

HOSTED PBX AND BEYOND

A New Value Proposition for Service Providers



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EXECUTIVE SUMMARY

In terms of serving the business market, service providers face a fundamental challenge—as these customers shift away from legacy telephony, carriers lack more current offerings to maintain an attractive value proposition. This presents a core risk to their business, as these customers are now poised to spend less money on communications services, and are increasingly likely to move altogether to take advantage of today’s feature rich solutions.

Hosted services represents one way for carriers to address this trend, and while there are numerous complexities involved, this white paper makes the case for hosted as a viable solution today. In essence, we see a superior value proposition rooted in three areas - ease of use for customers, compelling applications and ease of provisioning and management for service providers. This white paper concludes by evaluating the hosted PBX solution from Metaswitch and highlighting the qualities that make it a strong solution for businesses to consider.

KEEPING BUSINESS CUSTOMERS HAPPY

Service providers face a host of challenges today, both internally to keep networks up to date, as well as externally to serve the changing needs of their customers. Many of these challenges are inter-related as the service provider space becomes more crowded, and businesses have more choices than ever before. Constant technology change is a given, and the value proposition around communications services is a moving target.

Business customers are valuable for service providers, and special attention must be paid to meeting their communications needs. Providing reliable connectivity used to be enough, but not today. Some customers will stay with the status quo and keep using their phone systems indefinitely, along with POTS and costly PRIs. They may even take a step forward by upgrading their legacy PBX to an IP PBX, but these scenarios do not represent much upside for service providers and resellers. To continue providing value, our view is that hosted business services represent the best opportunity for service providers to get beyond basic connectivity.

The majority of businesses are following other paths, and this is where service providers must re-define their value proposition. Many businesses are staying in their comfort zone of premise-based telephony, and will invest in IP PBX systems. Others, however, are thinking differently and as they learn more about IP-based communications, they see new options.

These options require businesses to change their views in two fundamental ways. First, they need to see that premise-based telephony is not as advantageous as in the past, and hosted services

are very viable. Second, they need to get beyond being telephone-centric when thinking about communications. Voice is just one mode, and there is a growing need to make all communications modes work together.

Ongoing research—especially among SMBs—leads to our position that this last set of customers represents the best growth opportunity for service providers. Not only can this help offset the inevitable decline in legacy services, but it enables service providers to drive innovation that makes their business customers more successful. As telephony becomes a commodity—or even a loss leader—service providers must find a better way to offer value and remain relevant for their customers.

Overriding this is the changing landscape of service providers who can deliver this new value proposition. This represents both threat and opportunity, depending on who you are. Incumbent telcos have not embraced the hosted model as readily as competitive carriers, some of which are built entirely around IP-based technology.

These differences have been noted by businesses, and industry research confirms an increasing preference among businesses to move from their incumbent when moving on from legacy services. One example is a recent study from Inzenka that focused on the hosted VoIP market for SMBs. A key finding was the declining incidence of SMBs deploying VoIP with their incumbent telco. In 2007, the incidence was 26%, but had dropped to 19% in 2010. Similarly, among those not yet using VoIP, the incumbent telco came to mind only among 17% of SMBs.

HOSTED SERVICES – A NEW WAY

As noted earlier, hosted services represent a new approach to business telephony, and in fact, will enable a richer palette for communicating internally as well as with customers. In this regard, the hosted model represents a new value proposition for both service providers and their business customers.

Before defining that value proposition, the hosted model must first be explained. Most businesses use a switched telephony system, either a PBX or Key System, and in more current deployments, an IP PBX. All of these are premise-based and are capital-intensive, both in terms of Capex and Opex. With the advent of IP-based technologies, many of the inherent strengths of legacy systems have now become limitations. Their hallmarks may be quality and reliability, but they lack flexibility, customization and the ability to fully integrate with other communications modes.

The hosted model differs by shifting away from a solution built around premise-based hardware to one that is software and application-centric. There is an underlying recognition here that businesses are getting diminishing value from legacy systems, and want to take advantage of the new capabilities provided by VoIP and other modes of IP communications.

Table 1 on page 5, summarizes the core elements of hosted services, along with the key benefits for both service providers and businesses. This provides a more complete picture of the overall value proposition in that each attribute delivers a dual benefit for the service provider—first is how it helps their operations, and second is how they can gain new opportunities to build business with their customers.

Table 1 – Value Proposition Matrix for Hosted Services

Hosted Attribute	Benefit to Service Provider	Benefit to Business Customer
Network operations to support the service are carrier-based	Leverage existing infrastructure and provide a new service to customers	Removes the task of network management and even allows the business to downsize or streamline IT operations
Communications services are IP-based	New services to offset declines in legacy telephony	Can now integrate telephony with other modes to improve productivity
Offerings are software-based, and draw from a broad range of applications	Services can easily be provisioned and updated over their network	Always have the most current versions of applications without the need to manage this internally—many of which cannot be supported with legacy systems
Offerings are essentially service-based and priced as a consumable resource	Represents a new form of recurring revenue from end user licensing fees	Reduces Capex and lowers the cost of communications
IP services are flexible and standards-based	Can be offered to all customers, regardless of their existing phone system or vendors used	Can adopt hosted without replacing equipment, then add features/services over time
IP is a borderless technology	Can offer hosted services to customers beyond physical footprint of own network	Economical, easy and fast way to extend services to branch offices, new sites and remote workers
End-to-end IP connection via SIP trunking	Enables new services that can be monetized and creates stronger bonds with customers (such as HD audio/video)	New services improve employee productivity and lower trunking costs—but can also help differentiate the business from its competitors
Business continuity via 24/7 uptime and remote data backup	New revenue opportunity and distinct capability to bind customers to you	Like insurance, this is peace of mind to keep the business running, even under adverse conditions
Delivers a consistent, rich, integrated user experience	A better value proposition than legacy telephony, and one that is fully under their control	Can move on from the limitations of legacy telephony and provide tools to make all employees more productive—wherever they are

The matrix on page 5 is far from complete, but our research indicates that this set of value drivers ultimately translates into a superior end user experience for customers. That experience reflects a total value proposition which speaks to three inter-related stakeholder groups—end users, the business itself and the service provider—in the following ways:

- 1** Ease of use for end users
- 2** Value-added applications and services for businesses
- 3** Ease of deployment and management for service providers

Each of these elements can be further defined by the following examples:

EASE OF USE FOR END USERS

- For the end user, the value of hosted really comes out in its ease of use. At a network level, hosted service is complex, but the applications must be as intuitive as the telephone to gain adoption. Applications such as visual voicemail or an integrated message inbox may not be obvious to everyone, but once understood, they quickly become indispensable.
- Perhaps equally important for the end user experience is the accessibility of these applications. Hosted enables this by having a browser-based portal; not only is it easy to use, but it gives employees full access from any broadband connection. This form of accessibility makes it easy for employees to work anywhere—their desk, a branch office, from home, or on the road.

- Hosted also supports all modes of working. This is largely made possible by SIP, the standard for multimedia, real-time IP communications. This goes well beyond what legacy services can provide by enabling a consistent experience and interface across all types of screens, devices and endpoints. With the exploding adoption of smartphones and tablets, this capability is now essential.

VALUE-ADDED APPLICATIONS AND SERVICES FOR BUSINESSES

- Hosted VoIP can match the core feature set of a legacy PBX at a fraction of the cost- but more importantly, supports an essentially unlimited ability to add both new and custom features. Customization is key, as it allows the service provider to deliver applications that address specific business problems for their customers. This translates into a stronger value proposition than one based on the sheer volume of features supported by a legacy PBX.
- Hosted offers not just new capabilities, but ones that businesses will find compelling. By supporting all modes over a common network (voice, email, chat, text, video, etc.), hosted brings businesses into the realms of Unified Messaging and Unified Communications. This sets the stage for richer, collaborative ways of working that go beyond everyday workflows. When applications can also be used to drive business processes, their value becomes compelling in ways that legacy telephony never could.

- Service providers can add new layers of value by extending hosted offerings beyond the desk phone to the desktop, the smart phone, the home office, ad hoc conferences, etc. SIP trunking is a key enabler of new capabilities that make these extensions truly valuable, such as HD audio and video. This paves the way for new applications that could not be supported in either a legacy or IP PBX environment, or would be possible, but overly expensive with an IP PBX. The key here is for the business to understand that IP-based innovation is constant, and to leverage this, they need SIP trunking as part of the hosted solution. There is also an important benefit here for carriers in that SIP trunking allows them to maintain control over customer connectivity as they move away from legacy trunking, either in full or in part.
- Ongoing management is also much easier with hosted, allowing service providers to be more responsive to customers. For example, truck rolls are not needed for Moves, Adds and Changes (MACs). Not only does this reduce the cost of new deployments, but they can be done quickly – both of which can be deal-makers for businesses on the fence about hosted.
- Longer term, the efficient management of hosted services builds loyalty with customers and increases opportunities to sell or introduce new services. This is particularly important as communications services migrate to the cloud and by association, erodes the value of the physical network infrastructure that most service providers are built upon.

EASE OF DEPLOYMENT AND MANAGEMENT FOR SERVICE PROVIDERS

- Provisioning hosted services is a key aspect of the complexity mentioned earlier. One example would be the initial configuration of all the phones, or later on, the need for system-wide upgrades. With hosted, IT managers no longer need to do this, nor do they need to tie up resources with routine help desk inquiries. The easier hosted is to provision, the faster a service provider can go to market with minimal disruption for customers. This can be a key differentiator, especially when competing against an incumbent, who will likely be less agile in responding.

THE METASWITCH WAY

This white paper has provided a brief overview and rationale for hosted services, which we believe presents a strong value proposition for both service providers and businesses of all sizes. As mentioned earlier, few carriers have the internal ability to develop their own hosted platform and deliver a complete end-to-end solution, especially those below Tier 1 status. The majority of service providers fall into that category, and we believe they are ideally suited for hosted services. These carriers tend to be more agile than Tier 1s, and have a lot to gain from offering hosted services. They have no legacy business to lose, and recognize the growing demand for IP-based services that Tier 1 carriers are not willing or able to satisfy. However, they need help to deliver the solution.

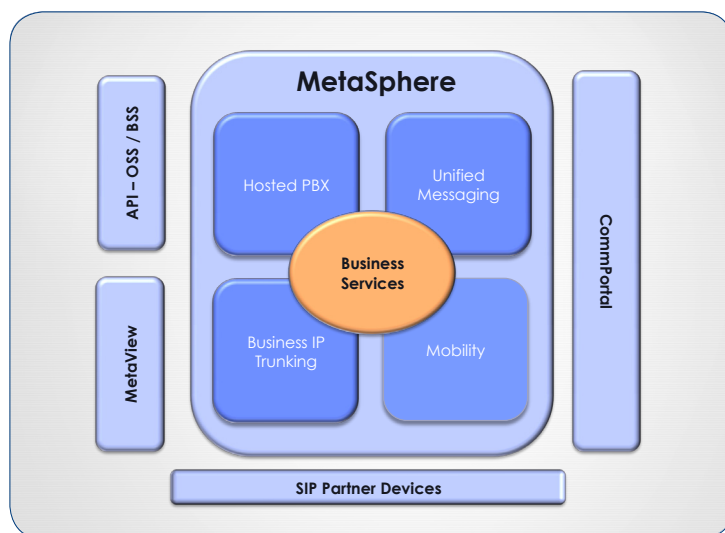
These service providers face a challenge in the sense that they cannot bring hosted services to market on their own, but can see there is a growing demand among their customers. VoIP is the anchor service for hosted, and the Inzenka market study discussed earlier validates this in several ways.

In 2010, 89% of SMBs were either “Interested” or “Very Interested” in VoIP, and that’s up from 66% in 2007. Not only that, but they are interested now; 19% of this audience are interested in buying during the next year, and almost half—48% are interested within the next two years.

To the extent a service provider sees either growing risk among their legacy customer base—or an opportunity to offer something better to prospective customers – that should define the importance of finding the best partner possible for hosted services.

Having closely followed the IP communications sector since 2001, J Arnold & Associates has seen many hosted vendors come and go. Metaswitch is a vendor with few rivals for its longevity, customer base or track record of innovation. The research for this white paper confirms our view that Metaswitch and their MetaSphere Hosted PBX solution should be given serious consideration for any business looking at hosted services. Figure 1 below illustrates the key elements around the Metaswitch hosted solution.

Figure 1 – Metaswitch Hosted PBX Solution



A key focus of this white paper has been defining the value proposition, and the following are key areas where we feel MetaSphere Hosted PBX addresses this very well:

- At a high level, Metaswitch provides a complete solution with both SIP trunking and a comprehensive application suite covering both core PBX features and the broader spectrum of UC. With this, service providers are in a position to retain customers regardless of their needs, and immediately tap into the areas of growth that are rapidly displacing legacy services. We see this being important for two reasons. First, SIP trunking allows carriers to maintain the connectivity piece of the business as customers move away from TDM. Second, the addition of SIP trunking to the hosted solution makes for a stronger offering that leverages the full potential of IP-based communications. CommPortal—their web interface, which has been developed around ease of use and is where end users manage and customize all their communications applications, with a unified mailbox to centralize all forms of messaging, including mobility. Aside from providing a consistent interface for all modes/screens, the portal is a prime branding opportunity for service providers.
- Extensive interoperability - provides great flexibility for carriers to offer MetaSphere Hosted PBX to their customers. This holds for all types of endpoints, but is particularly notable for HD-compatible IP phones, which helps showcase the value of SIP trunking. When businesses experience HD quality, all IP-based applications become more compelling, thus ensuring greater adoption and benefit to end users.
- Mobility - we believe this is the biggest growth engine for hosted services, but also one of the most challenging. MetaSphere Hosted PBX provides a compelling set of mobile features that interwork seamlessly with the desktop, plus more advanced smartphone applications such as ad hoc conferencing, visual voicemail and speech to text. By being downloadable from the service provider, these smartphone applications provide another branding channel.
- Video is another strong growth area for service providers, and their CommPortal Communicator interface interoperates with all the leading video phones and video conferencing systems. This allows for seamless communication across all SIP endpoints, and makes video both compelling and highly accessible for all types of customers.
- SIP trunking adds significant value for hosted services, and the Metaswitch solution is fully SIPconnect compliant. This enables service providers to support the full gamut of legacy and hybrid scenarios, which in turn means that businesses can move to hosted with minimal disruption to their existing telephony infrastructure, regardless of which telephony vendors are being used. This means that carriers can add SIP trunking to any of their customer deployments—MetaSphere Hosted PBX will interwork with all vendor scenarios—Avaya, Nortel, Cisco, Siemens, Aastra, Mitel, NEC, Panasonic, etc. With this capability, they can enhance all customer deployments with advanced features such as HD audio and video.

- Service provisioning and network management were cited earlier as being more challenging than expected for most carriers. Behind MetaSphere Hosted PBX is the MetaView Network Management Server, which may be transparent to business customers, but is a core competence of Metaswitch, and completes the offering by making HPBX as easy to manage for the carrier as it is for their customers to use as subscribers.
- Finally, the best way for service providers to retain customers and grow revenues is to keep the value proposition fresh. Shifting the base from voice to UC is a good starting point, but service providers must facilitate a bigger shift from premise-based to hosted. In essence, the key value drivers will transition from network-based connectivity to cloud-based services and applications. Metaswitch has been at the forefront of this evolution, and their Innovators Community supports a dynamic ecosystem of third party developers who work with their APIs to drive a steady stream of new applications for businesses.

CONCLUSIONS

There is a lot to consider here, but our overall conclusion is that MetaSphere Hosted PBX reflects the key qualities and attributes that define the type of solution that carriers need today to deliver value for their customers. This is especially true for Tier 2 carriers, but could just as well apply to Tier 1s.

In our view, the key point is that Metaswitch understands the complete set of needs, not just in terms of how carriers do business, but also for what their customers need to stay competitive and leverage the latest in IP communications technologies.

J Arnold & Associates, an independent telecom analyst practice, produced this White Paper. The contents herein reflect our conclusions drawn from ongoing research about IP communications, and primary research with service providers and other industry contacts. For more information please contact us by email: jon@jarnoldassociates.com

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