



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

Douglas Carolus, MBA
Manager, Communications Technology
PlanNet Consulting, LLC

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The Issue

New Avaya Pricing Sparks Cost Concerns (5/15/06)

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

Sleazier Still (5/15/06)

Tennant recounted how a Microsoft manager sent a series of increasingly threatening letters to the CIO at Auto Warehousing Co., about how Frantz's company appeared to be using unlicensed software, and how Microsoft wanted the issue resolved.



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 software licensing, IP telephony costs, and procurement (during initial purchase and post-implementation).
- Where do you find license fees and what are some typical vendor software licensing models (one vendor model does NOT fit all!)

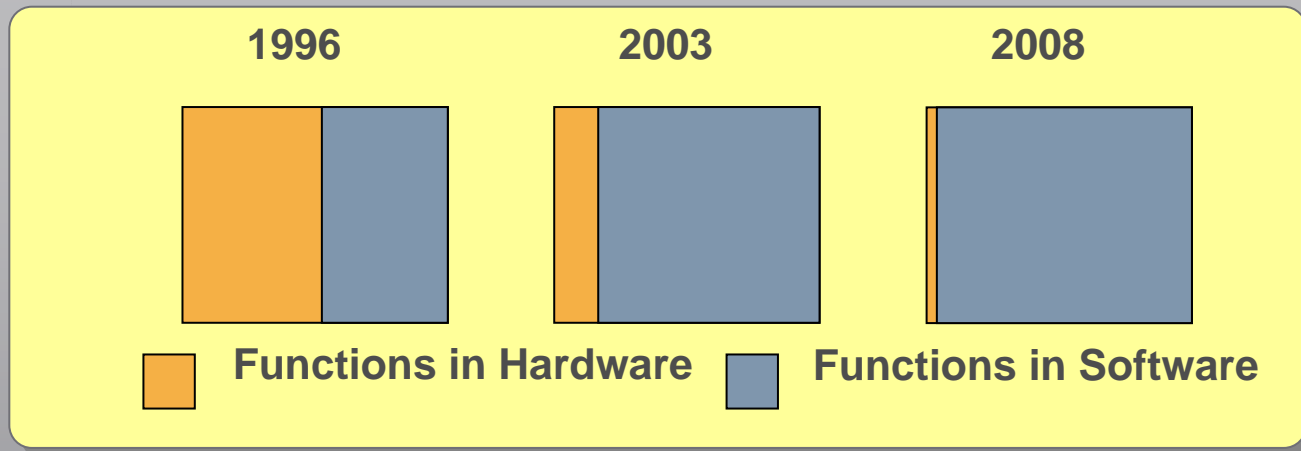


“IP Telephony has created a software driven architecture”

- **IP Telephony represents the migration to a software-based communications infrastructure; less 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:

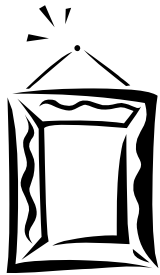
Product lifecycles are shortening

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 are paying for the right to use the software for an unspecified period ("perpetual").**
- **License restricts what you can do with it, where you can install it, and even how long you can use it.**



Types of Licenses You May Encounter

Concurrent User: Allows multiple users to share single endpoint (e.g., call center agents).

Named User or End User: Assigned to a specific user or device (e.g., IP endpoint or voice mail box).

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 etc.



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

- **Channel partners training lacking; they may be confused about license pricing.**
- **Non-standard “tiered” licensing models; they 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 off street price 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:** \$857,400 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 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: Unified Messaging \$118 per user).

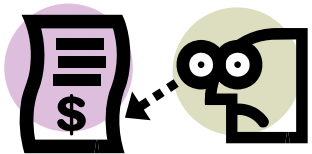
ACD: Per seat typically 75-250% of PBX phone
(ACD \$620 + Call Management \$622 = \$1,242 per user) .

User Functionality: More call center agent functionality may mean increased costs.

IP/SIP Trunking: May increase software costs.



“How much success can I have in negotiating discounts?”

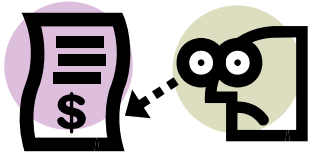


- **Volume is still king.**
- **Channel level; platinum or bronze?**
- **Time factor; FY/Qtr end impacts price.**
- **Competitive process = best price.**



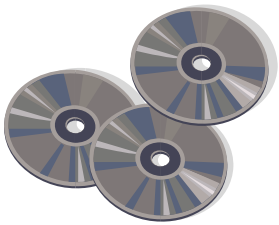
“How much success can I have in negotiating discounts?”

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





What Software Pricing Trends Might I See in the Future?"



- **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.**
- **More software “bundling”; buyers pay for application “groups” (call processor + messaging).**



What Software Pricing Trends Might I See in the Future?"

- **Pricing model driven more & more by software.**
- **Gradual elimination of system hardware, station port, and trunk license fees.**
- **Service fees to activate/deactivate licenses; with software auditing to ensure compliance....**





Software Upgrades and Subscriptions



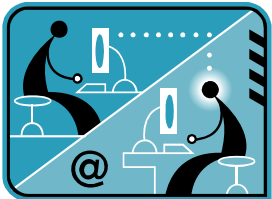
- **Buy outright or subscribe to software upgrades.**
- **Subscriptions typically cover:**
 - ✓ **Major or “dot” releases**
 - ✓ **Maintenance fixes/patches free**
- **Subscriptions: Prepaid for 1, 2, 3, or even 5-yrs.**
- **Not just IP Telephony; also messaging and ACD.**



Software Upgrades and Subscriptions

- Trend towards self-service model.
- Saving may range from 35% - 60% vs. purchase.

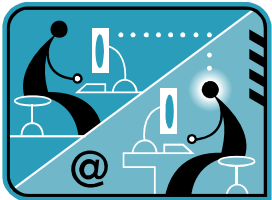
Example: 2500 station IP-PBX with prepaid 3-year subscription (Hint: One offer excluded major upgrades)



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 Pricing and License Comparison

Example: IP-PBX with (450) IP Phones

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



Challenges

- Inaccurate and even 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 & Professional Svcs	\$36,000	\$412,000



Vendor Licensing Update

Avaya –

- **New 9-tier “licensing framework” for each major system (CM, MM, Call Center).**
- **Licensing model based on users; not servers.**
- **Licensing includes SIP functionality.**
- **Moving to 3rd party, certified end-points and standards-based server platform.**
- **Future – Apply licensing framework to all product families.**



Vendor Licensing Update

Cisco –

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



Vendor Licensing Update

Nortel –

- **Based on CS1000 Software Licensing, there are five distinct levels.**
- **Different User Licenses for IP, Analog, Digital.**
- **No license for TDM trunking but IP trunking is licensed (by channel).**
- **“Ancillary” licenses for mobility, screen pop, MOH, and recorded announcements.**
- **“Converged” desktop licenses for connectivity between CS1000 and MCS5100.**



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

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From *The New Yorker Book of Technology Cartoons*.



Pricing Guidelines

- For systems over 500 stations, budget ~ \$1,000 per station for “turn key” system with messaging from a major player.
- Discounts for data typically in 30-50% range; voice vendors accepting the new math.
- Pay attention to IP phones and software requirements; they don’t come cheap!

Example: 7,000 station IPT system design:

Software % 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 (significant variance).**
- **Project Management Support (internal/3rd party): 5-10% of system price.**
- **Post-warranty maintenance: 5-15% of system price per year.**
- **Limited discounts on subscription services; need to verify what happens if user licenses increase or decrease.**





Procurement or RFP Questions

- **How are Emergency, Major, and Minor service issues defined?**
- **What does a 2- or 4-hr response REALLY mean?**
- **How will asset management be handled?**
- **Who is responsible for space, transportation etc?**
- **When does transfer of ownership happen?**

Procurement or RFP 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)?**





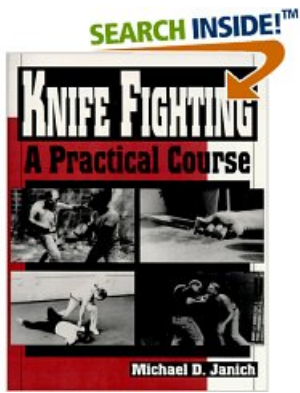
Procurement or RFP Questions

- **What software upgrade self-service options are available? Major or Minor/Mtce only?**
- **What product support commitment will the vendor make for the proposed systems (in years)? Hint: It's no longer 10 years.**
- **Is on-site help desk and cutover support for key users included? How many days and hours?**
- **When will system registration be completed?**



Procurement or RFP Questions

- **Clearly define progress payment terms; do you have holdback or retainage until system acceptance (typically 10-15%) .**
- **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; typically, it will take 8-16 hours to review a single proposal; clarifications often needed.**
- **Set expectations for vendors regarding format, response content, details etc.**
- **Forget the typical "Bidder's Conference"**



Procurement Pearls

- **Give vendors opportunity to discuss assumptions and exceptions.**
- **Vendors should describe their licensing for each hardware component proposed.**
- **Verify how user licenses transfer from site to site and system to system!**



Software Licensing Wild Cards



- **SIP functionality moving to intelligent endpoints; “decomposition” of voice systems adds complexities to vendor software pricing models.**
- **New 3rd party software developers create new challenges to software license prices.**
- **Collaboration, Presence Management, Mobility increase, not simplify, licensing portfolios.**



Summary

- **IP Telephony means a new software-based architecture...**
- **This 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!**