Innovate, partner, and sell:

A strategy for Zoom Video Communications, Inc.

By Hal Beresford – Kelley School of Business MBA Candidate – December 3, 2019

Diagnosis – Zoom faces big opportunities in market penetration and innovation but fierce competition from Microsoft and Google.

Zoom Video Communications, Inc.'s ("Zoom" ZM) three main products – subscription services for online video meetings ("Zoom Meetings"), Internet Protocol-based telephone calls ("Zoom Phone"), and video-connected corporate conference rooms ("Zoom Rooms") – compete in categories characterized by rapid technological innovation, numerous available substitutes, and above all strong rivalry among large firms, particularly Microsoft and Google. (See PEST and 5-Forces analyses in Appendix 2.)

My SWOT analysis (Appendix 2) reveals that Zoom's greatest opportunity lies in further penetrating the global business digital communications market, which serves the world's 1 billion knowledge workers and is expected to generate revenues of $43.1 billion annually by 2022. Relative to Zoom's FY19 revenue of $330.5 million, the opportunity is huge. (Zoom Video Communications, Inc., 2019)

Besides market penetration, Zoom must also continually invest in its product quality, the foundation of Zoom's success. The good news is Zoom's product quality is excellent and better than its competitors. (See Strategy Canvas below.) Zoom's continuing opportunity is that in-person meetings are still simpler and more interactive, which means that Zoom is still not the #1 choice for meetings in many situations.

In coming years, Zoom is also likely to see opportunities to create new digital communications products on top of new technology trends. One example of this would be an "instant interpretation" services for meetings that would capitalize on the current trend in AI, as imagined by CEO Eric Yuan during his Lochhead interview. (Yuan, Lochhead Interview, 2019) Trend-capitalizing innovation can grow businesses rapidly, as Zoom experienced in 2011-2013 when it developed Zoom Meetings with what at that time was new technology in the category – cloud-based web services and mobile devices.

Zoom's threats come primarily from well-heeled competitor firms bundling unified communications with an additional, already-profitable product line that customers will buy anyway. Analyzing Zoom's top competitors – LogMeIn (GoToMeeting), Cisco (WebEx), Adobe (Adobe Connect), Microsoft (Teams), and Google (Hangouts) – no doubt superior product quality positions Zoom favorably versus LogMeIn, Cisco, and Adobe. (See Strategy Canvas below.) On the other hand, Zoom's top two competitors are Microsoft and Google, the two following reasons:

1. *Customer economics.* If you are a business, you must buy productivity software. The only two major providers are Microsoft and Google, whose productivity software bundles (Office and G Suite) include communications software services (Teams or Hangouts) that are direct substitutes for Zoom. Why would a business add a Zoom subscription when they already have Teams or Hangouts for zero or little additional cost? (See price comparison in Appendix 1.)
2. *Resource differentials.* Even if Zoom has a better-quality video communications product today, Microsoft and Google have virtually unlimited resources to develop and market their services. Zoom's *entire* $20.38bn market capitalization is exceeded by *annual* free cash flows of $21.3bn for Google and $38.3bn for Microsoft. Conceivably, either firm or both could invest heavily to improve

and market their products and harm Zoom's business deeply. How can Zoom offer a persuasive value proposition when Microsoft or Google could out-invest Zoom at any time?

Competition from Microsoft or Google is not theory but reality. Slack, a fellow 2019 IPO company, is now engaged in direct and potentially ruinous competition with Microsoft Teams, a Slack substitute that reached 13 million daily active users in July 2019. (Jagielski, 2019) (Spataro, 2019) Slack's stock performance from June to November 2019 was the worst among 6 notable companies in the 2019 IPO class, which also included Zoom. (See Appendix 1.) Microsoft Teams is also a direct Zoom competitor, which might partly explain why Zoom's stock price also fell heavily between June and November 2019. (See Appendix 1.) Given intense competition from Google and Microsoft, Zoom must secure itself with the "innovate, partner, and sell" business strategy, described next.

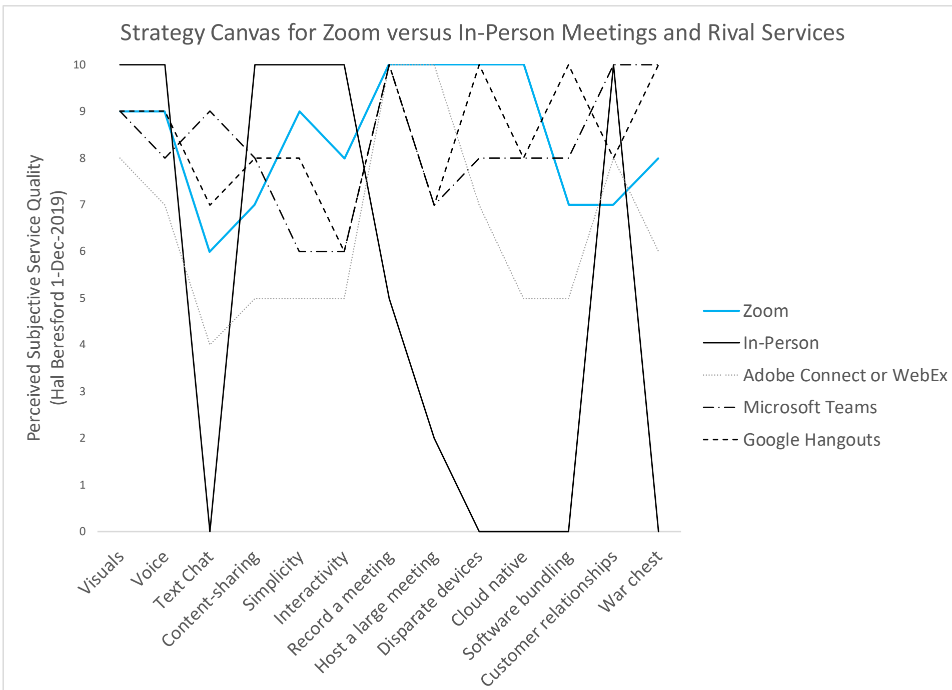

Figure 1 – Strategy Canvas for Zoom versus in-person meetings and four selected rival services: Adobe Connect, Cisco WebEx, Microsoft Teams, and Google Hangouts. Data is based on subjective ratings by the author of this report, who is a former IT professional and a past user of all services listed. Despite Zoom's current product quality advantages, note that rival firms like Microsoft (Teams) and Google (Hangouts) have huge war chests for R&D and existing customer bases with opportunities to bundle video with productivity suites.

Strategy – Zoom must innovate, partner, and sell.

To remain relevant and grow, Zoom must innovate their products, form corporate partnerships, and grow global marketing and sales. Here are specific recommendations, reasonings, and action plans:

Recommendation #1: Keep innovating until Zoom Meetings, Zoom Phone, and Zoom Rooms are better than their in-person equivalents.

When Eric Yuan created Zoom, customers were unhappy with all available web conferencing solutions. Yuan succeeding in building a better product: Zoom went from startup in 2011 to one of Wall Street's best performing IPOs in 2019. (See Appendix 1.) Product quality is still what allows Zoom Video Communications to thrive today, but the work is not done because in-person meetings still outperform

Zoom in key respects: visuals quality, voice quality, content sharing, interactivity, and simplicity. (See Strategy Canvas above.) Therefore, Zoom still has plenty of room to keep innovating.

To innovate successfully, Zoom should continue its "happiness-focused, user-focused" culture and software development approach. Zoom's ethos of keeping the customer first, aiming for maximum customer happiness, and building simple platforms based on the intuitive solution of widely felt customer pain points will continue to serve Zoom well. On top of that, Zoom must now also take care to keep product focus simple and clear for each of its product lines, so that Zoom Meetings do not cannibalize Zoom Phone or Zoom Rooms and vice versa. Finally, Zoom should monitor customer problems and technology trends and be first to market with new products when opportunities arise.

Recommendation #2: Expand corporate partnerships with B-to-B software companies not engaged in video communications software, so that Zoom is included in software bundles of similar unavoidable necessity as Microsoft's Office and Google's G Suite.

Zoom solves business needs for video communication, but businesses have many needs. So, if a software company can bundle products, that is a huge benefit for the customer. That is why Zoom's greatest threats today come from Microsoft and Google, who bundle communications software (Teams or Hangouts) with business-critical productivity software (Office or G Suite). If a company buys such a bundle, they fulfill lots of their needs, and Zoom loses a potential customer. How can Zoom compete?

Zoom must continue to focus on what Zoom does best – creating communications software – while seeking to partner and integrate Zoom products easily with those of other B-to-B software companies. Zoom should reach out to software companies like Slack, Atlassian, and Amazon who do not also offer video communications services to explore increasing Zoom's integrations and perhaps offering product bundles, so Zoom increases sales while customers enjoy discounts. Zoom already knows some of these companies – just last week a "Zoom and Slack" advertisement was hung in Boston's Logan International Airport (Appendix 1). This is a great start. While Zoom can't control Office or G Suite, Zoom can create its own must-have bundles, provided the company identifies and cultivates the right corporate partners.

Recommendation #3: Ramp up global sales efforts in order to increase market penetration and build network effects among U.S. corporations and internationally.

Part of what can make Zoom's product great is network effects: the more users who are using Zoom in their companies, the more value Zoom will accrue, because the less users will have to leave the Zoom platform to have great conversations and collaborations. Just as much as it will help Zoom's bottom line, ramping up sales will help the customer experience.

That is why now is the time for Zoom – especially now having access to both private and public markets for the first time following its April 2019 IPO – to invest heavily in global sales, so that Zoom can give its customers the advantage of network effects while increasing Zoom's corporate profits and competitive advantage (a "some to more" sales strategy). Continuing the "freemium" model for Zoom Meetings – offering free, basic services to the lowest tier of customers – should continue to help Zoom identify new customers and keep customer acquisition costs low. Zoom should build out its sales staff in the most lucrative corporate, domestic, and international markets. Upon each new customer approach, Zoom should sell each new customer the product line that is most useful for that customer, e.g. Zoom Meetings, Zoom Phone, or Zoom Rooms. Finally, over time Zoom should build a relationship of trust with each customer and expand sales relationships with cross-sales (a "more to some" sales strategy).

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Appendix 1 – Images, Graphs, and Tables.

Figure 2 – A Zoom advertisement (L) and a rival LogMeIn GoToMeeting advertisement (R) photographed at Boston's Logan International Airport on November 29, 2019. Advertising at airports – also mentioned in the [Lochhead podcast]() – remains part of Zoom's marketing strategy. Also, note that Zoom and Slack are already co-marketing their products as complements (L). (Photographer: Hal Beresford)

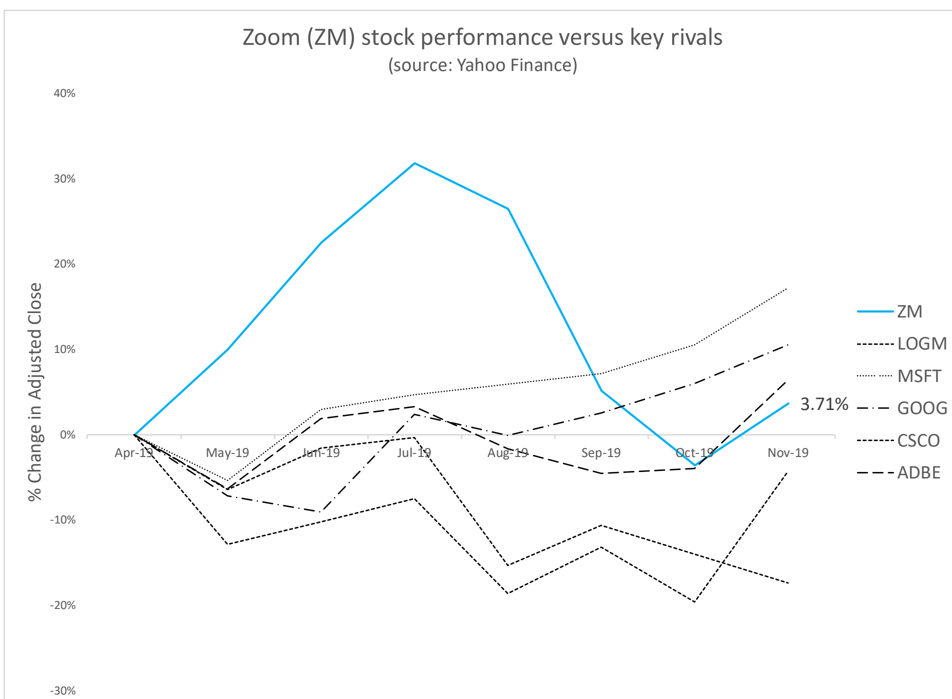

Figure 3 – After a post-IPO surge, between August and November 2019 Zoom Video Communications's (ZM's) stock performance fell closer to that of its key competitors. (Data source: [Yahoo Finance]())

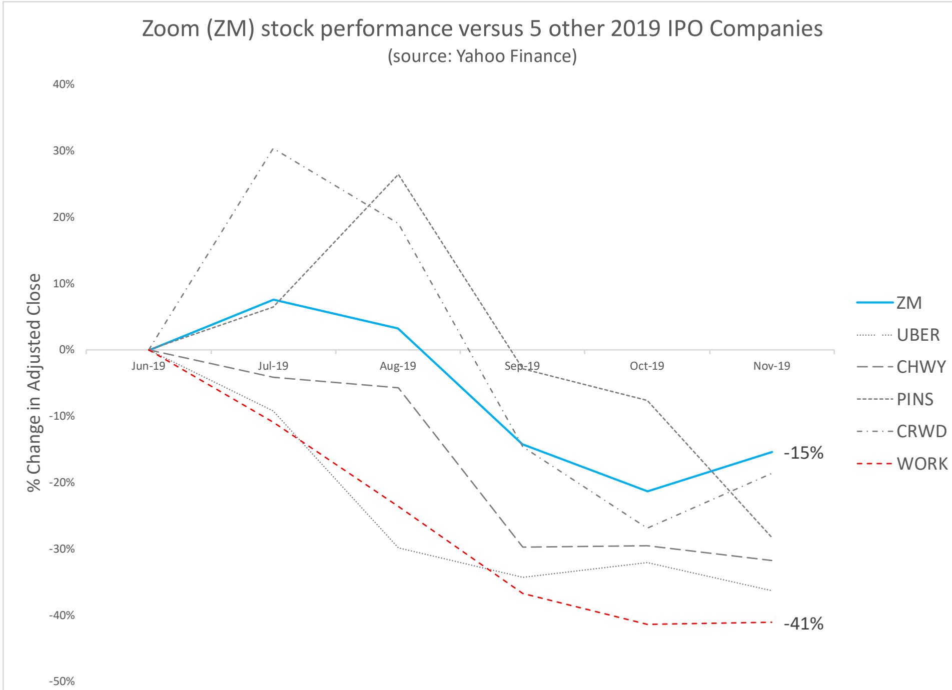

Figure 4 – Between June and November 2019, Zoom Video Communications's (ZM's) stock performed better than 5 other Internet-related companies who also IPO'd in 2019: Uber, Chewy.com, Pinterest, CrowdStrike, and Slack. (Data Source: Yahoo Finance)

Table 1 – Comparison of Zoom service plans versus Google G Suite and Microsoft Office 365. Of these services, only G Suite and Office 365 offer complete productivity and communications software bundles. Prices accurate as of December 3, 2019.

Software Service	Plan	Monthly Price per User or Host	Complete Productivity and Communications Software Bundle
Zoom source	Basic	$ -	No (Communications only)
	Pro	$ 14.99	
	Business	$ 19.99	
	Enterprise	$ 19.99	
Google G Suite source	**Basic**	**$ 6.00**	**Yes**
	Business	**$ 12.00**	
	Enterprise	**$ 25.00**	
Microsoft Office 365 for Small Business source	Business	$ 8.25	No (Productivity only)
	Business Premium	**$ 12.50**	**Yes**
	Business Essentials	$ 5.00	No (Communications only)
Microsoft Office 365 for Enterprise source	ProPlus	$ 12.00	No (Productivity only)
	E1	$ 8.00	No (Communications only)
	E3	**$ 20.00**	**Yes**
	E5	**$ 35.00**	

Appendix 2 – Strategic Analyses for Zoom Video Communications, Inc.

Political	**Economic**
US/China trade war European Privacy legislation 2020 US Presidential election Donald Trump impeachment proceedings	Internet schism into American and Chinese zones Huge run-up of value in largest technology firms Trends in globalization increasing or decreasing
Social	**Technological**
Increasing regionalization of social identities Social media and network effects The digitalization of communication Climate change leading to social unrest Growing economic inequality in the United States Growing economic inequality in the world	Increase in Internet broadband speeds Loss of Moore's law Fast 5G Internet connectivity Updated Wi-Fi 6 (Wi-Fi AX) standard Machine Learning Big Data 3-D printing

Figure 5 - A PEST analysis for Zoom Video Communications, Inc.

Industry = **Integrated Digital Business Communications (video + voice + online meetings)** Overall Industry Competitiveness = **High**	
Power of Suppliers = **Low** • Primary products supplied are commodities: space, computer hardware, cloud services • Multiple suppliers available for each – in particular for cloud services there is AWS, Google, Azure, IBM, and Oracle • Do-It-Yourself servers relatively easy to set up	Power of Buyers = **Medium** • Corporations have many possible suppliers for these services • There are many corporations, which fragments the purchasing market • Buyers often face medium to large switching costs due to difficulty of humans getting used to new technology processes
Threat of Substitutes = **High** • Substitutes include in-person meetings, e-mail, productivity, processes, chat, and traditional telephone • Additional substitutes may be developed due to pace of technological innovation	Threat of New Entrants = **Medium** • Digital technology is evolving quickly and therefore leaves opportunity for new product development • Requires lots of capital to reach global scale needed to land the largest clients
Power of Rivals = **High** • Digital communications industry highly competitive • Industry includes some of the richest companies in the world, like Microsoft and Google • Many rivals have additional commercial relationships with clients outside digital communications, which could make it easier for them to bundle and lock up clients	

Figure 6 - A 5-Forces analysis for Zoom Video Communications, Inc.

"S" – Strengths	"W" – Weaknesses
Product: High quality compared to substitutes More environmentally friendly than travel Lucrative (!) due to trifecta of subscription model, economies of scale, and network effects Marketing: Consistent marketing and value proposition Positive brand equity Management: CEO 20+ years' experience in product category CEO knows USA and China – the 2 largest markets Engaged, satisfied workforce: 4.7/5 on Glassdoor Financing opportunities expanded since the IPO	In-person meetings still simpler and more interactive One software category = fewer bundling opportunities Dual-class shares consolidate decision-making heavily
"O" – Opportunities	**"T" – Threats**
Large market penetration opportunities: 1 billion knowledge workers globally (Yuan 9/11/19) $43.1bn estimated market size in 2022 (p. 5, S-1/A) Creating or partnering for complementary products New technology (e.g. AI, 5G) enabling innovation	Substitute products from competitors* who can: Spend lavishly on product development Bundle communications with other software Cross-sell based on existing sales relationships High quality consumer substitutes (e.g. Facetime)

*Figure 7 - A SWOT analysis for Zoom Video Communications, Inc. *These competitors include Adobe (Adobe Connect), Cisco (WebEx), and above all Microsoft (Teams) and Google (Hangouts).*

Appendix 3 – Zoom Video Communications, Inc. company background.

Zoom Video Communications, Inc. is a video-first global communications company. It was founded by now-CEO Eric S. Yuan, who previously supported the WebEx video conferencing product as a VP of Engineering at rival firm Cisco Systems, Inc. With an unrelenting focus on employee and customer happiness, Zoom's goal is to, "…make Zoom meetings better than in-person meetings." (Zoom Video Communications, Inc., 2019)

Product quality is why Eric Yuan created Zoom. At the end of his tenure at Cisco from 1997-2011, Yuan noticed that customers disliked every available web conferencing solution, including the WebEx product that he had co-developed. In 2011, after Cisco resisted his push to rebuild WebEx from the ground up, Yuan left Cisco to form Zoom. Given the general customer dissatisfaction in the product category, Yuan reasoned that if he could build a better product then customers would be happy to switch to Zoom. (Yuan, Novak Interview, 2019)

Zoom has expanded greatly since 2011. Until 2016, Zoom focused on building its United States operations and gained customers including the Kelley School of Business at Indiana University, which adopted Zoom for online course delivery. From 2016-2018, Zoom pushed to expand worldwide so that anyone with a fast connection, anywhere in the world could enjoy high-quality video conferencing services that were reliable and simple to use. In 2019, Zoom had what Yuan calls its "high school graduation:" a successful IPO. Today, Zoom boasts over 2,000 employees and has recently added two new products: Zoom Phone and Zoom Rooms. (Yuan, Lochhead Interview, 2019)

Appendix 4 – Executive Summary

Zoom Video Communications, Inc. ("Zoom") (symbol: ZM) sells subscription services for online video meetings (Zoom Meetings), Internet Protocol-based telephone calls (Zoom Phone), and video-connected corporate conference rooms (Zoom Room) primarily. These three categories are characterized by rapid technological innovation, numerous substitute products, and above all strong rivalry among large firms – in particular by Microsoft and Google.

To compete effectively and ensure that Zoom's products provide maximum happiness to a large, global base of customers, Zoom must adopt a three-part business strategy of **innovate, partner, and sell**:

1. **Keep innovating** until Zoom Meetings, Zoom Phone, and Zoom Rooms are better than their in-person equivalent.
2. **Expand corporate partnerships** with B-to-B software companies not engaged in video communications software – consider especially Slack, Atlassian, and Amazon – so that Zoom is included in software bundles of similar unavoidable necessity as Microsoft's Office and Google's G Suite.
3. **Ramp up global sales teams** to increase market penetration and build network effects among U.S. corporations and internationally.