



IP Telephony Pricing/Licensing: Paying How Much for What?

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Current Trends



Am I saving any money...

Phone sets themselves may (or may not) become commodity chunks of hardware, but vendors are already moving to a software license model for the endpoint, and you'll pay your multiple hundreds of dollars for this software license instead of for the wedge o' plastic you have today.

–VoiceCon Enews

How does Cisco Unified CallManager 5.0 licensing fit the industry trend...

As productivity features continue to be enhanced in call-processing applications, the industry will follow with licensing fees commensurate with those features and innovations.

–Cisco Systems



Session Objectives

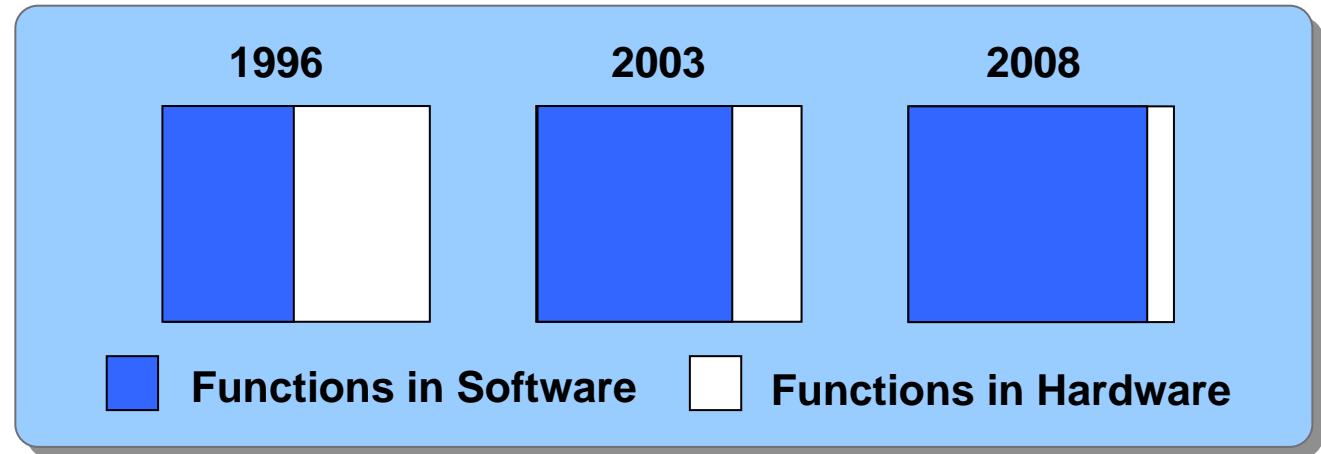
- **Better understand software licensing and pricing as they relate to IP Telephony**
 - Hardware vs. Software costs; it's not the same anymore...
- **How to look at IP Telephony costs during procurement**
 - Initial purchase and post-implementation
- **Highlight typical licensing fees and some of the varying licensing models you may encounter**
 - One vendor licensing model does NOT fit all!



“IP Telephony has created a software driven architecture”

- **IP Telephony represents the migration to a software-based communications infrastructure**
 - Less proprietary hardware and more software
- **Hardware components being commoditized**
 - It's really about the software applications
- **Software has an intangible quality**
 - Hard to “find”, understand, and manage
- **New licensing models resemble those found within the data industry**
 - Unfamiliar terrain for some

Telephony Functionality



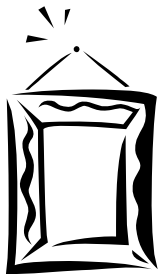
“IP Telephony has created a software driven architecture”
(continued...)

Result:

- Product lifecycles are shortening
- Revisions, upgrades, and patches more frequent
- Pricing models and options changing
- 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 own software; you pay for the right to use the software for an unspecified period of time (i.e. "perpetual")**
- **License agreements restrict what you can do with the software, where you can install it, and even how long you can use it**



License Types You May Encounter

Concurrent User: Allows multiple users to share a resource up to its licensed limit (e.g. call center)

Named User: Assigned to a specific end-user or device (e.g. IP Endpoint, Voice Mailbox)

Universal: May be administered as TDM, IP, or SIP

Designated System License: Assigned to a specific server or servers

Licenses are typically perpetual, non-transferable, and non-exclusive...



“Why isn’t the pricing from vendors clear?”

- **License models continue to evolve**
 - Vendors still use multiple models
- **Channel partners training lacking**
 - May not be up to date on the latest pricing and offers
- **No industry standard licensing model**
- **Vendors typically don’t itemize hardware and software configurations**
 - Summary vs. Bill of Materials



“Why isn’t the pricing from vendors clear?”
(continued...)

- **Vendor pricing methods vary**
 - Tiered pricing, Volume discount, both Tiered and Volume
 - Discounts levels differ by product category
- “Nuances of software in world of hardware and software make modeling very difficult...”
- Vendors don’t present information for easy analysis – **Example:** \$857,400 in license costs

First 100 Licenses	\$120 each
Next 200 Licenses	\$207 each
Next 6700 Licenses	\$120 each

Additional \$87 each for “Next 200” adds up to \$17,400



“Why can’t I get universal software licenses that cover all applications?”



- **Vendors have multiple product organizations with different revenue streams**
 - Necessitates separate “buckets” for accounting
- **Applications have different license costs and software licensing models**
- **You would potentially pay for features that aren’t required by all users**

Some vendors offer special application “bundles” that combine multiple licenses...



“What other licensing fees may I see?”

Messaging: Can be ~20% to 65% of IP Endpoint cost
\$92 per user / IP Endpoint (\$139 to \$495)

ACD: Can be ~295% of IP Endpoint cost
\$1460 per seat (\$780 ACD + \$680 ACD Management) / \$495

IP and SIP Trunking: May increase software costs

Mobility, Presence Management, and Collaboration

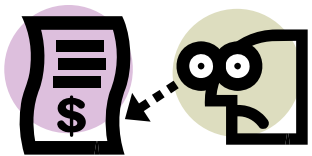
Messaging and ACD examples are based on list prices for 51-100 users

Advanced applications and more user capabilities means increased costs...



“How much success can I have negotiating discounts?”

- **Volume is still king**
- **Channel level: Platinum or Bronze?**
- **Time factor: End of FY/Qtr may impact price**
- **Competitive process equals the best price**



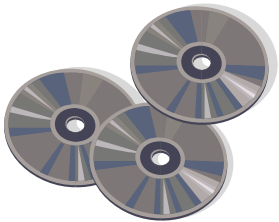


“How much success can I have negotiating discounts?”
(continued...)

- **Typical discounts range from 30% to 40%**
- **Even with competitive procurements vendor discounts can vary dramatically**
- **RFP procurement for 1,200 station design reflected discounts ranging from 16% to 50%**
- **RFI for a very large system (7000+ phones) reflected discounts over 60%**



“What Pricing Trends May I See in the Future?”



- **Pricing model driven more and more by software**
- **Gradual elimination of system hardware, station port, and trunk license fees**
- **More “bundling” of common applications**
 - Example: Voice user + Messaging
- **Service fees to activate/deactivate licenses with software auditing to ensure compliance...**

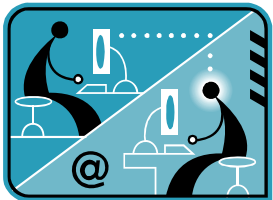
“to verify compliance with applicable software license terms and restrictions...”

Actual Quote from Vendor Services Agreement





Software Subscriptions Services



- **Software upgrades can be purchased as needed or subscribed to via a plan**
- **Subscriptions typically cover the software only**
 - Major and/or Minor (“dot”) releases
 - Maintenance fixes/patches
- **Can be prepaid or billed monthly**
 - Plan terms up to 5-years
- **Can cover more than just IP Telephony**
 - Plans available for Messaging and ACD



Software Subscriptions Services (continued...)

- Plans often include price protection for the duration of the contract
- Savings can range from 35% to 60% vs. outright purchase of an upgrade
- **Example:** 2,500-station IP-PBX with a prepaid three-year subscription

Numbers are rounded but the delta is accurate!

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

Hint: One offer excluded major upgrades...



Software
Subscriptions
Services
(continued...)

**What's NOT
Included...**

You may need to also budget for:

- **Systems MUST be at current release**
- **Installation and Professional Services**
- **Project Management**
- **Any and all equipment costs**
- **Upgrading components in the “crash kit”**
- **Upgrades to other applications such as ACD**

You pay whether you upgrade or not...



Vendor Pricing and License Comparison

Example: IP-PBX with ~425 IP Phones

IP-PBX with Messaging: Software, Hardware, and Phones only...

	% of Total Costs	Licensing Model	Software Subscription
Vendor A	<ul style="list-style-type: none"> • 29.46% Software • 43.93% Hardware • 26.61% Phones 	<ul style="list-style-type: none"> • Different tiers for different applications • Negotiated discounts 	<ul style="list-style-type: none"> • Based on ports • No self-service available
Vendor B	<ul style="list-style-type: none"> • 29.74% Software • 34.65% Hardware • 35.61% Phones 	<ul style="list-style-type: none"> • No tiered model for earlier releases • Bundled/Tiered pricing 	<ul style="list-style-type: none"> • Two levels based on list price • Self-service available

Vendor Comparison is Challenging



- **Inaccurate and sometimes illogical pricing**
 - Does it pass the “smell test”?
- **Very difficult to “normalize” vendor proposals**
- **Example: How do you easily evaluate...**

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

Warranty and Maintenance coverage also varies greatly...



Vendor Licensing Update

Avaya

- Tiered transactional “framework” for major products
 - Communication Manager, Messaging, and Call Center
- Licensing model based on users; not servers
 - A “user” is a unique administered number
- User licensing includes TDM, IP, and SIP functionality
 - “Universal” user licensing is endpoint agnostic
- Interoperability with 3rd party telephone endpoints
 - Cisco, Polycom, ClearOne, and others
- **Future:** Licensing framework applied to all portfolios
 - EC500 & Softphone to be added in an upcoming release

Enterprise-wide licensing available via controlled offer...



Vendor Licensing Update (continued...)

Cisco

- **“Solution constructs continue shifting to software”**
- **Mid-market “bundles” typically have a simplified two-tier structure: 50-299 users or 300-1500 users**
 - **A: CallManager (endpoints excluded)**
 - **B: CallManager + Unity**
 - **C: CallManager + Unity + MeetingPlace**
 - **D: Unified Contact Center Express (one tier only)**
- **Device License Units are “pooled” and utilized by endpoints as well as applications**
 - **Presence, Unified Personal Communicator**
 - **Other applications in upcoming releases**
- **Device Licensing Units for IP and SIP endpoints vary by the capability of the device**



Vendor
Licensing
Update
(continued...)

Nortel

- **Five distinct license levels of CS1000 Software**
 - **Upcoming 5.0 release expected to reduce levels to two**
- **Different “device” licenses for IP, Digital, and Analog**
 - **“Digital to IP” conversion licenses available**
- **H.323 and SIP Access Ports licensed by the channel**
 - **No licenses required for TDM Trunking**
- **Additional CS1000 licenses for “Sim Ring” (PCA), ACD, CTI, Music*, and Recorded Announcements***
 - ***IP-Based and Multi-Group Systems**
- **MCS5100 and Live Communications Server**
 - **Requires CS1000 licenses for connectivity and features: SIP/CTI interface, SIP Access Ports, AST, and PCA**

Bundling
comes in many
different forms...



"I haven't the slightest idea who he is. He came bundled with the software."



Pricing Guidelines



- For systems over 500 stations, budget roughly \$1,000 per station for a “turnkey” system with messaging from a major manufacturer
- Discounts for data typically in 30-50% range
 - Voice vendors accepting the “new math”
- Pay attention to IP Endpoint and Software requirements; they don’t come cheap!
- **Example:** 7,000 station IP-PBX system design

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



Pricing Guidelines (continued...)

- **Installation and Professional Services:**
~15% to 30% of system price
- **Project Management:**
~5% of system price
- **Post-Warranty Maintenance:**
~5% to 10% of system price per year
- **Verify what happens when license levels increase or decrease**
 - Can affect Maintenance and Subscriptions

Example of a recent project with ~425 IP Endpoints and various applications



Procurement Questions



- **What is the vendor's support commitment for the proposed products?**
 - **Hint: It's no longer 10 years**
- **Are self-service software options available?**
 - **Major and/or Minor ("dot") release upgrades**
 - **Maintenance fixes/patches**
- **What is the warranty period for software and hardware components?**
- **How are Emergency, Major, and Minor service issues defined?**

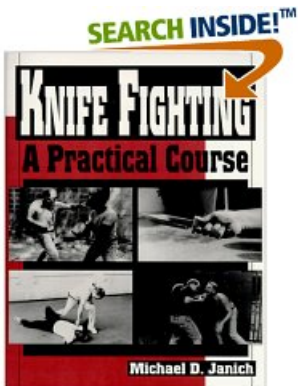


Procurement Questions (continued...)

- **What does a 2-hour or 4-hour response time REALLY mean?**
- **What are the hourly labor rates (and minimums) for on-site and remote support?**
- **Is help desk and on-site cutover support included?**
 - **For how many days and during what hours?**
- **Are training credits included or available?**



Procurement Questions (continued...)



- Are progress payment terms clearly defined?
 - Do you have holdback or retainage until system acceptance (typically 10-20%)?
- Are “committed discount levels” or “limits on price increases” specified?
 - For purchases made after system acceptance?
- Are non-performance penalties clearly 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**
 - It can take 8-16 hours to review a single proposal and clarifications are often needed
- **Determine the purpose of the RFP in advance**
 - Example: Obtain decision making information
- **Establish objective selection criteria in advance**
- **Set expectations for vendors regarding format, response content, and details**
- **Forget the typical "Bidder's Conference"**



Procurement Pearls (continued...)

- **Give vendors an opportunity to discuss assumptions and exceptions**
- **Have Vendors describe the licensing model (and price breakpoints) for each product proposed**
- **Verify if licenses can be transferred between systems**
- **Challenge things that “don’t smell right”**
- **Budget for contingencies such as unanticipated growth, price increases, and unplanned delays**



Summary

- **IP Telephony has created a software driven architecture**
- **Software-based architectures means new pricing and licensing models**
- **Evolving pricing models means market confusion**



Good news: Vendors are trying to simplify...



Summary (continued...)

- **Best pricing is obtained by some form of competitive process**
- **Competitive process means you'll also be challenged**
- **To make an informed buying decision you'll need to push vendors to *clearly* present their solutions and pricing!**