



Seizing the cloud communications market opportunity

White Paper

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BT Wholesale have partnered with Cavell to deliver a whitepaper that explores the increasing demand for cloud-based communication systems in the UK. This is critical as the country moves closer to the PSTN/ISDN switch-off, in which legacy systems need to be replaced with IP telephony by 2025.

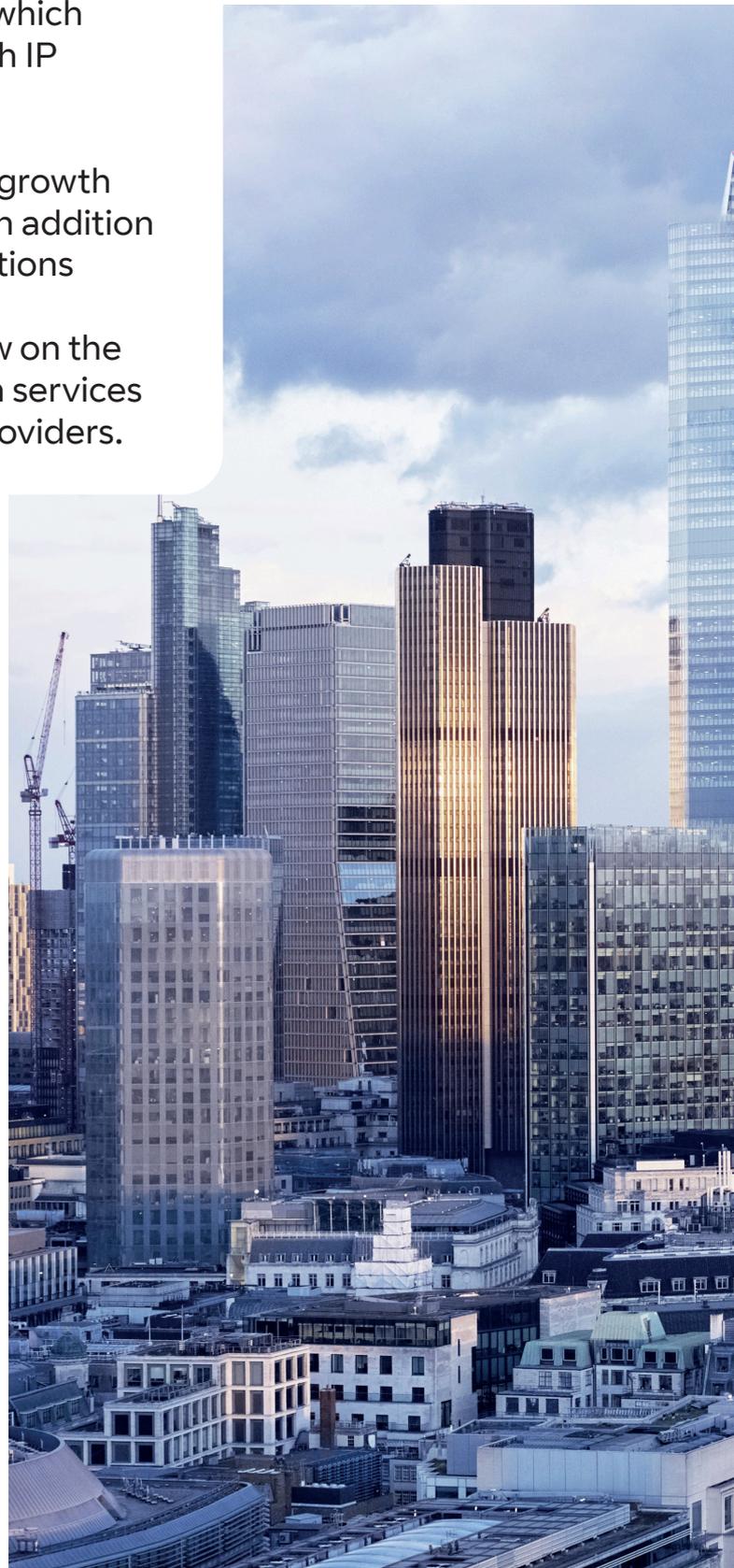
The analysis predicts future trends and growth opportunities in the wake of Covid-19. In addition to key drivers changing the communications landscape particularly the demand for collaboration solutions. With a final view on the financial value of digital communication services and key considerations for all service providers.



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About Cavell Group

Cavell Group is an EMEA & USA focused Research, Consulting, Engineering and Education Services business with offices in the USA, Amsterdam, Brussels, and London as well as remote associates worldwide. Cavell has built a strong reputation as leading Analysts of the Cloud Communications market, providing Strategic Consulting and Research in EMEA and the USA to Service Providers, Vendors, Manufacturers and Private Equity firms.



Introduction

Technology markets represent some of the UK's most dynamic business sectors. Communication technologies provide businesses with the vital tools required to connect their partners, employees, and customers.

One area witnessing remarkable growth is Unified Communications as-a-service (UCaaS). UCaaS platforms offer businesses a simplified route to deploy next-generation communication technologies. Adopting a consumption as-a-service based purchasing model enables businesses to look to their technology partners to host a UCaaS solution, removing the financial and logistical issues associated with infrastructure deployment.

Increased demand for cloud-based communication services has created a huge market in the UK for UCaaS solutions. This growing sector now presents a substantial opportunity for communication service providers with market revenue set to exceed £1BN in 2021 rising to £1.9BN annual revenue by 2025.

This whitepaper cites both qualitative and quantitative research to size the cloud communications market in the UK, forecast its growth, and explore external factors that are impacting the market's dynamics - such as the coronavirus pandemic and 2025 transition to all-IP. With accurate market sizing, communication service providers can utilise data coupled with market insights to optimise their strategy for seizing the cloud communications market opportunity.



Sizing the UK Cloud Communications Market

Understanding the overall size and dynamics of the UK's cloud communications market is critical for service providers, allowing them to target the most viable sectors and quantify the possible opportunity.

Cavell Group uses quantitative data from public sources (ONS, National and Regional Govt, EuroStat) combined with primary, anonymous research gathered from over 100 of the UK's leading service providers, telecommunications operators, and communication technology vendors.

This data provides an accurate snapshot of the UK cloud communications market and its dynamics on a biannual basis.

The cloud communications market in the UK had grown to 5.9 million users by the end of Q4 2020.

This represents only 30% penetration in the available market, which comprises all employees who use a telephony service. By 2025, with the increased adoption of cloud communications, penetration into the overall available market is forecast to exceed 70%.

Growth in this area has exceeded previous forecasts and the rate of growth in any other period measured due to external influencing factors, including enforced remote working due to the coronavirus pandemic.

Forecast Installed User Base of Cloud Communications Users UK Q4 2020

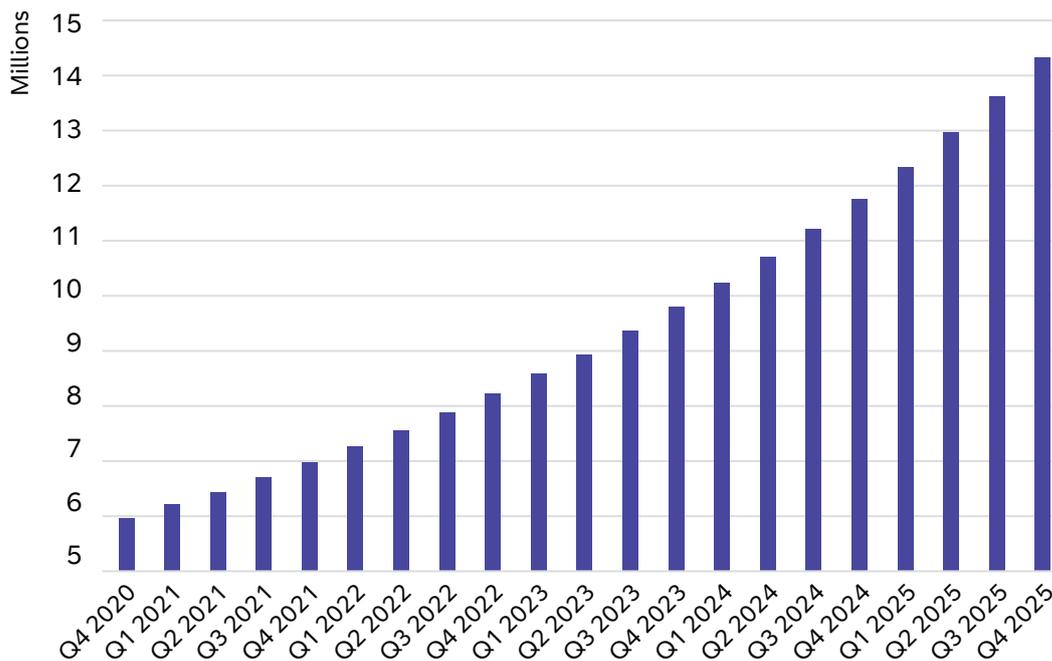


Figure 1. Cavell Group - UK Cloud Communications Market Report Q4 2020

Customer purchasing preferences

Businesses within the UK have a wide range of choices when it comes to selecting their preferred type of technology partner. Service providers need to evaluate the preferences of target customers to ensure they offer the most appealing selection of communication solutions, provided by the right technology partners.

Type of provider UK businesses are currently buying telecoms from 2020

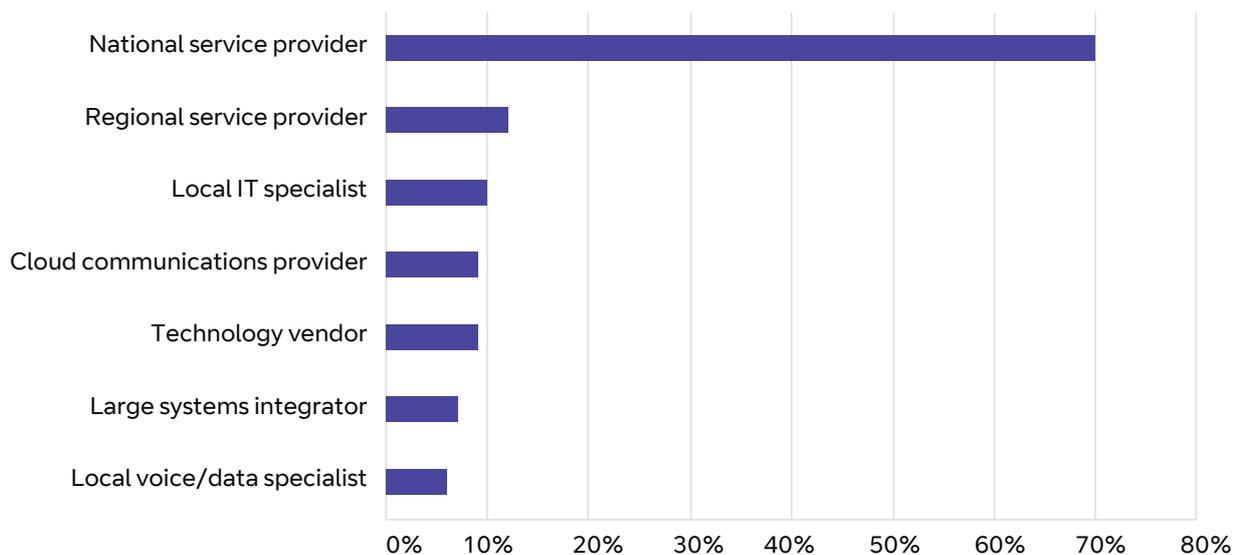


Figure 2. Cavell Group - UK Enterprise Insight Report 2020

The above data shows that 70% of UK businesses buy their telephony services through a national service provider. This can be attributed to several factors such as existing relationships, scale, experience, reputation, and reliability. Service providers should consider this data when considering their selection of technology partners.

Although the data covers all telephony services, rather than strictly cloud-based UCaaS systems, it does appear that this buying behaviour will continue with the majority of UK businesses looking to leverage a national service provider for UCaaS solutions rather than regional providers or technology vendors directly.

Only 9% of businesses buy directly from a technology vendor. This is partly because national service providers can offer more competitive pricing due to the monopolies of scale that they benefit from when dealing with the technology vendors directly.

These savings can then be passed onto smaller service providers and end customers creating a more compelling proposition.

Market dynamics

Historically the UK cloud communications market has seen the highest number of users allocated to the micro-small and medium business (SMB) sector – those organisations with less than 9 users – and the large enterprise sector – those organisations with more than 1,000 users. This can be primarily attributed to the success of UK based communication providers targeting both the micro-SMB and large enterprise sectors.



Cloud Comms installed split by company size UK Q4 2020

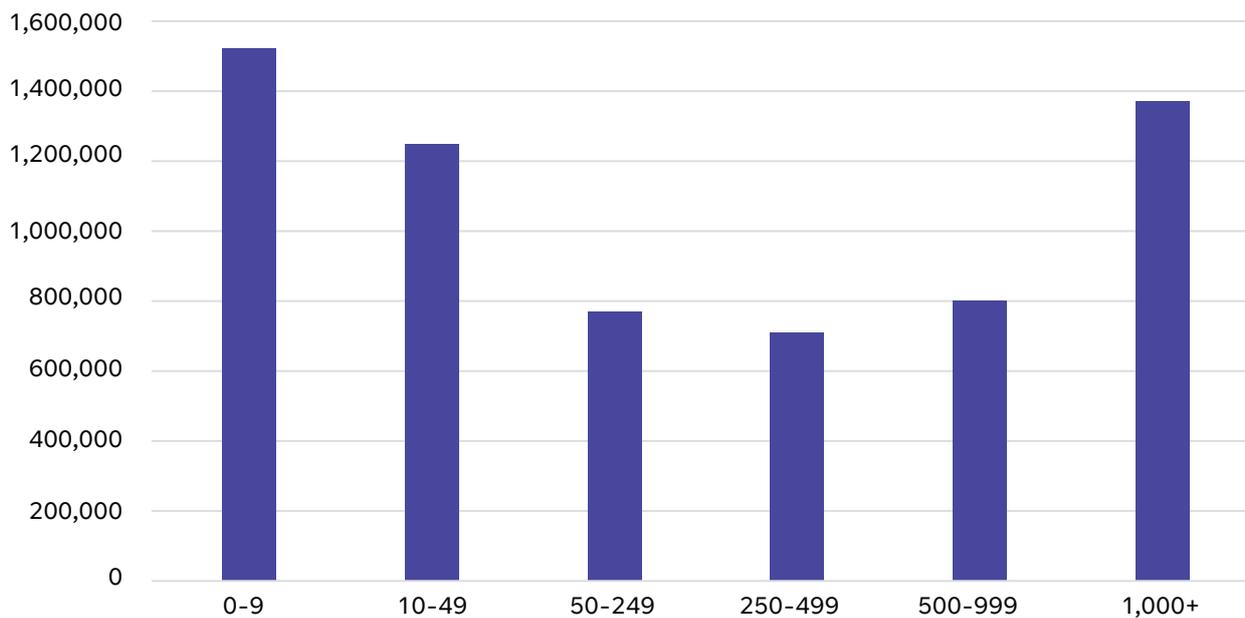


Figure 3. Cavell Group - UK Cloud Communications Market Report Q2 2020

Mid-market sectors have traditionally not experienced strong growth in the UK with premises-based PBX systems being the most widely deployed communication solutions. With their roots in manufacturing, the UK's mid-market companies have traditionally relied on premises-based technology systems. A diverse set of verticals comprises the UK mid-market within sectors such as retail, financial, and manufacturing specialists.

As demand for cloud-based communication systems develops more widely, it is expected that these mid-market sectors will witness accelerated user growth. These sectors now provide the primary opportunity for the UK's communication providers and more targeted solutions designed to meet mid-market demands are likely to be promoted by providers.

Cloud Comms user growth rate split by company size over the last six months UK Q4 2020

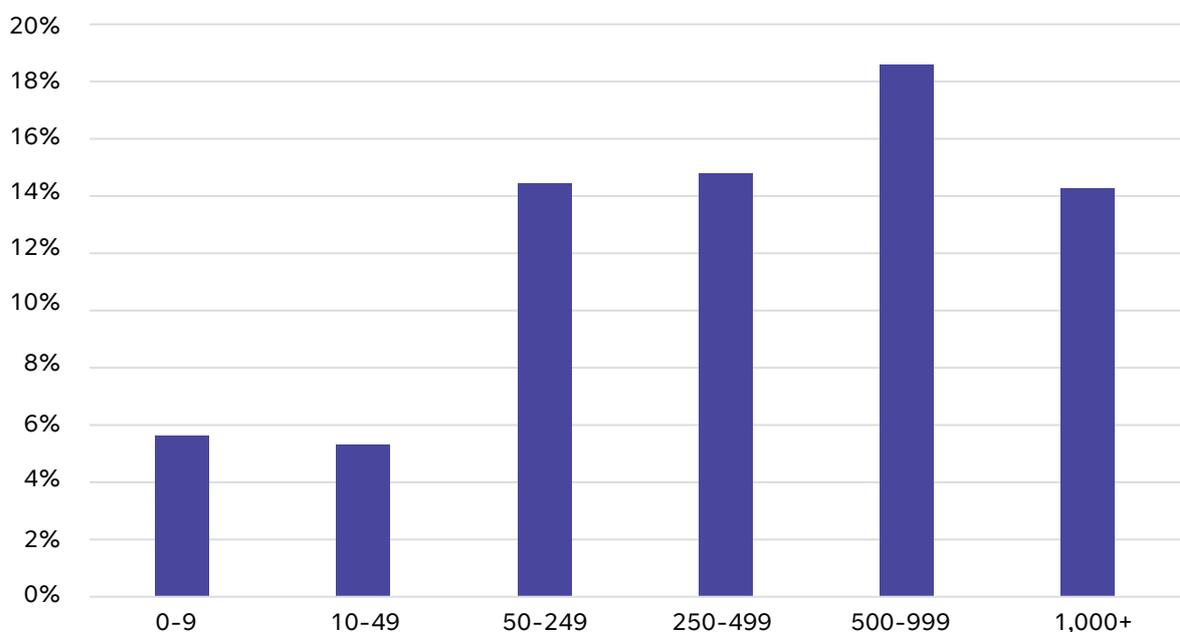


Figure 4. Cavell Group - UK Cloud Communications Market Report Q4 2020

This hypothesis is further supported by trends in the market sector's user growth rates.

The sectors that experienced the most accelerated growth were in the mid-market sectors (organisations with 500-999 employees at 18.62% / organisations with 250-499 employees at 14.8% / organisations with 50-249 employees at 14.46%).

Slower rates of user growth in SMB sectors can be attributed to pre-existing higher levels of cloud communication penetration.

Financial Value

To truly realise the market opportunity represented by cloud communications in the UK, service providers need to consider financial metrics in addition to the market's size and number of users. As well as quantifying market size, Cavell Group analyses industry pricing across several metrics to provide overall market values.

(ARPU) Average revenue per user

Minute Revenue

User Licence Revenue

The average base-price per user includes 500 domestic minutes and a selection of standard features – but no hardware devices.

There is obviously a huge variation of features included within standard license so generally a like-for-like comparison has been made. Prices for basic user licences range from between £2 per user per month (PUPM) and £19 PUPM, dependent on functionality and support features.

Total revenue in 2021 is forecast at over £1BN with the total market value forecast to exceed £1.9BN in 2024. User revenue accounts for more than 60% of total revenue with Minutes revenue making up the remainder of Market value.

Service providers need to carefully consider their own revenue generation strategies to ensure they are maximising the cloud communications financial opportunity across all service areas.

Average revenue per user including minutes	
Total	£13.63
Minute pricing	
ARPU for minutes	£5.45

Table 1. Cavell Group - UK Cloud Communications Market Report Q4 2020

Cloud Comms revenue forecast - UK Q2 2020

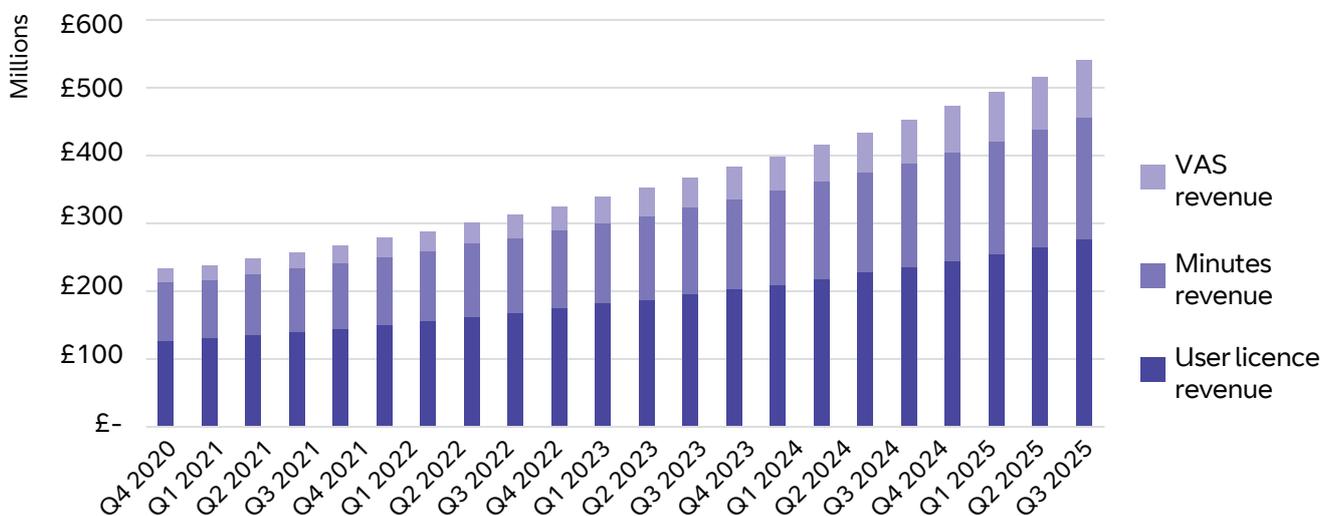


Figure 5. Cavell Group - UK Cloud Communications Market Report Q2 2020

Two critical considerations for service providers

Financial Value

Based on industry experience and findings from both proprietary and third-party, research studies the Cavell Group has highlighted key considerations for service providers to assist them in leveraging the opportunity represented by the UK's multimillion-pound cloud communications market.

Portfolio evaluation

As business demand for technology services changes and consolidates, communication service providers need to be able to cater to requirements for holistic technology estates.

Technology no longer sits within isolated silos such as IT, communications, or customer management. Increasingly businesses want technology partners who can assist them throughout all of their key business areas.

It is for this reason that service providers need to evaluate their own technology portfolio ensuring they can provide a full range of services and solutions. Many service providers have strong offerings within UCaaS but they also need to ensure they can assist customers within other areas such as collaboration, data management, and contact centres. By offering a range of integrated solutions providers can ensure they offer maximum value to their end customers and mitigate competitive risk.

2025 Switch-off will impact a large share of businesses in the UK but a higher proportion of SMBs who are still using analogue lines. 42% of those businesses, over 2M in total, will need to make the digital switchover.

This switch-off is accelerating cloud uptake and driving the cloud communication market's rapid growth. It provides a huge opportunity for service providers to offer businesses of all sizes a viable alternative to their current communication systems. Ensuring that any service provider is equipped with a market-leading VoIP communication solution will enable them to better serve customers on their migration journeys and leverage this market opportunity.

Partner selection

Service providers generally do not have the technical resources or finances to compete with the world's leading technology firms in terms of platform development. This has seen the majority of communication service providers look to explore partnerships with industry leaders to ensure that they can offer the most cutting-edge solutions to their end customers.

Selecting the right partner becomes a critical strategic decision. Service providers should evaluate technology partners and should pay particular attention to their capability in areas such as:

- **Reputation and capability** – Providers should look to partner with the most reliable and capable technology providers. Partners with well-established industry reputations, expertise, and relevant capability – in terms of network or capacity – should be considered most preferential with their existing track record and industry recommendations offering reassurance.
- **Reliability and resilience** – Ultimately a service provider's business relies on the functionality of its solutions to end customers. Ensuring that

those systems are as reliable and resilient as possible is vital to ensure the viability of its technology solutions and customer relationships. Service providers should look for partners that offer the highest standards of SLA and availability to ensure their solutions are always working for their customers.

- **Product portfolio** – Suitability of the available products should be paramount. Partners should offer solutions from the world's leading technology vendors that in turn offer their end customers exciting, innovative solutions that they can utilise to transform their businesses. Service providers should ensure their chosen partner can offer them industry-leading technology platforms to take advantage of relevant vertical markets.

By following these guidelines, in both portfolio evaluation and partner selection, the UK's cloud communication service providers can ensure that they are best positioned strategically to leverage a market which is forecast to be worth more than **£1.9BN annually by 2025**.

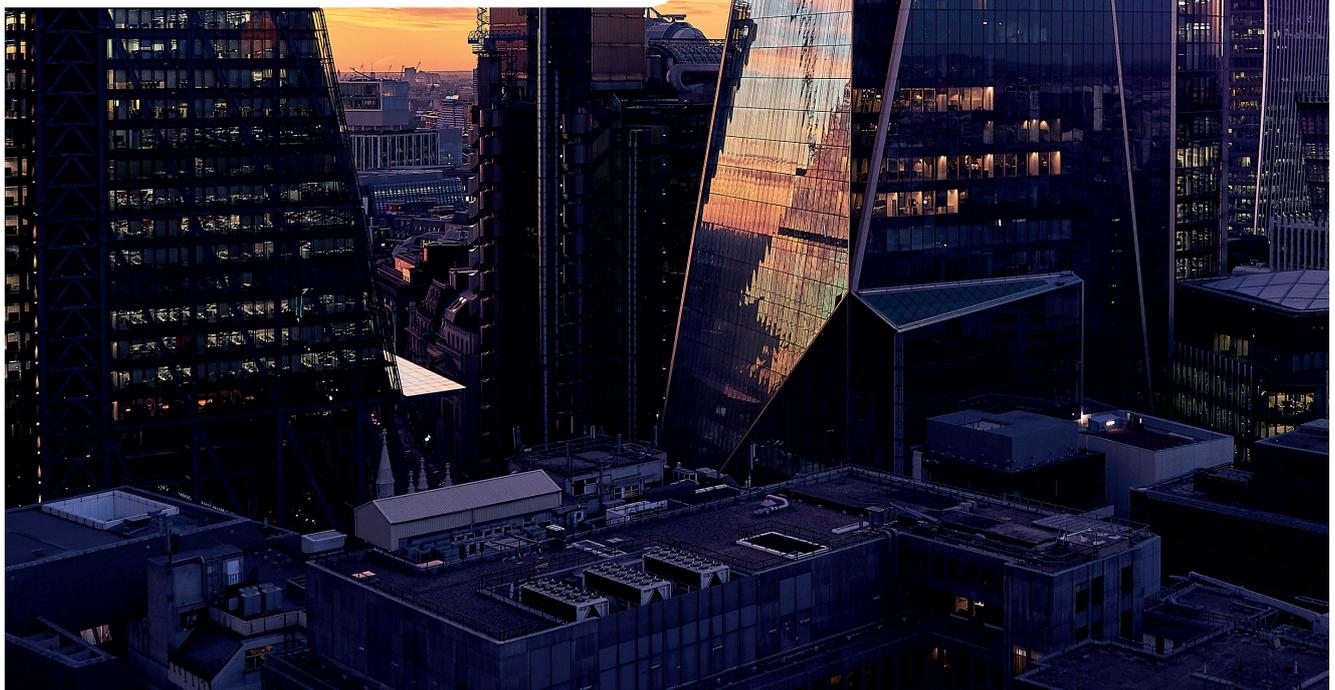
About BT Wholesale

The way businesses communicate is changing. As the ISDN switch-off gathers pace in 2021, legacy systems need to be replaced with digital technology. BT Wholesale is offering a partnership that will take you and your business further, as you move your customers to digital. Together we can transform your sales potential with a single, scalable solution and equip you with the knowledge you need to sell.

BT Wholesale's Voice & Collaboration portfolio includes Wholesale Hosted Communications a white-label unified communication service to enhance your own propositions and reduce your cost to serve. You will also receive continuous support in product developments, marketing, and training resources from the Digital Learning Platform. This all adds to the assurance of greater resilience from the most reliable fixed and mobile network that protects the UK's critical national infrastructure.

Partnering with BT Wholesale also brings you and your customers greater protection from fraud with 24/7 monitoring as well as access to products from industry leading security vendors. We are here to transform your digital offering and the way Britain's businesses communicate, together.

BT Wholesale
Voice and Collaboration



Make the move to cloud communications today

Get ready for the all-IP switchover with Wholesale Hosted Communications (WHC). Combining the best in voice and collaboration solutions our secure and scalable platform meets the needs of customers today and in the future.

Get in touch

Email: btw@bt.com

Visit: btwholesale.com/all-ip



Offices Worldwide

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