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Monoculture and Market Share: The State of Communications & Collaboration Software in the U.S. Government

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Summary:

Omdia is an independent analyst and consulting firm specializing in global coverage of the telecommunications, media, and technology industries with offices globally and across the United States. In this report, we looked at the overall size and market share of vendors within a rapidly changing area of technology – communications & collaboration software – in the U.S. 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 & 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 and calendaring and file storage/sharing as central components of their productivity software packages, we thought it was critical to include in our analysis. This, alongside content creation software (word processing, spreadsheet, and presentation applications) forms much of our serviceable addressable market (SAM), for office productivity suites. In addition, we elected 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 U.S. government sector.

Table 1: SaaS U.S. Government market size, 2019-2025 ($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
Y-o-Y 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 serviceable addressable market (SAM) for office productivity suites is 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
SAM- Office Productivity Suites	$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 below in Table 3. While some technologies such as Ucoms premise – based and 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 who 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 if tax payer dollars are being used appropriately.

Commissioned Research

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 Calendering	60	25	-	-	-	-	15
UCaaS – US	28	-	-	-	37	22	13
U coms premise - based	21	-	-	-	46	21	12

Source: Omdia

Omdia estimates Microsoft's share in the U.S. Government office productivity market to be that of around 85%, with the remaining 15% going to a mix of vendors. Microsoft also provides free software for education faculty and students in their Office 365 A1 plan (inclusive of email and calendaring, file storage, plus communications and collaboration services. Indeed, Microsoft's communication and collaboration service, Microsoft Teams, is also included in all Office 365 government plans, available to friends and family for free, and 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 U.S. government's procurement system, Omdia believes that the slow cultural shift from that of "compliance" to "innovation" continues to stymie improvements within U.S. government agencies' use of communications & collaboration software. The public procurement process's goal is to obtain the best-value products and services for both its 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 & 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, as 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 first-comer 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, in which not only Word, Excel, and PowerPoint are sold as an office suite, but also Microsoft frequently "bundles" Microsoft Teams (a communications suite that 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 stymieing 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, easy-to-use productivity tools. However, despite the move towards streamlining the government procurement process to leverage best-of-breed commercial technology, the U.S. 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 meet U.S. compliance and security standards. However, while Microsoft's government plans offer attractive feature/functionality capabilities. The institutionalized inertia and compliance regarding Microsoft products within the U.S 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 share lies in future and ongoing security breaches. The U.S. 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. By having 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 U.S. government's procurement system have simplified the buying process, Omdia believes state, federal, and local agencies are not given the adequate flexibility and freedom to choose the right tools and software that 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 our initial assumptions posited in this paper and to further investigate the vendor market share in the U.S. local, state, and federal government and compare it to the merchant market to understand if our premises are indeed correct.

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Omdia Commissioned Research

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Methodology

The Technology team at Omdia is the leading source of information, insight and analytics in critical areas that shape today's technology ecosystem—from materials and components, to devices and equipment, to end markets and consumers. Businesses and governments in more than 150 countries around the globe rely on the deep market insight we provide from over 300 industry analysts in technology sectors spanning IT, telecom, media, industrial, automotive, electronics, solar and more. What sets Omdia's Enterprise IT research Practice apart is our team of technical, experienced analysts, and our end-to-end coverage of the industry.

- The lead analysts that are the main contacts for our clients all have been in the industry for over two decades, have a technical background and a strategic mindset. This gives us the confidence to say that we have the experience, training and skills needed to effectively help you connect the dots, see all perspectives, and stay ahead of disruption.
- The lead analysts are supported by a large team of primary and secondary research experts, data scientists and specialists. We're also more global and diverse than ever, located in 4

countries, across time zones, communicating in 10 languages. Our rapidly growing portfolio of primary research is also helping us provide end-user perspectives and what is impacting their purchasing decisions. In fact, it is hard to list all viewpoints our team can provide.

This report draws from Omdia's interactions with numerous forward-thinking vendors, partners, and clients on the future of work, plus Omdia research into the impacts and effects of the COVID-19 pandemic on businesses and technologies. This report builds on Omdia's research on the digital workplace. It is based on discussions with service providers and technology vendors and leverages existing Omdia research and data. Data derived from Omdia surveys and from vendor press releases, virtual events, and briefings.

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