

WHITE PAPER

Cisco's Acquisition of TANDBERG: Customer, Channel, and Market Impact

Sponsored by: Cisco

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EXECUTIVE SUMMARY

Cisco's acquisition of TANDBERG represents an inflection point in the video conferencing and telepresence market. It is a step toward blurring the lines between the various forms of video conferencing endpoints with the goal of creating a single, standards-based ecosystem for any-to-any video calling. Cisco moved quickly after closing the deal in April 2010 and has already integrated the full line of TANDBERG video endpoints and most TANDBERG infrastructure components with its Cisco TelePresence systems — the product line that coined the term for the high end of the video conferencing market. Cisco has also integrated both its own and TANDBERG's video conferencing and telepresence systems with its WebEx assets.

IDC believes that with this acquisition, the two companies bring complementary strengths to the table. For Cisco, TANDBERG provides:

- ☒ 1,500 employees with deep expertise in engineering, marketing, and sales of video systems
- ☒ A large installed base of video conferencing customers
- ☒ A broad portfolio of video products ranging from video phones and high-definition Webcams to high-end telepresence suites that complement Cisco's TelePresence branded offerings
- ☒ A line of video conferencing multipoint control units (MCUs)
- ☒ Interoperability agreements and software architecture to connect to most major call control/SIP managers
- ☒ A channel with deep experience, broad relationships, and strong capabilities in audio/visual (AV) and video conferencing
- ☒ A business in a growth market with profit margins at 66% that are in line with Cisco's traditional margins

For TANDBERG, Cisco provides:

- ☒ A wider global footprint than the one TANDBERG has already built
- ☒ A channel interested in a wider variety of video products beyond telepresence

- ☒ Deeper, higher-level relationships with service providers and systems integrators
- ☒ Training and customer support capabilities
- ☒ A deep and vast unified communications and collaboration (UC&C) portfolio
- ☒ The ability to access and influence emerging video-specific functionality in Cisco's L2-L3 network gear

Challenges also exist for Cisco/TANDBERG, including finishing ongoing regression testing of legacy TANDBERG and Cisco systems (especially TANDBERG systems already integrated into non-Cisco video conferencing environments); unifying and optimizing enterprise customers' video streams; and maintaining a sharp focus on network management, scalability, and optimization. Interviews with both Cisco and TANDBERG customers and channel partners confirmed that the install base is encouraged by the acquisition and sees it as beneficial both to itself and to the industry at large.

PROJECT METHODOLOGY

For this white paper, IDC conducted interviews with seven customers and channel partners supplied and prequalified by Cisco. The goal of these interviews was to obtain the customers' overall perceptions regarding the acquisition, collect quantitative and qualitative data on how the acquisition impacts customers' business, and collect testimonials regarding the deployment of video conferencing and telepresence solutions from Cisco and/or TANDBERG.

SITUATION OVERVIEW

Video conferencing has gone through a number of disappointing fits and starts over the years. Challenges have included the failure of video conferencing to be integrated into business culture, technological issues, and difficulty of use for businesses and consumer customers. IDC believes that this situation is currently changing and that over the next five years, recent gains in awareness of the technology — supported by IP video and near ubiquitous, global Internet access — will move video conferencing from hype to a tool that the mass-market will become as familiar with and comfortable using as the telephone.

One factor that IDC believes will contribute to increased penetration in the future is customers' growing familiarity with Web-based video. Consumers are interacting more than ever with video services like YouTube, which is the third most visited Web site in the world, and services like Skype.

Other contributing factors are the immediacy and the quality of service that telepresence specifically delivers. Telepresence was the first technology that truly delivered an end-user experience that made scheduling a video session a viable alternative to getting on a plane. This is because telepresence strikes the unique balance between enabling highly engaging personal interaction and the immediacy of interaction across time and space.

The modern Internet not only has globalized our economy but also has made it truly simultaneous in nature, and as IP networks get faster, so will business transactions. We have already seen this phenomenon take hold in the financial sector where fractions of seconds are true differentiators for investment and wealth management firms. Communications and collaboration activities are equally mission critical to business and will need to catch up to the immediacy of data transactions like equity trades. Video conferencing not only provides for more engaging and efficient person-to-person interactions but also allows participants to read nonverbal communication like body language and facial expressions.

Demand and awareness have also skyrocketed. Examples include the following:

- ☒ Despite the worst economic recession in decades, the dedicated video conferencing and telepresence market grew 16.7% year over year to US\$1.9 billion in 2009 and will reach US\$8.8 billion in 2014.
- ☒ Telepresence unit shipments, which include but are not restricted to room-based systems, totaled roughly 4,000 in 2009. IDC forecasts that the number of telepresence systems shipped in 2010 will be over 7,000 and that the installed base for telepresence will eclipse 127,000 systems worldwide by 2014.
- ☒ Worldwide subscribers of IP communications portals (accessed primarily on personal computing devices like PCs, tablets, and mobile phones) reached 412 million in 2009 and will eclipse 1.6 billion in 2013, with a five-year CAGR of 42.9%.
- ☒ Thirty-four percent of all calls made between subscribers of Skype — the leading IP communications portal — include video.
- ☒ In 2009, Cisco and other providers leveraged mass media to increase awareness of the technology. Cisco arranged TelePresence placements on popular television programs like "24" and "30 Rock" and released a line of commercials starring actress Ellen Page.

Make no mistake, video conferencing has officially arrived and will be increasingly visible in the business and consumer markets in the immediate future. While behavioral and technical hurdles still remain to true any-to-any video conferencing across endpoints and enterprise and carrier networks, Cisco's acquisition of TANDBERG is another step moving the industry in the right direction.

Who Buys, Uses, and Manages Telepresence Within a Business?

Given the expensive nature of deploying and successfully operating telepresence within a business environment, the great majority of deployments have been top-down exercises and most initial deployments have been for senior executive/board-level use. But in interviews with customers, IDC observed that as they scale out telepresence, increasing the number of systems, integrating it with other video conferencing systems, and encouraging its use, it becomes viral and moves quickly from senior-level management to regional management and then even further down

the organizational chart. One Cisco customer gave every employee access to its approximately 15 Cisco TelePresence rooms across three continents from the start. This company integrated its telepresence scheduling/booking system into its travel portal, which it credits with dramatically boosting usage. This company now sees consistent Cisco TelePresence utilization levels of 85% during normal business hours.

Today, most companies use telepresence for internal activities, although a small percentage of telepresence sessions conducted by customers interviewed for this project were with their customers and/or partners via B2B gateways. For these customers, maintaining high levels of quality of service (QoS) remains difficult. Several Cisco customers stated that the reason they went with Cisco TelePresence over competing systems was because one or more of their partners were already using Cisco, and they wanted to be sure they could connect with them. One customer explained that the "image we portray to our most important customers and partners was a very big part of the justification [to purchase Cisco]."

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Another point to consider, however, is that while telepresence allows senior-level executives to meet and engage more frequently with larger groups of their peers around the globe, once they are committed to a mission-critical meeting over telepresence, "there is no alternative," a Fortune 100 financial services organization said. This company explained that when "all have agreed not to fly and they're all in different countries, if there are any issues with the system, it's not like they can all go walk around the corner and meet in a different conference room." And while Cisco TelePresence system failures are not common, the mission-critical aspect of the technology is something to consider.

Every customer interviewed agreed that managing and supporting telepresence are not simple tasks. Typically, customers run telepresence on a standalone network. Telepresence is predominantly managed by IT, but it also requires the support of video conferencing and AV staffs as well as network and even telephony support staffs. One large multinational company interviewed decided to outsource not only the installation of telepresence, a common theme among interviewees, but also the ongoing maintenance and support of the equipment and the entire telepresence network. This company leverages the concierge services of the same managed services provider.

There are many ways of managing and supporting telepresence, but a successful deployment requires the expertise, visibility, and budget of IT organizations across business units as well as a corporatewide commitment to the technology. Requirements for success include strategic, well-planned approaches to the technical aspects, operational aspects, and business goals of telepresence.

Common Business and Technical Requirements and Reasons for Deploying

When interviewees were asked about their business and technical requirements and their reasons for deploying telepresence, four primary themes arose:

- Interoperability with existing video conferencing investments is a must.

- ☒ Telepresence is the pinnacle of visual communications, and its use encourages less frequent executive-level travel.
- ☒ Instantaneous collaboration and business agility require no ROI metrics.
- ☒ Working with a trusted provider with both communications and networking expertise is extremely important.

Most companies that have invested in telepresence have some experience with video conferencing. Many of the Cisco customers interviewed had hundreds of TANDBERG, Polycom, and desktop systems deployed prior to investing in Cisco TelePresence. The reason these customers have invested in telepresence is not because they have been dissatisfied with their current IP and ISDN video conferencing solutions and planned to switch over to Cisco TelePresence; instead, telepresence needed to be integrated into these existing systems for almost every company interviewed. No company wants to create communications silos.

One customer explained that "integration has been a bit painful, but there is some degree of integration [that's possible between telepresence and other video conferencing systems]. When you do that, you degrade the experience from the great almost lifelike telepresence experience. But you do get the convenience to enable someone to join the conference that is in a country that doesn't have a telepresence room at the moment." Another explained, "We tested interoperability of Cisco with TANDBERG, and also Cisco with Polycom, on a normal ISDN gateway. The test was very successful. [This was required] because before we started the telepresence project, we had invested a lot of money to buy six new Polycom systems."

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IDC's analysis of such comments is that while QoS and the level of immersiveness that separates telepresence from traditional video conferencing are primary drivers of adoption, the ability to connect over video with any employee over any video conferencing system is even more important. This is a good example of Metcalfe's law, which states that the value of a telecommunications network is proportional to the square of the number of connected users of the system. As telepresence and all forms of video conferencing are optimized over time, this concern will fade; however, for now, customers are more concerned with providing video conferencing to as many users as possible.

The Business Benefits of Telepresence

Throughout the recession, telepresence was heavily publicized and marketed as a means to cut travel costs. It can also help companies reduce their carbon footprint. These two factors have driven realizable business benefits, especially from a PR standpoint, and companies are seeing significant results relative to these KPIs. For example, since deploying telepresence two years ago, one financial services organization was able to realize savings in travel expenses of US\$2.3 million on a net basis (i.e., after taking into account the purchase and operating cost of the solution) and 1.2 million kilograms of carbon. And while cost savings and operational improvements have been the primary drivers of video conferencing and telepresence adoption to date, some of the world's leading companies are thinking about telepresence in an even more strategic light.

For a number of companies adopting telepresence, business goals include improving collaboration, growing internal and external relationships, and increasing business agility. One large pharmaceutical company explained that while telepresence reduces travel and related costs, one of the biggest advantages is that it helps companies to become more agile. With telepresence, business processes can be accelerated. "It makes it possible to shorten the decision cycle, leading to a competitive advantage." Another explained, "We have fundamental focus on collaboration now, both internal within the company and external. And the ability to leverage this kind of technology to talk to senior leaders around the company, around the world, as well as some of our business customer executive contacts, is very appealing to us. We want to be able to connect to all our important customers as easily as we can. A technology like telepresence is really the next best thing to always being there ourselves."

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One of the most intriguing and forward-looking statements was made by a company that both resells telepresence and uses it in its own business. This company is investing in telepresence to better prepare it for future business and operations models. This company explained that "as an IT provider, we are able to serve any future mode of operations, from managed telepresence services as well as for customer service." IDC expects video conferencing and telepresence usage for B2B and B2C activities like virtual doctor-patient interactions to be a key competitive differentiator in the future. A key takeaway from this study is that telepresence allows companies to speed up decision making and improve internal, customer, and partner relationships by removing many of the restrictions of time and space. Time zone challenges will always be unavoidable, but all interviewees agreed that telepresence improves their company's ability to act and react as a unified yet distributed organization.

Key Technical Considerations

All interviewees confirmed that delivering high-quality telepresence requires a significant capital outlay and a highly capable supporting infrastructure and support staff. Integration with existing systems is also costly. It is therefore critical to have a corporatewide commitment to telepresence and video conferencing, both to provide the necessary support and to achieve the desired return on investment. Several interviewees provided comments along these lines:

Telepresence requires a pretty demanding infrastructure in the sense that it makes pretty large network demands, so you have to get your network right. It also requires very large video systems, so there is quite a lot of video expertise needed.

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They are expensive rooms to put in place. That's why we don't have very many of them yet. As the usage increases, we have all those fringe participants that want to get on the call in one way or another; then we have to perform audio integration, or TANDBERG integration, or something else. Integrating this adds complexity and potential instability to the infrastructure.

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We have never heard anyone complain about the experience. The only thing they complain about is the amount of bandwidth that is required to run the solution. In particular, we have many customers located in emerging countries, such as Africa, South America, and across Asia. The cost of operating telepresence in these locations can be prohibitive for some of these smaller companies in emerging markets due to the amount of bandwidth needed to run the solution.

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These are very important considerations for customers to make when evaluating a telepresence solution, especially as it relates to scalability. However, the interviews also confirmed that achieving global collaboration, improvements in business processes, and competitive advantage requires a significant investment in terms of both capital and organizational commitment. A Fortune 100 consumer goods company said it well:

When you start introducing video into your network, it affects that network substantially. However, video is a very important part of our network infrastructure and architecture; it's also a very important part of our collaboration infrastructure. Otherwise, we wouldn't have made this considerable investment in telepresence.

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For integration with other video applications like recoding, streaming, and forwarding, most customers interviewed currently use third parties like Kontiki. Cisco also offers this type of functionality, with a number of recent product and service announcements coming from its Digital Media Systems group. In the future, Cisco will look to package these types of applications as part of its holistic enterprise video delivery strategy.

Customer and Channel Reactions to the Acquisition of TANDBERG

Overall, the Cisco and TANDBERG customer and channel partners IDC spoke with were overwhelmingly positive toward the acquisition. TANDBERG has been a market leader in video conferencing for decades, has maintained a strong balance sheet, has a global presence in over 90 countries, and is known for its strength in technical engineering. Many of the customers and channel partners interviewed commented that TANDBERG's expertise in enterprise video conferencing is second to none. The aspect of the acquisition that customers were most encouraged by is that it combines the world's leading networking company with a video expert like TANDBERG.

Customers believe that this combination is integral to the delivery of video conferencing and telepresence considering the interdependencies between network and video. As one customer put it, "We are very pleased about the acquisition. We are a very big TANDBERG user and a very big Cisco networking and communications customer as well. TANDBERG engineering has great technical prowess. Cisco is a little better with the business case. Hopefully the acquisition will form some synergies and leverage the strengths of each company. So this is all good news. "

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For companies with more forward-thinking views on the use of video in the enterprise beyond conferencing, the acquisition was also encouraging. One customer explained, "We have video conferencing, we have digital signage, we have IP-based television — all of these things today deal with video streams, but the technologies are completely different. What we need is a homogeneous technology landscape ... I think this can happen now that TANDBERG and Cisco are together."

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The channel partners IDC spoke with are encouraged by the acquisition for the future of their own business with Cisco/TANDBERG and for the market as a whole. As one channel partner put it:

I think it's very good for the market overall. There is some overlap with the TANDBERG solution and the Cisco TelePresence suite in terms of high-definition, fully immersive solutions, but we believe that they are complementary technologies, even though there is some degree of overlap. We believe what it will do for the market is to get the market to adopt video solutions more readily. As a systems integrator, we are in a unique position of putting together two good solutions, or in some cases, we can choose one solution over the other if it is a better fit for the customer. We are a massive Cisco partner. Net-net, we think the acquisition is good for the market. And it's only a matter of time before the TANDBERG products make their way further into the massive Cisco partner and customer base that exists.

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The strength of the TANDBERG channel and the importance of the channel in helping customers navigate the complexity of deploying video and telepresence solutions were large drivers behind the acquisition. Forty percent of Cisco's TelePresence business unit revenue is derived from professional services. The complexity of installation and the need to drive cultural changes into the organization will continue to require advanced services from Cisco and partners like Accenture, IBM, WiPro, Tata Communications, Dimension Data, and T-Systems. TANDBERG's channel and product line complement those of Cisco by bringing the ability to sell into smaller environments without the high touch still required at the high end.

The most prominent challenges that customers and channel partners raised were economic in nature. Customers IDC spoke with were concerned with the potential price premiums Cisco might add to TANDBERG products and services as well as the removal of competition in the market. One customer did express slight concern regarding the internal politics and alignment of the companies but quickly followed up with " ... but Cisco is a well-oiled machine; they are pretty at good mergers and acquisitions. They have done so many over the past few years." IDC agrees with this statement.

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Like all acquisitions, this one carries some risk, especially because it stretches outside the bounds of Cisco's traditional geographic comfort zone; however, Cisco has not given any indication that it cannot make an acquisition of this size and scope work. A successful integration between Cisco and TANDBERG would also be a case study of how to accomplish a difficult business transaction spanning two continents with video as the primary enabler, and it would also portend future Cisco acquisitions outside the United States.

FUTURE OUTLOOK

IDC believes there are four key elements to the future success of a combined Cisco/TANDBERG and, by extension, to the market as a whole:

- ☒ Any-to-any interoperability, telepresence exchange expansion, and open standardization
- ☒ Video visibility, scalability, planning, and management on the network
- ☒ Enabling emergent business and delivery models (e.g., managed, public, and hosted services)
- ☒ Creating homogeneous environments for all video applications

TANDBERG has significant intellectual property, technology, and experience as a participant in many of the interoperability battles that have been fought to date. Meanwhile, Cisco has expended significant effort evangelizing Cisco TelePresence and currently has more than nine service providers that publicly offer intercompany telepresence services within the reaches of their own networks. Further, IDC is optimistic about the future of intercarrier telepresence service, as IDC has seen intercarrier telepresence demos between AT&T, BT, and Tata Communications, among others. The good news is that intercompany telepresence capability is available to very large customers on a custom basis today. Expanding the population of potential endpoints that could benefit from true intercompany calling enabled via intercarrier agreements expands the cost and use cases of video collaboration significantly. While intercarrier calling capability is likely to remain at the high end of the market for some time, it will almost certainly evolve faster than any other real-time communications medium in history.

CUSTOMER SCENARIOS

Channel Partner: Partner Conferencing and TelePresence Offerings

This channel partner is one of the world's largest telecommunications companies. Its Conferencing Services and TelePresence offerings build on Cisco TelePresence technology to help customers implement business-to-business multipoint bridging capability so that they can interface with employees, customers, and partners around the world.

Key service offerings include:

- ☒ **TelePresence Solution.** VPN transport; Web-based application for scheduling, directory assistance, and reporting; and "meet-me" capability for multipoint intercompany meetings.
- ☒ **Video Conferencing Services.** Ability to handle any mix of IP and ISDN sites on the same call and support for point-to-point and multipoint calls with integration of video, audio, and data conferencing on the same multipoint call

Feedback on Acquisition

IDC interviewed a senior product marketing manager who has over 12 years of experience working for the partner's video conferencing division. Over this period, he has seen a number of changes to the technology, culture, and use of video conferencing, and he provided great perspective into the historical, current, and future states of video conferencing for business use.

From the partner's perspective, the most fundamental and detrimental change to the video conferencing industry occurred when it shifted away from ISDN and private VPNs to haphazard IP-based "standards" that were never universally adopted. Vendors have changed philosophies on how to deliver video conferencing in the past and continue to do so today. As a case in point, consider vendors' shifting attitudes toward delivery via MCUs versus switch-based delivery.

This senior manager was encouraged by the acquisition and its promise of accelerating the interoperability between TANDBERG and Cisco systems (note that since this interview was conducted, Cisco has made a number of announcements toward this end). According to the manager, "What the acquisition does is simplify things for us. There is one less consideration for multiple endpoints. It took one player out of the game. So you won't have to worry going forward if TANDBERG communicates with Cisco. However, [our company] needs to remain somewhat equipment agnostic and needs to support everybody across our [global] network."

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In addition, he discussed the partner's view toward Cisco's Telepresence Interoperability Protocol (TIP), which, according to Cisco, enables support for SIP, H.264, G.711/G.722, and RTP and any standards-based H.323, SIP, or SCCP video conferencing endpoint to interoperate with Cisco TelePresence. He said, "In the standards-based world, everything is done through an MCU, which does things like transcoding and continuous presence. They physically mix everything together like you do on an audio bridge, then they send the same signal out to everyone. Cisco is actually a switch at the endpoint. So you have two completely different things going on here. So getting those things to work together is very different. TIP is basically, as far as I'm concerned, a software bridge between standards based and Cisco based."

IDC Analysis

IDC agrees with the partner that the shift toward inconsistent IP-based standards was a backward step for the video conference industry and that interoperability is a key success factor in the widespread adoption of telepresence and video conferencing in the business environment. IDC believes that the level of interoperability required to support intercompany video conferencing beyond proprietary environments will take five years or more to come to true fruition. However, as the senior manager we interviewed indicated, a combined Cisco/TANDBERG entity should accelerate interoperability between Cisco, the telepresence provider with the leading market share, and TANDBERG, the market share leader in video conference unit shipments (although not installed base).

On June 8, 2010 AT&T announced intra- and inter-company interoperability between Cisco TelePresence and leading manufacturers' standard- and high-definition endpoints via its AT&T Business Exchange, and on July 1, 2009 AT&T, BT and Tata

Communications demonstrated a multipoint, intercompany Cisco TelePresence meeting across multiple carrier networks. Both of these significant announcements demonstrate that providers of video conferencing and telepresence equipment as well as related-services are all interested in the global interconnectivity and federation of video conferencing and telepresence systems.

IDC believes that TIP will be contested in the marketplace by competitors but will ultimately become an important piece of the standardization effort. Due to its market power, Cisco has the ability to catalyze markets in ways others cannot, and its TIP initiative is but a piece of an overarching strategy to drive video conferencing, telepresence, and other video applications for mass-market business use.

Customer: Global Beverage Manufacturer

One of the best-known brands in the world, this global beverage manufacturer implemented a video conferencing strategy to improve collaboration between its thousands of companies around the world.

Key Requirements and Benefits

Prior to evaluating and ultimately deploying Cisco TelePresence, the company had already built out a TANDBERG video conferencing network consisting of 200 endpoints across its global offices, supporting endpoints ranging from desktop units to high-definition 50-inch room systems. The company's CTO was extremely keen on ensuring interoperability between TANDBERG and Cisco TelePresence and explained that, even prior to the acquisition, Cisco was easily interoperable with standard-definition TANDBERG systems. Prior to selecting Cisco TelePresence, the company conducted a multivendor evaluation and was looking for a vendor that could help it bring video conferencing "to a new level, not replacing anything, just making it [the application] more capable."

IDC was interested to hear about the company's efforts to drive awareness of video and telepresence at the senior executive level. Because the business's leadership has been exposed to the capabilities and benefits of high-end Cisco TelePresence solutions, it is encouraging usage throughout its organizations and embracing it as a way to do things like deliver companywide broadcasts. Exposure to telepresence has also made senior leadership more aware of the benefits of standard video conferencing systems like its TANDBERG units. And in a sort of feedback loop, deeper utilization and ingrained video usage in the company's culture are driving even further buy-in at the senior executive level.

To win with telepresence, companies cannot cut corners. In words of the CTO, "If video is not the superior experience it should be, then it won't get usage; it won't have an impact on our business. It's our responsibility to make sure it works as promised, and we'll certainly invest in any infrastructure that makes that possible."

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Feedback on Acquisition

The CTO was "very pleased" with the acquisition, which is not surprising given the company's historical investment in TANDBERG and its decision to deploy Cisco TelePresence over other telepresence solutions in the market. Companies like this that have TANDBERG and Cisco already working in tandem are well positioned to move forward with the combined entity as they expand their video capabilities.

IDC Analysis

IDC was pleased to hear this major company talk about how and why it decided to deploy Cisco TelePresence and how it is augmenting telepresence with its legacy TANDBERG video endpoints. The customer understands many if not all of the technical and cultural requirements to drive video adoption and utilization within its business. The key take away from this scenario is that companies evaluating video conferencing and telepresence must weigh the impacts of going with a less expensive solution (not only in terms of initial capital expense but also ongoing operating expenses including network service delivery, education, and training) against investing what is required to get employees to embrace video from top to bottom.

Customer: Major Pharmaceutical Manufacturer

A global giant in the pharmaceutical industry, this customer manages over 300 operating companies and has over 100,000 employees worldwide.

Key Requirements and Benefits

The company is a pre-acquisition TANDBERG customer and provided IDC with insight into how and why it uses both TANDBERG standard-definition video conferencing and TANDBERG telepresence, the T1- and T3-based systems TANDBERG released in early 2009. The company makes a point of understanding its network and the impact video has on it. It considered both TANDBERG and Cisco TelePresence during its acquisition process, and one of the primary reasons it chose TANDBERG was the fact that TANDBERG is based on open protocol standards; thus, it is much easier for the company to monitor traffic with TANDBERG than with Cisco. While TANDBERG T1 and T3 systems are highly bandwidth intensive — like any true telepresence offering on the market — the company finds that being able to monitor traffic against other applications allows it to allocate, scale, and plan accordingly.

The customer has identified numerous benefits of using TANDBERG, ranging from reducing travel and related expenses to accelerating time to market and improving collaboration between globally dispersed teams. According to the company, because "the members on our teams are globally distributed, it makes it much easier for all participants to come together, to review results, to decide new things, and so on. This has sped things up a lot for us. And productivity is much better, if you think about how much time you are currently spend waiting at airports and traveling."

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Feedback on Acquisition

The company was encouraged by Cisco's acquisition of TANDBERG but for a different reason than most of the other customers interviewed. The key benefit from its point of view was the combination of TANDBERG video expertise with Cisco networking expertise. The company has plans to expand the role of video within its business and would like to architect its various video applications (including IPTV, digital signage, recording, and streaming) in a more homogeneous way. TANDBERG's roots lie deep within holistic video delivery and extend well beyond video conferencing alone, and the customer looks forward to seeing what Cisco/TANDBERG has in store over the next two to three years and beyond.

IDC Analysis

IDC was interested to learn how this company viewed Cisco and TANDBERG prior to the acquisition and how it views the combined entity moving forward. The strengths of a combined Cisco/TANDBERG for the business go well beyond an end-to-end portfolio of video conferencing endpoints, intelligent software, and supporting infrastructure components. For a company like this, whose business objectives and goals require video applications from conferencing to digital signage to IPTV, TANDBERG's intellectual property and global network of delivery partners are just as important as the endpoints themselves. Cisco is also aggressively building out its capabilities in this area and has strong partnerships as well. But given the company's holistic goals, Cisco should take the customer's criticism of its proprietary environment seriously and should maintain the openness of TANDBERG's solutions if for no other reason than to provide network visibility.

CHALLENGES/OPPORTUNITIES

IDC sees a number of challenges and opportunities for Cisco/TANDBERG as it completes its merger integration and brings joint products and services to market. Challenges include interoperability and overcoming network and other component limitations, while opportunities include enabling the channel, aligning the two companies' portfolios of offerings, continuing to drive mass-market awareness, and building out additional partnerships and acquisitions.

Challenges

Interoperability. Unlike the previous generation of ISDN-based video conferencing, today's IP-based video conferencing and telepresence systems lack telephony-like standards. As a result, interoperability will remain the most significant barrier to mass-market adoption and cultural acceptance.

The primary barrier to achieving interoperability is overcoming political challenges, with technical, cost, and cultural hurdles piling in comparison. Interoperability is a complex beast that extends beyond the obvious need to build interoperability between video codecs and video endpoints into call routing and SIP session management, identity management, service provider billing and peering arrangements, Web services standards, and even network neutrality. Achieving deep interoperability and standards will accelerate Metcalfe's law. Further, interoperability and standards not

only will fuel market growth but also will provide investment protection for customers. Cisco's own unified communications portfolio is now large enough that integration, security, and capacity offload across all of Cisco's platforms from MCUs to Unified Communications Manager to WebEx is a complex challenge.

Network and Other Component Limitations. The expense and difficulty of supporting the network itself were and will continue to be primary challenges for customers and vendors providing telepresence services. However, video conferencing and telepresence are dependent on not only the network but also the entire value chain, which includes processing power, screen capabilities and resolution, carrier and access-network capabilities, associated audio components, and so on.

In a recent *Boston Globe* article, Google engineer Stephen Vinter discussed speeding up the Internet experience, and his arguments can just as easily be applied to video conferencing and telepresence. Vinter explained that Google is building its Chrome browser and Cloud OS to make the entire experience faster. Google is also building tools for Web site creators to help build faster-loading pages and modifying the Web's basic communications protocols so that computers will download pages more quickly. The point is that, like Internet browsing, video conferencing and telepresence depend on optimizing not just one component (i.e., the enterprise network) but all of the components that are needed to deliver the service. Technologies like Cisco/TANDBERG's ClearPath, which minimizes the effects of packet loss over networks not originally designed for video, are just the tip of the iceberg. With Cisco's networking expertise and TANDBERG's video expertise, these are areas Cisco may be able to capitalize on.

Opportunities

Maximize Channel Enablement Services and Education Around Vertical Solutions. Many value-added resellers (VARs) and other channel partners have niche expertise in serving specific industry verticals, business sizes, and local markets. While Cisco has proven to be very capable of enabling and educating high-end global channel partners like AT&T, BT, and Dimension Data to provide its telepresence solutions, it must also build out similar channel enablement strategies for smaller partners. Cisco should focus particularly on those acquired via the TANDBERG acquisition and deliver the know-how, tools, and ability to sell "business value" for video conferencing and telepresence solutions. Cisco must also educate its entire channel on how to package video conferencing and telepresence with its UC&C solutions like Unified Communications Manager and Intercompany Media Engine (IME) and its WebEx assets. Furthermore, as Cisco builds out vertically focused Cisco TelePresence solutions like its HealthPresence offering, it should target solutions to partners that focus on those vertical markets.

Continue to Drive Mass-Market Awareness. Cisco has done a tremendous job driving awareness of telepresence and video at large. Its acquisition of Pure Digital Technologies (the manufacturer of Flip) marked its entrance into the consumer/prosumer market for personal video recording, and its marketing and advertising efforts now appeal far beyond the IT world. Cisco should continue to evangelize video and its imminent impact on business and society as a whole. The next phase of Cisco/TANDBERG's efforts will be to drive its high-end capabilities

downmarket and to continue to tailor video to specific vertical markets and expand its application beyond traditional conferencing.

Align Acquired TANDBERG Portfolio and Cisco TelePresence Solutions with Digital Media Systems Group. The future of business video goes well beyond video conferencing and telepresence. Cisco is aware of this and intends to capitalize on every video-related application and infrastructure component. As Cisco invests in video, it should seek to create seamless alignment between its video conferencing and telepresence solutions and solutions such as recording, streaming, sharing, and digital signage from its Digital Media Systems group. It should also continue to drive the cultural adoption of video via its Flip portfolio and continue to blur the lines between consumer/prosumer and business video applications, services, and devices.

Build Out Partnerships and Make Additional Strategic Acquisitions. The partnerships Cisco has established within initiatives such as its TelePresence Exchange community include not only global carriers like BT and AT&T but also hospitality and venue providers like Starwood Hotels, Taj Hotels Resorts and Palaces, and Marriott Hotels and Resorts. This ecosystem also includes American Express Business Services, which lists telepresence facilities on its travel Web site as an option in lieu of actually traveling. Cisco should continue to scout innovative companies and business verticals that could be part of the TelePresence Exchange environment.

Cisco should also build on video conferencing, in which it now has a dominant position, and expand into other video application capabilities. It could achieve this goal by looking at acquisitions of companies such as Kontiki or VBrick for recording and streaming or Vidyo for desktop conferencing.

CONCLUSION

Cisco and TANDBERG customers and channel partners interviewed for this study are by and large very encouraged by the acquisition. Many early Cisco TelePresence adopters not only are looking to expand the number of telepresence systems within their network but also want to augment those deployments with other video conferencing endpoints and desktop systems. Cisco's acquisition of TANDBERG accelerates the interoperability timeline between legacy and future Cisco/TANDBERG systems and also makes Cisco a one-stop shop for end-to-end video conferencing and required networking components.

Cisco TelePresence partners are quickly building out their capabilities and global exchange networks for intercompany conferencing. Cisco is the leader in building out partnerships with global telecommunications providers to support true intercompany video. Providers such as AT&T with legacy video conferencing businesses have deep technical intellectual property and experience in this space, and many are now building new opex-driven models to lower the cost barriers to entry for their customers.

As new business models and market maturity make video and telepresence more affordable over time, the tenets of Metcalfe's law will increasingly take hold. High-end Cisco TelePresence systems are priced at a premium for a reason, and IDC

anticipates no significant price erosion for Cisco TelePresence, even as many of TANDBERG's high-end endpoints deliver near-telepresence levels of service. The combined entity will give customers and channel partners greater flexibility to design a video conferencing strategy with Cisco from low end to high end.

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