

Gartner Magic Quadrant for Unified Communications for Midsize Enterprises, North America

May 2015

In May 2015, Gartner, Inc. published its first 2015 Magic Quadrant (“MQ”) for Unified Communications for Midsize Enterprises, North America. The report, which replaces the Midsize Enterprises MarketScope, included ten vendors. ShoreTel was one of four vendors that were ranked as a “Leader”.

A copy of the report can be downloaded here: <http://www.gartner.com/reprints/vol-3?id=1-2EJZHS3&ct=150506&st=sb>

Understanding Gartner Magic Quadrants:

- Magic Quadrants have two axes:
 - Ability to Execute (Y-Axis): Summarizes factors including product/service offering, financial viability, sales execution/pricing, market responsiveness, marketing execution, customer experience and operations.
 - Completeness of Vision (X-Axis): Summarizes factors including market understanding, marketing strategy, sales strategy, offering (product) strategy, vertical/industry strategy, innovation and geographic strategy.
- The Magic Quadrant is divided into four quadrants (left to right, top down): “Challengers”, “Leaders”, “Niche Players”, “Visionaries”. Vendors with above average ratings for both “Ability to Execute” and “Completeness of Vision” axes appear in the “Leaders” quadrant, while vendors with below-average ratings on both axes appear in the “Niche Players” quadrant.

Figure 1. Magic Quadrant for Unified Communications for Midsize Enterprises, North America



Source: Gartner (May 2015)

How to use Gartner’s Magic Quadrant:

- ShoreTel’s inclusion as a “Leader” in Gartner’s Magic Quadrant for Unified Communications for Midsize Enterprises, North America provides valuable validation of ShoreTel’s product and market strategy (especially to the midmarket defined in this document as companies with 100-1000 employees, ShoreTel’s sweet spot), as well as ShoreTel’s world-class partner program (unlike other UC MQs, this one focuses attention on the channel for its unique role with midmarket customers).
- However, it is important to explain to prospective customers that Gartner’s rating on “Ability to Execute” and “Completeness of Vision” axes should not be the only criteria that is used when making a purchasing decision.
- The following sections provide a summary of Gartner’s Magic Quadrant report by vendor, along with ShoreTel Comments that can be used to further communicate the value of ShoreTel solutions against our competitors.

ShoreTel

- **Magic Quadrant Ranking:**

- Gartner's evaluation focused on ShoreTel 14.2. Gartner's analysis did not incorporate the new functionality that will be available in ShoreTel Connect.
- ShoreTel is ranked as a "Leader".
- ShoreTel's "Ability to Execute" rating is the fourth-highest among the ten vendors included in the study.
- ShoreTel's "Completeness of Vision" rating is the fifth-highest among the ten vendors included in the study.
- Gartner notes the following "Strengths" for ShoreTel:
 - ShoreTel is consistently praised by clients for being easy to use, easy to manage, and involving a straightforward implementation process.
 - ShoreTel is expanding its integration with third party providers.
 - ShoreTel has a strong base of North American channel partners with broad coverage across vertical industries.
 - ShoreTel has a solid channel partner program in place to support its partner base, including both two-tier and non-tiered support.
 - ShoreTel partners report that the company is easy to do business with.
- Gartner notes the following "Cautions" for ShoreTel:
 - ShoreTel has been slow to release its new multitenant platform for cloud, premises and hybrid deployments with a common client.
 - The (current, older) ShoreTel solution is not as feature-rich as some competitors.
 - ShoreTel has fewer resources to leverage, compared to some of its largest competitors.

- **ShoreTel Comments:**

- Gartner's "Caution" about the feature-richness of ShoreTel solutions was directed at ShoreTel 14.2. With ShoreTel Connect, we offer a solution that meets or exceeds the feature-richness of any competitor included in this report.
- Gartner's Magic Quadrant validates ShoreTel's focus on providing customers with Brilliantly Simple unified communications solutions.
- Gartner's observations about the low cost to deploy and manage ShoreTel solutions aligns with other studies from independent, industry analysts such as Nemertes Research.¹
- Gartner's research underscores the work that ShoreTel has done to build a world-class partner program.
- ShoreTel is on schedule to release ShoreTel Connect in the September quarter of 2015. ShoreTel has already introduced ShoreTel Connect to its partners in May 2015, and these partners are now able to begin to develop pipeline for the new platform.
- ShoreTel Connect is the only platform that supports cloud, premises and hybrid deployment models, while providing customers with four, simple models for hybrid deployments. The unprecedented flexibility of the ShoreTel Connect platform is more than enough justification for the time that it took to develop the platform.
- Although ShoreTel is smaller than many of its competitors, ShoreTel is the only company included in the study that focuses all of its resources and development efforts on a single platform. ShoreTel competitors offer multiple platforms and products, which dilute their focus and resources.
- ShoreTel focuses on the small to medium-sized business market. ShoreTel has nearly two decades of experience in this market, and our customers benefit from this expertise. ShoreTel customers can be confident that we will continue to invest all of our resources to serving the small to medium-sized business market today and tomorrow. Many of ShoreTel's competitors focus on a broad range of market segments. These competitors lack ShoreTel's experience in the small to medium-sized business market, as well as ShoreTel's vision of providing its customers with simplicity and flexibility.
- ShoreTel generated record revenue in fiscal 2014, and last month ShoreTel reported its eighth consecutive quarter of positive non-GAAP net income. ShoreTel achieved both of these metrics without a single cent of debt on its balance sheet. Additionally, ShoreTel has a \$100 million line of credit, which

¹ <http://www.nojitter.com/post/240169715/shoretel-avaya-microsoft-offer-best-tco-for-ipt-uc>

provides the flexibility to make investments, if and when they are needed. Many of ShoreTel's competitors are unable to offer the financial stability of ShoreTel.

Avaya

- **Magic Quadrant Ranking:**

- Avaya is ranked as a "Leader".
- Avaya's "Ability to Execute" rating is slightly higher than ShoreTel's
- Avaya's "Completeness of Vision" rating is nearly identical to ShoreTel's.
- Gartner's analysis of Avaya focuses only on IP Office and IP Office Select platforms.
- Gartner notes the following "Strengths" for Avaya:
 - Comprehensive UC and contact center portfolio.
 - Brand recognition and long operating history in North America.
 - Simplification of the IP Office suite.
- Gartner notes the following "Cautions" for Avaya:
 - Cost of customization and integration into third party applications.
 - Declining revenue.
 - A need to maintain consistency with its midmarket program.

- **ShoreTel Comments:**

- Avaya lacks focus. The company targets a broad range of markets, from SMBs to carriers, and offers products that range from telephony to networking products. Avaya has two overlapping solutions in the midmarket, with Aura and IP Office. Customers cannot be confident that Avaya will be able to maintain its focus on any one of these solutions.
- Avaya relies on third party server hardware for IP Office, and IP Office Primary and Secondary Servers must be deployed on identical server hardware. Avaya does not control the ongoing development of third party server hardware, and over the last two years Avaya has issued End of Sale/Life notices for some of its server hardware. Customers that invested in discontinued hardware face a costly migration path.
- The scalability of IP Office is limited to 2,500 users. Customers that outgrow IP Office will face a costly migration path to other Avaya solutions.
- Avaya lacks financial stability.
 - Avaya has nearly \$6 billion in debt, with only \$328 million in cash and cash equivalents.² \$2 billion of Avaya's debt will come due in 2017. Avaya's looming debt payments may force the company to make decisions in the interest of its creditors, not its customers.
 - Avaya's latest round of debt received a Caa1 rating from Moody's³, a leading provider of credit ratings for debt. The Caa1 rating indicates that Avaya's debt is high risk and speculative in nature. In the past, Moody's has assigned the Caa1 rating to debt from Pakistan (2012)⁴ and Greece (2015)⁵.

² <http://www.avaya.com/investors/usa/document/02-09-15%E2%80%9393avayaq1erfinal.pdf>

³ https://www.moody.com/research/Moodys-rates-Avaya-Exchange-Notes-Caa1--PR_265765

⁴ https://www.moody.com/research/Moodys-affirms-Pakistans-Caa1-rating-changes-outlook-to-positive--PR_320604

⁵ https://www.moody.com/research/Moodys-places-Greeces-Caa1-government-bond-rating-on-review-for--PR_317662

Cisco

- **Magic Quadrant Ranking:**
 - Cisco is ranked as a “Leader”.
 - Cisco’s “Ability to Execute” rating is substantially higher than ShoreTel’s, and the highest among all vendors included in the Magic Quadrant.
 - Cisco’s “Completeness of Vision” ranking is slightly higher than ShoreTel’s.
 - Gartner’s Magic Quadrant analysis focuses on Cisco’s Business Edition 6000 (BE6000) solution.
 - Gartner notes the following “Strengths” for Cisco:
 - Success with bundling hardware, licenses and a full suite of UC capabilities with the BE6000.
 - Significant base of Cisco channel partners.
 - Hybrid on-prem and cloud options with HCS.
 - Gartner notes the following “Cautions” for Cisco:
 - Complex configuration of advanced BE6000 capabilities, customization, and third-party systems integration.
 - Reduced negotiating leverage when using Cisco as a single provider for UC and data network.
 - Higher price than other midmarket competitors.
- **ShoreTel Comments**
 - Cisco’s strong “Ability to Execute” ranking can be attributed to its vast financial resources. However, Cisco’s resources are diluted across a broad portfolio of telephony, collaboration and networking products targeted at a wide range of customers, from SMBs to carriers. Cisco’s vast resources also allow the company to easily exit markets or discontinue products, as it did with UC300, UC500, BE3000 and BE5000 solutions.
 - Cisco has a history of abandoning products in the SMB space. In 2011, Cisco offered six solutions for the SMB to mid-market. Today, only one of those platforms (BE6000) is still offered. Customers that invested in the other five platforms face a complete loss of their investment.
 - Cisco has five platforms for the SMB to mid-market with the BE6000 (S/M/H) and BE7000 (M/H). Each platform supports a different capacity of users, and customers that outgrow one platform may face a forklift upgrade to a higher capacity, more expensive platform with features they may not want or need.
 - BE6000 is not a single UC platform – it is a collection of multiple, individual telephony and collaboration components. Telephony and collaboration tools are deployed on the BE6000 as separate virtual servers (e.g. Cisco Unified CM, Cisco Unity Connect, Cisco Jabber, Cisco Unified CCX, etc.), which in some cases are managed separately and have separate interfaces for end users, putting the onus on the customer to integrate a complicated solution and making it difficult to identify the source of problems when they occur.
 - Redundancy on the BE6000 requires a second, identical server. This doubles the hardware cost of the solution.
 - Gartner mentions Cisco’s hybrid strategy as a strength. However, Cisco does not offer a clear path to hybrid deployments with HCS. Cisco’s HCS solution is a service provider platform, which forces premises customers to work with a third party service provider. Many of these third party service provider partners are small firms with non-public financials, and relying on these companies can be risky.

Microsoft

- **Magic Quadrant Ranking:**
 - Microsoft is ranked as a “Visionary”.
 - Microsoft’s “Ability to Execute” ranking is substantially lower than ShoreTel’s.
 - Microsoft’s “Completeness of Vision” ranking is slightly more complete than ShoreTel’s.
 - Gartner’s analysis is focused on Skype for Business Server, which was previously known as Lync Server. Gartner also mentioned the service-based version of the solution called Skype for Business Online.
 - Gartner notes the following “Strengths” for Microsoft:
 - Integration between Skype for Business and the consumer-targeted Skype service.
 - Integration between Exchange and Skype for Business.
 - Strong brand recognition and growing base of certified channel partners.

- Gartner notes the following “Cautions” for Microsoft:
 - Cost and complexity of implementing Skype for Business Server.
 - Reliance on third party solutions.
 - Voice feature set that is not yet on par with legacy telephony solutions.
 - Subpar voice reliability, quality reported by users.
 - Microsoft’s main focus in the midmarket is on the Skype for Business service, not the Skype for Business Server solution.
- **ShoreTel Comments:**
 - Gartner’s analysis underscores the cost and complexity of deploying Skype for Business Server, as well as Microsoft’s subpar voice feature set and reliability.
 - Microsoft’s focus is divided between Skype for Business Online, and Skype for Business Server. To date, Microsoft has not yet fully announced the enterprise voice capabilities of Skype for Business Online. In the past, Microsoft has failed to deliver enterprise voice capabilities with Lync Online.
 - Microsoft has not announced hybrid capabilities with Skype for Business Online and Skype for Business Server. In the past, Microsoft announced hybrid capabilities between Lync Online and Lync Server, but quickly discontinued this functionality. Microsoft’s inability to execute its hybrid plans with Lync Online and Lync Server should be concerning for any customer that may require the flexibility of a hybrid solution.
 - Skype for Business Server requires servers to be deployed at multiple points in the network (Edge, Director, Front End, Back End). Each one of these servers creates a potential point of failure. Redundancy requires server pools to be deployed at each point in the network, and with a recommended minimum of three servers in a pool redundancy with Skype for Business Server can result in a 3x increase in hardware costs.
 - Skype for Business Server relies on Exchange for Unified Messaging features and Outlook for some UC features such as meetings. Companies without Exchange and/or Outlook will have an incomplete communications platform.

Mitel

- **Magic Quadrant Ranking:**
 - Mitel is ranked as a “Leader”.
 - Mitel’s “Ability to Execute” ranking is higher than ShoreTel’s.
 - Mitel’s “Completeness of Vision” ranking is higher than ShoreTel’s.
 - Gartner’s analysis focused on Mitel’s MiVoice Business, MiVoice Business Express, and MiCollab solutions.
 - Gartner notes the following “Strengths” for Mitel:
 - MiVoice and MiCollab provide a mature and comprehensive software suite with a common architecture that can be distributed or centralized.
 - Integration flexibility with Microsoft, Google or Salesforce, or to SIP trunking services.
 - Successful channel and rebranding initiatives.
 - Gartner notes the following “Cautions” for Mitel:
 - Some Mitel partners lack experience selling the full UC solution set.
 - Mitel’s UC licensing bundles can change regularly.
 - Mitel’s strategy of growth through acquisition can create integration challenges and can dilute the company’s resources.
- **ShoreTel Comments:**
 - Mitel’s strong “Ability to Execute” rating reflects the UC features provided by mature MiVoice Business and MiCollab solutions. However, Gartner’s rating does not reflect the complexity of deploying and managing MiVoice Business and MiCollab.
 - MiVoice Business and MiCollab solutions are deployed as separate solutions which must be integrated with each other using synchronization tools.

- MiVoice Business and MiCollab have separate databases, and components of each solution must be managed and maintained separately.
- End users access collaboration tools through separate interfaces, including multiple web portals and desktop clients.
- The apparent simplicity of MiVoice Business and MiCollab solutions is due primary to a rebranding effort by Mitel, which unified eleven separate platforms and applications under MiVoice and MiCollab brands. However this effort was largely cosmetic. Many MiVoice and MiCollab applications have separate administration and end user consoles, and some must be deployed individually.
- A “complete” MiVoice unified communications deployment requires five virtual servers in addition to MiVoice Business.
- Mitel’s strong “Completeness of Vision” rating reflects its willingness to use debt to increase market share and market coverage. However, this strategy is unsustainable, and has saddled Mitel with nearly \$800 million in debt and pension obligations. While Mitel’s “Completeness of Vision” has resulted in increased market share, Mitel customers will suffer from the company’s lack of focus and a dilution of resources across a crowded, incongruous product portfolio.
- Mitel has shifted its focus away from the midmarket and UC with the \$560 million acquisition of Mavenir Systems and focus on 4G LTE telephony services. Mitel’s midmarket customers should be concerned that Mitel is investing so heavily in the service provider market, while improvements to MiVoice Business and MiCollab solutions have been limited.
- Following its merger with Aastra, Mitel’s product portfolio includes fifteen separate platforms. For the foreseeable future, Mitel’s focus will be on consolidating this portfolio, rather than improving the experience of its customers.
- The financial stability of Mitel is uncertain.
 - Following its acquisition of Mavenir Systems, Mitel has nearly \$800 million in long term debt and pension obligations, compared to just \$70 million in cash and cash equivalents.^{6, 7}
 - Mitel’s latest round of debt, which was used to fund the Mavenir acquisition, was given a Ba3 rating by Moody’s.⁸ Moody’s Ba3 rating is used for non-investment grade debt that is considered to be speculative in nature. Countries including Nigeria⁹ and the Republic of the Congo¹⁰ have also received a Ba3 rating from Moody’s.
 - Put another way, Mitel has a market capitalization of roughly \$800 million and just paid over \$500 million in cash for Mavenir, significantly impacting the value of the company.
 - Mitel has struggled following its merger with Aastra. In Q1 2015, Mitel’s pro-forma revenue declined by 11% compared to the previous year.¹¹

⁶ <http://investor.mitel.com/releasedetail.cfm?ReleaseID=909405>

⁷ <http://investor.mitel.com/releasedetail.cfm?ReleaseID=898509>

⁸ <https://www.sec.gov/Archives/edgar/data/1170534/000119312515114289/d898635dex991.htm>

⁹ https://www.moody.com/research/Moodys-assigns-Ba3-ratings-to-Nigeria-stable-outlook--PR_258970

¹⁰ https://www.moody.com/research/Moodys-assigns-first-time-Ba3-rating-to-the-Republic-of--PR_283511

¹¹ <http://investor.mitel.com/releasedetail.cfm?ReleaseID=911594>