

The Cost Advantages of Hosted Telephony

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INTRODUCTION

With the growing number of IP telephony service and equipment options, there has never been a better time for enterprises to find a communications solution that fits their business needs. Top requirements of all businesses today in evaluating new communication solutions include lowering costs, consolidating vendor and provider relationships, refocusing IT staff, and providing flexibility to their employees. For these reasons, we are finding more businesses considering hosted PBX services.

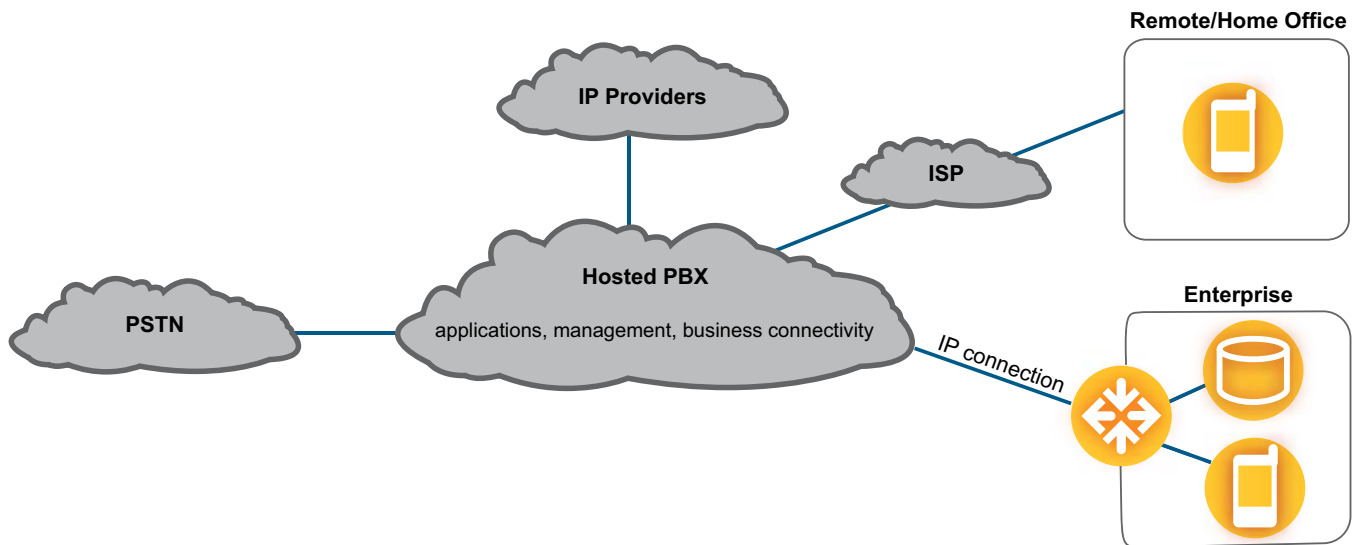
With a premises-based solution, all equipment must be installed and maintained by the enterprise, and external voice lines or SIP trunks must be provisioned. With a hosted PBX, the applications and management of the system reside with the service provider, and voice connectivity runs over a dedicated or shared IP connection to one or more locations. Additionally, service providers are extending beyond telephony with a growing list of features and capabilities to incorporate elements of a full unified communications (UC) solution. These capabilities include presence, integrated audio and web conferencing, mobility, collaboration, video solutions, and business application integration. Extending into more hosted UC is necessary to compete head-on with PBX vendors that have also moved toward UC.

Some advantages of a hosted phone solution to consider include the following:

- Hosted PBX has built-in **business continuity**. If a business location is inaccessible due to natural causes or power failures, phones can be quickly and easily relocated without complex hardware installation. If WAN connectivity is lost and all communications on the premises are cut off, mobile UC allows users to receive and send calls on their mobile devices.
- Hosted PBX **refocuses staff traditionally dedicated** to maintaining and managing a hardware-based system, thereby allowing the business to focus on other initiatives and reduce overall operating costs.
- For businesses with multiple offices, hosted PBX provides a **single system** that can be easily accessed online and that connects multiple locations and remote employees, benefitting internal communications and offering a unified front to customers and partners.
- **Ease of management and flexibility** of hosted PBX allows businesses to easily add or decrease users when needed rather than buying excess capacity

All of these factors are important when evaluating a hosted PBX service; however, as our survey results have shown, overall cost of communication services remains a very important issue with businesses of all sizes. In the following section we analyze a service provider's premises-based solution to understand exactly how the costs broke down for two different businesses.

HOSTED PBX SERVICE DELIVERY



COST ANALYSIS

To understand how much and where savings could be gained with a hosted service versus a premises-based solution, we compared 8x8's pricing to the average price of three premises-based vendors. We looked at two scenarios over a five-year period: a business with a single site with 100 users, and a business with three sites and 500 users. The assumption was that the number of users would remain the same over five years and that all users would receive the same set of features. The solution contained full PBX capabilities, auto attendant, integrated audio and web conferencing, call recording, Outlook integration, Salesforce.com integration, mobile phone integration, and unlimited local and long distance calling plans. This is not a full laundry list of UC capabilities, but it contains important elements.

In evaluating the various cost components, we divided them into six primary categories:

- **Up-front and installation costs** are one-time hardware and software purchases including PBXs, IP phones, gateways/routers, dedicated broadband connection installation, and training charges.
- **Hosted service fees** are monthly charges over five years charged by the hosted provider. If the enterprise was to utilize any managed offering (i.e., remote monitoring) that would fall into the service fee category, we allocated full management of the premises-based solution to the business itself. Most hosted service fees offer either unlimited local and long distance charges or a metered plan.
- **Equipment maintenance and upgrades** include the annual maintenance contracts on the premises-based UC solution and the cost of upgrading the IP PBX to the latest software release from the vendor.
- **Operations and administration** consist of the cost of maintaining staff to administer the system, providing technical support to users, managing moves/adds/changes, project planning, and physical space, power, and cooling systems for the equipment.
- **Dedicated broadband and phone lines** include phone lines (which could be PRI/BRI lines or single business lines), broadband lines such as T1s, DSL, and cable broadband.
- **Local and long distance charges** are contracts with service providers for local and long distance charges over five years.

Having a predictable and consistent monthly fee with a single provider allows businesses the ability to manage a long-term fixed cost.

Taking all these pieces into consideration, for businesses with 100 to 500 extensions there are clear cost advantages in a hosted PBX service. The largest cost component is the monthly service fees, which include system costs, unlimited local and long distance, maintenance, upgrades and administration. Having a predictable and consistent monthly fee with a single provider allows businesses the ability to manage a long-term fixed cost. The biggest areas of cost savings include local and long distance charges and the ongoing operations and administration of a telephony and UC solution by the business itself. Though even with a hosted service businesses will be required to do some in-house administration, it pales in comparison to a business that chooses to do it all.

Businesses choosing to use a dedicated PBX must maintain and operate the system themselves, which requires more dedicated staff to manage the overall system and support the users. In a smaller deployment of 100 users, over five years, 75% of the cost of operations and administration goes to the system administration and technical support. The remaining 25% is attributable to planning, security management, physical space, insurance, and power. As we look at bigger businesses with multiple offices, such as the 500-employee business example on the next page, ongoing project and contingency planning make up 20% of the operations and administration costs, in line with more complicated scenarios. In the 500 employee scenario, technical support and system administration drops to 62% due to economies of scale. For a hosted solution, the administration and operations cost is in managing the interaction with the hosted provider rather than managing the system itself. Additionally, project planning is in practical terms a non-factor with a hosted provider, since that role is undertaken by the service provider.

Other cost advantages of a hosted service lie within the initial up-front costs and the service fees for phone lines. While hosted PBX has initial costs of IP phones and routers, they are minimal compared to the full system costs of a PBX and UC solution and the time it takes to get a premises system operational. The price of premises-based PBX and UC systems has been coming down as most of the top vendors have moved to all inclusive user licenses that include components such as desktop, softphone, presence, mobile extensions, and teleworking. Though there are still a number of components and licensing fees to sift through with a premises system, the license bundles make it more cost effective and easier to manage for the business than a year ago.

Smaller businesses can benefit from sharing a broadband connection for hosted voice connectivity; larger organizations with higher call volumes will require dedicated connections to ensure quality of service, so they are not without fees in the broadband and phone line category. However, it is still less than a traditional PBX service interconnection, which consists of a dedicated phone line, a PRI in many cases, and local and long distance contracts. The cost of the phone lines and calling plans is starting to come down for businesses using SIP trunking services for external communications, and for site-to-site connectivity for distributed businesses. However, the solutions presented in this analysis use traditional connectivity options.

HOSTED PBX: 5-YEAR COST COMPARISON

	8x8 Virtual Office Pro	Premises PBX
100 extensions/single office		
Up-front costs and installation	\$13,289	\$100,542
Hosted service fees (inc. local and long distance)	\$240,239	
Equipment maintenance and upgrades		\$25,856
Operations and administration	\$29,646	\$236,322
Dedicated broadband or phone lines	\$24,000	\$28,000
Local and long distance charges		\$139,857
TOTAL	\$307,174	\$530,577
500 extensions/3 locations		
Up-front costs and installation	\$65,265	\$471,780
Hosted service fees (inc. local and long distance)	\$929,999	
Equipment maintenance and upgrades		\$135,554
Operations and administration	\$46,691	\$420,597
Dedicated broadband or phone lines	\$96,000	\$108,000
Local and long distance charges		\$564,430
TOTAL	\$1,137,955	\$1,700,361

KEY TAKEAWAYS

Though there has never been a better time to shop for a new telephony system that incorporates a number of enhanced unified communication capabilities, it can be overwhelming and challenging to compare the options for how the full system is deployed and managed. We have found that hosted systems in general have much more streamlined pricing and packaging, making it much easier to understand. Most premises-based offerings come with a more complicated set of system servers, racks, per extension licenses for various capabilities (more and more bundled, but not universally), and various sets of system software depending on capabilities. Ensuring an apples-to-apples comparison among premises-based solutions alone can be daunting. For larger enterprises, managing a full transition to a new phone and UC solution requires dedicated project management in the initial stages and, depending on the complexity and number of locations, a phased deployment.

There are many factors to consider in choosing a solution; cost is at the top of the list, and as shown in the above analysis, that too has a number elements. Hosted solutions inherently offer cost saving in initial equipment costs, but just as important are the local and long distance toll, maintenance contracts, and dedicated technical and administrative staff savings. The key takeaway for all businesses is when looking to upgrade a telephony system and bring on more enhanced unified communication capabilities, hosted service options should receive serious evaluation.