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## News

### Why Customers Prefer Hosted VoIP

Hosted VoIP can make sense for the right service provider.

Theo Ludwick on May 3, 2006

If you are a service provider interested in providing VoIP to your customers, you essentially have two options: offer them premise-based equipment or provide them with a hosted service. It has been estimated by research group InfoTech that the hosted IP market will grow from \$319 million in 2005 to \$5.9 billion by 2010. Clearly the hosted market is growing, but why?

Traditionally, enterprises preferred premise-based equipment because of the control and possible long-term cost savings that such an arrangement afforded them. It is important to emphasize that, for enterprises where the ability to quickly modify telephony configurations is a mission-critical process, control over the telephony system should not be outsourced. However, for businesses that don't depend on the ability to quickly manage and configure their telephony system, the [hosted solution](#) can offer advantages over traditional premise-based PBX.

#### Hosted PBX vs. Premise-Based PBX

The comparison between hosted PBX services and premise-based PBX services can be separated into four categories: Installation, Maintenance, Configuration Management, and Customized Application Development.

#### Installation

- Hosted solutions are less likely to have post-installation problems because pre-installation site reviews are usually conducted by experts. Simply through a lack of experience, errors can be made in the course of a company's self-appraisal process. Further, hosted solutions require fewer customer premise elements. The combination of expert site reviews and less complex equipment installation can mean smoother transitions and decreases the need for trouble-shooting.
- Because there is less need for customer participation in a hosted solution, hosted providers can provide a project time-frame with a good degree of accuracy. This benefits both customers and service providers by removing uncertainty in the deployment schedule.
- Hosted services can be deployed on a line-by-line basis, which means that they are easily expandable. They allow for flexibility during the transition from premise-based equipment to a hosted service because they can co-exist with previously existing premise equipment. This means that an enterprise doesn't need to transition all of its equipment at the same time, which would usually be the case with a premise-based PBX. In this way, hosted transitions can be scheduled and implemented to best fit an enterprise's schedule.
- In a hosted solution, initial capital expenditures are lower because the amount of customer-premise equipment is reduced.

Overall, the installation/implementation costs for hosted solutions are almost always lower than for premise based solutions. However, because hosted solutions do have recurring fees, the total cost of ownership on a multi-year basis should be evaluated to determine if this creates an actual net saving over the planned operational life of the system.

#### Maintenance

- With a hosted solution, any problems that do occur can sometimes be fixed more quickly because of the centralized nature of the service. Premise-based solutions often require a truck-roll (on-site visit) to the premise, a requirement that introduces a period of delay in any trouble-shooting endeavor. Hosted solutions circumvent this delay and can reduce down-time from a potential four hour minimum (which is often the case in a "truck-roll" scenario), to a few minutes. Further, hosted solutions usually have 24x7 monitoring and management. To get that same level of service in a premise-based solution can require a higher (and therefore more expensive) service level agreement.
- Most maintenance contracts for hosted solutions are based around per-seat licenses, and only charge for seats in use. This contrasts with premise-based solutions, which often charge "per-active-port" fees. In the hosted situation, a customer only pays for what they use; in the premise-based solution, a customer pays for everything that they could use. The latter situation opens the door for increased costs.
- Hardware and software upgrades can be managed more easily via a hosted solution than a premise-based solution. The vendor manages the upgrade and rolls it out once it is ready, making for a pain-free transition. On the other hand, hosted providers, while motivated to stay up-to-date, cannot roll out an improvement as fast as a premise-based solution where the update can be driven internally.
- With a hosted solution, operational expenditures are made more predictable, which in turn aids in planning cash flow. With premise-based solutions, operational expenditures while usually lower, can also spike unpredictably when issues occur.
- Maintenance issues can be more quickly and efficiently addressed in hosted solutions because the majority of equipment is centrally located. A premise based solution could achieve the same service speed if it maintained a set of expert technicians on-site, but the cost of that scenario would most likely be prohibitive.

**Configuration Management**

- Most network configuration errors are caused by human error. In the hosted environment the likelihood of problems arising due to change can be reduced if the vendor is experienced and makes use of well-scripted change management procedures.
- A customer doesn't have to worry about managing growth, because the service provider does that. Both increasing and decreasing capacity become a simple matter of contracts with a service provider, rather than buying or selling premise-based equipment. This flexibility can make a hosted solution more attractive to a customer. At the same time, it doesn't hurt service providers because excess resources can be transferred to other deployments.
- However, configuration management is one of the areas in which a premise based solution can make more sense for a business. This will be the case if administrative functions or control are mission-critical to the success of the business.

Hosted solutions allow businesses to concentrate on the areas of their business that they do well, rather than having to expend resources on an area that someone else (a hosted provider) could do better.

**Customized Application Development**

In the past, one of the weakest areas for hosted solutions was their ability to support customized advanced applications. However, companies like LignUp, Broadsoft, Tekelec, and Sylanro now offer customer site API interfaces that bridge the gap considerably.

**Conclusion**

It is true that premise-based solutions allow customers to have the most control over their systems, but that control brings with it added costs associated with the responsibility for and management of premise equipment. Because of this, for many customers, the benefits of hosted telephony solutions will be greater than those associated with premise-based solutions. Finally, for those customers who like the idea of a hosted solution but want to maintain control over certain features, it is often possible to create umbrella solutions that combine both premise and hosted components.

As Bruce Young, Senior VP of Engineering for platform and application vendor LignUp, put it, "the trick is that it's not an either/or proposition. You want to have an outsourced solution that puts an umbrella over your in-house solution." The best of both worlds, this situation allows customers to achieve the control they desire while still having the support provided by a hosted service. Whether it's a hybrid or a solely hosted solution, outsourced business telephony is an option many businesses should consider.

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