



Best Practices for Hosted PBX-Offer Development

Introduction

The market for Hosted Telephony services—Hosted PBX, Hosted Unified Communications (UC)—is a fast-growing, dynamic marketplace. Growth is strong for many reasons, including the need to replace aging legacy equipment, the attractiveness of the feature set that Hosted services provide, and an “Op-Ex” cost model that no longer requires the purchase of a depreciating asset (i.e., a PBX).

A recent report by IHS has the US Hosted Unified Communications (UC) services market growing at a 27% CAGR over the next five years. With gross margins in the 60% range, this is clearly an attractive market for Communication Service Providers (SP’s) to enter and focus upon.”

Not surprisingly, the growth of this market has attracted a slew of competitors vying for this business. In addition to traditional service providers and MSO’s, the market has a significant number of competitors selling services “over-the-top” (OTT) or delivering Hosted UC without controlling the underlying access circuit. In fact, 15 of the 20 largest Hosted Telephony providers sell their services exclusively over-the-top. Clearly, for a SP looking to do well in this market, you need to have a compelling product and offer—and execute it well—to be successful.

To help service providers accomplish that mission, Ribbon has developed tools and services to help you be successful in this dynamic marketplace. The first items will be a series of white papers on Hosted UC, focused in the following areas:



**Offer development
pricing, and packaging**



**Sales and marketing
execution**



**Operational
implementation**

Having been in the VoIP and Hosted PBX marketplace since its inception, Ribbon has an extensive amount of experience in helping SP’s execute and succeed.

These white papers will be a great starting point for market entry.

The Product

Hosted telephony is a product that has continued to evolve to meet customer's demanding needs. Once a fairly straight-ahead PBX "in the cloud" offer, hosted services have evolved to include capabilities such as mobile softphones, instant messaging, video conferencing, and document collaboration. As the competitive landscape has grown and new features continue to roll out, you need to choose a technology partner that can deliver the features that customers now expect.

As a SP, you have some options in how you deploy a Hosted PBX/UC offer. The more traditional approach is to purchase and manage an application server. While the advantage with this approach is potentially a lower long-term cost and the ability to leverage existing resources for management, these platforms do require a significant up-front expenditures and ongoing expenses for support, training, and staffing. Another approach is utilizing a wholesale partner. Wholesalers enable you to white label your offer and provide services like billing, long distance termination, and customer care. It's the best way to enter the market without having to commit to a massive infrastructure purchase.

The Offer

How you present Hosted UC and its pricing to prospects is the most fundamental component of your product. In years past, telecom services were packaged and priced in a complicated fashion, with metered billing for things like Inter- and Intra-LATA calling, and a la carte pricing for each feature. In a market with little or no competition, a SP could succeed. Given today's hyper-competitive environment, it is not a recipe for success.

The critical element in offer development is simplicity. A good Hosted UC offer needs to be simple for your sales team to sell, simple for customers to understand, and simple for your operations team to turn up.

That means building logical packages of features with easy to understand, predictable (i.e., flat rate) pricing.

Additionally, companies have workers and workspaces with different requirements. For instance, a conference room needs an expensive endpoint (a conference phone), but the feature set required (e.g., hunt groups, voicemail) is very basic. Alternatively, a knowledge worker might be fine without a phone (instead of using a soft client) but needs a rich feature set (mobile client, collaboration tools) to maximize productivity. Your offer needs to be adaptable enough to support these options.

As such, a recommended approach to a Hosted UC offer is as follows:

- Create classes of features (e.g., basic, standard, or premium), which have tiered access to select features. Each would have a different monthly cost.
- **Basic** seat is for conference rooms and break rooms.
- **Standard** has a moderate set of features—VM, mobile integration, web portal, and all PBX features.
- **Premium** includes a mobile client and collaboration tools like screen sharing and video conferencing.

- A physical handset is separate (and in some cases, optional if you have a softphone option). While the preferred pricing model is a monthly fee (like a lease), having a purchase option is advantageous.
- Long-distance calling is included, either as an unlimited option or a large bucket of minutes with an overage rate.
- Include in site-level features like an Auto Attendant.
- Some amount of non-recurring, up-front expense for installation and turn-up (which could potentially be discounted).

This approach creates enough flexibility to support most all customer configurations, is simple in structure, and leaves intact one of the most significant benefits of Hosted UC—an Op-Ex cost model with low to no up-front expense.

As it relates to IP endpoints, it is best to pick a vendor and choose a few models from their line. Customers are not expecting multiple brands of phones, nor are they generally swayed by a specific brand name. For instance, looking at industry leader Polycom, a portfolio of devices would be:

- VVX200 – basic
- VVX300 – more advanced
- VVX500 – executive
- 1-2 conference room phones to support different room sizes
- Attendant console (basic and digital versions are available)

Enabling Equipment

As you consider the enabling equipment (Enterprise Session Border Controller, POE switch, ...) needed to support a Hosted UC offering, various options are available, running the gamut from deploying virtually no equipment to ripping and replacing all equipment needed for a VoIP network. There are pros and cons to each approach, detailed below:

Over-the-top (OTT). Essentially this is deploying no enabling equipment whatsoever, relying completely on the customer's existing equipment. The benefit of this approach is cost savings, at least in the short term. The disadvantage is lack of visibility and potential for voice problems and customer dissent. For instance, troubleshooting on multiple system layers can be difficult and create long troubleshooting times especially since there won't be any on-site diagnostic tools.

Rip and Replace. Here you are installing every piece of hardware, wiring, and generally providing dedicated voice connectivity to support a Hosted UC service. Correctly installed, it's guaranteed to work every time. However, this deployment model is by far the costliest way to deploy Hosted UC. While it is a fool-proof method to control quality, you will have to sacrifice time for planning and implementation. To pay for it, you will most likely need to bury it in your customers' monthly bill.

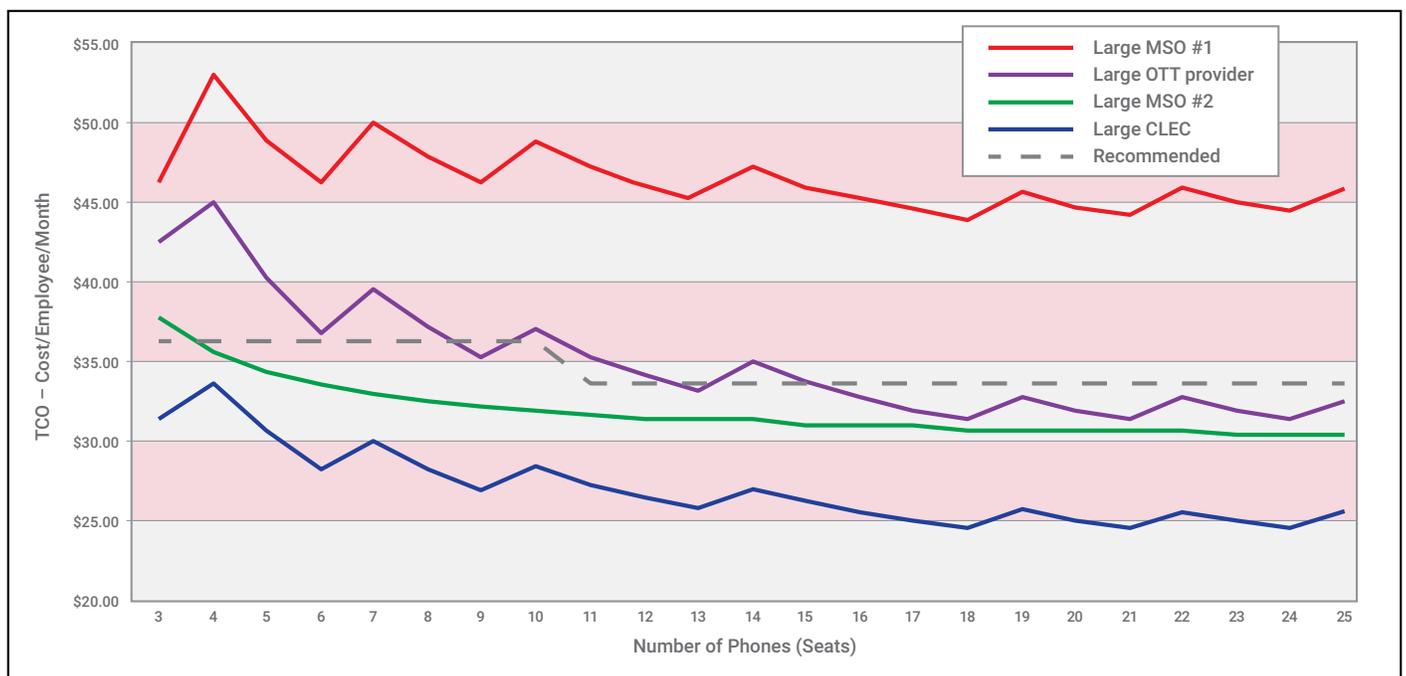
The Intelligent Edge™. This approach deploys an ESBC to monitor, secure, and optimize service quality, using components of the customer network (POE switch, existing CAT 5/6 wiring) and a converged voice/data connection for the balance. This approach is the best of both worlds—it is economical and gives the SP all the insights they need to control and manage voice quality. In Ribbon's case, data collected on an EdgeMarc sent to the EdgeView Service Control Center where support teams have a tremendous amount of insight into network performance, enabling them to solve problems remotely instead of a costly truck roll.

Whichever approach you take, ensure you properly factor in the costs of deployment into your business case model so you can price appropriately. Ribbon has business case modeling tools that are available upon request.

Pricing

The competition will mainly drive pricing for Hosted UC. Every market, no matter how small, has a competitive presence, sometimes quite formidable, to deal with. This is not to suggest that your offer must be at a rock bottom price. After all, you will have a number of things in your favor—the “home field” advantage and personalized service being the most significant—that have high value to customers. Even so, you must be priced within the range of your competitors, or you will not win the share of deals that you should.

While you should conduct a competitive analysis specific to your market, below is a chart that details where some of the larger Hosted UC providers have priced their services. The price points represent an “all-in” total cost of ownership price per seat per month, including the service, phones, installation, long distance, and commonly purchased items such as an auto attendant. The chart looks at the price/seat/month for various deal sizes. As seen in the chart, prices trend in the \$30-45 seat/month—this is a good range for your pricing.



Based on the content above, a price structure that works well competitively (and is seen in the dashed line above) would be something like this:

	Basic Seat	Standard Seat	Premium Seat	Global Features (included in every sale)
Features Included	Standard PBX Feature Set (transfer, hold, hunt groups, etc.)	Basic Seat plus: <ul style="list-style-type: none"> • Mobility features • Voicemail • Instant messaging (IM) 	Standard plus: <ul style="list-style-type: none"> • Mobile/tablet app for calling/IM • Collaboration tools/ video conferencing • Outlook integration 	<ul style="list-style-type: none"> • Auto Attendant • Music on Hold
Monthly Pricing	\$20	\$28	\$33	
Long Distance	Unlimited or large bucket of minutes			
Phone Price	\$5-15 per month per phone (e.g. \$5 for basic, \$15 for premium) (Conference phones to be a purchased item)			
Non-recurring	\$30-50/seat (one-time)			

Think of the price points as approximate as you analyze the pricing and offers that are prevalent in your markets.

Conclusion

Building a solid pricing and packaging scheme for Hosted UC is a foundational component of your go-to-market strategy. Described in this white paper is a market-tested approach for offer structure that works well on many fronts. Based on market research done by Ribbon, the majority of small to mid-sized businesses have yet to move to VoIP. Most have aging equipment that will require replacement shortly. Now is an excellent time to get an offer in the market and capture some of the massive transition from legacy technologies to IP.

About Ribbon

Ribbon Communications (Nasdaq: RBBN) delivers communications software, IP and optical networking solutions to service providers, enterprises and critical infrastructure sectors globally. We engage deeply with our customers, helping them modernize their networks for improved competitive positioning and business outcomes in today's smart, always-on and data-hungry world. Our innovative, end-to-end solutions portfolio delivers unparalleled scale, performance, and agility, including core to edge software-centric solutions, cloud-native offers, leading-edge security and analytics tools, along with IP and optical networking solutions for 5G. We maintain a keen focus on our commitments to Environmental, Social and Governance (ESG) matters, offering an annual Sustainability Report to our stakeholders. To learn more about Ribbon, please visit rbbn.com.

Contact Us

We are here to help. Let us know if you are interested in a quote or if you have any questions.