

Market Spotlight: Contrasting Cisco and Microsoft's Approaches to Hosted Communications Services

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December 03, 2012

Market Advisory Report

Analytical Summary

There are many platforms upon which service providers base their hosted telephony and unified communications (UC) services. These include Alcatel-Lucent 5420 Converged Telephony Server, BroadSoft BroadWorks, Genband A2 Converged Application Server, Huawei Advanced Telephony Server 9900, Metaswitch Multimedia Telephony Application Server, and Nokia Siemens Networks (NSN) HiQ 4200 Voice Application Server. Most carriers have incorporated at least one of these solutions into their hosted IP telephony solutions. However, carriers are increasingly looking to hosted UC technology from Cisco and Microsoft for their next generation IPT-UC offers. This is in part because Cisco and Microsoft have developed shared, multi-tenant hosted solutions that closely match the feature-rich UC solutions they sell directly to businesses, rather than the largely telephony-centric solutions that the more established application server developers previously mentioned have delivered. It is also because of the prominent position that Cisco and Microsoft both occupy in the market for premise-based UC solutions that enterprises and SMBs are deploying. But not all businesses want to purchase and deploy Cisco and Microsoft UC solutions on-premise, even if a third party is responsible for its ongoing management and maintenance. All major service providers have longstanding partnerships with Cisco and/or Microsoft to offer managed and professional services around Cisco Unified Communications Manager and Microsoft Lync solutions. To meet the needs of businesses seeking alternatives to the traditional premise-based deployment model, service providers have introduced a range of hosted UC services, positioned as UC as a Service (UCaaS), based on Cisco and Microsoft technology.

This report focuses on the IPT-UC platforms Cisco and Microsoft are launching for service providers, identifying carrier UCaaS production deployments and the success carriers are having through key customer wins on these new platforms.

Perspective

In the past year or two Cisco and Microsoft have completely changed the hosted UC platforms that are the foundation of the IPT-UC solutions they sell to service providers. Cisco replaced the telephony-centric Hosted UC Solution (HUCS) with its Hosted Collaboration Solution (HCS) to provide a more holistic set of UC capabilities that offers close to feature parity with the customer premise-based UC solutions Cisco sells to enterprises. Microsoft discontinued Microsoft Business Productivity Online Standard Suite (BPOS), replacing it with Lync Server 2010 Multitenant Pack for Partner Hosting (shortened to Lync Multitenant Pack for the rest of this report). Lync Multitenant Pack enables service providers to host their own Lync-based UC services, while Office 365 with its Lync Online component is available for Microsoft partners that prefer to resell the company's subscription-based office productivity software services. While these new hosted UC solutions are significantly better than the previous versions in terms of feature set and functionality, this new model puts the onus on service providers to change their underlying platform for hosted services, which is neither an easy nor inexpensive proposition. Nonetheless, the demand for hosted UC services is high enough that service providers have been making the investment and services based on Cisco HCS have been becoming generally available for the past few quarters, while those based on Microsoft technology have come to market more recently.

Cisco has a more cohesive and coherent strategy in delivering the underlying platform for carriers' hosted UC services than Microsoft. The 9.0 software revision introduced in the fall of 2012 enables HCS to deliver a set of UC features on par with those of the UC System 9.x set of solutions that include Unified Communications Manager telephony, Unified Presence instant messaging, Unity Connection unified messaging, and Jabber desktop and mobile clients, as well as automated attendant and contact center functionality. HCS provides a full set of telephony features identical to those of Cisco's premise-based IP PBX systems. Cisco has by and large avoided direct competition with service providers, at least when it comes to hosted UC services. The company has a number of hosted Web conferencing, video conferencing, and most recently enterprise social networking services under the WebEx umbrella, but so far has avoided offering business telephony, corporate instant messaging, audio conferencing and other common UC functionality as a cloud-based service. This could change in the future as Cisco could take more of a 'cloud-builder or cloud-enabler' services approach to reseller channel partners, particularly VARs and IP PBX resellers that do not own data centers or networks. Cisco could offer these partners UCaaS services at wholesale prices based on platforms hosted in Cisco data centers, similar to Microsoft's approach to Office 365. This would be a delicate channel operation and strategy as this has been the purview of Cisco's many service provider partners, 20 of which are offering HCS-based UC services, 14 more are in the process of developing them, and eight will launch services globally for MNCs. Further, Cisco says that as of mid-2012 there were 61 enterprises buying HCS-based services from its carrier partners, with 336,000 total end users in 18 regions worldwide.

HCS deployments have been largely restricted to North America and Western Europe, with carriers elsewhere in the world, with the exception of NTT, being either less aggressive in introducing HCS-based service or uninterested in doing so. And sales are further restricted to large enterprises because HCS lends itself more to dedicated multi-instance deployments, where each subscriber has dedicated server resources. This model can improve performance and security, but it is not as scalable as a fully multitenanted solution where multiple subscribers share server resources. As such, the rapidly expanding market for cloud-based communications services sized and priced for SMBs is largely inaccessible to Cisco and those partners offering HCS-based services. And swapping out HUCS for HCS has not been a boon for all service providers. Though the newer platform offers a much wider range of UC features and applications, some Cisco partners – BT among them – deployed HUCS and still offer services based on it. BT has had to reinvest in HCS, putting it in the position of retiring its HUCS-based service after it migrates its HUCS customers to the newer Cisco platform. Meanwhile competing carriers that were not as

aggressive in building Cisco-based hosted UC services can move straight to the more robust HCS platform.

Like Cisco, Microsoft has launched a solution for service providers wanting to offer hosted UC services as an alternative to its premise-based Lync Server 2010 software. Lync Multitenant Pack offers many of the same UC features as the premise-based Lync software, including point-to-point and multiparty voice and video calling, point-to-point and multiparty IM chat, ad hoc and scheduled audio conferencing, whiteboarding, file sharing, and PBX calling features like hold, transfer, forward, and simultaneous ring. But unlike Cisco HCS, Microsoft Lync Multitenant Pack does not have feature parity with the premise-based Lync software. Lync Server 2010 features not supported in Lync Multitenant Pack include group chat rooms, XMPP, and public IM federation, support for mobile UC clients regardless of operating system (iOS, Android, Windows Phone 7, Windows 8, RIM/BES), and a number of fairly standard calling features like call park, DID manipulation, and private dial plans. Additionally, Response Groups, the call routing feature that provides very rudimentary call center functionality in Lync, is not supported in Lync Multitenant Pack. And a much smaller number of IP handsets have been qualified for Lync Multitenant Pack compared with Lync 2010. As a result, carriers basing their hosted UC services on Lync Multitenant Pack cannot offer as full a set of UC features as Lync servers that enterprises purchase and deploy on-premise. To date there have been few, if any, major service providers offering a hosted UC service based on Lync Multitenant Pack.

This disparity between Microsoft's on-premise and cloud-based UC feature sets is among the reasons that some service providers are opting to not base their hosted UC services on Lync Multitenant Pack. BT, for example, launched a hosted Lync service in the US that is based on a dedicated rather than shared version of the Lync Server 2010 platform. Lync Server 2010 systems are deployed in BT's data centers, with each set of servers dedicated to a specific customer. This has the benefit of providing BT customers with a full set of Lync features, and it enables BT to build and release its hosted Lync service comparatively early, since Lync Multitenant Pack was not generally available when BT first started developing its service. In deciding which hosted Lync model to deploy, carriers must consider the trade off of sacrificing scalability for a broader feature set: Lync Multitenant Pack can support up to 50,000 users across multiple client organizations, whereas building one's service on Lync Server 2010 results in a service where each client has dedicated servers associated to it. This might be acceptable for large enterprises and global MNCs, but not if the service provider needs to scale its hosted UC service to mid-market customers and SMBs. A carrier can devise its own multitenancy overlay for Lync Server 2010, but this is a potentially costly proposition.

Further complicating Microsoft's hosted UC strategy is the fact that the company sells hosted services directly to enterprises in addition to giving service providers a platform to deliver hosted UC services to enterprises under their own brand. This comes in the form of Lync Online, the UC component of Microsoft's Office 365 suite of SaaS-based office productivity suite. From a competitive perspective, Office 365 is positioned to challenge Google, whose own SaaS-based office productivity apps have begun to impact Microsoft's line of server-based word processing, spreadsheet, presentation, and other applications. But the inclusion of a cloud-based version of Lync has the potential of one day pitting Microsoft resellers, which is Office 365's sole route to market, against service providers seeking to solidify their own position in the market for cloud-based UC services. However, Lync Online currently has a highly restrictive set of features, lacking all of the Enterprise Voice functionality that makes Lync Server 2010 a viable alternative to premise-based PBX systems. As such, Lync Online is more of a corporate IM service with limited VoIP functionality. And while Office 365 with Lync Online can be positioned as an enterprise solution, more often than not it is sold to small businesses and SMBs, making its threat to the more enterprise-focused hosted UC services offered by carriers a long-term proposition. Until Lync Online's UC feature set improves dramatically and is marketed more toward enterprises, Lync Online will likely be something carriers resell in the absence of a hosted Lync service for SMBs in their portfolios.

Platform Comparison

Platform	Pros	Cons
Cisco HCS	<ul style="list-style-type: none">- Feature parity with UC Manager with the 9.0 software update- Corporate IM, presence, full-featured PBX feature set, web conferencing (via WebEx integration), audio conferencing desktop video conferencing, contact center- IMS integration provides close interworking with carriers' FMC services- Adoption by many carriers, making service availability ubiquitous	<ul style="list-style-type: none">- Contact center software not on feature parity with United Contact Center Enterprise- Not fully multi-tenanted- Few service providers offering HCS-based hosted UC service also offer HCS' hosted contact center services- Adoption by many carriers makes differentiation a challenge for service providers
Microsoft Lync Server 2010 Multitenant Pack for Partner Hosting	<ul style="list-style-type: none">- Fully multi-tenanted- Corporate IM, presence, Lync-to-Lync audio and video calls, PSTN calling, web conferencing, audio conferencing (scheduled and ad hoc), unified messaging, desktop sharing, telephony integration	<ul style="list-style-type: none">- Limited UC feature set compared with Lync Server 2010- No contact center option- Not widely adopted by service providers- No feature parity with Lync Server 2013, the next version of Lync for enterprises on-premise deployment
Lync Online	<ul style="list-style-type: none">- Fully multi-tenanted- Corporate IM, presence, Lync-to-Lync audio and video calls, web conferencing, audio conferencing (ad hoc only; scheduled not supported natively), unified messaging, desktop sharing- Access to Enterprise Voice via federation with Lync Server 2010 deployed on customer premise- Can be purchased as a standalone service or as part of Office 365 suite of cloud apps- Integration with service providers' voice services	<ul style="list-style-type: none">- Limited set of calling features compared with Lync Server 2010- Lacks Enterprise Voice functionality that is supported on Lync Server 2010- No contact center option- Competes directly with carriers' hosted UC services- No feature parity with Lync Server 2013, the next version of Lync for enterprise on-premise deployment
Microsoft Lync Server 2010	<ul style="list-style-type: none">- Corporate IM, presence, Lync-to-Lync audio calls, PSTN calling, web conferencing, audio conferencing	<ul style="list-style-type: none">- Not intended as platform for hosted UC service but carriers offer hosted services based on it nonetheless

	(scheduled and ad hoc), desktop video conferencing, unified messaging, desktop sharing - Large enough set of call features to be deployed as alternative to traditional PBX - Third-party PBX integration - Service available in more than 35 countries	- No contact center option when deployed as hosted service - Will soon be superseded by Lync Server 2013 as Microsoft's go-to-market UC solution for on-premise deployment.
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UCaaS Platforms Deployed by Global Service Providers

Carrier	Hosted Platform Deployed	Region (based on current availability; A-end sales)	Market Traction
AT&T	Cisco HCS	U.S.	No customers announced
BT	Cisco HCS and Microsoft Lync Server 2010 (dedicated, hosted)	Cisco HCS (U.S. and UK) Microsoft Lync Server 2010; BT One Cloud Lync (U.S.)	First sale to global energy company, 10,000 Microsoft Lync seats globally. Cisco HUCS deployed in the UK supports over 240,000 seats. Cisco HCS, 6,000 seat deal in UK.
NTT	Cisco HCS	Asia (will expand to Europe and U.S.)	Customers in industry and financial sector, no case studies.
Orange Business Services	Cisco HCS and Microsoft Lync 2010 (dedicated, hosted); Microsoft Lync 'as a service' shared hosted platform in 2013	Cisco HCS (Europe, U.S., available in 42 countries) Microsoft Lync Server 2010 (dedicated, hosted) – globally	3,400 Cisco HCS seats for Danone and 8,000 Microsoft Lync seats for Gemalto
Telefonica	Cisco HCS	U.S. now, Europe (Q4 2012) and Asia (Q1 2013)	Global 60,000 HCS seat deal
Verizon	Cisco HCS	Broadsoft (U.S., Europe, Asia) Cisco HCS (U.S.)	No customers announced, field trials with State of West Virginia
Vodafone	Cisco HCS, Microsoft 365	U.S. Europe, Asia	No customers announced

Near Term Drivers

- Enterprises and SMBs are seeking cloud-based alternatives to on-premise PBX systems as a way of reining in capital investments typically associated with business communications solutions. These cloud-based offers will need to be as flexible and as fully featured as on-premise UC solutions, delivering just telephony to businesses only needing voice service and a more comprehensive set of UC apps for businesses with more sophisticated communications requirements.
- MNCs will require availability of UC services in all geographies in which they do business. This will lead to service providers making their hosted UC services available in an ever-larger set of countries and deploying platforms in data centers in key regions to improve performance and resiliency.
- Hybrid cloud services will gradually take hold as enterprises integrate in-cloud conferencing and contact center services with on-premise voice systems.
- Service providers offering similar, in some cases identical Cisco- and Microsoft-based hosted UC services will need to find ways of differentiating their services. This will likely take the form of service bundles, but could also result in price wars that see the cost of hosted UC services drop.

Competitor Response & Recommendations

- Cisco and Microsoft both need to make sure service provider customers of their hosted UC platforms can quickly and easily migrate to the latest version of their products. They also need to make sure that software updates for hosted UC platforms do not lag far behind the corresponding enterprise versions of their UC platforms.
- Microsoft needs to build out a base of service provider customers for Lync 2010 Multitenant Pack quickly. The product was introduced comparatively late and is in danger of falling far behind Cisco HCS in terms of service provider adoption.
- Cisco needs to introduce a version of HCS that is fully multi-tenanted. This will allow service providers to expand the potential customer base they target with their HCS-based offer to include smaller enterprises, in turn increasing licensing revenue for Cisco.
- Microsoft needs to provide an update on when Enterprise Voice functionality will be native to Lync Online, and when both Lync Online and Lync 2010 Multitenant Pack will be upgraded with Lync Server 2013 features and functionality. Until Microsoft adds Enterprise Voice functionality to Lync, it risks losing traction to hosted and premises-based solutions from Cisco.
- Alcatel-Lucent, Broadsoft, Genband and others need to step up the marketing activity around their respective hosted communications platforms. Cisco and Microsoft both have powerful marketing machines, and their push into the market for hosted communications platforms threatens to overshadow other vendors.

Buyer Actions

- Global service providers will need to ensure they can deliver UCaaS services in all key countries and regions in order to meet the needs of MNCs. The key will be to offer a full-service solution that includes SIP trunking as a way to save on costs, hosted contact center services to improve multi-channel customers service and the ability to support mobile workers with a rich UC solution that enables them to be productive and have same set of tools on their mobile device as in the office.
- Service providers should adopt a dual vendor or multi-vendor strategy to ensure they are not overly dependent on any single vendor but also that they are able to offer customers a choice of technology, features, and price. It will be important that the service provider add value through customer end user portals, number porting, conferencing, SIP trunking, billing transparency and flexibility, strong FMC and mobile UC integration and vertical/business process application integration.
- National operators will need to have a UCaaS strategy and platform for SME customers as well as large enterprises and MNCs. In addition to introducing more FMC and contact center functionality, the price points will need to be compelling. For SMEs, an attractive part of UCaaS is making it for customers to reach them, so that they can provide better service and close sales.
- Large enterprises and MNCs that are looking at UCaaS services should ensure they choose a service provider that can deliver services to all their key sites and countries as well as having resilient infrastructure and local support and staff with Cisco and Microsoft certifications in region.
- Enterprises should also ensure they do adequate ROI and TCO studies before adopting UCaaS to understand the costs of cloud services over time. There are advantages in terms of being able to scale up and down to adjust services (and so costs) in line with changing workforce numbers, but need to take into account charges for feature upgrades or any other unexpected upgrade or migration costs.
- Enterprises could also consider UCaaS solutions to introduce B2B Social apps and social media platforms into their organization. Some service providers such as Orange Business Services are in the process of offering their own internal B2B social platform Plaza to their customers on a cloud-based model. The advantage is this can be trialled with a small group of users to determine value and usage before being rolled out across the organization.

This report is tagged to the following vendor(s):

Cisco , Microsoft

This report is tagged to the following content areas:

Service: Enterprise IT & Services , Business Technology and Software , Business Network and IT Services

Market: Cloud Technology and Services , Collaboration Technology and Services , Unified Communications and Contact Center , Business Network and IT Services - Europe , Business Network and IT Services - Global Enterprise , Business Network and IT Services - US

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