



IP Telephony and Software Pricing – What You Don't Know Will Cost You

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The Issue

“New Avaya Pricing Sparks Cost Concerns”

ComputerWorld (5/15/2006)

Avaya’s ongoing move to a user-based pricing model for its IP telephony software and other communications applications is raising concerns among some customers.

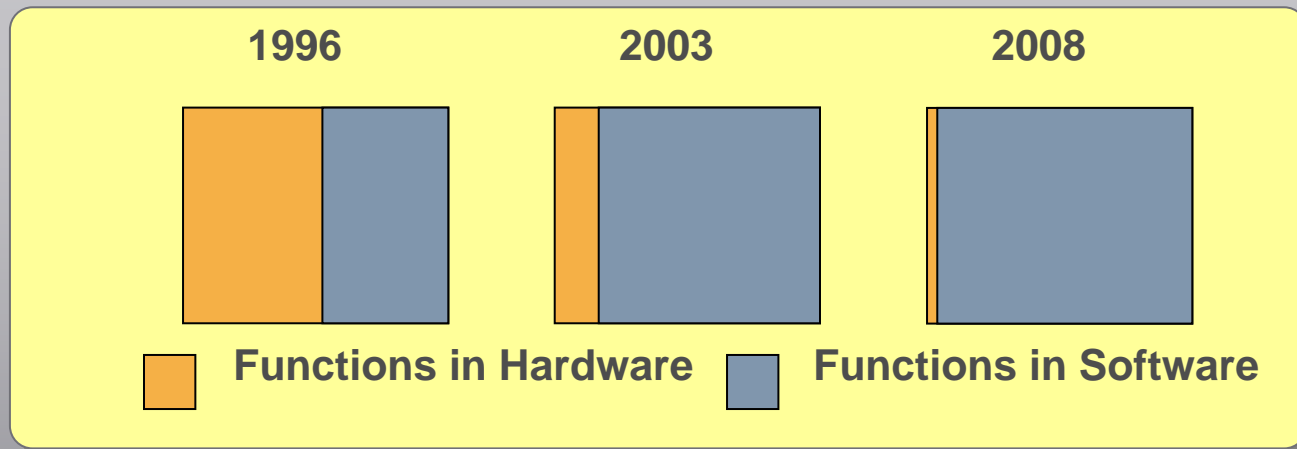
What We'll Cover

- Better understand IP Telephony software licensing and pricing (hardware vs. software costs; it's not the same anymore).
- How to look at software licensing, IP telephony costs, and the procurement process.
- What are the major vendors doing with their software licensing models (one vendor model does NOT fit all!).
- Procurement Questions – “Food for Thought”

“IP Telephony
has created a
software-driven
architecture”

- IP Telephony represents the migration to a software-based communications infrastructure; less hardware and more software.
- Proprietary hardware (servers) is rapidly being commoditized; it's really about the proprietary software applications.
- Challenge: Software has an intangible quality; hard to “find”, understand, and manage.
- Software and software licensing is familiar terrain for data people; not necessarily telecom pros.

IP Telephony Voice Functionality



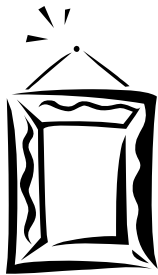
Result:

Product lifecycles are shortening

Pricing models and options changing (hardware vs. software)

Hardware commoditization

Framing the Discussion



- Software licenses provide protection of intellectual property under copyright, product liability, patent, and trade secret laws.
- Typically, you don't "buy" and own software, you pay for the right to use the software for an unspecified period (i.e., "perpetual").
- Lots of restrictions - what you can do with it, where you can install it etc.

Types of Licenses

- **Concurrent User:** Multiple users can share endpoint (e.g., call center agents).
- **Named User or End User:** One user per “device” (e.g., IP endpoint or voice mail box).
- **Universal:** User can migrate to TDM, IP, or SIP.
- **Enterprise License:** “Pooled” licenses go “anywhere”
- **Designated System License:** For specific server(s).

“Why can’t
Vendors be clear
about their
pricing?”

- Channel partner training lacking; they may be confused about license pricing.
- Non-standard “tiered” licensing models; tiers vary by vendor.
- Vendors don’t clearly itemize their hardware and software configurations (Autoquotes/Schedule A).

“Why can’t Vendors be clear about their pricing?”

- Vendor pricing models vary; Tiered, volume discounts, both tiered/volume, discounts only.
- “Nuances of software in world of hardware & software make modeling very difficult.”
- Vendors don’t clearly present H/W and S/W for analysis. **Example:** \$860K in license costs:

First 100 Licenses	\$120 each
Next 200 Licenses	\$207 each
Next 6700 Licenses	\$120 each
Add’l cost of \$87 for 200 Licenses	\$17,400

“Why can’t
I just get
universal
software
licenses?”

- True “universal” licensing isn’t typically available; different applications have different license costs.
- IP Telephony vendors haven’t figured out their own software pricing strategy or models.
- Vendor have different product revenue streams; need separate “buckets” for accounting.



“What other licensing fees might I see?”

- **Messaging:** Typically 30-75% of phone endpoint

Example: 750 user unified messaging system
Without message store: \$100 per user
With message store: \$75 per user

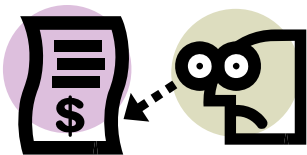
- **ACD:** Per seat typically 75-250% of PBX phone

Example: 25 agents with call center management
ACD software: ~ \$800 per user (pre-discount)
Call management: ~\$750 per user (pre-discount)

- **Mixed media contact center:** Different license model.
- **Collaboration & Presence Management:** Different model
- **Mobility (soft phones, dual mode):** Different model

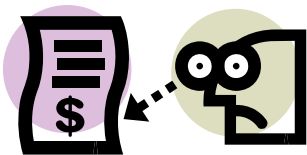
“How much success can I have Negotiating discounts?”

- **Volume is still king.**
- **Channel level; platinum or bronze?**
- **Time factor; FY/Qtr impacts price.**
- **Competitive process = best price.**

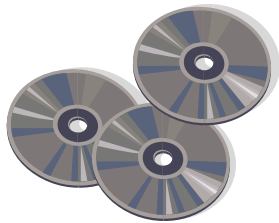


“How much success can I have Negotiating discounts?”

- Typical IPT discounts - 30% to 40%
- Recent RFP for 1,200 station IPT system had discounts ranging from 16% to 50+%.
- Recent RFI for a very large system (7000+ phones) had discounts over 60%.



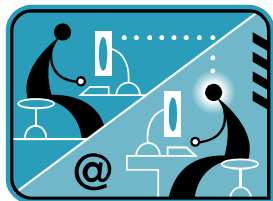
“What Software
Pricing Trends
Might I See
in the Future?”



- More software “bundling”; buy application “groups” (call processor + messaging).
- IT vendors are pushing “on-demand” or “pay for service” licenses; How to audit?
- Time delimited licenses which are “rented” for a specific period of time.
- Reduced hardware costs with service fees to activate/deactivate licenses & license compliance.



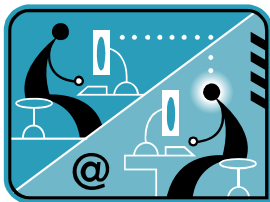
Software
Upgrades and
Subscriptions



- Buy upgrades outright or subscribe?
- Typically cover major or “dot” releases
- Multi-year Prepaid or Monthly (1 to 5-yrs).
- Messaging and call center applications - Yes

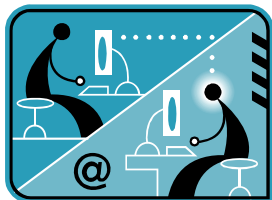
Software
Upgrades and
Subscriptions

- Trend towards self-service model.
- Saving 35% - 60% over purchase costs.
- Example: 3-year prepaid (2500 stations).



Vendor A (based on port count)	Vendor B (based on list price)
\$38,500	\$167,500



Software
Subscriptions -
What's NOT
included



- You may need to also budget for:
 - » ***System(s) MUST be at current release***
 - » ***Installation and professional services***
 - » ***Any and all equipment costs***
 - » ***Upgrading components in “crash kit”***
 - » ***Project Management***
 - » ***Upgrades to other applications (e.g., ACD)***
 - » ***You pay whether you upgrade or not***

Vendor Comparison

Example: 450 station IP-PBX

	% of Total Costs	Licensing Model	Software Subscription
Vendor A ("Traditionalist")	33% S/W 33% H/W 33% Phone  Hardware	Different tiers for different apps with negotiated discounts (Simpler Model)	Based on ports; No self-service to upgrade system (Less Flexible)
Vendor B ("Newcomer")	40% S/W 20% H/W 40% Phones  Software	No tiered model for earlier releases; tiered pricing for current release. (More Complex)	Two levels based on list price; self-service available (More Flexible)

Challenges

- Does vendor pricing pass the “smell test”?
- Very difficult to normalize vendor proposals.
- **Example:** How do you evaluate these costs?

Description	Vendor A	Vendor B
Training	\$5,500	\$53,000
Project Management	\$6,000	\$55,500
Installation & Professional Svcs	\$36,000	\$412,000

Vendor
Licensing
Update

Avaya –

- Two new 9-tier “licensing frameworks” for each major system (CM, MM, Call Center); **single site & enterprise**.
- Model based on users; not servers (shift to standards-based servers and certified endpoints).
- Licensing includes SIP functionality and user migration.
- Upgrades: CM 2.0 to 3.0 = 15%; CM1.0 to 3.0 = 20% (for 500 stations, cost difference is \$20,625 v. \$27,500).
- Future – Same framework for enterprise-class systems.

Vendor
Licensing
Update

Cisco –

- Costs (or revenue!) shifting to software.
- New Software Bundles for UC 5.0 (*phones excluded*)
 1. CallManager
 2. CallManager with Unity
 3. CallManager with Unity and Meeting Place
 4. CallManager with IPCC.
- SAS now “Essential Services”; SASU now “Unified Communication Software Subscription.
- “End point” license cost vary by phone type.

Vendor
Licensing
Update

Nortel –

- New model: Five “bundled” CS1000 Application Levels.
- Different User Licenses for Analog, Digital, IP Endpoints.
- No TDM trunk license; IP trunking licensed (by channel).
- “Ancillary” licenses for mobility, screen pop, MOH, and recorded announcements.
- “Converged” desktop licenses for connectivity between CS1000 and MCS5100.

Pricing Guidelines

- 500+ stations; \$1,000 per station for “turn key” system with messaging from a major player.
- Endpoints represent a significant percentage of your total investment (25%+); design with care!

Example: 7,000 station IPT system design:

Software Licenses % of Total Cost	IP/Analog Phones % of Total Cost
36.75%	49.61%

Pricing
Guidelines

- Installation and Project Management (integrator):
20-30+% of system price.
- Project Management Support (3rd party):
5-10% of system price.
- Post-warranty maintenance:
5-15% of system price per year.



Procurement Questions

- Are service issues such as Emergency, Major, and Minor clearly defined?
- What does a vendor's 2- or 4-hr response REALLY mean?
- How will asset management be handled? Who is responsible for space, security, transportation etc?

Procurement Questions

- How EXACTLY will training be conducted?
On-site, train-the-trainer, super-user?
- Who will “setup” the on-site training room?
- What training materials will be provided?
What training materials are available after
cutover (DVDs, user guides, web-based)?



Procurement
Questions

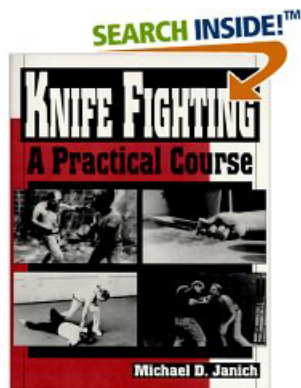
- What product support commitment will the vendor make for the proposed systems (in years)?

Hint: It's not 10 yrs years anymore.

- Is on-site help desk and cutover support for key users included? How many days and hours?
- When is system registration completed?

Procurement Questions

- Do you have enough holdback through system acceptance (typically 10-15%)?
- Are non-performance penalties defined?
“It is hereby understood and agreed by and between parties...that the said Contractor will pay to the Owner the sum of One Thousand Dollars (\$1,000) per day as liquidated damages...for each and every day's delay in finishing the work beyond the time prescribed in the RFP...”



Procurement
Pearls

- Don't expect proposals or pricing to be logical; typically, review will take 8-16 hours for a single proposal.
- If possible, forget the typical "Bidder's Conference".



Procurement Pearls

- You'll make mistakes but plan to make small, not BIG, career-threatening mistakes.
- Set user expectations early. Communicate pending updates and training often; you can't communicate enough!
- Reserve contingency funds for the unexpected (e.g., enhanced redundancy, professional services).

Procurement
Pearls

- You'll never have enough time; its going to take longer than you think!
- Know what you don't know and what resources you'll need - it's OK to include a trusted 3rd party.
- Approach the project expecting a vendor protest; this "paranoia" will guide your work efforts.

Software
Licensing
Wild Cards

- SIP; system “decomposition” with intelligence moving to endpoints complicates software pricing models.
- New 3rd party software developers create new challenges to software license prices.
- Unified Communications (e.g., speech enabled messaging, collaboration, presence management, mobility will only complicate software licensing.

Key Points to Take Home

- IP Telephony means a new software-based architecture -
- New software architecture means new pricing models -
- Evolving pricing models means market confusion -
- Good news; vendors are *trying* to make it simple...

- Best pricing means some form of competitive process -
- Competitive process means you'll be challenged -
- For informed buying decisions, you'll need to push vendors to *clearly* present their solutions/pricing!



QUESTIONS?

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