

The Benefits of Cloud-based Telephony

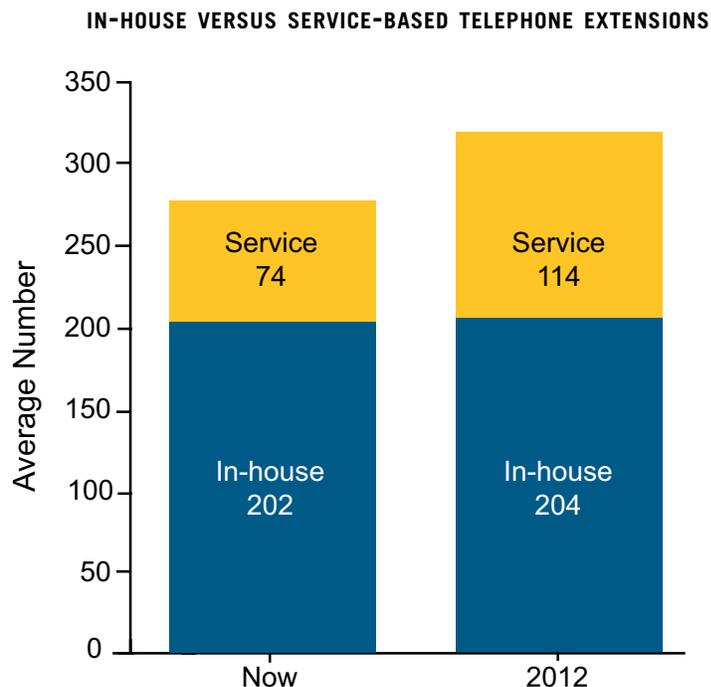
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INTRODUCTION

There has never been a better time to shop for a new phone system, due to the growing number of service and equipment options. In today's competitive environment, businesses are looking for ways to **lower expenses, eliminate multiple vendors and communication providers, refocus IT staff** on other areas of the business, and **allow employees to easily connect** regardless of location and device. There is no reason for companies to maintain the status quo when it comes to communication systems. Working with a service provider that can offer these benefits through a cloud-based solution is one option more businesses are exploring. Through surveys and discussions with enterprises, Infonetics Research is finding increasing numbers of businesses planning to select cloud-based telephony services instead of premises-based PBXs over the next two years.

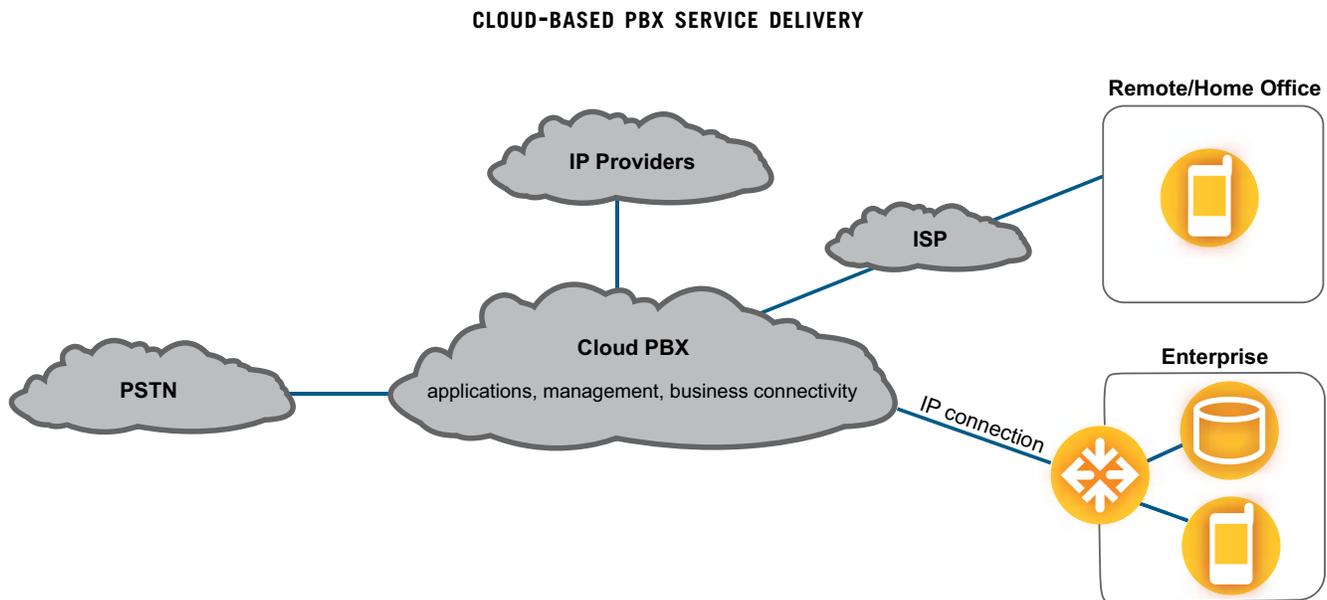
A prime example of the move to hosted telephony services is from Infonetics Research's March 2010 survey of 114 North American enterprises on their communication expenditures today and in 2012. The results showed strong growth in the total number of extensions on services-based platforms, specifically hosted VoIP services, while in-house extensions stay relatively flat over the next two years.



Source: Infonetics Research, *Communication Expenditures and IP PBX Vendor Ratings: N. American Enterprise Survey*, March 2010

With an IP PBX, all equipment must be installed and maintained by the enterprise, and external voice lines or SIP trunks must be provisioned. With a cloud-based 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.

Long considered a good solution for small businesses and remote offices, cloud-based PBXs are winning more and more installations in larger and more distributed businesses. These businesses see cloud-based PBXs as the best option for bringing all the pieces of voice communication under one provider for a seamless system deployed across an entire organization.



ENTERPRISE TELEPHONY DYNAMICS

There are advantages and drawbacks to all business phone solutions, and businesses must consider all factors when evaluating them so they can determine what best fits their needs. The table below highlights important factors for businesses to consider when comparing a cloud-based phone system to a premises PBX. A few points from the table are worth noting:

- Cloud PBXs have built-in **business continuity**. If a business location is inaccessible due to natural causes or significant power or Internet 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, systems allow users to route calls and faxes to their mobile devices with call forwarding or simultaneous ring and still receive incoming calls and voice and fax messages, because the system is in the cloud and not dependent on local power or Internet to continue functioning.
- Cloud PBXs **refocus staff traditionally dedicated** to maintaining and managing a hardware-based system to using an online management portal to make changes as needed, thereby allowing the business to focus on other initiatives and reduce overall operating costs.
- For businesses with multiple offices, cloud-based PBXs provide 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 the system allows companies to easily add or decrease users and set employee preferences via a management portal.

Most of the cost savings achievable with a cloud-based PBX service comes from paying for only the extensions actually being used, reducing staff, and eliminating costly voice lines and local and long distance contracts.

EVALUATION FACTORS

Strength	Cloud-based Phone System	On-premises PBX
Reduction in staffing	•	
Own PBX system		•
Operating costs	•	
Remote employee support	•	•
Eliminate ongoing maintenance and streamline management	•	
Feature set	•	•
Ease of implementation	•	
Business continuity	•	•
Application integration	•	•
Scalability		•
Flexibility	•	

• indicates strength in a given area

Businesses adopting cloud-based telephony are seeing advantages over on-premises solutions: lower operating costs, easier implementation, automatic updates, built-in disaster recovery, and a scalable pay-as-you-grow model that provides flexibility for businesses of all sizes.

BUSINESS CASE FOR HOSTED TELEPHONY

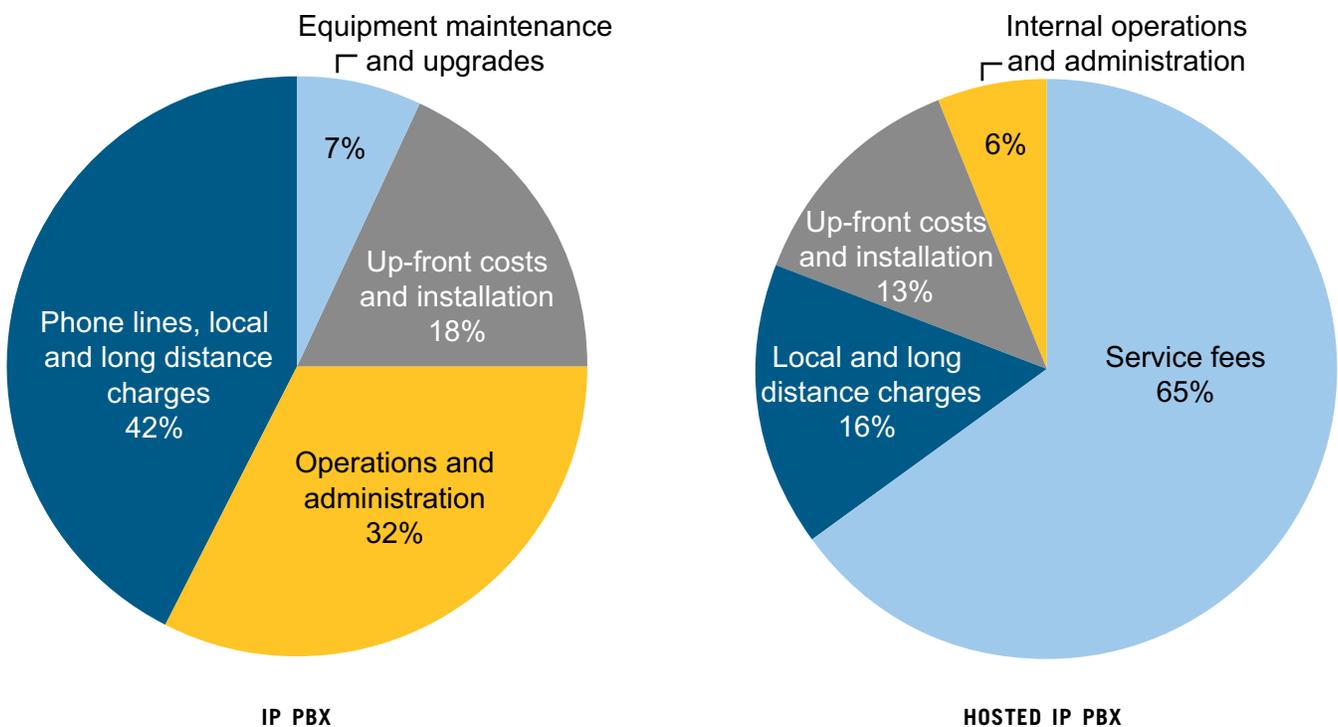
There are many factors to consider when comparing the cost of a business-owned IP PBX versus a cloud-based PBX. In talking with users of cloud-based solutions, one of the key factors is cost savings. However, the cost differential varies depending on company size, number of locations, enhanced service requirements, and specific solutions. Most of the cost savings achievable with a hosted service comes from:

- Flexibility in paying for only the capacity required (the price of a cloud-based system is for the actual number of extensions on the system, whereas a PBX purchase includes spare extension capacity)
- Ability to eliminate or reduce staff to manage, maintain, troubleshoot, and deal with software upgrades and contingency planning; with a cloud-based PBX, the bulk of these tasks are taken care by the service provider
- Eliminating costly voice lines and local and long distance contracts

To better understand where the costs of each solution lie, and where savings can be achieved, we looked at a business with 150 employees across 10 locations. We calculated the business's costs of owning and managing its own PBX and the costs of using a cloud-based PBX over a five-year period. The company's cost breakdowns are reflective of most companies' experiences. The costs are grouped into four general categories, outlined below. The key areas of consideration include:

- *Up-front costs and installation:* An on-premises PBX is inherently more expensive during implementation due to the purchase of the IP PBX and related systems, handsets, softphones, training, and gateways/routers. With an IP PBX system, there is more sunken systems cost up front. A cloud-based PBX still has up-front costs associated with new handsets and gateways. **A cloud-based phone system has a cost advantage in overall up-front costs.**
- *Ongoing equipment maintenance and cloud service fees:* Services are generally seen as more expensive than equipment, but often it is forgotten that after the initial PBX purchase for an on-premises solution, the costs of equipment and services include maintenance contracts and upgrades. **The service fees for a cloud-based system are the key cost factor, while eliminating the cost of phone lines, hardware and software upgrades, and the redeployment of IT staff to manage on-site PBX assets.**
- *Local and long distance charges:* Cloud based solutions allow a business to use existing data connections or provision a dedicated IP connection, which can offer significant cost savings over dedicated PSTN phone lines (or SIP trunks), and local and long distance charges. With a customer-owned IP PBX, phone lines and local and long distance charges make up 42% of the overall cost to own and operate the phone system; this is widely cited in Infonetics' enterprise telephony surveys as the pain point in managing telephony costs. **A cloud-based helps alleviate this cost burden.**
- *Operations and administration* hold the **biggest cost savings for a cloud-based phone system** over an on-site PBX. With on-premises PBXs, there are maintenance and support contracts for system upgrades and helpdesk access, in addition to employee resources dedicated to system administration, inventory management, security management, and technical support in-house. With a cloud-based service, these operations are built into the service, freeing staff up to focus on other parts of the business.

THE COST DISTRIBUTION OF IP PBX VERSUS HOSTED IP PBX



In 2009, Arbors Management made the move to a cloud-based phone system with RingCentral. The results have been dramatic—over 50% cost reduction from what Arbors was using, including an outside contract for support and service.

DISTRIBUTED BUSINESS FINDS FLEXIBILITY AND COST SAVINGS IN HOSTED TELEPHONY

In 2009, Arbors Management, a property management company with 25 offices and 60 employees across Western Pennsylvania and West Virginia, made the move to a cloud-based phone system with RingCentral. Prior to its service with RingCentral, Arbors Management had a highly fragmented, high cost solution. The business was using a dedicated phone system at the main offices that were over 10 years old, had multiple local and long distance providers, and in remote offices with one or two employees single phone lines have been utilized (rather than a key system or PBX). Using traditional phone lines rather than a full system in-house is not uncommon with small businesses and branch offices but is limiting in terms of features and seamless communications across offices. Managing multiple providers and highly disparate systems was a time consuming process, and by using a cloud-based service, Arbors Management has been able to eliminate the complexity of managing multiple systems and providers and bring all employees under a single system with the same set of features and capabilities.

To date, they have brought 62% of their employees across the corporate office and two satellite offices online with RingCentral. The remaining 22 offices house one or two employees each, and they plan to bring these offices onto the RingCentral system as pre-existing service contracts expire. By using a cloud-based PBX, businesses such as Arbors Management have the flexibility to increase and pay for additional capacity when they are ready to bring on new offices, rather than having to purchase a system to fit all its business needs up front.

In making the decision to upgrade their system, Arbors Management evaluated six options, including an on-site PBX, a mix of on-site and hosted VoIP, and RingCentral's cloud-based phone system. They chose RingCentral because it allowed them to deploy one solution across all their offices in the most cost effective manner. The benefit of having one system and one provider was highly appealing after managing multiple providers and systems. They could have used a single PBX at the corporate office, but decided it would be cost prohibitive to tie the many small offices in to create a unified system.

The results have been dramatic—over 50% cost reduction from what Arbors Management was using, including an outside contract for support and service. Additionally, the ability to easily communicate across offices, including call transfers and extension dialing, and to have a common outward face to customers, has been positive. The unexpected results have been the flexibility inherent in a hosted PBX service, particularly around easy moves, adds, and changes, and mobility, with people using simultaneous ring and work-from-home capabilities.

The implementation was easy and smooth and took one week, with Arbors Management purposely phasing in small sets of employees each day to test the system and manage training. The company is successfully using advocates in each department to help the other employees with features and system questions. RingCentral has also placed a spare phone at the Arbors corporate office; if a problem arises, Arbors Management can quickly swap out a device and keep the individual user downtime to a minimum.

The one downside has been using a public IP rather than having the solution tied through a private IP connection. The quality has been more than adequate, but when Arbors Management's ISP goes down, so does the phone system. The upside is that users have the flexibility to roll their numbers over to the mobile phones and still receive calls and voice and fax messages, so the call disruption ends up being minimal. Additionally, when the ISP connection is restored, all the messages and call activity is still available in the user portal.

Arbors Management's employee base is relatively mature, and the sheer number of feature options has been a bit overwhelming for some users, but most have quickly taken to customizing their service through the online portal. Arbors Management did not anticipate using the phone system to better manage their business, but have found that two RingCentral platform features have a positive impact on business: voicemail to e-mail and call logs. The accessibility to voicemail through e-mail has been well received, as the business deals with tenant calls all day, and having call logs to prove that indeed calls were received and sent has helped show tenants that Arbors Management is responding to issues in a timely fashion.

BOTTOM LINE

The success Arbor Management has had with its RingCentral phone system illustrates three important benefits of a cloud-based solution:

- **Cost savings**, driven by reducing phone and fax charges, eliminating the need for PBX hardware, and reducing administration costs, which is right in line with the largest cost components of a premise-based telephony solution, as outlined in the cost distribution pie charts on page 4
- **Single solution** deployed across multiple locations, giving the company corporate-wide phone system features and extension dialing, one provider to manage, and a single view to its customers
- The **flexibility** inherent in a cloud-based phone system, including system functions such as moves/adds/changes and easy adaptation of call routing, having voicemail to e-mail capability, and having access call logs, which have impacted the day-to-day operations of the business

ABOUT INFONETICS RESEARCH

Infonetics Research is an international market research and consulting firm serving the communications industry since 1990. A leader in defining and tracking emerging and established technologies in all world regions, Infonetics helps clients plan, strategize, and compete more effectively.

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