



# IP Telephony Pricing & Licensing: Getting Your Money's Worth

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## Session Objectives



- **Better understand IP Telephony software licensing models and pricing**
  - “Legacy” vs. “Bundled”...
- **How Unified Communications affects licensing**
  - Vendor licensing models may vary significantly...
- **How does the new cost architecture impact your procurement strategies**
  - Questions to ask during contract negotiations...
- **Are there multiple levels of pricing**
  - Each manufacturer has a very different structure...



## Framing the Subject



- **Software licenses protect intellectual property under copyright, product liability, patent, and trade secret laws**
- **Typically you pay for the right to use (not own) the software for an unspecified period of time ( “perpetual” )**
- **Software License Agreements have numerous restrictions on use (who can use and where)**

Where are  
the Vendors  
Headed...



## ***IP Telephony Market: Recent Trends***

***"Many vendors have introduced the concept of user licensing or user profile licensing to facilitate unified communications deployments. In this strategy, vendors enable customers to purchase multiple applications bundled together under a single license. The bundling naturally causes a drop in revenue per application - in this case UM."***

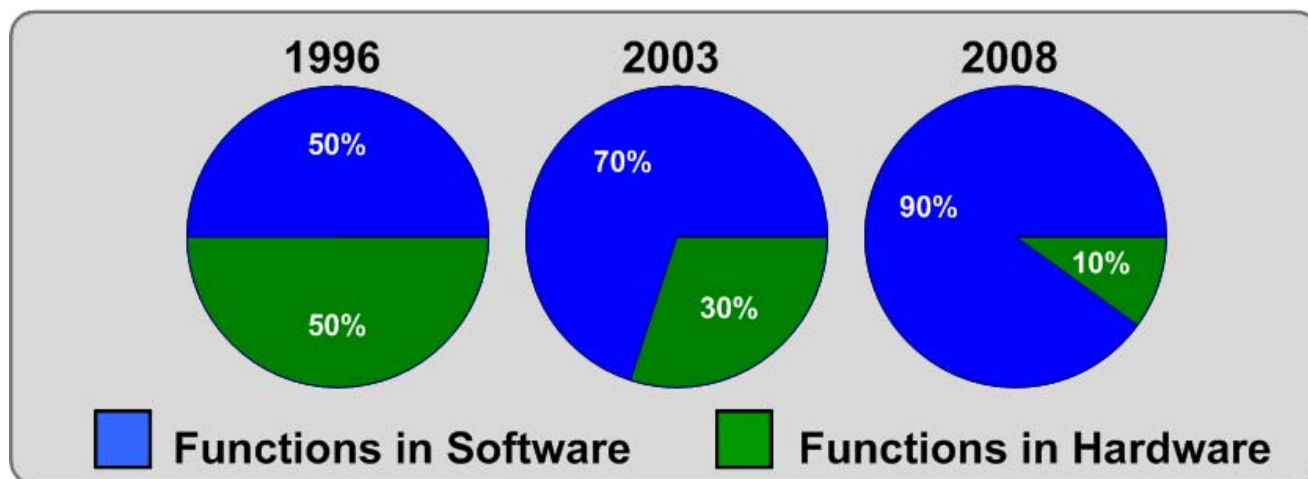
- Frost & Sullivan Industry Analyst Krithi Rao



“IP Telephony represents a *software driven architecture*”

- **IP Telephony reflects 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

### Telephony Functionality





## Common Software Licenses You'll See

**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

**Enterprise License:** Aggregated licenses throughout an enterprise under one “global” agreement

**Profile Based License:** Assigned by work function, i.e. agent, supervisor, corporate user

*Licenses typically  
non-transferable  
and non-exclusive...*



## Common Software **Models** You'll See

- **Base Application + Linear**
  - Single application plus user unit price X quantity
- **Bundled + Linear**
  - Applications “grouped” plus user unit price X quantity
- **Enterprise**
  - Aggregated or “pooled” for entire enterprise regardless of site locations --- intended for large, global customers
- **Linear**
  - Total cost based on user unit price X quantity
- **Tiered or “Transactional”**
  - Different “levels” of unit prices based on quantity and application; application cost “built-in” unit price
  - Embedded applications



“Why isn’t vendor pricing easy to understand?”

- **License models continue to evolve**
  - New products, applications or releases modify or create new models
- **Channel partners training lacking**
  - May not be up to date on the latest pricing and offers
- **No de facto industry standard licensing model**
- **Vendors typically don’t itemize hardware and software configurations**
  - Customer gets Summary Costs vs. Bill of Materials
- **More and new players entering the telephony software arena and there is a need for different approaches**



“Why can’t I get one, universal software license that covers all applications?”



- **Vendors have multiple product “houses” with different revenue commitments**
  - Necessitates separate “buckets” for accounting  
*(Are vendors inflicting this on their customers?)*
- **“One size doesn’t fit all”**
  - Some consumer resistance in that you potentially pay for features that aren’t appropriate for some consumers
    - *Not all users require access to all applications*

## Traditional (Legacy) Pricing Model

### Licensing components are split as follows:

- **Communication or “base” server license**
  - *Server is fully functional*
    - Licenses are purchased to unlock features/applications
- **User subscription license**
  - *Licenses are charged one time*
    - Are they really?
- **Licenses can be purchased single or multi-packs**



## Bundled Licensing Model

- **Licenses are bundled on a per user basis with selected/optional applications:**
  - UC
  - Presence
  - IM
  - Conferencing
  - Mobility
- **Bundled levels and/or editions**
  - Standard, Professional or Enterprise editions
  - Basic, Standard, Enhanced, Premium



## Vendor Licensing Update

### Avaya Software Pricing with CM 5.x

Two primary software licenses available:

- **CM Enterprise - Basic Voice & Messaging only (\$145)**
- **New “UC All-in-One” – Unified Messaging, IM, Presence and Mobility (\$165)**
- **New “UC All-in-One” just became GA on November 3, 2008**
- **User licensing includes TDM, IP, and SIP functionality**
  - “Universal” user licensing is endpoint agnostic
- **Great consistency of global SW license pricing in EMEA and CALA that is easily acquired and deployed as part of moving to latest Avaya Communication Manager**



## Vendor Licensing Update (continued...)

### Cisco Software Pricing with UCM 6.x

- **Cisco Unified Workspace Licensing (CUWL).** All software, client and server licensing is included. Updates are provided through UCSS
  - **Business Edition** – All of the above but limited to the Business Edition Server (50-500 user) and Unity Connection (\$174)
  - **Standard Edition** – includes Messaging, Mobility, and Soft Client (\$179)
  - **Professional Edition** – All of the above plus Audio, Video and Web Conferencing, and an option for Contact Center (\$234)
- **Device License Units are “pooled” and utilized by endpoints as well as applications (\$50/ea)**
  - Device Licensing Units for IP and SIP endpoints vary by the capability of the device
  - Presence, Unified Personal Communicator
  - Other applications in upcoming releases
- **Public Space Device License (NEW) - \$150**
- **WebEX license (NEW) includes UC for - \$7/month per user**



Vendor  
Licensing  
Update  
(continued...)

## Nortel Software Pricing with CS1000 5.x

- **Three license tiers for CS1000 5.0 Software**
  - Basic – Voice and Messaging only
  - Enhanced - “Most features” including ACD
  - Premium - “All features” including ACD and networking
- **License Components**
  - Base System
  - Endpoint
  - SIP licensing (NMC & Microsoft OCS integration)
  - Applications such as MOH, Announcements, ACD agents, “SimRing”, and Associated Set Terminal/CTI
- **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
- **Other products using two tier model**
  - CallPilot UM bundled with speech activated messaging
  - Contact Center Server



Vendor  
Licensing  
Update  
(continued...)

## ShoreTel Software Pricing with IP 8.x

- **ShoreTel's model is linear and pricing includes both Call Manager and endpoint (10 - 10,000 users)**
- **No DLU's required**
- **Legacy style options**
  - Extension Only - \$140
  - VM Only - \$90
- **Bundled Options**
  - **Personal Call Manager - Includes Extension and VM license and UM (\$200)**
  - **Professional Call Manager - All of the above plus Softphone, IM, Presence Capability, Buddy Lists and Desktop Video (\$280)**



Vendor  
Licensing  
Update  
(continued...)

## Microsoft Office Communications Server 2007

- **Microsoft OCS Offerings:**  
Standard CAL - VM, IM and Presence (\$31)  
Enterprise CAL - UC, Conferencing and Call Management (\$170)
- **A CAL is required for each user or device accessing the OCS Server**
- **No VM needed if using Exchange/UM**
- **MS Exchange CAL are also required at additional costs**



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

*And now a word from the vendors and the customers...*



- **Decoupling of hardware and software costs; costs continue to transition to software, maintenance, and professional services**
- **License location or device independent**
- **Easier management of license usage**
- **More “bundling” of common applications**
  - Example: Voice user + Messaging or Voice user + Mobility
- **Support and Maintenance to follow same trends**
- **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 directly or acquired under subscription service agreement**
- **Subscriptions typically cover major/minor software upgrades**
- **Can be prepaid or billed monthly**
  - Plan terms vary; maximum term up to 5-years
- **Can cover more than just IP Telephony**
  - Plans also available for Messaging and ACD
- **Savings can range from 35% to 60% vs. original purchase**
- *Caution: Not all costs included in subscription fee*



## Avaya Licensing Options

License Edition (net pricing*)	Endpoint & Basic VM	Advanced UC
ACM Standard Edition	\$140/ea	n/a
UC All-in-One	Included	\$165/ea

\* Typical Avaya Discount off of list



## Cisco Licensing Options

License Edition (net pricing*)	Endpoint, VM & UC	Advanced UC
Business**	\$174/ea	n/a
Standard	\$179/ea	n/a
Professional	Included	\$234/ea

\* Typical Cisco Discount off of list

\*\*Only available on CUCM Business Edition Server



## Nortel Licensing Options

License Edition (net pricing*)	Endpoint & VM	UC
Basic	\$78/ea	n/a
Enhanced	\$90/ea	\$381/ea
Premium	\$100/ea	\$391/ea

\* Typical Nortel Discount off of list



## ShoreTel Licensing Options

License Edition (net pricing*)	Endpoint, VM and UC	Advanced UC
Personal Call Manager	\$200/ea	n/a
Professional Call Manager	Included	\$280/ea

\* Typical ShoreTel Discount off of list



# Microsoft Licensing Options

License Edition (net pricing**)	VM, IM & Presence	UC, Conferencing, & Call Management
Standard CAL	\$31/ea	n/a
Enterprise CAL	Included*	\$170/ea

\*Standard CAL is a prerequisite to the Enterprise CAL

\*\* Typical Microsoft Discount off of list

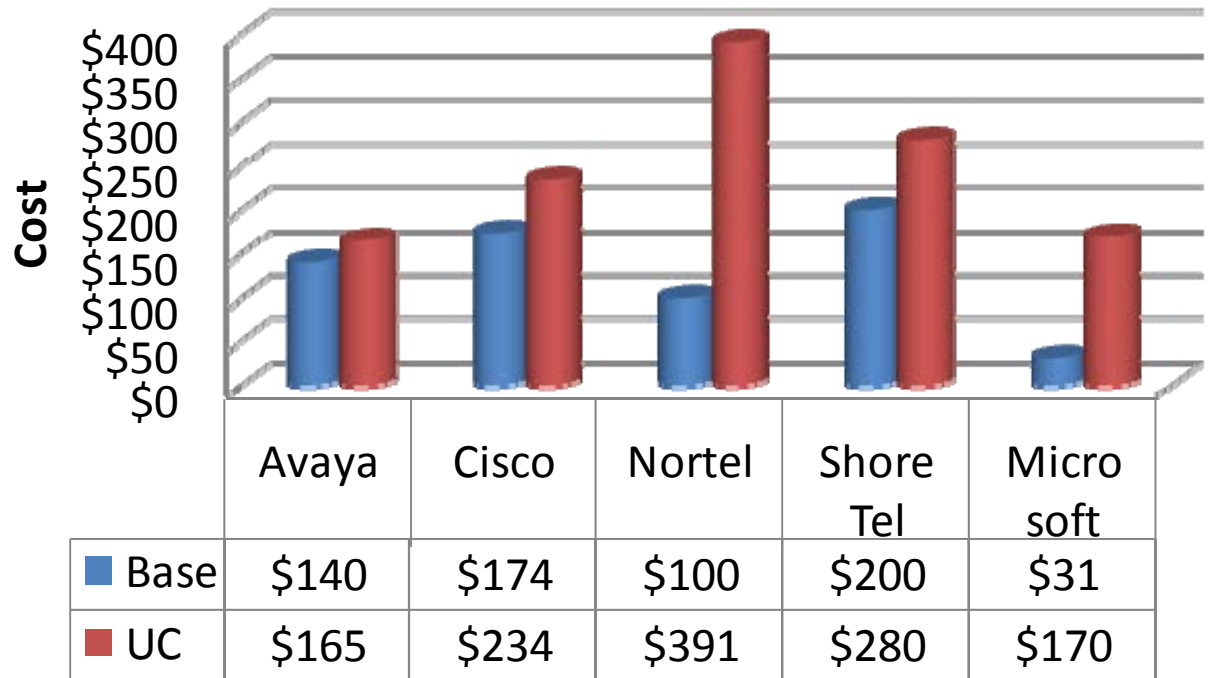


## Vendor Licensing Comparison

HW cost excluded

SW licensing only  
based on single user  
net pricing with  
typical discount

### SW Licensing Comparison

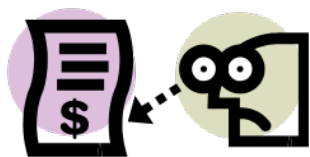




“How much success can I have negotiating discounts?”

- **Volume is still king**
- **Channel/Business Partner: Platinum or Bronze?**
- **Time factor: Is purchase made EoY or EoQ?**
- **Competitive process equals the best price**

**Example: *RFP procurement for 1,100 station system had discounts ranging from 36% to 60%...***





“What software licensing fees can I expect to see?”



**IP Endpoint : \$140 to \$495 depending on model**

**IP Endpoint License: \$140 to \$200 per user or device**

**Messaging: 20% to 65% of IP Endpoint cost**  
\$92 per user

**ACD: Up to 295% of IP Endpoint cost**  
\$1460 per seat (\$780 ACD + \$680 ACD Management)

**E911 (server-based application): \$50 to \$60 per user**

**Call Accounting: \$7 to \$10 per user**

**Audio Conferencing Bridge: \$160 to \$185 per port**

**Unified Communications: \$200-\$400 per user**

Note: costs based on a 500+ line platform



## Pricing Guidelines

- **Installation and Professional Services and Training:**  
~15% to 30% of system price
- **Vendor Project Management:**  
~5% of system price
- **Network Readiness Assessment:**  
~5% of system price
- **Post-Warranty Maintenance (8am-5pm, M-F):**  
~5% to 10% of system price per year
- **Software Assurance / Subscription Services:**  
~1% to 4% of system price per year
- **500+ station design: \$1000-\$1300 per user**
- **Verify impact of license increases or decreases**
  - *Can alter Maintenance and Subscription costs*



## Procurement Questions



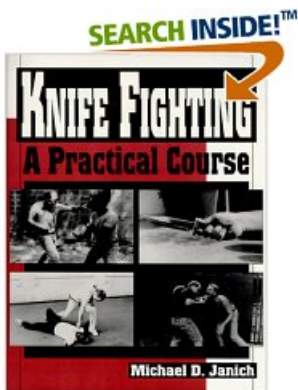
- **What is the vendor's support commitment for the proposed products**
  - Hint: It's no longer 10 years
- **What is the warranty period for software and hardware components**
- **Are progress payment terms clearly defined**
  - Do you have holdback (aka "retainage") until formal system acceptance (typically 10-20%)
- **Are "committed discount levels" or "limits on price increases" specified**
  - For purchases made after system acceptance

## Procurement Pearls



- **Don't expect proposals or pricing to be logical**
  - It can take 8-16 hours to review a single proposal and follow-up clarifications will be required
- **Establish objective selection criteria in advance**
- **Set clear expectations with vendors regarding RFP response format, content, and details**
- **Forget the typical "Bidder's Conference"**
- **Design with growth in mind...**
  - Cheaper to buy during initial procurement than aftermarket

## Procurement Pearls (continued...)



- **Understand Vendor’s licensing model and license fee breakpoints for each product**
- **Challenge things that doesn’t pass “smell test”**
- **Budget for contingencies**
- **Clearly define non-performance penalties**  
*“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...”*



## Summary



- **IPT is a software-driven system architecture**
  - Result is new pricing and licensing models
- **Models are evolving; creating market confusion**
  - New players like Microsoft and Digium are changing the model
- **To understand new vendor pricing models, you'll need to do your homework!**
- **Industry is shifting toward a bundled licensing model**
- **Competitive process is often challenging but necessary to facilitate best pricing**