



WHITEPAPER

# Choosing Between Premises-Based and Hosted Communications Solutions

**An Objective Look at the  
Pros and Cons of Each**

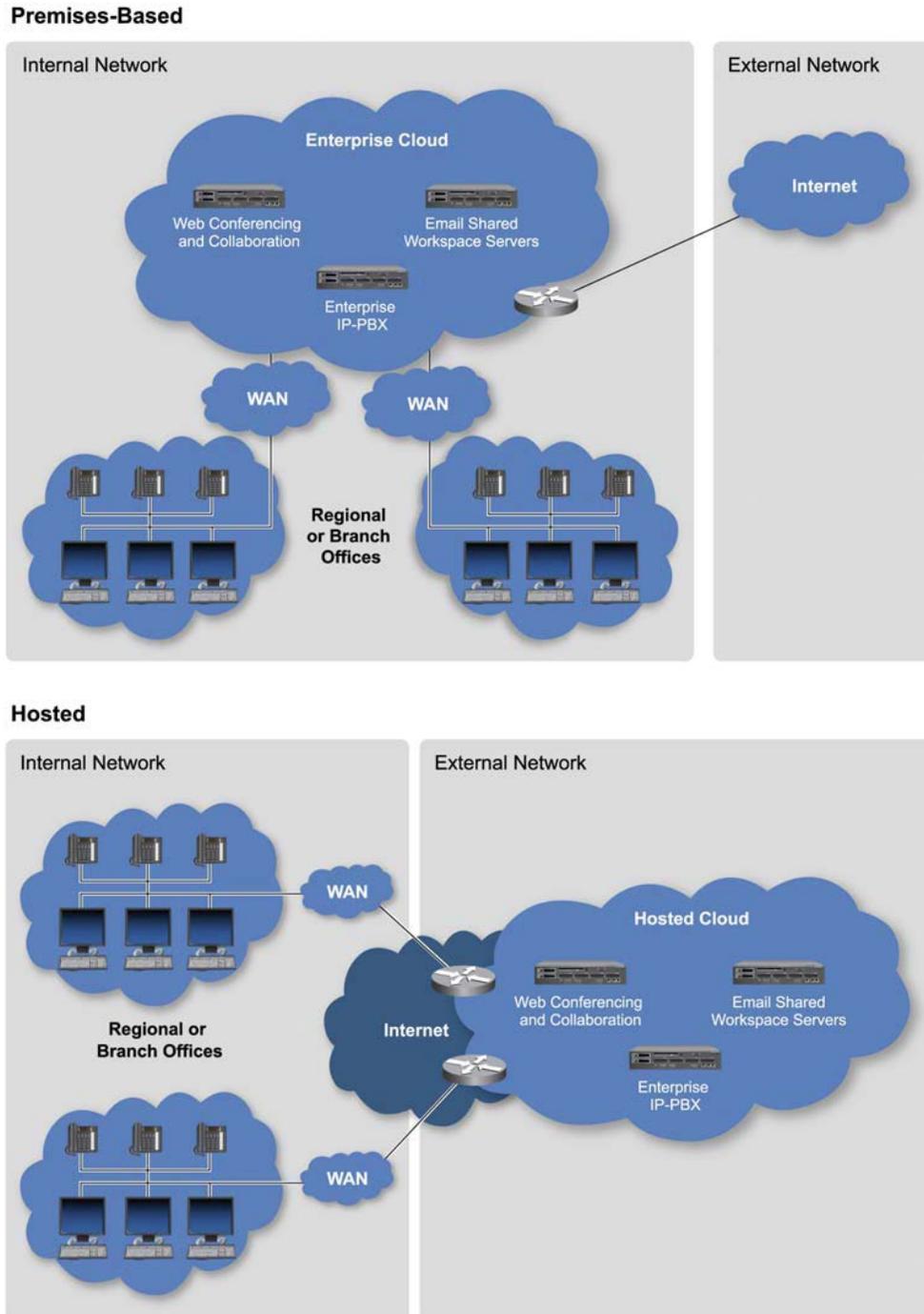
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With the advent of software-powered, virtualized communications and collaboration solutions, it really does not matter, from a technical perspective, if the components that make up the solution are situated on-premises in your data center or located in a hosted service provider's data center hundreds or even thousands of miles away. With the exception of endpoints, remote survivability equipment, and routers/switches, the physical location where the infrastructure components comprising a communications solution are housed is becoming immaterial.

**Figure 1. The key differences between a premises-based solution and a hosted solution are where the infrastructure elements are physically located, and who owns / manages them.**



We are seeing significant activity in the hosted communications market, with two primary markets emerging for these hosted services: 1) small businesses with up to several hundred employees, and 2) large businesses with a number of geographically dispersed small locations. In this article we discuss 10 factors that decision makers should consider when choosing between a hosted versus a premises-based communications solution, citing the pros and cons of each.

**Table 1. Ten factors to consider when evaluating a hosted versus a premises-based unified communications solution.**

1 Total Cost of Ownership	6 Tighter Vendor Relationships
2 CAPEX vs. OPEX	7 Feature/Customization Restrictions
3 Business Continuity and Redundancy	8 Control
4 Obsolescence and Maintenance	9 Call Quality
5 Immediate Expansion	10 Security

## Factors often used by hosted providers to promote their services

### 1) TOTAL COST OF OWNERSHIP (TCO)

Clearly TCO is an overriding consideration. With a premises-based solution, you know your costs...or do you? Businesses often overlook the total cost required to keep a communications system up and running.

Determining whether a premises-based or a hosted communications and collaboration solution will cost less in the long run requires a careful look at a number of variables, including the network costs, router / switch costs, personnel costs, training costs, hardware costs, software costs, endpoint costs, energy costs, facilities costs, etc. Hosted communications services have an advantage in providing an understanding of the true TCO because most of these costs are included within the monthly cost of the service. Hosted services offerings claim that they can be lower cost because they amortize the hardware, software, and operations costs over a number of customers, thus lowering the TCO. This argument resonates in the SMB space, where smaller companies have neither the will to own nor the people to operate a full communications and collaboration solution. However, in the large-to-medium space, companies often want dedicated servers running their communications solutions, so the lower-costs-of-shared-solutions argument diminishes somewhat.

The truth is that hosted services may, but will not necessarily, deliver lower TCO than a premises-based solution. Your business is unique and you will need to analyze all of the cost factors listed here to decide where the lower TCO actually resides.

## **2) CAPEX VS. OPEX**

Premises-based solutions require CAPEX and hosted solutions use OPEX. In our experience, capital expense money is often more difficult to come by than operating expense money. In many hosted solutions, the service provider delivers all of the capabilities the enterprise needs including the network, switches, routers, phones, and soft clients for a monthly operating fee. There is no capital equipment to buy and no capital expense outlay.

Many providers offer a desk telephone with the services bundle, although high-end executive phones may increase the monthly service fee. It is important to note that some service providers require their customers to purchase a desk phone, while others require the customer to purchase the software licenses required for the solution, both of which may be a CAPEX expenditure. Ask any potential service providers about whether there are additional costs beyond the monthly service costs. If OPEX is easier on your budget than CAPEX, perhaps a hosted service is a good fit.

## **3) BUSINESS CONTINUITY**

One of the big, non-tangible benefits hosted providers offer is business continuity in the event of a major disaster. Redundancy and business continuity serve as fundamental pillars in their hosted offerings. These offerings include redundant telecommunications equipment, network and circuit diversity, backup power, and geographically diverse data centers with no single point of failure. Business continuity at this level would be very difficult for many companies, particularly SMBs, to obtain. How do you handle business continuity and disaster recovery in your business? Is it important? If so, perhaps a hosted solution should be considered.

## **4) OBSOLESCENCE AND MAINTENANCE**

Voice systems used to be updated only occasionally. With PBXs moving to software, there are many more updates required to stay current. Furthermore, as capabilities from different vendors are integrated into a communications and collaboration solution, each vendor will have different software release cycles, and the difficulty of upgrading becomes onerous. This is clearly a challenge to an organization of any size. In a hosted solution, the service provider applies all the patches and software upgrades required and keeps the communications hardware equipment regularly updated as well. Given the current rapid change in the various components of a highly functional communications solution, some customers will appreciate the small risk of obsolescence that a hosted solution offers versus one they buy, along with the benefit of offloading the upgrade / patch headaches to that provider.

## **5) IMMEDIATE EXPANSION OR CONTRACTION**

In a premises-based solution, the company must buy additional licenses as it grows, and it owns those licenses regardless of whether they are needed permanently or not. We are personally aware that many companies pay much more in software licenses when they have premises-based solutions simply because the licensing is sometimes complex and hard to manage.

Contrast this to a hosted solution in which a growing company or a company with seasonal employees can immediately contract for additional seats as needed, but it can also scale back on those seats when or if they are no longer unnecessary. It is quick and easy for the service provider to provision additional users – some providers target less than 30 minutes for this provisioning process. Hosted providers can help companies eliminate paying for extra software and service licenses, but they will also usually require the customer to agree to a minimum number of seats for a multi-year period.

## **6) TIGHTER VENDOR RELATIONSHIPS**

While vendor lock-in is an issue often discussed negatively in the press and among analysts, more and more companies are looking for longer-term relationships with trusted vendors. Being aligned with a vendor is often very beneficial. Any company that has had to change vendor solutions realizes that vendor changeover costs can be significant. Given all of the pieces that comprise unified communications and collaboration solutions, a robust hosted or managed solution offered by a reputable vendor will engender a sticky relationship. Provided the solution remains cost effective and highly functional, a closer vendor relationship can be a very positive development.

## **Factors cited by critics of hosted services**

### **7) FEATURE/CUSTOMIZATION RESTRICTIONS**

Some hosted service providers may not offer all of the features a company needs or desires, and getting the provider to add features may be difficult. In addition, there are hosted providers that are inflexible with respect to even minor customizations. Care must be taken to assure that the hosted provider has the capabilities you need and that it can provide a customized solution, if such is required. Our experience has been that while there are some very inflexible, cookie cutter offerings, most hosted providers will have the ability to offer some flexibility in the capabilities as well as customization services. Requesting services beyond the standard bundled offering may cost more, but at least you will know the costs in advance and can factor these into the overall TCO calculations.

### **8) LOSS OF CONTROL**

It is true that a company will retain more control if it has a premises-based solution as opposed to a hosted solution. For some companies, having complete control over their communications infrastructure is an important enough business factor that they will choose premises-based offerings. However, many companies, particularly smaller companies or geographically dispersed organizations, look at the skill sets required to maintain and manage voice, IM / presence, conferencing, and other communications capabilities as non-core to their business, and they are comfortable with having a reputable partner run these systems for them. In fact, they often prefer it because a hosted provider can offer additional communications skill sets that most small businesses do not have, leaving employees to focus on core and differentiating business functions versus focusing on maintaining the voice, messaging, and collaboration systems.

### **9) CALL QUALITY**

Some hosted communications providers sell a hosted service without providing the network connection to the businesses using its services. They rely on "Internet best effort." This is the model many consumer voice services use, including Vonage® and Skype®, for example. Our experience suggests that these services may work fine if the business has a Tier 1 network provider. However, in general, businesses will be happier with the overall quality of the communications if the service provider is involved in either providing the network or suggesting approved partners who can provide a QoS-enabled network. Premises-based solutions also face this issue – how to make sure the LAN / WAN can support the communications traffic. In either a hosted service or a premises-based solution, the network must be designed to support superior quality of service. You will also need to assure that your network service provider has service level agreements with teeth in them so that failure to perform causes them to feel your financial pain and aggravation.

## **10) SECURITY**

Like a perceived loss of control, questions can arise about the security of the company's data and other communications when using a hosted service. Many organizations believe they can offer better security themselves by keeping communications solutions on-premises versus using a hosted provider. This may or may not be true. The better service providers are subscribing to security and compliance standards like ISO 27001, SAS 70, and FIPS 140-2. These standards and practices allow service organizations to be certified by third parties who rigorously test the service provider's security mechanisms on an ongoing basis. We believe that most enterprise premises-based solutions will not go to this effort to have the same level of certified security. Companies looking at a hosted provider should ask about the provider's security practices, safeguards, and certifications to make sure they comply with the company's own security needs.

### **Which Solution is Right for You?**

Clearly there are tradeoffs that organizations must take into account when considering either a premises-based solution or a hosted communications offering. One of the interesting trends emerging in the market is for technology providers to offer their solutions as either a premises-based solution or as a hosted solution. Mitel®, for example, has been offering managed telephony solutions for many years, in addition to selling telephony solutions outright. The company is a CLEC in the United States, and it offers network services. Mitel is now expanding its product suite by offering its unified communications capabilities as a hosted service that includes the Mitel Communications Director for call control management, the company's unified communications and collaboration capabilities, its networking services, and its CLEC capacity for number portability and long distance. By providing its solutions as a hosted service, a managed offering, or on-premises deployment, Mitel's impartial sales model can help customers choose and implement the solution type that works best for them.

We see tremendous interest in the market for hosted unified communications and collaborative services among large and small companies. Hundreds of thousands of end users have already moved to the hosted services model, and we expect this market to expand with double digit growth in the coming years. Your organization is unique, and the factors we have discussed in this paper give you some fundamental criteria on which to judge whether your organization should deploy an premises-based communications solution or consider moving to a hosted communications service.

## About the Author

E. Brent Kelly is a Senior Analyst and Partner at Wainhouse Research specializing in unified communications applications and enabling infrastructure. Brent has authored numerous reports and articles on unified communications including mobile unified communications solutions, detailed reviews of Microsoft®'s UC strategy as embodied by Office Communications Server, IBM® Lotus® Sametime® and IBM Lotus' UC2 Strategy, and Telephony-Based Unified Communications, which is a thorough description of PBX vendor unified communications offerings. He has also written reports about migrating to IP communications, video network service providers, and the collaborative reseller channel. Dr. Kelly has authored articles for Business Communications Review Magazine and NoJitter.com, and he has taught workshops in North and South America, Europe, and Australia, as well as at major industry events such as VoiceCon. With over 21 years' experience in developing and marketing highly technical products, Brent has served as an executive in a manufacturing firm where he developed and implemented a manufacturing, marketing, and channel strategy that helped land national accounts at major retailers. Previously, he was part of the team that built the devices Intel® used to test their Pentium® microprocessors. He has also led teams developing real-time data acquisition and control systems, and adaptive intelligent design systems for Schlumberger. Brent has worked for several other multinational companies including Conoco and Monsanto. Dr. Kelly has a Ph.D. in engineering from Texas A&M and a B.S. in engineering from Brigham Young University. He can be reached at [bkelly@wainhouse.com](mailto:bkelly@wainhouse.com).

## About Wainhouse Research

Wainhouse Research, [www.wainhouse.com](http://www.wainhouse.com), is an independent market research firm that focuses on critical issues in the Unified Communications and rich media conferencing fields. The company conducts multi-client and custom research studies, consults with end users on key implementation issues, publishes white papers and market statistics, and delivers public and private seminars as well as speaker presentations at industry group meetings. Wainhouse Research publishes a variety of reports that cover all aspects of rich media conferencing, and the free newsletter, The Wainhouse Research Bulletin.

## About Mitel

Mitel is a leading provider of communications solutions for a range of organizations – from the very small, single-site businesses to the multi-site, large enterprise. The company offers customers a broad choice of solutions, from basic business communications to sophisticated unified communications, from pre-packaged to tailored applications, and from an outright capital purchase to a managed service. Mitel operates from over 80 offices in over 90 countries, servicing its customers through a network of over 1,600 value-added resellers and partners. For more information please visit [www.mitel.com](http://www.mitel.com).