InfoTrack for Unified Communications

Impact of Microsoft Lync on the Enterprise Voice Market—2013

July 2013

A T3i Group Market Intelligence Program
Focused on Unified Communications

Enterprise and SMB Markets

| IP Telephony Systems | UC Applications | Converged Services |

T3iGroup LLC
InfoTrack for Unified Communications: Impact of Microsoft Lync on the Enterprise Voice Market—2013

A T3i Group Series of Primary Research Studies on the Market Demand for Unified Communications Infrastructure and Applications

T3i Group LLC
210 Malapardis Road
Cedar Knolls, New Jersey 07927
USA
www.InfoTrackResearch.com

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*For information on this report, or other T3iGroup products and services, please contact: Ken Dolsky at kdolsky@t3igroup.com, 973-602-0109*

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1. EXECUTIVE SUMMARY

How Have Plans to Trial Microsoft Lync Changed Since a Year Ago?

In February 2012, T3i Group published the first in-depth primary research and analysis of the potential impact of Microsoft Lync on the market for Enterprise Voice (EV) systems. That report framed the two opposing sides of the ongoing debate regarding Microsoft Lync:

- “Microsoft has the opportunity to dominate the UC market and take a significant share of the voice IP-PBX market via Lync”
- “Many businesses may be trialing Lync EV, but actual implementation of Lync will be mainly IM and Presence”

That report analyzed the implementation plans of more than 300 Enterprises and SMBs and concluded that Microsoft Lync should be recognized as a significant risk to incumbent IP-PBX vendors. For this 2013 study, we again surveyed over 300 IT and business leaders who are involved in the decision process regarding the adoption and usage of Lync. In this Executive Summary, we compare the results of these two studies.

Currently, 41% of U.S. Enterprises, companies with 500+ employees, were either conducting or had completed trials of Microsoft Lync. That was a significant increase compared to the 28% of U.S. Enterprises that were in that position a year ago. Only 6% of the Enterprises indicated they had no plans to trial Lync, down from 20% in last year’s study.

Among U.S. SMBs (Small/Medium Businesses with 5 to 499 employees), more than twice as many were either conducting or have completed trials of Microsoft Lync compared to a year ago, 29% vs. 14%. The percent of SMBs that had no plans to trial Microsoft Lync declined from 34% last year to 19% currently.

In both studies, 52% of Enterprises and SMBs were planning to conduct trials of Lync but no timeframe was specified.

Exhibit ES-1  Current Status of Microsoft Lync Trials vs. a Year Ago

Source: InfoTrack: End-user Primary Research, 1Q2013
Do the Trials of Microsoft Lync Include Enterprise Voice?

The previous exhibit indicated significant increased interest in Microsoft Lync as a potential platform for certain UC applications. The question, then, is whether that interest extends to voice. We asked the respondents that were trialing Lync whether Enterprise Voice was being included in their trials. With Enterprise Voice, Lync can provide the type of important telephony features that are generally available on existing IP-PBXs.

As shown in Exhibit ES-2, 76% of the U.S. Enterprises who are trialing Lync indicated that Enterprise Voice had been or will be included in their Lync trials. That represents a 10 point increase from 66% a year ago. Among U.S. SMBs, 54% said that their trials of Lync included Enterprise Voice, up from 47% last year.

Microsoft and its partners make it relatively easy to trial Lync with Enterprise Voice. Firms are provided Lync-certified SIP phones or softphones on a temporary basis and do not have to install Lync servers for the trials. That is one of the reasons why such a high percentage of trials include Enterprise Voice.

Exhibit ES-2  Microsoft Lync Trials that Include Enterprise Voice vs. a Year Ago

Source: InfoTrack: End-user Primary Research, 1Q2013
What Is the Anticipated Adoption Rate of Lync Enterprise Voice?

The decision-makers in this research were also asked about their plans for actually deploying Lync with Enterprise Voice (EV). Exhibit ES-3 depicts their responses.

59% of U.S. Enterprises were either currently deploying or planning to deploy Lync with Enterprise Voice beyond the trial stage, up from 45% a year ago. That includes 15% vs. 11% that were actually deploying, and 44% vs. 34% that were in the planning stages of deployment. 41% of the Enterprises were either waiting for the results of their trials before deciding whether to deploy Lync EV or had no plans to deploy. That represents a 14 point reduction in the percent of “Undecideds” or “No Plans” from last year. 21% of the U.S. Enterprises we surveyed indicated that they had no plans to implement Microsoft Lync Enterprise Voice.

The percent of SMBs that were actually deploying Lync EV beyond trials has tripled in the past year, increasing from 3% to 9%. 27% of SMBs were planning to deploy Lync with Enterprise Voice, up from 24% last year. 64% were either undecided, awaiting trial results or don’t plan to deploy, compared to 73% a year ago.

It is very significant that more than half of U.S. Enterprises had either begun to deploy Lync EV or planned to do so. This is the market segment in which Microsoft has traditionally developed the strongest relationships with IT decision-makers.

Exhibit ES-3  Current Plans for Deploying Lync with Enterprise Voice Beyond Trials vs. a Year Ago
Among all Entities
Why are Businesses Deploying Lync with Enterprise Voice?

We asked the decision-makers who were currently deploying Lync EV or planning to deploy to rank the top reasons for that decision. The results are shown in Exhibit ES-4.

The number one reason among both Enterprises and SMBs was that Lync Enterprise Voice’s total cost of ownership (TCO) is lower than PBX based solutions. This was also the top reason provided in last year’s survey responses. Microsoft prices Lync very attractively for firms that use other Microsoft applications. Licenses for access to Lync are bundled in the Enterprise CAL Suite with licenses of other popular Microsoft applications including Exchange, SharePoint and Windows. Firms who want to add Enterprise Voice can upgrade for an additional incremental charge. Microsoft’s Enterprise Agreement offers volume pricing discounts for licenses, as well.

The second reason Enterprises gave for moving to Lync Enterprise Voice was We have already adopted Microsoft Lync for IM and Presence. Among SMBs that was the 3rd most important reason, right behind We have already adopted Microsoft Lync for Web and Audio Conferencing. Among Enterprises, the third reason was Facilitates voice feature integration with other Microsoft applications. All of these reasons could be viewed as extensions to the lower TCO argument.

Ease of implementation and telephony system management was ranked 4th by SMBs and 6th among Enterprises. This is another example in which Microsoft has lowered the barriers of converting to Lync for Unified Communications and Enterprise Voice.

Lync Enterprise Voice has all the voice functionality we need was important to both Enterprises and SMBs. As noted in the body of this report, our research also asked about the performance of Enterprise Voice during Lync trials. 30% of the Enterprises involved in Lync trials responded that it exceeded their expectations and the other 70% stated that it met their expectations.

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<th>SMB</th>
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<tbody>
<tr>
<td>Total cost of ownership (hardware, software, service support) is lower than PBX based solutions</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>We have already adopted Microsoft Lync for IM and Presence</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>We have already adopted Microsoft Lync for Web and Audio Conferencing</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Facilitates voice feature integration with other Microsoft applications, e.g., Sharepoint, Exchange, Office</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Ease of implementation and telephony system management</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Lync Enterprise Voice has all the voice functionality we need</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
**Did Any Factors Not Meet Expectations During Deployment of Lync EV?**

The decision-makers that had already begun to deploy Lync with Enterprise Voice were also asked if there were any factors that did not measure up to their expectations. Interestingly, more than a quarter of the Enterprises and almost half of the SMBs that were currently deploying Lync EV responded that *Total Cost of Ownership (TCO) was NOT lower than PBX based solutions*. Obviously, those Enterprises and SMBs were not among the ones that ranked lower TCO as the number reason for deploying Lync EV. However, included in the decision-makers that ranked the reasons for deploying in Exhibit ES-4 above, were those just planning to deploy Lync EV. Exhibit ES-5 reflects only the views of companies that were already deploying.

Another factor that fell short of the expectations of this group of decision-makers was *Lync is NOT available as both a premises system and hosted service for complete Enterprise Voice*. Although Lync Online, which is Microsoft’s hosted version of Lync, does not currently support all of Enterprise Voice functionality, there are several Microsoft partners that offer a hosted Lync service that does include the full Enterprise Voice capability.

More than 10% of these decision-makers also felt that Lync EV did not meet their expectations for *facilitating voice feature integration with other Microsoft applications*. And almost as many decision-makers felt that *the Lync client is NOT superior to the user interface provided by other UC vendors*.

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**Exhibit ES-5  Factors that Fell Short of Expectations in Deploying Lync with Enterprise Voice**

*Among Companies Currently Deploying Lync with Enterprise Voice*

<table>
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<tr>
<th>Factor</th>
<th>Enterprise</th>
<th>SMB</th>
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<tr>
<td>Total cost of ownership (hardware, software, service support) is NOT lower than PBX based solutions</td>
<td>28%</td>
<td>49%</td>
</tr>
<tr>
<td>Lync does NOT facilitate voice feature integration with other Microsoft applications, e.g., Sharepoint, Exchange, Office</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>The Lync Client is NOT superior to the user interface provided by other UC vendors</td>
<td>17%</td>
<td>9%</td>
</tr>
<tr>
<td>Lync is NOT available as both a premises system and a hosted service for complete Enterprise Voice</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td>Lync does NOT provide ease of implementation and telephony system management</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Lync Enterprise Voice does NOT have all the voice functionality we need</td>
<td>11%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
How Extensively Are Firms Planning to Deploy Lync Enterprise Voice?

We asked the firms that were deploying or planned to deploy Lync Enterprise Voice to characterize the scope of their deployment from an array of five approaches that range from enabling selected individuals to full-scale global deployment. Among the current/future implementers in last year’s study, 38% of those Enterprises were planning a company-wide deployment of Lync Enterprise Voice that would cover either their U.S. operations (22%) or their entire global Enterprise (16%). Certainly, that could have a substantial impact on the PBX market both within the U.S. and globally. That represented 17% of all Enterprises that took part in last year’s study.

Now with another year of experience with Microsoft Lync under their belts, the percent of projected company-wide deployments among the current/future Enterprise implementers is now 32% (15% nationwide and 17% globally). Measured against a base of 59% of Enterprises currently or planning to deploy, that represents 19% of all Enterprises that participated in this year’s study.

32% of U.S. SMBs that are currently deploying or plan to deploy Lync Enterprise Voice expect nation-wide or global deployment. That is an increase from 26% of the SMBs in last year’s study. These SMBs planning company-wide deployment represent 12% of all SMBs that participated in this study, which is double the 6% of SMBs last year.

Overall 16% of the U.S. Enterprises and SMBs that participated in this study are planning broad implementation of Microsoft Lync Enterprise Voice, which is very significant considering that Lync has been in the market for less than three years.

Exhibit ES-6  Scope of Planned Deployment of Lync Enterprise Voice vs. a Year Ago
Among Current/Future Implementers

Source: InfoTrack: End-user Primary Research, 1Q2013
What is the Actual Penetration of Lync EV Licenses Among Employees of U.S. Enterprises?

To measure the penetration of Lync Enterprise Voice licenses that are actually in use in the U.S. Enterprise segment of the market, we asked the decision-makers the following series of questions about the number and status of their Lync licenses in the U.S.:

- How many total Lync licenses does your company have?
- Of those, how many are Plus CAL for Enterprise Voice?
- What % of those are in actual use by employees?
- What is your company’s total number of employees in the U.S.?

As noted earlier, Enterprises may have a number of Lync licenses that were bundled as part of Microsoft’s Enterprise CAL Suite of licenses. In this year’s study, the total Lync licenses represented 11% of their employees in the U.S., compared to 6% a year ago. 42% of those licenses were Plus CAL for Enterprise Voice, down somewhat from 50% last year. But the percent of Plus CAL licenses that had been activated for actual use was 54%, up from 46% a year ago.

These active Plus CAL licenses represent 2.5% of total Enterprise employees, a significant increase over the 1.4% from last year’s study.

Exhibit ES-7  Penetration of Lync EV Licenses in the Enterprise Segment of the Market vs. a Year Ago

<table>
<thead>
<tr>
<th></th>
<th>Lync licenses as % of total employees</th>
<th>Plus CAL as % of Lync licenses</th>
<th>% Plus CAL licenses in actual use</th>
<th>Lync Enterprise Voice licenses in use as % of total employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td></td>
<td></td>
<td></td>
<td>2.5%</td>
</tr>
<tr>
<td></td>
<td>11%</td>
<td>42%</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td><strong>A year ago</strong></td>
<td></td>
<td>50%</td>
<td>46%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
What is the Actual Penetration of Lync EV Licenses Among SMB Employees?

To measure the penetration of Lync Enterprise Voice licenses that are actually in use in the U.S. SMB market, we used the same methodology that was described on the preceding page and applied it to the responses of the SMB participants in this year’s survey.

The total Lync licenses among the SMBs this year represented 11% of their employees in the U.S., compared to 8% a year ago. 53% of those licenses were Plus CAL for Enterprise Voice, down somewhat from 56% last year. The percent of Plus CAL licenses that had been activated for actual use by SMB employees was 37%, down slightly from 41% a year ago.

These active Plus CAL licenses represent 2.2% of total SMB employees, an increase over the 1.8% from last year’s study.

Exhibit ES-8  Penetration of Lync EV Licenses in the SMB Market vs. a Year Ago

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Source: InfoTrack: End-user Primary Research, 1Q2013
What is the Projected Penetration of Lync EV Licenses Over the Next Few Years?

We asked the study participants a similar set of questions about their future deployment plans in order to calculate the projected penetration of Lync EV Licenses.

Among U.S. Enterprises, the projected penetration of active plus CAL licenses is 3.4% by the end of 2014. That is up significantly from the 2.5% penetration at the end of 2012, as presented earlier. By the end of 2016, the penetration of active Plus CAL licenses is projected to reach 4.3% of U.S. Enterprise employees.

Penetration of Lync EV licenses in the U.S. SMB market is projected to lag that of the U.S. Enterprise market. By the end of 2014, active Plus Cal licenses for Enterprise Voice are projected to be 2.7% of U.S. SMB employees. That is an increase from the 2.2% penetration computed for the end of 2012. The rate of SMB penetration is expected to accelerate over the following two years, reaching 3.6% of SMB employees by the end of 2016.

Exhibit ES-9  Projected Penetration of Lync EV Licenses

Source: InfoTrack: End-user Primary Research, 1Q2013
What was the Impact of the Microsoft Announcement of Lync 2013?

In July 2012, Microsoft announced Lync 2013 with significant enhancements compared to Lync 2010. Over the following few months, Microsoft released preview versions of some of the key elements of Lync 2013, but the production versions of most elements were not available until February 2013. In our survey, which was conducted in the January/February 2013 timeframe, we asked whether the delay in the availability of Lync 2013 had affected purchase or deployment decisions.

More than half of the Enterprise and SMB decision-makers responded that Lync 2013 has not affected any of our purchase or deployment decisions. However, 23% of Enterprises and 22% of SMB said We have delayed our decision on whether to deploy Lync with Enterprise Voice.

Furthermore, 13% of Enterprises have delayed deployment of Lync 2010 with Enterprise Voice. Another 13% noted we have delayed deployment of other telephony systems or hosted services.

There is evidence here that the seven-month delay between the announcement of Lync 2013 and its general availability may have frozen a portion of the IP-PBX market during the 2nd half of 2012. According to the 2012 annual report from T3i Group’s InfoTrack for Enterprise Communication (IEC), IP-PBX shipments declined substantially in the 2nd half of 2012 compared to the 2nd half of 2011. This decline was much sharper than in the 1st half of 2012, and it included a major cutback in shipments of Microsoft Lync. (Note, other factors contributing to this industry wide decline include the poor economy and an increase is the sales of hosted telephony services).

Exhibit ES-10 Impact of Lync 2013 Announcement on Enterprise and SMB Deployment Plans

Source: InfoTrack: End-user Primary Research, 1Q2013
Where Does Microsoft Rate Among Preferred Vendors for IP-PBXs?

Participants in this study were asked to identify the one company that is currently their preferred vendor for IP-PBXs or the functionality of IP-PBXs. They were also asked to identify who that preferred vendor was before Microsoft entered the Enterprise Voice market. The responses to these questions have been summarized in Exhibit ES-11.

Almost half of the U.S. Enterprises indicated that Cisco was their Preferred Vendor for IP-PBXs before Microsoft entered the Enterprise Voice market. This was followed by Avaya with 24%. Enterprises that preferred one of the other telephony systems vendors also totaled 24%.

In response to the question regarding their current Preferred Vendor for IP-PBXs, 25% of the Enterprises selected Microsoft. This was quite surprising given that only 15% of the Enterprises were currently deploying Microsoft Lync with Enterprise Voice, as reported in Exhibit ES-3. One possible explanation is that the format of this question in the survey limited Enterprises to one selection. Therefore, some of the enterprises that may have been leaning towards Microsoft, but had not yet made a final decision, could have decided to pick Microsoft as their one response to this question. As a result, Cisco dropped 9 points to 40%, while preferences for Avaya declined 6 points to 18%. The group that was most affected by Microsoft’s entry into the voice market was the Other Telephony System vendors which dropped 10 points to 14%.

SMBs had similar results with 20% selecting Microsoft as their currently preferred IP-PBX vendor. SMBs that preferred Avaya declined from 38% to 33%, while preferences for other telephony systems vendors went from 33% to 30%. Cisco dropped from 18% to 14% among these SMB decision-makers.

Exhibit ES-11 Preferred Vendor for IP-PBXs – Before Microsoft Entered the Market vs. Currently

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Enterprise</th>
<th>SMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avaya</td>
<td>24%</td>
<td>38%</td>
</tr>
<tr>
<td>Cisco</td>
<td>18%</td>
<td>14%</td>
</tr>
<tr>
<td>Microsoft</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other IP-PBX Vendor</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Undecided</td>
<td>3%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
2. INTRODUCTION AND METHODOLOGY

Scope of InfoTrack for Unified Communications (IUC)

InfoTrack for Unified Communications is a research program that addresses demand for evolving communications technologies and the impact of significant market shifts. Our analysis focuses on understanding decision-makers’ perceptions of the solutions being marketed to them, and their resulting buyer behaviors.

In the first half of 2013 we published reports on customers’ plans for migration of several UC technologies including the customers’ perceptions of Microsoft in delivering these technologies. This current report specifically analyzes in more depth the impact of Microsoft’s introduction of Lync Enterprise Voice on the business communications market.

In June 2013 we published our annual in-depth forecast of the IP Telephony and unified communications (UC) application markets. Our reports in the second half of 2013 will examine New Trends and Changes in Customers’ UC Buying Behavior and Transformative UC Technologies.

Program Leadership

The program directors for IUC are Ken Dolsky (kdolsky@t3igroup.com) and Terry White [twhite@t3igroup.com]. They are responsible for all primary research involving the market demand for unified communications among U.S. and international businesses and institutions. To support these primary research efforts, T3i Group has established two research panels, one consisting of more than 7,000 Enterprise decision-makers and a second panel with more than 6,000 SMB decision-makers.

Primary Research Methodology

Analyses presented in this study were driven by comprehensive primary research, which was conducted specifically for this report. This primary research included a mix of web-based surveys and telephone interviews, with key industry players, including:

- Decision-makers for both IP Telephony and UC applications
- Leading suppliers of IP Telephony systems and UC apps.

The research covered both Enterprises (entities with 500 or more employees) and SMBs (entities with 5 to 499 employees). Results for each group are provided in separate sections.
3. ANALYSIS OF ENTERPRISE PLANS FOR MICROSOFT LYNC ENTERPRISE VOICE

Demographics of Enterprise Survey Participants

The exhibits in this section of the report are based on responses from U.S. business institutional entities with 500 or more employees. IUC refers to these entities as Enterprises. During February 2013, surveys were completed with over 150 qualified Enterprise managers who are key decision-makers or key influencers regarding adoption and usage of Microsoft Lync. The same survey also received responses from 150 managers at SMB sized companies (499 employees or less) with the same responsibilities. The results from the SMB managers are described in Section 4, below.

Exhibit 1 below shows the distribution of the participating U.S. Enterprises based upon their size. 29% of the respondents represented Enterprises with 500 to 999 employees, and 20% were Enterprises with 1,000 to 2,499 employees. Throughout the analysis, these two size categories, comprising 49% of the respondents, are referred to as Medium Enterprises (ME).

29% of the respondents were from Enterprises with between 2,500 and 9,999 employees. Enterprises with 10,000 or more employees accounted for 22% of the Enterprise participants. These two size segments comprise the Large Enterprise (LE) segment, representing 51% of the respondents.

<table>
<thead>
<tr>
<th>Exhibit 1 by Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Enterprises</td>
</tr>
<tr>
<td>500-999</td>
</tr>
<tr>
<td>1,000-2,499</td>
</tr>
<tr>
<td>2,500-9,999</td>
</tr>
<tr>
<td>10,000+</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
Distribution of Participating Enterprises by Type of Decision Maker

Exhibit 2 contains two graphs that show the distribution of titles and decision-making responsibilities among the Enterprise decision-makers who participated in this study.

17% were Executives who are responsible for business decisions, including CEOs, CFOs, COOs and Line of Business Managers.

CIOs, Information Systems Managers and Applications Managers, who are responsible for IT (information technology) decision-making, accounted for 81% of the participants in this study. This heavy representation by IT decision-makers is not surprising as the scope of the research was quite technical and focused on Microsoft rather than process-oriented applications.

The remaining 2% were Telecom Managers and Data Network Managers whose primary decision-making responsibilities involve communications systems and networks.

Source: InfoTrack: End-user Primary Research, 1Q2013
Distribution of Participating Enterprises by Type of Industry

Exhibit 3 shows the industry segment distribution of the Enterprise decision-makers who participated in this study. The participants represented 10 different industries.

As in last year’s report, Manufacturing was the most frequently represented segment, at 24% of the respondents. Healthcare was second place—up from third last year—with 18% of the survey participants.

Financial Services/Insurance, which was in second place last year, was in third this year, accounting for 13% of the responses. Rounding out the top four was Business Services with 12%. 8% of the respondents were in Professional Services. Retail/Wholesale and Telecommunications each represented 6% of the response group. Government was 5%, followed by Transportation, Education, and Utilities.

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>24%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>18%</td>
</tr>
<tr>
<td>Financial Services/Insurance</td>
<td>13%</td>
</tr>
<tr>
<td>Business Services</td>
<td>12%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>8%</td>
</tr>
<tr>
<td>Retail/Wholesale</td>
<td>6%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>6%</td>
</tr>
<tr>
<td>Government</td>
<td>5%</td>
</tr>
<tr>
<td>Transportation</td>
<td>3%</td>
</tr>
<tr>
<td>Education</td>
<td>2%</td>
</tr>
<tr>
<td>Utilities</td>
<td>2%</td>
</tr>
<tr>
<td>Other (Media)</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
**Enterprise Position on Microsoft Software Products and Services**

Exhibit 4 shows the position taken by Enterprises toward Microsoft as a provider of products and services. Enterprises surveyed were strongly inclined toward reliance on the company, with 92% of Large Enterprises and 92% of Medium Enterprises describing themselves as “Microsoft shops” for at least some software.

Of those, MEs were more likely to depend primarily on Microsoft for key products and services (67% of MEs versus 57% of LEs), while LEs were more likely to buy only selected products and services from Microsoft (35% of LEs versus 25% of MEs). Among those few that characterized themselves as not a Microsoft shop, LEs and MEs were equally represented, at 8% each.

**Exhibit 4  Enterprise Position on Microsoft Software Products and Services**

- **Our company is primarily a “Microsoft shop” for key software products and services**:
  - Medium Enterprise: 67%
  - Large Enterprise: 57%

- **Our company is a “Microsoft shop” for selected software products and services**:
  - Medium Enterprise: 25%
  - Large Enterprise: 35%

- **Our company is NOT a “Microsoft shop” for key software products and services**:
  - Medium Enterprise: 8%
  - Large Enterprise: 8%

*Source: InfoTrack: End-user Primary Research, 1Q2013*
Enterprise Status on Trialing Microsoft Lync

As in last year’s report, Enterprise decision-makers were then asked about their plans to trial Microsoft Lync without reference to any specific functionality. Exhibit 5 shows the results.

92% of the Medium Enterprises have trialed, are trialing or plan to trial Microsoft Lync. This figure is up from 81% last year. The category with the largest increase was Currently conducting trial which is now 30%, up from 19% last year. Overall, the percent of MEs who said they have No plans to conduct a trial decreased from 19% last year to 8% this year.

Similarly, 95% of the Large Enterprises indicated they have trialed, are trialing, or will trial Microsoft Lync. Last year the figure was 79%, which is an even larger increase than among MEs. Once again, the largest increase was in the Currently conducting trial category which increased from 14% last year to 26% this year. Those with No plans to conduct a trial decreased from 22% to 5%, a very significant change.

Microsoft trials are very accessible, which may be the reason for the high interest. Microsoft channel partners can use Microsoft’s Proof of Concept and secure Web access to enable trials of Lync Enterprise Voice. Firms are offered softphones or Lync-certified SIP phones on a temporary basis and do not have to install Lync servers for the trials.

Exhibit 5  Current Status of Enterprise Trials of Microsoft Lync
Percent of Enterprise Microsoft Lync Trials that Include Enterprise Voice

Exhibit 6 shows the percentages of completed, current and planned Enterprise Microsoft Lync trials that included Enterprise Voice. 76% of the U.S. Enterprises who have trialed or are currently conducting trials or plan to trial indicated that Enterprise Voice had been, is or will be included in their Lync trials. That represents a 10 point increase from 66% a year ago. There was more voice trialing among LEs (84%) than among MEs (68%).

68% of MEs said their trials include or will include Enterprise Voice. This compares with 54% who said this in last year’s report.

Similarly, 84% of LEs said they have trialed or will trial Enterprise Voice. This compares with 51% who said this in last year’s report.

Both segments of Enterprise have shown a major increase in their interest in trialing Lync Enterprise Voice.

Microsoft and its partners make it relatively easy to trial Lync with Enterprise Voice. Firms are provided Lync-certified SIP phones or softphones on a temporary basis and do not have to install Lync servers for the trials.
Enterprise Perception of Microsoft Capabilities for Enterprise Voice

Exhibit 7 shows how trials affected Enterprises’ perception of the capabilities of Lync Enterprise Voice.

For Large Enterprises, trialing led to an improvement in the perception of Enterprise Voice's capabilities. Those believing that Microsoft is better than most traditional voice system manufacturers increased from 29% before trials to 48% after. The 19% that changed their views appear to be accounted for by 15% of those that had previously believed Microsoft was as good as the competition and 4% (all) of those that had believed it was worse. Trialing had a very positive effect on the perceptions of LEs.

Among Medium Enterprises, however, the effect was negative. 15% of the respondents revised their perception downward, from “better than most” to “as good as any,” post-trial. Those that had believed the provider to be sub-par with respect to the traditional manufacturers (10%, more than double the pre-trial figure among LEs) remained of the same opinion after trialing.

Last year, the effect of trialing was a net positive for both LEs and MEs. Before the trials, a significantly larger number of Enterprises ranked Microsoft in the sub-par category, and post-trial, the greatest shift overall was toward the “as good as” category rather than the “better than most” category. This may be the result of deeper levels of scrutiny and/or higher standards. The first wave of adoptees may have been both technology leaders as well as Microsoft supporters who believed Microsoft would deliver what they needed and the second wave may have been less fervent in their willingness to believe.

Exhibit 7  Enterprise Perception of Microsoft Capabilities for Enterprise Voice

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Perspective on Total Cost of Implementing Lync with Enterprise Voice

Exhibit 8 shows enterprises’ views on the relationship between total cost of implementing Lync with Enterprise Voice and expectations about total cost.

Medium Enterprises were more pleased with the outcome, with 65% responding that costs were in line with what they had expected, as opposed to 58% of Large Enterprises. More LEs (42%) than MEs (25%) said that there were additional unanticipated costs. No LEs reported that costs were lower than expected, while 10% of MEs did.

The relatively high percentage of enterprises (in both size categories) who said there were unanticipated costs, raises the question of how they could have developed an accurate view of ROI or TCO, prior to implementation.

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Organization Responsible for Decision to Deploy Lync with Enterprise Voice

Exhibit 9 shows which organizations within enterprises were responsible for the decision to implement Lync EV.

Rankings were the same among LEs and MEs. The IT organization responsible for Unified Communications was ranked first, the IT organization responsible for Telephony ranked second, the C-level executive ranked third, and the IT organization responsible for Desktop Applications ranked fourth. Multi-department committees responsible for UC ranked fifth.

While the percentages were not exactly the same, they did track fairly closely with each other across the two categories of LE and ME.

This implies that at this stage in the Lync life cycle, adoption among Enterprises is not being driven by either line of business managers or C level executives but rather by the technical organizations responsible for finding and implementing UC solutions. These groups are generally part of the CIO organization, but since C-level executives were not identified as major players in these decisions it is assumed that it is more the lower level technical managers that are responsible.

Exhibit 9  Enterprise Organization Responsible for Decision to Deploy Lync with Enterprise Voice
Enterprise Plans for Deploying Lync with Enterprise Voice Beyond Trials

Exhibit 10 shows Enterprises’ plans to deploy Lync with Enterprise Voice (among all Enterprises).

Almost equal percentages of LEs (43%) and MEs (44%) are planning to deploy Lync EV, while figures for those currently deploying it were slightly greater for LEs (18%) than MEs (11%), which is somewhat expected given Microsoft’s market targeting.

Altogether, 59% of U.S. Enterprises are either currently deploying or planning to deploy Lync with Enterprise Voice beyond the trial stage, up from 45% a year ago. The 59% includes 15% who are actually deploying (vs. 11% that were actually deploying in last year’s survey), and 44% who are planning to deploy (vs. 34% that were in the planning stages of deployment in last year’s survey).

41% of the Enterprises are either waiting for the results of their trials before deciding whether to deploy Lync EV or have no plans to deploy. This represents a 14 point reduction in the percent of “Undecideds” or “No Plans” from last year. 21% of the U.S. Enterprises we surveyed last year indicated that they had no plans to implement Microsoft Lync Enterprise Voice.

It appears that the positive results of trialing are having an impact on deployment plans.

Exhibit 10  Enterprise Plans for Deploying Lync with Enterprise Voice Beyond Trials
Among all Enterprises
Enterprises’ Top Reasons for Deploying Lync with Enterprise Voice Beyond Trials

The Enterprises implementing Microsoft Lync for Enterprise Voice were asked why they decided to implement Lync. Exhibit 11 ranks their responses.

Both Medium and Large Enterprises most frequently cited lower total cost of ownership with Microsoft Lync Enterprise Voice than with PBX-based solutions. Microsoft’s pricing structure bundles access to Lync in the Enterprise CAL Suite with access to popular applications, including Windows, Exchange and Sharepoint, so the incremental cost to add Lync functionality from a license standpoint is attractive. Microsoft Enterprise Agreement volume discounts further improve the TCO. However, the lowest ranked reason was We have already invested in the Enterprise CAL suite, indicating that licensing may not be a major cost concern.

The second most important reason for MEs was ease of implementation, which was number nine for LEs. We have already adopted Microsoft Lync for IM and Presence was second most important for Large Enterprises and third for Medium Enterprises. The difference between MEs and LEs regarding ease of implementation may be due to the responsibility of the person answering the survey questions. The ME respondents may be much closer to the implementation effort than the LE respondents.

Facilitates voice feature integration with other applications and we have already adopted Microsoft Lync for web and audio conferencing were cited as the next most important reasons, overall, for implementing Microsoft Lync voice.

Exhibit 11 Enterprises’ Top Reasons for Deploying Lync with Enterprise Voice Beyond Trials
Among Enterprises Deploying or Planning to Deploy Lync with Enterprise Voice

<table>
<thead>
<tr>
<th>Top Reasons</th>
<th>ME</th>
<th>LE</th>
<th>Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of ownership (hardware, software, service support) is lower than PBX based solutions</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>We have already adopted Microsoft Lync for IM and Presence</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Facilitates voice feature integration with other Microsoft applications, e.g., Sharepoint, Exchange, Office</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>We have already adopted Microsoft Lync for Web and Audio Conferencing</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Lync Enterprise Voice has all the voice functionality we need</td>
<td>7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Lync is available as both a premises system and a hosted service</td>
<td>5</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Ease of implementation and telephony system management</td>
<td>2</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>The Lync Client is superior to the user interface provided by other UC vendors</td>
<td>8</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Potential integration with Skype</td>
<td>11</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>We have chosen Microsoft as our preferred vendor for Unified Communications</td>
<td>9</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>We have already invested in the Enterprise CAL Suite</td>
<td>10</td>
<td>11</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise View of Relationship Between Lync with Enterprise Voice and other Microsoft Applications

Exhibit 12 documents Enterprises’ views as to the relationship between Lync with voice and other Microsoft applications.

Answers to the questions were in the range of 2.6 to 3.5 on a scale from “strongly disagree” (-5) to “strongly agree” (5). Degrees of agreement were generally similar between Medium and Large Enterprises. The statement that implementing Lync with Enterprise Voice is a natural extension of investments in Microsoft desktop applications was in first place overall for both MEs and LEs. The second-most strongly supported statement was that Lync with voice gives us potential benefits that can’t be obtained from other vendors’ Telephony Systems. The least important reason for both MEs and LEs was incremental cost savings on top of other Microsoft applications. This implies that while cost is always rated as important (see Exhibit 11), incremental costs may be viewed differently when compared to other highly synergistic benefits.

In between were statements that future implementation of Lync and other Microsoft UC apps will depend on how well each fits with the other.

It can be concluded that Enterprises view the relationship between Lync with Enterprise Voice and other Microsoft apps as important and highly beneficial.

Exhibit 12   Enterprise View of Relationship Between Lync with Enterprise Voice and other Microsoft Applications
Among Enterprises currently planning to deploy Lync with Enterprise Voice

Source: InfoTrack: End-user Primary Research, 1Q2013
Current Status of Licenses for Lync with Enterprise Voice—Medium Enterprise

The IUC research asked several questions about the number of Lync licenses that have been purchased, grandfathered and activated. In addition to understanding the potential impact of Microsoft on voice system demand, InfoTrack also publishes shipment and installed base market share information, and began tracking Microsoft deployments of Lync with Enterprise Voice in 2011. This research, therefore, enables corroboration of InfoTrack for Enterprise Communication’s installed base estimates.

Exhibit 13 reflects the Medium Enterprises’ current implementation status of Microsoft Lync and Enterprise Voice licenses.

13% of the Medium Enterprises’ employees have Lync licenses, up from 8% last year. 50% of the Lync licenses are Plus CALs (Plus CAL licenses are required for Enterprise Voice) versus 49% last year, and 51% of the Medium Enterprises’ Plus CAL licenses are activated, compared with 63% last year. (These numbers represent the current view of installations, not annual shipments/implementations).

Overall, 3.3% of the Medium Enterprise segment employees have activated Lync Plus CAL licenses, up from less than 2% last year.

Note that the demographics stated above and elsewhere in this report are based on the survey respondent populations and have a confidence interval of at least ±10%.

Source: InfoTrack: End-user Primary Research, 1Q2013
Current Status of Licenses for Lync with Enterprise Voice—Large Enterprise

Exhibit 14 depicts Large Enterprises’ current implementation status of Microsoft Lync and Enterprise Voice licenses.

11% of employees in Large Enterprises have Lync licenses, up from 5% last year. 40% of those Lync licenses are Plus CALs (required for Enterprise Voice), compared with 50% last year. 55% of employees Plus CAL licenses are in use for Enterprise Voice, compared to 40% last year.

Overall, 2.4% of Large Enterprise employees have activated Lync Plus CAL licenses. This is quite high considering the short time that Lync Enterprise Voice has been available, and it represents significant growth since last year, when the figure was 0.8%. (These numbers represent the current view of installations, not annual shipments/implementations).

Note that the demographics stated above and elsewhere in this report are based on the survey respondent populations and have a confidence interval of at least ±10%.

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Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Projected Deployment of Licenses for Microsoft Lync with Enterprise Voice

Exhibit 15 shows Enterprises’ projections of Enterprise Voice licenses as a percentage of the total number of employees, for the years 2014 and 2016.

Steady growth is projected in each of those years, with percentages increasing from 3.3% to 4.3% and 5.4% among Medium Enterprises and from 2.4% to 3.1% and then 4% among Large Enterprises.

As in 2012 (figures also shown in Exhibits 13 and 14, above), Medium Enterprises plan to deploy proportionally more licenses than Large Enterprises by a factor of about 35% in both of the projected years.

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Scope of Planned Deployment of Microsoft Lync with Enterprise Voice

Exhibit 16 shows how extensively Enterprises plan to deploy Lync with EV (among those who stated they plan to implement).

MEs’ most likely means of deployment was throughout specific departments or business units, whereas for LEs it was at selected locations as the need arises. Clearly, both sizes of entities are focused on limited deployments to homogeneous groups such as by site or organization.

Global deployment was the third most likely option for both types of entities, and throughout your home country was fourth. Selected individuals was the least popular deployment option for both MEs and LEs.

These results differed from those shown in last year’s report in a few significant areas:

- While for both MEs and LEs, the homogeneous deployment by organization or location was the most popular option, last year LEs most favored option was to deploy to selected individuals. Clearly, this idea has been scaled back dramatically.
- The popularity of global deployment increased overall by a few percentage points indicating more experience with the solution and more confidence in wider deployment.
- The popularity of deployment throughout the home country declined this year in favor of homogeneous deployments, perhaps reflecting a more practical approach.

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Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Familiarity with Microsoft Lync 2013

Exhibit 17 shows the degree of familiarity with Microsoft Lync 2013 among Medium and Large Enterprises.

Large Enterprises were more familiar with the system than Medium Enterprises, with 30% describing themselves as “very familiar” versus only 18% among MEs. Among both sectors, the great majority (80% of MEs and 68% of LEs) characterized themselves as either “somewhat” or “moderately” familiar with the system (in virtually equal proportions).

Total lack of familiarity was extremely rare, with only 2% in each Enterprise sector.

Considering the fact that Lync 2013 pricing was only announced in December 2012 (although Microsoft had announced Lync 2013 in July 2012) and the IUC survey took place in February 2013, this is a very high level of familiarity.

Exhibit 17 Enterprise Familiarity with Microsoft Lync 2013

<table>
<thead>
<tr>
<th></th>
<th>Medium Enterprise</th>
<th>Large Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Familiar</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Moderately Familiar</td>
<td>40%</td>
<td>33%</td>
</tr>
<tr>
<td>Somewhat Familiar</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>Not Familiar</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
Impact of Microsoft Lync 2013 Announcement on Enterprise Implementation Plans

In July 2012, Microsoft announced Lync 2013 with significant enhancements compared to Lync 2010. Over the following few months, Microsoft released preview versions of some of the key elements of Lync 2013, but the production versions of most elements were not available until February 2013. In our survey, which was conducted in the January/February 2013 timeframe, we asked whether the delay in the availability of Lync 2013 had affected purchase or deployment decisions. The results are shown in Exhibit 18, below.

More than half of the Enterprise decision-makers (57% of MEs and 57% of LEs) responded that Lync 2013 has not affected any of our purchase or deployment decisions. 13% of Enterprises (16% of MEs and 11% of LEs) have delayed deployment of Lync 2010 with Enterprise Voice. Another 13% (13% of MEs and 14% of LEs) noted, we have delayed deployment of other telephony systems or hosted services.

There is evidence here that the seven-month delay between the announcement of Lync 2013 and its general availability may have frozen a portion of the IP-PBX market during the 2nd half of 2012. According to the 2012 annual report from T3i Group’s InfoTrack for Enterprise Communication (IEC), IP-PBX shipments declined substantially in the 2nd half of 2012 compared to the 2nd half of 2011. This decline was much sharper than in the 1st half of 2012, and it included a major cutback in shipments of Microsoft Lync. (Note, other factors contributing to this industry wide decline include the poor economy and an increase is the sales of hosted telephony services).

Exhibit 18  Impact of Microsoft Lync 2013 Announcement on Enterprise Implementation Plans
Among all Enterprises

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Projected Penetration of Lync with Enterprise Voice Among Employees at U.S. Sites

Exhibit 19 shows the percentages of expected employee penetration of Lync among those Enterprises who said they plan to implement MS Lync with EV at U.S. sites over a four-year period.

The growth rate of employee penetration for the first two years of the period discussed is projected to be higher for LEs than for MEs. LEs are expected to grow from 21% percent penetration after one year of deployment to 44% after three years of deployment, while MEs are expected to grow from 30% to 45% during the same period. However, during the next two-year period, from the end of the third year to the end of the fifth year, both MEs and LEs expect to reach 62% penetration, meaning that their growth for that period will be almost exactly equal (an increase of about 17 points).
Enterprise Projected Penetration of Hosted Lync with Enterprise Voice Among Employees at U.S. Sites

Exhibit 20 shows the percentages of employee penetration of Hosted Lync with EV at U.S. sites among current and future Enterprise implementers over a four-year period.

Unlike the exhibit immediately above, the projected rates of change for MEs and LEs were roughly the same throughout the entire period, and the percentages of penetration for LEs were slightly smaller than for MEs.

Overall, steady growth in the penetration of Hosted Lync with EV was projected in both enterprise sectors. The penetration percentages at the end of five years of 32% for MEs and 29% for LEs was about half that forecast for CPE-based Lync with EV, as shown in the exhibit above.

Exhibit 20    Enterprise Projected Penetration of Hosted Lync with Enterprise Voice Among Employees at U.S. Sites

Among current/future implementers
Impact of Perceived Benefits on Enterprise Deployment Rate of Microsoft Lync with Enterprise Voice

Exhibit 21 shows the impact of the perceived benefits of Microsoft Lync with EV on the rate with which enterprises plan to deploy it (among current/future implementers).

70% of Large Enterprises and 56% of Medium Enterprises said they saw benefits that would cause them to deploy Lync more quickly than normal, while the remainder of each sector said they would migrate to it at their usual pace. Clearly, Lync with EV is perceived as attractive enough to enterprises that a clear majority would deploy it at an accelerated pace.

This is a fairly significant finding given that entities are normally under financial pressure to retire systems based on amortization rates and implies a willingness to increase expenses outside of the normal TCO elements.

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Plans for Replacing/Retaining Existing Telephony Systems During Lync Deployment

Exhibit 22 shows Enterprise plans for replacing or retaining existing telephony systems during Lync deployment among current and future implementers.

The most popular option among both MEs and LEs was to retain existing telephony systems and services while replacing existing deskphones on a gradual or life-cycle replacement basis. This approach is expected to be followed by 44% of MEs and 47% of LEs. However, a sizable percentage in both segments (44% of MEs and 30% of LEs) plan on some type of accelerated replacement of existing deskphones, either by replacing telephony systems immediately (26% of MEs and 15% of LEs) or by retaining those systems but replacing deskphones on an accelerated basis (18% of MEs and 15% of LEs).

A very small number opted to retain existing telephony systems as gateways (3% of MEs and 8% of LEs), while a more substantial contingent (9% of MEs and 15% of LEs) planned to retain their existing telephony systems so that they could continue to use their existing voice mail until they are ready to migrate to Exchange messaging.

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Distribution of Endpoints on Deployed Lync Systems with Enterprise Voice

Exhibit 23 shows the planned distribution of endpoints among enterprise users of Lync EV.

The first finding from this data is that there is surprisingly little migration of endpoints over time. The initial configurations and terminal type populations are seen as remaining in place for the next few years.

The largest migration, as expected, is away from existing deskphones to Lync-certified SIP phones. Both segments plan to migrate about 10% of their deskphones to SIP phones over the three year period. The volume of deskphones remaining in place after three years is surprisingly high considering that this requires gateways and may still not provide totally compatible operations on both types of phones.

After the first year of deployment of the system, existing deskphones are more or less tied with Lync-certified SIP phones as the most common endpoints of Lync systems. After the third year, SIP phones have penetrated 45% of users within each segment.

Both Lync PC clients with headsets and Lync Mobile Client showed significant populations among the endpoints, but neither one showed much if any change in penetration over the time period discussed. This implies that the people who need these tools are able to receive them as part of the initial implementation and unless these types of employees grow as a percent of total employees this is likely to be the final distribution.
Enterprise Plans for Voicemail on Lync with Enterprise Voice

Exhibit 24 shows enterprise plans for voice mail on Lync with EV.

Those that are already migrating to Exchange Unified Messaging and plan to continue represented a plurality, with 48% of MEs and 38% of LEs. Among MEs, there was equal representation (26%) for continuing to use the current voice mail system and for planning to migrate to Exchange UM. Among LEs, these options were slightly more popular, with 29% and 33%, respectively.

Overall, existing voice mail systems in Lync EV environments are being phased out, as expected.
Factors that Fell Short of Enterprises’ Expectations in Deploying Lync with Enterprise Voice

Exhibit 25 shows the various reasons provided by those enterprises that found that Lync with EV fell short of their expectations.

More than a quarter of the Enterprises that were currently deploying Lync EV (29% of MEs and 27% of LEs) responded that *Total Cost of Ownership (TCO) was NOT lower than PBX based solutions.*

Another factor that fell short of the expectations of this group of decision-makers was *Lync is NOT available as both a premises system and hosted service for complete Enterprise Voice.* Although Lync Online, which is Microsoft’s hosted version of Lync, does not currently support all of Enterprise Voice functionality, there are several Microsoft partners that offer a hosted Lync service that does include the full Enterprise Voice capability.

14% of the ME decision-makers and 18% of the LE decision-makers also felt that Lync EV did not meet their expectations for *facilitating voice feature integration with other Microsoft applications.* And the same percentages felt that *the Lync client is NOT superior to the user interface provided by other UC vendors.*

Exhibit 25  Factors that Fell Short of Enterprises’ Expectations in Deploying Lync with Enterprise Voice
Among Enterprises currently deploying Lync with Enterprise Voice

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Satisfaction with Variety of Available Endpoints for Lync Enterprise Voice

Exhibit 26 shows the levels of satisfaction among enterprise decision-makers with the variety of available endpoints for Lync EV.

A clear majority among both MEs and LEs described themselves as very satisfied (53% for MEs and 57% for LEs), and a somewhat smaller percentage (41% among MEs and 43% among LEs) described themselves as somewhat satisfied.

Only MEs expressed any degree of dissatisfaction (6%), while there were no responses of very dissatisfied.

Exhibit 26 Enterprise Satisfaction with Variety of Available Endpoints for Lync Enterprise Voice
Enterprise Problems in Scaling Lync with Enterprise Voice

Exhibit 27 shows the degree to which enterprises saw or anticipated problems in scaling Lync with Enterprise Voice. The population answering this question included those who had deployed, are currently deploying and those that plan to deploy Lync with Enterprise Voice.

About half (50% of MEs and 42% of LEs) found some problems but nothing major, while a somewhat smaller group (32% for MEs and 42% for LEs) found no problems scaling. More serious concerns expressing considerable problems were more prevalent in MEs than in LEs (12% versus 8%), while 6% of MEs and 3% of LEs were not able to scale as necessary.

Overall, more than half of the enterprises had some degree of scaling difficulty while deploying or their planning efforts indicated they were likely to have some problem with scaling.
Enterprise Ratings of the Characteristics of the Lync Client Softphone

Exhibit 28 shows the ratings Enterprise decision-makers gave to three important characteristics of the Lync Client softphones.

Voice quality features were rated highest among the three characteristics by both MEs and LEs. Telephony and user interface were rated slightly lower. MEs and LEs rated telephony features the same, but differed slightly on the other two, with LEs having slightly higher ratings.

Overall, the differences between the various ratings were small, and all were between “good” and “excellent,” indicating a high degree of satisfaction with Lync Client softphones among Enterprise decision-makers.

Exhibit 28  Enterprise Ratings of the Characteristics of the Lync Client Softphone

<table>
<thead>
<tr>
<th>Theme</th>
<th>Medium Enterprise</th>
<th>Large Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice Quality</td>
<td>4.4</td>
<td>4.5</td>
</tr>
<tr>
<td>User Interface</td>
<td>4.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Telephony Features</td>
<td>4.3</td>
<td>4.3</td>
</tr>
</tbody>
</table>

(5=Excellent; 4=Good; 3=Fair; 2=Poor; 1=Unacceptable; 0=Don’t Know)

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Ratings of Microsoft Dealers in Terms of Voice Expertise

Exhibit 29 shows how Enterprise decision-makers rated Microsoft dealers in terms of voice expertise.

“Good” ratings were most prevalent among both Enterprise sectors, (53% of MEs and 62% of LEs). Excellent was the second most common rating, (26% of MEs and 16% of LEs). Significantly more MEs rated dealers “fair” than did LEs (21% versus 15%).

Only a very small minority of LEs rated dealers as having virtually no voice expertise.

Overall, these ratings are favorable although both Microsoft and its partners are undoubtedly trying to achieve a higher percent of Excellent ratings.

Exhibit 29  Enterprise Ratings of Microsoft Dealers in Terms of Voice Expertise
Enterprise Satisfaction with Integrating Lync Enterprise Voice with Applications or Devices of Other Vendors

Exhibit 30 shows Enterprises’ degree of satisfaction with integrating Lync EV with the applications or devices of other vendors.

Medium Enterprises expressed slightly more satisfaction than Large Enterprises, with 56% in the very satisfied category versus 52% of LEs. The only expression of dissatisfaction came from LEs, 3% of whom were somewhat dissatisfied with the integration of Lync with other vendors’ devices and apps. Among MEs, all who were not very satisfied were at least somewhat satisfied (44%).

Source: InfoTrack: End-user Primary Research, 1Q2013
Enterprise Ratings of the Ease of Integration—Lync Enterprise Voice versus Other Vendors

Exhibit 31 shows Enterprises’ ratings as to whether Lync EV or other vendors’ systems were easier to integrate.

Survey respondents were asked the following question: How would you compare the capabilities for easily integrating with applications or devices of other vendors between those of Microsoft Lync Enterprise Voice and those capabilities of the following vendors? The two answer choices for each vendor were: Lync is easier or Other vendor is easier.

In every case, Lync was rated easier to integrate than the competitors’ products by the vast majority of MEs and LEs. Of the five other vendors discussed, Avaya and Mitel were rated the most favorable among Enterprise decision-makers—Avaya was rated more favorable by 26% of MEs and 33% of LEs and Mitel by 30% of each.

Cisco and NEC were rated the least favorable. Cisco was only rated favorably by 18% of MEs and 26% of LEs, and NEC was rated favorably by 24% of MEs and 25% of LEs.

Overall, the differences among vendors were relatively minor compared to the favorability ratings for Microsoft.
**Enterprise Preferred Vendors for IP-PBXs—Before Microsoft Entered the Enterprise Voice Market vs. Currently**

Exhibit 32 shows the changes in preferred IP-PBX vendor choices among Enterprises since Microsoft entered the Enterprise Voice market.

Overall, about a quarter of Enterprises selected Microsoft as their currently preferred IP-PBX vendor. Since Microsoft entered the market, the percentage that preferred Avaya dropped from 22% to 14% among MEs and from 26% to 24% among LEs. The percentage that preferred Cisco dropped from 54% to 43% among MEs and from 44% to 35% among LEs.

3% of MEs and LEs were undecided both before and after Microsoft entered the market.

Among LE’s Cisco and Other have lost the most positioning to Microsoft in terms of preference. Among MEs all three vendors (Avaya, Cisco and Other) have lost roughly the same amount of positioning to Microsoft.

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**Exhibit 32 Enterprise Preferred Vendors for IP-PBXs—Before Microsoft Entered the Enterprise Voice Market vs. Currently**

![Bar chart showing changes in preferred IP-PBX vendor choices among Enterprises since Microsoft entered the market.](chart.png)
Enterprise Preferred Vendors for UC Apps—Before Microsoft Entered the Enterprise Voice Market vs. Currently

Exhibit 33 shows the changes in preferred UC Application vendor choices among Enterprises since Microsoft entered the Enterprise Voice market.

Among MEs, preference for Microsoft increased from 16% to 33%, and among LEs it increased from 24% to 38%. The company’s entry into the Voice market significantly increased its support among Enterprises as a UC app provider.

The biggest impact Microsoft’s entry had on other vendors was the decline of preference for Cisco among MEs, from 41% to 32%. Otherwise, the effects on each vendor were not major but the cumulative loss of preference was a major change in Microsoft’s favor.
Top Reasons Enterprises Did Not Deploy Lync with Enterprise Voice Beyond Trials

Exhibit 34 lists the top reasons Enterprises provided for not deploying Lync with EV after trials.

The top reason for both MEs and LEs was that we have too much invested in our current PBXs or IP-PBXs. For MEs that did not deploy Lync, the second most important reason was that EV does not have all the functionality of current PBXs—a reason that ranked seventh with LEs. The second most important reason for LEs was TCO is too high—which ranked fourth among LEs. The Perception of complicated licensing was far more of an issue for LEs (who ranked it third) than for MEs (who ranked it ninth).

In general, MEs and LEs differed considerably in their ranking of reasons not to deploy Lync EV after trials, notably on the points of Lync EV does not meet our company’s standards for high availability (fifth for MEs, eleventh for LEs), don’t want to be locked into Microsoft (seventh for MEs, twelfth for LEs), lack of commitment in Contact Center (thirteenth for MEs, eighth for LEs) and too many partner products are required for a complete solution (eighth for MEs, thirteenth for LEs).

Exhibit 34   Top Reasons Enterprises Did Not Deploy Lync with Enterprise Voice Beyond Trials

<table>
<thead>
<tr>
<th>Top Reasons</th>
<th>ME</th>
<th>LE</th>
<th>Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have too much invested in our current PBXs and/or IP-PBXs</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total cost of ownership (hardware, software, service support) is too high</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Lync Enterprise Voice does not have all the functionality that our current PBXs have</td>
<td>2</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Too complex to implement and manage</td>
<td>3</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Complicated licensing</td>
<td>9</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Lync support for mobile devices is not satisfactory</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>We are concerned about the lack of expertise in supporting Voice systems on the part of Microsoft and its dealers</td>
<td>12</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Lync Enterprise Voice does not meet our company’s standards for high availability</td>
<td>5</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Don’t want to be locked in to Microsoft</td>
<td>7</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>Lack of commitment in Contact Center</td>
<td>13</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Lack of homogenous services: each vendor supplies a small piece</td>
<td>10</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>Too many partner products are required for a complete solution</td>
<td>8</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Lync Enterprise Voice does not have the telephony functionality we need</td>
<td>14</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Lack of Microsoft support for Voice over WiFi</td>
<td>11</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
4. ANALYSIS OF SMB PLANS FOR MICROSOFT LYNC ENTERPRISE VOICE

Demographics of SMB Survey Participants

The exhibits in this section of the report are based on responses from U.S. business and institutional entities with 499 or fewer employees. IUC refers to these entities as Small or Medium Businesses (SMBs). During February 2013, surveys were completed with over 150 qualified SMB managers who are key decision-makers or key influencers regarding adoption and usage of Microsoft Lync.

Exhibit 35 shows the distribution of the participating U.S. SMBs based upon their size. 30% of the respondents represented businesses with 5 to 49 employees, and 14% were businesses with 50 to 99 employees. Throughout the analysis, these two size categories, comprising 44% of the respondents, are referred to as Small Businesses (SBs).

21% of the respondents were from businesses with between 100 and 249 employees. Businesses with 200 to 499 employees accounted for 34% of the SMB participants. These two size segments comprise the Medium Business (MB) segment, representing 55% of the respondents.

Exhibit 35  Distribution of Participating SMBs by Size

U.S. SMBs

- 5-49 employees: 30%
- 50-99 employees: 14%
- 100-249 employees: 21%
- 250-499 employees: 34%

Source: InfoTrack: End-user Primary Research, 1Q2013
Distribution of Participating SMBs by Type of Decision-Maker

Exhibit 36 contains two graphs that show the distribution of titles and decision-making responsibilities among the SMB decision-makers who participated in this study.

44% were Executives who are responsible for business decisions, including CEOs, CFOs, COOs and Line of Business Managers.

CIOs and Information Systems Managers, who are responsible for IT (information technology) decision-making, accounted for 54% of the participants in this study. This degree of representation by IT decision-makers is not surprising as the scope of the research was quite technical and focused on Microsoft rather than process-oriented applications.

The remaining 2% were Telecom Managers and Data Network Managers whose primary decision-making responsibilities involve communications systems and networks.

Source: InfoTrack: End-user Primary Research, 1Q2013
**Distribution of Participating SMBs by Industry**

Exhibit 37 shows the industry segment distribution of the SMB decision-makers who participated in this study. The participants represented at least 12 different industries.

As in last year’s report, Professional Services was the most frequently represented segment, with 24% of the respondents. Business Services was in second place—with 18% of the survey participants.

Manufacturing was third, accounting for 16% of the responses. Rounding out the top four was Retail/Wholesale with 14%. 6% of the respondents were in Healthcare. Financial Services/Insurance represented 5%, and Telecommunications and Media/Entertainment each had 4%. Education, Government and Construction each represented 2% of the response group. Other (Media) accounted for 3%.

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**Exhibit 37  Distribution of Participating SMBs by Industry**

- Professional Services: 24%
- Business Services: 18%
- Manufacturing: 16%
- Retail/Wholesale: 14%
- Healthcare: 6%
- Financial Services/Insurance: 5%
- Telecommunications: 4%
- Media/Entertainment: 4%
- Education: 2%
- Government: 2%
- Construction: 2%
- Other (Media): 3%
SMB Position on Microsoft Software Products and Services

Exhibit 38 shows the position taken by SMBs toward Microsoft as a provider of products and services. SMBs surveyed were strongly inclined toward reliance on the company, with 95% of Medium Businesses and 67% of Small Businesses describing themselves as “Microsoft shops” for at least some software.

Of those, MBs were more likely to depend primarily on Microsoft for key products and services (57% of MBs versus 42% of SBs), and were also more likely to buy only selected products and services from Microsoft (38% of MBs versus 25% of SBs). Among those that characterized themselves as not a Microsoft shop, SBs were much more strongly represented, at 33% versus only 5% among MBs.

Compared to Enterprises, SMBs are less likely to buy from Microsoft.
SMB Status on Trialing Microsoft Lync

In Exhibit 39, SMB decision-makers were asked about their plans to conduct a trial of Microsoft Lync without identifying any specific functionality.

26% of Small Businesses (SB) have no plans to conduct a trial of Microsoft Lync, down from 48% last year. 23% have completed or are currently conducting a trial, up from 10% last year. 51% of SBs plan to trial Lync but have not yet started, as compared to 43% last year.

Medium Businesses indicated greater interest in Lync than the Small Businesses. Only 13% of Medium Businesses (MB) have no trial plans, up slightly from last year, when it was 11%. 35% of MBs have either completed or are conducting trials, up from 21% last year. 52% of MBs are planning to conduct trials of Microsoft Lync, although the trials have not yet started. Last year that figure was 68%.

On the whole, Medium Businesses had greater interest in Microsoft Lync in than Small Businesses.

Microsoft trials are very accessible, which may be the reason for the high interest. Microsoft channel partners can use Microsoft’s Proof of Concept and secure Web access to enable trials of Lync Enterprise Voice. Firms are offered softphones or Lync-certified SIP phones on a temporary basis and do not have to install Lync servers for the trials.

Source: InfoTrack: End-user Primary Research, 1Q2013
Percent of SMB Microsoft Lync Trials that Include Enterprise Voice

SMB decision-makers who are trialing or plan to trial Lync were then asked whether they plan to include Enterprise Voice in their trials of Microsoft Lync. Exhibit 40 shows the results.

44% of the Small Businesses that have trialed, are trialing or plan to trial Microsoft Lync will include Enterprise Voice in their evaluations. This figure is the same as last year’s.

Of the MBs that indicated they have trialed or will trial Microsoft Lync, 60% also plan to include Enterprise Voice. Last year the figure was 50%.
SMB Perception of Microsoft Capabilities for Enterprise Voice

Exhibit 41 shows how trials affected SMB perception of the capabilities of Enterprise Voice.

For both SBs and MBs, trialing led to an improvement in the perception of Enterprise Voice's capabilities. Those believing that Microsoft is as good as most traditional voice system manufacturers increased after trials, from 50% to 63% among SBs, and from 47% to 53% among MBs. The changes were entirely accounted for by decision-makers who had previously thought that EV’s capabilities were sub-par.

There was no change after running a trial in the percentage who believed EV to be better than the competition, either among SBs or MBs.
SMB Perspective on Total Cost of Implementing Lync with Enterprise Voice

Exhibit 42 shows SMB’s views on the relationship between total cost of implementing Lync with Enterprise Voice and expectations about total cost.

Medium Businesses were more pleased with the outcome, with 44% responding that costs were in line with what they had expected, as opposed to 19% of Small Businesses. More SBs (69%) than MEs (34%) said that there were additional unanticipated costs. In both segments, 6% reported that costs were lower than expected. More MBs than SBs said that it was too early in the process to make a determination on total cost.

The relatively high percentage of SMBs (in both size categories) who said there were unanticipated costs, raises the question of how these companies could have developed an accurate view of ROI or TCO, prior to implementation.
**SMB Organization Responsible for Decision to Deploy Lync with Enterprise Voice**

Exhibit 43 shows which organizations within SMBs were responsible for the decision to implement Lync EV.

C-level Executives ranked first among SBs, and tied for first among MBs with the IT organization responsible for Unified Communications. The IT organization responsible for Desktop Applications was ranked second among SBs, while the IT organization responsible for Telephony was ranked second among MBs.

In general, the percentages tracked fairly closely with each other across the two categories of SB and MB.

Compared to the Enterprise organizations, C-level executives within SMBs are much more involved and responsible for deploying these solutions. This makes sense given that C-level executives are generally involved in more tactical efforts in SMBs than in Enterprises, while conversely, the adoption of a new UC/voice platform is usually a more strategic issue within SMBs than in Enterprises.
SMB Plans for Deploying Microsoft Lync with Enterprise Voice Beyond Trials

Exhibit 44 shows SMB’s plans to deploy Lync with Enterprise Voice. Almost equal percentages of SBs (27%) and MBs (28%) were planning to deploy Lync EV, while 15% of MBs and 4% of SBs are currently deploying.

Altogether, 36% of SMBs were either currently deploying or planning to deploy Lync with Enterprise Voice beyond the trial stage, up from 27% a year ago. That includes 9% vs. 3% that were actually deploying, and 27% vs. 24% that were in the planning stages of deployment. 64% of the SMBs were either waiting for the results of their trials before deciding whether to deploy Lync EV or had no plans to deploy. That represents a 16 point reduction in the percent of “No Plans” from last year, but a 7 point increase in the percent of “Undecideds.” 32% of the SMBs we surveyed last year indicated that they had no plans to implement Microsoft Lync Enterprise Voice.

SMBs appear to be more cautious than Enterprises. About 44% of Enterprises were planning to deploy after trialing (with about 35% undecided) while among SMBs about 28% were planning to deploy and about 47% were undecided.

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Exhibit 44 SMB Plans for Deploying Microsoft Lync with Enterprise Voice Beyond Trials
Among all SMBs

<table>
<thead>
<tr>
<th></th>
<th>Small Business</th>
<th>Medium Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currently deploying</td>
<td>4%</td>
<td>15%</td>
</tr>
<tr>
<td>Planning to deploy</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>Undecided; depends on results of trial</td>
<td>46%</td>
<td>47%</td>
</tr>
<tr>
<td>No plans to deploy Microsoft Lync for Enterprise Voice</td>
<td>23%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
SMB Top Reasons for Deploying Lync with Enterprise Voice Beyond Trials

The SMBs implementing Microsoft Lync for Enterprise Voice were asked why they decided to implement it. Exhibit 45 ranks their responses.

Both SBs and MBs most frequently cited lower total cost of ownership with Microsoft Lync Enterprise Voice than with PBX-based solutions. Microsoft’s pricing structure bundles access to Lync in the Enterprise CAL Suite with access to popular applications, including Windows, Exchange and Sharepoint, so the incremental cost to add Lync functionality from a license standpoint is attractive. However, the lowest ranked reason was We have already invested in the Enterprise CAL suite, indicating that licensing may not be a major cost concern.

The second most important reason overall was we have already adopted Microsoft Lync for Web and Audio Conferencing, which was also the second most important reason for SBs and the fifth most important for MBs. We have already adopted Microsoft Lync for IM and Presence was the third most important reason overall, second most important for MBs and seventh for SBs. Fourth overall was ease of implementation, ranked fourth by MBs and fifth by SBs. For software engineers certified in Microsoft and voice, Lync is reputedly easy to implement and manage.

Facilitates voice feature integration and potential integration with Skype were cited as the next most important reasons for implementing Microsoft Lync voice.

As with Enterprises, TCO was the top reason for deployment, followed by interaction with other MS software.

---

Exhibit 45  SMB Top Reasons for Deploying Lync with Enterprise Voice Beyond Trials  
Among SMBs Deploying or planning to Deploy Lync with Enterprise Voice

<table>
<thead>
<tr>
<th>Top Reasons</th>
<th>Small Business</th>
<th>Medium Business</th>
<th>SMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of ownership (hardware, software, service support) is lower than PBX based solutions</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>We have already adopted Microsoft Lync for Web and Audio Conferencing</td>
<td>2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>We have already adopted Microsoft Lync for IM and Presence</td>
<td>7</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Ease of implementation and telephony system management</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Facilitates voice feature integration with other Microsoft applications, e.g., Sharepoint, Exchange, Office</td>
<td>3</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Potential integration with Skype</td>
<td>6</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Lync Enterprise Voice has all the voice functionality we need</td>
<td>4</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Lync is available as both a premises system and a hosted service</td>
<td>10</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>The Lync Client is superior to the user interface provided by other UC vendors</td>
<td>9</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>We have chosen Microsoft as our preferred vendor for Unified Communications</td>
<td>8</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>We have already invested in the Enterprise CAL suite</td>
<td>11</td>
<td>10</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
SMB View of Relationship Between Lync with Enterprise Voice and other Microsoft Applications

Exhibit 46 documents SMBs’ views as to the relationship between Lync with voice and other Microsoft applications.

Answers to the questions were in the range of 2.6 to 3.5 on a scale from “strongly disagree” (-5) to “strongly agree” (5). Degrees of agreement were generally similar between Small and Medium Businesses. The statement that our decision will be based largely on how well Lync with EV fits with other Microsoft applications generated the most agreement overall and for SMBs, with MB’s supporting this more strongly than SBs. The second-most strongly supported statement was that Lync with Enterprise Voice gives us potential benefits from integrating with other Microsoft apps that can’t be obtained from other vendors’ Telephony Systems. The least favored statement for both SBs and MBs was our future decisions regarding the adoption of other Microsoft UC applications will be based largely on the result of our experience with Lync Enterprise Voice.

SMB levels of agreement with these statements were higher than those of Enterprises. The MB agreement level of 4.3 for the third item in the list below was, by far, the highest response received for this question amongst both Enterprises and SMBs. Clearly, SMBs view the relationship between Lync with Enterprise Voice and other Microsoft apps as very important and expect it to be very beneficial.

Exhibit 46 SMB View of Relationship Between Lync with Enterprise Voice and other Microsoft Applications
Among those SMBs currently deploying and those planning to deploy Lync with Enterprise Voice

<table>
<thead>
<tr>
<th>Statement</th>
<th>SB</th>
<th>MB</th>
<th>Total SMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing Lync with Enterprise Voice is a natural extension of our company’s investments in Microsoft desktop applications</td>
<td>3.8</td>
<td>3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Adopting Lync with Enterprise Voice gives us potential benefits from integrating with other Microsoft apps that we can’t get from other vendors’ Telephony Systems</td>
<td>3.8</td>
<td>3.6</td>
<td>3.7</td>
</tr>
<tr>
<td>Our decision regarding deployment of Lync with Enterprise Voice will be based largely on how well it fits with other Microsoft applications</td>
<td>3.8</td>
<td>4.3</td>
<td>4.1</td>
</tr>
<tr>
<td>Our future decisions regarding the adoption of other Microsoft UC applications will be based largely on the results of our experience with Lync Enterprise Voice</td>
<td>3.5</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Our decision regarding the deployment of Lync with Enterprise Voice will be based largely on its incremental cost on top of our other related Microsoft apps</td>
<td>3.8</td>
<td>3.5</td>
<td>3.6</td>
</tr>
</tbody>
</table>

(5=Strongly Agree; 3=Generally Agree; -5=Generally Disagree; -3=Strongly Disagree; 0=Don’t Know)

Source: InfoTrack: End-user Primary Research, 1Q2013
Current Status of Licenses for Lync with Enterprise Voice—Small Business

The IUC research included several questions on the number of Lync licenses and whether they are used. This information was used both to understand the potential demand picture and corroborate InfoTrack for Enterprise Communications shipment and installed base market share estimates for Microsoft.

Exhibit 47 reflects the Small Businesses’ current implementation status of Microsoft Lync and Enterprise Voice licenses.

10% of the Small Businesses’ employees currently have Lync licenses. 52% of the Lync licenses are Plus CALs (required for Enterprise Voice), and 35% of the Small Businesses’ Plus CAL licenses are activated with users.

Overall, about 1.8% of Small Business employees have activated Lync Enterprise Voice licenses.

(These numbers represent current installation status, not annual shipments/implementations).

Exhibit 47: Current Status of Licenses for Lync with Enterprise Voice—Small Business
Current Status of Licenses for Lync with Enterprise Voice—Medium Business

Exhibit 48 depicts Medium Businesses’ current implementation status of Microsoft Lync licenses.

13% of Medium Business employees have Lync licenses and 55% of those Lync licenses are Plus CALs. 40% of the Plus CAL licenses are activated.

About 2.9% of Medium Business employees have activated Lync Enterprise Voice licenses.

(These numbers represent current installation status, not annual shipments/implementations).

Exhibit 48  Current Status of Licenses for Lync with Enterprise Voice—Medium Business
Projected SMB Deployment of Licenses for Microsoft Lync with Enterprise Voice

Exhibit 49 shows SMBs’ projections of Enterprise Voice licenses as a percentage of the total number of employees, for the years 2014 and 2016.

Steady growth is projected in each of those years, with percentages increasing from 1.8% to 2.4% and 3.1% among Small Businesses and from 2.9% to 3.5% and then 4.6% among Medium Businesses.

As in 2012 (figures also shown in Exhibits 47 and 48, above), Medium Businesses plan to deploy proportionally more licenses than Small Businesses by a factor of about 46% in each of the forecasted years.

Exhibit 49 Projected SMB Deployment of Licenses for Microsoft Lync with Enterprise Voice
Scope of Planned SMB Deployment of Microsoft Lync with Enterprise Voice

Exhibit 50 shows how extensively SMBs plan to deploy Lync with EV (among those who stated they plan to implement).

SBs’ most likely deployment plans were

- selected individuals,
- throughout specific departments
- business units and at selected locations as the need arises.

These were equally likely. Throughout your home country was the next most preferred plan.

MBs’ most likely plan was throughout your home country (with almost a third of MBs selecting this course of action, while throughout specific departments or business units was a close second with 28%. Selected individuals was third and at selected locations as the need arises was fourth.

Deployment Globally was the least popular deployment option for both SBs and MBs, which is reasonable given their size.

The SMB preference for deploying to selected individuals versus Enterprises, of which only about 7% selected this approach may be due to concerns about cost and/or the need to see Lync Enterprise Voice performance over time in a real business environment (e.g., sales or executive use) before committing to a general roll out.

Exhibit 50 
Scope of Planned SMB Deployment of Microsoft Lync with Enterprise Voice
Among current/future implementers

Source: InfoTrack: End-user Primary Research, 1Q2013
SMB Familiarity with Microsoft Lync 2013

Exhibit 51 shows the degree of familiarity with Microsoft Lync among SMBs.

87% of SBs described themselves as either somewhat or moderately familiar with the system, as opposed to 71% of MBs, which was somewhat surprising given Microsoft’s target market for Lync of large companies. Some of this familiarity may be due to hosted providers’ efforts to market Lync to these smaller companies. On the other hand, twice as many MBs as SBs described themselves as very familiar with Lync. So it appears as if SBs had more widespread familiarity but MBs had deeper understanding.

Total lack of familiarity was extremely rare—only 3% of SBs and 6% of MBs.

Considering the fact that Lync 2013 pricing was only announced in December 2012 (although Microsoft had announced Lync 2013 in July 2012) and the IUC survey took place in February 2013, this is a very high level of familiarity.
Impact of Microsoft Lync 2013 Announcement on SMB Implementation Plans

In July 2012, Microsoft announced Lync 2013 with significant enhancements compared to Lync 2010. Over the following few months, Microsoft released preview versions of some of the key elements of Lync 2013, but the production versions of most elements were not available until February 2013. In our survey, which was conducted in the January/February 2013 timeframe, we asked whether the delay in the availability of Lync 2013 had affected purchase or deployment decisions.

Exhibit 52 shows the SMBs answers to this question.

More than half of the SMB decision-makers (60% of SBs and 62% of MBs) responded that Lync 2013 has not affected any of our purchase or deployment decisions. Another 22% of SMBs (29% of SBs and 16% of MBs) have delayed their decision on whether to implement Lync with Enterprise Voice. 13% of SMBs (6% of SBs and 20% of MBs) noted we have delayed our trial of Lync with Enterprise Voice.

Overall, about 40% of the SMB market appears to have delayed some decisions and/or purchases during the second half of 2012 due to the need to evaluate the capabilities of Lync 2013.

Exhibit 52 Impact of Microsoft Lync 2013 Announcement on SMB Implementation Plans

Among all SMBs

Source: InfoTrack: End-user Primary Research, 1Q2013
Projected SMB Penetration of Lync with Enterprise Voice Among Employees at U.S. Sites

Exhibit 53 shows the percentages of expected employee penetration of Lync with EV at U.S. sites among SMBs who said they plan to implement MS Lync with EV at U.S. sites over a four-year period.

The growth rate of employee penetration for the first two years of the period discussed is projected to be somewhat higher for MBs than for SBs. MBs are expected to grow from 32% percent penetration after one year of deployment to 57% after three years of deployment, while SBs are expected to grow from 32% to 49% during the same period. However, during the next two-year period, from the end of the third year to the end of the fifth year, SBs are expected to grow from 49% to 68% and MBs are expected to grow from 57% to 77%, which means that their growth for that period will be nearly equal (an increase of about 20 percentage points for both).

Exhibit 53  Projected SMB Penetration of Lync Among Employees with Enterprise Voice at U.S. Sites
Among current/future implementers
SMB Projected Penetration of Hosted Lync with Enterprise Voice Among Employees at U.S. Sites

Exhibit 54 shows the expected employee percent penetration of Hosted Lync with EV at U.S. sites among SMBs over a four-year period.

Unlike the exhibit above, the projected rates of change for MBs and MEs were roughly the same throughout the entire period, and the percentages of penetration for SBs were slightly smaller than for MBs.

Overall, steady growth in the percent penetration of Hosted Lync with EV was projected in both sectors. However, the five year penetration percentages of 46% for SBs and 49% for MBs were significantly less than those forecast for CPE-based Lync with EV as shown in the exhibit above.

Exhibit 54  Projected Penetration of Hosted Lync with Enterprise Voice Among Employees at U.S. Sites
Among current/future implementers
Impact of Perceived Benefits on SMB Deployment of Microsoft Lync with Enterprise Voice

Exhibit 55 shows the impact of the perceived benefits of Microsoft Lync with EV on the rate at which SMBs plan to deploy it (among current/future implementers).

62% of Medium Businesses and 60% of Small Businesses said they saw benefits that would cause them to deploy Lync with EV more quickly than normal, while the remainder of each sector said they would migrate to it at their usual pace. Clearly, Lync has proved attractive enough to SMBs that a clear majority would deploy it at an accelerated pace.

This is a fairly significant finding given that entities are normally under financial pressure to retire systems based on amortization rates and implies a willingness to increase expenses outside of the normal TCO elements.

Source: InfoTrack: End-user Primary Research, 1Q2013
SMB Plans for Replacing/Retaining Existing Telephony Systems During Lync Deployment

Exhibit 56 shows SMB plans for replacing or retaining existing telephony systems during Lync deployment.

The most popular option among both SBs and MBs was to retain existing telephony systems and services while replacing existing deskphones on a gradual or life-cycle replacement basis. This approach is expected to be followed by 54% of SBs and 40% of MBs. However, a sizable percentage in both segments (46% of SBs and 48% of MBs) plan on some sort of accelerated replacement of existing deskphones, either by replacing telephony systems immediately (33% of SBs and 32% of MBs) or by retaining those systems but replacing deskphones on an accelerated basis (13% of SBs and 16% of MBs).

12% of MBs (but no SBs) plan to retain their existing telephony systems so that they could continue to use their existing voice mail until they are ready to migrate to Exchange messaging.
Distribution of Endpoints on SMB Deployed Lync Systems with Enterprise Voice

Exhibit 57 shows the distribution of endpoints among SMB users of Lync EV.

The first finding from this data is that there is surprisingly modest migration of endpoints over time, especially amongst MBs. The initial configurations and terminal type populations are seen as remaining largely in place for the next few years.

The largest migration in both segments is away from existing deskphones to Lync PC clients plus headsets. (Enterprises were more inclined to migrate from existing deskphones to Lync-certified SIP phones).

After the first year of deployment of the system, SBs are expected to equip more than one third of users with Lync PC clients plus headsets while MBs are expected to have over 40% of users on Lync-certified SIP phones. After the third year, SBs are expected to cut their use of existing deskphones in half and MBs are expected to cut them by about 20% (but both segments expect to still retain a noticeable population of older desktop phones).

MBs are expected to actually reduce the initial population of Lync-certified SIP phones by a few percent, in favor of PC clients with headphones and mobile clients.

Source: InfoTrack: End-user Primary Research, 1Q2013
SMB Plans for Voicemail on Lync with Enterprise Voice

Exhibit 58 shows SMB plans for voice mail on Lync with EV.

Those that are already migrating to Exchange Unified Messaging and plan to continue to do so represented a plurality, with 47% of SBs and 58% of MBs indicating this approach. Among SBs, the second highest preference (33%) was to continue to use the current voice mail system. Only a fifth (20%) plan to migrate to Exchange UM in conjunction with Lync EV.

Only 13% of MBs plan to continue using their current voicemail system (even less than the Enterprises who were in the range of 26% to 29%).

Lync is clearly going to help Microsoft sell Exchange UM as the Lync Enterprise Voice installed base grows.
Factors that Fell Short of SMB Expectations in Deploying Lync with Enterprise Voice

Exhibit 59 shows the various reasons provided by those SMBs that found that Lync with EV fell short of their expectations.

About half of the SMBs deploying Lync EV (57% of SBs and 43% of MBs) responded that Total Cost of Ownership (TCO) was NOT lower than PBX based solutions. This is consistent with the findings described above that 69% of SBs and 34% of MBs found that Lync Enterprise voice cost more than anticipated.

Another factor that fell short of the expectations of this group of decision-makers was Lync is NOT available as both a premises system and hosted service for complete Enterprise Voice (21% of SBs and 24% of MBs). Although Lync Online, which is Microsoft’s hosted version of Lync, does not currently support all of Enterprise Voice functionality, there are several Microsoft partners that offer a hosted Lync service that does include the full Enterprise Voice capability.

7% of the SB decision-makers and 14% of the MB decision-makers also felt that Lync EV did not meet their expectations for facilitating voice feature integration with other Microsoft applications, which as described above, is a major value for customers. And 7% of SB decision-makers and 10% of MB decision-makers felt that the Lync client is NOT superior to the user interface provided by other UC vendors.

None of the respondents felt that Lync does not have all the voice functionality we need, which is powerful evidence of its capability to meet the needs of SMBs (22% of Medium Enterprises saw shortcomings in the voice functionality).

Source: InfoTrack: End-user Primary Research, 1Q2013
SMB Satisfaction with Variety of Available Endpoints for Lync Enterprise Voice

Exhibit 60 shows the levels of satisfaction among SMB decision-makers with the variety of available endpoints for Lync EV.

A clear majority among both SBs and MBs described themselves as very satisfied (53% for SBs and 71% for MBs), and a somewhat smaller percentage (47% among SBs and 29% among MBs) described themselves as somewhat satisfied.

No decision-makers expressed any degree of dissatisfaction with the variety of endpoints for Lync with Enterprise Voice.

Exhibit 60  SMB Satisfaction with Variety of Available Endpoints for Lync Enterprise Voice

<table>
<thead>
<tr>
<th></th>
<th>Small Business</th>
<th>Medium Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very satisfied</td>
<td>53%</td>
<td>71%</td>
</tr>
<tr>
<td>Somewhat satisfied</td>
<td>47%</td>
<td>29%</td>
</tr>
<tr>
<td>Somewhat dissatisfied</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Very dissatisfied</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: InfoTrack: End-user Primary Research, 1Q2013
**SMB Ratings of the Characteristics of the Lync Client Softphone**

Exhibit 61 shows the ratings SMB decision-makers gave to three important characteristics of the Lync Client softphones.

Telephony features were rated highest among the three characteristics by both SBs and MBs. Voice quality and user interface were rated slightly lower, and identically with each other by both SBs and MBs. Each of these two softphone characteristics was rated slightly higher by MBs than by SBs.

Overall, the differences between the various ratings were slight, and all were between “good” and “excellent,” indicating a high degree of satisfaction with Lync Client softphones among SMB decision-makers.

---

**Exhibit 61 SMB Ratings of the Characteristics of the Lync Client Softphone**

- **Small Business**
  - Voice Quality: 4.3
  - User Interface: 4.3
  - Telephony Features: 4.5

- **Medium Business**
  - Voice Quality: 4.5
  - User Interface: 4.5
  - Telephony Features: 4.6

*(5=Excellent; 4=Good; 3=Fair; 2=Poor; 1=Unacceptable; 0=Don't Know)*
**SMB Ratings of Microsoft Dealers in Terms of Voice Expertise**

Exhibit 62 shows how SMB decision-makers rated Microsoft dealers in terms of voice expertise.

“Good” ratings were most prevalent among both business segments (57% of SBs and 45% of MBs). “Excellent” was the second most common rating (24% of SBs and 34% of MBs). Only a very small percent of SMBs rated Microsoft Dealers as “Poor.”

SMB combined ratings for “Excellent” and “Good”, were very similar to those same combined ratings from Enterprises. In both groups the combined ratings were about 79%.

Overall, these ratings dispel one of the industry’s challenges to the success of MS Lync with EV which was that dealers would not be able to satisfy customers’ expectations for voice quality and management. As good as these ratings are, Microsoft and its dealers are undoubtedly looking to increase the volume of “Excellent” ratings.

**Exhibit 62  SMB Ratings of Microsoft Dealers in Terms of Voice Expertise**

![Bar chart showing SMB ratings of Microsoft Dealers in terms of voice expertise.](chart)
SMB Satisfaction with Integrating Lync Enterprise Voice with Applications or Devices of Other Vendors

Exhibit 63 shows SMBs' degree of satisfaction with integrating Lync EV with the applications or devices of other vendors.

Medium Businesses were more satisfied than Small Businesses (68% vs. 53%), with the ability to integrate Lync EV with outside applications or devices. However, the total scores of the two segments for the Very satisfied and Somewhat satisfied categories were virtually 100% indicating a fairly high level of satisfaction.

Source: InfoTrack: End-user Primary Research, 1Q2013
SMB Ratings on Ease of Integration—Lync Enterprise Voice versus Other Vendors

Exhibit 64 shows SMBs’ ratings as to whether Lync EV or other vendors’ systems were easier to integrate.

Survey respondents were asked the following question: How would you compare the capabilities for easily integrating with applications or devices of other vendors between those of Microsoft Lync Enterprise Voice and those capabilities of the following vendors? The two answer choices for each vendor were: Lync is easier or Other vendor is easier.

In every case, Lync was rated easier to integrate than the competitors’ products by the vast majority of SBs and MBs. Of the five vendors discussed, Avaya and Mitel were rated the most favorable among SMB decision-makers—Avaya was rated more favorable by, 21% of SBs and 35% of MBs, and Mitel was rated more favorable by 27% of SBs and 29% of MBs. Siemens was rated the lowest, with favorable ratings of only 7% among SBs and 9% among MBs. Cisco had the lowest favorable rating of any vendor in a customer segment with just 4% of MBs.

Although there were more variations in the ratings of the other vendors by SMBs than Enterprises, this was relatively minor compared to the favorability ratings for Microsoft.
SMB Preferred Vendor for IP-PBXs—Before Microsoft Entered the Enterprise Voice Market vs. Currently

Exhibit 65 shows the changes in preferred IP-PBX vendor choices among SMBs since Microsoft entered the Enterprise Voice market.

Overall, 20% of SMBs selected Microsoft as their currently preferred IP-PBX vendor. Since Microsoft entered the market, SMBs that preferred Avaya declined from 38% to 33%, while preferences for other telephony systems vendors went from 33% to 30%. Cisco’s preference declined from 18% to 14% among these SMB decision-makers.

Percentages differed little between SBs and MBs, except that there was a greater preference for Cisco among MBs than among SBs, both before and after Microsoft entered the market.

Both Avaya and Cisco appear to have lost a bit more positioning than the Other category.

### Exhibit 65  SMB Preferred Vendor for IP-PBXs—Before Microsoft Entered the Enterprise Voice Market vs. Currently
SMB Preferred Vendor for UC Apps—Before Microsoft Entered the Enterprise Voice Market vs. Currently

Exhibit 66 shows the changes in preferred UC Application vendor choices among SMBs since Microsoft entered the Enterprise Voice market.

Among SBs, preference for Microsoft increased from 15% to 33%, and among MBs it increased from 12% to 24%. The company’s entry into the Voice market doubled its support among SMBs as a UC app vendor.

Microsoft’s entry had no impact on the preference for Cisco among SBs and MBs, or on the preference for Avaya among MBs.

Otherwise, among SBs, preference for Avaya declined from 30% to 22%, and preference for IBM declined from 15% to 9% among MBs.
SMB’s Top Reasons Not to Deploy Lync with Enterprise Voice Beyond Trials

Exhibit 67 lists the top reasons SMBs provided for not deploying Lync with EV after trials.

The top reason for both SBs and MBs was that *TCO was too high*. For SBs that did not deploy Lync, the second most important reason was that *EV does not have all the functionality of current PBXs*—a reason that ranked fifth with MBs. The second most important reason for MBs was *lack of sufficient telephony functionality*—which ranked tenth among SBs. For both segments, *not wanting to be locked into Microsoft* was the third most important reason (ranked second overall due to weighting). The perception of *complicated licensing* was far more of an issue for SBs (who ranked it fifth) than for MBs (who ranked it eleventh).

Another major difference of opinion was the position that *we have too much invested in our current PBXs or IP-PBXs*. This was the fourth most important reason not to deploy Lync among SBs but ninth for MBs.

---

**Exhibit 67 SMB’s Top Reasons Not to Deploy Lync with Enterprise Voice Beyond Trials**

<table>
<thead>
<tr>
<th>Top Reasons</th>
<th>SB</th>
<th>MB</th>
<th>SMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of ownership (hardware, software, service support) is too high</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Don’t want to be locked in to Microsoft</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Lync Enterprise Voice does not have all the functionality that our current PBXs have</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Lync support for mobile devices is not satisfactory</td>
<td>6</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>We have too much invested in our current PBXs and/or IP-PBXs</td>
<td>4</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Lync Enterprise Voice does not have telephony functionality we need</td>
<td>10</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Lync Enterprise Voice does not meet our company’s standards for high availability</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Complicated licensing</td>
<td>5</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Lack of Microsoft support for Voice over WiFi</td>
<td>9</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Too complex to implement and manage</td>
<td>8</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Too many partner products are required for a complete solution</td>
<td>11</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>We are concerned about the lack of experience in supporting Voice systems on the part of Microsoft and its dealers</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Lack of commitment in Contact Center</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Lack of homogenous services; each vendor supplies a small piece</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>