

## **Avaya and RingCentral \$500M Partnership Will Force Consolidation in the UCC Market**

**Summary:** Avaya and RingCentral announced a strategic partnership that will see Avaya selling Avaya Cloud Office by RingCentral (ACO) to its large on-premise install base.

**Event:** On October 3rd<sup>th</sup>, Avaya and RingCentral announced a strategic partnership that RingCentral will contribute \$500 million towards. This is comprised of a \$125 million preferred equity investment in Avaya and an advance of \$375 million for future payments and certain licensing rights. The announcement was made jointly by Avaya and RingCentral CEOs, Jim Chirico and Vlad Shmunis, at RingCentral's global industry analyst event and through separate press releases issued that day.

### **Analysis**

A new era of alliances has emerged. Going in alone in cloud communications is no longer the only strategy. Avaya needed to protect its large UC base and with the RingCentral strategic partnership, it does just that. While partnerships and alliances are not new, this formal tie-up between two market leaders for a UCaaS solution signals a new era in the UCC market.

### **The Race to Cloud UCC**

The race to cloud communications is now a playbook for global digital enterprises. The investment required to build a global voice network is nontrivial. While others use cloud communications platforms from CPaaS

providers, an integrated platform provides more advantages.

### **The Benefits to Avaya**

Avaya will receive a significant influx of cash and stock from RingCentral, US \$500 million, and also announced that its Board authorized a \$500 million share repurchase program and a debt paydown of \$250 million, strengthening the company's financial position and creating value for shareholders.

The bigger win is that it gets to protect its 100 million user on-premise UC install base—with a clear cut option to migrate them to a Cloud PBX—via Avaya Cloud Office. The solution will offer customers seamless, integration options for Avaya endpoints and access to the Avaya features and capabilities that it already has.

Many cloud providers, such as RingCentral, Fuze, Microsoft, and others were already winning migration deals from Avaya. This was due to the clear benefits of putting the phone system into the cloud. With this move, Avaya protects its base and provides a clear-cut migration strategy that they can control.

### **The Benefits to RingCentral**

RingCentral will get immediate access to over 4,700 Avaya partners and a validated playbook to migrate thousands of customers to Avaya Cloud Office that leverages a RingCentral UCaaS platform.

RingCentral also becomes a minority shareholder of Avaya. We expect that this investment could increase overtime.

## Performance of Voice and Video

A real-time responsive cloud is needed for voice and video communications. Providers have stitched together different technology providers offerings—which often means substandard performance. RingCentral is now touting its performance and stating that it offers 99.999% uptime, something few others will stand behind.

## Avaya and RingCentral Will Force Other Coalitions

The past few years have seen a number of acquisitions and we expect there to be more M&A. Mitel has been making many moves, but we also expect to see Google and Cisco continue to cut deals. We mention Google because it is diving into AI-based contact center capabilities, but mainly by leveraging its conversational AI as an offering for partners.

## Consolidation of Cloud Contact Centers

If the premise is that cloud communications is faster, easier, and more efficient, it follows that the same is true for Intelligent Contact Centers.

Today, Avaya has a large contact center install base, along with the IX-CC Cloud Contact Center asset that it acquired (from Spoken) in 2018, and recently announced their next generation CCaaS platform will be available on Azure, hosted in Microsoft's cloud data centers, introduced initially in the Arab Gulf region with plans to expand the offer to other global regions in the future. RingCentral resells NICE inContact but it also has a number of assets, such as Connect First and Dimelo.

There are fewer choices in cloud contact center. Aragon feels that contact center consolidation may accelerate as an outcome of the RingCentral and Avaya strategic partnership. Firms that could be evaluated if

RingCentral and Avaya continue their joint venture include:

- 8x8
- Five9
- Serenova
- Talkdesk

Enterprises need to realize that contact centers are large and small. Not all cloud providers are equipped to deal with the large install base that Avaya enjoys.

## UCC and CC Partnerships Will Lead to More M&A

It is clear that for go-to-market, we expect there to be more coalitions within the UCC market—alliances in which money changes hands. While many have leveraged vendors such as Pexip to enhance endpoint connectivity, we are entering an era where UCC providers are staking claims about future M&A activity.

Aragon expects that from 2020-2022, the number of UCC-based mergers and acquisitions will double, given the need for reduced R&D and the need to protect future revenue streams.

**Prediction:** By year-end 2022, 50% of major Communications and Collaboration providers will merge or be acquired (0.7 Probability).

## Aragon Advisory

- Avaya customers should look carefully at the new offering and see how it could assist with a migration project from existing on-premise PBXs.
- Enterprises need to understand there will be more alliances and M&A as the race to cloud-based UCC platforms continues to evolve.

- Enterprises should ask both providers for their roadmap on their respective UCC stack and their contact center plans, particularly when it comes to cloud.

### **Bottom Line**

The market for Unified Communications and Collaboration has shifted to the cloud, putting pressure on all providers to adapt. Alliances in the UCC market will continue as technology providers realize that they may not have the time, nor the financial resources to go it alone.

### **Related Aragon Research**

[Aragon Globe for Unified Communications and Collaboration, 2019](#)

[Aragon Globe for Intelligent Contact Center, 2019](#)