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| Microsoft Partner Solution Case Study |
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|  | [Cbeyond](http://www.cbeyond.net/index) |  | Hosted Messaging and Collaboration Helps Microsoft Partner to Differentiate Services Office Header |
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| Overview  **Country or Region:** United States  **Industry:** Online Services  Customer Profile  Headquartered in Atlanta, Georgia, Cbeyond's 1500 employees provide communications and IT solutions over a private IP network to approximately 48,000 small-business customers in 13 U.S. markets.  Business Situation  To succeed in the highly competitive IT and communications market, Cbeyond needed to add new services without increasing price or decreasing profitability.  Solution  Cbeyond is winning new customers with a unique sales and service model that integrates Hosted Microsoft Exchange with its core broadband and wireless services.  Benefits   * Improved Customer Growth and Retention * Exceptional Differentiation from Competitors * Increased Revenue * Improved Control and Security * Added Value of Microsoft Brand |  |  | “With Hosted Microsoft Exchange, Cbeyond provides our small-business customers enterprise-level e-mail, calendaring, and contacts as well as mobile synchronization and the security and benefits of Microsoft Exchange Server—without the hassle and expense of an on-premise solution.”    Jon Harmer, Product Manager for Messaging and Collaboration, Cbeyond Inc. |
|  |  | Cbeyond Inc. was already a leading provider of communications and IT services to small businesses through its own private VoIP network, with an impressive 30 percent year-over-year growth. But like all companies in the highly competitive managed services market, Cbeyond faced challenges—including price wars—from large telecommunications companies (telcos) as well as small, standalone hosted point solutions. To improve customer loyalty, increase revenue without raising prices, and differentiate itself from competition, Cbeyond developed a unique sales model that integrates Hosted Microsoft Exchange with its core services. Now, despite the recession, Cbeyond is increasing revenue and profitability by offering an expanded range of broadband and wireless mobility services that include e-mail, calendaring, and contact-sharing. With Hosted Microsoft Exchange, Cbeyond found a way to differentiate its services by offering big-business benefits to small-business customers. |
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Situation

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| “The Microsoft brand name helps us sell to small-business owners because they recognize Microsoft as the leading corporate productivity software provider. Customers feel more comfortable knowing that we offer Hosted Microsoft Exchange.”  Jon Harmer  Product Manager  Messaging and Collaboration  Cbeyond Inc. |

Atlanta-based Cbeyond Inc. has had a successful track record in its 10-year history of providing local and long distance services and T1 Internet access to customers in cities across the United States. Calling itself the world’s first service provider to build a pure Voice over Internet Protocol (VoIP) network, Cbeyond focuses exclusively on the small-business market (customers with 4 to 200 employees). Cbeyond’s 1,500 employees serve approximately 48,000 customers in 13 U.S. cities: Atlanta, Chicago, Dallas–Fort Worth, Houston, Denver, Los Angeles, San Diego, Detroit, San Francisco, Miami, Minneapolis, Seattle, and Washington DC.

**Differentiated Services**

Facing competition from cable providers like Comcast, and large telcos like AT&T and Verizon, Cbeyond needed a way to differentiate itself from competitors. The company’s goals were to win and retain customers, offer a broader range of services, and remain profitable without significantly increasing prices. After adding wireless products and services, Cbeyond realized the limits of its existing technology. Mirapoint POP mail and webmail offered limited services and no wireless synchronization of contacts and calendars.

“We got consistent feedback from our sales reps that basic e-mail and webmail wasn't a compelling enough offering,” says Jon Harmer, Cbeyond’s product manager for messaging and communications. “We became a mobile virtual network operator (MVNO), and we needed better integration. The POP mail experience on mobile is not that great, and the webmail experience is horrible.”

When Harmer joined Cbeyond in January 2008, there was little revenue generated from e-mail. “I remember giving away 100 MB mailboxes and offering a 250 MB mailbox for $5 per month. We had 135,000 mailboxes across approximately 14,000 accounts, and only about 40 percent of our customer base took our mail service. We generated next to no revenue.”

**The Power of Branding**

Cbeyond managers considered Zimbra, an open source e-mail and calendar groupware application, but rejected it because of concerns about brand image and the lack of certified BlackBerry support, according to Harmer.

“We also looked at white labeling another provider's Hosted Microsoft Exchange so we wouldn’t have to manage it ourselves, but that didn't offer the ability to customize it to our needs, and it didn't offer us the control we wanted,” he says.

“At the end of the day, the integration and branding muscle of Hosted Microsoft Exchange won out.”

Solution

As Harmer describes it, customization and control were key considerations when Cbeyond chose to host Microsoft Exchange in-house.

“With Hosted Microsoft Exchange, Cbeyond provides our small-business customers enterprise-level e-mail, calendaring, and contacts as well as mobile synchronization and the security and benefits of Microsoft Exchange Server—without the hassle and expense of an on-premise solution.”

By being creative with its offerings, Cbeyond has been able to increase the value of its service packages while maintaining the same price point. “The base package has always been $495 per month,” Harmer says. “In 2003, that included e-mail, the T1, five phone lines, and long-distance minutes. In 2009, it includes all that plus smartphones, voicemail, fax, Hosted Microsoft Exchange e-mail, desktop security, conferencing minutes, and basic web hosting. It's one-stop shopping for small-business customers, and it’s a great value.”

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| “Hosted Microsoft Exchange is the first step down a path. We'll be able to offer an expanded range of  IT and communication services to our small-business customers that will enable them to operate like big businesses.”  Jon Harmer  Product Manager  Messaging and Collaboration  Cbeyond Inc. |

To meet the increasing demand for messaging products, Cbeyond has had to increase its staff, adding architects and engineers, plus dedicated support in the operations center. “We started as a broadband company, but a shift to being an applications and IT services company requires more specialization,” Harmer says.” So we are bringing on additional support teams. We also do our own call center support because we like to have control over that experience.”

Cbeyond offers a unique sales model. With a direct sales force of 50 to 60 people in each of its 13 markets, Cbeyond helps small-business customers solve their communications and IT needs with the kind of personal attention that many service providers don’t deliver. “You’re not going to see the AT&T guy come knocking on a small-business owner's door,” Harmer says.

According to Harmer, small-business customers really appreciate the face-to-face interaction, and deals are often closed with a handshake. “We give customers a sense of the person they are working with and that kind of service really works for small businesses,” he says. “More than almost anything else, our personal approach has driven our growth over the years.”

Benefits

Small businesses are often owned by individuals who need and want collaboration and messaging services—but don’t have the time, expertise, or budget to manage those services themselves. That’s why Hosted Microsoft Exchange is ideal for partners like Cbeyond.

**Improved Customer Growth and Retention**

Cbeyond really understands its small-business customer base. “Our customers need an Exchange environment but they can’t or don’t want to host it themselves,” Harmer says. “So we make it very approachable and understandable. With Hosted Microsoft Exchange, we give our customers a world-recognized tool to help them run their small businesses. That builds customer loyalty.”

Helping customers save time and money also builds loyalty. Harmer estimates that hosted messaging and collaboration saves information workers about 20 percent more time compared to a POP mail solution. And with Hosted Microsoft Exchange, Cbeyond offers a big-business communication solution for at least 50 percent less than the cost of an on-site solution.

“We don’t charge more for smartphone integration with e-mail,” Harmer says. “We provide the smartphones and we pool customers’ mobile minutes with our landline long-distance and toll-free minutes. Customers save a lot of money that way, and that’s a compelling reason for them to stay.”

The feedback from customers has been very positive. Harmer reports that, despite the recession, Cbeyond plans to continue to open new markets as its customer base grows.

“Our customers get to work in the enterprise space for a low total cost of ownership—without the headaches and maintenance that come with it,” he says. “That’s very appealing to new customers, and it keeps our current customers happy.”

**Exceptional Differentiation from Competitors**

Harmer says Cbeyond competitors range from big telcos, like Verizon, AT&T, and Qwest, to smaller companies, like Intermedia and Apptix, that provide standalone Hosted Exchange .

Hosted Microsoft Exchange has enabled Cbeyond to become an MVNO and to add wireless services to its core broadband business. Harmer says that becoming an MVNO has significantly expanded Cbeyond’s service offerings, helped to differentiate Cbeyond from its competitors, and helped the company grow despite lean economic times.

“We like the idea of offering an integrated package, and we think we're the first integrated mobile or anything like it,” he says. “It's a huge differentiator for us.”

**Increased Revenue**

“When we launched Hosted Microsoft Exchange, we saw opportunities for additional mailbox storage, and the attach rate has climbed to 50 percent,” Harmer says. “Before Hosted Microsoft Exchange, we weren’t seeing significant revenue from e-mail.

“Hosted Microsoft Exchange has also had a positive effect on our mobile offering,” he says. “More than 75 percent of our customers who choose our full MAPI box also add smartphones.”

Harmer envisions a number of additional revenue opportunities based on Cbeyond’s core Hosted Microsoft Exchange functionality, including storage upgrades for MAPI mailboxes, and adding additional Microsoft SharePoint storage options when Cbeyond begins offering SharePoint services.

“We see Office Communications Server (OCS) as a wonderful potential tool because it integrates so well with our Broadsoft VOIP offerings,” Harmer says. “OCS also integrates with SIPconnect to offer a unified communications solution that I don't think anybody else will be able to touch. We're not there yet, but those opportunities are open to us because of our partnership with Microsoft and the functionality that Hosted Microsoft Exchange offers.”

As customer needs evolve, Harmer sees Hosted Microsoft Exchange as the foundation on which to build Cbeyond's unified communication services. “Hosted Microsoft Exchange is the first step down a path. We'll be able to offer an expanded range of IT and communication services to our small-business customers that will enable them to operate like big businesses.”

**Improved Control and Security**

By choosing to host Microsoft Exchange in-house, Cbeyond is able to offer customers a high level of hands-on services and security for e-mail, backed by the built-in protection, anti-spam filtering, and antivirus extensibility that Microsoft Exchange is known for.

“Bringing Hosted Exchange services into our Cbeyond data centers gives us a lot more control over our customers' data than we would have by 'white-labeling' third-party Hosted Exchange,” Harmer says. “We can stand up and represent our customers better by hosting Microsoft Exchange in-house.”

**Added Value of Microsoft Branding and Support**

To help partners like Cbeyond implement Microsoft technologies for customers, Microsoft created the Worldwide Partner Conference, an annual opportunity for partners to learn about and share experiences with new technologies. Harmer spoke at the 2009 conference. “Making enterprise-level services available to small businesses is very complex,” he says. “It was good to discuss the technology with other providers who are using this solution.”

Microsoft’s Communications Sector group also offers a quarterly meeting with key partners, to gain a better understanding of their needs and to discuss where technology is going.

When Cbeyond's managers decided to offer Hosted Microsoft Exchange to small-business customers, Harmer was brought in to manage the company's messaging and collaboration services because he had extensive experience with the product and knew the value that the Microsoft brand name offers.

“Small-business customers often don't know a lot about productivity software because they’re busy running their businesses,” Harmer says. “The Microsoft brand name helps us sell to small-business owners because they recognize Microsoft as the leading corporate productivity software provider. Customers feel more comfortable knowing that we offer Hosted Microsoft Exchange.”

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| Software and Services   * Microsoft Office * Hosted Microsoft Exchange | Partner   * Cbeyond |

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