Eastern Management Group

BATTLEFIELD
OPEN SOURCE PBX
AND
PROPRIETARY PBX

OPEN

SOURCE

COMPETITORS

WHO IS LOSING TO OPEN SOURCE PBX?

A NEW PERSPECTIVE ON

OPEN SOURCE PBX

Open Source is 18 percent of all PBX sales in North America. It now accounts for more new lines than any single proprietary PBX or key system manufacturer.

While an Open Source PBX can be free, it pulls through a lot of revenue for businesses in the trade. Businesses that install an Open Source PBX are spending substantial amounts of money on GUIs, PBX appliances, gateways, SIP phones, VoIP trunking and installation.

At the same time, with costs that can be 25-50 percent less than a proprietary PBX or key system, eight of 22 vertical industries have more returning customers than new ones. In fact, returning customers are now the majority of the Open Source PBX market.

THE RUNNERS UP IN PROPRIETARY PBX AND KEY SYSTEMS

The market for proprietary PBX systems showed just modest signs of being on the road to recovery in the first half of 2009.

By contrast, Open Source PBX systems delivered an astounding 30 percent growth during the same period.

Does the proprietary PBX market eventually recover, retain its 82 percent market share, and peacefully coexist with Open Source PBXs, which today hold the remaining 18 percent? Increasingly it's looking like the answer is no to some of these questions. Our research shows increasing evidence that Open Source and proprietary PBXs are engaged in a heated battle similar in respects to early Linux and Microsoft server wars, with the proprietary PBX giving up ground, at least for now. Over time, we conclude the business model for both groups requires significant tuning.

Today several opinions converge to dissuade proprietary PBX companies from looking over their shoulder and reassessing their game plan even in the face of bold Open Source inroads. These, our research shows, are among the strongest held opinions:

- Only technology companies are Open Source users
- Open Source systems in deployment are only small configurations
- Most Open Source PBXs are in test and not production environments
- Open Source PBXs do not "show up" in bid situations

Our research of over 7,000 companies provides convincing evidence that these opinions are mistaken.

The report Open Source PBX Market Size, Forecast and Analysis, published by Eastern Management,

WHAT'S HAPPENING IN THE OPEN SOURCE PBX MARKET

Daily Download Growth 6/06-6/08	600%
New System Growth 2007-2008	40%
New System Growth 1H'09	>30%

Source: Eastern Management Group

addresses these points. The question of whether proprietary PBXs are found to compete for deals against Open Source PBXs is the subject we address here.

Our worldwide research finds 51 percent of companies that acquire an Open Source PBX scrutinize proprietary PBX alternatives prior to making a decision.
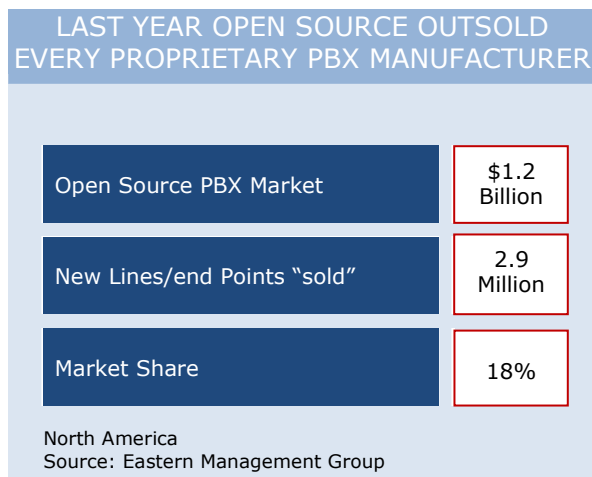
There are some interesting characteristics about this inquisitive group of Open Source PBX purchasers.

First, the Open Source PBX systems these customers purchase are large. At an average of 147 station lines, they have four times the number of stations of the typical Open Source PBX. That also makes these systems 50 percent larger than the average proprietary PBX sold today. This is larger too than the average PBX sold by any of the top 10 proprietary PBX companies.

Second, as businesses acquire more Open Source PBXs over time, they are more inclined to consider a proprietary PBX option. This is paradoxical. It's also an important piece of the puzzle for proprietary PBX manufacturers that assess Open Source challenges.

For example, companies buying their first Open Source PBX seriously look at proprietary alternatives 48 percent of the time. Those installing an Open Source PBX for the second time look at the proprietary options 53 percent of the time.

Curiously the number of proprietary PBXs examined increases with customer experience, from 2.17 proprietary PBXs evaluated by first time Open Source customers, to 2.20 for those on their second Open Source PBX. For the universe of Open Source customers, 2.24 proprietary PBXs are vetted before a business selects Open Source. This last number makes a point that the more Open Source experience gained, the more proprietary PBX options are explored.

LAST YEAR OPEN SOURCE OUTSOLD EVERY PROPRIETARY PBX MANUFACTURER	
Open Source PBX Market	$1.2 Billion
New Lines/end Points "sold"	2.9 Million
Market Share	18%

North America
Source: Eastern Management Group

Typically 2.24 Proprietary PBXs are in Contention Before Half of All Customers Pick an Open Source PBX

Who's in the Proprietary PBX Running and How Frequently
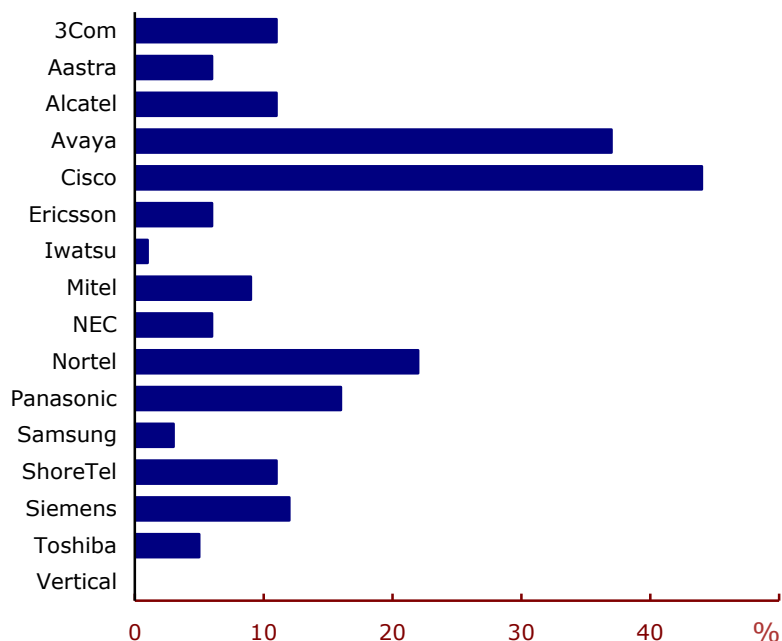
Source: Eastern Management Group

We think it is relevant that the quantity of proprietary PBXs examined increases with customer Open Source experience. We see this as price shopping, particularly in light of what causes most businesses to install Open Source PBXs in the first place, price. But it is possible that the price gap between Open Source PBX and proprietary PBXs need not be as large as today for proprietary manufacturers to improve their market position.

Right now Open Source systems are cheap largely because the core Open Source software is less costly than starting from scratch (less costly even for manufacturers of Open Source PBX appliances), while proprietary PBX manufacturers must amortize core software R&D expense and spread it across the systems sold.

In time proprietary PBX manufacturers will need to assess how to close the development cost gap. And there is good reason to do so.

A 147 line Open Source PBX is worth approximately $117,600 to a proprietary PBX manufacturer. At 60 percent margin, more than $70,000 misses the bottom line each time the manufacturer is seriously considered and loses to Open Source, arguably to a customer who might have preferred a proprietary system.

The fact that 51 percent of the Open Source market investigates 2.24 proprietary PBXs demonstrates that businesses choosing Open Source address the process with an open mind.

So back to the original question of does the proprietary PBX market eventually recover, retain its 82 percent market share, and peacefully coexist with Open Source PBXs? Maybe, and maybe not. Part of answer undoubtedly rests in the hands of the proprietary PBX companies.

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The Eastern Management Group is a global telecommunications research and consulting company. Its PBX systems practice is one of Eastern Management's oldest advisory services, and has assisted companies worldwide for three decades. Its current study on Open Source is entitled **Open Source PBX Market Size, Forecast and Analysis** and is available directly through The Eastern Management Group.