Sales Objections and SWOT

NEC

Featuring Sphericall Release 8.0.

October 2011

Contents

Executive Summary

For years, telephony and business communications were largely synonymous. The telephone offered instant communications, and its primary alternative was physical letters that could stretch a conversation over weeks. In the 1990s email became prevalent, and more recently we have gained mobile phones (voice and SMS), IM and presence, video options, and social networks. As communication paths and options increased, so did the complexity to manage it all (mentally and technically).

The underlying technologies also changed. Analog gave way to digital, then VoIP, and now Unified Communications (UC). While VoIP effectively replaced digital telephony with newer technology and a near identical value proposition, UC has the broader vision to unify multiple communication modes in terms of approach and management.

UC is not a product or feature, but rather an approach that varies by the needs of an organization. A UC strategy for one organization may look a lot like a PBX, while another organization may opt to eliminate telephones. Few assumptions can be made about the hardware or scope of a UC solution. Nor can it be assumed that vendor UC solutions offer a common set of features and services. As a result, the definition of UC lies with the beholder, who must understand the menu thoroughly before ordering. While set menus do exist, it is also common to take an à la carte approach to complete or complement a UC solution.

NEC supports both. Its products offer a fairly broad interpretation of UC as well as hooks and partnerships to enable a multi-vendor approach. NEC was founded in 1899 and originally worked closely with Western Electric to create the Japanese telecommunications infrastructure. The company is well established as a recognized player in business communications, not just in the US and Japan, but globally. Some studies list NEC as the world's third-largest telephony vendor, with noted success in both SMB and very large deployments. Key vertical markets include hospitality, education and health care.

NEC business communication systems evolved from digital communications, to VoIP, to Unified Communications. Each generation, the company picked up valuable experience and features. NEC offers several business communications platforms, but its two most strategic platforms are the SV8000 appliance series and its Sphericall solution. The SV8000 comes in three flavors—the SV8100, the SV8300 and the SV8500—each targeted at different demographics. The SV8000 line has been the company's primary UC platform for the past several years.

While the SV8000 series products continue to sell well, NEC believes the market will shift away from appliances toward a more extensible, software-based model. This is a fairly bold vision coming from what has historically been a hardware company. In 2007, NEC acquired Sphericall Communications and has been diligently both selling and improving the Sphericall UC platform. Sphericall is NEC's first communication platform delivered as software-only. While it is capable of being a telephone system replacement, its vision is much broader. NEC is positioning Sphericall as a communications tool that can facilitate data center objectives including virtualization and centralization, as well as integration with other data center services and strategies. Sphericall can interact with end users via a variety of modes, methods and devices. NEC intends to allow customers to mold Sphericall into whatever communications solution is needed—from a traditional PBX to a loosely coupled service for other business applications.

NEC is effectively straddling the present and future of unified communications with these two platforms. The company can't simply decide to focus on Sphericall, as it represents a very different product than the SV8000 series. The majority of its SV8000 dealers are not Sphericall savvy, nor is a changeover a simple matter of product training, as Sphericall's true value lies in its approach to IT infrastructure. In the four years that NEC has owned Sphericall, it has yet to build a bridge between Sphericall and the SV8000 series. The two platforms' dealers, features and devices remain largely separate.

This report addresses the SV8000, but focuses primarily on Sphericall. Describing Sphericall can be a challenge, as it is different things to different people. It can be both a phone system and a background communications enabler for IT. The telecom folks describe its UC features including call processing, endpoints, contact center, IM/video, etc. For IT architects, it is more about Web technologies, extensibility and openness. Web services allow disparate computers to easily interact and transact. Later this year, Sphericall Release 8 is expected. Release 8 looks to be a major event for Sphericall—and likely the one where NEC publicly transitions Sphericall as not just the company's future, but its present as well.

Key Findings:

- Sphericall is a broad set of services that includes PBX functionality.
- Sphericall is highly extensible—it has a broad SDK, adheres to SOA and uses Internet standards and Web services.
- Sphericall is as much an IT solution as a UC solution. Sphericall enables a thin client architecture through the use of RIA clients, its SOA approach will facilitate extensibility, and its HA and virtualization approach will integrate with existing or broad IT procedures. NEC is truly addressing voice as an IT service in its architecture.
- Sphericall has highly simplified licensing and pricing—particularly when considering the complexity and capabilities of the product.
- Sphericall is an impressive attempt to align a product with overall IT and voice directions as well as NEC's overall corporate strategy, which is far broader than UC and telephony.
- Sphericall is different things to different people—IT and voice-centric prospects will view the product totally differently.
- Sphericall has a near-term deficiency with regard to collaboration—however, a major improvement in this area is on deck for spring 2012.
- NEC will have a significant challenge in building awareness and a channel for Sphericall.
- Sphericall is strong in telephony and extensibility; however, it is a bit weak in mobility and collaboration.

This TalkingPointz report covers key elements of both Sphericall and NEC to help users assess its organizational fit as a UC solution. Organizations adopting SOA, standards and thin clients will find Sphericall particularly attractive. Its simplistic pricing and highly available architecture, however, will also appeal to users focused on core voice and contact center solutions.

NEC Networks Overview

NEC is a multi-national corporation headquartered in Tokyo, Japan, and founded as Nippon Electric Company in 1899. Yes, that is correct—100+ years ago. NEC has a local presence in 44 countries, employs more than 142,000 people, owns 283 subsidiaries, and has managed to file more than 74,000 patents. CEO Nobuhiro Endo reported FY2010 worldwide revenue at $37.5 billion USD. The company is organized into five major business units. Below, the percentage indicates each segment's contribution to sales (FY2010):

- **Platform Business, 12 percent**: Offers **IP telephony and UC** along with PCs, servers, mainframe computers, supercomputers, storage products, software, networking and professional services.

- **IT Services Business, 26 percent**: Provides systems integration, maintenance and support, and outsourcing services to government agencies and private-sector companies.

- **Carrier Network Business, 19 percent**: Offers network infrastructure, network control platform systems and service delivery platform systems to carriers.

- **Social Infrastructure Business, 10 percent**: Provides industrial systems that support social infrastructure, including broadcasting systems, artificial satellites, CCTV surveillance, broadcasting systems, video equipment, fire and disaster prevention systems, aerospace and defense systems.

- **Personal Solutions Business, 25 percent**: Offers mobile handsets, personal computers, personal communications equipment, monitors, projectors and Internet services to individuals and private-sector companies.

- **Other solutions, 8 percent**: Includes lithium-ion rechargeable batteries, capacitors, LCD panels and lighting equipment.

Telephony is not new to NEC. Its telecom products date back to early telecommunications, including pull-cord switchboards. The company has provided telecommunications solutions to both business and carrier sectors for most of its history. NEC is among only a handful of companies that offer telecommunications and UC products worldwide.

Recent Performance

Total revenues in FY 2010 were US $37.5 billion, and the company reported an overall loss of US $83 million. NEC also reported losses in FY08 and FY05. NEC does not provide profit and loss information by division or region. However, there are indicators that its telephony and UC solutions are doing well.

In NEC's 2011 Annual Report, the company lists numerous global achievements including the IP telephony system for InterContinental Hotels and Resorts in Shanghai and the IP-based telephone and television system solution for Mandarin Oriental in Macau, China: "Turning to network products, NEC captured the No. 1 share of the Japanese enterprise telephony market and the No. 3 share of the corresponding worldwide market."[1]
John Malone of Eastern Management believes 2010 may have returned the company's best overall sales

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[1] NEC 2011 Annual Report, p. 17, citing data from Gartner, "Market Share: Enterprise Telephony Equipment, Worldwide 2010," March 29, 2011, based on seat licenses shipment basis, 2010 calendar year.

performance in a half dozen years, specifically citing the company's reorganization (creation of NEC Corporation of America, or NECAM; see "Company Organization") and success in the verticals of government, health care, higher education and hospitality: "We believe NEC had 40 percent of its North America sales on systems larger than 250 lines."[2]

NEC provides information on its worldwide quarterly line shipments. For 2010, NEC experienced 12 percent global growth. In Q111, global shipments increased 10 percent compared to the year prior, with particularly strong growth in Asia. In Q211, NEC reported 9 percent worldwide growth over the prior year. Larry Levenberg, Vice President and General Manager, reported to dealers at the NEC Advantage 2011 conference that NEC took the leadership position in the US small and medium-size businesses (SMB) market and holds 22.6 percent market share.[3]

In March 2011, a devastating earthquake and tsunami hit northern Japan, wiping out entire cities and industrial supply chains. NEC specifically cited the earthquake, along with weakness in the technology-services, for a 36 percent drop in net profit in its fiscal Q4. The Wall Street Journal reported, "The March 11 disaster, which damaged companies' production facilities in northeastern Japan and led to supply-chain problems, came as NEC was already struggling to stay profitable."[4]

In the earthquake's aftermath, NEC and many other companies undertook an extraordinary effort emphasizing their industrial capabilities to a skeptical world. One such example involves a damaged plant in Japan, jointly owned by NEC, Hitachi and Mitsubishi. It was widely predicted that the damages and subsequent shortages would impact worldwide supply chains (particularly in the automotive industry) through the end of 2011. Yet the three owners working together, along with their customers, managed to restore production levels in September.

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[2] "2010 PBX Sales in North America Grew 16 percent," by John Malone, Eastern Management Group, published on Nojitter.com, June 27, 2011.
[3] Not validated. Levenberg cites data published by T3i Group.
[4] "NEC's Quarterly Profit Falls 36%," by Juro Osawa, The Wall Street Journal, May 10, 2011.

Common Sales Objections

The following are objections likely to be raised in the sales process—often by competitors. As is the case with most simple objections, there is more to the story. Below, each issue is addressed in greater depth. Each objection contains a paraphrased, unofficial response characterizing NEC's assumed position, followed by analysis of the matter.

If NEC's UC Solutions Are So Good, Why Does the Company Sell Cisco UC?

Objection: On one hand, NEC offers its own telephony and UC solutions, and on the other the company resells Cisco telephony and UC solutions. Isn't NEC's selling competitive product indicative of gaps or deficiencies in its own solutions?

Response: NEC is a large company actively involved in a broad array of IT activities and services aimed at organizations of all sizes. It would be foolish for NEC not to include Cisco, the dominant IT infrastructure player, among its core competencies. NEC is a major Cisco reseller, and that includes Cisco UC. NEC is actively moving away from its hardware heritage into more services across its portfolio, including professional services surrounding complex products.

Analysis: This is clearly a delicate topic: NEC is not just a Cisco reseller, but an exceptional one. Cisco awarded NECAM (NEC Corporation of America) Enterprise Partner of the Year in 2010. In 2011, NEC achieved three Cisco Master Certifications: Master Security, Master Managed Services and Master Unified Communications. The route to Master UC includes multiple advanced certifications, demonstration of master-level sales and services capabilities, numerous industry technical certifications and customer references. These certifications are certainly more rigorous than NEC's Triple Diamond dealer designation. For that reason, in fact, one could easily argue that these competencies and awards suggest a degree of discipline and capability at NECAM not widely found in the industry.

NEC's making money via Cisco should not raise concern about NEC products. NEC is a large company, and there is nothing inherently wrong or telling in its diversifying its revenues. Various overlaps in product portfolios and partnerships are very common in the UC space. NEC also has strategic relationships with Microsoft and Dell. Multiple products exist to address the unique needs and preferences of multiple customers. Cisco UC is generally targeted at the enterprise, where NEC servers and storage compete.

However, this pattern could be construed as duplicitous in that NECAM incents its dealers to be exclusive to NEC telephony and UC products when NECAM itself is not. The problem with dealer exclusivity programs is they restrict the dealer to a vendor instead of what the customer may really need. Nonetheless, dealer exclusivity programs are increasing in popularity. NECAM's dealer exclusivity program is optional, and about 30 percent of its dealers participate.

NEC Telephony Is a Small Part of NEC

Objection: NEC is a large, diversified company of which telecom and UC are not its primary focus. The product and services can't possibly be as comprehensive as from a vendor focused in this space.

Response: NEC holds the No. 3 position in worldwide telephony market share.

Analysis: The intent of the objection is to cast doubt on NEC's commitment to the telephony and UC market and imply it could easily exit the space. There is no evidence to suggest these are legitimate concerns; however, little is known about how much telephony contributes to the company's top or bottom lines. Total NEC revenue in 2010 was US $37.5 billion, of which 12 percent or US $4.5 billion came from the Platform group. Of that, US $107.2 million was contributed as operating income to the bottom line. The Platform group is responsible for several product categories including servers, PCs, switches, storage, and of course telephony and UC. How much of the US $4.5 billion comes from telephony is not publicly known. NEC openly reports Gartner's findings that NEC holds the No. 3 position (10.2 percent) of the global telephony market (based on seat license shipments). Additionally, it seems reasonable to assume NEC realizes numerous synergies from its corporate reach and breadth including research, distribution, manufacturing and finance. Furthermore, it should be noted that telecom has been a core part of NEC from its very beginning in 1899.

NEC? Telephony?

Objection: Never heard of NEC, didn't know NEC was in telephony.

Response: NEC is a major multinational corporation and is the world's third-largest telephony provider in terms of line shipments.

Analysis: NEC spends very little on visible marketing. The brand is well established in telecom circles, but may be unfamiliar to end-user organizations. Prospects are usually somewhat familiar with the NEC brand even if they didn't know it was in telephony. The upshot is the company, and its channels, need to find the prospects, as prospects may not be seeking out NEC. Once NEC has the opportunity to present its case, its story is strong. In fact, NEC may indeed have more telecom manufacturing and sales experience than any of its competitors. Just don't tell anyone.

NEC Is Way Behind

Objection: The majority of NEC's VoIP sales are associated with its hardware products including SV8000, UX5000 and DSX. These systems use proprietary NEC VoIP technologies and TDM infrastructure. The world has changed, and NEC is still in the labs with Sphericall.

Response: Most of NEC's solutions support SIP trunking, VoIP handsets and basic unified messaging. The SV8000 and Sphericall have strong software-based UC capabilities.

Analysis: This objection is typical vendor-bashing rhetoric. Clearly the SV8000 is a reasonable current-generation product that will meet the needs of a huge portion of the public. While modern UC technologies are building momentum, traditional PBX sales continue strong. Frost & Sullivan reported, "Unified communications and advanced collaboration may be all the rage, but many companies are still just trying to upgrade their telephony systems. Which helps explain why the world enterprise telephony systems market shipped 43.2 million lines in 2010—a growth rate of 14.4 percent from 2009 to 2010— according to Frost & Sullivan's latest research."[5] The SV8000 is contemporary and available. Sphericall is NEC's next-generation product, which also is available today and undergoing significant development.

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[5] "The PBX is Dead! Long Live the Communications System!" by Melanie Turek, NoJitter.com, Aug. 24, 2011.

SWOT Analysis

Strengths

Resources

NEC is a large multinational company with a deep internal bench of skills, capabilities and patents. Strong financial resources enable the company to self-finance creative leasing solutions. Its voice and UC products are available around the globe, and its brand is widely known and well regarded. The company manufacturers many of its own components and has an impressive history of high-technology innovation. NEC claims to have specialized internal programs to mobilize resources and rapidly address service-related issues.

Team

The team managing NEC telephony products in Dallas, Texas, appears to have remarkably low turnover, and over the years, it has created a cohesive, proven and mature team that knows how to work with each other and how to get things done.

Services

NEC's services are categorized into professional services, managed services and support services. Professional services supplement sales efforts (direct and channel). Many competitors do not have this capability, and it is extremely difficult and expensive to create. It will become a key asset as NEC transitions from its appliance products to Sphericall. Managed services offers 7x24 monitoring as well as management services such as telecom expense management (TEM). A national service capability is also critical for branded support solutions required by national organizations.

Resilience (Sphericall)

As products across the industry have moved from hardware to software, the issue of resilience has become more complex. Design and configuration have moved from the factory to the dealer and/or customer. In many cases, resilience has become both an expensive option and a technical challenge. Conversely, Sphericall makes resilience a core feature of the product with automatic load-balancing and server fail-over. There is no additional charge for this feature or for additional server instances. Additionally, gateways from both NEC and third parties provide branch office survivable solutions with centralized deployments.

Strong Channel (SV8000)

NEC has a very strong, mature channel for its SV8000 series of products. About 75 percent of NECAM's voice-related sales are handled by the US and Canada channel, and those numbers are heading up. The majority of this channel is not yet engaged with Sphericall. Additionally, the smaller channel acquired from Sphere remains largely intact.

Willingness to Partner

NEC is an industrious, vertically integrated company, which usually results with a bad case of "not invented here" syndrome. NEC, however, has an impressive collection of partners that are deeply integrated into the products. Many of these partner technologies are branded NEC, such as some of the wireless phones and UC solutions. Several Polycom products are deeply integrated into NEC, including the ability to update firmware on Polycom phones. This approach offers strong features, low research and development, and seamless support.

Broad Scalability From a Single Product

NEC developed its SV8000 products to cover a wide base of customer sizes and vertical sectors. The products and core technologies are similar, but not identical; however, they share phones and other components. This product alignment is opposed to the totally separate systems for different size customers as commonly found in the industry. But the better story belongs to Sphericall, which scales a very wide customer span in a single product.

Weaknesses

International Account Management

Included as a Strength above is the fact NEC's telephone and UC portfolio is available worldwide. These products, however, are generally purchased through regional operations. Not only are its dealers restricted to territories, but NECAM itself only supports the US and Canadian markets. This prevents multi-national firms from single-point account management and procurement. NEC claims this is not a major limitation and in cases where it is, the company has addressed the situation with an exception process. Also, NEC has developed a multinational account management service specifically for the hospitality vertical. Customers that consider NEC's international capability important should be aware of this regional purchasing limitation.

Small Sphericall Channel

Largely as a result of measured and intentional planning, NEC's Sphericall-capable channel remains relatively small. NEC acquired Sphere Communications and its channel in 2007. The Sphericall product has remained available throughout, but not particularly stressed to, its pre-existing network of dealers. With Sphericall 8, NEC will start to push Sphericall more aggressively and work hard to win over many of

its SV8000 dealers. This is not a trivial undertaking. Traditional voice dealers across the industry are reluctant to migrate from appliances to software-based UC solutions. NEC will need to invest heavily in dealer training and marketing to migrate its channel.

Not a CIO Player

NEC is sometimes pigeonholed as an SMB player. The company does well in the SMB space, but also boasts several large testimonial accounts, particularly within its key verticals hospitality, health care and education. NEC generally wins "bottom up" rather than from the CIO or "top-down." Outside of the key verticals, NEC does not strongly court the executive suites in the enterprise. This is more of a channel, marketing and sales issue than a product issue, but it is one that is not easily changed.

Migration from SV8000 to Sphericall

Historically, NEC has provided strong migration paths between product generations. This was the case with its NEAX to SV8000. However, as of this time there is no solution to migrate SV8000 licensing (core or applications) or NEC digital phones to Sphericall. This can be addressed partially with pricing promotions, but customers will undoubtedly and reasonably expect a migration path that leverages and rewards past loyalty and investments.

There are two common approaches to this problem, but neither has been announced by NEC. The first is to effectively turn the SV8000 into a gateway and use NEC's CCIS networking to a Sphericall server for master control of resources that are both directly attached and SV8000 attached. The other solution is to use Remote Call Control (RCC) and allow Sphericall (or other solution) to integrate with the SV8000 through a more generic and limited public interface. NEC will likely address this issue in 2012.

Mobility Solutions

NEC offers a reasonable breadth of mobile solutions ranging from iPad support to SIP fixed mobile convergence (FMC) solutions. However, these solutions are not industry leading in features and capabilities. Some of the mobile clients rely on Web pages instead of a local client, some simultaneous-ring solutions rely on timers, and some of the critical mobile clients use third-party generic SIP softphones. The industry as a whole identified mobility as priority in 2010/2011, and research and development is rapidly shifting there. The iPad was launched in spring 2010, and it took a few months to declare it a hit. It is likely NEC will focus more effort on mobility after the completion of Sphericall 8.

NEC does, however, have a slight benefit in terms of its commitment to a Rich Internet Applications (RIA) framework. NEC should be able to roll out new clients using its RIA architecture relatively quicker than many of its competitors. The technology today relies heavily on Adobe Air, which allows a single solution to work on multiple desktops and portables. For this reason, NEC has reasonable confidence that its existing clients will work on the next few generations of tablets. NEC's clients are effectively platform independent with this approach. Additionally, this technology is fairly well optimized for HTML5, which is also rapidly gaining support and acceptance.

Complex Product Portfolio (SV8000)

An overly complex product portfolio for SV8000 is a minor issue for customers, but more significantly impacts NEC and its channel with the burden of excessive parts, options, certifications and other complexities. This is largely a result of evolution. A 400-extension customer can actually fit into any of NEC's six platforms, of which three are the SV8000 appliances. Each has its own recommended UC applications, some available on board versus a server with different features and options.

Clear Identity

While the NEC brand is strong and worldwide, the specific effort behind business VoIP and Unified Communications does not have its own identity. The brand "UNIVERGE" applies to numerous NEC products. Telephony and UC are part of its Platforms division, but telephony has its own channel, research and development, and manufacturing. Publicly, there is no single leader of NEC's telephony and UC strategy or business, and there is no simple way to refer to this group on either a worldwide or regional basis.

Leadership Turnover

NEC's regional leaders generally come from Japan, and due to a US-imposed five-year limit on work visas, there is fairly regular, even scheduled, executive management turnover. The result is obvious loss of momentum, lost time, and various other forms of turmoil associated with these ongoing changes.

Opportunities

Sphericall Is Based on Windows

Many competitive UC and telephony solutions now run on a Linux core. Sphericall runs on Windows Server. While this prevents NEC from tweaking the operating system, it gives NEC numerous benefits. NEC is free from ongoing OS management and testing, and has a wide range of supported hardware options. Sphericall is Windows savvy and plugs directly into an Active Directory and Exchange environment. Sphericall does not require client access licenses, and so the cost of Windows Server is not material.

Additionally, NEC Sphericall has received a coveted PBX1 JITC certification. The Joint Interoperability Test Command (JITC) conducts testing of national security systems and information technology systems hardware, software and components. Few systems have obtained this certification, which is required by most defense agencies and valued by many more. NEC claims the JITC designation effectively kills customer security concerns and has proven to be valuable in multiple verticals unrelated to defense. This could have been placed as a strength, but JITC awareness is still the exception, not the norm. NEC now is pursuing Local Session Controller or LSC designation, which is a subsequent, higher JITC designation.

Collaboration

Strong Web-based conferencing and collaboration are a requirement in UC. NEC is working with Spreed to develop a new, comprehensive collaboration suite built into Sphericall. The solution will enable multi-party secure collaboration, audio/Web recording, whiteboarding, videoconferencing and remote desktop control. It is a very robust offering planned for Sphericall 8.1, likely in spring 2012.

Bundles

With appliance-based telephony, the end user and the dealer were largely relieved of hardware engineering. The factory effectively ensured the appliance hardware was sized appropriately for the possible load, and complex matters such as high availability and replacement parts were simplified to SKUs. As the industry moves toward software-based solutions, the hardware responsibilities move from the factory to the dealer and/or customer.

This is one of the reasons why Sphericall represents a new skill set for appliance dealers. However, NEC has an ace up its sleeve—it produces and sells its own servers (and storage). This gives NEC the capability to deliver the best of a software-based solution on its own servers; an appliance-like solution. Several competitors are using servers from Dell, HP or IBM—but NEC can offer it all with one brand, one warranty, one dealer. New server and Sphericall bundles were announced in September 2011 for medium and small businesses.

Sphericall

Sphericall itself poses an interesting opportunity for NEC. Sphericall represents an aggressive Web services strategy for communications. It will be the first telephony/UC solution from NEC (a company with a hardware heritage) based purely on software. It represents a disruptive shift, not just for NEC's customers but for NEC itself. The retooling effort is immense and will require significant investment and education internally, with its channel partners, and with its prospects. Fortunately, it is not expected or required to be an overnight transformation. The SV8000 products are selling well and are unlikely to disappear anytime soon. Success with Sphericall represents a very different future for NEC.

Hosted Solution

The cloud is where the excitement (and hype) lives—and NEC isn't benefiting from any of it. Cloud-based or hosted UC solutions are experiencing rapid growth, particularly in the SMB where NEC does well. This is listed under opportunities instead of weaknesses, because it is pretty clear Sphericall will be a cloud play. It's already marketed as cloud ready for those willing to host their own implementation. NEC confirms it is developing a cloud/hosted play and is very likely to announce details in late 2011 or early 2012. It could be aimed at end users directly, or at service providers that would use Sphericall as an engine. At this time, NEC has not announced any cloud or hosted strategy (nor have most of NEC's premise-based competitors). There is also the potential for NEC to develop a cloud solution optimized for specific verticals. The hospitality industry in particular has been making noise about switching from analog to hosted VoIP. Cloud plays for existing CPE makers are tricky, as they potentially disrupt or conflict with channels.

Vertical UC

NEC has done well with custom features and industry interfaces in the health care and hospitality verticals. Moving forward, those verticals are carefully evaluating hosted services. The potential exists for major chains to centralize their communications infrastructure, but significant challenges exist related to integration with other systems. NEC believes Sphericall is well positioned to leverage NEC's vertical experience as these sectors explore new delivery models. Additionally, NEC has been showcasing its pre-released M155 wearable phone for health care applications. The device can receive calls, but its hands-free ability to receive and display text messages may be attractive for health care providers.

Market Conditions

The past few years were fairly slow for UC sales. While the world economy has been slow, the improvements in UC continued, widening the feature gap between the non-upgraded and the current offers. The overall industry showed modest growth in 2010 after being down sharply in 2009. A significant portion of the mid-market remains on dated TDM technology. Additionally, the Nortel base still remains largely intact post-bankruptcy, with most users not yet having upgraded. NEC claims recent success with its Nortel displacement strategies.

NEC's Other Channels

NEC needs to recruit new Sphericall channel partners. The company seeks partners that are IT savvy. This problem is not unique in the industry, as not all traditional voice dealers are adapting their businesses. However, it just so happens NEC already has IT-savvy dealers serving both its IT (servers, storage) and Display (LCD, projectors, Plasma) divisions. Conceivably, NEC could create programs to incentivize some of these dealers to expand into unified communications.

Threats

Base Retention to Sphericall

As stated above, NEC has not announced a migration path from the SV8000 series to Sphericall. If this is not properly addressed, NEC customers will have no incentive to upgrade to Sphericall versus available alternatives. Although this is unlikely, it would not be the first time a manufacturer abandoned its lucrative customer base. A related issue: Sphericall 8 is imminent, yet there has been no upgrade path announced.

Channel Conflict

NEC sells its products directly and through its channel with no clear rules for engagement. Generally, NEC directs prospects to the channel, but maintains a direct sales force for underserved markets and larger accounts. NEC claims there is little channel conflict and when situations arise, the channel wins.

The only evidence of such is that the majority of sales do come through channel dealers. This is listed as a threat because NEC relies heavily on its channel and expects its channel to make a significant investment in Sphericall skills. These same partners will likely be wooed by other manufacturers offering a simpler learning curve and a lower risk of sales conflict. The majority of NEC's competitors do not have such blatant channel conflict. To be clear, this is not a technology issue, and the impact to the end user is largely dependent on their satisfaction with local representation.

NEC Endpoints

Endpoints represent 30 percent to 50 percent of the revenue associated with phone system sales. Some of those sales will disappear as the industry slowly embraces less expensive softphones, and some of those phone sales will disappear to the third-party SIP phone providers. Sphericall is the first NEC solution to utilize SIP endpoints as its primary/default solution. The threat is the potential drop in revenue currently coming from endpoints. However, NEC does produce its own rich softphone solution, and has created a strong story around its upper-model SIP phones by tightly integrating the display with system features. NEC IP phones, SIP and proprietary IP used with SV8000, are the same physical devices with different firmware loads.

Standards Compliance

NEC positions Sphericall as a solution compliant with industry standards. It has broad support for SIP circuits and SIP phones. However, NEC is not active in any of the relevant standards bodies. It dropped out of the SIP Forum in 2011, and has not joined the UC Interoperability Forum (UCIF). Membership in these organizations is not required for standards compliance, but relegates NEC to the role of follower rather than leader as technologies and interoperability evolve.

Service Providers Could Damage the Brand

Sphericall, as a platform, may attract service providers that intend to offer hosted UC. However, hosted real-time service is a complex business. Should a provider using Sphericall deliver poor service based on non-product related challenges, NEC may catch the blame. Other vendors that target service providers have less visible end-user branding (clients and endpoints). The liability is the perception that a poor implementation of the technology equates to poor technology.

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is NEC Americas or NECAM, which is headquartered in Irving, Texas. Takayuki Okada is the current President and CEO of NECAM. NECAM was responsible for all of the Americas until April 2011, when NEC opened NEC Latin America S.A. headquartered in Sao Paulo, Brazil. In EMEA, the subsidiary is NEC Unified, headquartered outside Amsterdam, Netherlands, and headed by Paul Kievit.

NECAM is organized into two large divisions: Enterprise Services Unit and Enterprise Technology Unit. Heading up ETU is SVP Masaaki "Jim" Nakajima who is responsible for NEC's suite of business communications products. Executives specifically focused on telephony and unified communications are Larry Levenberg and Frank Viola.

- Takayuki Okada, CEO of NECAM: Okada oversees operations of the company's diverse business lines in the US, including unified communications, server and storage solutions, optical network systems, microwave radio communications and biometric security. Okada is also a Senior Vice President of NEC Corporation, Japan. Okada was appointed to this role in March 2009.
- Masaaki Nakajima, SVP of NECAM: Nakajima is responsible for providing NEC's suite of business communications products and solutions dedicated to development, marketing, sales and technical training support.
- Larry Levenberg, Vice President and General Manager: Levenberg is responsible for telephony and UC business sales strategy. He oversees the development of US channels including dealers, direct sales and distributors. Levenberg joined NEC in 1986.
- Paul Kievit, President NEC Unified, NL: Prior to joining Philips in 2003, Kievit was Managing Director of Avaya Netherlands and before that General Manager Telecom Solutions at global systems integrator Getronics. In September 2008 Kievit was named President of NEC Philips Unified Solutions.
- Hiroki Shiba, CFO and SVP Corporate Planning, NEC Unified NL: Shiba joined NEC Corporation in Japan in 1982 and has since then spent over 18 years outside of Japan, 14 years in the US and four years in Netherlands, since the joint venture NEC Philips was established.

Ownership

NEC America (NECAM) is a wholly owned subsidiary of NEC. There is no separate ownership of the Telecom subsidiaries worldwide. Thus the only available information regards the parent Japanese company.

NEC is traded on Tokyo Stock Exchange, under ticker code 6701. As of March 31, 2011, there were 2,604,732,635 outstanding shares issued to 279,583 shareholders. The top 10 shareholders collectively held about 22 percent of the company.

Name of Shareholder	% of Shares of Common Stock Held
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.45
Japan Trustee Services Bank, Ltd. (Trust Account)	4.20
SSBT OD05 Omnibus Account-Treaty Clients	2.76
Japan Trustee Services Bank, Ltd. (Trust Account No.9)	1.94
Japan Trustee Services Bank, Ltd. (Trust Account No.4)	1.81
NEC Employee Shareholding Association	1.79
Nippon Life Insurance Company	1.61
Sumitomo Life Insurance Company	1.58
State Street Bank West Client-Treaty	0.90
Japan Trustee Services Bank, Ltd.	0.88