

Pricing and Budgeting for Unified Communications: Bang for the Buck and Investment Protection

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Where Are We Going With UC and With Whom?

Gartner.



"Gartner has received some negative feedback on Cisco Unified Workspace Licensing (CUWL) from clients because of premium pricing (over standard IP telephony pricing), all-inclusive cluster licensing, and sales pressure to adopt now. Companies should ensure that they understand the full cost of ownership of CUWL and select it once the roadmap is in place..."

- *Gartner Corporate Telephony Magic Quadrant, August 2008*

"Appeasement, said Winston Churchill, consists of being nice to a crocodile in the hope that he will eat you last. At the moment, the biggest crocodile in the world is Microsoft, and everybody is busy sucking up to it."

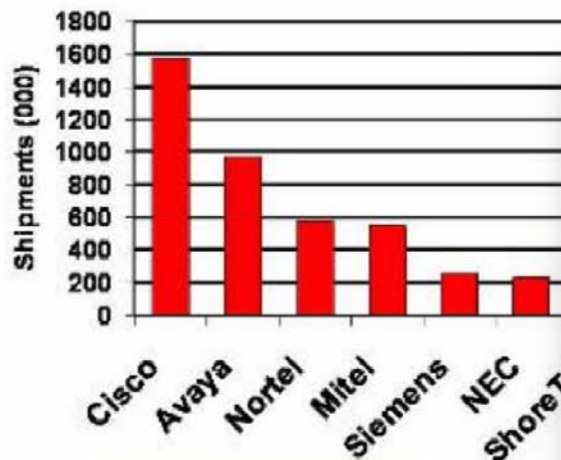
- *John Naughton, The London Observer*

Questions We'll Answer

- Why is software licensing so important?
- What technology costs will you expect to see?
- What are some of the new UC license strategies, models, and fees?
- How do software licenses affect your TCO and buying decisions?
- What procurement strategies will help you negotiate the best price?

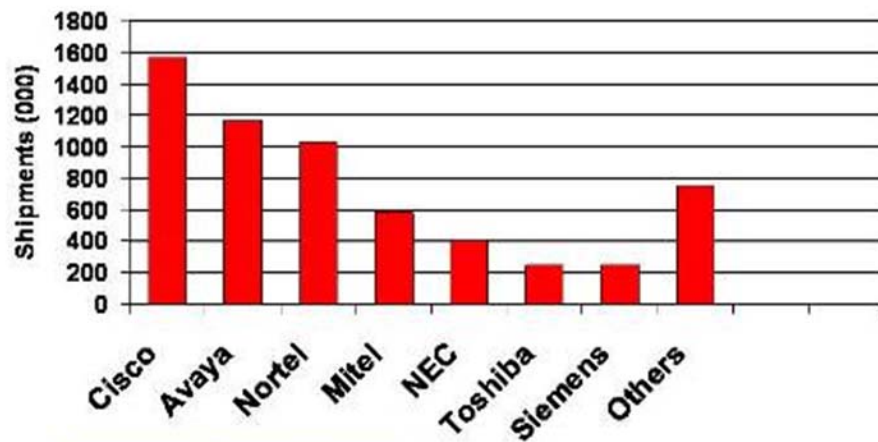
Why Avaya, Cisco, and Microsoft?

First Half 2008 North America
PBX Market Leaders
(Line Stations)



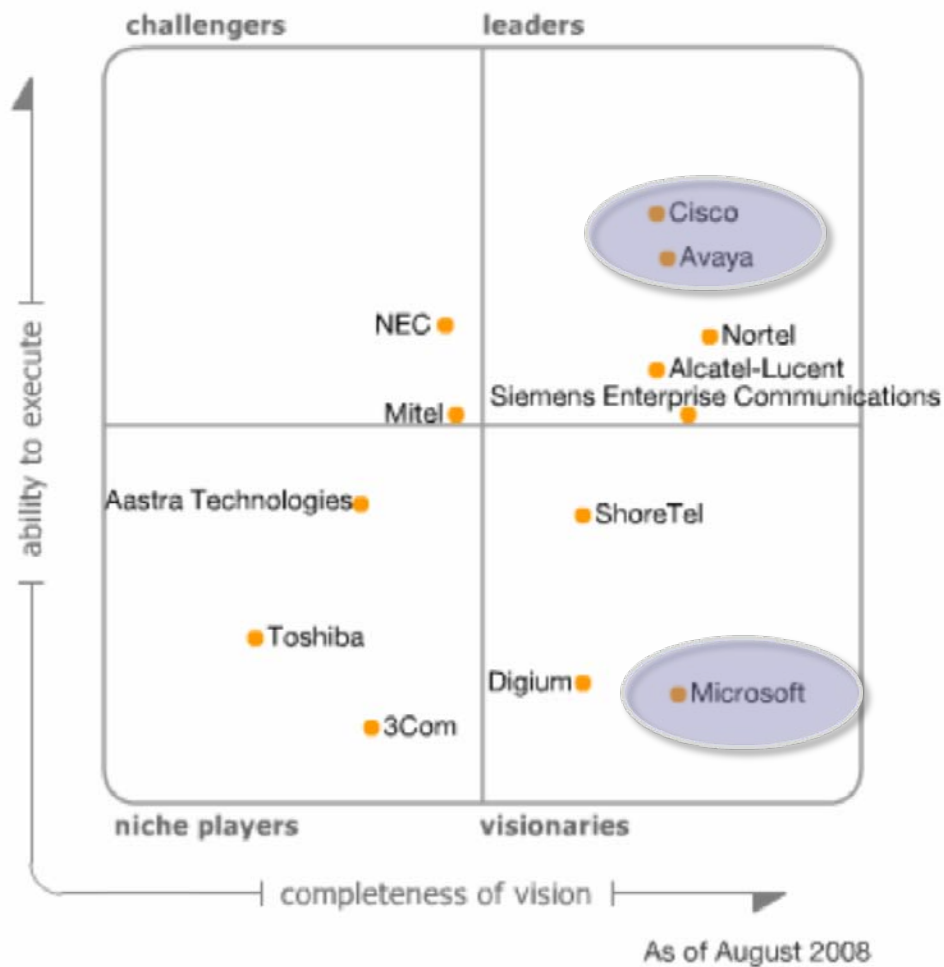
Source: TEQConsult Group

First Half 2008 North America
CPE Market Leaders
(Line Stations)



Source: TEQConsult Group

Gartner MQ – Corporate Telephony 2008 (Global)



Source: Gartner (August 2008)

Gartner MQ – Unified Communications 2007 (Global)



Unified Communications Defined...

Global economies are now demanding –

- Faster, 24x7 communications
- Streamlined business operations
- Minimized human latency and improved productivity

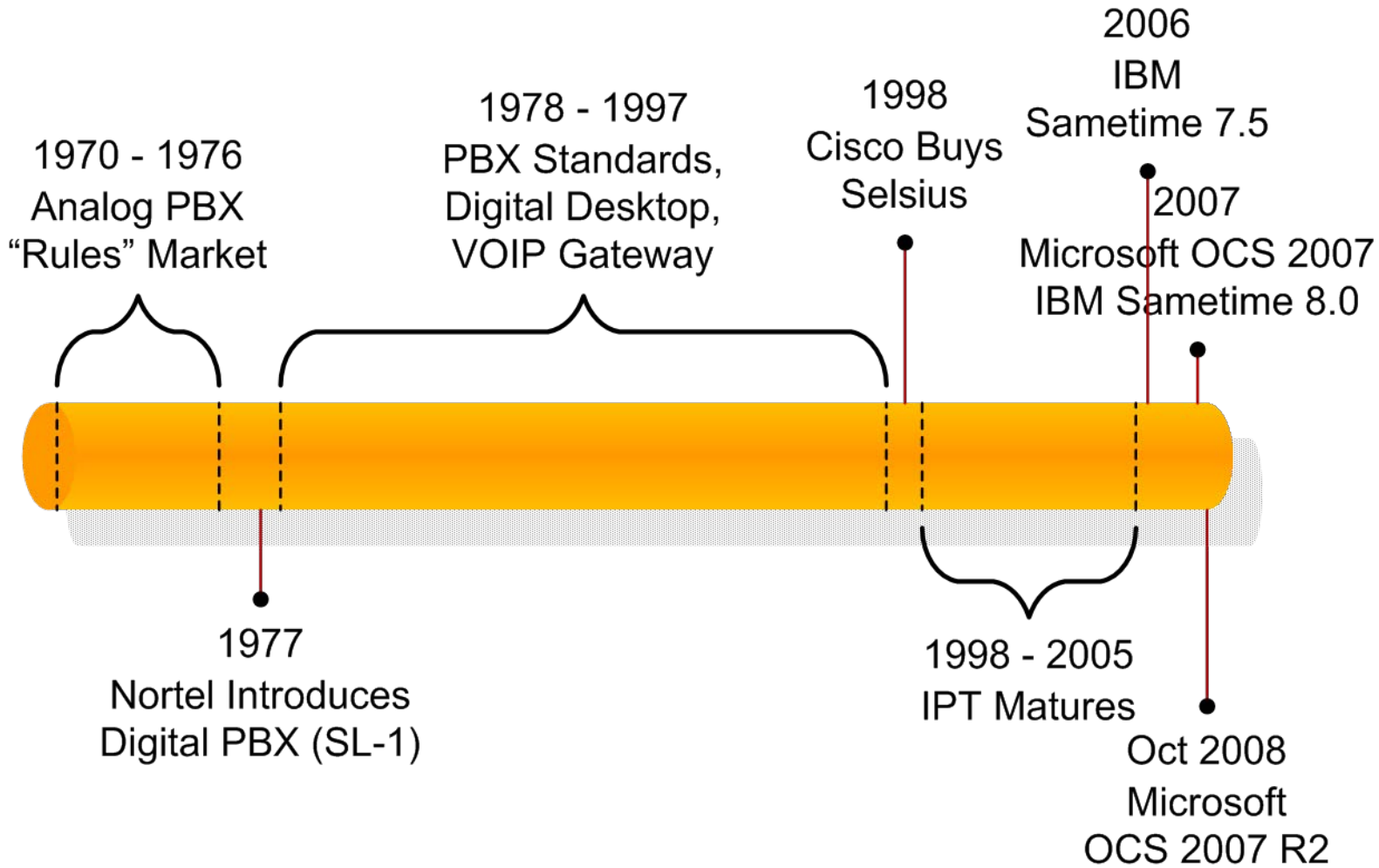
Unified Messaging – The integration of different streams of messages (e-mail, fax, voice, video, etc.) into a single in-box, accessible from a variety of different devices.

Unified Communications - We agree with the definition from UCStrategies.com...

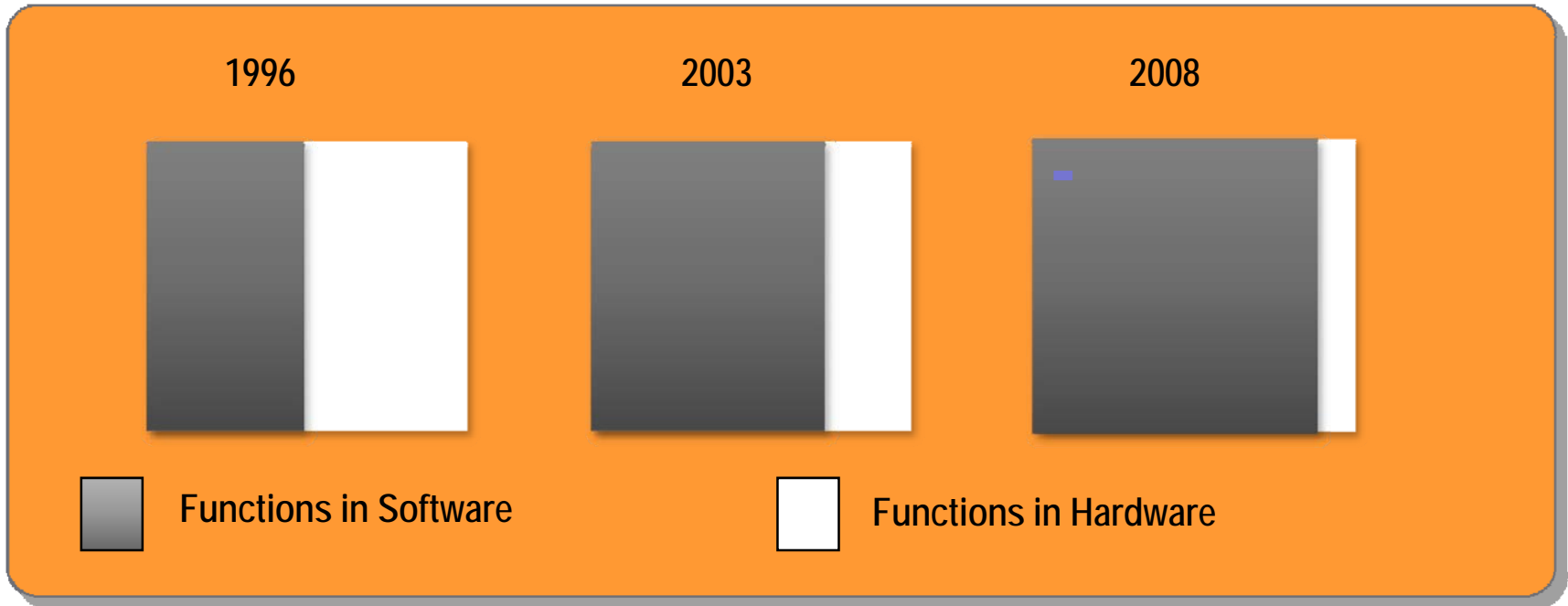
A framework for “communications integrated to optimize business processes”

Today, IPT runs on standardized server platforms and open operating systems

TDM to UC



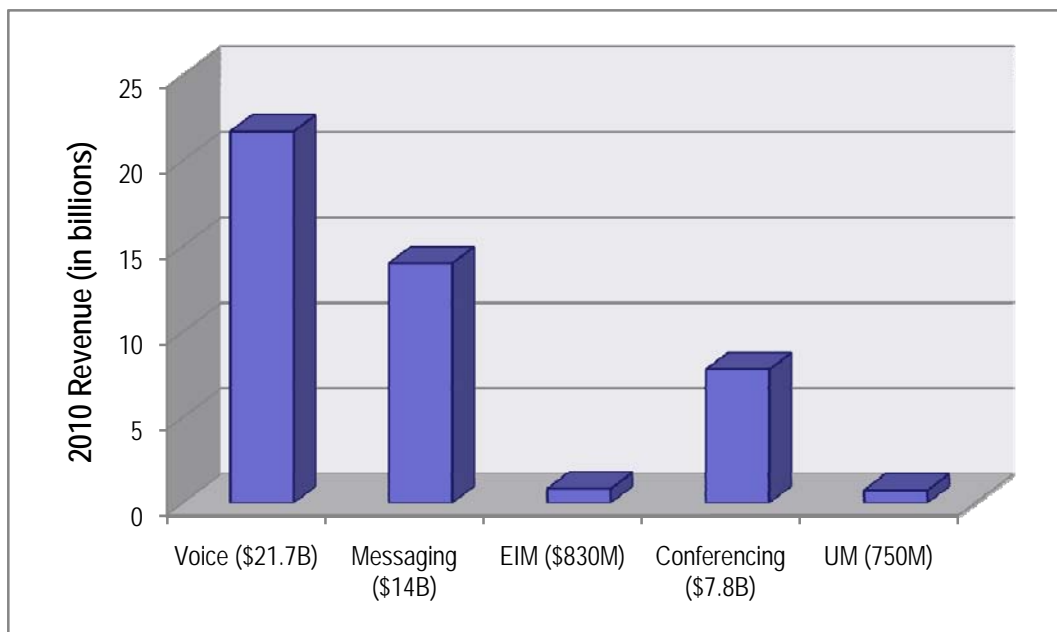
Transitioning from Hardware to Software



.....the call processing function...has been transformed over the years. Most of the intelligence for call processing now lies in the software component of the call-control solution. R&D, entrepreneurial endeavor and innovation are also shifting to the software side. With creative energies expended to the software, the approach to pricing has logically evolved toward device licensing." - Cisco UCM Licensing Pricing Model Q&A document

Unified Communications – A View of the Current Market

- Early Adopters "Yes"; Mainstream Buyers "No"
- 28% of enterprise-class companies have implemented *unified messaging* as of 2007 (Source: Nemertes Research)
- 80% have deployed some IP Telephony but only 6% have fully implemented IPT.



Estimated UC Revenue:

2007:	\$22.6B
2010:	\$45.4B

* Source Data from Microsoft

* Source Data from In-Stat and Wainhouse

“Cool” technology but slow adoption...Why?

Technology Challenges

- 10 people = 10 definitions
- Products still evolving
- Major capital & staff investment
- Challenging to deploy and support...

Key Considerations

- Understanding TCO is difficult
- Business justification and ROI elusive
- Manufacturer / Channel Partner expertise and capabilities maturing
- What “horse” do I bet on...?

Software Licensing “Strategies”

Ala Carte – Applications can be purchased separately

Application Based – Specific software application installed on a server

Bundled – Applications purchased in specially designed “bundles”

Device Based - Actual number of implemented physical devices

Enterprise - A global agreement for an organization

Subscription Licensing (aka time delimited): Applies for a specific period of time.

Tiered – License pricing based on the quantity of users, devices, or unique identifiers

User Based – Actual number of authenticated network users

Unique Identifier – Actual number of uniquely designated numbers

“Universal” - Device or endpoint may migrate to new protocol (TDM-IP-SIP)

Software Licensing "Language"

Endpoint type
ACD agent
Music-no-Hold
Time delimited
Call Accounting
Contact Center
Server
Jim Ring
ACD Supervisor
3rd Party SIP Device (basic)
Presence
Mobility License
Web Conferencing
Audio Conferencing
Enterprise IM user
MS Exchange integration
Lotus Notes integration
Video Conferencing
Unified Messaging user and application
Voice mail user and application
Message store
Communication Application License (CAL)
Email agent
VPIM
CTI Connections
QSIG
On-demand
Call Management
Agents
Agent Call-Back
Basic screen-pop
3rd Party SIP Device (advanced)
Enterprise CAL
SIP Trunks
Analog Trunks
Digital Phones
SIP endpoint
Analog Phones
E911
IP Softphone
Device Licensing Unit
Survivability
SIP channels
Designated extension numbers
T1 channels or circuits
SIP TR/87 connections
Recorded Announcements
Dual Mode phones
Text-to-Speech
SPEECH ACTIVATED
OCS voice extensions
Inter-site networking
Web-chat
H.323 Access
Points
Federation
Standard Server
IP server channel duplication
Enterprise Server

Software Licensing “Real World”



“Pricing complexity is a problem that pushes some companies to purchase rights to more software licenses than they might need...Software license management is often a fulltime job – and one that often generates more ill will than satisfaction with software vendors.”

- Dwight Davis, Summit Strategies Analyst

Avaya



Strategy - Bundling

Approach - 9-tier "Transactional Framework" applied to product families and bundles

Type – New "All in-One" Bundle replaces earlier model that included Essential, Standard, and Advanced Editions.

- New UC "All-in-One" Standard Edition includes -

- one-X Mobile
- one-X Portal
- one-X Communicator
- Microsoft OCS and IBM Sametime integration
- VPN remote phone licenses

6	101 - 250	\$300
7	251 - 500	\$295
8	501 - 1000	\$290

- Advanced Edition - Replaced with Meeting Exchange + Web Conferencing Solutions

Avaya in the Details

- 9-tier framework applies to UC bundles
- License assume all features active on Day 1
- UC Standard requires 3-year SS+U agreement (paid annually or pre-paid)
- UC Standard Edition cost of \$50 is a flat fee for CM Standard Edition 5.x (special bid)
- Positive changes on their Modular Messaging platform...
 - Location of message store does NOT change license cost
 - Every voice mail box is now speech-enabled

Upgrade or new user licenses for:	UC Standard Edition
Communication Manager Enterprise Edition 5.x	\$0
Communication Manager Standard Edition 5.x	\$50 /user (flat fee)

Avaya Dollars and “Making Sense”

- IPT Example: Two types of Communication Manager 5.0 Licenses (500 users)
 - Standard (with DCS and QSIG networking) - \$195 per user
 - Enterprise (for “hub and spoke” designs and local survivability) - \$295 per user
- User License based on Unique Designated Number, not user or device
- UC Example: 500 users with Standard CM, MM, and Standard UC licenses:

User License	Cost
CM 5.0 Standard Edition	\$195.00
Modular Messaging w/ one-X Speech	\$46.00
UC Standard “All-in-One” Bundle	\$50.00
Software Support with 24x7 TAC Access and Upgrade Subscription	\$45.50

Avaya “Other” Costs

- T&M for software issues on Software Support Products not available without a contract
 - Have 8am-5pm Software Support contract & need T&M onsite after hours – **Yes**
 - No Software Support contract and need T&M work onsite after hours – **No**
- New Support Plan includes 24x7 remote TAC support
- Support Cost Overview:
 - Software Support: Reduced from 15% to 7% net license cost
 - Software Support + Upgrades: Reduced from 21% to 13% of net license cost
- Hardware Maintenance on a per port basis for \$1.75/port per month (List)

Cisco



Strategy - Bundling

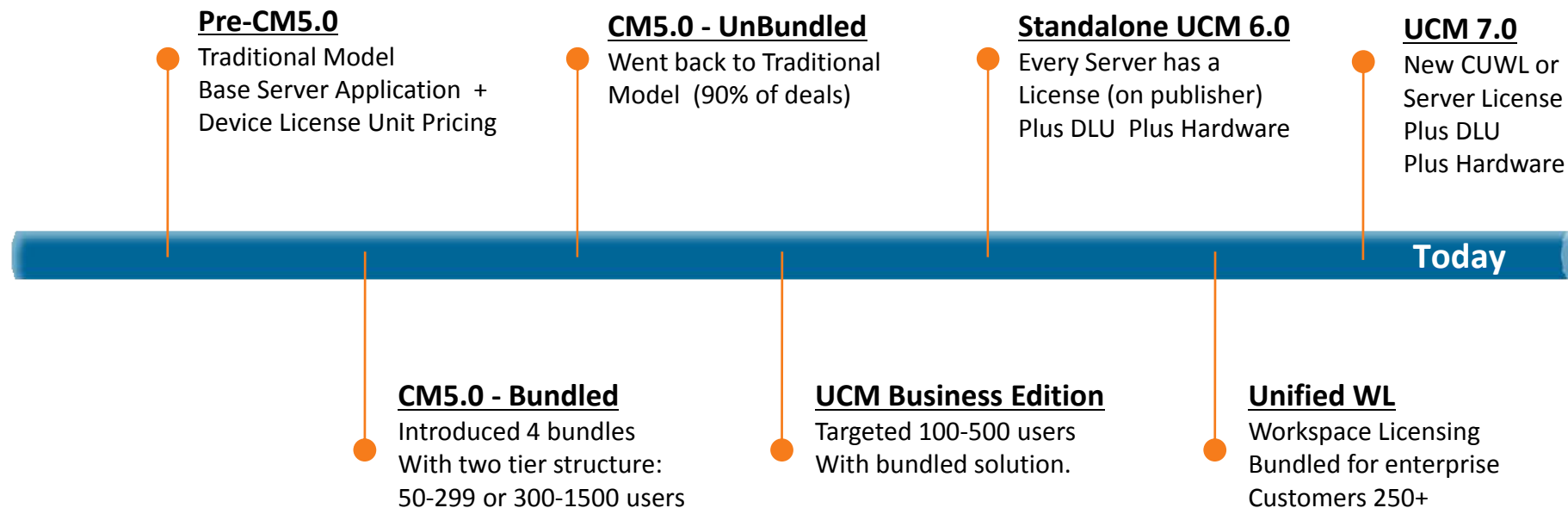
Approach – Cisco Unified Workspace Licensing (CUWL) “bundles” introduced in Aug 2007

Type - Three Editions offered for UC solutions: Business (new), Standard, and Professional.

- Client software, server software, and access rights included.
 - Hardware (phones, servers, etc) procured separately
 - Plus - SmartNet required for hardware parts and replacements (optional)
 - Plus - Essential Operate for software support (required for CUWL)
 - Mandatory 3-Year Pre-Paid UC Software Subscription for CUWL Standard and Professional
- Old model still available – Server License + Device License Units (List \$50 per unit)
 - 1-6 units: Cisco IP or SIP Phones (ex. 7902 = 1 and 7985G = 6 units)

Cisco – Where They've Been and Where They Are

UCM and UC Licensing - Strategic Evolution



"Device licenses for Cisco Unified CM remain separate from the price of the phone but the price of the device license component has increased starting with...Version 5.0"

- *Cisco UCM Licensing Pricing Model Q&A 2007*

Cisco – CUWL Comparison

Table 1. Applications Included with Cisco Unified Workspace Licensing

Function	Included in Cisco Unified Workspace Licensing	Business Edition	Standard Edition	Professional Edition
Video conferencing	Cisco Unified MeetingPlace® Express	No	No	Yes
Web conferencing	Cisco Unified MeetingPlace or Cisco Unified MeetingPlace Express	No	No	Yes
Audio conferencing	Cisco Unified MeetingPlace or Cisco Unified MeetingPlace Express	No	No	Yes
Mobile phone client	Cisco Unified Mobile Communicator Client	No	No	Yes
Contact center	Cisco Unified Contact Center Express	No	No	Yes
Presence	Cisco Unified Presence Profile	Yes	Yes	Yes
Mobility (with simultaneous ring services)	Cisco Unified Mobility Profile	Yes	Yes	Yes
Soft client	Cisco Unified Personal Communicator or Cisco Unified IP Communicator with Cisco Unified Video Advantage	Yes	Yes	Yes
Messaging	Cisco Unity® or Cisco Unity Connection	Yes, Cisco Unity Connection only	Yes	Yes

Business (new): Includes UCM 7.0; DLU for one device only. Intended for <500 employees, < 20 sites.

Cisco “Dollars and Sense”

- Business Edition: **\$315** per user (List)
 - 3-Year UC Software Subscription: \$70/user (pre-paid)
 - Essential Operate Services (Software support): \$21/user per year
 - UCSS and Essential Operate Agreements Required
- Standard Edition: **\$325** per user (List price increase of \$10)
 - 3-Year UC Subscription Service (Software Releases): \$70/user (pre-paid)
 - Essential Operate Services (Software support): \$41/user per year
 - UCSS and Essential Operate Agreements Required
- Professional Edition: **\$425** per user (List price increase of \$10)
 - 3-Year UC Subscription Service: \$125/user (List price increase of \$5 - pre-paid)
 - Essential Operate Services (software support): \$54/user per year
 - UCSS and Essential Operate Agreements Required
 - 25 CUWL Licenses = 1 UCCEXpress Agent or 1 MeetingPlace port



Microsoft



Strategy - Ala Carte or Bundling

Approach - Standalone CAL, Core CAL, and Enterprise CAL

Type - Three Licensing components: Server + Application + Client

Note - BPIO University Curriculum for "Building Sales Readiness Skills for UC" has 20 classes including *"Introduction to the new software licensing model of Exchange 2007"*

Microsoft – Dollars and “Making Sense”

- **Ala Carte” Standalone CAL for Exchange Standard & Enterprise (\$71/user)**
 - Exchange Server Standard CAL: \$47
 - Exchange Server Enterprise CAL: \$24
- **“Bundled” Core CAL \$112/user per year (3-yr commitment w/ 500 users)**
 - Windows Server
 - Exchange Server Standard CAL
 - Office SharePoint Server CAL
 - System Server Configuration Manager CAL
- **“Bundled” Core and Enterprise CAL \$230/user per year (3-yr commitment w/ 500 users)**
 - Office Communications Server (Standard and Enterprise CAL level)
 - Office SharePoint Enterprise CAL
 - Exchange Server Enterprise CAL
 - Forefront Security Suite
 - Windows Rights Management Services CAL
 - Microsoft Operations Manager Client OML

Microsoft – Dollars and “Making Sense”

“Ala Carte” Standalone License for Exchange Server 2007

- Standard \$488 with 1-year SA \$122
- Enterprise \$2791 with 1-year SA \$698

“Ala Carte” Standalone License for Office Communications Server 2007

- Standard \$488 with 1-year SA \$122
- Enterprise \$2791 with 1-year SA \$698

Note: Major difference between Standard and Enterprise is that the Enterprise solution offers increased scalability plus redundancy. Functionally, the products are the same.

Exchange Server 2007 alone can provide UM
Both Exchange Server 2007 and OCS 2007 are needed for UC

Microsoft – Dollars and “Making Sense”

Unified Messaging (unified inbox)

- Purchase: \$71 / user (\$47 (SCAL) + \$24 (ECAL))
- Recurring Annual Fee: \$29 / user (SA)
- Office Outlook 2007 Client: \$58 / user + \$17 (SA)

Unified Communications (Unified Messaging, IM, Presence, P2P, Voice & Video)

- Purchase: \$93 / user (\$47 (SCAL) + \$24 (ECAL) + \$22 (OCS SCAL))
- Recurring Annual Fee: \$35 / user (\$29 (SA) + \$6 (OCS Standard SA))
- Office Outlook and Office Communicator Client: \$70 / user + \$24 (SA)

Unified Communications “Plus” (UC + Audio/Video Conferencing, IPT, App Sharing)

- Purchase: \$93 / user (\$47 (SCAL) + \$24 (ECAL) + \$119 (OCS SCAL and ECAL))
- \$60 / user (\$29 (SA) + \$6 (OCS Standard and Enterprise SA))
- Office Outlook and Office Communicator Client: \$70 / user + \$24 (SA)

Microsoft – In the Details

- Microsoft's approach to the market - run thin, use Partner-led Selling
- Buy from Dealer --- Implementation by VAR --- Service & Support from another VAR?
- Don't expect to "negotiate" off VLP like a telephony deal
- Technical support \$150 - \$200/hour (MSFT ~300/hour)
- Nortel – Microsoft ICA playbook calls for vendor to lead with Exchange 2007 Messaging
- Current release of OCS 2007 not yet considered a "PBX Alternative"



UC and IP Telephony Procurement - Top 10 Questions

What should you be asking...

1. Have you conducted an appropriate feasibility study?
2. Is your entire network infrastructure REALLY ready for the new enterprise applications? Power, cooling, cable, QoS, PoE, carrier services, data electronics etc...
3. How will you define success and do you have clear, concise, and objective evaluation criteria to select the vendor(s)?
4. Do you have the appropriate user groups represented on your project team and do you have executive sponsorship to help support & defend your project?
5. Do you have the right internal resources needed to select, implement and support the selected technologies?

Top 10 Questions (cont.)



6. Have you defined what you REALLY need implemented on “Day 1” and what infrastructure elements can you leverage? Easy to bite off more than you can “chew”...
7. Do you have a clear service and support plan developed for after system acceptance?
8. Do you have sufficient growth and network refresh costs in your CapEx budget?
9. Do you understand how your decision will impact your IT/Telecom teams and your company’s vendor relationship(s)?
10. What is the best procurement and implementation methodology to support your strategy?

Procurement Methodologies

Have you conducted a feasibility study to align your technology roadmap with your company's strategic business plan?

***Feasibility Study** The analysis of a problem to determine if there is an effective solution. The operational, financial, and technical aspects of the analysis are critical and intended to address:*

- *What are acceptable alternatives to the current systems?*
- *What are the costs, benefits, and risks associated with these alternatives?*
- *What is the best solution (current state, upgrade, migration, "rip & replace")?*
- *Can the best solution ultimately be "built" and supported and if so, in what timeframe?*
- *The final objective is to answer the question: **Should the solution be implemented?***

Procurement Methodologies (cont.)

Procurement Method	Overview	Est. Duration	Resource Intensive	Ability to Select Best Vendor & Solution
Request for Information (RFI)	Offers info about the vendor/CP, products, roadmap, services. Identifies qualified vendors. Product demonstrations typically included.	1-3 mos.	Medium	Low
Request for Quote (RFQ)	Offers pricing info about products and services. Good for CapEx budgeting and identifying qualified vendors.	1-3 mos.	Low	Low
Request for Proposal (RFP)	Most formal process; offers detailed info to allow selection of vendor, product, pricing, and services solutions. Bidders conferences,	2-6 mos.	High	High
Reverse Auction	Formal bidding process once solution defined. Vendors submit bids online during set time period. Requires application and infrastructure to conduct the event.	2-4 mos.	High	Medium
Direct Negotiations	Less formal... [identify requirements and your preferred vendor(s) and negotiate "one-on-one" for best price & solution.	1-3 mos.	Low	Medium

Vendor Response Evaluations

Have a solid game plan...

- Develop key evaluation categories and criteria
- Determine weightings for each category and criterion
- Design so you can defend your decision internally and with each vendor
- Conduct post-mortem with each vendor (high-level pros and cons)...



Evaluation Process and Tools

Vendor Response Evaluation					
	Vendor A	Vendor B	Vendor C	Vendor D	Vendor E
Average Score (unweighted)	2.72	2.50	3.06	2.88	2.89
Average Weighted Total Score	2.02	1.81	2.27	2.11	2.12
Section 1. Vendor Financial Stability	2.62	2.62	3.15	3.08	3.00
Section 2. Technical Solution	3.20	2.40	3.00	2.80	2.80
Section 3. Service & Support	2.71	2.50	3.00	3.00	3.14

- Develop major categories
- Determine importance
- “Normalize” to compare
- Analyze itemized pricing
- Team review & scoring

Section 4: Implementation	Section 4: Implementation	19%	0.5
Section 5: Project Team	Implementation Plan & Schedule	Yes, detailed but does not line up with RFP milestones	2.00
Section 6: Cost	Vendor expectation of Select Comfort personnel	Provided in response	3.00
Section 7: Vendor Presence	Exceptions to Installation Requirements	None	3.00
Section 8: Reference Checks	Knowledge Transfer	Good	3.00
	Automated Process for assigning extensions	Through OTM	3.00
	Test Plan, fail-over testing	None provided	2.00
	Documentation	Good	3.00
	Training / Help Desk	Comply	3.00

Installation and Professional Services



Installation & Professional Services for “typical” IP Telephony: 25%-35% of total cost

With UC, these costs will likely increase, not decrease.

- *Multi-vendor* installation lacks standardized cost model for “turn key” installation
- New products require new technical skills (does vendor have the right capabilities?)
- Typical software support costs are higher than for hardware
- More applications, more devices, more complex routing require time and experience

A higher level of expertise, more devices, more vendors = higher support costs

Summary...

- IP Telephony and Unified Communications software-based architectures require new understanding of vendor technology, licensing models, and pricing...
- Vendors have varying and evolving technology, software licensing, and costs...
- Customers will need to do their homework to understand these vendor models and how they impact the total cost of ownership...
- Begin with the end in mind; perform feasibility study, define your requirements, "Must Haves", measures of success, and align with the business strategy...
- Competitive procurement process yields the best pricing and service support offers...it's not easy but well worth the effort!

Something to think about...



*"...everybody likes new inventions, new technology.
People will never be replaced by machines. In the end,
life and business are about human connections...and
computers are about trying to murder you in a lake.
And to me, the choice is easy."*

- Michael Scott, Scranton Branch Manager, Dunder-Mifflin