



2015 North American Enterprise Communications
Customer Value Leadership Award



FROST & SULLIVAN



50 Years of Growth, Innovation & Leadership

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Background and Company Performance

Industry Challenges

The global on-premises enterprise communications platforms and endpoints market is facing various challenges that are limiting its overall growth.

Tough global macro-economic conditions prompted many businesses to adopt a wait-and-see approach, negatively affecting global sales of enterprise communications platforms and endpoints and challenging the financial stability of many enterprise communications vendors. While the average lifecycle of a telephony system is around 10 years, many businesses are delaying their move to newer models by an additional 3 to 5 years. If their private branch exchange (PBX) systems are still operational and there is no urgent need for additional functionality, customers are choosing not to move forward to next-generation platforms.

Additionally, hosted/cloud communications delivery models are gaining traction presenting new opportunities and challenges to both vendors and customers. The installed base of hosted IP telephony and unified communications (UC) services users has been growing at about 25 to 30 percent on average year over year. While only around 4.0 percent of the world business users use hosted communications today, this figure is expected to quadruple by 2021. The popularity of hosted/cloud communications solutions has also resulted in growing customer preference for OpEx models (whether hosted or on premise) and the popularity of software subscription options, curbing CapEx investment opportunities and the purchase of new software or upgrades. The growth in hosted and cloud communications solutions and the preference for OpEx models are increasingly challenging premises-based platform vendors who must rethink their business strategies in order to address changing customer demands.

Customers also increasingly expect more communications capabilities for a lower cost, forcing many communications vendors to innovate, yet offer their solutions at compelling bundle prices. While unified communications and collaboration (UCC) capabilities supported on premises-based platforms are encouraging businesses to move to newer systems, many enterprises are expecting UC functionality to be part of the basic IP license, trying to limit the costs of additional functionality to be purchased. Today, many businesses are looking for less hardware, more collaboration features, flexible third-party integration, and ability to move to the cloud, for a lower total cost of ownership (TCO). This, coupled with continuous price erosion due to new technological advancements and competitive pressures, is limiting overall revenue opportunities for premises-based communications platform vendors.

At times of intense challenges and evolving user needs, having a customer value leadership award provides a vendor with a competitive advantage in terms of company positioning, visibility, and overall ability to thrive. It is a validation that the company has

adapted its offerings and market strategies to address evolving market conditions. With a differentiated product offering, an enterprise communications vendor is more likely to draw the attention of customers who are struggling to turn current market challenges into business opportunities. A company successfully addressing evolving customer needs is more likely to expand its target audience, generate higher revenues per customer, and position itself for sustainable long-term growth.

Customer and Business Impact

Since its inception in 2004, Vertical Communications has been striving to address the communications needs of businesses worldwide, to deliver superior value to customers and to nurture its brand. Offering versatile enterprise communications platforms and endpoints along with efficient professional services, Vertical Communications effectively differentiated itself from the competition by delivering unique customer value to specific industry verticals, such as the retail sector—Vertical Communication’s main focus industry. With tens of thousands of communications platforms deployed within national retail chains in North America, the company has excelled throughout the years by delivering a superior customer purchase and ownership experience and an efficient customer service, garnering strong brand equity, and maintaining strong financial performance and operational efficiency.

Customer Purchase Experience

A recent Frost & Sullivan end-user survey which interviewed 158 IT decision makers working in the retail industry found that retailers are moving away from purchasing multiple products from multiple vendors and are looking to deploy end-to-end solutions from a single vendor. Throughout the years, Vertical Communications has mastered the ability to address the unique needs and constraints of the North American retail industry, thus becoming a well-known benchmark among retailers for everything related to communications and collaboration.

In addition to a robust set of IP PBX functionality and UCC tools, Vertical Communications platforms offer access to advanced call handling, real-time business intelligence analytics, and centralized reporting and system management required in the daily operations of the retail industry. Furthermore, customized retail applications are offered to enhance retail customers’ overall experience, including Prescription Refill, Customer Order Automation, Automated Callback, etc. Applications such as Automated Prescription Refill and Doctor Fax, for example, have been used by some of the U.S. largest pharmacy chains at over 7,800 sites.

Vertical Communications uses a specialized retail engagement model designed to maximize the positive impact of its communications and collaboration solutions on store performance metrics (sales, service levels, etc.). The company’s “lifecycle” approach is based on extensive best practices in the retail industry, which establish success criteria for the store “pilot” process, and ultimately, store rollout. Vertical staffs the engagement

model with a team of experts fully dedicated to the retail sector, enabling customers to engage with professionals that understand their requirements. Vertical's customized solutions and its dedicated engagement approach have led to high customer satisfaction and loyalty, with many retail customers feeling they are buying the most optimal solutions for their communications and collaboration needs.

Customer Ownership Experience

Vertical retail customers' ownership experience is among the best in the industry, with many national chains publicly expressing their satisfaction with the company's communication and collaboration products and services. Some of the top customer requirements addressed by the company include:

- centralized management and administration of communications
- overall reduction of phone network operational costs through IP communications
- avoidance of a complete forklift of telephony infrastructure through the use of a hybrid IP PBX solution
- versatility of UC features and capabilities, including rich presence, instant messaging, and click-to-dial functionality both at the desk and while on-the-go
- ability to track call handling to ensure sustained customer service levels
- availability of real-time/historical business intelligence for insight into organizational operations and call history

Many of Vertical's retail customers have stayed with the company for an extended period of time, with some having remained loyal to the vendor for 15 years. Customers are generally very satisfied with the company's products and have little or no issues to complain about.

Customer Service Experience

Vertical Communications provides retail customers and partners with multiple tools for potential inquiries and problem solving. Technical support is offered 24/7 to customers by a highly trained and experienced staff that is dedicated to the retail sector. The company also leverages a "continuous improvement" approach with customers, always striving to identify opportunities for customer-focused performance improvement. A Vertical University Training is also offered for any issues or inquiries regarding Vertical's products and solutions. Furthermore, the company offers customer premise equipment (CPE) managed services which allow customers to efficiently delegate their ongoing support to Vertical. This approach allows the retail customer to focus on their core competencies rather than on daily service provisioning. Vertical's retail customers appreciate the company's proactive approach, which helps address their needs and challenges more effectively, and in a timely manner.

Brand Equity

Vertical Communications enjoys strong brand name recognition and considerable mindshare among top North American retail organizations. Within the past two years, Vertical substantially grew its retail business, adding high-profile brands such as Macy's, Bon-Ton, ULTA Beauty, BJ's Wholesale, and Ahold (the Dutch-based conglomerate that owns the Stop and Shop and Giant grocery chains in the U.S.). Today, fifteen of the top 100 Retailers in the States trust Vertical Communications' brand for communications and collaboration. The company continues to devote significant time and resources to publicize its products and solutions among the retail industry.

Financial Performance

In spite of today's challenging conditions in the enterprise communications platforms and endpoints market, Vertical Communications' retail division has been delivering strong profits and revenue growth. Over the last three years, profits and revenues for the division have grown at a compound rate of 38.0 percent and 30.0 percent, respectively. Not only is the company growing sales of its IP PBX platforms, but is also seeing continuous growth in the adoption of UC licenses, including ViewPoint UC desktop client and ViewPoint Mobile application, among retail employees. In a highly competitive communications and collaboration market, few enterprise communications vendors have achieved such a solid financial performance and traction.

Operational Efficiency

Vertical Communications' staff is highly trained and specialized in serving the retail sector. This allows the company's employees to be highly efficient and productive, providing top-quality service and support to retail organizations. Vertical's retail business unit leverages specific retail-focused competencies in development, sales, sales engineering, transition services, and technical support. Within the dedicated engineering group, the retail business unit leverages various resources to efficiently track customer feedback and employ best practices to develop features, applications and services tailored for retail chains in North America.

Conclusion

Vertical Communications' solid growth and implementation strategy, its product differentiation and innovative portfolio, its tight customer focus, and its strong brand recognition in the enterprise communications market are among the factors that have helped the company to excel in the retail industry and stand out from the competition. With its strong overall performance, Vertical Communications is recognized with Frost & Sullivan's 2015 Customer Value Leadership Award in the retail sector of the North American Enterprise Communications market.

Significance of Customer Value Leadership

Ultimately, growth in any organization depends upon customers purchasing from your company, and then making the decision to return time and again. Delighting customers is therefore the cornerstone of any successful growth strategy. To achieve these dual goals (growth and customer delight), an organization must be best-in-class in three key areas: understanding demand, nurturing the brand, and differentiating from the competition.



Understanding Customer Value Leadership

Customer Value Leadership is defined and measured by two macro-level categories: customer impact and business impact. These two sides work together to make customers feel valued, and confident in their products' quality and long shelf life. This dual satisfaction translates into repeat purchases and a high lifetime customer value.

Key Benchmarking Criteria

For the Customer Value Leadership Award, Frost & Sullivan analysts independently evaluated two key factors—Customer Impact and Business Impact—according to the criteria identified below.

Customer Impact

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

Business Impact

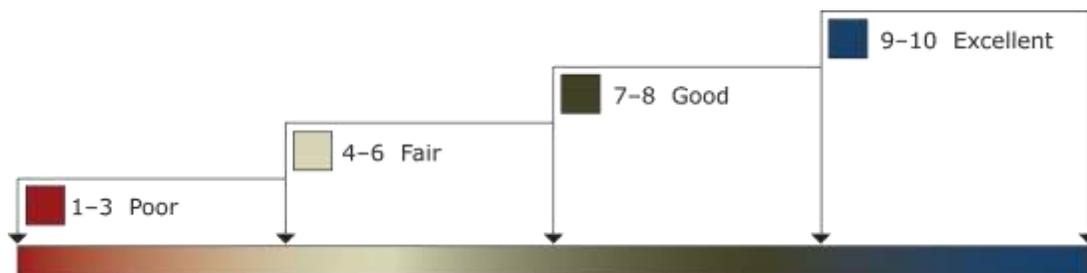
- Criterion 1: Financial Performance
- Criterion 2: Customer Acquisition
- Criterion 3: Operational Efficiency
- Criterion 4: Growth Potential
- Criterion 5: Human Capital

Best Practice Award Analysis for Vertical Communications

Decision Support Scorecard

To support its evaluation of best practices across multiple business performance categories, Frost & Sullivan employs a customized Decision Support Scorecard. This tool allows our research and consulting teams to objectively analyze performance, according to the key benchmarking criteria listed in the previous section, and to assign ratings on that basis. The tool follows a 10-point scale that allows for nuances in performance evaluation; ratings guidelines are illustrated below.

RATINGS GUIDELINES



The Decision Support Scorecard is organized by Customer Impact and Business Impact (i.e., the overarching categories for all 10 benchmarking criteria; the definitions for each criteria are provided beneath the scorecard). The research team confirms the veracity of this weighted scorecard through sensitivity analysis, which confirms that small changes to the ratings for a specific criterion do not lead to a significant change in the overall relative rankings of the companies.

The results of this analysis are shown below. To remain unbiased and to protect the interests of all organizations reviewed, we have chosen to refer to the other key players as Competitor 2 and Competitor 3.

<i>Measurement of 1-10 (1 = poor; 10 = excellent)</i>			
Customer Value Leadership	Customer Impact	Business Impact	Average Rating
Vertical Communications	10.0	9.5	9.7
Competitor 2	9.0	9.0	9.0
Competitor 3	8.5	8.0	8.2

Customer Impact

Criterion 1: Price/Performance Value

Requirement: Products or services offer the best value for the price, compared to similar offerings in the market

Criterion 2: Customer Purchase Experience

Requirement: Customers feel like they are buying the most optimal solution that addresses both their unique needs and their unique constraints

Criterion 3: Customer Ownership Experience

Requirement: Customers are proud to own the company’s product or service, and have a positive experience throughout the life of the product or service

Criterion 4: Customer Service Experience

Requirement: Customer service is accessible, fast, stress-free, and of high quality

Criterion 5: Brand Equity

Requirement: Customers have a positive view of the brand and exhibit high brand loyalty

Business Impact

Criterion 1: Financial Performance

Requirement: Strong overall financial performance in terms of revenues, revenue growth, operating margin and other key financial metrics

Criterion 2: Customer Acquisition

Requirement: Customer facing processes support the efficient and consistent acquisition of new customers, even as it enhances retention of current customers

Criterion 3: Operational Efficiency

Requirement: Staff is able to perform assigned tasks productively, quickly, and to a high quality standard

Criterion 4: Growth Potential

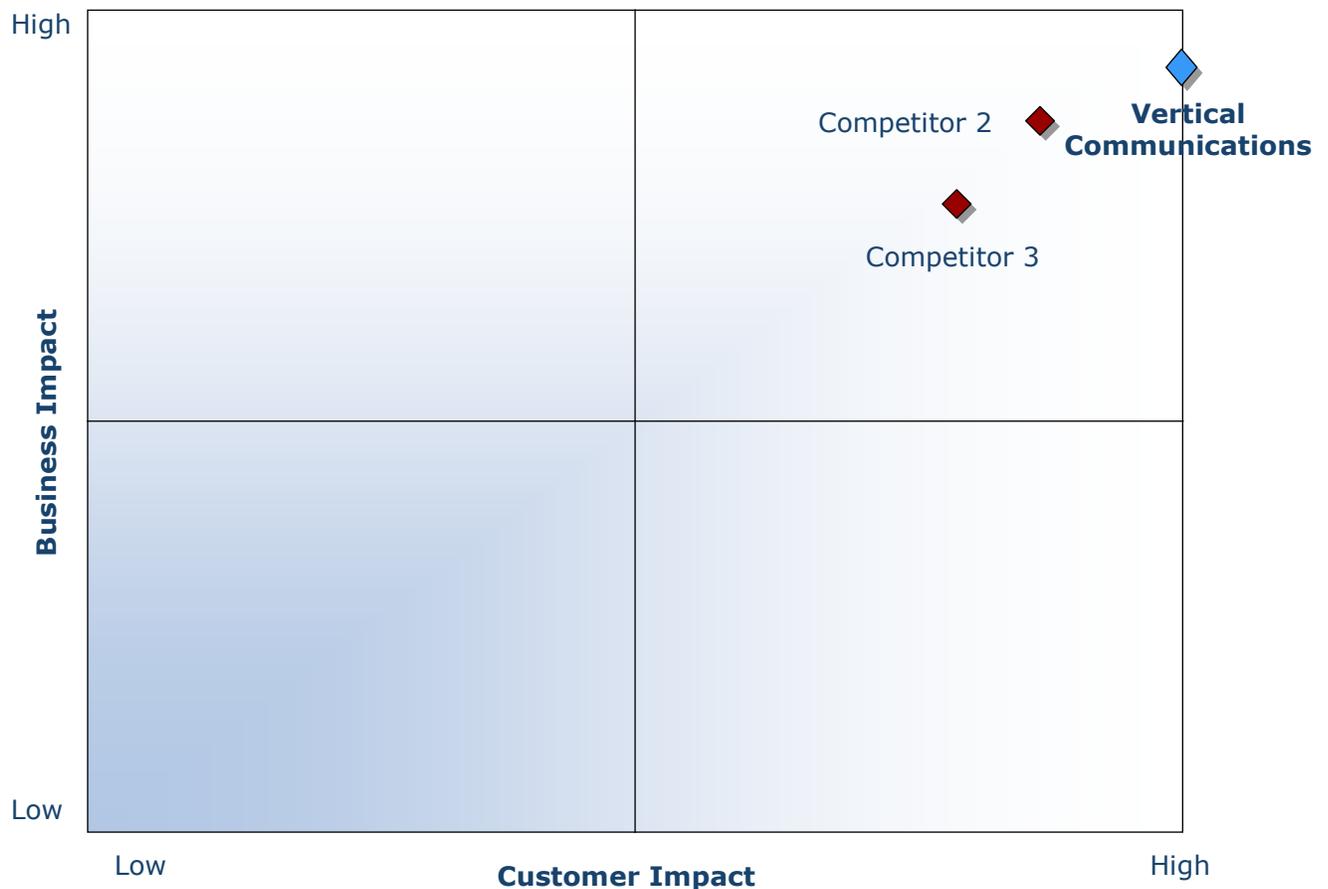
Requirements: Customer focus strengthens brand, reinforces customer loyalty and enhances growth potential

Criterion 5: Human Capital

Requirement: Company culture is characterized by a strong commitment to quality and customers, which in turn enhances employee morale and retention

Decision Support Matrix

Once all companies have been evaluated according to the Decision Support Scorecard, analysts can then position the candidates on the matrix shown below, enabling them to visualize which companies are truly breakthrough and which ones are not yet operating at best-in-class levels.



The Intersection between 360-Degree Research and Best Practices Awards

Research Methodology

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

360-DEGREE RESEARCH: SEEING ORDER IN THE CHAOS



levels.

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

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

STEP	OBJECTIVE	KEY ACTIVITIES	OUTPUT
1 Monitor, target, and screen	Identify award recipient candidates from around the globe	<ul style="list-style-type: none"> • Conduct in-depth industry research • Identify emerging sectors • Scan multiple geographies 	Pipeline of candidates who potentially meet all best-practice criteria
2 Perform 360-degree research	Perform comprehensive, 360-degree research on all candidates in the pipeline	<ul style="list-style-type: none"> • Interview thought leaders and industry practitioners • Assess candidates' fit with best-practice criteria • Rank all candidates 	Matrix positioning all candidates' performance relative to one another
3 Invite thought leadership in best practices	Perform in-depth examination of all candidates	<ul style="list-style-type: none"> • Confirm best-practice criteria • Examine eligibility of all candidates • Identify any information gaps 	Detailed profiles of all ranked candidates
4 Initiate research director review	Conduct an unbiased evaluation of all candidate profiles	<ul style="list-style-type: none"> • Brainstorm ranking options • Invite multiple perspectives on candidates' performance • Update candidate profiles 	Final prioritization of all eligible candidates and companion best-practice positioning paper
5 Assemble panel of industry experts	Present findings to an expert panel of industry thought leaders	<ul style="list-style-type: none"> • Share findings • Strengthen cases for candidate eligibility • Prioritize candidates 	Refined list of prioritized award candidates
6 Conduct global industry review	Build consensus on award candidates' eligibility	<ul style="list-style-type: none"> • Hold global team meeting to review all candidates • Pressure-test fit with criteria • Confirm inclusion of all eligible candidates 	Final list of eligible award candidates, representing success stories worldwide
7 Perform quality check	Develop official award consideration materials	<ul style="list-style-type: none"> • Perform final performance benchmarking activities • Write nominations • Perform quality review 	High-quality, accurate, and creative presentation of nominees' successes
8 Reconnect with panel of industry experts	Finalize the selection of the best-practice award recipient	<ul style="list-style-type: none"> • Review analysis with panel • Build consensus • Select winner 	Decision on which company performs best against all best-practice criteria
9 Communicate recognition	Inform award recipient of award recognition	<ul style="list-style-type: none"> • Present award to the CEO • Inspire the organization for continued success • Celebrate the recipient's performance 	Announcement of award and plan for how recipient can use the award to enhance the brand
10 Take strategic action	Upon licensing, company may share award news with stakeholders and customers	<ul style="list-style-type: none"> • Coordinate media outreach • Design a marketing plan • Assess award's role in future strategic planning 	Widespread awareness of recipient's award status among investors, media personnel, and employees

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best in class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages almost 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from 31 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.