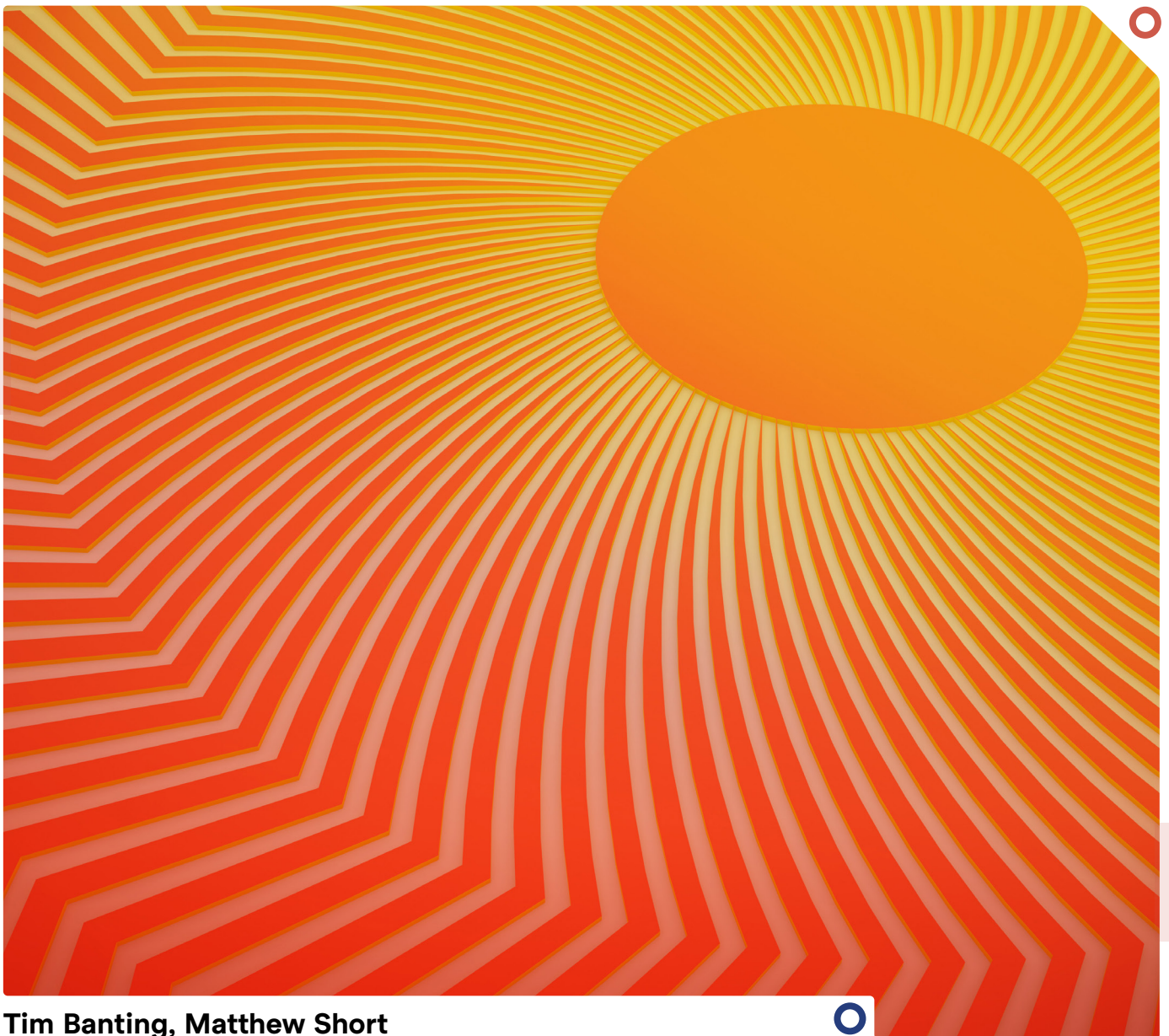




September 2021

Monoculture and Market Share: The State of Communications and Collaboration Software in the US Government



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Publication date:

21 September 2021

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Commissioned by:



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Industry Association**

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Summary

Omdia is an independent analyst and consulting firm specializing in global coverage of the telecommunications, media, and technology (TMT) industries with offices globally and across the US. In this report, we looked at the overall size and market share of vendors within a rapidly changing area of technology—communications and collaboration software—in the US public sector market (local, state, and federal agencies). Despite the emergence of new, cloud-native, best-of-breed vendors in this space, our findings show the continued presence of a procurement “monoculture” within government agencies in communications and collaboration software limiting overall competition and innovation in the public sector as well as creating potential security and dependency risks for those agencies who remain reliant on a single vendor.

Overview of market share data

Omdia has more than 400 analysts and consultants across 200 markets and in 25 research locations globally. As part of the Informa brand of research firms, Omdia tracks more than 11,200 companies worldwide. For this report, we utilized forecasts built around historical and current data alongside informed assumptions from market experts, secondary research, vendor interviews and briefings, infrastructure investment indicators, and demand-side research. Given that many technology vendors rely on email/calendaring and file storage/sharing as central components of their productivity software packages, we thought it critical to include these in our analysis. These, alongside content-creation

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software such as word processors, spreadsheet programs, and presentation applications, form much of our serviceable addressable market (SAM) for office productivity suites. In addition, we chose not to include legacy PBX providers in this analysis given the dramatic shift to cloud-based services.

Omdia’s global government forecast data represents spending growth by governments on technology across infrastructure, applications, IT services, consulting, communications, and internal infrastructure.

Table 1 represents Omdia’s estimates of the total addressable market (TAM) of software as a service (SaaS) in the US government sector.

Table 1: SaaS US Government market size, 2019–25 (\$m)

Year	2019	2020	2021	2022	2023	2024	2025
SaaS revenue	\$3,820	\$4,033	\$4,343	\$5,118	\$5,974	\$7,020	\$8,328
YoY growth		5.58%	7.68%	17.85%	16.72%	17.5%	18.63%
CAGR 2020–25	15.61%						

Source: Omdia

Omdia believes that office productivity suites represent around 14% of our SaaS government revenue projections. Consequently, we estimate the SAM for office productivity suites is as shown in **Table 2**.

Table 2: SAM for office productivity suites (\$m)

Year	2019	2020	2021	2022	2023	2024	2025
SaaS revenue	\$3,820	\$4,033	\$4,343	\$5,118	\$5,974	\$7,020	\$8,328
Office productivity suites SAM	\$535	\$565	\$608	\$717	\$836	\$983	\$1,166

Source: Omdia

Further research examined the market share of vendors in various productivity offerings and is shown in **Table 3**. While some technologies such as UCOMS’ premise-based and unified communications as a service (UCaaS) show a range of suppliers and an expected market distribution, it is worth noting that global office productivity is an outlier with one single supplier with a majority share.

Areas with a vendor that has a market share greater than 50% are worth exploring in more detail to understand the reasons behind the behavior, if a vendor lock is indeed present, and to understand if innovation is still leading selection and taxpayer dollars are being used appropriately.

Table 3: Market share for productivity offerings (%)

	Microsoft	Google	Dropbox	Box	Avaya	Cisco	Others
Global office productivity	85	12	-	-	-	-	3
Global file storage	21	34	21	5	-	-	19
Global email and calendaring	60	25	-	-	-	-	15
UCaaS (US)	28	-	-	-	37	22	13
UCOMS premise-based	21	-	-	-	46	21	12

Source: Omdia

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Omdia estimates Microsoft's share in the US government office productivity market to be approximately 85%, with the remaining 15% going to a mix of vendors. Microsoft also provides free software for education faculties and students in its Office 365 A1 plan, which is inclusive of email and calendaring, file storage, and communications and collaboration services. Indeed, Microsoft's communication and collaboration service Microsoft Teams is included in all Office 365 government plans and available to friends and family for free, while Microsoft Teams functionality will also be incorporated into the Microsoft Windows 11 operating system (source: Upgrade to the New Windows 11 OS, Microsoft).

Why a monoculture has emerged – Omdia's hypothesis

While the 1993 National Performance Review introduced significant changes to the US government's procurement system, Omdia believes that the slow cultural shift from that of compliance to innovation continues to hinder improvements within US government agencies' use of communications and collaboration software. The goal of public procurement processes is to obtain the best-value products and services for both employees and taxpayers; however, an overemphasis on ease of procurement has often resulted in the path of least resistance rather than selecting the best solution.

Inertia refers to the propensity of buyers to choose products or services as part of a predefined status quo option. Inertia is an important topic in competitive B2B markets as communications and collaboration software vendors with a dominant market share may choose to harvest their customer install base by increasing prices or invest to increase their customer base by lowering prices.

Bundling can also be used as an effective strategy in the procurement process because vendors that combine products—or throw in ancillary products for free—can be more difficult for rivals that have smaller subsets of products to compete against. While it may still be possible to compete effectively by offering an alternate bundle, those vendors with a firstcomer advantage can significantly lower their costs or effectively commoditize entire categories of software and further entrench legacy systems even if they offer new or additional services as free or discounted add-ons. This can hurt the customer.

For example, Microsoft offers Office 365, which has Word, Excel, and PowerPoint sold as an office suite but which is also frequently bundled with Microsoft Teams, which competes with Slack and others, and/or Azure cloud credits (an infrastructure as a service offering that competes with AWS and Google Cloud) as part of large government deals. This has the effect of thwarting diversity in ancillary markets, reinforcing monoculture decisions across government.

Disruptive software companies such as Slack, Box, and Zoom have recently provided new waves of innovation through intuitive and easy-to-use productivity tools. However, despite the move toward streamlining the government procurement process to leverage best-of-breed commercial technology, the US government, especially at the federal level, may not be adopting the most innovative technology available, particularly if procurement is influenced by compliance and inertia.

Such influences serve to maintain the status quo for incumbents. Indeed, the potential disruption of new capabilities from highly innovative vendors can create incentives for incumbents to avoid radical changes beyond their control. Consequently, incumbents tend to focus on incremental innovation with a level of innovation that serves to support their market position.

Case in point: Microsoft Office 365 government plans provide all the features and capabilities of its broader Office 365 service in a segmented government cloud community that enables organizations to

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meet US compliance and security standards. However, while Microsoft's government plans offer attractive feature and functionality capabilities, the institutionalized inertia and compliance regarding Microsoft products within the government procurement process create a significant barrier that curtails the success of rivals and stifles innovation overall.

Perhaps the most critical concern of having vendors with such dominant market shares lies in future and ongoing security breaches. The US government has already been the subject of attacks with Microsoft Exchange hacks being one of the most newsworthy in recent years. While no company is immune from attacks, having such a large dependence on a single source makes the attack surface critically high and a clear high value and profile target. With a policy that promotes more diversity with local, state, and federal agencies, it could also serve to add redundancy to these critical systems.

Conclusion and next steps

While changes to the US government's procurement system have simplified the buying process, Omdia believes that state, federal, and local agencies are not given the adequate flexibility and freedom to choose the right tools and software that best suit their needs and provide an innovative foundation for the future. Instead, departments choose the path of least resistance, which creates potential concentration risk and security vulnerabilities.

Omdia intends to carry out a deeper survey and further research to explore some of the initial assumptions posited in this paper and to further investigate the vendor market share in the US local, state, and federal governments and compare it with the merchant market to understand if our premises are indeed correct.

Appendix

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Omdia Commissioned Research

This piece of research was co-commissioned by Google LLC and CCIA.

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Omdia consulting

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