WAINHOUSE Research

Market Sizing & Forecast

Video Conferencing Endpoints & Infrastructure Market Sizing & 5-Year Forecast - 2016

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The Video Market in Transition

Analyst: Andrew W. Davis

July 2016

Executive Summary[1]

The video conferencing industry entered a phase of strong transition in the past year. Driven by changes in the workforce, new strategies for the workplace, and new technologies and products driving improvements in price/performance, the industry is experiencing rapid growth in some segments, modest declines in others, and bumpy ups and downs in others still. The proliferation of video-enabled personal and mobile devices, fueled by an exploding number of video services (VCaaS), may indeed be bringing video conferencing to the long predicted tipping point, but it is clear that structural changes accompanying that tipping point will bring significant challenges and opportunities to both the traditional and new vendors. See the appendix of this report for our view of the complete video conferencing market segments.

This endpoint market has experienced up and down swings based on regional and product line differences. After years of continuous declines, the multi-codec market has experienced an upturn based on a product refresh cycle, somewhat obscuring the fact that some customers are interested now in more egalitarian solutions. The executive systems market is shrinking as it faces competition from hardware above and from software solutions below.

The all-important single codec market, representing ~90% of the revenues, has flattened out on both a unit and revenue basis, although Q1-2016 results in North America counter the long term downward trend. This segment is being buffeted by two different headwinds. New solutions that fit our definition of single-codec are coming to market at much-reduced selling prices. Many of these are deemed "huddle room" solutions by the vendors, although there is no real description of what is a huddle room system. The effect here will be to cause the ASP of this product category to decline even faster than has been the case in the past.

The second headwind comes from what we refer to as Group Conferencing Add-on Systems for video. These do not fit our definition of video conferencing systems; instead they are peripheral devices (most often USB-based) that bring group video conferencing capabilities to laptops, tablets, NUC computers, and similar devices. Add-on systems are not part of our video conferencing forecast and are discussed in a separate section below. Ultimately, a conference room solution based on add-on products can replace the need for a traditional single-codec room system. The end result is that the Group Add-on product category is a long term threat to single codec unit shipments.

Group Video Systems Forecast

While single-codec (standard group video) systems continue to represent the lion's share of the room systems units and revenues (~ 80 - 85%), we expect the average selling price of this category, which has declined steadily (though not monotonically) for the past decade, to continue that decline.

ASP changes are largely due to product mix shifts. Affordable small room systems, represented by the likes of Cisco's SX10 ($1700 street price), Polycom's Real Presence Debut (~$1700 street price), StarLeaf's GTM 5140 ($3995 list), and Tely's 200 ($1500 street price), seem to be announced every two weeks by old and new competitors. This class of devices will drive unit volume growth and average single codec prices down.

1 This report, based on excerpts from the Wainhouse Research July 2016 video conferencing market forecast, has been licensed for unlimited distribution by Logitech, Inc. The complete report is available from Wainhouse Research at www.wainhouse.com.

Add-on conferencing systems (see below) providing enhanced audio and video to laptops and other devices represent a threat to the sale of single codec systems for small and medium conference rooms. We would expect to see continued price-performance and ease-of-use advances in both single-codec and group-add-on product lines; the long term units and revenue winner is far from clear.

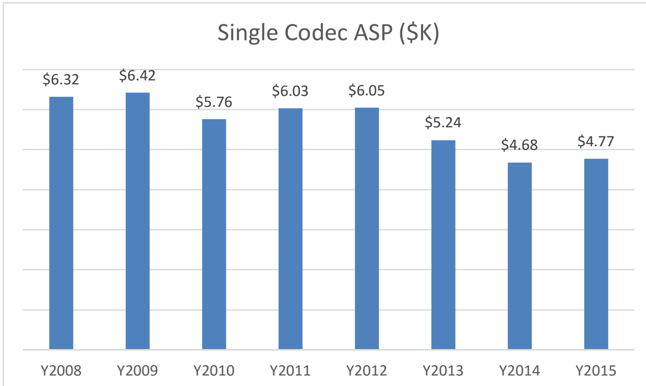

Figure 1 Average selling price of single codec systems

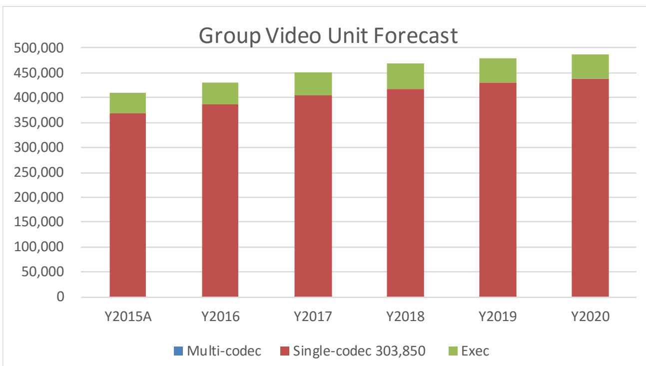

Figure 2 Unit forecast by product[2]

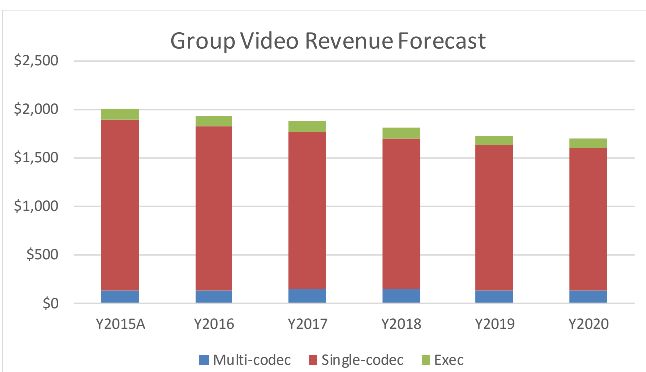

Figure 3 Revenue forecast by product

[2] Multi-codec units are too small to be visible in this chart.

Group Video Conferencing Add-On Devices

This is the first time we have included a discussion of conferencing add-on devices in our market forecast. We believe there are two add-on categories:

- Group Conferencing Add-Ons - products in this category include table top mic / speakerphones, PTZ cameras, etc. and are generally USB-based devices that enhance the AV capabilities of a desktop / laptop or mini-PC computer. The designs are aimed at enabling a small or medium conference room to provide an acceptable sound and display experience when more than one or two people are involved in a meeting.

- Personal Conferencing Add-ons - dominated by webcams and lower cost audio devices that are generally used in offices or cubicles. We have not included personal add-on devices in this market study.

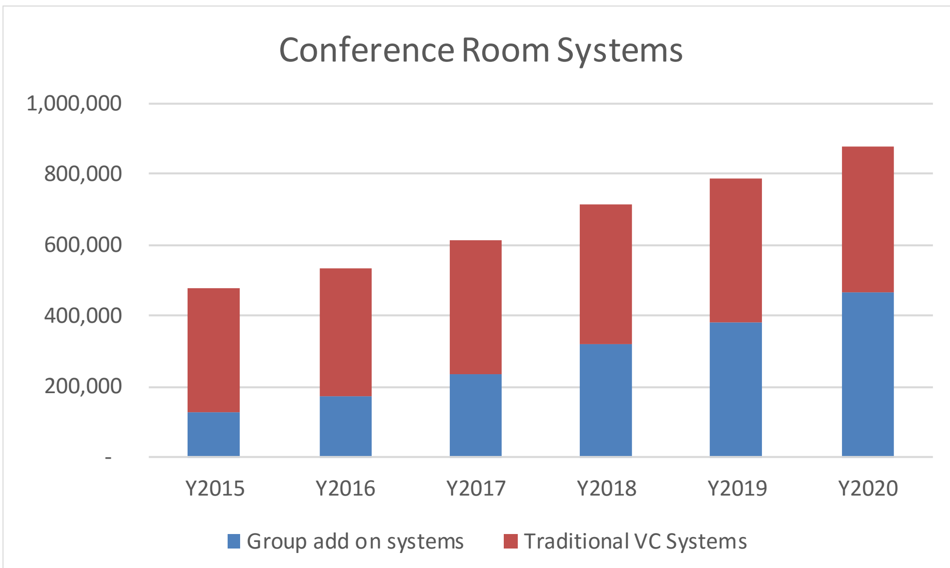

Figure 4 Traditional vs. group add on conference rooms

It would be unfair to include the Group Conferencing Add-On products in our video conferencing market sizing and forecast because these products are not really video conferencing products; they are audio and sometimes video systems. But from a customer's perspective, they represent an alternative or substitute way to enable conferencing within a meeting room. They also represent viable endpoints to drive the need for video infrastructure and VCaaS services. As substitutes for traditional room video conferencing systems, the impact of Group Conferencing Add-On products on the video conferencing market has been negligible in the past, but is likely to change in the future.

	Y2015	Y2016	Y2017	Y2018	Y2019	Y2020	CAGR5
Group add-on video units (K)	150	200	275	375	450	550	29.7%
ASP per room	$1,100	$1,050	$1,000	$900	$850	$800	-6.2%
Market size ($M)	$165	$210	$275	$338	$383	$440	21.7%

Table 1 Group Conferencing Add-On market

We have noted in this report and elsewhere the fact that inexpensive single-codec room systems can wind up in personal offices, while executive systems may be deployed in small conference rooms. We are already seeing the same effect in the Group Add-On space, with webcams being used (mostly inappropriately) in small conference rooms and PTZ cameras with table top microphones ending up in personal offices. Hence we believe the product-application situation, with our estimates of the relevant splits, might be summarized as follows.

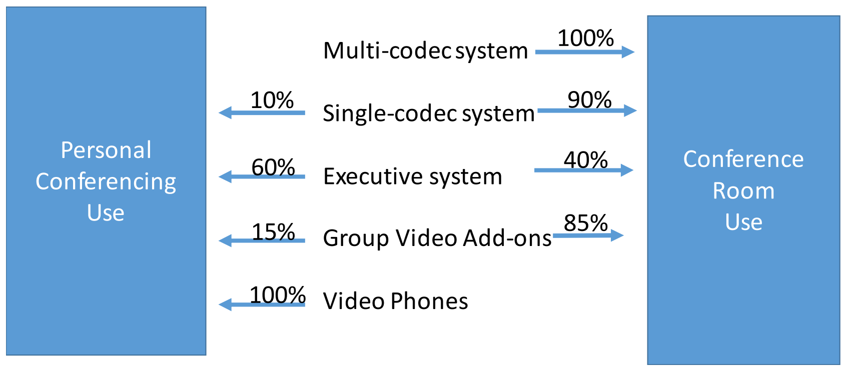

Figure 5 Personal and room product solutions

Based on our estimates of how the different solutions are split between personal use and conference room use, we have a picture of how organizations will video-enable their meeting rooms. The diagram above shows the importance of the Group Add-on category to the unit count for video-enabled conference rooms.

	Y2015	Y2016	Y2017	Y2018	Y2019	Y2020
Group add on devices	150,000	200,000	275,000	375,000	450,000	550,000
Add on conf room %	85%	85%	85%	85%	85%	85%
Single codec systems	367,300	384,500	403,400	417,100	428,600	437,000
single codec conf room %	90%	90%	90%	90%	90%	90%
Executive systems	41,800	42,800	43,900	44,400	43,800	43,200
Exec conf room %	40%	40%	40%	40%	40%	40%
	Y2015	Y2016	Y2017	Y2018	Y2019	Y2020
Group add on systems for conference room	127,500	170,000	233,750	318,750	382,500	467,500
Traditional VC Systems for conference rooms	347,290	363,170	380,620	393,150	403,260	410,580

Table 2 Conference room unit deployments by technology type

END OF REPORT

About the Authors / About WR

Andrew W. Davis is a researcher, analyst, and opinion leader in the field of collaboration and conferencing. Prior to founding Wainhouse Research, he held senior marketing positions with several large and small high-technology companies. Andrew has published over 250 trade journal articles and opinion columns on multimedia communications, video conferencing, and corporate strategies as well as numerous market research reports and is the principal editor of the conferencing industry's leading newsletter, The Wainhouse Research Bulletin. Andrew specializes in strategy consulting and new business development for Wainhouse Research. A well-known industry guest speaker, Mr. Davis holds B.S. and M.S. degrees in engineering from Cornell University and a Masters of Business Administration from Harvard University. He can be reached at andrewwd@wainhouse.com.

Ira M. Weinstein is a Senior Analyst & Partner at Wainhouse Research and a 25-year veteran of the conferencing, collaboration and audio-visual industries. Ira has authored and contributed to dozens of articles, white papers, studies, reports, and evaluations on rich media communications, video conferencing, streaming and webcasting, audio-visual design and integration, business strategy, and general business practices. Ira specializes in providing strategic advisory services to vendors, resellers, and end-users within the collaboration space. Ira can be reached at iweinstein@wainhouse.com

About Wainhouse Research: Wainhouse Research is an independent market research and analyst firm that focuses on critical issues in the unified communications and collaboration market. The company provides six different vendor subscriptions covering unified communications, group video conferencing, personal & web-based collaboration, audio conferencing, streaming & webcasting, and distance education & e-Learning solutions, as well as a single all-inclusive subscription for enterprise users. Wainhouse Research acts as a trusted advisor providing strategic advice and direction for both the UC&C industry and its enterprise users. For further details contact sales@wainhouse.com or see http://www.wainhouse.com.

Appendix:

Video Conferencing Market Map