IntelliCom Analytics

IntelliCom Market Dashboard Spotlight:
Are Private Clouds Stealing the Thunder Away from Externally Hosted Alternatives?

I recently attended IT Expo West in Austin, Texas, and one particular topic that dominated the event across the keynotes, conference program, and exhibiting companies was “The Cloud”. But while interest obviously remains high in this area, a lot of people are starting to ask whether this latest “transforming technology” is really going to live up to all the hype currently surrounding it, and if it does, what form that might take. Of the traditional on-premise voice and Unified Communications (UC) solution providers that I talk to on a regular basis as part of our quarterly market tracking, most have reported very limited head-to-head competition in the field from cloud-based alternatives to date, indicating perhaps as little as a 5% shift of the overall market at this stage. However, market forecasts and customer surveys also consistently indicate a high degree of interest in exploring these cloud-based alternatives which may translate to steeply increasing take-rates over the next few years.

But what form will that actually take? The evolution of Business Communications architectures over the past several years from proprietary voice systems to software suites delivered on a range of hardware has radically changed the comparison between premised-based solutions and hosted voice services. Whereas hosted services have traditionally been based on dedicated solutions built on the infrastructure and prerogatives of legacy carriers and emerging VoIP providers, the latest offerings from enterprise-focused providers deliver the same basic features and functionality whether the underlying software is deployed on premise-based servers or appliances, in the customer’s data center to support a private cloud, or in a range of truly hosted options offered by the manufacturer itself, traditional service providers, or business partners starting to leverage growing support for virtualization and multi-tenancy capabilities.

IntelliCom ran a joint survey on cloud perceptions with TMCnet this past July and August, and the results were at first surprising, but they explain a lot. Specifically, given the option of deploying a next-gen UC solution on a private cloud, end customers planning to implement a new solution within the next 12 months preferred this option by nearly 2 to 1 over a solution hosted fully on third-party infrastructure. They even preferred the private cloud option by a small margin over the blended model getting so much attention from the vendors right now, where core voice and UC capabilities are deployed on premise but with specific incremental functionality for certain users or remote facilities supported through hosted services.

This is consistent with some of the feedback I heard during the “UC in the Cloud” panel session that I moderated at the IT Expo West conference. ADTRAN, Interactive Intelligence, RedShift Networks, and Siemens Enterprise Communications participated in this discussion. While RedShift provides security solutions that can be used to support cloud-based and blended options, the other three firms were all vendors with current software-based UC architectures. Of the three, Siemens focuses most heavily on the large enterprise market most likely to be pursuing private cloud initiatives, and this option combined with Siemens-provided managed services has proven more popular to date than all-cloud alternatives that they also provide.

There are several reasons that this is the case. Depending on the customer’s time horizon and organizational stability, purchasing may ultimately prove more economical than a subscription-based service extended for longer than 3 or 4 years. Many large enterprises are also already well underway in building out centralized data centers to support the private cloud and disaster recovery initiatives of their broader IT organizations. Bringing voice and UC into these initiatives is a natural fit for these new architectures, and it provides vendors a potentially more receptive audience in a still difficult selling environment. Larger organizations also continue to have significant concerns around the security implications of moving sensitive customer information, trade secrets, and key business processes offsite. Others face regulatory restrictions limiting external cloud feasibility. When coupled with a managed services arrangement that outsources associated administrative and support requirements, the premise-based private cloud model can provide the distributed large enterprise the best of both worlds. In some ways, it could even become a bridge to the cloud, providing the first step toward a subscription-based model that would eventually be fully hosted and managed externally.

Meanwhile, some providers focusing on the SMB and Mid-Market segments are beginning to see some traction for hosted public cloud solutions, particularly where these capabilities allow them to expand into new customer segments rather than migrate an existing base. ADTRAN, which entered the UC space 2 years ago through its acquisition of Objectworld, is seeing rising interest from its traditional service provider customers in launching services based on its recently virtualized UC suite. And Interactive Intelligence reports that demand for its hosted

UC services have exceeded expectations since being launched last year, allowing it to provide more flexibility to existing contact center customers and to reach new smaller customers interested in a complete UC suite. Fonality, which participated on a separate SMB panel discussion that I moderated later in the conference, also reported rapid growth in its all-cloud service aimed at small business customers which was launched as a complement to its blended premise/cloud model used for supporting larger SMBs. For small businesses that expect to grow, cloud-based options may be particularly attractive compared to premise-based solutions that have traditionally forced businesses into forklift upgrades as they outgrew earlier architectures.

It remains to be seen whether adoption for cloud-based voice and UC solutions will meet current projections and ultimately justify all the buzz. Clearly some vendors – primarily those in the SMB range – are beginning to effectively utilize hosted delivery options as a means to expand their focus and customer base. Others with a more entrenched traditional model may not be pushing so hard, which may help explain the limited overall adoption of public cloud solutions to date. And as you move up into medium and larger enterprises, there can be compelling reasons for opting for the premise-based private cloud deployment model instead. What is clear is that moving to "The Cloud" will mean different things to different customers and pursuing a private, public, or blended option will be determined by very specific individual customer considerations rather than representing a wholesale market shift.

Frank Stinson is a Partner and Senior Analyst with IntelliCom Analytics and leads the firm's *IntelliCom Market Dashboard (IMD)* and *IntelliCom Market Performance Dashboard (IMPD)* research programs. In this role, Stinson provides clients with ongoing strategic assessments of the positioning, direction, and market performance of leading Business Communications providers in the context of key trends transforming the industry. The rapidly unfolding shift to software-centric communication architectures now underway is central to this analysis, along with the UC and business application integration initiatives that leverage them.

IntelliCom Analytics is a professional services and business research provider focused on the rapidly evolving Business Communications and Collaboration market. With a broad set of competencies ranging from competitive assessments and benchmarking to highly targeted demand forecasts based on detailed embedded base analyses, IntelliCom Analytics brings a wealth of finely honed skills, expertise and market opportunity insights to client engagements. For further information, visit www.intellicom-analytics.com.

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