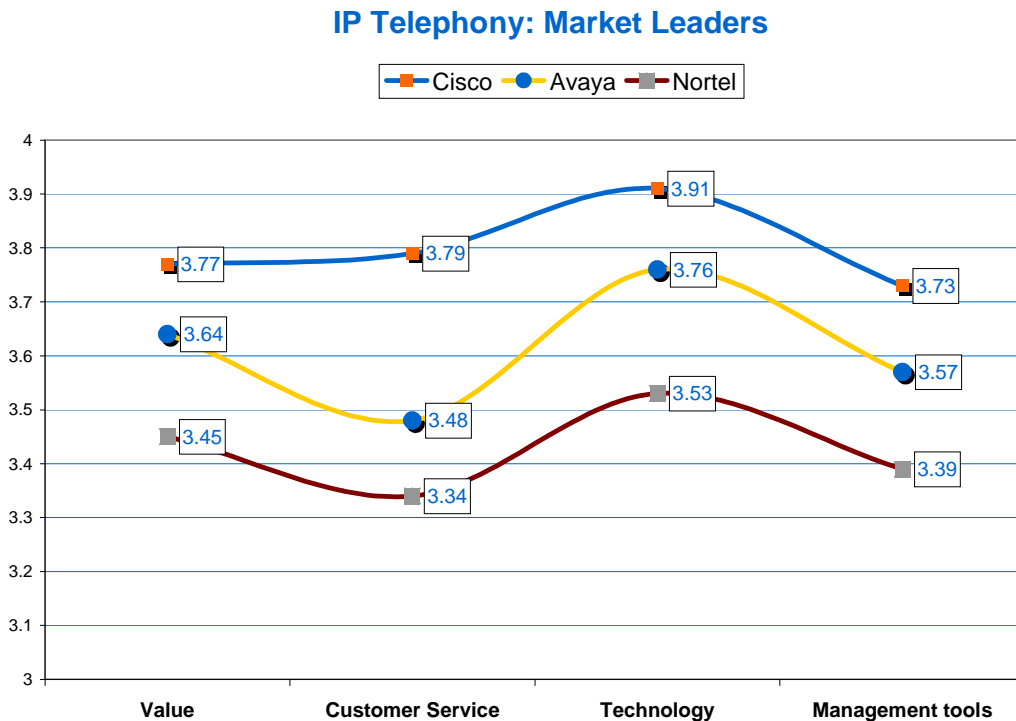


Figure 2: IP Telephony: Market Leaders

There are additional challenges in larger installations, which are more prevalent for the Market Leaders. For example, the majority of those rating ShoreTel and 76% of those rating runner-up Microsoft had deployed 1,000 or less

IP end-points (That's not to suggest either of these vendors don't have larger customers; rather, our sampling contained vendors with this makeup). Meanwhile, 45% of both Avaya and Cisco customers have deployed more than 1,000 end-points.

In the Market Leader category, Cisco scored a clean sweep, beating Avaya and Nortel in all ratings categories. Notable in this extrapolation of ratings data is no crossing of the lines between areas. Cisco took first place in each area, Avaya took second, and Nortel took third. (Please see Figure 2: IP Telephony: Market Leaders, Page 4.) These results indicate Market Leaders are fairly consistent in their capabilities. It is also notable that implementation and troubleshooting was the laggard for all three vendors. This is an area where improvement will lead to competitive gain, especially given that all challengers, except Mitel, beat all three leaders in this category.

IP Telephony: Market Challengers

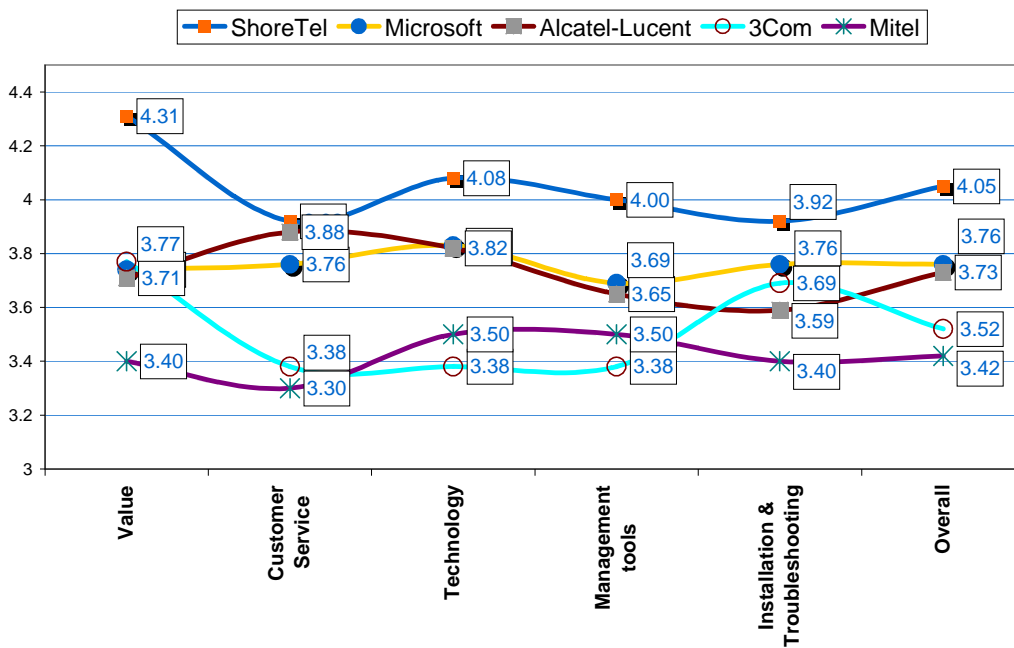


Figure 3: IP Telephony: Market Challengers

Market Challengers overall scored much better than Market Leaders. (Please see Figure 3: IP Telephony: Market Challengers, Page 5.) For buyers, these results argue for casting a wider net with vendor selection that includes Market Challengers, especially as two of the three Market Leaders are poised to consolidate over the next year. Overall, two Market Challengers scored higher than all the Market Leaders. (Please see Figure 4: IP Telephony: All Vendors, Overall

Scores, Page 6.) Management tools continues as a lagging category for all vendors except ShoreTel, meaning it's likely that we'll see continued growth in adoption of third-party management tools.

Just 4% of participants consider their VOIP implementations "unsuccessful." This helps to explain the high overall scores in value and technology across both segments. Customers are largely happy with their VOIP implementations, though they would like for their vendors to pay more attention to customer service, especially as IT cutbacks often mean less available resources for internal support.

IP Telephony: All Vendors, Overall Scores

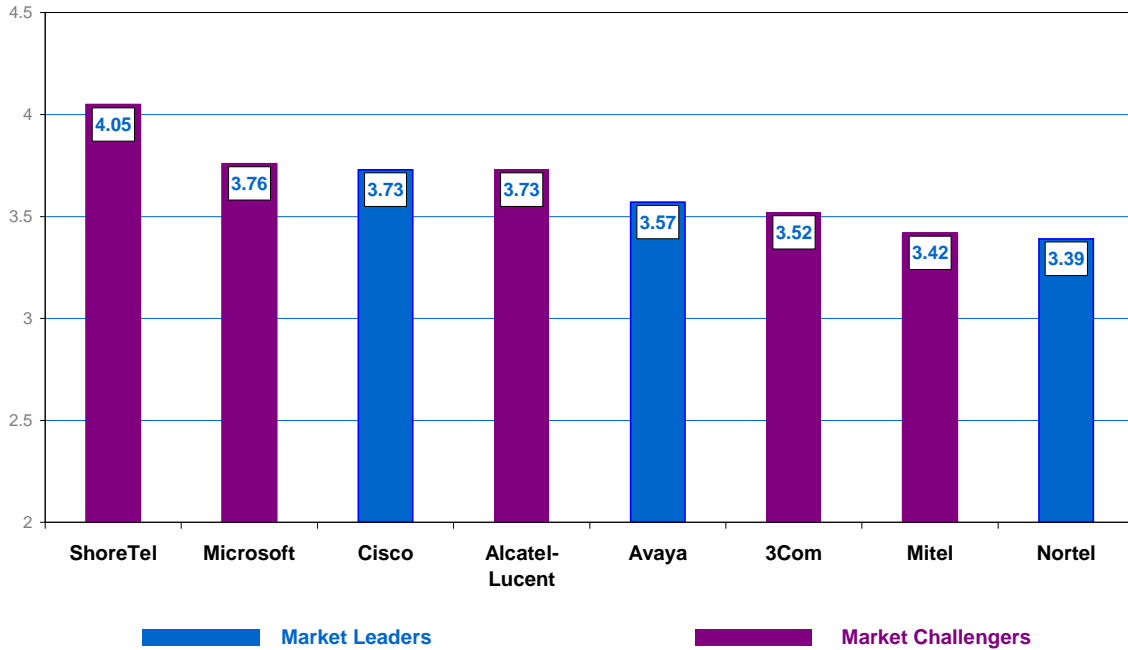


Figure 4: IP Telephony: All Vendors, Overall Scores

One final key point is the emergence of Microsoft as a serious VOIP competitor. As noted earlier, most Microsoft participants had small deployments. With reports that Microsoft is killing off its ResponsePoint SMB product, it's clearly positioning itself to take on Market Leaders in the large enterprise market. The fact that Microsoft finished second overall ought to serve as a warning shot across the bow of Cisco and Avaya.

PilotHouse Winners

ShoreTel

ShoreTel has scored at or near the top in every ratings category since Nemertes began tracking IP telephony vendor performance six years ago. This year is no different as ShoreTel won every ratings category--though Alcatel-Lucent came close in customer service. (Please see Figure 5: ShoreTel Ratings, Page 7.) ShoreTel's key driver continues to be its perceived value (4.31). Customers routinely praise their purchases of ShoreTel as providing an exceptional set of features and a highly resilient architecture at both lower upfront and ongoing costs than its competitors.

ShoreTel Ratings

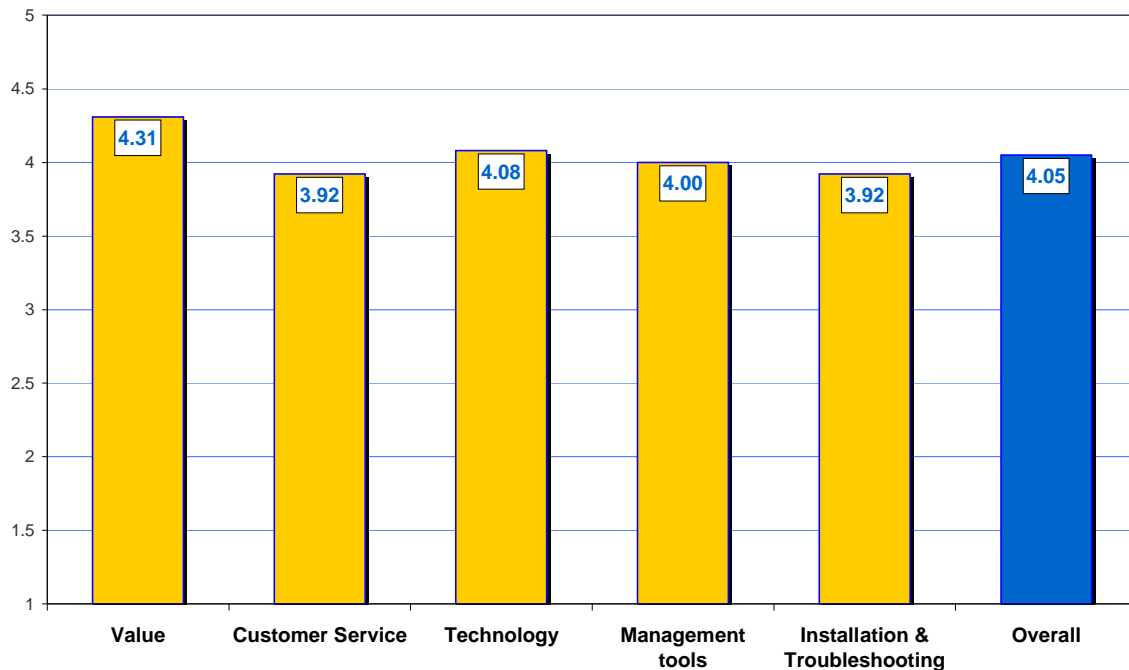


Figure 5: ShoreTel Ratings

ShoreTel's customers rate the vendor's technology favorably (4.08), as well. They often note the ability to easily scale by simply adding new switches as they add new sites or expand existing sites. "We found ShoreTel provided a better solution than its competitors, especially in the contact center," says the director of telecom at a small professional-services firm that had deployed about 200 end-

points. Customers also praise ShoreTel's feature set, including presence and unified-communications capabilities. "ShoreTel allows us to easily deploy new features and provide new collaboration capabilities to our employees," says the CIO for a regional law firm.

ShoreTel's 3.92 customer-service rating is solid, but in past years, its service rating has been higher. Where there were complaints of customer service, they came from those with larger rollouts who were not pleased with the expertise of their channels. As ShoreTel customers move toward larger rollouts, they must make sure the VARs have the experience to handle emerging integration issues. And ShoreTel needs to bolster channel training and certification so it doesn't lose ground on customer service.

Scale is, in fact, a challenge for ShoreTel. ShoreTel built its business initially serving the then-underserved small and midsize business market, giving ShoreTel an edge among companies with less than 1,000 end units. But it has, in the past few years, been moving up-market, with new customers in the large business market—typically 1,000-5,000 end units. As it continues to move up-market and directly compete with Avaya and Cisco for larger installations, it must make sure not to lose the factors contributing to its success in the SMB market.

Another challenge is that ShoreTel isn't flying under the radar of the major vendors any longer. ShoreTel's stellar reputation among SMBs, along with its aggressiveness in the large-business market, has captured the attention of its larger competitors who view ShoreTel as a growing threat. Large vendors now focusing more seriously on the SMB space are seeing firsthand how ShoreTel has captured significant mindshare among customers and channels. Customers issuing RFPs that include ShoreTel find affordable prices, which cause larger competitors to backtrack and reduce their RFP responses.

Cisco

Cisco is the top vendor for Market Leaders this year with a 3.73 overall score. (Please see Figure 6: Cisco Ratings, Page 9.) Cisco swept all ratings categories among the Market Leaders, but its overall score was down slightly from 2008. Part of that trend reflects variation due to a larger pool of respondents this time around, but Cisco also faces growing challenges to scale as its customer implementations grow.

Customers largely praise Cisco's technology (3.91). It works reliably once it is installed and configured properly. But two areas of concern are often cited; cost, and complexity of installation. In fact, Cisco's score in ease of implementation and troubleshooting (3.57) gave it its lowest margin of victory in any one category.

Relative to other vendors, Cisco's 3.77 value score is decent, even though several IT professionals say Cisco's price is high. "Cisco's solution is terribly expensive, especially with respect to ongoing management," says a senior enterprise network architect for a global manufacturing firm. "Purchasing a Cisco

solution is complex, there are lots of hidden items that make it difficult to evaluate a bid,” says the director of telecom for a national financial-services company.

Cisco customers cite extremely effective and responsive customer service, but note challenges integrating Cisco products into their current environment, especially in the contact center. “It’s all Cisco or nothing,” says the telecom director for a national health insurance firm. Others expressed concerns about Cisco’s management tools. “Cisco’s management tools were terrible, we ended up outsourcing management to service provider,” says the telecom lead architect for a state government.

Cisco Ratings

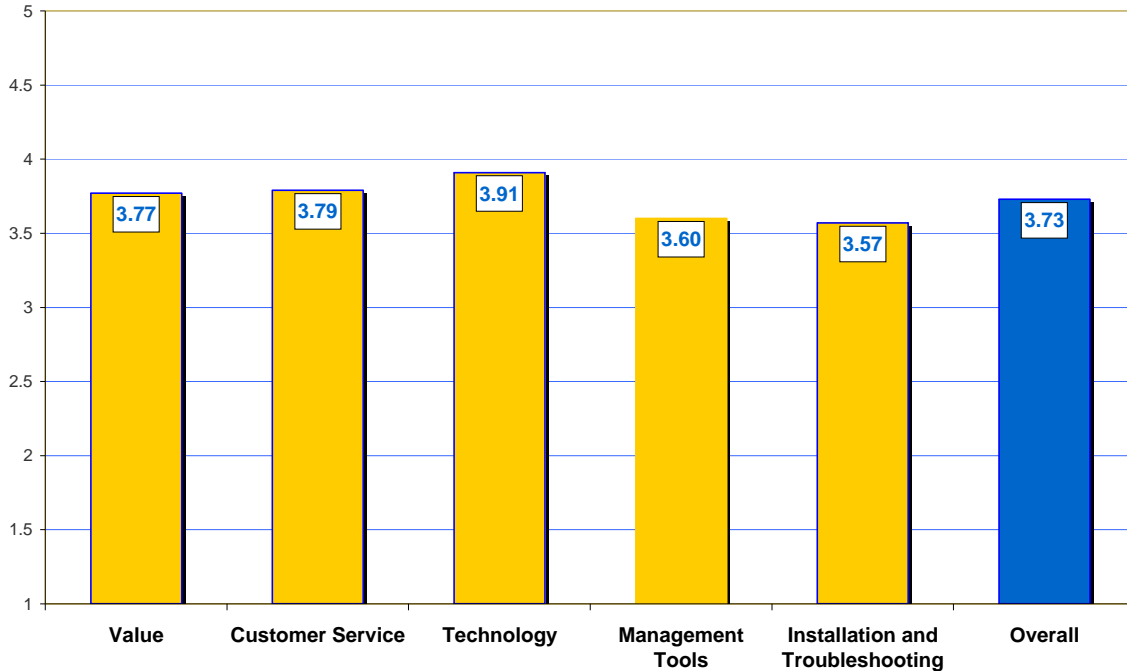


Figure 6: Cisco Ratings

Despite these challenges Cisco continues to demonstrate success in the market. The uncertainty over Avaya’s upcoming acquisition of Nortel further adds to Cisco’s competitive strength. But Cisco would be wise to watch out for challengers, including ShoreTel, Microsoft, and Alcatel-Lucent, while it continues to address its value and customer-service propositions. Cisco customers should look for Cisco to simplify pricing structures and improve interoperability with legacy systems.

Market Leaders

As discussed previously, Cisco takes top honors in the Market Leader category for IP telephony. Other vendors also received ratings include Avaya and Nortel.

Avaya

Although Avaya trails Cisco in all areas, customer service (3.48) is its Achilles heel. (Please see Figure 7: Avaya Ratings, Page 10). Overall, Avaya ranked ahead of only Nortel, 3Com, and Mitel in customer service. But this has been a year of change for Avaya. Not only did it recently announce the acquisition of Nortel, but it revamped its IP telephony product line around the new Aura architecture and pursued an aggressive strategy to expand its channels (including targeting Nortel channels even before the acquisition announcement).

Avaya Ratings

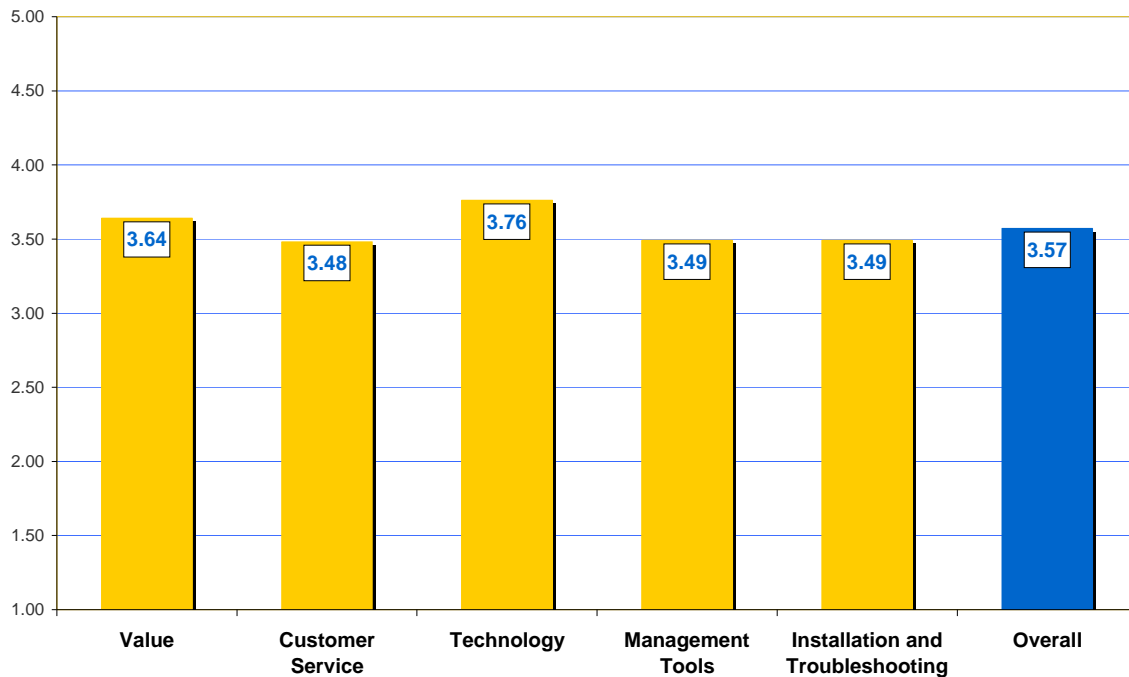


Figure 7: Avaya Ratings

Still, these results show that Avaya has some work to do to challenge Cisco, especially as it prepares to integrate Nortel over the next year. Concerns heard from Avaya's customers range from operational costs to management complexity. "It costs us \$18,000 a month in maintenance for a phone system with 1,000 phones. That's insane," says the CIO for a financial-services firm. "We've found

that we can cut costs buy buying services via different channels than directly from Avaya,” says the director of telecom at another financial-services company.

Avaya’s customer-service challenges are cause for concern in mixed Avaya-Cisco shops as well. “We have both Avaya and Cisco, with Avaya we have to call an 800 number for support and wait in a long queue. This is unacceptable,” says the CIO at a national non-profit firm. Another says that although technical support is fine, it’s sales support that is the issue. “We have Cisco in here all the time trying to educate us on future direction options. We never hear a vision from Avaya,” says the IT director at a regional manufacturing firm.

Avaya customers offer praise in two areas related to IP telephony – mobile integration and contact-center capabilities. “We love the EC500 mobile gateway,” says the telecom manager for a national transportation company. “Avaya is more mature than anyone, they have a better understanding of the contact center,” says the director of telecom for a national healthcare organization.

Nortel Ratings

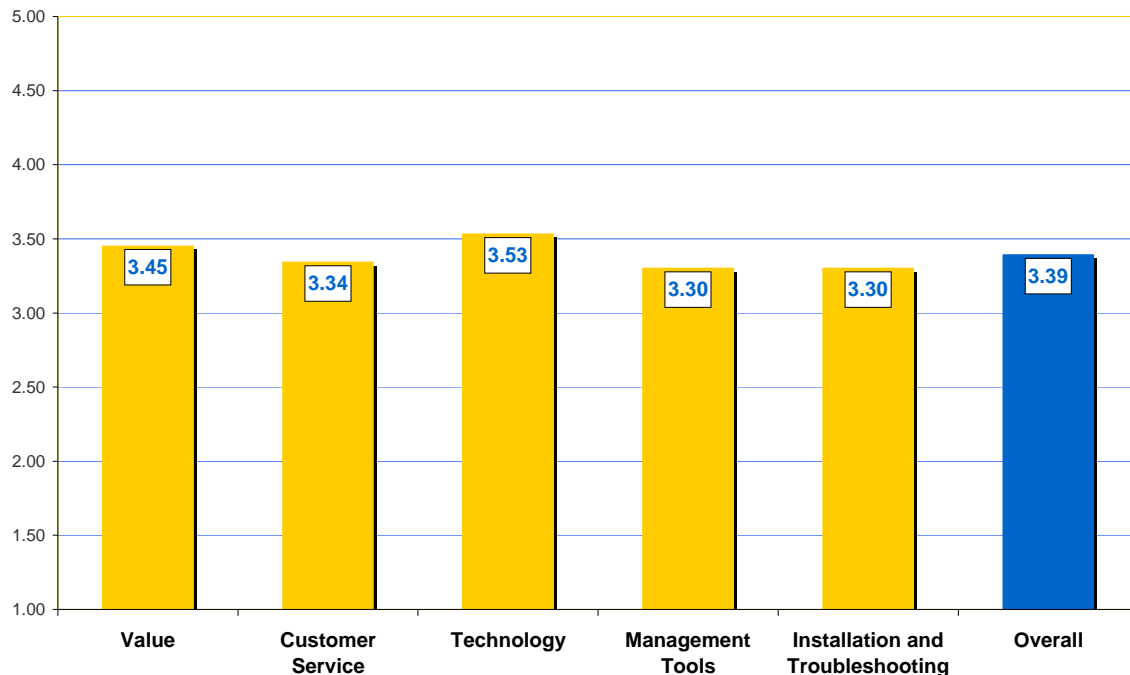


Figure 8: Nortel Ratings

Nortel

What a difference a year makes. In our 2008 ratings, Nortel tied Avaya for technology and finished ahead of Avaya in both customer service and value. This

year Nortel finished third among Market Leaders in all ratings categories, almost matching Avaya in terms of margin of separation for all three areas.

These ratings reflect the challenging year Nortel customers have faced as Nortel cutbacks have led to demonstrable declines in all ratings categories. Beyond just economic concerns, long-time Nortel customers have had to come to grips with the end of Nortel as an independent entity as Avaya's acquisition is finalized. Nortel customers, buoyed a year ago by Nortel's momentum from its partnership with Microsoft, now face an uncertain future.

Avaya's opportunity to improve the experience of Nortel customers looms large. Avaya beat out Nortel in all three categories. By demonstrating that it can deliver improvements in customer service, value, and technology, Avaya hopes to retain Nortel customers moving forward.

Market Challengers

As discussed previously, ShoreTel takes top honors in the Market Challenger category for IP Telephony. Top runners up are Microsoft and Alcatel-Lucent.

Microsoft

Microsoft faces the loss of a key channel due Avaya's acquisition of Nortel and the uncertainty around the future of the Nortel-Microsoft Innovative Communications Alliance (ICA). Many Nortel shops started implementing Microsoft applications, such as Office Communications Server, because of the ICA relationship. "We chose Microsoft because it was easy to integrate with Nortel, and it gives us a migration strategy to Microsoft VOIP as capabilities improve," says the CIO for a major university. With Microsoft's IP telephony strategy centered on integration with existing systems before ultimately replacing them, the ability to easily integrate into legacy environments is a key buying criteria.

Most Microsoft installations are still small, with less than 1,000 seats. And most of those who rated Microsoft are using either Microsoft ResponsePoint (in SMBs) or Microsoft Office Communications Server (in mid-large organizations). Still, few are considering Microsoft as a true replacement for their legacy phone systems. Instead, we most often hear that IT staffs use Microsoft's UC capabilities to front-end their phone systems with an expectation that as Microsoft's native telephony capabilities increase, they will eventually consider settling on Microsoft for all voice services. "If you compare Microsoft with traditional PBX vendors, there is no competition with value. If OCS should mature, there is a huge advantage to Microsoft's value proposition," says a director of telecom for a national healthcare provider.

Those deploying Microsoft telephony products are generally pleased, as noted by Microsoft's second-place overall finish (3.76). Again, given the small rollout sizes, complexity is less than for companies with rollouts numbering in the

thousands. Still, with a technology score that only trailed Cisco and ShoreTel, Microsoft is winning support for its capabilities.

Microsoft Ratings

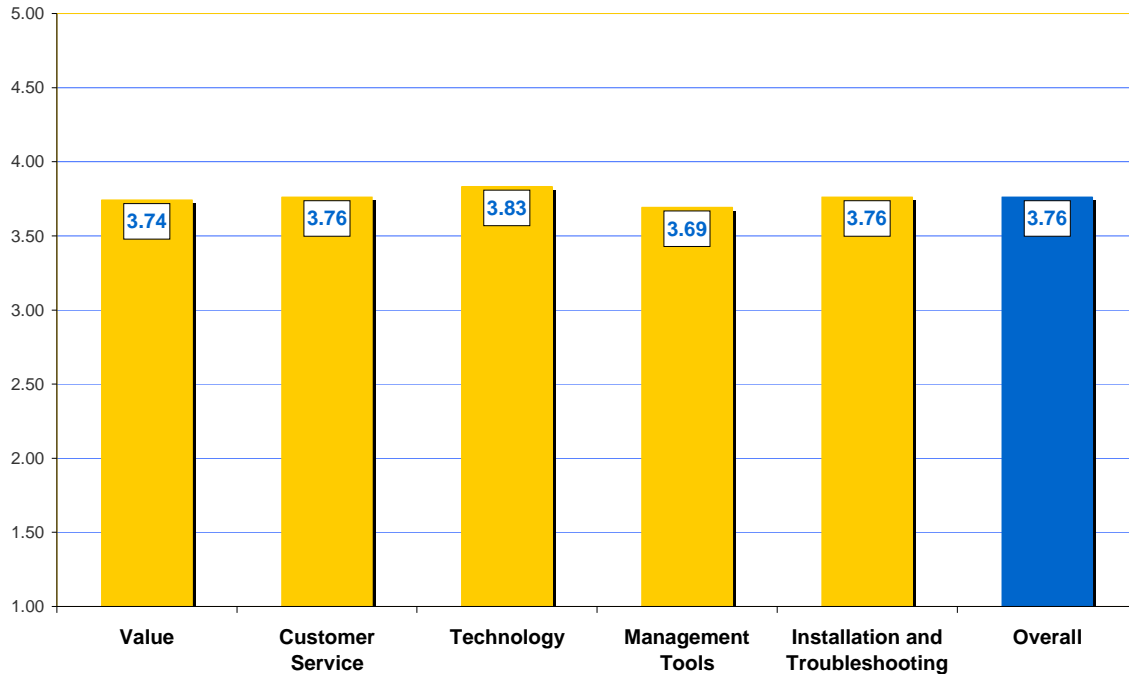


Figure 9: Microsoft Ratings

Alcatel-Lucent

Alcatel-Lucent continues to enjoy large global market share, but it continues to struggle to get noticed in North America. One of its biggest challenges is in building channels. “We evaluated Alcatel-Lucent, ShoreTel, and Cisco,” says a telecom director for a national professional-services firm. “We found that there’s only one Alcatel-Lucent VAR serving our market, whereas other vendors had numerous channels. That made us nervous.”

Alcatel-Lucent’s key strength is in customer service (3.88), where it almost caught top scorer ShoreTel. In other areas, it closely matched Microsoft.

The time may be right though for Alcatel-Lucent to make a move. Along with Siemens, Alcatel-Lucent has the global presence and scope of offerings to compete directly with Cisco and Avaya-Nortel for large customer accounts. Alcatel-Lucent’s offerings in the networking and contact-center space give its customers additional options. “We bought Alcatel-Lucent network gear for 30% less than Cisco, and then decided to implement their VOIP solution,” says the director of telecom at a regional school district.

In all three core areas, Alcatel-Lucent scores ahead of Avaya, and only trails Cisco in technology. If it can build its channel strategy and grow market awareness, Alcatel-Lucent could replace Nortel as a viable No. 3 vendor for large company installations.

Alcatel-Lucent Ratings

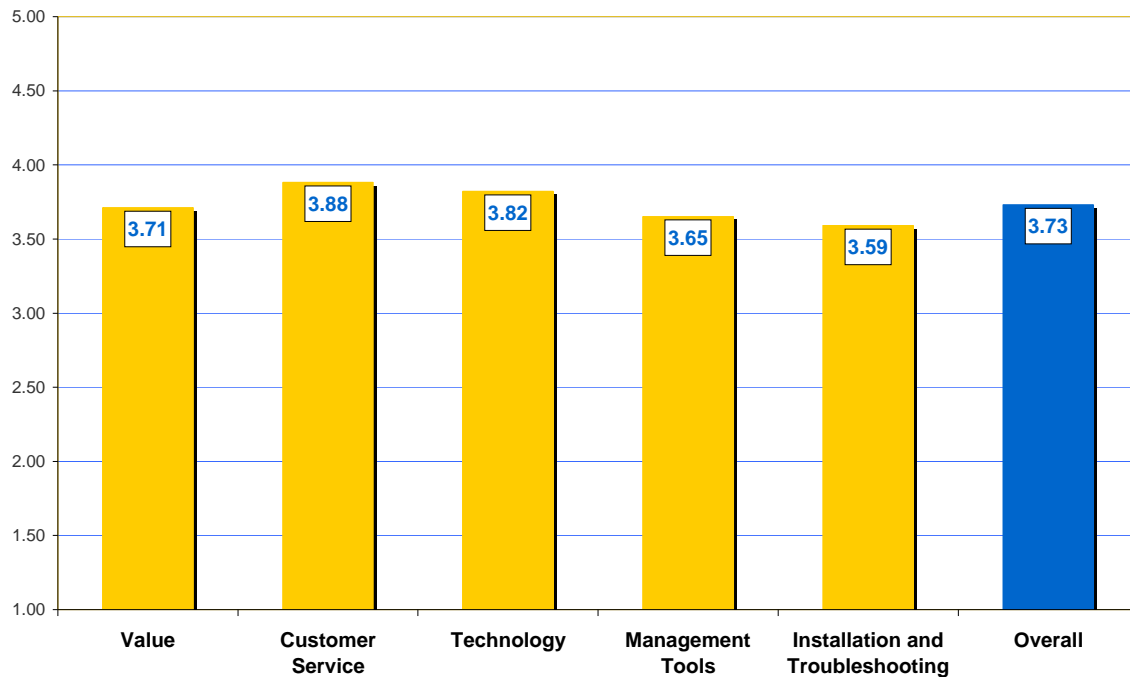


Figure 10: Alcatel-Lucent Ratings

3Com

3Com had the most variation in its scores, tying Cisco for second-place overall in value (3.77) and scoring third overall in installation and troubleshooting (3.69). (Please see Figure 11: 3Com Ratings, Page 15.) 3Com installations are largely small, less than 250 end-points, accounting for low implementation complexity. 3Com customers negatively rated customer service (3.38), technology (3.38) and management tools (3.38); meaning 3Com has a lot of work to do if it wants to challenge the top scorers in both the Market Leader and Market Challenger categories.

3Com Ratings

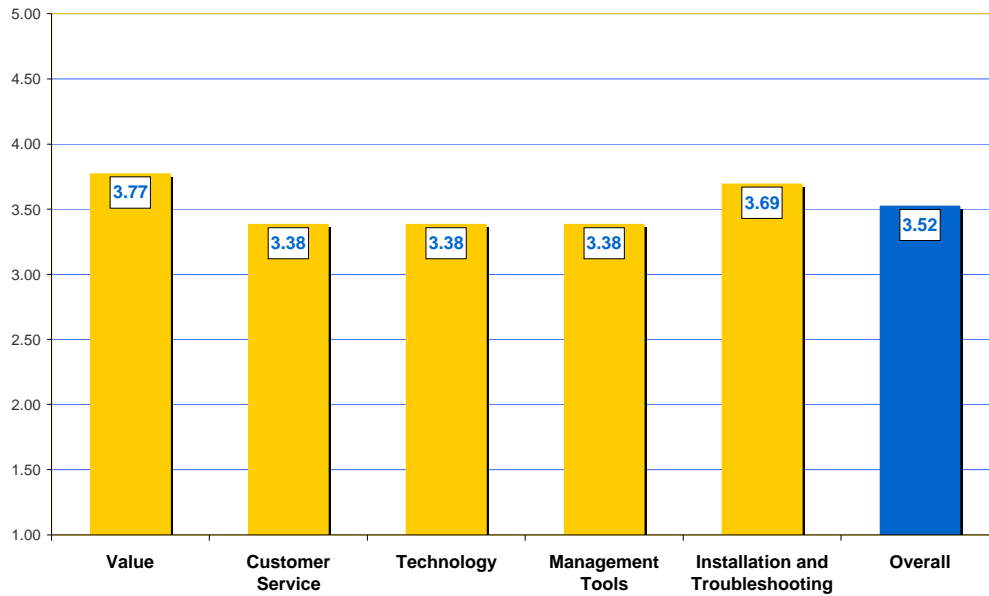


Figure 11: 3Com Ratings

Mitel Ratings

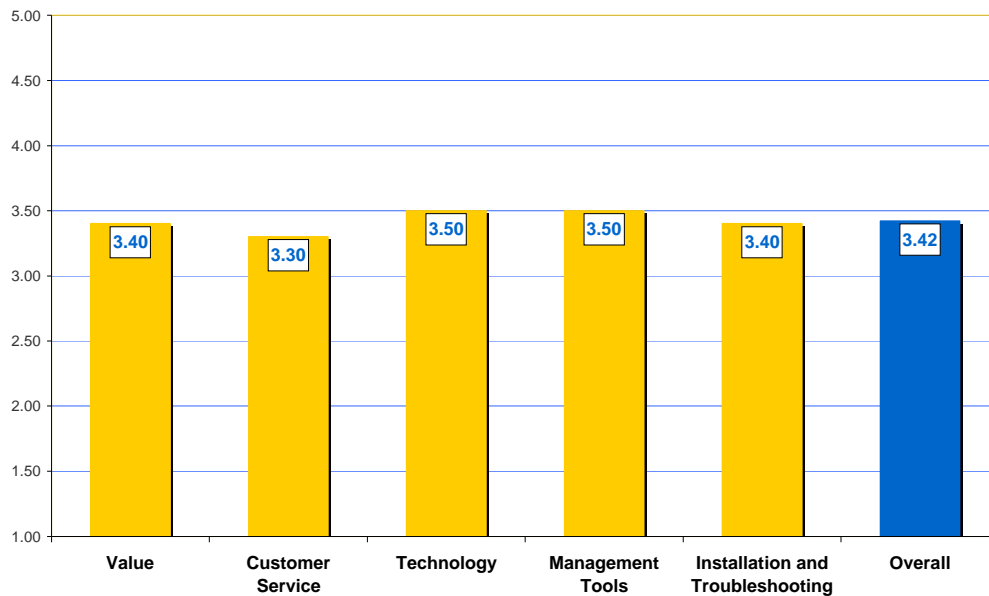


Figure 12: Mitel Ratings

Mitel

Mitel turned in disappointing scores across the board, scoring last in value (3.40), customer service (3.30), and installation and troubleshooting (3.40). Mitel has revamped its go-to-market strategy over the last year, delivering more managed services, vertical solutions, and focusing on integrating mobile users into their communications systems. Obviously Mitel has more work to do to gain ground against its competitors.

Conclusion

The IP telephony market is undergoing rapid change as legacy companies consolidate, smaller vendors move up-market, and Microsoft attempts to disrupt the vendor landscape with an all-software-based approach. But customers still want results. They expect a high level of customer service, technical leadership, and value for their dollar, especially in light of challenging economic times.

Market Challengers, led by ShoreTel, Microsoft, and Alcatel-Lucent threaten to break the market grip held by Cisco, Avaya, and Nortel by providing better customer service, value, and technology. These results should serve as a warning to larger vendors that despite consolidation, competition is fierce. For IP telephony buyers, cast a wide net and evaluate Market Challengers as potential solutions for enterprise requirements.