

## ***Decision Makers Want Hosted IP PBX: And Why Network Service Providers Must Participate In This Growing Opportunity***

### **What is Hosted IP PBX?**

To the casual observer, Hosted IP PBX and Hosted Voice Applications may seem to simply be the next generation of Centrex service – the Network Carrier-provided business telephone service that found favor with many communications decision makers in the U.S. up until the 1990s. This perception would be in error. Running on the #5 Central Office switch, Centrex supports a Local Exchange Carrier's Managed Service within its geographic footprint that includes telephony features, system monitoring, administration, management and maintenance for a sliding scale monthly cost that is determined by the number of stations in the system and the length of the term agreement.

When an IP Telephony and/or IP voice application platform is deployed in the Local Exchange Carrier's data center, it becomes a very different and interesting offer. Using a Softswitch to connect to end users, the Hosted Service is not geographically bounded as with central office-based service nor constrained by the central office vendor's feature package updates. In addition, this architectural capability has opened viable competition beyond the traditional footprint of Local Exchange Carriers and has also opened the market to competition from virtually any Service Provider.

In short, a Hosted Telephony Service is a Managed Service that includes all system and applications monitoring, maintenance, administration, software upgrades and performance management for a fixed price per month per user. Other services, such as local and long distance calling, Internet access and additional voice applications, can also be bundled into the offer. In the Hosted Telephony model, endpoints/terminals may or may not be included in the subscription service. Customers may opt to own terminals or include them in the subscription service. Similarly, customers may opt to own their own applications, such as a Contact Center if it is strategically important to control this asset.

Pioneered by multi-user platform vendors Broadsoft, Sylanro and Tekelec (nee VocalData), the Hosted IP PBX alternative now boasts Hosted versions of most of the leading premises IP PBX brands. Virtually any Service Provider with a data center, NOC and collocation facilities can participate in this market.

To the business executive, the Hosted Telephony solution then becomes more of a question of architecture, flexibility, business needs and a suitable OPEX (Operating Expense) network solution versus a question of a suitable CAPEX (Capital Expense) premises solution. The key issues in the decision process become business process improvement and Total Cost of Ownership versus corporate/internal control. From a Service Provider perspective, the deployment decision is largely based on demand and strategic positioning.

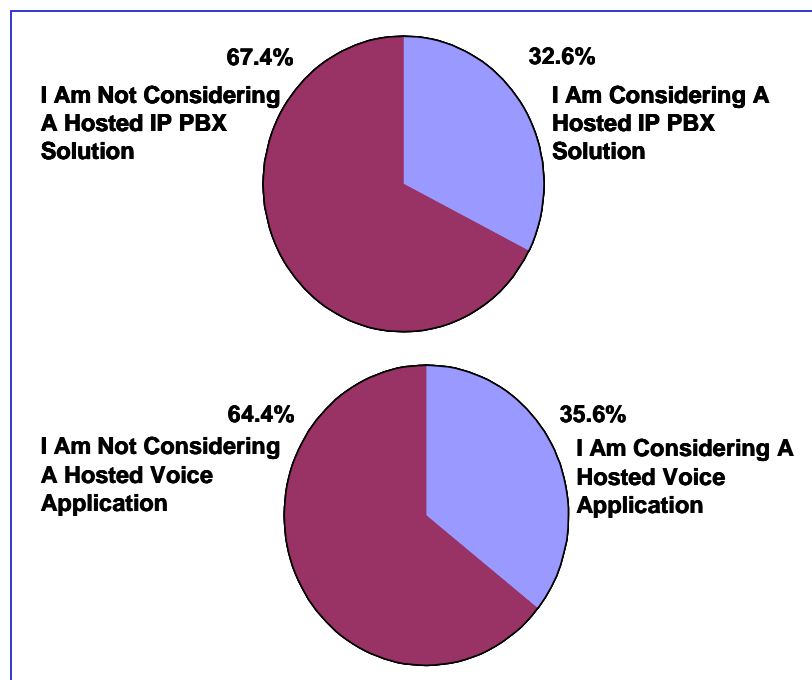
### **What Are Business Decision Makers Saying?**

The December, 2006 InfoTrack for Enterprise Services, Managed Services Report provides an insight into buyer demand and vendor preferences. Although Hosted IP PBX marketing efforts have been limited, nearly 75% of all U.S. business communications decision makers are familiar with this alternative. In addition, some 35% of these decision makers are considering both Hosted IP PBX and Hosted Voice Applications.

Internationally, decision makers are less aware of Hosted Telephony and applications alternatives: 64% of European decision makers, 57% of EMEA decision makers, 57% of APAC

decision makers and 50% of CALA decision makers. This indicates a potentially fertile opportunity for new Service Providers and a marketing challenge for all market participants.

## U.S. Hosted IP PBX And Hosted Voice Application Consideration Levels



Source: InfoTech InfoTrack for Enterprise Services, Managed Services Track, December, 2006

Of significance, U.S. decision-makers consideration of a Hosted Voice Application is slightly higher than consideration of a Hosted IP PBX. This finding indicates that buyers are mentally separating IP PBX and voice applications – a distinct advantage of the IP architecture and unlike the past vendor-proprietary and coupling of telephony and applications. In short, buyers are considering the advantages of deploying enterprise-wide applications, such as messaging and collaboration without a requirement to replace telephony systems at all locations.

The global market is even more interesting. In Europe, 46% decision makers are considering a Hosted IP PBX solution and 36% are considering a Hosted voice application solution; across all of EMEA and APAC regions, 43% are considering Hosted IP PBX and 36% are considering a Hosted voice applications; and in the CALA region only a trace are considering Hosted Telephony and 25% are considering a Hosted voice application. These results can be tied to the general lack of legacy Centrex service availability and less or materializing marketing efforts in the regions. However, global buyers appear to be focused on a Hosted solution as a replacement for existing telephony and voice application systems rather than architecturally separating core telephony and voice applications and applying this thought process to serving the needs of the business. Of course, these thought processes may be impaired due to lack of standalone voice application availability, or available offers that only offer bundles of service and applications. This translates into an immediate opportunity for Service Providers to participate in both end-to-end and standalone voice application solutions markets, and it may represent an open door to virtually any Service Provider that wants to compete free of brand or existing system life cycle impediments.

The InfoTrack report also provides insight into the leading reasons decision makers are or are not considering a Hosted solution, both in the U.S. and internationally.

The driving reasons for consideration of these solutions are:

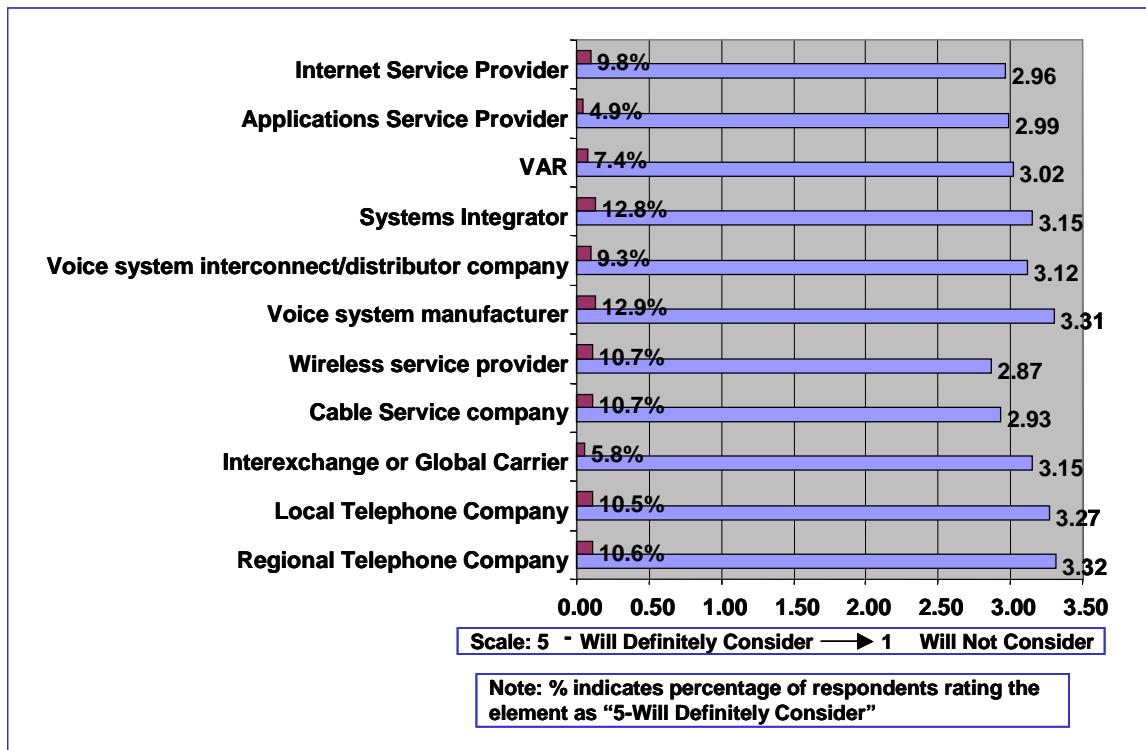
1. Lower Total Cost of Ownership (TCO)
2. Predictable Monthly Costs
3. No or Little Capital Requirement

The primary reasons for not considering Hosted solutions are:

1. Prefer Ownership
2. Lack of Pricing Leverage
3. Can Accomplish The Same Objectives With Purchased Components

Business decision makers indicate they have a mixed predisposition for subscribing to a Hosted Service from Service Providers.

### U.S. Preference For Hosted IP PBX And/Or Hosted Voice Application Service Providers



Source: InfoTech InfoTrack for Enterprise Services, Managed Services Track, December, 2006

In the U.S., virtually no Service Provider is precluded from the opportunities of Hosted IP PBX and/or Hosted voice applications. Obviously, buyers have a bias based upon their personal experiences and knowledge of the current capabilities of different Service Providers. A marketing challenge perhaps, but a not-insurmountable obstacle.

Internationally, the preference picture is somewhat different. In Europe, all of EMEA, and APAC, decision makers are most predisposed to consider Hosted IP PBX and/or voice applications from a Global Carrier, Voice Manufacturer or Regional Carrier, but other potential Service Providers



are not far behind. Attitudes are different in the CALA region however, with a predisposition for subscribing to Hosted service from a Voice System Manufacturer, a Voice System Distributor, an Internet Service Provider or a Systems Integrator, and as with other regions, other potential channels are not ranked far behind.

The reasons behind these predisposed preferences are relatively uniform around the globe:

1. Trust in Vendor
2. Knowledge of Vendor Technical Expertise
3. The Scope and Scale of the Vendor Resources

However, another reason, vendor involvement in other parts of the business, is cited as a very strong motivator. This means that current customers could be leveraged for success in this market segment as long as technical expertise and excellence can be demonstrated. And it also means that Service Providers must highlight their capabilities, resources and customer satisfaction in all marketing and sales activities in order to position for success.

One smaller U.S. Hosted IP PBX Service Provider exemplifies these criteria. [Vantage Communications](#) is primarily a regional Service Provider specializing in Hosted IP PBX service. It enforces strict converged network criteria to ensure high quality of service, has documented and is committed to all installation, administration, management, and maintenance processes – and shares these documents with its customers, and it conducts and scrutinizes customer satisfaction surveys around virtually every aspect of its business. Additionally, being primarily in the Northeastern and Middle Atlantic portions of the country, Vantage routinely sends out instructions for remote access to subscribers in advance of any anticipated weather event to enable its customers to port their desks to their homes. This pursuit of excellence and commitment to detail and customer service has enabled Vantage to develop into a Service Provider that has appeal with all business sizes.

### **Why Do All Service Providers Need To Participate In This Market?**

Convergence is dramatically changing how everyone lives and works. In the work arena, this will include enhanced collaboration, integrated wireless services, broader messaging capabilities, business applications with integrated voice capability and enhanced remote access applications, to name a few. As voice services and applications continue to migrate to the converged environment, businesses of all sizes will seek solutions to improve their businesses. And these companies will select those services that best meet their needs and fit within their financial constraints.

Service Providers have a somewhat difficult balancing act. They must prepare for the future through investments of new technologies and the development of new services balanced with an acceptable return on these investments. They must maintain differentiation to combat services commoditization, and they must strive to provide true solutions rather than easily replicable services. In addition, they must foster a customer base that anticipates new services and counts on their Service Provider as a partner.

In light of this future scenario, not participating in the Hosted IP PBX and/or Hosted voice applications marketplace will erode a Service Providers' ability to hold its customer base and impede its ability to successfully introduce an on-going stream of new services. For example, introducing and deploying a customized voice services soft client will also position the Service Provider as a "top-of-mind" services provider that will continue to provide new services and business process support over time. This positioning will pay dividends in terms of new service and voice applications acceptance and adoption, and it will directly correlate to increased revenues and profits. It will also provide an added dimension to those Service Providers that are focused on being differentiated, market-facing organizations with meaningful business solutions.



Luckily, the Service Provider has optional avenues to provide Hosted IP PBX and Hosted voice applications. The Service Provider can purchase and implement the hardware and software platforms and upgrade operations support systems for a retail offer. The Service Provider can also resell wholesale services provided by a third party with a minimal investment in oversight staff, or partner with a third part to provide all voice services and management on a customer-by-customer basis. Each option has its own “pros and cons”, including cost allocation (e.g., capital expense versus month-by-month customer-line-in-service operating costs), applications quality control, and speed to market. The only wrong answer is non-participation. Market demand continues to build, and many future opportunities will be maximized by a strong differentiated presence in the business community.

To learn more about InfoTech’s “InfoTrack for Enterprise Services” program or “InfoTrack for Enterprise Services, Managed Services Track”, please contact Craig Born at 973-602-0123 or [cborn@accessintel.com](mailto:cborn@accessintel.com). You can also click on the following link: <http://www.telecomweb-infotech.com> for more information. The author and Senior Program Director, Services, Warren Williams, can be reached at [wwilliams@accessintel.com](mailto:wwilliams@accessintel.com)