

UNIFIED COMMUNICATIONS

De-Mystifying VOIP And UC Pricing Trends

Marty Parker

Where are enterprise costs really headed, and what will you get for the money?

In two recent VoiceCon eNews Newsletters (Issue 184 and Issue 185), Eric Krapf, *BCR* editor, raised a number of questions about the price trends for both voice over IP (VOIP) and unified communications (UC) solutions. Actually, based on market information and visible trends, the patterns are very clear, as this article will show.

To get calibrated, the newsletters primarily focused on VOIP, using historical data from trends in voice communication systems prices and licensing, which traditionally comprised voice telephony and voice mail. These data are very different from—and should not be confused with—the pricing for UC solutions as discussed (for example) at UCStrategies.com.

Unified communications solutions focus on business process improvement and related workplace productivity, and UC incorporates voice communications along with the appropriate selec-

tion of other services such as presence, instant messaging, Web conferencing (data and applications), peer-to-peer and group audio and video conferencing, email/unified messaging and more—all of which are controllable as software services with or from the business application software.

To keep things simple, let's evaluate VOIP and UC pricing trends by grouping things into a few specific categories and then looking at three price points:

- IP-PBX solutions in 2006–2007.
- Desktop PC/server-based solutions in 2007.
- A forecast for 2010.

The IP-PBX 2006–2007 price points presented in this article are based on actual list prices and relevant discounting as observed in recent competitive end-customer RFP responses. The desktop PC/server-based solutions in 2007 include such options as Microsoft Office Communications Server 2007, IBM Lotus SameTime 7.5, and similar solutions from Radvision, Digium and others.

The forecast for 2010 represents a synthesis,

where VOIP and PC-based models are implemented in combination. The 2010 forecast is also based on the following assumptions:

- 10 percent per annum decline in hardware unit prices (servers, phones)
- 15 percent per annum decline in software unit prices (user and server licenses)
- 5 percent per annum increase in services rates (installation, maintenance)

Note that future maintenance prices will be a combination of these assumptions. Maintenance prices are

TABLE 1 Per User Pricing

	2007 VoIP	2007 PC-based	2010 Forecast
IP Display Phone	\$190	\$140	\$102
User IP Phone License	\$110	\$90	\$60
Softphone License	\$50	\$16	INCL
IP PBX License	\$18	\$4	\$3
IP PBX Servers (2)	\$26	\$26	\$19
VM/UM User/Svr Lic's	\$93	\$30	\$20
VM/UM Servers (2)	\$26	\$26	\$19
PSTN/PBX Gateways	\$28	\$35	\$20
Installation	\$102	\$60	\$70
Tot. Acquisition Price	\$643	\$427	\$313
Annual Maintenance			
Software	\$83	\$35	\$27
Hardware	\$17	\$17	\$14
Subtotal Maint./Year	\$100	\$52	\$41
Three Year Average	\$314	\$194	\$145

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assumed to decline proportional to hardware or software prices (i.e. holding a constant ratio to product prices), but will be increased from that baseline in proportion to the labor content of the maintenance services.

With those assumptions, Table 1 summarizes per-user prices based on a configuration for 1,000 users with two-line IP phones including at least a gray-scale display and with redundant servers for reliability (all prices are net after discounts):

The VoIP Net Acquisition Prices are shown in Figure 1.

The acquisition price of the 2007 PC-based solution is already 34 percent below the traditional IP-PBX solution. Furthermore, the solution price of \$313 in 2010 will be 49 percent (less than half) of the current IP PBX prices.

Note that the 2007 IP-PBX price point of \$643 is only \$7 different from the \$650 per user figure that Eric referenced in his recent newsletter. The big difference for the 2010 forecast is that the trends are changing from the proprietary product models of telephony to the best-in-class layered model of the computing industry, which leverages volumes across all producers, not just one. Similarly, the license prices are consistent with Eric's references.

At this point, it is very important to say that the 2007 Desktop PC/Server solutions are certainly not as fully featured as the IP-PBX solutions for the same year. In fact, the price differences in 2007 may be a reasonable reflection of the differences in value of the two solution types on an enterprise-wide basis.

However, it is also important to note that new entrants into a market almost always have this profile of delivering less than the current products, but of delivering enough functionality for some uses. (An excellent reference on this is *The Innovator's Dilemma*, by Clayton M. Christensen, Harvard Business School Press, 1997.)

We're already seeing this pattern, as some companies are finding the PC-based VOIP solution is "good enough" for some types of users, especially when there is a close linkage to UC features such as IM, presence or peer-to-peer communications.

Looking to the future, it is really important to note that both the IP-PBX and the PC-based providers can achieve the 2010 price points, as suggested by Mark Straton, Siemens USA marketing vice president, at VoiceCon Spring 2007. There, Straton said that Siemens has strategic planning scenarios that show prices for call control software declining to one-quarter of today's prices. Mark also indicated that some of the sav-

FIGURE 1 VOIP With UM Net Acquisition Prices Per User

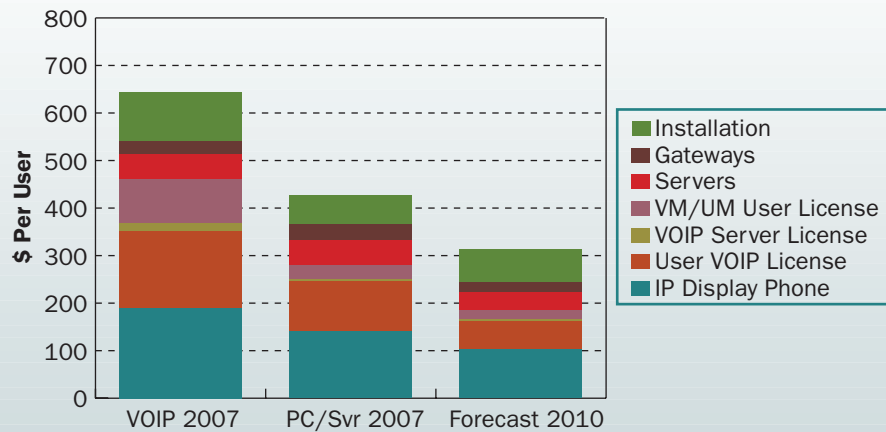


TABLE 2 Per User Pricing

	2007 VOIP	2007 PC-based	2010 Forecast
IM/Presence License	\$50	INCL	INCL
A/V/W Conf. License	\$300	INCL	INCL
Mobility Application	\$100	INCL	INCL
A/V/W Conf Servers (2)	\$26	\$26	\$19
Other UC Servers (2)	\$26	\$26	\$19
UC API Toolkit	INCL	INCL	INCL

ings would then be available to fund increasing services costs for system integration and new application development. (More on services later in this article.)

To match the PC/Server vendors' \$313-per-user acquisition price that is projected for 2010, the IP-PBX suppliers will likely need to adopt four practices that the Desktop PC/Server suppliers are already using:

- Support third-party SIP and USB phones and let market forces drive the prices down. (A single-line Skype USB phone is already below \$70 per user.)
- Support the latest industry-standard server technologies to leverage market pricing.
- Drive software volume to allow lowering and bundling of software prices.
- Adopt a software-based maintenance model, with third-party maintenance of hardware.

So, it's highly likely that the statement that opened eNews Issue 184, i.e. "...the average voice over IP solution will cost half what it does today," will actually be valid in 2010.

Now, let's notice something else. The prices above do not include Unified Communications! Note that the statement above does not say "...the average Unified Communications solution will cost half of what it does today." Let's look at some of those elements.

Most UC solutions will require IM and presence—included in the PC solution today, but not

FIGURE 2 VOIP Plus UC Features (All Employees) Net Acquisition Prices Per User

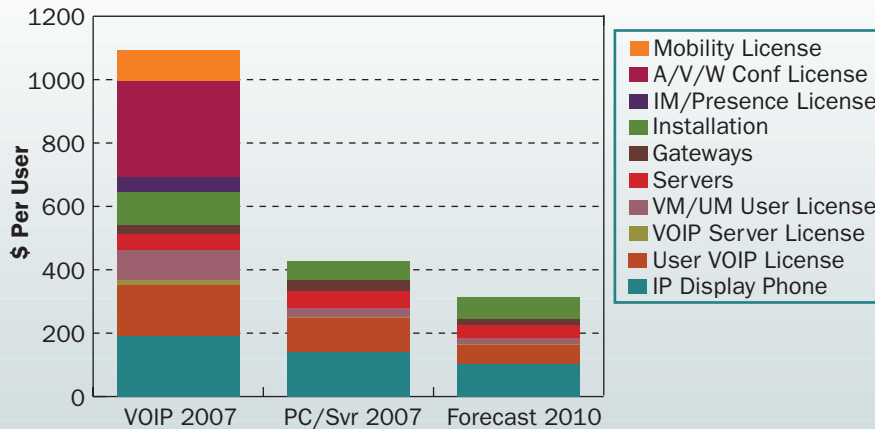
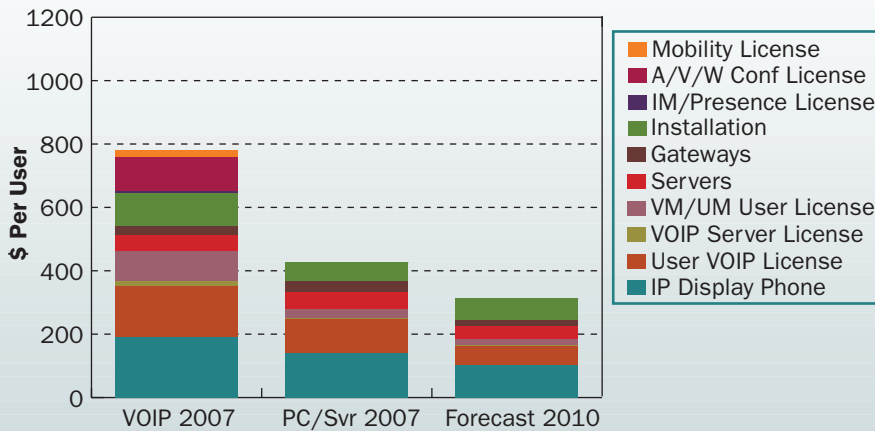


FIGURE 3 VOIP Plus UC Features (20% Of All Employees/Feature) Net Acquisition Prices Per User



included in the IP-PBX price. Many UC solutions include peer-to-peer desktop audio/video/Web (A/V/W) communications and conferencing in the PC/Server software today; group A/V/W conferencing is also included in some of the PC/Server software, though more servers may be needed depending on usage. Other vendors, including the IP-PBX providers, currently sell A/V/W conferencing as separate solutions.

Similarly, the mobility client support required for some UC solutions is usually included in the PC/Server solutions, while mobility functionality is often priced as a separate feature or server with the IP-PBX.

It therefore becomes clear that another layer of price comparison is needed for Unified Communications. Table 2 shows examples.

In other words, a fully-equipped UC solution is available by adding server capacity, but not licensing fees, to the PC/Server based solutions, which also include robust

APIs and development toolkits and broad value-added reseller and systems integrator (VAR/SI) communities.

In contrast, the IP-PBX producers currently require significant licensing fees for UC elements; also they provide APIs and development toolkits, though not always as broad in functionality or in VAR/SI coverage. Figure 2 illustrates comparisons between VOIP and PC/Server costs for rolling out **all** telephony and unified communications functionality to **all** users.

However, most companies don't buy UC functionality for all employees; rather they purchase and/or deploy selected sets of UC functions for selected sets of users (e.g. mobility services for sales, service and executives; collaboration tools for marketing and product development; etc.). If that ratio is, say, 20 percent of users for each function, then the average UC expense per user would be one-fifth of the numbers above, or about \$100 per-user rather than \$500 per user, as shown in Figure 3.

The trends in Figure 3 may seem troubling for vendors. How will the communications industry thrive if the per user prices are going to drop by half or more in the near future? The answer (again with reference to *The Innovator's Dilemma*) is that the new capabilities in unified communications will enable significant innovation and growth in the value of communications solutions.

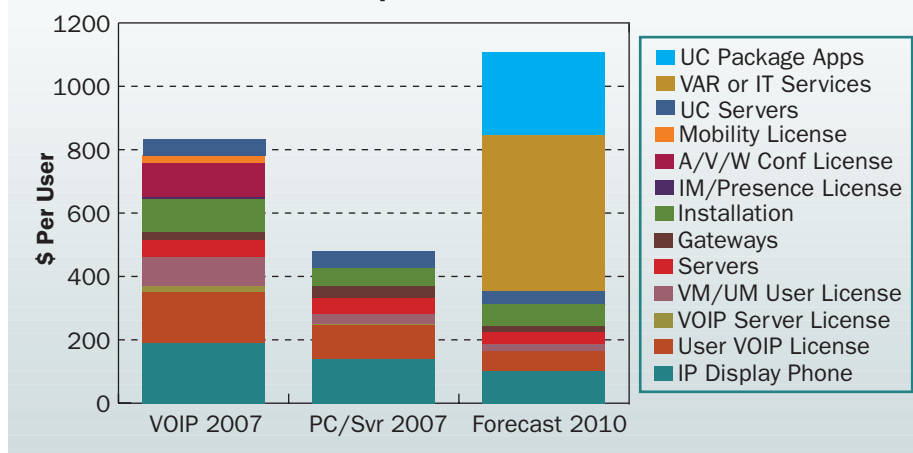
This will be based on the full deployment of return on investment (ROI)-driven UC applications: Not just the cost-cutting, total cost of ownership (TCO)-reducing ROI of VOIP or the personal productivity-increasing ROI of basic desktop UC, but the full-fledged business transformation ROI of "communications integrated to optimize business processes," as UCStrategies.com has defined true UC.

ROI modeling shows that business transformation can deliver ROIs that are 10 times the ROI of either VOIP or basic UC, since business transfor-

TABLE 3 Application Costs

	2007 VOIP	2007 PC-based	2010 Forecast
UC Applications:			
VAR/SI Pro Services	\$0	\$0	\$500
Packaged or Vertical Market UC Apps	NA	NA	\$250

**FIGURE 4 VOIP With UC Business Process Applications
Net Acquisition Prices Per User**



VOIP prices will fall, but overall, enterprises will spend more on systems—with the ROI justified

mation will enable enterprises to make measurable and manageable changes in revenue drivers, in market differentiation, or in the overall labor and asset content of the value chain. (See more on this at UCStrategies.com.)

We've seen this before with IVR, websites, email (for a while), database systems and more. It is now time for unified communications to deliver the next round of ROI-driven business process improvements.

This ROI comes with, and completely justifies, increases in system integration expenses, in custom application development, or in packaged applications for specific processes or vertical markets. In the ROI modeling mentioned above, estimated spending per application was in the \$250 per user range; in most industries investment would be made in two or more applications or packages.

Table 3 suggests that the spending per enterprise might well be in the range of \$750 per user, for two system integration or customization projects and one packaged application.

The effect of this spending on the industry growth is shown in Figure 4.

The providers of either IP-PBX solutions or PC/Server solutions that are able to deliver the new UC application value along with the professional services won't see a 50 percent decline in revenue from \$643 per user to \$314 per user—rather they will enjoy an increase in revenue per user from \$643 per user to more than \$1,100 per user in 2010 (\$314 + \$38 per user + \$750 from the three categories above).

Conclusion

From my perspective, with experience in both computing and communications, these trends are pretty clear. Communications as a vertically-integrated solution set is changing to the "layered" packaging and pricing of software and hardware that has already changed the computing industry.

Yet, similar to what happened when the computing industry opened up with the new layered model, the new software-based UC environment will open up enormous new possibilities to change business communications. These possibilities will include major growth opportunities for the suppliers that understand the changes that are occurring and seize the day.

The traditional IP-PBX producers have a model for this type of success in the call centers and contact centers. Almost all the vendors' sales of contact center products are similar to the UC model, and most include packaged software, custom software and system integration services that justify prices in the range of \$3,000 to \$5,000 per user. Meanwhile, the PC/Server solution providers are already living in that new model, though these players are not yet experienced in communications applications.

Both types of producers have qualifications for success; the basis for success will be in the rapidity and effectiveness with which each of them addresses the new model for UC-based business communications, integrated to optimize business processes.

There is a bright future ahead, for sure. VOIP prices may actually be 50 percent of today's prices by 2010, but the innovative and proactive suppliers will be experiencing phenomenal revenue growth, to the ROI-justified benefit of their customers □

Companies Mentioned In This Article

Digium (www.digium.com)
 IBM Lotus (www.ibm.com)
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