IP Telephony, 2010

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Award Definition

The IP Telephony award recognizes vendor manufacturers of IP call-control servers and handsets, or those service providers who manage and/or host such equipment. They also typically offer voice messaging, auto-attendant, gateways, and audio-conferencing capabilities.

Overview

The goal of Nemertes PilotHouse awards program is to ascertain how well vendors and/or service providers perform in the eyes of their business users. In addition to IP telephony, Nemertes gathered ratings on a broad array of technologies, including MPLS, Carrier Ethernet, Optimization, unified communications, and IP contact centers. Separate reports are available on all 13 areas of coverage, and more detail on the program is available in the methodology section at the end of this report.

We issue awards based of company 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 users of IP telephony vendors. Nemertes' staff determines the methodology, conducts the research, and analyzes the findings. However, we have no influence over how any given vendor performs. The opinions rest with real companies who use the vendors' products. In addition, no vendors sponsor this research.

IP telephony has become a common technology in most organizations. Nevertheless, IT leaders continue to make decisions on vendor selection in the following scenarios:

- Completely new rollout with the goal of selecting one provider company-wide
- Completely new rollout with the goal of selecting one provider company-wide for regular voice traffic and a separate provider for IP contact center

- Completely new rollout with the goal of selecting the best provider per global region
- Continuation of an existing rollout, or upgrade of a now-aging IP telephony system, with the goal of re-evaluating the entire vendor landscape and possibly adding a second (or third) provider
- Evaluation of the telephony infrastructure post-merger or acquisition to determine whether to integrate different vendor products or replace with a consistent vendor/service provider

As with last year, we received ratings for a large number of vendors—37, to be exact. Of those, 11 vendors garnered enough responses to be counted individually. The market has changed somewhat, with Avaya's acquisition of Nortel and a slight increase in the number of companies evaluating and using hosted IP telephony services. Last year, three vendors (Avaya, Cisco, and Nortel) had enough market presence to be Market Leaders. This year, only Avaya (whose ratings include those who rated Nortel separately) and Cisco are in that category. In fact, most of the action with sprawling IP telephony market is among the nine Market Challengers—four more than were rated individually in this category last year.

Since 2003, Nemertes has asked IP telephony decision-makers to rate their IP telephony providers. This year, we asked them to rate their providers on technology, customer service, and value.

Technology

Technology ratings capture how IT professionals view the sophistication of underlying technology of each vendor's products. Technology ratings also indicate whether participants believe a particular vendor leads by bringing technology advancements to market. ShoreTel wins the technology category, with a 4.33, followed by Cisco with a 4.18.

Customer Service

Customer-service ratings define how IT professionals 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 IT staffs 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 companies 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 4.10, followed by Siemens with a 4.00.

Value

Value ratings are essentially the way IT leaders 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, buyers believe they're receiving value for the money spent. The top provider for value is ShoreTel, with a 4.24 score, followed by NEC with a 3.94.

Nemertes 2010 PilotHouse Awards
IP Telephony

Market Leaders	Market Challengers
Cisco, Avaya	ShoreTel, Microsoft, Siemens, AT&T, NEC, 3Com, Verizon, Alcatel-Lucent, Mitel

Winners	Technology	Customer Service	Value	Overall
ShoreTel	4.33	4.10	4.24	4.22
Cisco	4.18	3.86	3.66	3.90
Other Vendors				
Microsoft	3.94	3.89	3.75	3.86
Siemens	3.89	4.00	3.66	3.85
AT&T	3.93	3.71	3.68	3.77
NEC	3.56	3.75	3.94	3.75
Avaya	3.95	3.57	3.68	3.73
3Com	3.71	3.57	3.81	3.70
Verizon	3.57	3.74	3.74	3.69
Alcatel Lucent	3.57	3.62	3.72	3.64
Mitel	3.39	3.44	3.44	3.43

Rating Scale: 5=Excellent; 4=Good; 3=Fair; 2=Poor; 1=Unacceptable

Figure 1: Nemertes 2010 PilotHouse Awards: IP Telephony Products

Results Summary

ShoreTel once again wins best IP telephony provider in the Market Challenger Category. (Please see Figure 1: Nemertes 2010 PilotHouse Awards: IP Telephony Products, Page 3.) ShoreTel has received the highest overall score every year Nemertes has evaluated IP telephony. Its 4.22 overall score—as well as its individual scores in technology, customer service, and value—beat all IP telephony Market Leaders, as well. Furthermore, ShoreTel's 4.22 score was the second-highest score of any vendor in any technology in the entire Nemertes 2010 PilotHouse program.

Cisco wins the best IP telephony provider among the Market Leaders, with a 3.90 overall score. Cisco's high 4.18 rating in technology and its 3.86 score in customer service propelled the vendor ahead of the only other Market Leader, Avaya.

Though Avaya's 3.73 overall score did not merit the top price among Market Leaders, Avaya did beat Cisco in the vale rating. Among the Market Challengers, the next-highest score after ShoreTel came from Microsoft (3.86), followed by Siemens (3.85), AT&T (3.77), NEC (3.75), 3Com (3.70), Verizon (3.69), Alcatel-Lucent (3.64), and Mitel (3.43).

Analysis

The IP telephony market is crowded with numerous vendors and service providers. Though we have witnessed some consolidation (Avaya and Nortel, most recently), the market remains quite extensive. As stated, only two vendors now meet Nemertes' criteria for "Market Leaders." Those two tend to score better, collectively, than the Market Challengers in technology. However, the Challengers have an edge with customer service and value.

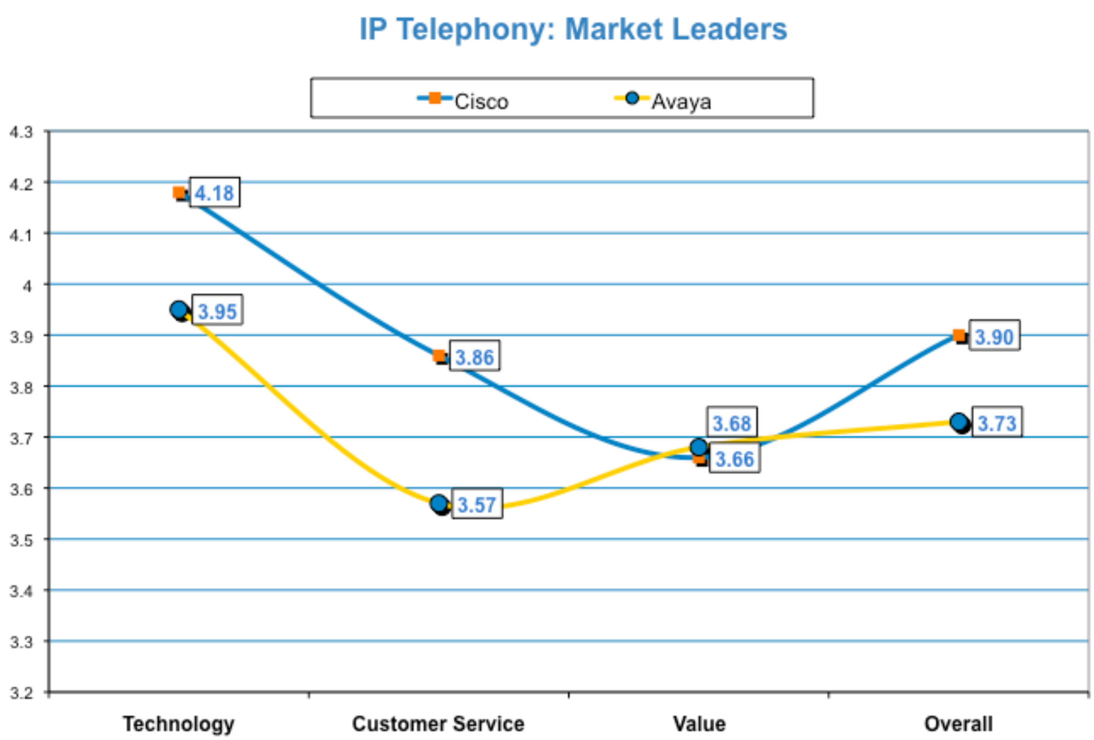


Figure 2: IP Telephony Market Leaders

The most notable findings in this year's results are essentially, little change from last year. ShoreTel continues to win by a relatively wide margin in all areas evaluated. Cisco again wins the top Market Leader category. Both vendors increased their scores from 2009 to 2010, signifying a further stabilization of IP telephony as a technology. In fact, most vendors who were rated both last year and this year scored better this year, with the exception of Alcatel-Lucent.

Among the Market Leaders, Cisco beat Avaya in all areas except value, where Avaya edged out Cisco, 3.68 vs. 3.66. Both vendors score lower in customer service than they do in technology, while Avaya scores higher in value than customer service and Cisco scores lower. (Please see Figure 2: IP Telephony Market Leaders, Page 4.) In as much as value equates to price, the value ratings are consistent with the figures Nemertes gathers regarding implementation, capital, and operational costs. Midsize and large companies spend less on Avaya implementations than they do on Cisco rollouts. Nemertes did combine ratings for Avaya and Nortel, but when evaluated separately, Nortel's ratings were higher than Avaya's across all areas. The message here: Companies that still use Nortel products like the technology, so Avaya must consider this as it merges products. What remains unclear, though, is whether companies who use Nortel gear now served by Avaya rated Avaya's value and service or Nortel's. Nemertes conducted the research after the merger was complete, so we conclude they saw a drastic improvement in both areas with Avaya, and therefore, rated customer service and value relatively high.

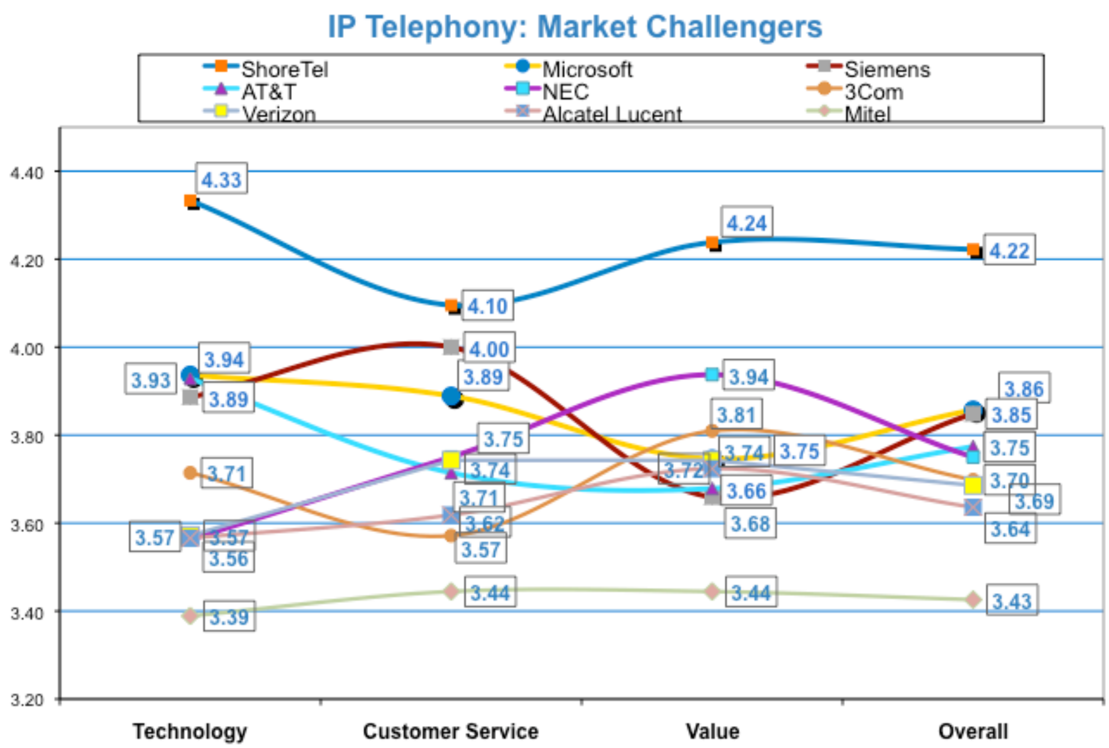


Figure 3: IP Telephony Market Challengers

Among the Market Challengers, ShoreTel beat all providers (in fact, all Market Leaders, too) in all categories. From there, it's a toss up. Microsoft won second place for technology and overall score; Siemens won second place for customer service, and NEC won second place for value. What this signifies is there is no clear, top alternative to ShoreTel among Market Challengers. Further, there is no consistency across all Challengers regarding their highest rating area—for some, it's technology, and for others, it's customer service or value. (Please see Figure 3: IP Telephony Market Challengers, Page 5.)

Also this year, service providers AT&T and Verizon received enough ratings to be counted individually, marking the first time in the PilotHouse program service providers have been rated individually.

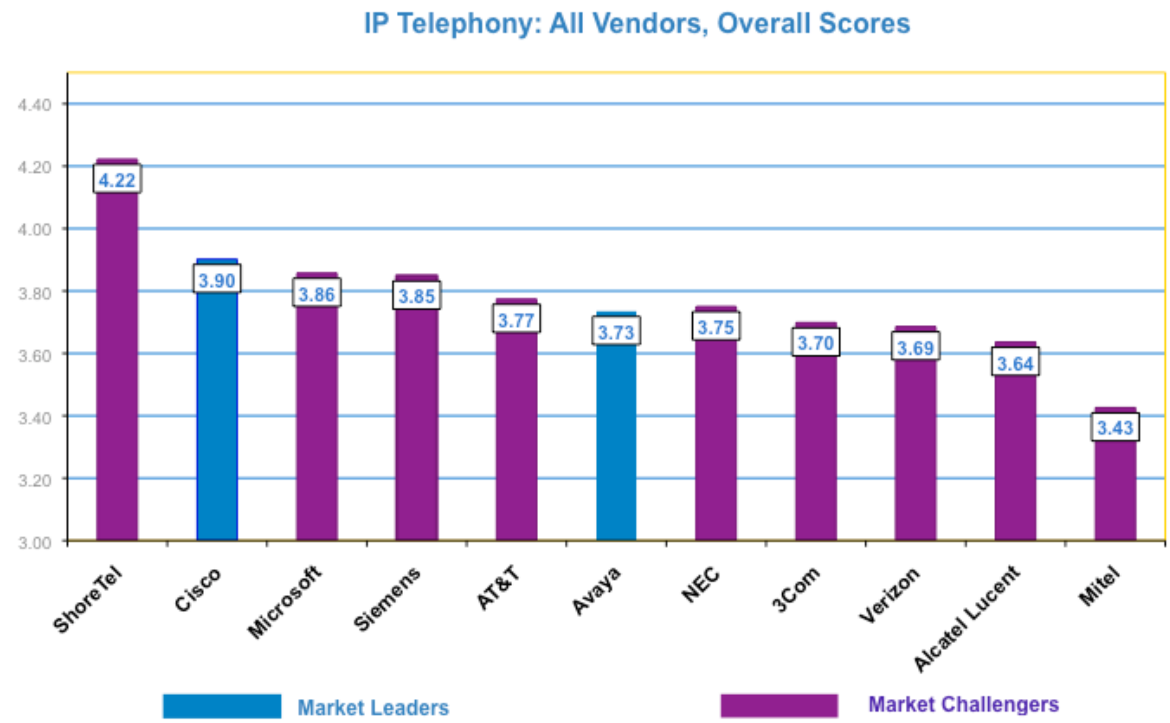


Figure 4: IP Telephony: All Vendors, Overall Scores

PilotHouse Winners

ShoreTel

Over the years, we have witnessed vendors' ratings increase and decrease, based on their performance that year. ShoreTel has had unprecedented stability in how it serves companies and how they perceive its technology, service, and value. This year, ShoreTel is the winner with an impressive 4.22 overall score. Its technology rating is its highest, followed by value and customer service. ShoreTel improved on its 2009 score in two of three sub-areas: Technology—4.08 to 4.33; Customer Service—3.92 to 4.10; Value—4.31 to 4.24. (Please see Figure 5: ShoreTel Ratings, Page 7.)

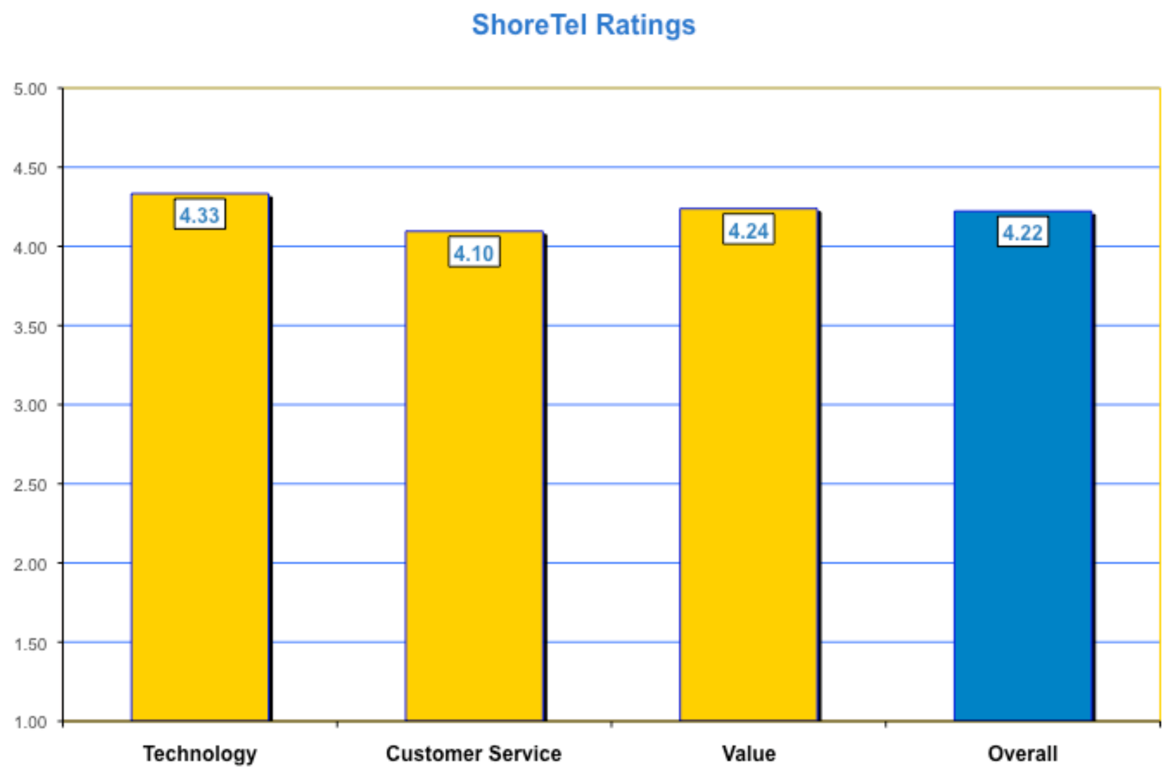


Figure 5: ShoreTel Ratings

In years past, ShoreTel's ratings came primarily from small and midsize businesses. Starting last year, we began seeing more midsize and large companies rating ShoreTel. This year, the median company size, by number of employees, is 300 (average is 3,960). And, although 60% of companies who use ShoreTel in our study are companies with less than $100 million in revenue, about 15% have greater than $500 million in revenue and nearly 10% of those have greater than $1 billion in revenue.

Along with the movement up market comes more complex implementations. Despite the increased complexity in IP telephony (and UC) deployments, ShoreTel has maintained its first-place standing, with more authority than ever. "They are sterling relative to their peers," says the CIO of a $100 million K-12 school district. "Whenever we talk to someone from ShoreTel, they're knowledgeable and helpful. There is rarely an issue. Of course, there are certainly places where ShoreTel can continue to improve."

One area is to increase the pool of Managed Service Providers supporting ShoreTel. The CIO said the school district wanted a managed solution, but it only received one bid. Though the school selected this provider (after negotiations), the CIO would have preferred to evaluate multiple bids.

Along those lines, other companies would like more direct interaction with ShoreTel. "You can't deal with them directly, and it's a pain. I would like to have some direct contact; they're too disconnected from their customers," says the IT director for a $70 million professional-services company. Like most vendors in this space, ShoreTel uses a channel sales approach, meaning it's imperative for companies to select a solid partner.

For example, an $80 million healthcare company raves about its partnership with its VAR, and its relationship with ShoreTel. "We needed a wireless solution running off SIP phones, and we needed it pretty quickly without reinventing the wheel," the director of IT says. "Cisco and Avaya couldn't do it. Our VAR connected Hitachi phones into ShoreTel, and it works."

Among those who are managing ShoreTel in-house, they say there is no comparison for ease of use. "Cisco would have been cheaper up front without looking at maintenance costs, but ShoreTel's ease of management was a key criteria," says the IT director for a $45 million professional-services company. "Our committee liked the ShoreTel feel during the demo. It's more intuitive. And, Cisco's maintenance costs were huge in our evaluation."

Companies typically evaluate ShoreTel against three to four other vendors. For example, one company assessed ShoreTel, Cisco, Mitel, and Nortel, and selected ShoreTel based on its roots in communications, its distributed architecture for redundancy, and user satisfaction during side-by-side comparisons. A financial-services company evaluated five vendors. "It came down to Avaya vs. ShoreTel. We went with ShoreTel and it was the best decision we ever made. I can't say enough good about ShoreTel," says the VP and managing director.

From a technology perspective, participants rating ShoreTel also say the system is easy to understand and not overly complex like some of its competitors. Moving into the realm of UC, telecom staffs say it's easy to integrate with Microsoft Outlook and OCS, but some have reported integration issues with between ShoreTel IP telephony and Cisco unified communications.

Several companies using ShoreTel like its distributed architecture. "Disaster recovery is a breeze," says one IT director.

Cisco

Cisco wins the Market Leader category with a 3.90 score. Its technology rating is its highest, with a 4.18 score, followed by customer service (3.86) and value (3.66). Cisco improved its technology score from 2009 (3.91 to 4.18), but decreased its customer service (3.79 in 2009) and value (3.77 in 2009) scores from last year. (Please see Figure 6: Cisco Ratings, Page 10.)

Cisco's median customer has 10,000 employees (average is 39,821), and although it serves all sizes of rollouts, it tends to appeal more to larger, more complex implementations. Among companies using Cisco in our study, 59% have more than $1 billion in revenue—37% have with more than $10 billion in revenue. However, only 19% of companies using Cisco have less than $100 million in revenue.

One common trait among companies who use Cisco is there are strong perspectives on both ends of the spectrum. On one hand, we hear comments such as: "Management doesn't fight you when you say, 'We want to do Cisco IPT.' It's the big dog," says the telecom manager of a $12 billion financial-services company.

On the other hand, we hear comments such as: "The biggest problem with Cisco is arrogance. Our upper management is angry at Cisco because Cisco believes it's the only game in town and that's always going to continue," says the telecom manager of a $34 billion professional-services company."

Indeed, Cisco boasts as customers some of the world's largest—and most demanding—companies. That puts some hefty standards on all areas rated.

Despite those demands, IT leaders say the vendor regularly pushes the envelope with new capabilities and features. This is particularly true when it comes to the move from IP telephony to unified communications and collaboration. "We see Cisco's global collaboration platform as a key element to help us around the globe," says the IT director of a $118 billion manufacturer.

Even from a more basic perspective, IT staffs say Cisco's longevity in the market has produced stable, reliable products. "They know how to tailor their products to enterprise use," says the IT director of a $14 billion manufacturing company. "Their products are network-aware, and that helps our networks run well." A $500 million retailer that has used Cisco IP telephony for seven years not only say a ROI within 16 months, it also saw improvement with its network: "We know our networks, and we know how to optimize them. It's led to us being able to bring in video conferencing with acceptable performance," says the director of infrastructure.

However, Cisco's technology works best in an all-Cisco environment. "Cisco has a tendency to pigeon-hole you into their technologies," says the collaboration services manager for a $2 billion hospitality company. "They don't play well with other vendors; they only play as well as they have to. Microsoft is much better in that area."

Figure 6: Cisco Ratings

IT leaders point out specific areas they believe Cisco must improve, such as "clunky" directory integration, a non-intuitive end-user handset interface, and interoperability. For example, the telecom director of a $15 billion manufacturer says he has problems integrating Cisco's click-to-call functionality with Lotus Sametime, even though Cisco says it has this capability.

Furthermore, IT staffs say Cisco may be losing its stature as the UC leader to Microsoft and Avaya. "Cisco needs to get voice into a software-as-a-service domain," says the telecom director for a major pharmaceutical company. "Avaya, for example, is more innovative, has better SIP support, and better integration for legacy infrastructure."

Customer service tends to be decent, though this year, ShoreTel, Microsoft, and Siemens received better scores. Like any vendor, much of customer services depend on the quality of the local team. "Cisco's support is good, but that has a lot to do with their local support team," says the collaboration-services manager of a $2 billion hospitality company.

A key correlation point for success is the size of the customer. Larger companies get better access to Cisco engineers; smaller companies don't and therefore must select a very experienced partner. "We deal directly with Cisco. We have had a lot of issues with first-level support, but once we get past level 1, we get good support," says the senior architect for a $42 billion manufacturing company. Also, during rollouts, companies tend to get more of Cisco's attention, regardless of size. "If you're not spending money right then, the attention goes somewhere else," says the VP of a non-profit organization, who says he noticed a decline in service after the rollout was complete.

So much of a company's success with any vendor, but particularly Cisco, is its level of expertise running a Cisco network. The CIO of a university said his team implemented Cisco with "almost no issues," adding that "employees are very excited about the new features and functionality." The CIO, though, made sure his team was amply trained and prepared prior to the rollout.

Cisco's value declined a bit this year. This rating basically looks at the "bang for the buck." Many companies indeed believe the value exists for Cisco. "It's not the cheapest, but you get what you pay for," says the telecom director of a $15 billion manufacturer. Others believe the ancillary costs are what hurts Cisco's value proposition. "We have to spend money to custom write integration," says the manager of infrastructure and security for a $51 million professional-services firm. "You get huge discounts on the way in, but ongoing maintenance is high, as well."

Others say there simply are no good options for those looking for an affordable system (though independently, we have witnessed Cisco becoming more and more aggressive with its pricing). "Why do we have a Cadillac when we needed a bicycle? We have to pay for each feature, and buy expensive phones," says the IT director of a $4 billion non-profit organization.

Finally, IT leaders say Cisco must simplify its licensing. "It's hugely complex. It's a license to print money, and their licensing strategy is a business-enabler for Microsoft," says the telecom director of a pharmaceutical company. "We need a Level 3 engineer on staff to help them understand the licensing strategy." The company pays a different licensing fee for a lobby phone vs. an executive phone vs. a secretary phone. "We can't manage the current licensing strategy, and we're a Cisco shop."

Additional Analysis: Market Leader

Avaya

Avaya finished with a 3.73 overall score. Its strongest showing is in technology (3.95), followed by value (3.68) and customer service (3.57). Avaya, whose ratings now are combined with Nortel's, improved its scores in all areas from 2009, with scores last year at 3.76, 3.64, and 3.48, respectively. (Please see Figure 7: Avaya Ratings, Page 12.)

Like Cisco, Avaya has a mixture of ratings from small, midsize, and large companies; the largest were plentiful in the Nemertes study. Companies who rated Avaya have a median employee size of 9,450 (average is 43,537). About 57% of participants who use Avaya have more than $1 billion in revenue, and 44% have more than $10 billion. About 20% have less than $100 million in revenue.

Figure 7: Avaya Ratings

It's no surprise Avaya's technology is its top-scoring area. The vendor has received positive feedback on its Aura architecture. "Things Avaya can do in one system takes others three or four," says the IT director of an $8 billion retailer. "They have well-engineered systems and are more elegant in their implementation. They tie together features of the product line very well, and they consolidate functionality very well. They think through things like security and how it will affect the system end to end, which is critical. There is a great deal of flexibility."

Several loyalists of other vendors (including Cisco) say the Aura architecture is causing them to take another look at Avaya: "Avaya is more innovative than Cisco," says the IT director of a pharmaceutical company, adding that he went with Cisco back when "it was the only game in town."

Avaya has long been known for its strength in IP contact-center technology, and more companies are considering Avaya for traditional IP telephony, as well, because of that positive experience. In fact, several IT leaders say lack of a sophisticated contact-center product hurts IP telephony vendors because they want to bring in few, rather than more, vendors.

One of the biggest complaints about Avaya is regarding changes in leadership and account executives. "They are a company in transition. I'm frustrated by the constant turnover in leadership. There has been new leadership every year for the last three years," says the director of IT of a $14 billion financial-services company. Others have complained about changes in their account teams—

and historically in our PilotHouse program, we have witnessed ratings take a hit when vendors are in this position.

Like many companies in transition (Avaya is working on integrating Nortel, and after its private equity investment experienced a near complete turnover of its executive team), Avaya's customer-service ratings suffer as a result. The senior architect of a $6 billion financial-services company sums up what several IT leaders said: "I like the technology; they're just going downhill with service and support."

Often, when companies rate a provider low in customer service, they rate it low in other areas, too. However, the senior architect of a $20 billion manufacturing company gave Avaya top scores in technology and value, but handed out the lowest score in customer services because of how Avaya's professional-services team "doesn't treat me like a customer but more like a hostage. They charge for everything and stick it to me."

Avaya's value is decent, driven largely by improvements and simplification in its licensing structure. Raw prices are competitive, but the maintenance and professional-services costs need some improvement, IT staffs say.

Market Challengers

Microsoft

Microsoft received the third-highest overall score (3.86) behind ShoreTel and Cisco. Microsoft improved its ratings from last year in all areas: technology (3.83 to 3.94), customer service, (3.76 to 3.89), and value (3.74 to 3.75). (Please see Figure 8: Microsoft Ratings, Page 14.)

The median size of companies rating Microsoft's for IP telephony is 5,000 employees (average is 17,855). By revenue, 25% have revenue greater than $1 billion, with 14% greater than $10 billion. About 46% have revenues of less than $100 million, and 16% of those are less than $10 million.

They key point among those who rated Microsoft is that few use Microsoft for all voice traffic, or even as the sole, mission-critical platform for any voice traffic. They typically have pilots underway, or use OCS for voice traffic tactically or in conjunction with another voice system. Because the implementations are still in pilot mode, the demands and expectations aren't as high as Microsoft voice competitors.

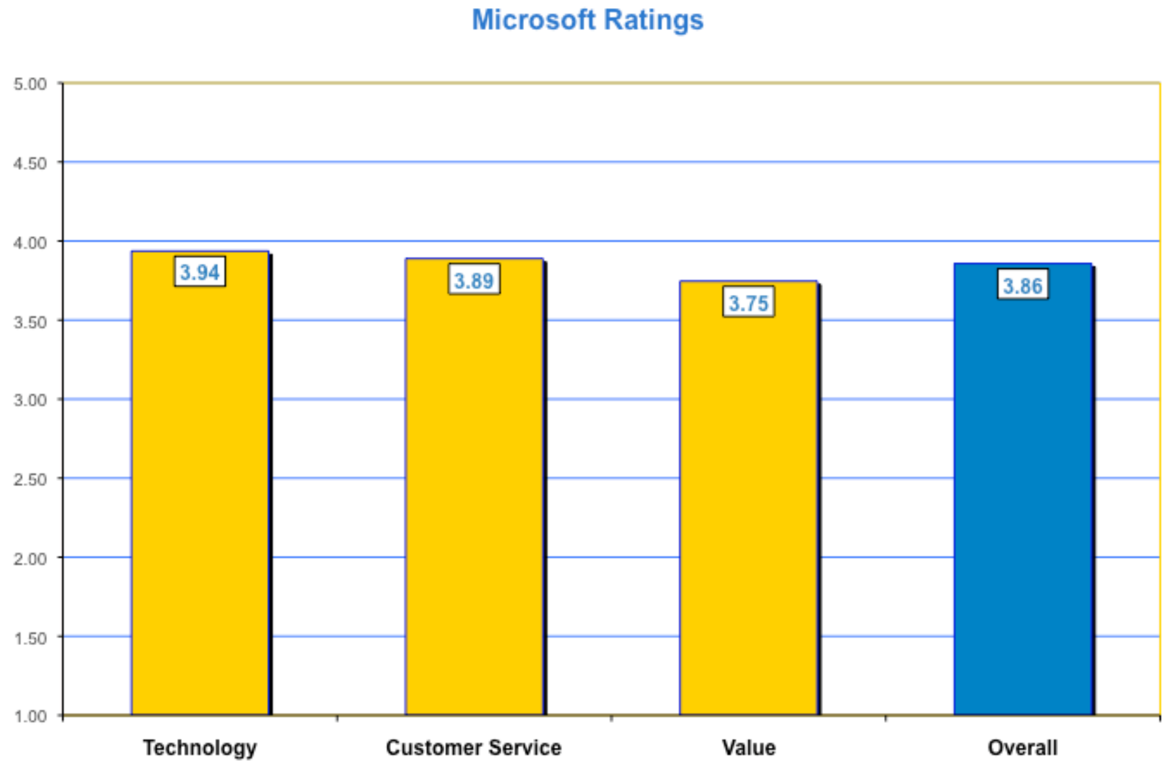


Figure 8: Microsoft Ratings

Several IT professionals say they hope Microsoft voice capabilities become reliable enough for enterprise requirements because they want an alternative to Cisco. "We want to walk away from being locked into a single vendor," says the telecom manager of a $34 billion professional-services company.

For now, though, the consensus is that Microsoft has decent value (included as part of OCS) for voice and fairly attentive service. However, reliability remains an issue. "It's not a total solution. I don't think they're a serious player for voice," says the senior architect of a $50 billion retailer, which is running pilots now. Moving forward, companies want solid integration between traditional IP telephony providers and Microsoft.

Siemens

Siemens was very close to Microsoft, with an overall score of 3.85. Its top score was in customer service (4.00), followed by technology (3.89) and value (3.66). Last year, we did not receive enough ratings for count Siemens individually; this year we did. (Please see Figure 9: Siemens Ratings, Page 15.)

In our study, the median number of employees for companies rating Siemens is 10,000 (average is 38,190). Although by revenue, 45.4% have revenues greater than $1 billion. The balance is below $1 billion, with about 22% with revenues lower than $100 million. Siemens appeals primarily to larger companies.

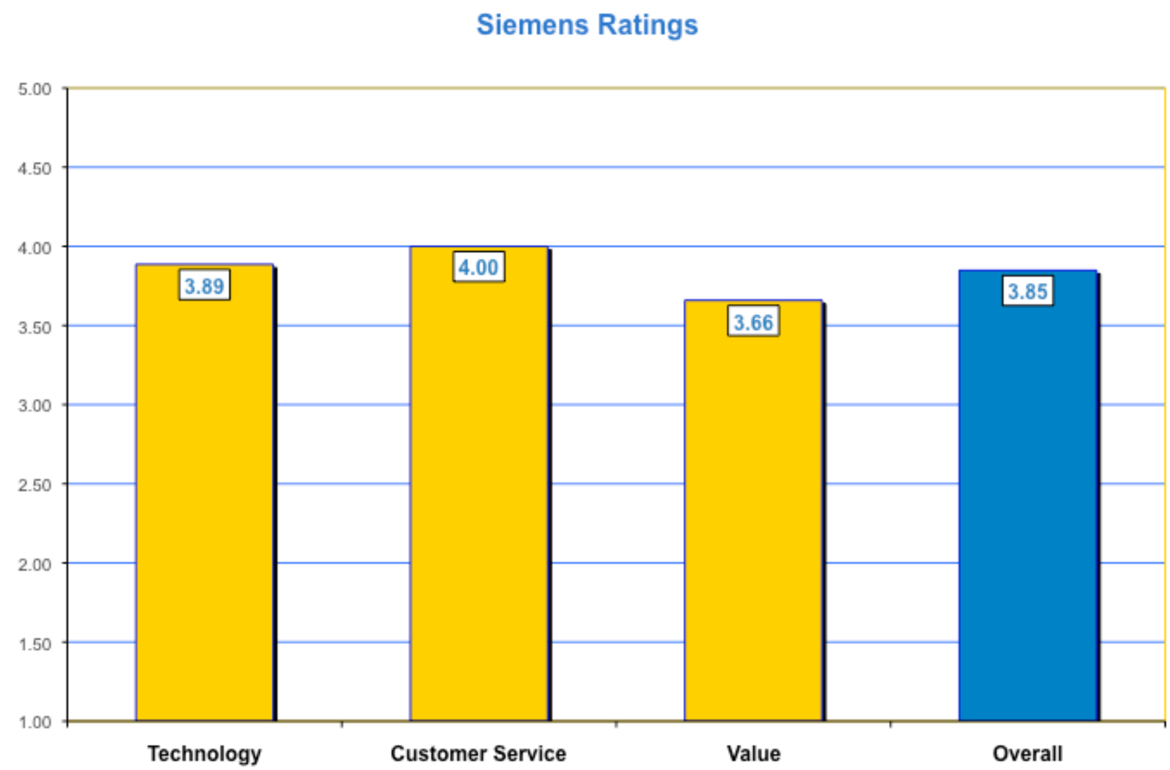


Figure 9: Siemens Ratings

Siemens' strength is its customer service and to a lesser extent, its technology. Value is its relative weakness, as telecom managers generally say the products are overpriced when compared with competitors.

Telecom and IT staffs consistently say Siemens focuses on building partnerships with its enterprise user, rather than just fulfilling orders. "They know a lot about our business. They have helped us formulate our strategy, and the support is excellent," says the director of network services for a $3 billion manufacturing company. "Most vendors are just vendors. Siemens is a partner."

What's more, Siemens has a global team that provides consistent service regardless of the location. "The responsiveness and knowledge of our account and installation have been a phenomenally positive experience," says the director of telecom for a $5 billion retailer.

Siemens must work harder on integration of its products with other IP telephony providers, as well as UC providers, customer say.

NEC

NEC finished with an overall score of 3.75. Its top score was in value (3.94) followed by customer service (3.75) and value (3.56). (Please see Figure 10: NEC Ratings, Page 16.) Like Siemens, NEC did not receive enough ratings last year for us to count the vendor individually, so there is no comparison available.

In the Nemertes study, the median number of employees among companies rating NEC is 10,000 (average is 21,418). About 50% of companies rating NEC have revenues greater than $1 billion, with about 13% greater than $10 billion.

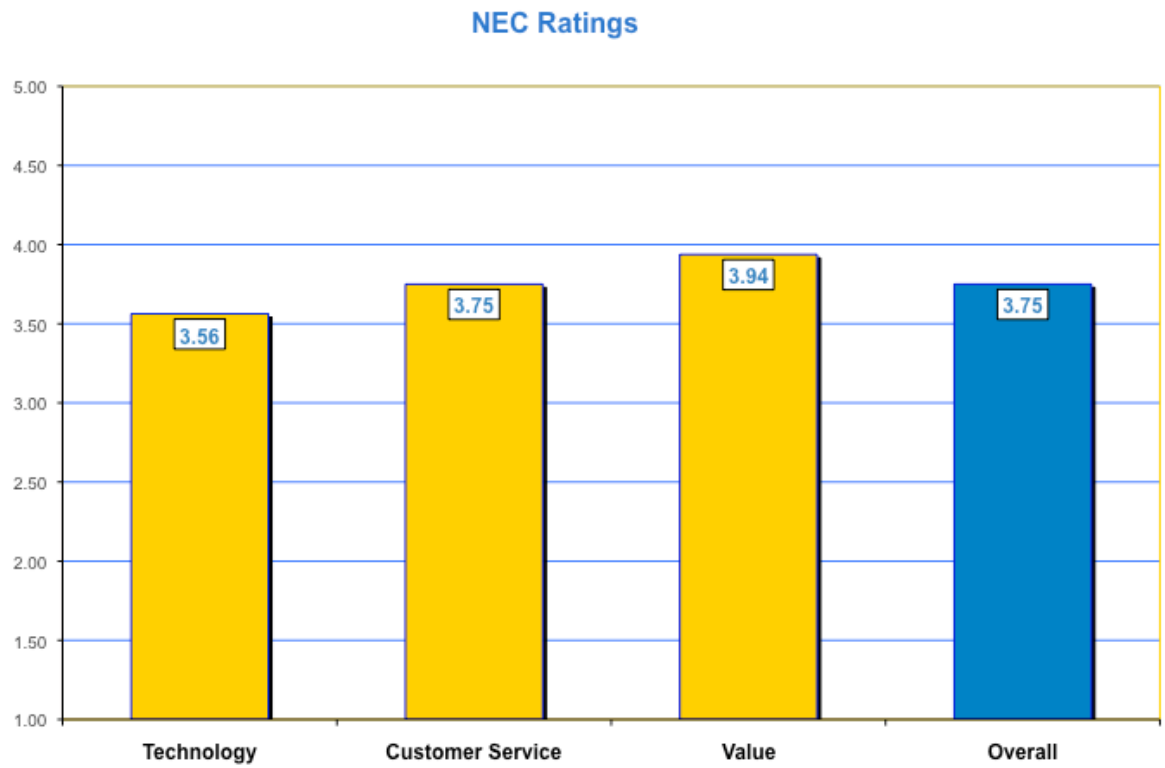


Figure 10: NEC Ratings

Study participants say NEC is more of a value play than it is a technology play. Pricing is solid, and IT staffs believe they get solid value for the money spent. Further, they also view customer service as decent—eventually. “Before purchasing, it looked solid, and then we ran into some minor software hiccups during installation,” says the telecom manager of a $150 million manufacturing company. “After a few months, it turned out great, but the first 90 days were a bit rough.”

One complaint related to the soft client, which a telecom manager says was proprietary, required his company to pay extra for an open soft client.

3Com

3Com finished with a 3.70 overall score, with its strongest results in value (3.81), followed by technology (3.71) and customer service (3.51). (Please see Figure 11: 3Com Ratings, Page 17.) Its recent acquisition by HP may add a boost to its voice business with further investment in the technology, as well as better joint sales and marketing for combined voice and data packages.

The median number of employees for companies rating 3Com is 3,600 (average is 18,018). About 28% of companies who rated 3Com in the Nemertes study have revenues greater than $1 billion, so it's rating base is more heavily weighted toward small and midsize companies.

Compared to last year, 3Com improved all ratings. Technology went from a 3.38 to a 3.71; value increased from 3.77 to 3.81, and customer service improved from a 3.38 to a 3.57. Overall, companies were generally satisfied with the technology and value, and they say ultimately, the HP acquisition should be a benefit for the company. "That's one of the best things to happen to 3Com," says one IT manager. However, as we typically see with vendors in the aftermath of acquisition, its customer-service score is low, compared with competitors—though it did improve from last year.

Figure 11: 3Com Ratings

Alcatel-Lucent

Alcatel Lucent finished with a somewhat disappointing 3.64 total score, compared to a 3.73 last year. It declined in two of three areas measured—technology (3.82 to 3.57) and customer service (3.88 to 3.62)—and only increased slightly in value (3.71 to 3.72). (Please see Figure 12: Alcatel-Lucent Ratings, Page 18.)

One possibility for the disappointing scores is the fact that our research focused on North American companies and multinationals primarily based in the United States. Alcatel-Lucent has greater strengths in Europe. "In the U.S., no one knows who they are. In Europe, they're strong and the No. 1 IP telephony vendor," says the director of network services for a university. "They are very receptive to working with us on things that are broader than just what the product set does; that's what they bring to the table. They open up their R&D and think about things with us."

Where they tend to be weak, though, is in marketing and the go-to-market strategy, IT leaders say. Alcatel simply doesn't get the word out as to what it's capable of doing. And, because Alcatel tends to take more of a "systems-integrator" approach, trying to help companies with integration of more than just IP telephony, its value is relatively high to companies.

From a technology perspective, though, Alcatel lacks capabilities when compared to vendor such as Avaya and Cisco. "I'm underwhelmed by features, and the functionality is very limited when compared to Cisco," says the head of telecom for a $5 billion retailer. "I can't even see my calling history, and there are many non-intuitive features. It's not user-friendly, and there is much training required."

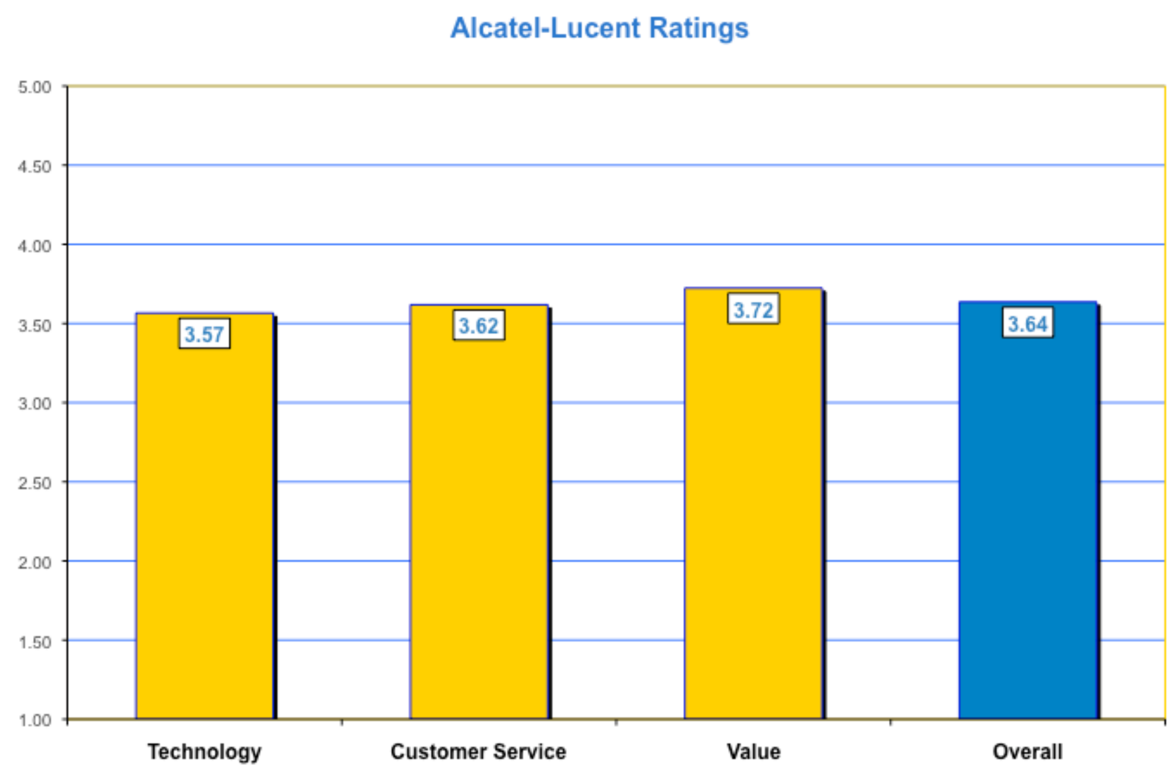
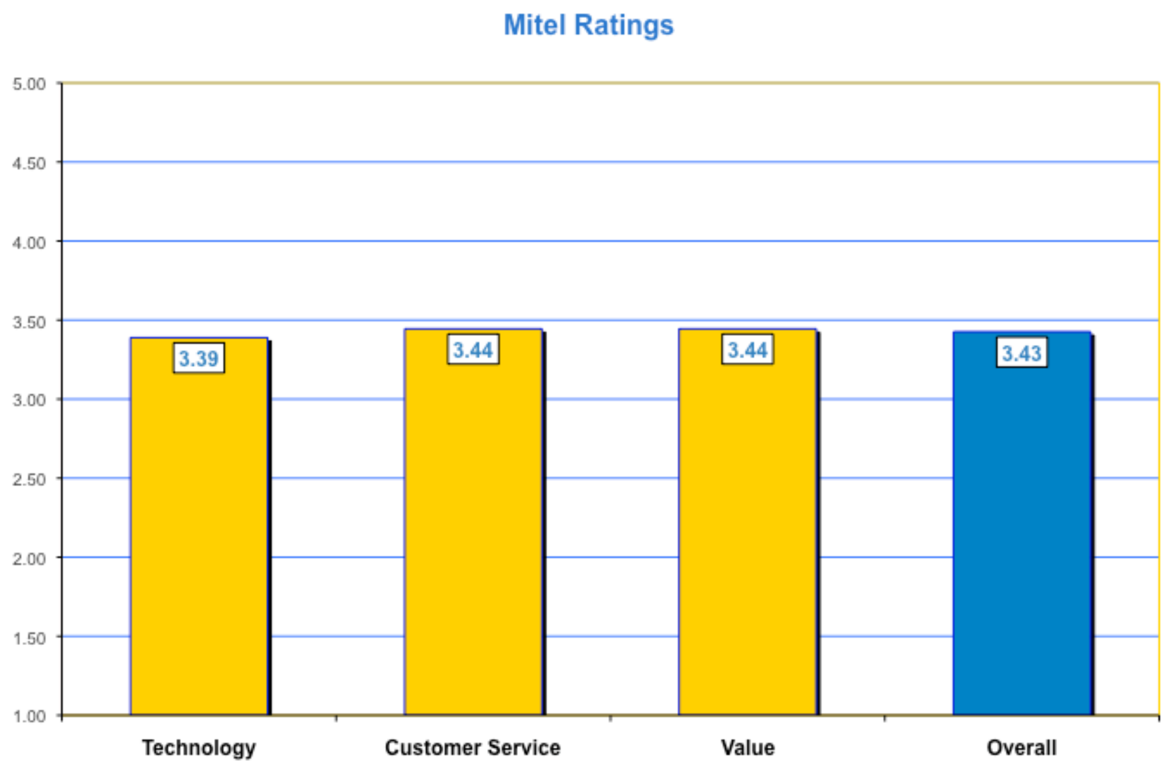


Figure 12: Alcatel-Lucent Ratings

Mitel

Mitel finished a disappointing last place with an overall score of 3.43. All areas rated were relatively low: technology (3.39), customer service (3.44), and value (3.44). On the bright side, though, Mitel's customer service score did improve from last year (3.30 in 2009), and it did win the top score among Market Challengers in the Unified Communications category.

One of the most consistent concerns was IT staffs have a difficult time getting answers to product questions. Additionally, they raise questions about where Mitel fits in moving forward. "Mitel is a nice, small company that does what they do well. My biggest concern is whether they can really be a big player in the long run. When you have Avaya and Cisco butting heads at the high end, who's going to still be standing a few years from now," says a VP of a $10 billion hospitality company.



Additional Analysis: Service Providers

AT&T & Verizon

Service providers have been offering hosted and managed IP telephony and VOIP services for years. In addition to AT&T and Verizon, providers such as Cypress Communications, M5, and Smoothstone have specialized in hosted communications services. And, more traditional network providers, such as Global Crossing, Qwest, and Sprint, offer managed and/or hosted services. This year, AT&T and Verizon received enough ratings to be counted individually.

Among the companies who rated AT&T, about 44% use managed VOIP services, and 19% use hosted VOIP services. The rest rated AT&T as their VAR heading the IP telephony implementation. Among those rating Verizon, on the other hand, 40% use managed services, and 47% use hosted VOIP services. Overall, AT&T beat Verizon in technology, value, and overall score, while Verizon held an edge on customer service.

AT&T finished with a 3.77 overall score, with technology (3.93) as its top area, followed by customer service (3.71) and value (3.68). (Please see Figure 13: AT&T Ratings, Page 20.) Verizon finished with a 3.69 overall score, with customer service and value as its top scores (3.74 each), followed by technology (3.57). (Please see Figure 14: Verizon Ratings, Page 21.)

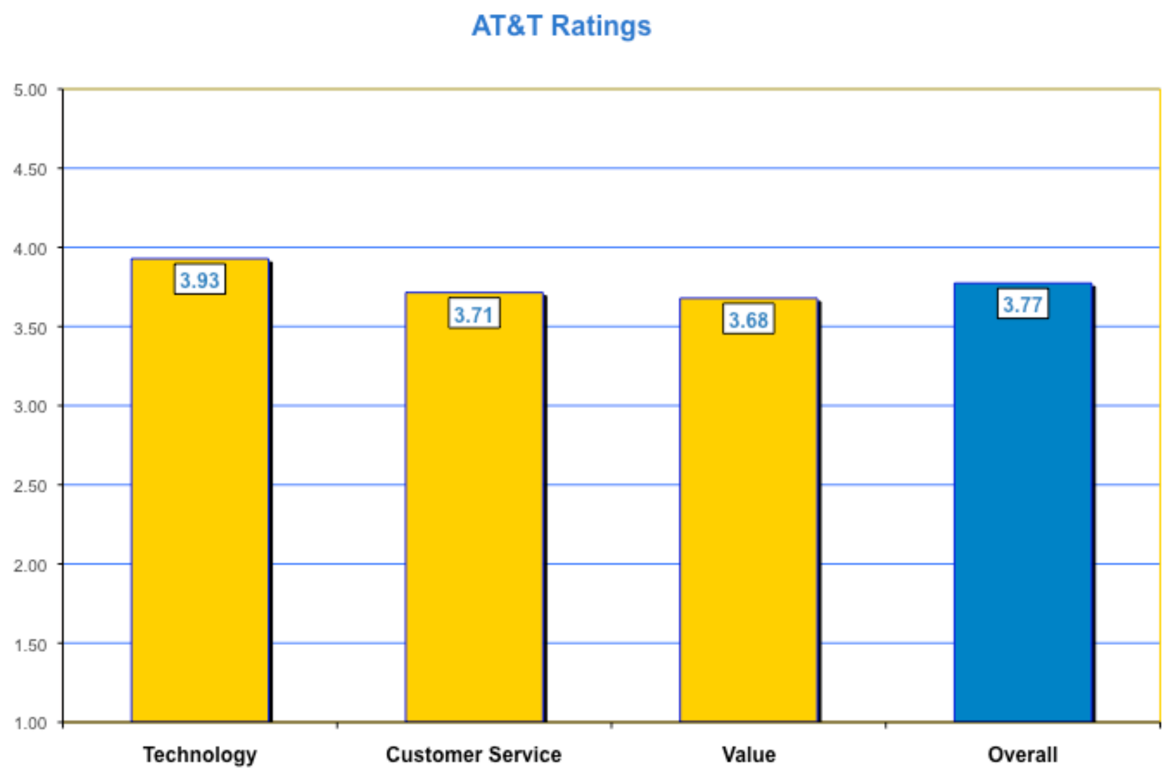


Figure 13: AT&T Ratings

The company makeup is similar for AT&T and Verizon. The median employee size of companies rating the carriers is 10,000 (averages, though, varied with AT&T at 56,126 and Verizon at 24,478.) About 41% of companies rating AT&T have revenues in excess of $1 billion, while 37% of those rating Verizon have the same. AT&T tends to attract the largest companies, with 20% greater than $20 billion in revenue, compared to 11% for Verizon.

In Nemertes' benchmark research this year, we saw an increase in the number of companies using hosted services. This year, 8.2% of companies are using hosted VOIP services, and another 12.7% are evaluating them. For several years, the hosted VOIP market has hovered between 4% and 6%. As companies move toward more full-fledged unified-communications rollouts, many are outsourcing (either in a hosted or managed fashion) IP telephony to focus on the integration of collaboration, communications, and enterprise applications.

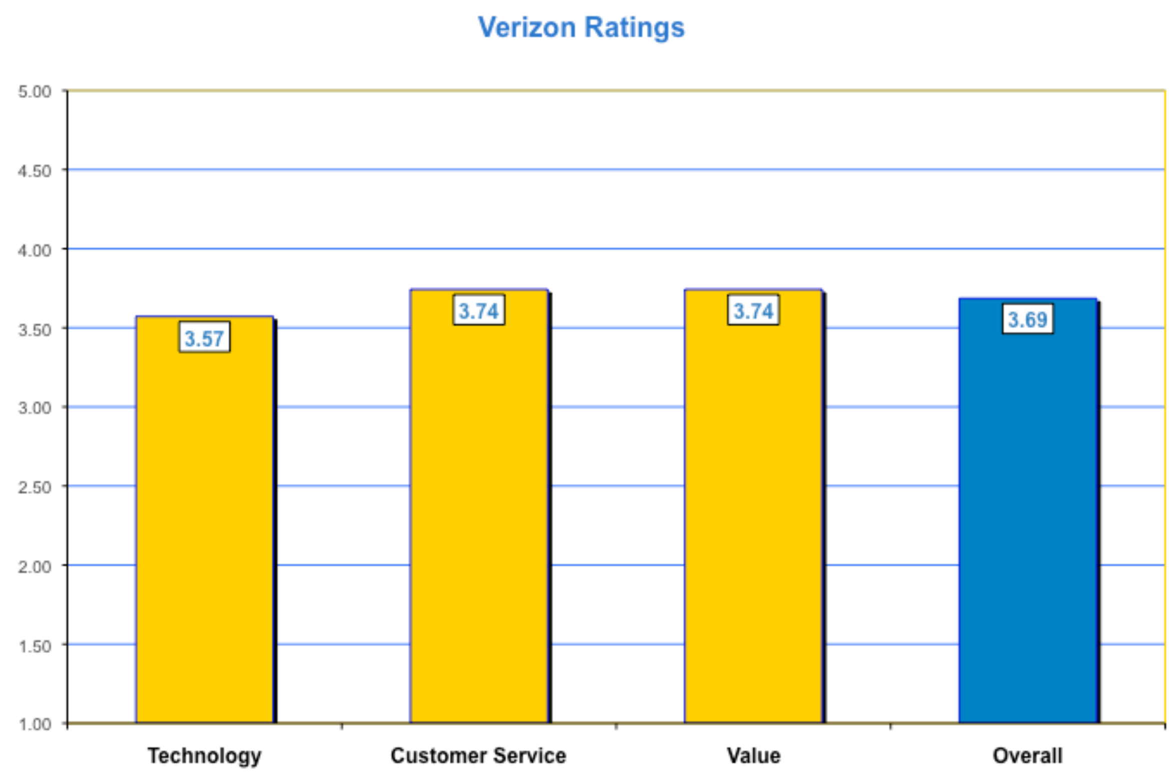


Figure 14: Verizon Ratings

Conclusion

The IP telephony market continues to become more stable. Moving forward, it will be more challenging for vendors to differentiate themselves on IP telephony product features alone. They must focus on integration with unified communications, managed and professional services, customer relationship-building, and increasing their value proposition.

IT leaders should continue to evaluate a minimum of four vendors as they evaluate new or expanded IP telephony projects. However,, it's become increasingly difficult to evaluate IP telephony in isolation; companies must combine the evaluation with a full unified-communications strategy, even if the rollouts are in different intervals.

Methodology

The population includes individuals primarily from U.S. companies (based in the U.S., but many of which are global multinationals) who are responsible for selecting, or influencing the selection of, suppliers of data center and communications products and services.

Sample Frame

In selecting the sampling frame, Nemertes has asked individuals in the following populations to rate their providers:

- U.S. business subscriber lists, including individuals who have opted to participate in surveys and who have been pre-screened to determine responsibility for selecting or influencing relevant products and services.
- Nemertes Research IT executive database, limited to individuals who meet the criteria for the representative population. Individuals from this list represent primarily U.S. companies, but also include companies based elsewhere that have presence in North America. The database includes individuals who work with Nemertes, or who have expressed interest in participating in our research, have participated in the past, or whom Nemertes' analysts have contacted in the past to participate in research.

Individuals participated in this project using three methods:

1.) Web-based survey. This is the largest percentage of the respondents. Those who meet the sample frame randomly received invitations to participate in the survey.
2.) Visitors to Nemertes' Web site, and recipients' of third-party media partners' newsletters. They had to meet the criteria to participate.
3.) Benchmark interviews. This is a smaller percentage of the respondents. Nemertes' analysts asked numerous detailed qualitative questions to gauge *why* they rated their service providers the way they did, as well as gathering other information about their usage of communications services.

Benchmark participants spent one to three hours on the phone or in person with a Nemertes analyst discussing issues relating to their use of products and services. The Web-based survey participants answered a subset of the benchmark questions that focus on rating the providers, stack-ranking important criteria, providing financial data, and more.

Planned Sample Size

According to U.S. Census Bureau figures, there are 2,306,070 companies with five or more employees. Our goal was to receive responses from 1,000 individuals, which would give us a 95% confidence level and 3% margin of error—if every individual rated every vendor in every technology area rated. We received substantial ratings for each technology area (several hundred per area), but each vendor in each area did not receive a rating from every research participant.

We received ratings from 3,071 individuals, and 2,004 met Nemertes' standards and considered "valid." Our survey tool automatically exited individuals from vendors and carriers in the IT space. Analysts reviewed all other ratings (survey and benchmark) line by line, and categorized as "invalid" those with fewer than five employees or those who demonstrated inconsistencies or inaccuracies in their responses as part of Nemertes' complex qualification methodology.

We achieved validity across the survey and interviews by ensuring the questions we asked were the same and that the interview group and survey group represent discrete samples of the same population. Nemertes achieves survey and interview consistency using pre-scripted interview forms and peer review of interview protocols. Analysts also relied upon their own knowledge of the technology areas, natural breakpoints in the data, and interview notes from the survey participants to further validate ratings.

Survey Sub-Groups/Stratification

Nemertes' analysts researched which providers offer products and services in each category and created lists from which participants identified their primary service providers. They also were able to select "other," and identify a service provider they use that may not be included on the explicit list provided.

The challenge is some providers (Market Leaders) have millions of users and significant market share, while others (Market Challengers) have perhaps a few hundred or few thousand users and smaller market share. We realized some providers would garner a relatively large number of ratings, based on the number of users they have, while others would have a relatively small number of ratings. Therefore, we created the two distinct categories for the awards, though we will discuss each technology category in its entirety (i.e., all vendors and all ratings) in our reports. The one exception is the "PilotHouse Admiral," which recognizes the vendor or service provider with the best overall score across all technology areas and both market categories.

Nemertes evaluated complex market share (looking at shipments, revenue, and number of IT professionals) for the Market Leader vendors (typically with >10% of market share) based on its own research and publicly available data. Analysts also examined natural breakpoints in the data, and segmented the Market Leaders as those who collectively accounted for the vast majority of each market. Market Challengers had to have a reasonable number of ratings based on their relative position in the market.

In some categories, there were not enough ratings to issue an award in the Market Challenger category, or the market is so new that all vendors are considered Challengers.

Nemertes reserves the right to address acquisitions occurring during the benchmark and survey period on a case-by-case basis. Unless otherwise noted, an acquisition merging two companies in the same award category must be complete before the start of the survey and benchmark interview period to be counted as one company in the ratings.

Awards

Nemertes will issue awards in the following areas:

Nemertes PilotHouse Awards, 2010		
	Market Leaders	Market Challengers
Award Category	Overall	Overall
MPLS	✓	✓
Ethernet	✓	✓
WAN Optimization	✓	✓
IP Telephony	✓	✓
UC	✓	✓
IP Contact Center	✓	✓
Wireless LAN	✓	✓
Security as a Service	✓	✓
Virtualization Host Server	✓	✓
Data Center Colocation	✓	No award
Virtual Desktop	✓	✓
Cloud Computing	No award	✓
Sustainability	✓	No award

Timing

The Web-based survey was conducted between March and May 2010. The benchmark research was conducted between January-May 2010.

Incentives to Participate & Time Commitment

Participants of the Web-based survey received a small incentive for participating in the survey. Participants from Nemertes' database receive the findings and are invited to participate in a Webcast, in exchange for their time. The Web-based survey takes about 15 minutes to complete; the benchmark requires one to three hours of participants' time.

Future Plans

Nemertes plans to conduct its PilotHouse Awards program annually, though it retains the right to cancel the project at any time.

About Nemertes Research: Nemertes Research is a research-advisory firm that specializes in analyzing and quantifying the business value of emerging technologies. You can learn more about Nemertes Research at our Website, www.nemertes.com, or contact us directly at research@nemertes.com.