

# What is the Total Value of Ownership for a Hosted PBX?

An Osterman Research White Paper

*Published December 2014*

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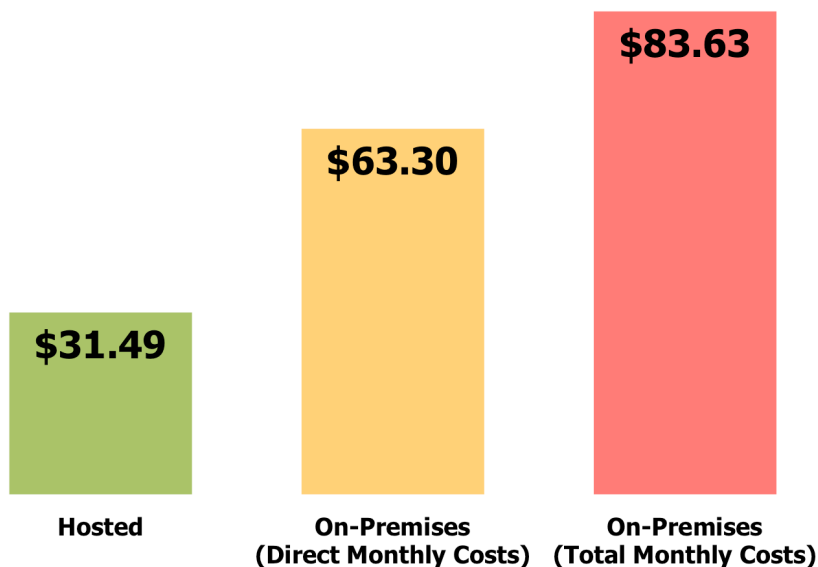
## EXECUTIVE SUMMARY

While email and other forms of electronic communication are important, one of the oldest forms of communication – telephony – remains of critical importance to business for a wide range of applications. Even with the advent of smartphones, tablets, unified communication systems and other platforms, telephony remains an integral part of the communications experience for the vast majority of business users, their customers and their business partners.

However, for purposes of cost savings or expediency, many small businesses rely on employees' mobile phones to manage their telephony, or they rely on telephone service designed for residential or individual use. There are a number of disadvantages with this ad hoc approach to telephony, including the presentation of an unprofessional image to business partners, customers and prospective customers; the lack of automated features that can quickly and efficiently route calls to an appropriate individual or department; and potential lost sales.

Organizations should deploy a PBX to overcome these problems. Moreover, small and mid-sized businesses (SMBs) should seriously consider the use of a hosted PBX instead of deploying an on-premises system. This is because a hosted PBX is significantly less expensive than the use of an on-premises PBX, even when comparing only the monthly costs of an on-premises solution, as shown in Figure 1.

**Figure 1**  
**Monthly Hosted and On-Premises PBX Cost in a 10-User Organization**



*Note: Total monthly costs for an on-premises PBX include monthly costs, initial hardware costs, and ongoing labor and maintenance costs.*

## THE CONTINUED VALUE OF TELEPHONY

### EMAIL IS THE DOMINANT FORM OF COMMUNICATIONS IN BUSINESS...

Email is the leading form of business communication today, with the typical user sending and receiving a combined median of 130 emails on a normal workday. Osterman Research has found that the typical user spends an average of 163 minutes per workday using their email client or Webmail for tasks as diverse as sending or receiving email, sending files, managing appointments, creating task lists or looking

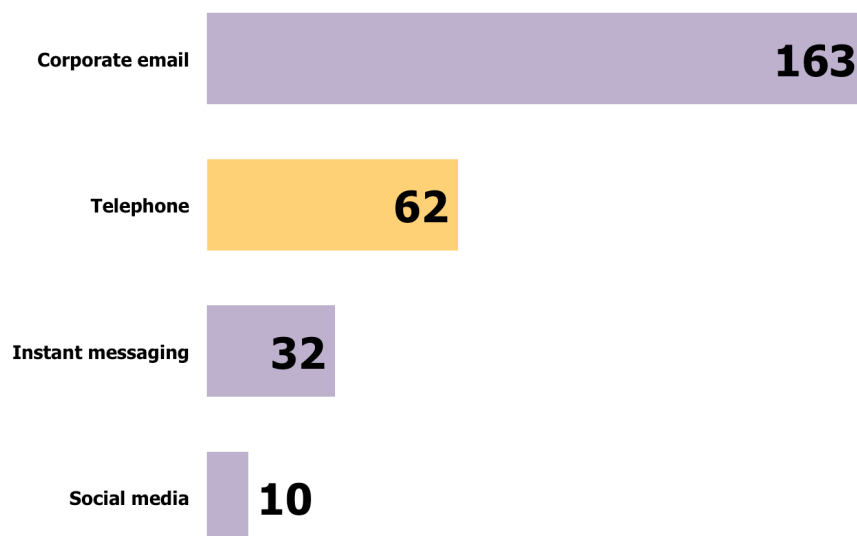
*Small and mid-sized businesses (SMBs) should seriously consider the use of a hosted PBX instead of deploying an on-premises system.*

for contact information<sup>i</sup>.

### ....BUT TELEPHONY CONTINUES TO BE CRITICAL

Despite the dominance of email as a communication vehicle, telephony continues to be a critical form of communication, coming in second to email, but still consuming 62 minutes of the typical user's workday, as shown in Figure 2.

**Figure 2**  
**Minutes per User per Day Spent Using Various Communication Tools**



**Source: Osterman Research survey of end users, December 2014**

Further corroborating the critical role of telephony of all types is that:

- There are now more telephones (landlines, smartphones and feature phones) than people on earth<sup>ii</sup>.
- Virtually every household in the United States has telephone capabilities, whether provided by a landline and/or mobile phone.
- One study found that 38% of the efficacy of communications – i.e., the ability to convey information in the way it was intended – is contributed by voice tone<sup>iii</sup>.
- Telephony is often the best way to transmit sensitive information for which users do not want a record, since voice calls are rarely archived or backed up, unlike emails, instant messages, social media posts and other forms of electronic communication.

### MANAGING TELEPHONY WELL IS CRITICAL

Despite the increasing use of the Web, email, mobile device apps and other modes of communication, telephony is still critically important across a wide range of applications, including customer service and sales. For example, one study found that 90% of US consumers prefer to resolve their service issues by telephone, compared to face-to-face interactions (75%) and Web/email (67%)<sup>iv</sup>.

The bottom line is that telephony will continue to be an extremely important communications channel, and the ability to manage telephony well will be essential to

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business success.

## WHAT ARE YOUR OPTIONS?

### MANY BUSINESSES USE MOBILE OR RESIDENTIAL PHONES AS THEIR PRIMARY TELEPHONE SYSTEM

Many small businesses use mobile phones or residential lines as their primary telephone system and as the initial telephone interface for incoming calls from customers, partners, and other callers. This is particularly true for organizations that cannot afford a full-time, live receptionist and an on-site PBX to manage incoming calls and routing of calls to appropriate individuals. While reduced cost is the primary motivator to use mobile phones or residential phone lines in this manner, there are a variety of disadvantages associated with doing so:

- The lack of an automated attendant means that incoming calls cannot be routed to the appropriate individual or department in a company based on automated voice prompts. This makes it more time consuming for staff members to route these calls themselves, assuming they are even able or available to do so.
- No advanced calling features are available in this scheme, such as music or on-hold messages played for callers, automatic routing to mobile phones for users who are out of the office, or updated voice prompts based on users' availability.
- Costs can actually be higher in some cases because of lost employee productivity as highly paid employees are forced to do the work of a receptionist.
- The unprofessional image that this initial contact with the public, potential clients, business partners and others portrays can result in lost business in some cases.

### A BUSINESS-GRADE PBX OVERCOMES THESE PROBLEMS

Business-grade PBXs directly address these problems by providing important capabilities that the use of mobile phones or residential phone lines cannot:

- An automated attendant will automatically answer incoming calls, prompt callers to choose from a list of options, and then route calls to an appropriate individual, department or voice mailbox. This permits calls to be answered more quickly and more accurately, and can route calls based on pre-determined criteria, such as individual availability or current workloads.
- A business-grade PBX provides advanced calling features, such as extension dialing, find me/follow me functions, voicemail that can be delivered to email, hunt groups, etc.

The use of a business-grade PBX permits even very small businesses to look like larger, professional organizations. The problem, however, is that a fully installed PBX system can be prohibitively expensive for a small or mid-sized business. While costs for a fully deployed PBX system can vary widely, the initial deployment cost can exceed \$700 per user. It is important to note, however, that these costs do not include the expenses associated with incoming phone lines, maintenance of the system, the costs associated with adding additional lines over time, or the use of in-house staff to address problems as they occur.

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## THE NEED FOR A BUSINESS-GRADE PBX

Organizations of all sizes should deploy a business-grade PBX capability that provides a number of business-grade features: an automated attendant that will enable callers to route their calls to the appropriate department, find me/follow me functions that will permit calls to be routed to individuals' mobile phones if they are out of the office, extension dialing, voicemail delivered to email, and other features.

Business decision makers are then faced with two options: either deploy an on-premises PBX system or use a hosted PBX solution. In many cases, the latter is the better option for small and medium-sized businesses because it can provide a lower total cost of ownership, greater reliability, more predictable costs, improved business continuity and disaster recovery, and reduced opportunity costs.

While large businesses may be better served with an on-premises PBX system, the ideal candidate for a hosted PBX solution is a small or mid-sized business that needs to present itself on a par with much larger businesses, and that must portray a professional image to customers and others without the burden associated with managing on-premises infrastructure.

### ABOUT THIS WHITE PAPER

This white paper discusses the benefits of business-grade PBX capabilities, and offers an overview of the benefits and cost savings associated with hosted PBX solutions. Finally, this document presents a brief overview of Intermedia, the sponsor of this white paper, and their relevant solutions.

## WHY CONSIDER A HOSTED PBX?

There are three basic options for organizations that need to deploy a professional, business-grade PBX capability: a) do nothing and suffer the consequences of using mobile phones or residential phones to provide business telephony, b) deploy an on-premises PBX, or c) use a hosted PBX. It is important to note that an on-premises PBX can employ a conventional telephony model using carrier-provided, landlines, or it can use Voice-over-IP (VoIP) technology as with a hosted PBX.

There are a number of important and compelling reasons to use a hosted PBX solution:

- **No up-front costs for deployment**  
As is the case with hosted email services, there are no up-front costs associated with hosted PBX services. This means that organizations do not have to deploy a PBX or the other hardware and software that might be necessary to support the system. The shift from a capital expenditure (CAPEX) to an operating expense (OPEX) model is one of the most compelling arguments for cloud computing, particularly in an era of tight IT budgets or for organizations that do not have the in-house staff necessary to manage on-premises infrastructure.
- **More predictable pricing**  
As with any cloud-based service, pricing is more predictable for a hosted PBX than it is for an on-premises PBX. This is because costs for a hosted PBX are known up-front and will remain unchanged over the life of the contract with the hosted provider. With an on-premises PBX, there is less predictability because of unforeseen hardware repairs, capacity expansion and other issues that may necessitate an on-site visit from a consultant or technician.
- **No need for on-premises staff to manage the system**  
Another important advantage of a hosted PBX solution relative to its on-premises counterpart is that no in-house staff is required to manage the system, address system problems, perform upgrades, etc. While on-premises PBXs are not typically the most labor-intensive systems that an organization will operate, they

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do require some level of maintenance and support – a hosted PBX will eliminate the need for these activities.

- **Online administration permits remote management of the system**

One of the fundamental advantages of a hosted PBX is that, as a cloud-based system, it can be managed completely on-line with no requirement for in-house IT staff members to be involved. That means that services, features and functions can be turned on or off as employee counts change, and that specific services, such as hunt groups, can be changed or added through an on-line console from any Web browser.

- **Users can manage their own profiles**

Related to the online administration capabilities of a hosted PBX is the ability for users to manage their own profiles. For example, this capability permits users to change their find me/follow me numbers, change their PIN for accessing voicemail, modify the email address to which their voicemails will be sent, or modify their mobile phone settings.

- **Extremely high levels of uptime**

One of the chief advantages of a hosted PBX is the extremely high level of uptime that such a system affords. This is not only important for normal, day-to-day operations, but also for business continuity purposes after a natural disaster, a power outage or some other unforeseen event. Using a hosted PBX that manages telephony capabilities in a remote location permits not only very high reliability, but true disaster preparedness, as well.

- **Lower cost of ownership**

In many cases, a hosted PBX solution can provide a much lower cost of ownership compared to an on-premises system, particularly for a small business. For example, as shown in the following table, a hosted PBX solution can avoid all of the initial costs associated an on-premises PBX, and all of the monthly, ongoing costs (e.g., labor, maintenance and line fees), as well. Moreover, monthly hosting costs are comparable to those of traditional telephone systems.

**Figure 3**  
**Costs of On-Premises and Hosted PBX Solutions for a 10-User Environment**

Cost	Initial	Annual/ Monthly Costs	Annual, Per User Costs	TOTALS
PBX hardware	\$3,522	-	-	<b>\$3,522</b>
Maintenance, Year 2	-	\$352	-	<b>\$352</b>
Maintenance, Year 3	-	\$352	-	<b>\$352</b>
Labor, Year 1	-	\$1,000	-	<b>\$1,000</b>
Labor, Year 2	-	\$1,030	-	<b>\$1,030</b>
Labor, Year 3	-	\$1,061	-	<b>\$1,061</b>
Line fees, Year 1	-	-	\$7,596	<b>\$7,596</b>
Line fees, Year 2	-	-	\$7,596	<b>\$7,596</b>
Line fees, Year 3	-	-	\$7,596	<b>\$7,596</b>
<b>TOTAL COST OF ON- PREMISES PBX</b>	<b>\$3,522</b>	<b>\$3,795</b>	<b>\$22,788</b>	<b>\$30,105</b>
Hosting fees, Year 1	-	-	\$3,779	<b>\$3,779</b>
Hosting fees, Year 2	-	-	\$3,779	<b>\$3,779</b>
Hosting fees, Year 3	-	-	\$3,779	<b>\$3,779</b>
<b>TOTAL COST OF HOSTED PBX</b>	<b>\$0</b>	<b>\$0</b>	<b>\$11,336</b>	<b>\$11,336</b>
<b>SAVINGS FROM USE OF A HOSTED PBX</b>	<b>\$3,522</b>	<b>\$3,795</b>	<b>\$11,452</b>	<b>\$18,769</b>

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- **Other benefits**

In addition to the quantifiable benefits of using a hosted PBX solution there are a number of benefits that are harder to quantify. These include improved employee productivity, freeing up staff time that otherwise would have been devoted to managing an on-premises PBX, improved customer satisfaction from being able to reach an individual more quickly, etc.

The bottom line is that a hosted PBX solution can provide greater value to an organization, particularly a smaller business, than an on-premises PBX.

## NEXT STEPS

Osterman Research recommends that any organization evaluating their telephony requirements undertake a two-step approach to evaluating these requirements:

- First, corporate decision makers need to understand why they should implement a professional, business-grade PBX capability. While seemingly obvious to some, not all decision makers will fully appreciate the importance of improving their corporate image by having a professional telephony presence, they may not appreciate the link between a robust PBX feature set and their ability to provide good customer service, and they may not realize the improvements in overall communications and corporate image that a PBX can provide.

In essence, we are arguing for decision-maker buy-in to the notion that PBX capabilities are worth the expense, even though the benefits of a more professional image or improved customer service may be more difficult to quantify.

- Second, organizations need to evaluate their PBX deployment options. A careful analysis should be undertaken to determine the costs of an on-premises PBX deployment and a hosted PBX solution. The former must take into account all of the costs associated with deploying and managing the PBX, such as the initial cost of the hardware and software, maintenance contracts, cabling, updates, upgrades, the cost of outages, and the opportunity cost of using in-house staff to manage the infrastructure. These costs need to be weighed against the predictable, per seat per month cost of a hosted PBX solution.

## CONSIDERING THE VALUE VERSUS COST OF OWNERSHIP

It is also important to consider not only the *cost* of the various options (doing nothing, deploying an on-premises PBX or using a hosted PBX), but also to consider the *value* provided by each option. For example:

- The cost savings associated with doing nothing – i.e., maintaining the status quo of mobile phone or residential line use – are high, but the value associated with presenting an unprofessional image or reducing employee productivity is extremely low.
- An on-premises PBX can provide much greater value by presenting a professional image and offering other benefits as discussed above, but the cost of doing so can be much higher than if a hosted PBX solution is used.
- A hosted PBX solution can provide higher value than an on-premises PBX system because of its greater reliability and flexibility, and because it can be supported on a 24x7 basis. The cost for a small business to support any part of its infrastructure on a 24x7 basis is prohibitive in most cases.

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## SUMMARY

A PBX can provide a number of important advantages compared to using mobile phones or residential telephone lines in a business setting. These advantages include presentation of a more professional image to customers and business partners, fewer lost sales, and greater employee productivity. While on-premises PBX systems are widely available, a hosted PBX solution offers many advantages over on-premises systems.

## ABOUT INTERMEDIA

Intermedia is a one-stop shop for cloud business applications. Its Office in the Cloud™ suite integrates the essential IT services that SMBs need to do business, including email, voice, file syncing and sharing, conferencing, instant messaging, identity and access management, mobility, security and archiving. Office in the Cloud goes beyond unified communications to encompass a wider breadth of fundamental IT services, delivered by a single provider.

Think of Office in the Cloud as your “Business Cloud Platform.” Intermedia’s services are integrated into its HostPilot® Control Panel. This means you have just one login, one password, one bill and one source of support—which makes the cloud easier to use and more efficient to manage. Intermedia further streamlines the experience by offering enterprise-grade security, a 99.999% uptime guarantee and 24/7 phone support with typical hold times of less than 60 seconds.

Intermedia serves over 60,000 businesses and has more than 5,000 active partners, including VARs, MSPs, telcos and cable companies. Its award-winning Partner Program lets partners sell under their own brand with full control over billing, pricing and every other element of their customer relationships. Intermedia is the world’s largest independent provider of hosted Exchange.

Intermedia has over 600 employees worldwide who manage numerous datacenters to power its Office in the Cloud—and who work to deliver customers and partners Intermedia’s Worry-free Experience™.

## INTERMEDIA’S HOSTED PBX SOLUTION

Hosted PBX gives companies professional, cost-effective, business-grade phone service integrated with Exchange and other cloud services.

- **Powerful**  
Helps immediately increase productivity and professionalizes a business’s appearance with advanced VoIP calling features.
- **Predictable costs**  
Flat rate, per-user monthly charge with unlimited local and domestic long distance in the US and Canada.
- **Easy to manage**  
Configure new users and numbers with the click of the button. Take advantage of new features as they’re released, without having to worry about hardware upgrades.
- **Flexible**  
Customize settings.
- **Highly Mobile**  
For traveling employees and remote workers, softphones provide all the features of a desk phone, no matter where they are.



- **Integrated with Exchange**

For click-to-call functionality and a complete unified communications phone solution.

Customers can use **voice menu** to set up an automated attendant to answer and route your incoming calls. Use dial-by-name directory to give callers an easy way to reach the personal they need to talk to. With **hunt groups** calls can be directed to a group of employees like Sales or Support so that important calls are answered and addressed quickly. Employees can reach each other easily with 3-, 4- or 5-digit **extension dialing**. With **find me/follow me**, employees can set up to three additional phone numbers – such as a mobile phone or home office phone – that ring when they're away from their Hosted PBX phone. With **voicemail-to-email**, voicemails are delivered to an email inbox as a .wav attachment, making it easy to store or forward to anyone with an email address.

Every Intermedia Hosted PBX account comes with a voice menu and 1 local number, 5 hunt groups, music on hold, and online administration and 24x7 technical support via phone. Included end user features are: direct phone number, unique extension and extension dialing, unlimited calling, E911 service, caller ID, call parking, call recording, call waiting, call transfer, call forwarding and 3-way calling. Number porting is provided at no additional charge.

Additional phone numbers and hunt groups are available, as is click-to-call, Conference Bridges and toll-free numbers.

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<sup>ii</sup> [http://www.bizjournals.com/prnewswire/press\\_releases/2014/10/06/NY30877](http://www.bizjournals.com/prnewswire/press_releases/2014/10/06/NY30877)

<sup>iii</sup> Source: *Inference of Attitudes from Nonverbal Communication in Two Channels*, Dr. Albert Mehrabian

<sup>iv</sup> [http://about.americanexpress.com/news/docs/2011x/AXP\\_2011\\_csbar\\_market.pdf](http://about.americanexpress.com/news/docs/2011x/AXP_2011_csbar_market.pdf)