

BRINGING VOIP TO SMBS

MEETING RISING EXPECTATIONS AND
MAKING BUSINESSES MORE COMPETITIVE



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EXECUTIVE SUMMARY

Business today is as competitive as ever and Small and Medium Businesses (SMBs) in particular need every edge they can get. While it is difficult for SMBs to compete against the advantages enterprises have with scale, they can compete by being more agile and responsive with customers. Adopting modern communications solutions such as VoIP helps SMBs do this, and communications service providers have recognized the opportunity to help their SMB customers and their networks have evolved considerably to support these new solutions.

To better understand the business opportunity for VoIP among SMBs, in the Fall of 2010, Metaswitch Networks was a major sponsor of an extensive market research study undertaken by Inzenka, a leading strategic marketing consultancy. As awareness and adoption of VoIP grows, SMBs are learning to expect more from their service providers and think differently about communications. This paper presents a critical look at the current state of VoIP and why the opportunity now is particularly compelling for SMBs. By considering the latest market research reviewed herein, SMBs can more effectively prepare themselves not only to make the right decisions for deploying VoIP, but also to select the right partner to provide the service itself.

PART 1—PATHS TO VOIP

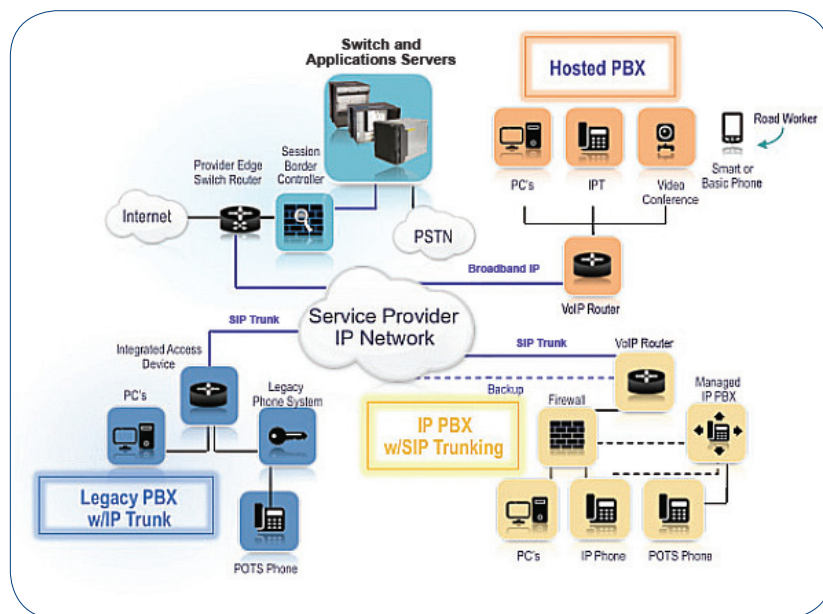
BASIC OPTIONS

There are two basic deployment modes for VoIP—hosted or premises-based. The latter mirrors the legacy telecom model, where customers manage their phone system and network to support VoIP. This usually means that they own the desk phones, which necessitates some level of capital outlay. Several variances of premises-based VoIP exist, largely determined by the mix of legacy and IP in their networks. Most solutions are a hybrid of both, as SMBs typically prefer to migrate gradually to VoIP. More advanced SMBs have transitioned entirely to VoIP with a fully converged IP network.

Hosted VoIP is rapidly gaining traction, especially among SMBs. In this scenario, the carrier manages the network to support VoIP, and hosts the solution in their data center. There are varying degrees of network management that the carrier can provide, which means that any SMB can deploy VoIP, regardless of how much network infrastructure they are willing or able to manage. Since most SMBs have limited IT resources, hosted VoIP has a natural appeal, especially as more complex value-added services become part of the offering.

Cost is another important consideration. SMBs tend to be more budget-conscious than enterprises, and hosted is akin to leasing, whereas premises-based is akin to owning. With hosted, there is usually no capital outlay for the phones, as the hardware cost can be built into the monthly subscription charge. As such, hosted can offer greater flexibility.

Whether SMBs deploy VoIP on-premise or hosted, SIP Trunking is becoming a key element in the move from legacy telephony. VoIP can be supported with legacy (TDM) trunks, but to get the most from the convergence of voice and data over a common connection, SIP Trunking is the better path. Not only will it optimize the performance of an IP Telephony system, but SMBs can reduce trunking costs by using fewer voice and data circuits.



VoIP Network Architecture

SMBs receive multiple benefits from VoIP that increase as they migrate from premises-based legacy phone systems to IP PBXs and Hosted PBXs. SMBs with multiple locations or remote workers may have a hybrid network that includes integration using all methods of VoIP delivery supported by an increasing array of service providers.

MANY TYPES OF PROVIDERS

In contrast to these two deployment modes, there are numerous types of VoIP providers, especially for hosted services. On one level, choice is good in that solutions exist for most any type of situation, and competition keeps pricing and quality in line. However, this also means that SMBs need to do their homework to understand their options so they can make the right choices.

There are two aspects to consider here, and each can be supported by the Inzenka research. First is the fact that the range of provider types is quite broad, and each has a distinct appeal:

SMBS HAVE A WIDER RANGE OF CHOICES IN MIND

Among VoIP users, three provider types account for most of the business—incumbent telcos, telecom equipment vendors, and competitive telcos—each with about 20% market share.

Among non-users of VoIP, while incumbent telcos and equipment vendors still rated highly, both were surpassed by cable operators and Internet-based providers.

KEY TAKEAWAY

In order to make a good decision about VoIP, SMBs need to understand the basic landscape. Careful consideration must first be given as to whether on premise or hosted (or a combination) is best for the business, and from there you should be prepared to consider a wider range of service provider partners than in the past.

VOIP PROVIDERS

Incumbent Telco	The tried and true option for SMBs who like their provider and not actively seeking alternatives
Competitive Telco	Local or regional operators with a strong focus on VoIP and other IP-based services
Telecom Equipment Resellers and VARs	Trusted partners to some SMBs, bringing value by bringing the right mix of phone system and IT services
Cable Operators	A newer form of competition that can be attractive for hosted VoIP
Internet-Based Operators	Also referred to as “over-the-top”, these providers offer basic VoIP services that appeal to price-conscious businesses
Portal-based Providers	An emerging alternative that includes Google and Skype that is based primarily on PC-based calling and a Web-based interface to manage features and services

Inzenka, 2010

PART 2 – WHY VOIP NOW?

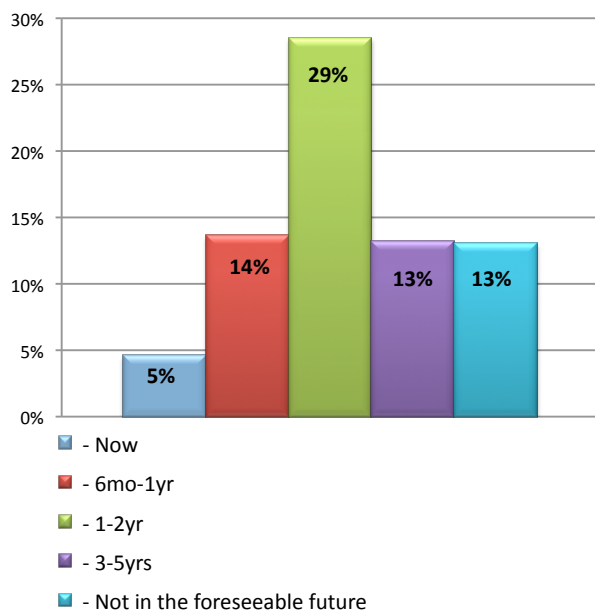
ADOPTION GROWING FAST

Before discussing the value proposition and various offerings for VoIP, it is important to first establish where VoIP sits in the current SMB market landscape. VoIP has been around since 1995, but in the past few years the technology has matured to the point where it is truly business class.

Today, there are few technical barriers, so businesses of all sizes are using VoIP. Not only has VoIP reached critical mass, but the adoption rate is poised to accelerate dramatically, and soon become the dominant mode for business telephony.

VOIP POTENTIAL PURCHASE TIMEFRAME

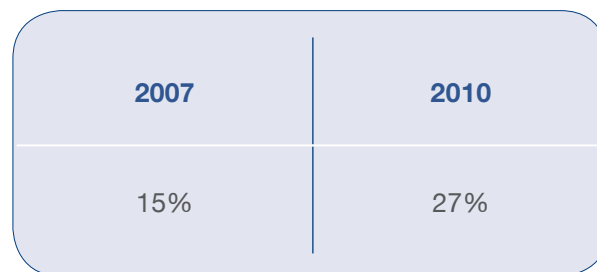
When do you think your business would consider the option of purchasing VoIP?



Inzenka, 2010

If this scenario unfolds, 62% of SMBs will be using VoIP by 2012, easily bypassing the installed base of legacy systems.

VOIP ADOPTION TRENDS



Inzenka, 2010

In 2007, 15% of SMBs researched were using VoIP; today the level is 27%—an 80% increase.

While legacy telephony may work perfectly well, there are better options to consider, especially if the Internet and mobility are widely used in the business. Beyond the main office environment—SMBs increasingly have employees with remote or home-based locations, both of which are better served by VoIP. Not only are the economics better than legacy options, but VoIP provides greater flexibility for employees not directly connected to the physical telecom network and is a service that integrates more effectively with other communications tools, such as mobility and the Internet.

KEY DRIVERS

Many factors contribute to VoIP's appeal.

Top 5 Drivers of VoIP Adoption:

- 1** Cost reduction—both TCO (Total Cost of Ownership) and monthly expenses
- 2** Easier system management—service and features can be self-provisioned, whereas with legacy telephony these options are limited as well as more difficult to deploy
- 3** More features—and better features that enhance productivity
- 4** Customer service—VoIP operators understand how their service is new for SMBs and support it accordingly
- 5** Business grade—VoIP quality and reliability is now on par with legacy telephony

Inzenka, 2010

“VoIP is so much simpler to deploy, and a lot more flexible.”

*Medium sized company,
Head of Operations*

“We switched from a system that was getting older, didn't have a big upgrade path, didn't have great features...it's going great so far with our new VoIP system.”

*Medium sized company,
Head of Operations*

While the appeal of these as being virtues of VoIP may be self evident, our view is that this also speaks loudly to the shortcomings—and pain points—with existing telephony systems:

Top 4 Pain Points (with existing telephony systems)

- 1** Legacy telephony is costly to maintain and legacy service is more expensive than necessary
- 2** Existing systems are complicated, inflexible and have limited capabilities for enhancement or expansion to add new users or branch offices.
- 3** Feature set is limited, and impedes productivity.
- 4** Customer service is problematic, especially for SMBs, who are typically not the highest value customers for carriers.

Inzenka, 2010

WIDESPREAD INTEREST AND APPEAL

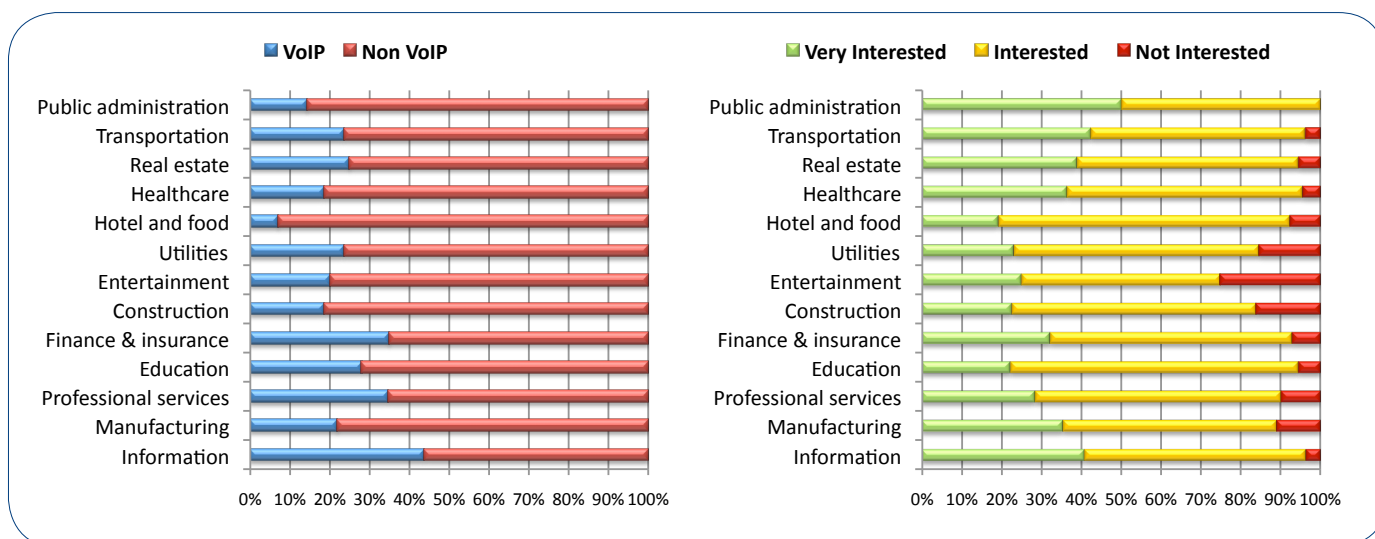
If these pain points are familiar, then you are a good candidate for VoIP. These themes are common across the full business spectrum. To that point, consider these research findings:

- By company size, VoIP has a slightly higher adoption at the larger end. Among SMBs with over 100 employees, adoption is 31%, compared to 25% for fewer than 100 employees.
- Interest in VoIP is almost universal among SMBs. In the current study, 89% are either “Very Interested” or “Interested”—and this level is up sharply from 66% in 2007.
- By type of business, interest in VoIP is very high across all 13 verticals studied. In particular, VoIP is of great interest in Government, Transportation, Healthcare, Real estate, Finance and insurance, Education and Information.

KEY TAKEAWAY

Most service providers have long recognized that VoIP will eventually displace legacy telephony, and are investing heavily in this technology. SMBs are starting to understand this, and are making their own investments in VoIP. By thinking about VoIP as a communications technology with broad applications rather than lower cost telephony, it becomes easier to understand why the appeal is so widespread across the SMB spectrum.

VOIP ADOPTION AND INTEREST BY INDUSTRY



Inzenka, 2010

Regardless of the type of business you are in, VoIP adoption is on the rise. This means that your competitors are getting benefits now—operational efficiencies and more effective customer communications.

Part 3 – EVALUATING VoIP OFFERINGS

Armed with a basic understanding of the service provider landscape, along with virtues of premises-based and hosted VoIP, SMBs must next consider a variety of other elements to properly evaluate all these offerings. Inzenka's research provides substantiation to these, and each is addressed in this section.

PRODUCTIVITY ENHANCING FEATURES

Key drivers for adopting VoIP were discussed earlier, but the research also identifies the most important features of the service. One factor that defines value for VoIP is the range of features that come with the service. Most SMBs expect comparable features to what they have today.

Top 7 VoIP Features:

- 1** Standard call center features (automated answer, call distribution, etc.)
- 2** Portal access (manage voice communications through an online portal)
- 3** Soft phone (make and receive calls via a computer connected to the Internet)
- 4** Simultaneous ring (system can ring desk, cell and any other phone simultaneously)
- 5** Find me-Follow me (FMFM - system finds staff if they are away from their desk)
- 6** Advanced call center features (call monitoring, barge-in, whisper, call recording, etc.)
- 7** Music or messaging for callers that are on hold

Inzenka, 2010

At minimum, SMBs need to match the basic features they have now with legacy systems, but VoIP users want more than standard legacy features, and they value integration with the Web and their PC.

The features are a small sample of the many ways that VoIP adds value. Taken in isolation, each feature has value, but there is a bigger, more integrated Unified Communications capability that is gaining momentum with SMBs.

VoIP is the cornerstone of Unified Communications, but goes much further by interworking seamlessly with other real time or near real time modes, such as email, video, chat and Instant Messaging. Legacy telephony cannot support these capabilities, so moving to VoIP is more than just a voice story.

“We have staff all over the country, yet with 4 digit dialing we can connect easily—it’s great.”

*Small company,
Head of Technology*

A CASE FOR HOSTED VOIP

Another important consideration is whether to choose a hosted or on-premise solution. Among those choosing hosted, the key factors were as follows:

- Avoiding the up-front costs associated with on-premise
- Getting more flexibility and scalability in the service
- Avoiding the burden of managing the network

In cases where the capital outlay is prohibitive or internal support resources are scarce, hosted makes more sense, provided there is a comfort level with paying an ongoing cost. A tradeoff, however, is shifting the network management “burden” to the operator—this is part of what the SMB is paying for.

Related is the notion that these businesses also want to deal with a single provider for their voice and data services. VoIP is new for most SMBs, and the technology is constantly evolving. Unless your business has a strong IT team, it is often simply a good business decision to use hosted, leaving you free to focus on managing the core operations of your business.

On a more practical level, hosted provides great flexibility, and is ideal for SMBs that want to customize their service or have peaks and valleys in their business cycle. In this regard, hosted has a clear advantage over premises-based, by allowing the customer to match service levels to the changing needs of the business.

“We’re a smaller company using hosted, but within 3 years, we have only been out of action for 1 day.”

*Medium sized tourism company,
Head of Operations*

A CASE FOR PREMISES-BASED VOIP

Conversely, those choosing a premises-based solution value other things:

- Wanting to keep control over their telephony system
- Concluding that hosted alternatives may be more expensive

This is still the dominant mode, and reflects the fact that most businesses like to stick with the familiar. For these SMBs, telephony is considered too mission-critical to outsource, and they are willing to make the upfront investment to maintain the status quo.

CHALLENGES FACING SMB DECISION MAKERS

Beyond choosing between hosted and premises-based service, VoIP is a relatively new product and getting complete or accurate information can be a challenge. VoIP is still not well understood and there is no standardized marketing approach across the various types of providers.

This puts the onus on SMBs to ask the right questions and confer with the right sources. To that end, the research findings provide some practical guidance that SMBs would do well to follow.

TOP VOIP INFORMATION SOURCES

Internet	36%
Vendors	33%
Consultants	27%

Inzenka, 2010

VoIP providers have not proven themselves to be very good research sources. A component of Inzenka's research involved "mystery shopping", where they posed as potential customers

trying to gather information about VoIP. The findings were not very encouraging on a number of fronts. There was little consistency in the terminology used to describe VoIP features. The research also indicated a wide range of price points and packages, making it difficult to compare offerings among various providers.

Going into further detail, the research indicated a wide range of price points and packages, making it very difficult to compare offerings among various providers. In a similar vein, there was little consistency in the terminology used to describe VoIP features.

KEY TAKEAWAY

To meet these challenges, SMBs need to recognize that VoIP providers have not devised a magic formula yet for marketing this service. To make the right choice, you should not be afraid to ask lots of questions and insist on clarity—otherwise, their marketing will remain confusing and adoption will stall. As such, VoIP providers who can clearly articulate their offer will stand to do well, and SMBs should be attuned to this when shopping around. Your path to VoIP will be easiest with service providers who have educated themselves enough to know that SMBs need to be educated as well, and this clarity is actually an important part of their value proposition.

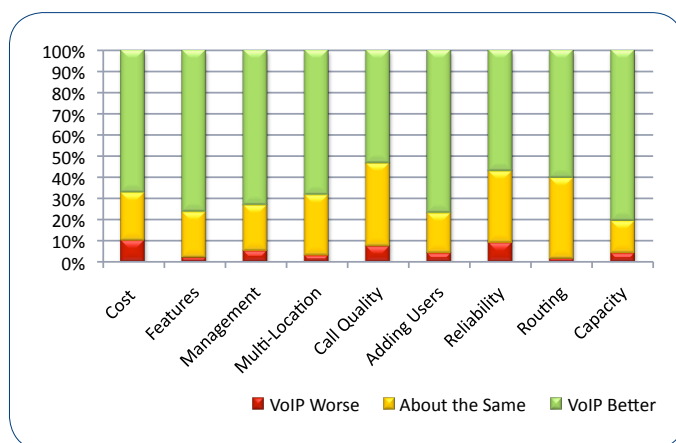
PART 4 – GROWING YOUR BUSINESS WITH VOIP

While adoption trends continue moving upward for VoIP, SMBs may be right to wonder if this path is really worthwhile. As the research indicates, service providers are still on a learning curve of their own, and SMBs need more education about the value proposition around VoIP. There is a short and a long answer to this question, and both are very much affirmative.

THE SHORT ANSWER—VOIP’S PERFORMANCE

For SMBs making the move to VoIP, the experience based on the research has clearly been positive:

VOIP USER PERCEPTION



Inzenka, 2010

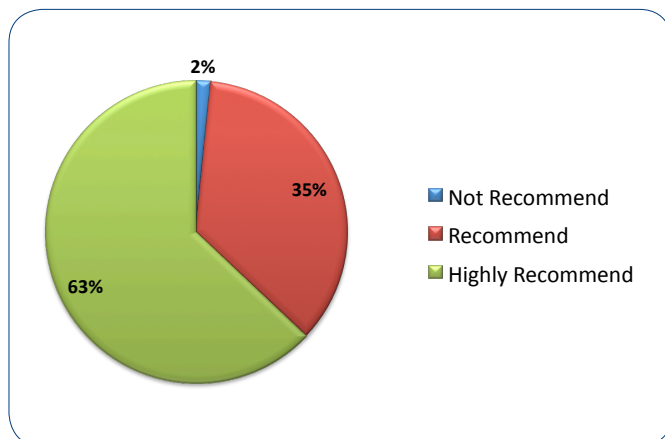
Overall satisfaction is very high across nine core attributes. Over 60% actually found VoIP to deliver superior performance in areas including cost, features, management, and capacity.

“Call quality is better with VoIP—especially internally...we have enhanced-expanded audio now—it’s very good.”

*Medium sized company,
Head of Operations*

These strong metrics indicate that customers made the right choice, and most any issue has been adequately addressed by the service provider. We view this as critical, not just for establishing VoIP as a bona fide telephony solution, but more importantly for building the foundation for the broader value proposition around IP communications.

WOULD YOU RECOMMEND VOIP TO YOUR BUSINESS PEERS?



Inzenka, 2010

98% of users are willing to recommend VoIP to their peers.

THE LONG ANSWER—GOING BEYOND TELEPHONY

For some businesses, VoIP is only viewed as a way to reduce telecom costs—and making a few compromises may even be an acceptable part of the bargain. Our view is quite the contrary, and the research provides numerous proof points to support this position. The strong performance of VoIP validates the deployment decision, making SMBs more receptive to going beyond conventional telephony. This is where we see the real promise of VoIP being realized.

With VoIP in place, SMBs have far greater capabilities to address the rapidly changing ways in which we communicate and work, particularly around mobility and supporting remote workers. We also see VoIP as an entry point for adopting new features, some of which make for a richer telephony experience, and others add value by integrating voice with other communications modes like chat and video. SMBs have many paths for going beyond telephony with VoIP, and the following research findings provide some examples.

SMB MOBILITY TRENDS

SMBs whose employees use mobile phones	95%
SMBs with mobile workers	70%
SMBs with employees that work from home	62%

Inzenka, 2010

“Ability to manage calls in our call center and to distribute them; plus, tying the phone into the PC with soft phones were key for us.”

*Medium sized law firm,
Head of Operations*

In this context, it is not difficult to understand why SMBs would want to go beyond everyday telephony once they understand the broader scope of what VoIP enables. This becomes clear from the research as summarized below.

Top 5 Additional Services Consumed by VoIP Users:

- 1** Fixed Mobile Convergence
- 2** Equipment (Phones, CPE)
- 3** LAN Services
- 4** Back-up/Storage Services
- 5** Security Services

Inzenka, 2010

Why should this matter for SMBs considering VoIP? Beyond lower cost, by thinking more strategically about how employees communicate among themselves and with customers, it becomes apparent why integrating VoIP with mobility and the Internet is a good idea.

All of these elements take VoIP well beyond telephony and present a distinct opportunity for SMBs to forge new—and deeper—relationships with their service providers. In this world, the value proposition is not just about tactical outcomes such as reducing telecom costs. There is a strategic component here, where the service provider can play a more dynamic role to help the business leverage new technologies and better serve the changing way we work.

KEY TAKEAWAY

VoIP is the essential building block to address these trends, and when SMBs understand how these pieces fit together, the value proposition becomes much stronger. In that regard, VoIP represents an opportunity not just for SMBs to leverage IP communications, but also for service providers who themselves need reinventing as telecom evolves from legacy to IP. For SMBs, the value of VoIP is as strong as your vision is broad. You can certainly derive value just in lowering telecom costs, but VoIP can take your business much further, especially with the right service provider partner who can match the solution to your needs.

ABOUT THIS PAPER

To better understand the business opportunity for VoIP among SMBs, Metaswitch was a major sponsor of an extensive market research study undertaken by Inzenka, a leading strategic marketing consultancy. The study was conducted in the Fall of 2010, and was based on a mix of 700 quantitative and 25 qualitative interviews with SMBs across the U.S.

This paper is based primarily on Inzenka's research, but complemented by industry perspectives from noted industry analyst, Jon Arnold. His firm—J Arnold & Associates—has been closely following VoIP since 2001, with a particular focus on the SMB market.

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