FROST & SULLIVAN

FROST & SULLIVAN BEST PRACTICES AWARD

HOSTED IP TELEPHONY AND UCAAS - NORTH AMERICA

Competitive Strategy Innovation & Leadership 2019

zoom

FROST & SULLIVAN

BEST PRACTICES AWARD

2019

Contents

Background and Company Performance

Industry Challenges

The business communications market has evolved considerably over the past two decades as it transitioned from time-division multiplexing (TDM)-based telephony systems to Internet protocol (IP)-based telephony systems, then to premises-based multimodal unified communications (UC) solutions, and finally to cloud-based UC-as-a-service (UCaaS) solutions. Each stage in the market evolution aimed to deliver cost efficiencies, productivity enhancements, business agility and other benefits to companies and end users. While the various types of business communications solutions are likely to continue to co-exist for the foreseeable future, a new trend is already emerging—the rise of the video-first enterprise.

Frost & Sullivan strongly believes that meeting rooms, as well as cloud video and web conferencing services, are increasingly pivotal in enterprise digital transformation. In a 2019 global Frost & Sullivan survey of 1,067 IT and telecom decision makers, 58 percent of respondents report they have deployed desktop video and web conferencing tools and another 28 percent indicate that they intend to invest in such tools in the next couple of years. Also important, 41 percent of decision makers with desktop video and web conferencing already deployed report that they are making these services available to their entire workforce, whereas the remainder are deploying to employees selectively, either based on job role or location. Improving productivity was selected by one-third of the respondents as a key benefit of video and web conferencing tools, and ranked the highest among other important benefits such as boosting product innovation, improving employee satisfaction, enhancing sales and marketing effectiveness, and improving the customer experience. Advanced conferencing and collaboration tools enable businesses to more effectively leverage all stakeholders within the organization to contribute to customer value creation and boost company competitiveness.

Many businesses in the process of digital transformation acknowledge the mission-critical nature of business communications and set out to upgrade their communications solutions while also enabling operational efficiencies and greater flexibility. Such businesses are rapidly adopting UCaaS solutions that deliver a broad feature set, including robust cloud private branch exchange (PBX) functionality, video and web conferencing, group chat, presence, mobility, and more.

Forward-looking businesses further acknowledge that the user experience is of paramount importance when it comes to ubiquitous adoption, proper utilization and ability to fully leverage the myriad benefits of advanced communications tools. In fact, 77 percent of decision makers in Frost & Sullivan's global survey report that they always or often take workforce demographics into consideration when making digital technology purchase decisions. For that reason, technology buyers in companies with a large percentage of digital native workers increasingly choose modern UCaaS solutions providing a video-centric user experience and convenient mobile access to communications and collaboration applications.

Service providers that can deliver easy-to-use, reliable, secure and collaboration-centric UCaaS solutions are likely to find strong appeal among IT/telecom investment decision makers going forward. It is also important that providers leverage open, extensible, standards-based platforms that support rapid innovation, flexible customization and integration, and cost-effective scalability.

Strategy Innovation and Customer Impact

With the announcement of Zoom Phone in the Fall of 2018, Zoom set out to redefine the UCaaS competitive landscape, just as it did in the cloud video conferencing market. Rapid product development in anticipation of customer demands, laser focus on user happiness and a clever sales and marketing strategy differentiate Zoom from many competitors and have earned it a highly visible presence in the North American market. With Zoom Phone, the company now offers a full suite of end-to-end business communications and a consistent experience across enterprise voice, video meetings, content collaboration, webinars, team chat with presence, and file sharing. The key factors driving Zoom's success include its visionary solution design, effective execution, high price/performance value, excellent customer purchase and ownership experiences and strong brand equity.

Strategy Effectiveness

Zoom made a name for itself as a nimble, highly innovative video conferencing provider. Its growth over the eight years since its founding has been nothing short of astounding. With 2018 revenue of $330.5 million, which represented 118 percent growth over 2017, and net profit of $7.6 million, Zoom is a growth leader in cloud communications. Consistently excellent historic performance combined with powerful vision and technology roadmap are the main reasons Zoom's 2019 initial public offering (IPO) was highly successful and resulted in the creation of a company with a market cap of over $19 billion.

With a keen eye on key market trends, Zoom acknowledges the importance of delivering a more comprehensive cloud communications stack, including enterprise IP telephony, to create stickier customer relationships. As a highly strategic investment, enterprise voice solutions tend to require stronger stakeholder buy-in and typically entail long-term commitments. Thus, the strategic launch of Zoom Phone, just months prior to the IPO, significantly boosted the provider's customer value and competitive power.

Differentiated from the start, Zoom Phone, a cloud private branch exchange (PBX), was envisioned as an essential part of Zoom's video-first market approach and services suite. It creates opportunities for the visionary provider to position its portfolio as a one-stop shop for businesses moving their entire communications capabilities to the cloud. It also creates upsell and cross-sell opportunities for Zoom as its video conferencing customers seek to streamline vendor relationships and consolidate their multiple cloud services into more tightly integrated communication suites. As of July 31, Zoom reported that it had approximately 66,300 customers with more than 10 employees. This vast and loyal customer base represents a considerable target market for the new Zoom Phone solution.

Furthermore, the new offering enables Zoom to tap into the rapidly growing and still underpenetrated hosted IP telephony and unified communications-as-a-service (UCaaS)

market. Frost & Sullivan expects the global UCaaS market to continue to expand at a compound annual growth rate (CAGR) of 22.5 percent until 2025 in terms of users and 17.6 percent in terms of provider revenue. Whether the provider leads with Zoom Meetings or Zoom Phone, it is likely to enjoy strong pull-through across its cloud services. It is also likely to more effectively expand upmarket with its more robust cloud services portfolio. Overall, Zoom Phone represents an important pillar of Zoom's growth strategy going forward.

Strategy Execution

Zoom's impressive growth since its inception is evidence of its ability to effectively deliver compelling solutions that address unmet customer needs. From solution design to packaging and pricing, Zoom has identified a winning formula to successfully position its intuitive and easy-to-use, yet robust Zoom Meetings solution in the market. Free, professional, small and medium-size business (SMB) and enterprise solution bundles, priced according to features and capacity included in each, have resonated well among customers of varying size, industry and technology profile. In fact, Zoom has become highly popular among the full customer spectrum—from consumers to public sector, to large enterprises. Strategic partnerships with various service providers and creative marketing have also been key drivers of Zoom's growth and broad-reaching appeal.

The provider's Zoom Phone strategy is proving just as effective as its Zoom Meetings' approach. Within only a year of its launch, Zoom Phone has garnered a user base that other providers have struggled to achieve within a decade of service availability. Earlier in 2019, Zoom announced some very large deployments (one customer with more than 10,000 seats). As anticipated, Zoom Meetings is creating a strong pull-through for Zoom Phone among existing accounts, which represent a significant majority of Zoom Phone's current users. However, the provider has also acquired net new logos with the Zoom Phone offering. We estimate that 10 to 20 percent of total Zoom Phone customer accounts are net new to Zoom, creating further sales opportunities for its already well-established portfolio of communication services including Zoom Meetings, Zoom Rooms and Zoom Webinar.

With a rapidly expanding feature set and geographic presence, Zoom Phone has already established itself as a strong contender in the hosted IP telephony and UCaaS market. At the rate with which Zoom is releasing new features (5 major releases to date), Zoom Phone is quickly approaching parity with some of the most advanced solutions in the industry. Zoom has also quickly expanded the solution's geographic availability to include Australia, Canada, Ireland, Puerto Rico, United Kingdom, and the United States. More countries are slated for launch either later this year or early next year.

As Millennials, Generation Z and younger generations begin to dominate the workforce, video-enabled, collaboration-centric cloud services will become the solution of choice for many businesses. Furthermore, more organizations increasingly acknowledge the need to foster highly collaborative cultures to more effectively align internal stakeholders and deliver greater customer value. With a compelling and continually expanding feature set, broad geographic availability, expanding service provider partnerships and the impending

launch of a new reseller channel program, Zoom Phone is well positioned to experience accelerated growth in 2020 and beyond.

Competitive Differentiation

With Zoom Phone, the provider remains loyal to several key differentiators and main tenets of its competitive strategy in the meetings space—delighting users with excellent communications and collaboration experiences and delivering high-quality video-centric solutions. Built on the same platform and vision as Zoom Meetings, Zoom Phone inherits the same robust service performance in terms of audio quality, service uptime, integration flexibility, scalability, ease of use and more.

Unlike competitive solutions, Zoom Phone leverages a platform designed to effectively support the most demanding real-time communications application—video—which not only ensures higher-quality voice, but also enables Zoom to integrate and bundle Zoom Phone with rich conferencing and collaboration services from the start. In comparison, many of the more established hosted IP telephony and UCaaS providers launched with plain-vanilla cloud PBX offerings and only later enhanced their portfolios with video and web conferencing capabilities.

Also unlike most competitors, Zoom uses the same proprietary technology stack to deliver PBX, messaging and conferencing services. Many hosted IP telephony and UCaaS providers use third-party platforms for either all or some of the services in their portfolios. Owning the technology stack enables Zoom to innovate more flexibly and promptly address evolving customer and partner needs, deliver services more cost-effectively and more tightly integrate functionalities in comprehensive services suites.

However, Zoom's main strength and differentiator remains its ease of use. With users already addicted to the simplicity of Zoom Meetings, adding PBX features and public switched telephone network (PSTN) calling to the familiar user interface is the most effective way to extend the same quality of user experience to a new array of services options.

Price/Performance Value

Zoom packs considerable value in its different service bundles. All bundles provide access to video, meetings, chat, and free internal calling. The Basic seat license provides all these services along with one voice line extension, voicemail (with transcription) and up to four connected devices free of charge. The Pro, Business and Enterprise seat licenses also include call recording, automatic call distribution, and call queues are offered at $15 to $20 per user per month. Customers can select their calling plans separately to enable external (PSTN) calling. Metered and unlimited (local and domestic long-distance calling) options are available at competitive per-minute or monthly fees. Alternatively, Zoom also allows customers to enable PSTN calling via any 3rd party carrier via their "Bring Your Own Carrier" capabilities.

Compared to other feature-rich UCaaS offerings, often priced at $30 per user per month and higher, Zoom offers a competitive alternative. Customers can adopt Zoom's broad

UCaaS feature set at prices starting as low as $15 per user per month for an unlimited calling plan and a free extension with the Basic seat license. Compared to low-cost offerings, Zoom Phone provides more advanced features, including its leading video conferencing services.

Over the past year, Zoom has significantly enhanced Zoom Phone with highly demanded features, such as shared line appearances, automated voicemail speech-to-text transcription, call flip and auto attendant/auto receptionist, intelligent call routing and call queues, in addition to essential features such as call transfer, call hold, visual voicemail, desktop and mobile apps and more. Zoom also enabled the following: ability to elevate calls to meetings, integrate Zoom Phone with Salesforce and third-party (i.e., Twilio and Five9) contact center, support for more than 50 devices (including desktop and digital enhanced cordless telecommunications (DECT) phones, conferencing devices, etc.), ability to bring a third-party session initiation protocol (SIP) trunking provider, and E911 notifications. Zoom also enhanced its architecture to support an active-active design and thus ensure greater service reliability.

Zoom's plans for the rest of 2019 include additional enhancements with a focus on scalability and manageability, support for global dial plans in hybrid environments with third-party PBXs, and dynamic E911. With a strong stream of feature and capability enhancements and competitive prices, Zoom Phone customers are likely to receive ever-greater value for their money.

Customer Purchase and Ownership Experiences

Zoom provides a variety of service options to address specific customer requirements with the right feature set, at the right price. Existing Zoom Meetings customers can easily trial Zoom Phone with the Basic package either for free, using internal calling only, or for the price of a metered or unlimited calling plan. Zoom Phone can co-exist with third-party PBXs whereby users can use the Zoom Phone client to make and receive calls through the PBX.

For businesses that have committed to replace their existing PBXs or competitor cloud services with Zoom Phone, Zoom offers several license tiers with varying features and capabilities. Zoom also differentiates from most other UCaaS providers with the option it provides to customers to bring their own SIP trunking provider. This option enables businesses to move to Zoom Phone while honoring existing SIP trunking contracts or select a new provider based on cost, brand, geographic presence or other criteria.

Zoom also strives to ensure an excellent ownership experience for Zoom Phone customers. Key factors that affect the user experience include service quality, reliability and security. Engineered for HD video, Zoom's platform also delivers high-quality voice. Many of Zoom's competitors struggle to deliver excellent voice quality, but stumble even more when it comes to video quality. Zoom provides financially backed service level agreements (SLAs) for 99.99 percent service uptime with the intent to soon raise the bar to 99.999. Active-active data center architecture is one of the factors enabling Zoom to avoid disruptive service downtime.

Zoom also understands the importance of security to businesses moving their communications and collaboration solutions to the cloud. Some of the methods it uses to ensure greater security include: TLS 1.2 authentication, SRTP for media encryption, private network peering with carrier partners and data encryption at rest.

In the future, Zoom customer purchase and ownership experiences are likely to further improve as it launches services in more countries, enabling local sales, support and SIP trunking options for businesses with multi-national presence. Architectural and feature enhancements will also contribute to an improved customer experience.

Brand Equity

Zoom's rise to stardom has been fast. In the process it has become a household name for consumers, prosumers and businesses. Free and freemium service options enabled the provider to spread a net wide and gain adoption among a highly diverse customer audience. Robust service quality, on the other hand, elevated its image among businesses with more stringent requirements. Zoom's creative marketing strategy has also been instrumental in boosting the provider's brand equity. More specifically, Zoom's logo and value proposition are often strategically displayed in public places, such as airports and train stations, promoting the benefits of using video conferencing to cut travel costs. With its expanded portfolio and continued focus on building brand strength, Zoom is likely to benefit from even greater visibility and more frequent consideration by businesses with varying communications and collaboration needs.

Conclusion

Zoom has taken the market by storm with its differentiated, video-centric UCaaS offering and highly effective execution. Nimble, innovative and loyal to its mantra of happy customers and excellent user experiences, Zoom is likely to continue to grow rapidly and gain market share.

For its strong overall performance, Zoom is recognized with Frost & Sullivan's 2019 Competitive Strategy Innovation and Leadership Award.

Significance of Competitive Strategy Innovation and Leadership

Any successful approach to achieving top-line growth must take into account what competitors are and are not doing; meet customer demand with a comprehensive, value-driven product or service portfolio; and establish a brand that resonates deeply with customers and stands apart from other providers. Companies must succeed in these 3 areas—brand, demand, and positioning—to achieve best-practice levels in competitive strategy.

Understanding Competitive Strategy Innovation and Leadership

Driving demand, brand strength, and competitive differentiation play critical roles in delivering unique value to customers. This three-fold focus, however, must ideally be complemented by an equally rigorous focus on Strategy Innovation and Customer Impact.

Key Benchmarking Criteria

For the Competitive Strategy Innovation and Leadership Award, Frost & Sullivan analysts independently evaluated Strategy Innovation and Customer Impact according to the criteria identified below.

Strategy Innovation

Criterion 1: Strategy Effectiveness
Requirement: Strategy effectively balances short-term performance needs with long-term aspirations and vision for the company.

Criterion 2: Strategy Execution
Requirement: Adoption of best-in-class processes supports the efficient and consistent implementation of business strategy.

Criterion 3: Competitive Differentiation
Requirement: Unique competitive advantages with regard to solution or product are clearly articulated and well accepted in the industry.

Criterion 4: Executive Team Alignment
Requirement: The executive team is aligned with the organization's mission, vision, strategy, and execution.

Criterion 5: Stakeholder Integration
Requirement: Strategy reflects the needs or circumstances of all industry stakeholders, including competitors, customers, investors, and employees.

Customer Impact

Criterion 1: Price/Performance Value
Requirement: Products or services offer the best value for the price, compared to similar offerings in the market.

Criterion 2: Customer Purchase Experience
Requirement: Customers feel they are buying the optimal solution that addresses both their unique needs and their unique constraints.

Criterion 3: Customer Ownership Experience
Requirement: Customers are proud to own the company's product or service and have a positive experience throughout the life of the product or service.

Criterion 4: Customer Service Experience
Requirement: Customer service is accessible, fast, stress-free, and of high quality.

Criterion 5: Brand Equity
Requirement: Customers have a positive view of the brand and exhibit high brand loyalty.

Best Practices Recognition: 10 Steps to Researching, Identifying, and Recognizing Best Practices

Frost & Sullivan analysts follow a 10-step process to evaluate award candidates and assess their fit with select best practices criteria. The reputation and integrity of the awards are based on close adherence to this process.

STEP	OBJECTIVE	KEY ACTIVITIES	OUTPUT
1 **Monitor, target, and screen**	Identify Award recipient candidates from around the world	• Conduct in-depth industry research • Identify emerging industries • Scan multiple regions	Pipeline of candidates that potentially meet all best practices criteria
2 **Perform 360-degree research**	Perform comprehensive, 360-degree research on all candidates in the pipeline	• Interview thought leaders and industry practitioners • Assess candidates' fit with best practices criteria • Rank all candidates	Matrix positioning all candidates' performance relative to one another
3 **Invite thought leadership in best practices**	Perform in-depth examination of all candidates	• Confirm best practices criteria • Examine eligibility of all candidates • Identify any information gaps	Detailed profiles of all ranked candidates
4 **Initiate research director review**	Conduct an unbiased evaluation of all candidate profiles	• Brainstorm ranking options • Invite multiple perspectives on candidates' performance • Update candidate profiles	Final prioritization of all eligible candidates and companion best practices positioning paper
5 **Assemble panel of industry experts**	Present findings to an expert panel of industry thought leaders	• Share findings • Strengthen cases for candidate eligibility • Prioritize candidates	Refined list of prioritized award candidates
6 **Conduct global industry review**	Build consensus on award candidates' eligibility	• Hold global team meeting to review all candidates • Pressure-test fit with criteria • Confirm inclusion of all eligible candidates	Final list of eligible award candidates, representing success stories worldwide
7 **Perform quality check**	Develop official award consideration materials	• Perform final performance benchmarking activities • Write nominations • Perform quality review	High-quality, accurate, and creative presentation of nominees' successes
8 **Reconnect with panel of industry experts**	Finalize the selection of the best practices award recipient	• Review analysis with panel • Build consensus • Select recipient	Decision on which company performs best against all best practices criteria
9 **Communicate recognition**	Inform award recipient of recognition	• Present award to the CEO • Inspire the organization for continued success • Celebrate the recipient's performance	Announcement of award and plan for how recipient can use the award to enhance the brand
10 **Take strategic action**	Upon licensing, company may share award news with stakeholders and customers	• Coordinate media outreach • Design a marketing plan • Assess award's role in strategic planning	Widespread awareness of recipient's award status among investors, media personnel, and employees

The Intersection between 360-Degree Research and Best Practices Awards

Research Methodology

Frost & Sullivan's 360-degree research methodology represents the analytical rigor of the research process. It offers a 360-degree view of industry challenges, trends, and issues by integrating all 7 of Frost & Sullivan's research methodologies. Too often, companies make important growth decisions based on a narrow understanding of their environment, resulting in errors of both omission and commission. Successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. The integration of these research disciplines into the 360-degree research methodology provides an evaluation platform for benchmarking industry participants and for identifying those performing at best-in-class levels.

360-DEGREE RESEARCH: SEEING ORDER IN THE CHAOS

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, helps clients accelerate growth and achieve best in class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's growth team with disciplined research and best practices models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages nearly 60 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from 45 offices on 6 continents. To join Frost & Sullivan's Growth Partnership, visit http://www.frost.com.