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COMPARATIVE ANALYSIS OF AUSTRALIAN ENTERPRISE COMMUNICATIONS SALES CHANNEL PROGRAM, 3Q2008

November 2008

Channel partners in many cases act as the ambassador of the vendor's product. Although vendors still remain the primary distribution channels for telephony products and services, they have recognised that their channel partners have played a big part in contributing to their successes and failures.

Produced annually as the authoritative report in Telsyte's Vendor Research Series, this study provides an investigation and comparative analysis of leading Australian enterprise communications channel programs and major channel developments. Key findings of this report are:

- The role of the enterprise communications channel partner has evolved markedly from being a passive sales tool of a telephony vendor, to becoming tactical and a strategic business partner to the vendors, acting as their extended arm.
- The emergence of UC and the increased competition in the market has transformed channel partners strategic value to Australian businesses, by becoming their trusted adviser, bypassing consultants.
- Channel partner gross margins determined by vendors have been eroding, from an average of 33% in 2004/05 to less than 20% in 2006/07. Telsyte estimates that in 2007/08, the margin has further decreased to half that of what it was in 2004/05.
- Australian businesses are adopting a 'best of breed' approach in selecting IT and communications suppliers, creating a multi-vendor environment.
- In the past few years, some vendors have moved away from being a simple 'telephony box maker' to a solution provider. This has largely been due to eroding margins on hardware, hence, the need to offset this decline by creating an additional highly profitable revenue stream from services.
- Nearly 90% of businesses in the small business market have expressed a desire to continue their relationships with their current channel supplier. The medium and mid-market segment has shown the highest churn intentions with nearly 20% of decision makers indicating they are looking at alternatives.
- Commander manages many outsourcing contracts for Australian corporate and government agencies, generating revenue of approximately $100 million per annum. A large number of them are now under threat and represents new opportunities for its

competitors as the company continues to be broken up into parts. Essentially signalling to the market that no one has yet got the correct and compelling go-to-market integrated telecommunications and IT execution model.

- Telsyte anticipates that some of the Commander assets may struggle to find potential suitors.

- Telstra's Managed Network Services and IT Services, which includes KAZ has been declining in revenue growth across the two lines of business to the tune of 10%+ between 2007 and 2006. This trend started in Q1 FY2006 and has steadily been increasing and was the catalyst for its attempts at divesting of the assets.

- Although Telstra has significantly restructured KAZ to integrate with the E&G operations, Telsyte believes that KAZ may still be an attractive target for potential suitors who are looking at expanding their managed services business.

- Telsyte believes that the most important insight from its research is the importance of vendor education programmes. Vendors on a continuum need educate the channels on the end-to-end value proposition of their respective solutions, thereby identifying and /or creating opportunities for channel operators to become viable, amidst narrowing hardware margins. Fundamentally because they are an integral part of the vendors ecosystem and without them vendors would struggle to grow market share directly.

- There is very little product differentiation between IP telephony and UC between the major vendors at a high level, therefore services that channel partners provide helps differentiate vendor solution through customisation.

- Substantial opportunities for migrating small businesses from traditional to IP PBX solutions remain, and as a clear sign of their cost consciousness, more small businesses buy their telephony systems from non-major channels than their larger-size counterparts.

- Conclusion and recommendations.

Published simultaneously with this study are two other Comparative Analysis Series reports, namely:

- *Comparative Analysis of IP Product and Service Providers, 3Q2008* (Publication Number: 80512); and

- *Comparative Analysis of Australian Smartphones and Vendors, 3Q2008* (Publication Number: 80513).

Comparative Analysis of Australian Enterprise Communications Sales Channel Program, 3Q2008 is a 36-page report costing $2,995 (excluding GST) and includes 11 Figures and 2 Tables.

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