

FROST & SULLIVAN

BEST PRACTICES

AWARDS

FROST & SULLIVAN

2020 BEST PRACTICES AWARD

Telefonica

**2020 EUROPEAN HOSTED IP
TELEPHONY AND UCAAS COMPETITIVE
STRATEGY INNOVATION AND LEADERSHIP AWARD**

Contents

Background and Company Performance	3
Industry Challenges	4
<i>Strategy Innovation and Customer Impact</i>	4
<i>Conclusion</i>	8
Significance of Competitive Strategy Innovation and Leadership	9
Understanding Competitive Strategy Innovation and Leadership	9
<i>Key Benchmarking Criteria</i>	11
Best Practices Recognition: 10 Steps to Researching, Identifying, and Recognizing Best Practices.....	12
The Intersection between 360-Degree Research and Best Practices Awards.....	13
<i>Research Methodology</i>	13
About Frost & Sullivan	13

Background and Company Performance

Industry Challenges

Businesses increasingly embrace digital transformation to address rapidly shifting customer and employee demands, comply with evolving regulatory requirements, and combat rising competition in their respective industries. Whether as part of carefully planned transformation strategies or in a more reactive fashion, businesses are adopting digital technologies, such as cloud computing, anything as a service (XaaS), Internet of things (IoT), artificial intelligence (AI), advanced mobility, blockchain and more, to become more agile and accelerate growth. In a 2019 Frost & Sullivan survey, 80.4 percent of European IT/telecom investment decision makers and influencers identified their organizations as ahead of or on track with others in their industry in terms of carrying out digital transformation projects. Greater customer satisfaction rates and cost savings, selected by 46.7 percent and 44.4 percent of respondents, respectively, top the list of goals European businesses are pursuing with their digital transformation initiatives. Improving the customer experience, selected by 37.0 percent of respondents, ranks the highest among technology investment drivers. Boosting employee creativity and innovation, and attracting and retaining talent were also selected by a considerable number of decision makers—30.2 percent and 21.9 percent respectively.

Forward-looking technology investment decision makers acknowledge that communications and collaboration solutions are the lifeblood of their organizations. Therefore, many are ensuring that communications and collaboration solutions upgrades represent a key part of their digital transformation projects. That is why more than one-half—54.7 percent of survey respondents—report that their organizations plan to increase their communications and collaboration technology investments in 2020 and 2021.

The majority of businesses worldwide are also moving various software workloads—including telephony, messaging and conferencing tools—to the cloud to address a variety of business challenges. In a different 2019 Frost & Sullivan survey of 1,266 global IT/telecom decision makers, 71.5 percent of respondents have either moved or plan to move parts or all of their enterprise telephony to the cloud by 2021. A similar percentage of respondents have moved or plan to move their instant messaging and web and video conferencing solutions to the cloud by 2021. Key factors driving decisions to move workloads to the cloud include: the ability to free-up IT staff to focus on innovating for their business, increase app availability/uptime and deliver services and applications faster.

The COVID-19 epidemic introduced a new dimension to business technology decision making in the first half of 2020. The need to respond promptly to the fast-spreading epidemic and comply with government and organizational social distancing mandates reinforced the value of operational agility and flexible technology consumption models. As businesses around the world scrambled to enable remote working for large proportions of their workforce, it became obvious that cloud communications and collaboration services provided the much-needed capabilities that are essential to maintain business operations and reasonable levels of worker productivity in the face of unforeseen market conditions.

Businesses in Spain were already well on their way to adopting hosted IP telephony and unified communications as a service (UCaaS) by 2019. With over 3 million installed users, the Spanish market is ahead of most European countries, partly due to considerable customer awareness of cloud communications benefits and partly due to the availability of compelling solutions from both domestic and international providers. Spain was particularly hard-hit by the COVID-19 epidemic, which forced many businesses to transition to remote work practices on very short notice and speedily carry out various digital transformation initiatives, including the adoption of advanced cloud-based services, that had often been delayed for years before the crisis. Providers have responded to the unprecedented circumstances with free trials, extended payment terms and other promotional offers to help customers in need.

Provider solutions and strategies vary in terms of the benefits they provide to businesses of different size and industry. The provider that earns Frost & Sullivan's competitive strategy innovation and leadership award excels among competitors with its innovative solutions and sound businesses strategies. Such a provider has demonstrated robust growth in the past year and embraces a vision that will enable lasting success in the future.

Strategy Innovation and Customer Impact

Telefonica stands out among providers with its diversified hosted IP telephony and UCaaS portfolio, which addresses a broad spectrum of business requirements, and its commitment to continued innovation. A pioneer in the global hosted IP telephony and UCaaS market, Telefonica has earned customers' trust both domestically, in Spain, and globally, across regions and countries.

Strategy Effectiveness

Telefonica's hosted IP telephony and UCaaS strategy focuses on delivering feature-rich, reliable, scalable and secure solutions for businesses looking to outsource their communications capabilities from a trusted services provider. Telefonica was among the first telecom operators to launch a hosted IP telephony solution more than a decade ago, which gave the provider an important first-mover advantage. Since then, Telefonica has significantly expanded and enhanced its portfolio capitalizing on rapidly evolving technologies to deliver ever-greater customer value. Telefonica's successful strategy has been determined by both its effective leverage of partner technologies and keen focus on unique customer needs across business sizes.

Industry-leading technologies from key partners such as Alcatel-Lucent Enterprise (ALE), BroadSoft (now part of Cisco), Cisco, Microsoft, Unify and others enable Telefonica to compete effectively in the evolving cloud communications market. Varying platform capabilities in terms of functionality, scalability and security allow the provider to address diverse customer requirements.

Telefonica's broad hosted IP telephony and UCaaS portfolio includes:

- Movistar Fusion Empresas, a cloud PBX bundled with fixed-line and mobile services, leveraging Cisco BroadWorks and Unify OpenScape Cloud technology, positioned for the Spanish market
- Centrex IP, a UCaaS solution leveraging Cisco BroadWorks
- Hosted Corporate IP, a robust enterprise solution based primarily on the Cisco HCS platform, but also providing the option to use ALE or Unify technologies
- FlexUSER, a packaged offer for larger customers, that includes Cloud PBX, UCaaS, fixed-line and mobiles services

From Movistar Fusion Empresas, tailored for small offices/home offices (SOHOs) and businesses with a highly mobile workforce, to Centrex IP designed for the midmarket, flexUSER delivering the benefits of a packaged offer to larger businesses, and Hosted Corporate IP providing a customizable solution to large businesses with complex IT environments, Telefonica's portfolio is uniquely positioned among Spanish and global providers.

Unlike competitors who typically focus on a single customer segment or position the same solution for different customer segments, Telefonica aims to provide tailored solutions to businesses of different size and technology requirements. Telefonica's hosted IP telephony and UCaaS solutions are complemented by the provider's broader portfolio of fixed-line and mobile connectivity services, session initiation protocol (SIP) trunking, cloud contact center, productivity solutions (such as Microsoft 365), IoT and more. Telefonica continually evolves its portfolio with new services, enhancements to existing solutions, or adjustments to its services packaging and pricing to appropriately address customer needs.

Price/Performance Value, Customer Purchase and Ownership Experiences

Businesses can choose a cloud communications solution from Telefonica based on multiple criteria including functionality, security, customization capabilities, existing technology investments and IT expertise. Telefonica applies a consultative approach to cloud communications solutions sales, especially in the mid-market and enterprise customer segments. Based on discussions with customers and a thorough understanding of their needs, Telefonica recommends and designs a solution anchored by the platform that best fits each specific customer.

The underlying technology is typically transparent to the customer, particularly in the SMB segment. In larger organizations, customers frequently choose a vendor or technology that offers protection for existing investments. For example, for a customer with substantial Cisco infrastructure a Cisco HCS-based solution provides the best investment protection and a smoother migration path to the cloud. Such businesses can re-use existing Cisco phone terminals, gateways and SBCs, and deploy hybrid architectures either as a temporary or long-term solution. Leveraging existing technology skills also reduces the cost of IT admin and/or end-user training.

Telefonica's hosted IP telephony and UCaaS solutions are packaged and priced to appeal to specific target customer audiences. In line with purchase preferences among SOHOs and micro-businesses, Movistar Fusion Empresas is sold as a bundled offering, including a cloud PBX, Internet access, a fixed line, and a mobile voice and data plan. It comes with a standard feature set at a fixed monthly fee, which makes it easy for customers to compare solutions prior to signing up and budget more accurately once they purchase the solution.

Prices start at 101€/month and change based on number of lines. Other more economical options are available, depending on the broadband connectivity type: fibre to the home (FTTH) from 65€/month and ADSL (30€/month). A Cloud PBX alone is priced at 14€/line/month.

Promotional offers are available that can significantly lower pricing to make the service even more attractive. For example, as of May 2020, Movistar Fusion Empresas can be purchased for as little as 71€/month as the price for unlimited data on the mobile line has been reduced from 50€ to 31€. For the additional price of 4€/line/month customers can add UC features (such as presence, chat or conferencing) to their service.

Telefonica has a simple process for businesses to purchase Movistar Fusion Empresas. An online calculator tool enables businesses to select the important parameters—such as number of users and type of plans—to design their solutions.

Telefonica's Centrex IP offering is aimed at mid-market and enterprise organizations, which typically seek greater pricing customization. It provides a similar overall feature set as Movistar Fusion Empresas; however, user licenses can vary in terms of features and price based on user job function or specific needs.

Telefonica's strategy for large corporate accounts is to provide them with a tailored solution—using their vendor technology of choice, with customized features and prices. Telefonica's Hosted Corporate IP offering can leverage a broad range of vendor technologies, including ALE, Cisco, Microsoft or Unify. The platforms Telefonica leverages in this customer segment enable the provider and its customers to customize the solutions' feature set, price, billing (e.g., by department) and other settings to meet diverse requirements by user, department, location or organization.

Telefonica's mid-term commercial strategy will focus on promoting the bundled flexUSER solution as the reference offer for larger customers, replicating same customer success accomplished with Fusion Empresas for the mid-market.

From a technology perspective, Telefonica also plans to launch a cloud communications solution over VoLTE, which will enable businesses to provision mobile endpoints on the cloud PBX similarly to fixed-line IP endpoints. Thus businesses will be able to manage the entire solution, including mobile and fixed-line users and endpoints, as one.

Telefonica aims to provide holistic solutions to corporate customers by bundling its communications services with productivity, business and other applications, as well as security solutions and more, to deliver a complete digital user experience. Furthermore, Telefonica provides extensive implementation and solution lifecycle support to businesses.

Overall, Telefonica's hosted IP telephony and UCaaS solutions are competitively packaged and priced, and properly positioned to effectively serve the different customer segments in Spain and other countries where Telefonica provides services.

Strategy Execution

With more than 1 million hosted IP telephony and UCaaS installed users across its various solutions and European countries at the end of 2019, Telefonica is one of the leading cloud communications providers not only in Spain, but in all of Europe. Its strong growth over the years is a powerful testament to its strategy effectiveness and execution. Movistar Fusion Empresas, one of the earliest cloud PBX solutions, has reached 500,000 users due to its compelling value proposition for SOHOs, micro-businesses and mobile professionals. Telefonica's new Centrex IP and Corporate Hosted IP solutions have also proven highly effective and have experienced over 140 percent growth over the past two years.

With significant presence in the UK and Germany, and ability to support users in other countries as well, Telefonica can capitalize on untapped growth opportunities beyond its domestic Spanish market. It can more effectively serve Spain-based multi-national corporations, as well as capture demand among businesses with domestic presence in other countries. Telefonica's global footprint, combined with local resources in multiple countries, enables the provider to scale its operations while delivering better customer support through local resources. Channel partners in the different world theaters help custom-tailor Telefonica's cloud solutions and assist with implementation, integration and ongoing management.

In addition, Telefonica has made significant investments in its internal customer support resources. It uses global, regional and local teams of solutions and innovation managers, as well as account, service and project managers to provide extensive support for its multinational customers. Telefonica is focusing on further standardizing, consolidating and enhancing its global account management capabilities and internal processes to provide homogenous services to large enterprise customers across its entire footprint.

In 2020, as the COVID-19 epidemic struck Spain and most of the world, Telefonica was quick to respond with appropriate measures. As people sheltered in their homes to practice social distancing, Telefonica stepped up to help them stay connected with family and business associates using a variety of services and technology tools. More specifically, Telefonica reported increased demand for its connectivity, secure remote access and collaboration solutions. Many companies, particularly in the SMB segment, were lacking effective collaboration or teleworking tools, and needed to make purchase decisions and deploy these tools rapidly, yet securely and cost-effectively.

To ensure that businesses and consumers are well informed about various services and deploy the solutions that provide the best fit for their specific use cases, Telefonica staff is engaging with customers to educate them how different products can support their changing needs. Telefonica sales, engineers, and customer service and support staff is providing expert advice and assistance to ensure successful services implementation and adoption.

Telefonica also reinforced its capabilities to ensure business continuity and connectivity within customer organizations experiencing spikes in remote work. The provider has responded to dramatically increased demand for its Virtual Remote Access and Virtual Firewall products.

Assuming the role of a mission-critical utility, Telefonica is leveraging social networks, such as Twitter and LinkedIn, to share useful information with businesses including teleworking tips, online training for collaboration tools usage and other related subject matters.

Other COVID-19-related Telefonica initiatives included:

- An increase, at no additional cost, of the bandwidth available to Fusion and Movistar mobile customers with an additional 50 GB/line/month every month, until June 17, 2020
- Telefonica entertainment services, particularly those related to children and sports content, are offered free of charge for a month to both customers and non-customers through the Movistar + Lite application
- Movistar Junior app is available to Fusion customers, free of charge, with special content for children

Telefonica's history over the years demonstrates its ability to execute under a variety of economic and competitive circumstances. It has maintained a strong market share and remained at the forefront of innovation despite challenges and adversity owing to its unwavering commitment to customer value.

Competitive Differentiation

Network ownership and a vast portfolio of services differentiate Telefonica from smaller, typically next-generation providers offering hosted IP telephony and UCaaS services in Europe. The ability to offer connectivity, security, IoT, productivity and other services in addition to cloud communications and collaboration solutions delivers the benefits of a one-stop shop to many organizations with complex and diverse technology needs. Professional, maintenance and managed services expertise also enables Telefonica to better handle customer onboarding, solution lifecycle management, as well as more complex customization and integration requirements.

Telefonica also stands out among large telecom operators. Unlike most hosted IP telephony and UCaaS carriers, Telefonica owns both fixed-line and mobile communications networks in Spain and Germany, (and soon in the UK, as well, via the recent agreement with Liberty Global), which enables it to deliver fixed-mobile convergence as well as compelling services bundles. Telefonica's roadmap envisions the launch of truly converged UCaaS solutions in the future that will enable businesses to support both mobile and fixed-line endpoints as cloud PBX extensions. This capability will provide unique value to organizations with a mixed—desk-bound and mobile—workforce.

Unlike many competitors, Telefonica leverages multiple vendor technologies to create solutions for different business sizes and requirements. Many hosted IP telephony

providers have traditionally standardized on a single platform and focused on a single customer segment. Telefonica is uniquely positioned to serve a broad customer spectrum as well as better align with shifting customer requirements throughout their different growth stages. Going forward, small businesses and large enterprises will continue to differ in terms of functionality, service reliability, price and other requirements. Very small businesses are likely to trade advanced functionality for lower cost, simplicity and ease of use. Larger businesses, on the other hand, value security, an advanced feature set and greater flexibility to customize their telephony and UCaaS solutions, and integrate them with other platforms and applications. They are likely to choose architectures that enable feature customization as well as customized billing by department or location. They are also more likely to demand more advanced capabilities such as video or web collaboration in order to more effectively connect geographically dispersed teams and employees. Consistently different customer preferences will require a broader portfolio, such as Telefonica's, to efficiently and effectively serve the different customer segments.

Brand Equity

Telefonica's long track record in the communications market, vast portfolio and large geographic footprint has earned it the reputation as a reliable provider of high-quality voice, data and video solutions. Its unwavering commitment to product and services innovation, continued network enhancement and strong partnerships instill confidence in businesses of any size and vertical industry. In the cloud communications market, where many providers have limited resources and poor financial performance, Telefonica's overall company stability and strong performance metrics make it a preferred partner for businesses looking for long-term partnerships to participate in their business transformation initiatives.

Telefonica was also recently ranked as the highest-valued European telecom operator by Forbes magazine. It also ranked fourth in the global industry, only behind AT&T, Verizon and Softbank Group.

Conclusion

Through an effective strategy, excellent execution, competitive differentiation, compelling price/performance value, great customer purchase and ownership experiences and a strong brand Telefonica has earned a position among the top three cloud communications providers in Europe.

With its strong overall performance, Telefonica has been nominated for Frost & Sullivan's 2020 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
- Criterion 2: Strategy Execution
- Criterion 3: Competitive Differentiation
- Criterion 4: Executive Team Alignment
- Criterion 5: Stakeholder Integration

Customer Impact

- Criterion 1: Price/Performance Value
- Criterion 2: Customer Purchase Experience
- Criterion 3: Customer Ownership Experience
- Criterion 4: Customer Service Experience
- Criterion 5: Brand Equity

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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Announce 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	<ul style="list-style-type: none"> • 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.



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>.