

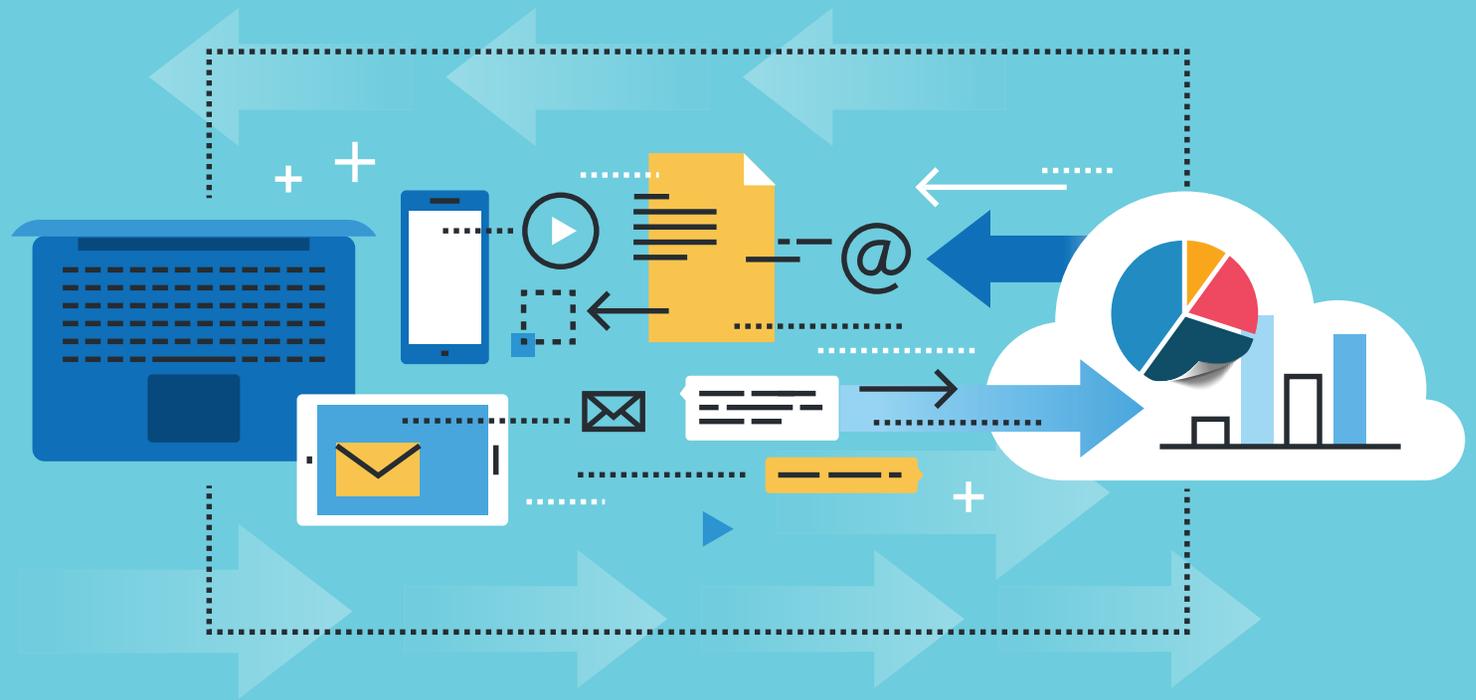
WHITE PAPER

Hosted UC: the Total Cost of Ownership





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FEATURES CAN
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OR PER USER.



A STUDY FROM INFONETICS RESEARCH FOUND THAT NEARLY 75% OF BUSINESSES CITED PRICING AS A “VERY IMPORTANT” FACTOR TO CONSIDER WHEN SELECTING A HOSTED SERVICES PROVIDER. BUT IT WAS STILL ONLY FOURTH ON THE LIST BEHIND DEVICE OPTIONS, SERVICE/SUPPORT, AND SECURITY.

TCO IN A NUTSHELL

When you’re shopping around for a new Unified Communications solution and the quotes are rolling in, it can be difficult to make a true apples-to-apples comparison between them. For example, you’ll have an up-front capital expenditure if you purchase a premises-based UC system, but you’ll have a monthly access fee if you go with a hosted UC service. The best way to level the playing field is to look at the TCO — total cost of ownership.

What is TCO? It is the sum of all the costs, both direct and indirect, of a solution over the course of its expected life cycle. For a UC solution, these costs can generally be broken down into two categories: up-front capital expenses and recurring maintenance charges.

On top of those planned expenditures, premises-based UC systems often come with hidden costs and unexpected

limitations, many of which don’t appear until you have a need to add capacity or implement more advanced functionality. In contrast, a hosted UC service is purpose-built to eliminate these “gotchas” as well as streamline the administration of your UC platform.

In this whitepaper, we’ll not only help you to compare the true costs of hosted and premises-based UC solutions, but we’ll also present additional factors to consider beyond those costs. Our goal is to help you be better prepared to make the right decision for your business.

WHAT GOES INTO TCO?

When you’re considering a UC solution, a thorough TCO analysis will bring up many items that you might not have initially considered when looking at your quotes. Following is a list of items that should be included in a TCO analysis, and how they compare between hosted and premises-based solutions.

INSIDE TCO...

TCO Line Item	Hosted UC Service	Premises-based UC System
User licenses	<p>Charged as a monthly recurring service fee per user.</p> <p>Pricing is often discounted in larger installations.</p> <p>The number of user licenses can easily change from month to month, making the hosted solution highly scalable.</p>	<p>Typically, an up-front license charge with additional maintenance charges. You must purchase the number of licenses you expect to need in the foreseeable future.</p> <p>Some providers offer subscription service as a monthly recurring service fee per user.</p> <p>Pricing is often discounted in larger installations.</p>
Phones and network hardware	<p>May be rented, leased, or purchased. If rented or leased, the equipment is owned and maintained by the provider.</p> <p>Pricing is often discounted in larger installations.</p>	<p>May be leased or purchased. If purchased, you are responsible for maintaining the equipment.</p> <p>Pricing is often discounted in larger installations.</p>
Upgrade of network infrastructure (LAN and WAN)	<p>Average cost is \$198 per user (\$165/user for the LAN, \$33/user for the WAN).</p> <p>The service can be delivered over existing LAN wiring if it is Cat5 or better.</p>	<p>Same as Hosted UC.</p>
Installation	<p>On average, about 5% of TCO.</p> <p>Because a hosted service can be routed over an existing data connection, it is typically deployed in about half the time of an equivalent premises-based system.</p>	<p>On average, about 5% of TCO.</p> <p>Some organizations have reported that their installations took two to three times longer than they originally estimated.</p>
Data connectivity	<p>May be contracted through the service provider or another vendor. This cost is typically about one-third of the TCO.</p>	<p>Must be contracted through another vendor. This cost is typically about one-quarter of the TCO.</p>
PSTN connectivity	<p>Typically included in the service with bundled usage minutes.</p>	<p>Must be contracted through another vendor.</p>
Admin training	<p>On average, 30 to 60 minutes of working time. Most providers bundle training into the cost of installation.</p>	<p>On average, 2 to 4 hours of working time. Usually, training must be purchased separately. The average cost is \$5,500 in the first year, then \$3,800/year thereafter.</p> <p>Some manufacturers require administrators to obtain specialty certifications. Depending on the number of certification exams required (plus prep courses, books, or lab equipment), this cost can range from a few hundred dollars to as much as \$6,000/year.</p>

INSIDE TCO (CONT)...

TCO Line Item	Hosted UC Service	Premises-based UC System
Moves, adds, and changes (MAC)	On average, 6 minutes of working time per MAC. MAC orders can be processed online or handled by the service provider.	On average, 15 minutes of working time per MAC. MAC orders must be handled by specialized staff or the vendor.
Space and power for UC platform equipment	Built in to the service.	May be built in to the software or available as add-ons. Often, requires a separate specialized server for each component.
Ongoing maintenance and tech support	Built in to the service.	Requires additional staff and/or a maintenance contract with an outside vendor. The average annual cost is 18% of the system's capital cost, or about \$120 per user. However, this cost typically drops by about 20% after the first two years due to improved knowledge of the system.
Software upgrades	Built in to the service. Hosted services are always using current technology.	Requires either an ongoing expense or a one-time upgrade fee. Major releases may require new server hardware. If the system is not properly maintained, its features are at risk of becoming unsupported or obsolete.
Business continuity and disaster recovery	Built in to the service. Average unplanned downtime is 5 minutes per year.	Requires maintaining backup servers (physical or virtual) and possibly spare user licenses, as well as a strong plan for rerouting communications around failed servers or circuits. Average unplanned downtime is 1 hour, 42 minutes per year.
UC service components: Audio, video, and web conferencing IM and presence Call centers Mobility	May be built in to the service or available as add-ons.	May be built in to the software or available as add-ons. Often, requires a separate specialized server for each component.

CALCULATING TCO: THE HARD AND SOFT COSTS

THESE BALLPARK CALCULATIONS DON'T TAKE IN TO ACCOUNT THE NET PRESENT VALUE (NPV) OF FUTURE EXPENDITURES. A DOLLAR SPENT TODAY IS WORTH MORE THAN A DOLLAR SPENT FIVE YEARS FROM NOW. LIKEWISE, SPENDING \$100,000 NOW IS NOT THE SAME AS SPENDING \$20,000 A YEAR OVER FIVE YEARS. IN FACT, THE TOTAL 5-YEAR NPV OF THAT \$20,000 ANNUAL EXPENSE IS ONLY \$77,633. BECAUSE A HIGHER PROPORTION OF THE COSTS OF A HOSTED UC SOLUTION ARE SPREAD OUT OVER TIME AS OPERATIONAL EXPENSES, THE NPV EQUATION WORKS OUT IN ITS FAVOR.

At the end of the day, how do all of these costs add up? On average, hosted UC services will cost about \$32 per user per month, or \$384 per user per year. The exact cost will vary depending on the feature sets you choose, but the package typically includes a desk phone and a bundle of voice usage minutes for each user.

An equivalent premises-based system will cost about \$48 per user per month, or \$577 per user per year. The cost is higher in the first year, at an average of \$954 per user, due to the additional capital expense that occurs in that year. To put it all together, here's a ballpark calculation of the 5-year TCO for an organization with 100 users:

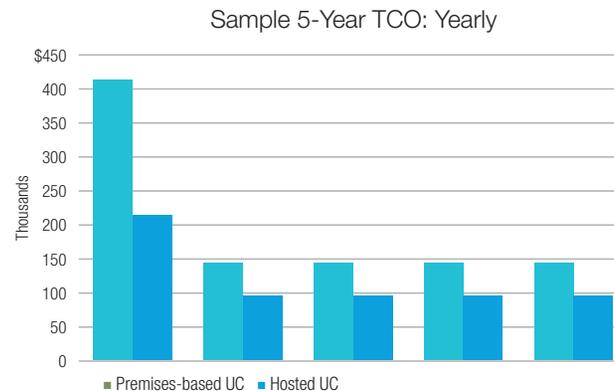
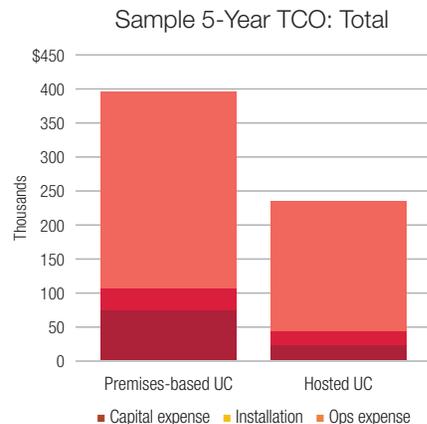
Beyond these hard costs, you should also factor in the new operational efficiencies you'll achieve with your UC platform, regardless of whether it's hosted or on-premises. The additional savings gained from these "soft" benefits are often difficult to quantify, but can include:

Reduced travel costs

UC won't completely eliminate the need for business travel, but it will certainly put a dent in to your travel time and costs. For example, a business with two sites whose senior managers take 40 trips a year between those sites could save over \$10,000 per year by replacing some of those trips with video calls. Traveling employees can also reduce costs by using the UC client when calling back to the office; this makes the call a free on-net call rather than an expensive toll call.

Improved productivity

UC enables employees to give and receive information without the delay introduced by email or voicemail messages. A study from Chadwick Martin Bailey of organizations without UC solutions in place found about half have missed deadlines or had projects go off schedule at least once per quarter due to delayed responses from decision-makers.



IN AN ARTICLE IN CIO MAGAZINE, ONE IT DIRECTOR RECALLED SEEING THREE EMPLOYEES IN ADJACENT CUBICLES ENGAGED IN A WEB COLLABORATION SESSION. HE ASKED ONE OF THEM WHY THEY WEREN'T MEETING IN A CONFERENCE ROOM, AND THE EMPLOYEE RESPONDED THAT THE COLLABORATION SESSION ENABLED ALL THREE OF THEM TO SHARE THEIR DESKTOPS. THE IT DIRECTOR NOTED, "IT ACTUALLY MADE THEM MORE EFFICIENT, EVEN THOUGH THEY SAT NEXT TO EACH OTHER."



Improved customer service

In a recent study by the Aberdeen Group, organizations using UC have seen a 53% improvement in customer service metrics. As one example, call center agents can reduce call length by at least 20% if they use instant messaging to contact a supervisor when their approval is needed.

Faster product development

UC can help your company to get new products to market faster. For example, a large pharmaceutical company used

UC-enabled collaboration to reduce its time-to-market by one month for each product, netting the company about \$5 million in additional revenue.

More productive remote workers

A study from Wainhouse Research found that about one-third of all SMB employees work from home or from the road. A UC platform with robust mobility features will provide these remote workers with the same level of connectivity as their counterparts in the office.

FROST & SULLIVAN
INTERVIEWED A
MULTI-SITE COMPANY
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SEVERAL PREMISES-
BASED PBXS TO A SINGLE
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THE IT MANAGER NOTED,
"WE ALWAYS WANTED TO
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A FINITE STAFF."

BEYOND THE TCO

In addition to the lower TCO, here are some extra reasons why you may want to consider a hosted UC solution over a premises-based UC system:

Easier administration

Many aspects of a hosted UC system can be managed through a web portal. You can quickly process MACs or enable new features without needing additional support.

Built-in business continuity

With hosted UC, your communications service resides in redundant and secure data centers. If something happens at your site(s), your business can continue uninterrupted since your team can work from anywhere.

Scalability

If resources become tight, or if you have a spike in business, it's easy to scale a hosted UC system up or down. Premises-based systems can be costly and difficult to expand because they support a fixed number of users.

Customization

With hosted UC, no two systems are alike. You can activate only those features that you need to make your company more productive.

Upgrades

Hosted UC services "auto-evolve" over time. Upgrades are provided through software changes that happen automatically in the background, usually with no added cost or effort required on your part.

ABOUT THE RESEARCH

The DSCI team curated this whitepaper's data from numerous market research reports, vendor whitepapers, and industry publications, including:

Aberdeen Group, "IP Telephony TCO for the SME: Think Beyond Equipment Cost," December 2012

Aberdeen Group, "The Total Cost of Ownership Benchmarking Study for Unified Communications," January 2012

BroadSoft, "Premise-Based vs. Hosted UC Systems: A Cost of Ownership Comparison," April 2013

BroadSoft, "Understanding Unified Communications: Choosing the Right Solution for your Business," October 2013

Chadwick Martin Bailey, "Unified Communications Applications: Uses and Benefits," July 2008

CIO Magazine, "Unified Communications Drives Collaboration, Cost Savings (After a Lot of Hard Work)," September 2013

Frost & Sullivan, "From Premise to Cloud: Adopting Hosted Unified Communications to Converge, Collaborate, and Compete," June 2013

Nemertes Research, "IP Telephony and Unified Communications Total Cost of Ownership," March 2014

Wainhouse Research, "Video Collaboration When You Need It, Where You Want It, and How You Like It: Video Conferencing & Collaboration from the Cloud," April 2014