

White Paper

Understanding the True Costs of Business Phone Systems

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Cloud phone systems remove the costs associated with an on-premises PBX.

Operating on-premises PBX systems can be difficult to manage, expensive, and hard to scale, as many IT professionals can attest. But price is often the foremost concern for C-levels, particularly for CFOs and CIOs who might need to look at the overall cost of a new system before committing to the purchase price. After all, a new IP PBX can cost up to tens of thousands of dollars just in initial expenditures.

So what is the true cost of an on-premises PBX system, and how does it compare to a cloud-based alternative? It's difficult to know with certainty how costs will compare, since individual factors (such as number of remote locations and network settings) can drastically affect cost.

To help you better understand some of these considerations, this white paper will outline the hidden costs behind an on-premises phone system, and what that means for your business. Further, it will show that shifting to a cloud-based, or hosted VoIP (Voice over Internet Protocol) system can indeed save you time and money when compared to an on-premises analog phone system.

Uncovering the total cost of ownership

With on-premises systems, the upfront costs alone can be daunting. First you'll need on-premises analog PBX hardware, which is used to manage your call flow and extensions. This major item can cost up to \$1,000 per employee. And according to one estimate by PCG Telecom & Data Network¹, running an on-premises PBX for 75 extensions costs about \$75,000 upfront. Additionally, you'll have to purchase new phone hardware.

But surprisingly, these costs still only touch on the totals you can look forward to with an on-premises phone system. The total cost of ownership, or TCO, can balloon before you even notice.

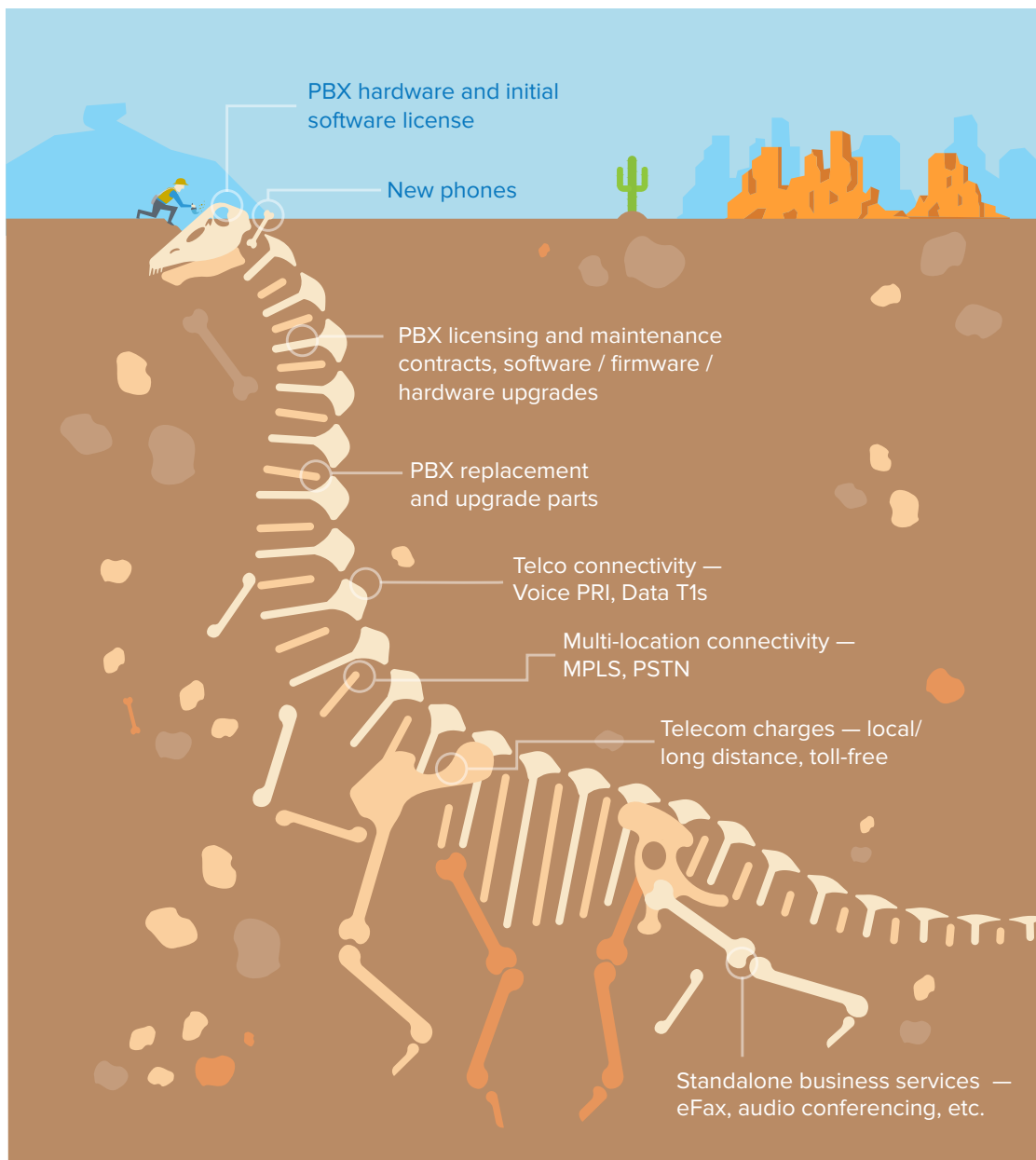


Figure 1. Analog phone systems are hiding their true costs below the surface.

Analyzing 7 major additional costs

While upfront costs are still significant, the figure above shows that there are many more expenses lurking just around the corner. Given the conventionally-accepted wisdom that the PBX and phone hardware represent the highest costs for a phone system, it can be shocking to discover that this isn't necessarily the case. Here are seven of the most common additional costs you'll find:

1 Ongoing costs for standalone services.

Whether you need conference calling, web meetings, or video conferencing, the cost of outsourcing these services to other vendors can add up. Call centers in particular are dependent on external vendors to provide the services and features they need. Some have even claimed that the age of the call center is over, because call center packages can cost a whopping \$1,500 per agent, not including fees for setup and installation.²

2 Strained IT budget due to continuing expansion.

With an on-premises PBX, you'll need T1s, PRIs, and other trunk lines just to connect to your local phone provider. Additionally, in a traditional phone system you'll face multiple line items, like long-distance calling at an industry average of nearly 6 cents a minute. Calls to toll-free numbers and international dials can both have an accumulated effect, too.

3 Continual need for upgrades, maintenance, and resources.

Installation of a PBX can cost thousands of dollars: add lifetime maintenance, network upgrades, and licensing fees, and you're facing a daunting blow to your budget. Your IT staff will also need to continually hire and keep top talent in order to monitor and modify your on-premises PBX system. In many cases, it can take a talented IT professional a whole day just to re-route the call flow for an analog system.

4 Difficulty in connecting locations.

Connecting a traditional PBX across multiple locations is an IT nightmare. In order to connect over distance, you'll need PSTN or similar business exchange lines that will allow for the proper bandwidth, adding more strain to your budget. Furthermore, there's often a risk of mismatched hardware, since different locations will typically have different materials. To manage all of these additional components, IT may even have to hire yet more staff.

5 **Unpredictable feature releases and cost fluctuations.**

Traditional on-premises solutions often have “a la carte” costs—that is, you must pay an additional fee for each added feature or line item. And since their product is centered around a traditional system, those new features might be hard to come by, since upgrading is not the primary objective.

6 **Effect on customer perception.**

On-premises phone systems are time-tested, and that can seem like an asset when dealing with customers. However, in one survey 90 percent of consumers said they would consider avoiding a company if it uses outdated technology.³ Customers have come to expect things like auto attendants, call queues, and customized voicemail, and will perceive your company as less efficient if you opt out of adding these extras.

7 **Employee retention can drop dramatically with older systems.**

The Pew Research Center found that Millennials now constitute the largest generation in the active workforce, at 34% and rising.⁴ An Intel study also found that these Millennial employees have a strong understanding of technology and demand much more from it.⁵ They also prefer to use their smartphones and have greater job mobility, something that can't be achieved with a traditional on-premises PBX system.

Getting to the numbers

So what are the hard costs for an on-premises phone system when compared with the cloud? Based on a hypothetical company with 200 people and four distinct locations, Figure 2 demonstrates the estimated costs for a traditional PBX as well as the Jive Voice cloud-based system.

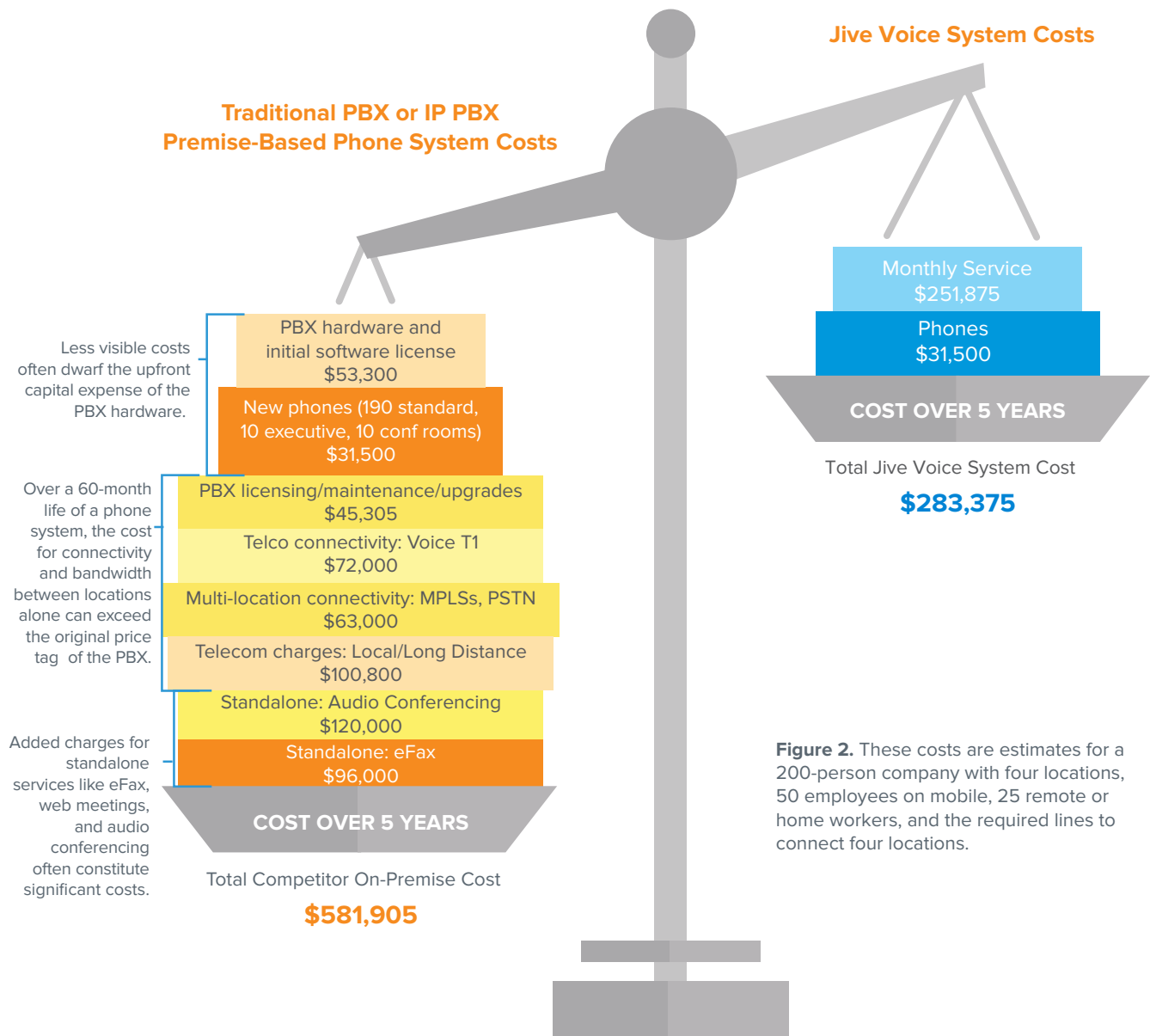


Fig. 2 also demonstrates just how large the upfront capital expenses can become with an on-premises phone system. However, in spite of these facts, upper management doesn't always see these full costs in a single place. And when you consider the hidden costs as analyzed in the previous section, the phone bill can quickly become a problem. These totals may provide management with a better understanding of these issues.

What can cloud-based phone systems offer?

Many cloud-based phone systems, like Jive Voice, can remove both the hard and soft expenses involved in PBX hardware and ongoing maintenance. With the cloud-based model, where voice signals are run as data packets through the internet, you can entirely eliminate many of the line items and pain points discussed earlier.

Here are some of the major cost-saving features with Jive Voice:

- **Significantly reduces hardware and software costs** – Jive manages all network hardware and keeps the system software up to date. In most cases, all you need is a phone and a router to start calling.
- **Easy call flow management and installation** – Jive phones come pre-provisioned for plug-and-play use. And with Jive's simple, browser-based interface, you can easily update your call flow in real-time from any Internet-enabled device. This removes some of the burden from IT staff to change and direct call flow.
- **Improved mobility for a scalable workforce** – Allows you to take your business communications with you on your mobile device. Talk, text, chat, or video conference anywhere, not just the office.
- **Lower IT service provider costs for ongoing updates** – RingCentral handles updates and also provides continuous improvements and innovations. • **Increased worker productivity** – New capabilities such as direct extension dialing and the ability to forward calls and faxes to mobile phones makes workers more effective. The provider also handles integrations with leading CRM systems like Salesforce and Microsoft business apps
- **Unlimited all-inclusive features** – Instead of “a la carte,” the Jive solution offers access to more than 82 advanced voice features at the same monthly cost. This means no additional line items for auto attendants or conference bridges, along with more consistent feature improvement and upgrades.
- **Scalability for multiple locations without adding to the IT budget** – Add users and locations without a huge hardware investment. A few new phones and a few clicks of a mouse and you can add all the users, extensions, voicemail boxes, and conference bridges you need.

Additionally, while many people have heard that PRI, MPLS, or PSTN lines are required in order to run a cloud phone system. This isn't actually the case. With Hosted VoIP, the whole point is that someone else is running your servers—which means no additional hardware is required. The estimate by PCG Telecom noted that a Hosted VoIP system costs almost 5 times less than an on-premises solution, even with all new phone hardware. The main requirements are high-speed internet service and a business-grade router, which are staples in many workplaces. And since you can often configure your own line directly from your computer, there's no need to acquire new staff.

The cost of moves, adds, and changes also becomes negligible since any IT person can almost instantly handle the reconfiguration from a simple web interface. There is no time-consuming reconfiguration on the physical hardware, no new cards to buy, no requirement for training or certification, and no travel costs to support a remote location.

Many Jive customers experience even more drastic changes in cost by combining all their Unified Communications (UC) services, from video conferencing to mobile apps to an online web portal. These products are available through Jive, and standard packages come included with Jive Voice service.

How much will you save by moving to the cloud?

Even after examining the comparative savings with a cloud-based model, it can be hard to determine how much you'll save with hosted VoIP. Some estimates have shown that you can save as much as \$1,200 per phone line over two years with VoIP, as compared to a traditional line. This is because with VoIP you might only pay a flat rate per month for typical business traffic, including long-distance calls. And some companies have discovered savings of up to 70% after switching to a cloud-based service.

It's important to remember that your costs will vary depending on number of locations, number of users, and the size of the mobile and home office workforce. In companies where the business is spread across multiple locations and offices, a cloud-based system will make a critical difference in the phone bill.

Overview

When combined with manageability and scalability, the remarkable cost savings associated with Hosted VoIP can help to explain the increasing adoption of this technology. Companies across the world are reaping the benefits of switching their phone communications to the cloud, along with other important business communications. The reduced operational expenses and modern functionality are a draw for very small startups and enormous enterprise companies alike.

Most importantly, Jive Voice and similar cloud phone solutions can help you to minimize IT budget risks and avoid the hidden costs behind an on-premises solution. It allows you to forget about upgrading, maintaining, and eventually replacing an outdated phone system, all while giving your company a professional boost.

Other sources:

- 1. Premise-Based PBX vs. Hosted VoIP Comparison**
<http://www.slideshare.net/mincherb/premise-based-pbx-versus-hosted-vo-ip-comparison>
 - 2. Death of the Call Center**
http://mashable.com/2012/03/30/death-of-the-call-center/#G_BUIX1_2kq8
 - 3. How Using Outdated Technology Can Impact the Reputation of a Small Business**
<http://www.allnewswire.com/how-using-outdated-technology-can-impact-the-reputation-of-a-small-business-2/>
 - 4. Millennials Surpass Gen-Xers as the Largest Generation in US Labor Force**
<http://www.pewresearch.org/fact-tank/2015/05/11/millennials-surpass-gen-xers-as-the-largest-generation-in-u-s-labor-force/>
 - 5. How Today's Tech-Savvy Employees Are Challenging the Traditional Role of Corporate IT**
<https://www.entrepreneur.com/article/237336>
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Appendix

Terms and definitions

BYOD: Bring Your Own Device. The trend where employees increasingly access company applications, data, records, and programs via their personally owned mobile

PBX: Private Branch Exchange. A private telephone network used by companies to connect their internal office lines to the public switched telephone network (PSTN).

IP PBX: Internet Protocol Private Branch eXchange. A private business telephone system that provides functionality similar to PBX, but over data networks like a LAN or WAN rather than traditional circuit-switched networks. IP PBX typically can switch calls between VoIP on local lines or between VoIP and traditional telephone users.

MPLS: Multi-Protocol Label Switching. A protocol that simplifies and speeds up the transmission of data packets, directing them from one network node to the next. MPLS is the standard carrier mechanism for telecommunications networks.

PSTN (POTS, Copper, Twisted Pair): Public Switched Telephone Network. The traditional, circuit-switched telephone network. This system uses copper-wire telephone lines to convey analog or digital voice signals by setting up a path (a dedicated channel or circuit) that is created between two points for the duration of your call.

PRI: Primary Rate Interface: A dedicated and managed digital dial tone used on an Integrated Services Digital Network (ISDN) that transmits voice, video, and data traffic for large organizations.

VoIP (IP Telephony, Internet Telephony, Broadband Telephony, Broadband Phone Service): Voice over Internet Protocol. Technology that allows you to transmit voice calls as digital data packets through IP networks rather than use the traditional method that sends analog signals along the Public Switched Telephone Network (PSTN). Placing a VoIP call can be performed with a regular phone, special IP Phones, or mobile devices.

About Jive

Founded in 2006, Jive Communications provides enterprise-grade Hosted VoIP and Unified Communications to businesses and institutions. Recipient of multiple industry awards, including the Frost & Sullivan Entrepreneurial Company of the Year Award, Jive is rapidly becoming the standard for business communications worldwide.

For more information, please contact a Jive consultant at [877-548-3007](tel:877-548-3007), or visit www.jive.com.

