

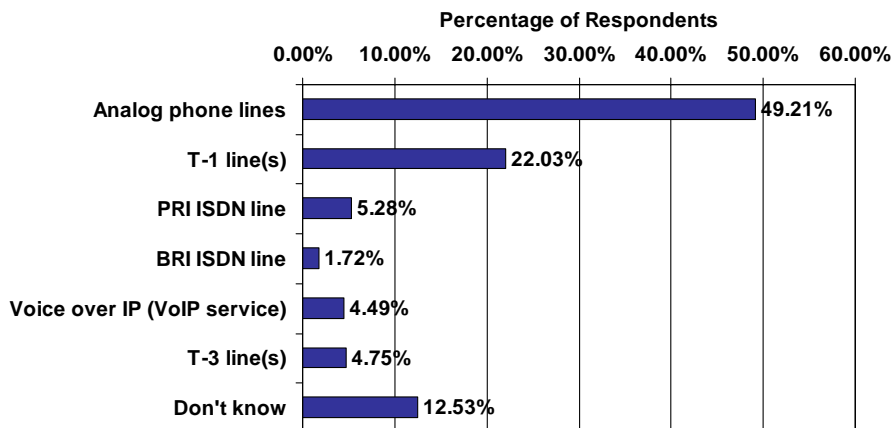
VoIP and the SMBs - Tapping the Market

By Matt Delpercio

Despite the benefits of IP telephony, only a small percentage of small to medium businesses (SMBs) use VoIP as their primary means of voice communications. While there are many reasons why the adoption rate is growing slowly, VoIP has quickly become the newest, most promising, yet most disruptive voice communications technology within the telecommunications industry today.

VoIP promises a vast array of cost-saving and productivity-enhancing benefits ranging from reduced toll charges and network management expenses to advanced calling features and a more unified and flexible mobile workforce. However there exists a great amount of uncertainty surrounding the growing VoIP market, including technology issues regarding voice quality and service considerations, undefined TCO and ROI metrics, a fragmented vendor landscape, and a rapidly evolving regulatory environment. It is for these reasons that VoIP is still in the early adopter phase, with only 5 percent of SMBs using VoIP as their primary means of voice communications (See Exhibit 1), although it is gaining momentum as the telecom industry as a whole is expanding its footprint with equipment and services to support VoIP.

Which of the following types of phone service does your company use for its primary means of voice communications



Source: Yankee Group 2004 Small & Medium Business Bundled Communications Survey

VoIP represents the shift to converging an organization's traditional POTS-PSTN voice network onto its IP data network, allowing organizations to gain cost and productivity efficiencies from leveraging a single IP network for both voice and data.

Since VoIP allows organizations to operate a single packet-switched network instead of managing both packet and circuit-switched networks separately, maintenance, management, and staffing costs are reduced. The high recurring costs of running separate networks are driven out of the business, freeing up operating revenues to be made available for other parts of the business.

The new converged IP-based communications vehicle enables new advanced call features and communications applications. These allow workers to increase mobility, improve communication capabilities, and ultimately enhance productivity. For example, unified messaging platforms mean that workers will have a single mailbox for email, voicemail, faxes and pages, providing simplistic access to, organization and management of all inbound communications. Similarly, the 'find me, follow me' feature found in most VoIP systems assigns users one phone number that, when dialed, reaches them whether they're on their home, office, soft or cell phone. It can even forward calls to a personal voicemail account, meaning that users are never out of communication regardless of their physical location.

Users can also integrate their VoIP communications with existing applications. For example, by tying their customers' voice communications into existing CRM software, sales reps gain a greater visibility into individual transaction histories, improving the accuracy and efficiency of the sales process.

Benefits, Challenges and the Regulatory Landscape

The benefits of an SMB implementing VoIP come in the form of both hard cost savings from reduced operating expenses and productivity improvements from converged databases, integrated data and voice communications, and advanced and mobile calling features.

Quantifiable cost savings from VoIP implementation include:

- Decreased expenses for moving, adding, changing and removing phone lines.
- Reduced or eliminated toll charges for intra- and inter-company long distance and local calling.
- Lower operating expenses from simplified network management.
- Elimination of 3rd-party conference bridging costs.
- Elimination of regulatory fees for federal line surcharges.
- Access to advanced call features without the costs.

There are also a number of productivity improvements that SMBs can benefit from by leveraging VoIP, including:

- More advanced, robust, and mobile voice and data features such as unified messaging, find me, follow me, and visual voicemail
- Integrated information services.
- Advanced multimedia conferencing and collaboration tools among multiple branch offices.

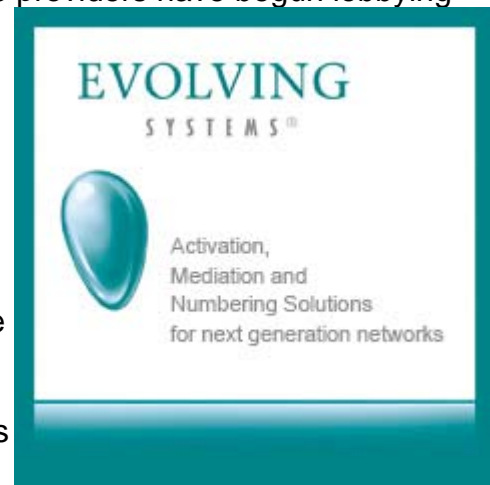
Challenges

There are number of roadblocks, uncertainties, and challenges hindering VoIP technology from gaining mass adoption within the SMB market, including:

- VoIP QoS considerations.
- Regulatory uncertainty.
- Disconnect between upper management and IT.
- A crowded vendor landscape and intense marketing hype.

Regulatory Landscape

With the growth of VoIP, a number of legacy service providers have begun lobbying the FCC to classify and regulate VoIP traffic as a “telecommunications service,” subject to the same regulatory rules and universal services fees as traditional voice calls. Currently, voice services offered by legacy wireline providers are subject to regulation and universal services taxes, while the new Internet telephony services against which they’re competing are not. Similarly, due to FCC classifications, cable companies’ broadband service offerings and telephone companies’ DSL service offerings are classified not as “telecommunication services,” but as “information services,” whose rates are exempt from certain regulations and fees that apply to standard POTS services.



How does this all affect small and medium businesses? If legacy service providers are able to lobby the FCC into re-classifying VoIP into a “telecommunications service,” VoIP providers will have to include the added cost of paying inter- and intra-state access charges and universal service funds contributions into price points of their offerings to SMBs. Regulatory rules will also shift the competitive landscape, potentially causing market consolidation and price disruptions.

VoIP Implementation Options

SMBs interested in implementing a VoIP system have a number of options in terms of both the type of system they deploy, as well as the level of control they maintain over it. In fact, one of the main components of any VoIP system, the IP/PBX, is offered in a variety of different service models that SMBs can leverage, providing SMBs with a range of options to choose from based on cost, functionality, and the level of maintenance needed to support it.

The routing of traditional voice communications within organizations are handled by private branch exchanges (PBXs). PBXs are pieces of switching equipment that establish connections between telephone extensions within organizations and

maintain the connections for the duration of the call. PBX equipment is typically installed within organizations' premises and owned and operated by the business, rather than the telephone company or an exchange carrier.

Hosted PBXs are also available to organizations, delivering the same functionality as a PBX, but without the cost of buying, installing and maintaining the equipment at the SMB's premises. The PBX is managed by a hosted service provider to whom organizations pay a contracted fee for access to the system. The hosted PBX service model is preferable to some SMBs due to the large up-front expense of traditional PBX systems.

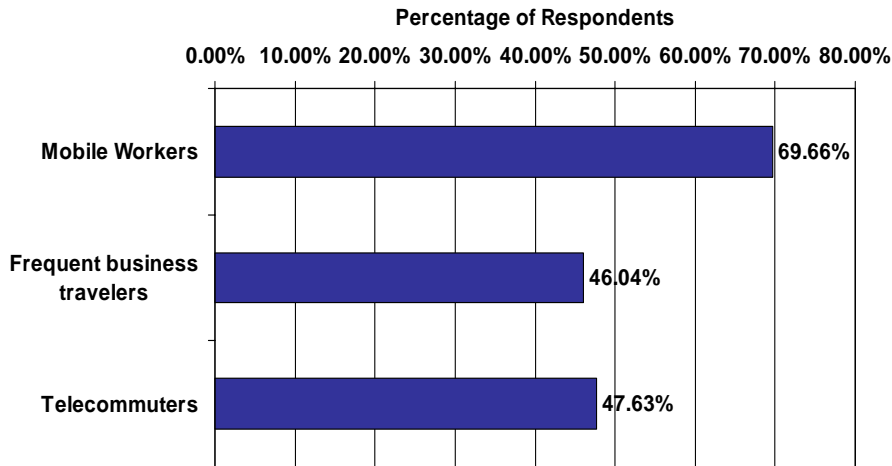
IP PBXs also reside within organizations' premises, but offer significant advantages over their legacy PBX predecessors. Since IP PBXs support IP protocols, VoIP voice communications can be sent in the form of data packets over the existing data network, eliminating the need to own and manage two separate networks for voice and data. IP PBXs also enable organizations to leverage advanced calling features since most of the features in an IP PBX reside in the endpoints instead of the central control unit like in a traditional PBX. These voice features that are transmitted and communicated over IP networks via IP PBXs are essentially treated like applications, allowing them to be accessed anywhere by anyone at anytime, and at virtually no cost.

Reasons Why SMBs Should Adopt VoIP

SMBs can leverage VoIP as a means to reduce costs, increase productivity, and enable more robust and flexible communications through the convergence of voice and data applications. But in which type of SMB environments do VoIP systems make the most sense? And what exactly is the best delivery model for SMBs implementing a VoIP system?

First, in terms of the most practical environments for VoIP implementations, SMBs with branch and/or satellite offices should seriously consider migrating to a VoIP solution. These types of companies can realize significant and immediate cost-savings through a number of reduced or eliminated expenses. These include costs for moves, adds, changes and removals, and long distance charges between offices and to clients. SMBs with a highly mobile sales force or a large number of tele-workers should also consider migrating to VoIP. In fact, according to the 2004 SMB Bundled Communications Survey, almost 70 percent of SMBs have mobile workers (See Exhibit 2). A VoIP system can provide flexibility in call configuration and call routing, allowing them to remain productive, accessible and transparent within the organization, despite their physical location.

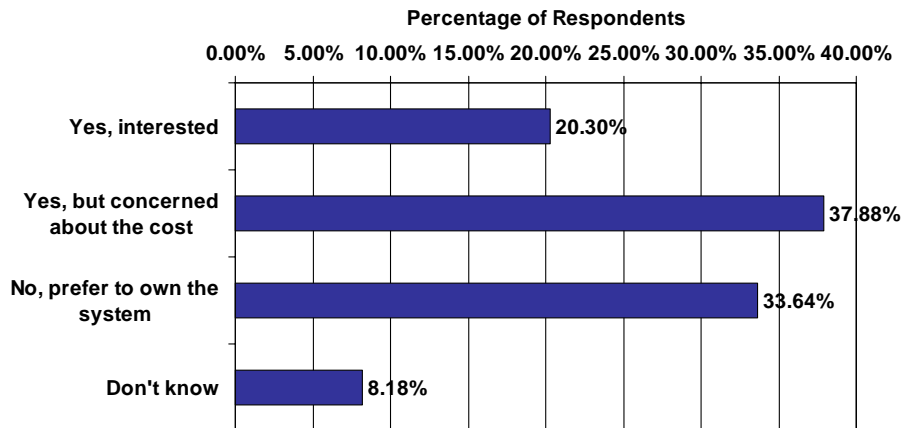
Does your company have mobile workers, frequent business travelers, or telecommuters?



Source: Yankee Group 2004 Small & Medium Business Bundled Communications Survey

Second, in terms of delivery models, according to the 2004 SMB Bundled Communications Survey more than one-third of SMBs are interested in getting VoIP as a hosted or managed service, despite cost concerns (See Exhibit 3).

Would your company consider not purchasing a new phone system if it could receive all of the needed calling features and functionality as a managed service?



Source: Yankee Group 2004 Small & Medium Business Bundled Communications Survey

Why is this the case? SMBs don't have the time or the IT and financial resources to support the implementation, usage and maintenance of a new technology. In fact, many SMBs don't want to invest the personal in-house time allocating and leveraging their personnel to deploy a new technology. They are limited in terms of both financial and human capital, therefore would prefer to pay for services on a usage basis as a monthly expense rather than purchasing equipment at significant upfront costs.

Hosted and managed VoIP providers are more reliable than SMBs who maintain the system in house, both financially and technologically, as they can scale their solutions to meet the evolving needs of SMBs as they change over time. This allows SMBs to focus on their core business rather than allocating constrained resources to implement and manage the system. It also allows them to avoid the costs of trying to keep up with the changes in technology that come with a disruptive technology in a nascent and rapidly evolving market.