

# Nortel's BCM50 Hits Its Target in the VSB and SB IP Telephony Market



<b>Decision Point:</b>	Accelerating Adoption of Infrastructure Products and Services in the SMB Market
<b>The Bottom Line:</b>	Nortel has taken the IP telephony challenges of very small and small businesses and developed a product that is robust, fully featured and at a price point that SMBs can manage.
<b>Who Should Read:</b>	CMO, director product marketing, director of public relations, director of marketing communications

Telecommunications Global Practice Leader: [Rob Rich](mailto:rich@yankeegroup.com), [rich@yankeegroup.com](mailto:rich@yankeegroup.com), 617-880-0282

## Nortel Targets Very Small and Small SMBs with the BCM50 IP Telephony Solution

IP telephony provides many advantages for SMBs, including converged voice and data networks, consolidated management of voice and data devices, rich communication application feature sets and the opportunity to integrate communications applications (voicemail, unified messaging and auto attendant) with business applications (CRM, Microsoft Office and accounting packages). With IP telephony, SMBs have with an enormous opportunity to increase customer service and productivity. However, IP telephony vendors typically have not addressed the very small (2 to 19 employees) and small (20 to 99 employees) end of the SMB market with a product specifically designed for their functionality requirements and price range. That has all changed with Nortel's BCM50 offering (see Exhibit 1).

### BCM50 Addresses Key SMB Business Challenges

- Installation/maintenance:** Very small businesses (VSBs) and small businesses (SBs) have unique challenges to their core business, including limited technical expertise and budgets. The BCM50 addresses both of those needs. Its design aids integration with an easily navigable, intuitive, point-and-click GUI. With a USB flash or thumb drive, the installer can simply copy the same version of an already-configured BCM50 and apply the configuration to a second BCM50. This is valuable for branch offices or for SMBs adding another BCM50—the IP PBX doesn't have to be configured from scratch every time.
- Cost:** The BCM50 costs between \$350 and \$500 per user and includes the IP PBX, handset and Nortel communication applications. The pricing structure makes it an extremely attractive product for the target market. Nortel understands that although price is not the only factor that very small and small businesses consider, it's certainly one of the primary factors.

#### Exhibit 1. Product Information

<b>Product Name</b>	Nortel BCM50
<b>Product Scope</b>	Integrated IP PBX and voice processing
<b>Industry Focus</b>	SMB
<b>Installed Base</b>	BCM50 due for general availability on May 23, 2005
<b>Potential Market</b>	BCM50 provides IP upgrade path to 1 million Nortel Norstar pure key systems

Source: Yankee Group, 2005

- **Legacy equipment:** The Yankee Group *2004 SMB IT Infrastructure Survey* found that in addition to limited technical expertise and budgets, the very small and small segments of the SMB market identified optimizing technology assets as a top business challenge. For these segments, productivity and efficiency between business applications and communication applications converged onto one network are not necessarily IP telephony purchase drivers. Very small and small businesses are more concerned with maximizing their existing infrastructure products and avoiding forklift upgrades for products that are still in great condition but can't be integrated into a new system.

Nortel's BCM50 allows SMBs to use any combination of legacy analog or digital handsets—it can handle both twisted pair and Ethernet connectivity. SMBs can buy a full-feature IP PBX and then either purchase new IP phones for converged technology benefits or use existing analog or digital phones for employees who don't have a critical converged application need.

## SMB IP Telephony Market

The IP telephony market for very small and small SMBs is strong. According to respondents from the Yankee Group *2004 SMB IT Infrastructure Survey*, 17% of very small businesses and 19% of small businesses use IP phones, with 23% of very small businesses and 26% of small businesses planning to purchase or upgrade IP telephony products in the next 12 months. However, it's important to note that SMBs, especially very small businesses, are likely overstating their adoption of IP telephony due to market confusion. But this information still demonstrates the upward movement toward IP telephony adoption in these size segments.

Nortel is not alone in developing superior IP telephony products for a converging world. Cisco, Avaya, 3Com, Mitel and Samsung are also moving downmarket into the vast SMB space. To be successful in this market, IP telephony vendors need to identify critical business challenges that the lower end of the SMB market faces, such as ease of installation, maintenance and simplified user interfaces, and then build products for these issues—at an affordable price.

Nortel has long been in the SMB IP telephony market with BCM200 and BCM400 products designed for larger SMBs and the mid-market enterprise, and the company recognized a great opportunity for the under-100-employee SMB segment. Because its existing BCM line didn't scale to lower end SMBs, Nortel identified and addressed key attributes that fit this part of the SMB spectrum, including simplification of voice application feature enablement as needed, installation, maintenance and monitoring.

## Product Strategy and Trajectory

Nortel is positioning the BCM50 to be the IP telephony product of choice and to be the converged voice and data provider for the 20-60 handset market. The BCM50 is targeting multisite branch offices and SMBs with more than three handsets. Because of their multisite tendencies, Nortel is focusing on vertical markets such as retail, services, healthcare and regional banks.

## Product Analysis

### Product Strengths

- **One device manages apps and hardware.** The BCM50 is a single unit that houses all features, functions and applications. Other IP telephony vendors place these functions on more than one device, making it more complex for SMBs in terms of installation, management and monitoring.
- **It's a win with the price and feature set.** There are several other vendors in the space; but for ease of maintenance, price and feature set, the BCM50 is the product to beat. For example, the BCM50 doesn't cut down functionality with "voicemail lite." It has the same voice applications as the higher end Nortel products. When needed, unused features can be easily enabled. Some vendors strip down voicemail components from higher end offerings—making certain features unavailable—and then force the purchase of additional modules for application functionality.

- **BCM50 provides an upgrade path for very small and small SMBs that are using Norstar key systems.** With the development of this product, Nortel has an opportunity to capture the significant Norstar market (1 million strong) when it comes time to upgrade to IP telephony. In addition, 45% of very small businesses still don't have phone systems of any kind (they are using either basic or multiline phones). The BCM50 offers a path to upgrade to IP telephony on the terms that they want.

### Product Challenges

- **The BCM50 is ideal for organizations with 3 to 60 employees.** It can serve up to approximately 80 users depending on configuration. There is no physical limit to how many BCM50s can be racked together, but multiserver management concerns arise at that point.
- **Market adoption for very small and small SMBs is challenging.** It's a challenge for this segment to recognize the value and productivity gains offered by a new technology. Nortel has addressed SMBs' concerns for purchasing new infrastructure equipment by offering compelling pricing and allowing the use of legacy equipment.
- **The voicemail box is not standard.** Although the BCM50 comes with more than 300 standard features—including call forwarding, conferencing and other important features for SMBs—the voicemail box, unified messaging and call center agents are all add-on modules that are paid for separately. As stated earlier, the base model is approximately \$350 per user including handset. The add-on modules can increase the cost to about \$500 per user, including handsets, which is still in line with very small SMB price points for a robust IP telephony solution.

### Recommendations for Very Small and Small Businesses or Branch Offices

- **Take advantage of Nortel's try-and-buy offer.** Nortel is promoting a try-and-buy option: Customers download a free key code to activate functionality for a certain period of time.
- **Demand enterprise-class redundancy from your IP telephony vendor.** The BCM50 has built-in redundancy. If a broadband or electricity outage disables the data and voice network, phone service can be restored with analog phones plugged in to PSTN lines.
- **Take advantage of features that allow streamlined configuration.** For SMBs or branch offices that have site rollouts with fairly similar telephony requirements, the BCM50 has a USB flash interface that enables the installer to copy the voice application profile to a thumb drive, bring it to a new BCM50 and upload the same configuration, which makes that box look exactly like the other.

### Recommendations for Competitors

- **Bring a solution to market that solves the major business and operational challenges of the SMB.** Because more than 89% of businesses in the United States have 2 to 19 employees, an effective way to grow business would be to take the same approach as Nortel and develop similar products for this market segment.
- **Develop IP telephony solutions with flexibility for growing companies.** No business likes to throw away technology just because it has grown out of it. This is particularly true for very small and small businesses that have more limited budgets than larger organizations. Nortel engineered legacy equipment connectivity by making the media bay modules the same across all BCM products (50, 200 and 400). If an SMB experiences significant growth, it can move into a larger BCM product, keep the phones and voice application components, and swap out the controller.
- **Build redundancy into SMB solutions.** SMBs can't afford to lose connectivity. If the power goes out or if the broadband connection goes down, businesses need viable alternatives to remain productive. The BCM50 will automatically detect a broadband outage and switch to analog lines. Also, the BCM50 will monitor the line to ensure it meets a preset QoS measure for packet loss, delay or jitter and will switch back to the PSTN automatically if that QoS level isn't met.