

September 23, 2009

VIDEOCONFERENCING - BY THE NUMBERS

COMPANY(S) MENTIONED:

 Cisco
 Polycom
 Tandberg

ANALYST(S):

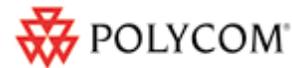
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Wainhouse Research Score	3.5
Our rating scale:	
Will affect all vendors/users	5.0
Will affect most vendors/users	4.0
Will affect some vendors/users	3.0
May affect a few vendors/users	2.0
Will not affect vendors/users	1.0

Distribution Note:

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The Economy

The effect of the global economic slowdown has been reported in numerous business publications. A common question over the ages has been whether an economic slowdown would a) help the videoconferencing (VC) industry because videoconferencing is widely viewed as a way to cut operational costs, or b) hurt the videoconferencing industry because videoconferencing purchases are traditionally viewed as capital expense items that can be postponed easily. The answer of course is yes – and the data suggests that economies in recession tend to slow the purchase of new videoconferencing solutions, but the slowdown is much less severe than that of other industries.

For over a decade, Wainhouse Research has been collecting quarterly data on factory shipments from videoconferencing vendors. The data presented here is for group videoconferencing systems – this includes set top devices, rack mount systems, split systems, and executive “all in one” systems. The category does NOT include videophones or PC software solutions.

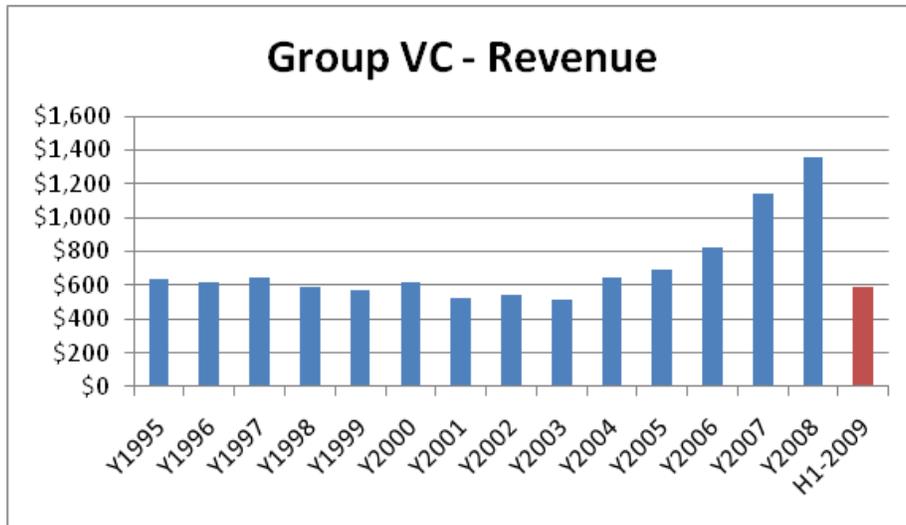


Figure 1: Group VC - History of Factory Revenues

The data in figure 1 above and figure 2 below shows that for many years beginning in 1995, vendor revenues were basically flat while unit shipments continued to grow.

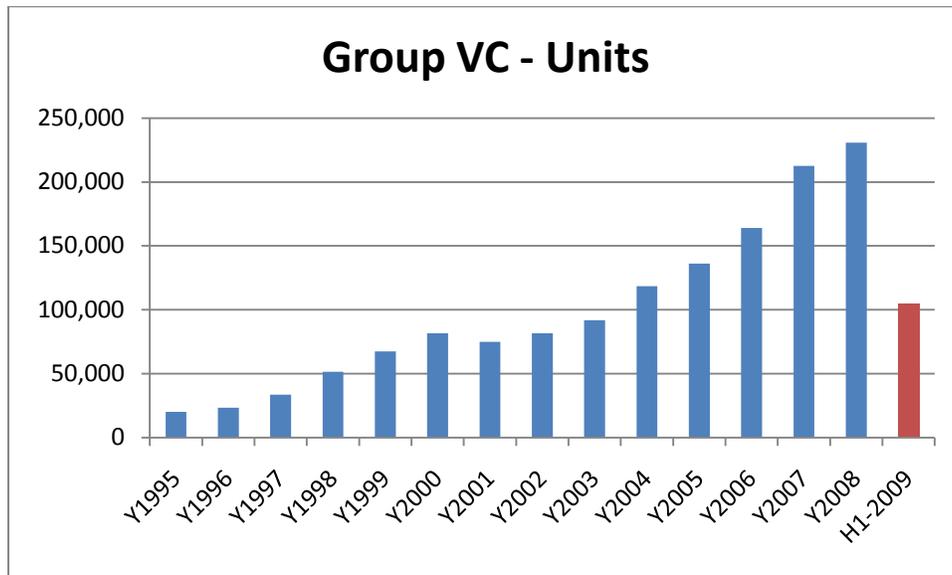


Figure 2: Group VC - History of Unit Sales

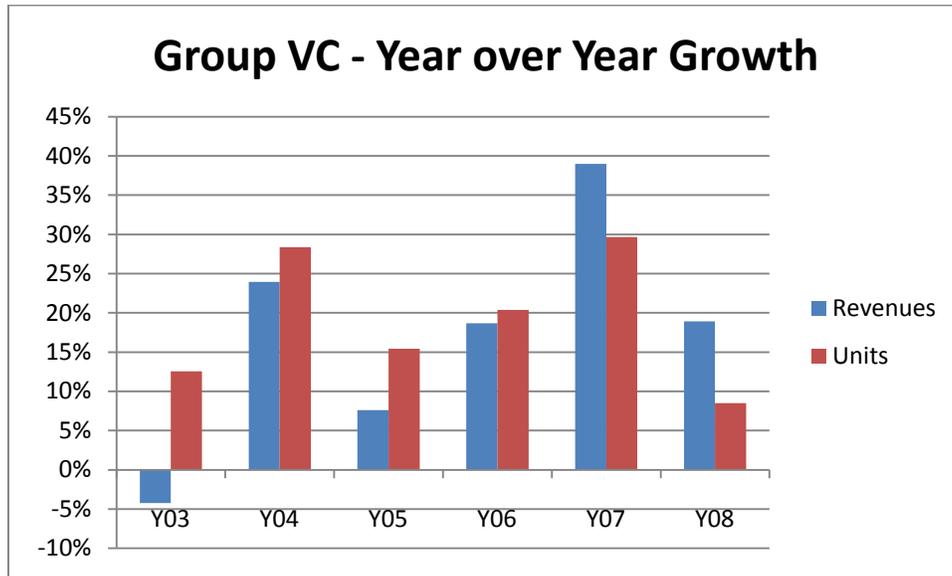


Figure 3: Group VC - Year over Year Growth

The data for year-over-year annual revenue growth in figure 3 shows overall strong results for the industry, with Y2003 being the only year in recent history with negative revenue growth. In fact, the years leading up to and including Y2007 were exceptionally strong.

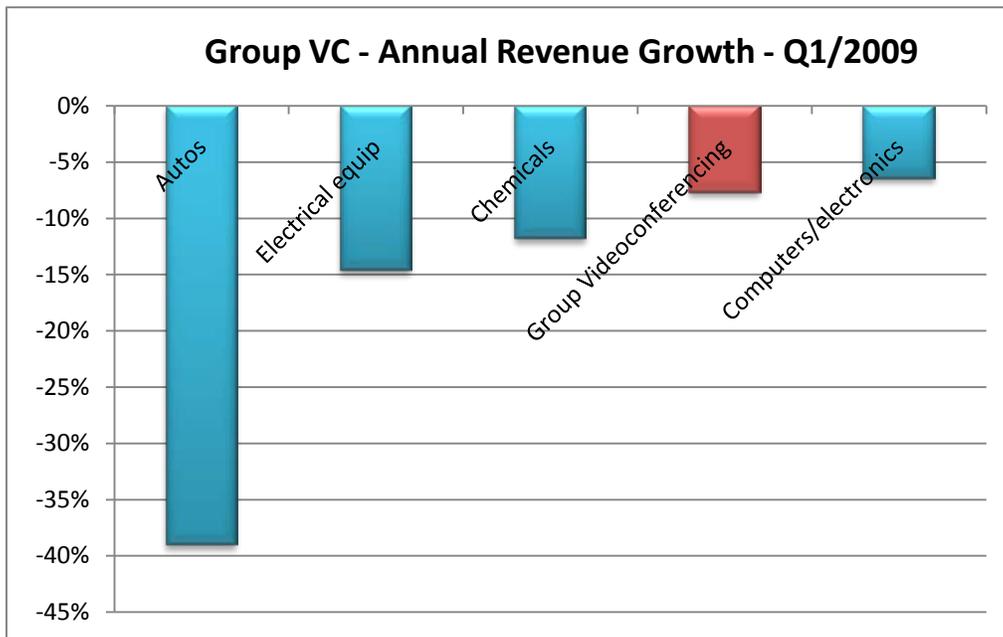


Figure 4: Group VC - Annual Revenue Growth - Q1/2009 (www.economicindicators.gov)

WR has collected U.S. Government data on industry growth rates for Q1-2009 for a handful of other markets. As shown above, all of the industries included in the chart experienced negative annual revenue growth – that is the revenues in Q1-09 were smaller than the revenues in Q1-08. The videoconferencing industry, however, fared better than three of the four other industries covered, and slightly worse than one; computers/electronics.

“Telepresence,” Installed Systems, and Market Share

The “telepresence” segment of the videoconferencing market has enjoyed significant attention in the past few years. Wainhouse Research defines telepresence as an immersive experience based on videoconferencing technology that creates the illusion that the remote participants are in the same room. The three key elements that enable the telepresence “experience” are life-size images, proper positioning and perspective, and high quality audio and video. We believe that the telepresence experience can be delivered by a variety of hardware systems, if deployed in the proper manner.

Our definition is not universally accepted however. At least one vendor defines telepresence as an integrated system with a 50 inch screen, while another refers to support for HD720p video resolution as the defining requirement. Yet another vendor refers to all of his systems as “personal telepresence” systems. We have never tracked product categories based on screen size, and do not believe that a single screen system with a 60-inch screen is fundamentally different from a single-screen system with a 42-inch or 50-inch display.

In an effort to make the market segmentation more rational, we have segmented videoconferencing systems into two buckets; “single-codec” and “multi-codec” systems. Multi-codec systems often include three cameras, three screens, and three codecs all integrated into a single solution managed via a single user interface. Many end-users (and vendors) associate “multi-codec” and “telepresence” to mean the same thing, largely because of the publicity around these systems. However, as noted above, different vendors include different systems in the telepresence category when making claims about their “telepresence” business prowess and market share.

According to the data we have collected officially and unofficially, and with informed estimates being made for some of the smaller players, WR believes that multi-codec video systems represent approximately 0.75% of the units currently shipping while single-codec room systems and all-in-one executive desktop systems represent more than 99% of the 104,000 units that have shipped in the first six months of 2009.

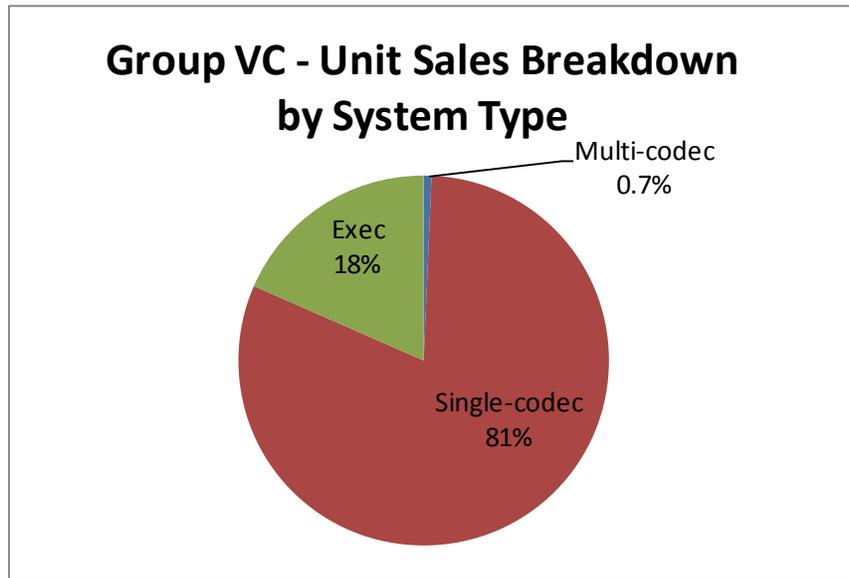


Figure 5: Group VC - Unit Sales Breakdown by System Type

For the first half of 2009, this generates the following vendor market shares.

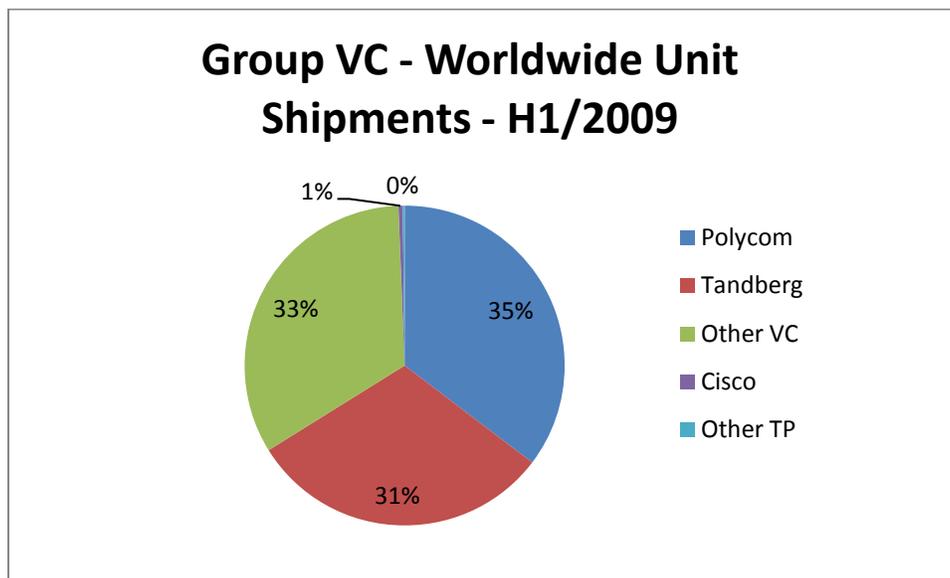


Figure 6: Group VC - Worldwide Unit Shipments – H1/2009

WR is often asked about the size of the videoconferencing system installed base. Unfortunately, we do not believe it is possible to provide a comprehensive and reliable measurement (or methodology) for units currently in use. However, based on WR survey data, we are aware that approximately 1/3 of the systems shipped in the past few years have been replacements for systems in the field. With vendor data on the number of units shipped and survey data on the average age of installed systems and the percent replacements, we calculate the installed base of group videoconferencing systems as of mid-year 2009 to be approximately 900,000 units.

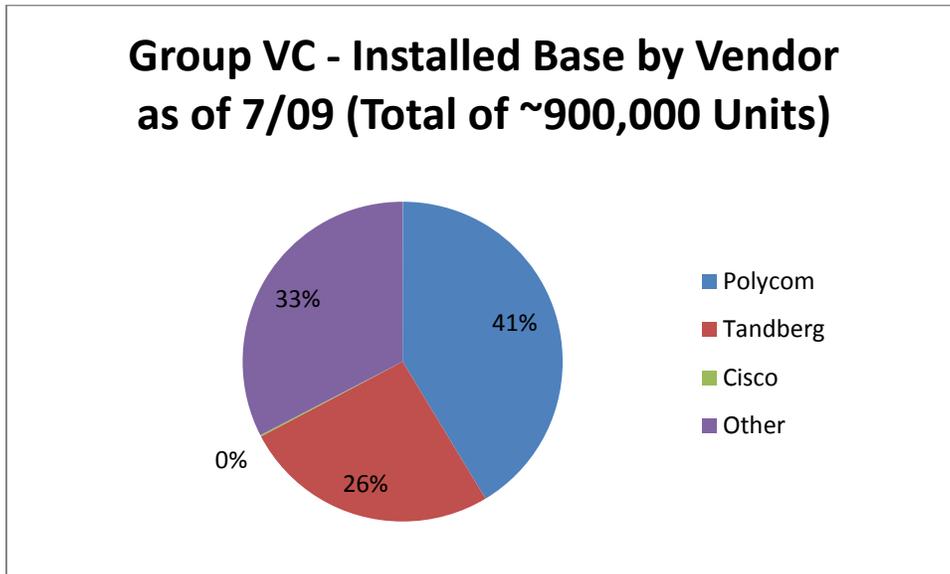


Figure 7: Group VC - Installed Base by Vendor as of July 2009

The chart above highlights the long-standing market dominance of two key videoconferencing vendors; Polycom and Tandberg. As shown, WR estimates that these two companies represent ~ 65% of the current installed base of videoconferencing systems (including multi-codec / multi-display telepresence systems)

Conclusions

Although heavily impacted and exhibiting an annual revenue growth rate very diminished from its 2006-2007 high, the videoconferencing market appears to be weathering the economic storm reasonably well, and is better positioned than many other industries to prosper in a cost-cutting, carbon-emission-cutting environment.

The relatively recent flurry of sales and marketing activity around multi-codec systems with much higher selling prices has helped maintain the industry revenue stream. These expensive, multi-codec “telepresence” systems, however, represent only a tiny slice of the videoconferencing unit shipment story.

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