

Enterprises Must Consider Selective Sourcing of IP Telephony

Most companies have tended to buy their own telephony equipment and manage it on-site. By 2006, half of all enterprises will need to take a flexible approach to IP telephony, by mixing internal and external resources.

Core Topic

Enterprise Networking: Network Service Providers and Services

Key Issues

How will network services evolve to meet the changing needs of enterprises?

Which network services will enterprises use to meet their end-user demands?

Strategic Planning Assumption

By 2006, half of all enterprises will be best served by engaging in selective sourcing of IP telephony services (0.7 probability).

Enterprise voice technology, such as PBXs, has traditionally been bought or lease purchased from equipment vendors for operation on the customer's premises. But the location-independent nature of IP telephony, combined with the propensity for organizations to consider outsourcing technologies and functions that are not central to their business, is leading companies to consider different sourcing options from service providers. These include:

- **Hosted IP telephony services:** The customer's business applications and support staff are kept in-house, but a service provider hosts and maintains the telephony infrastructure.
- **Managed IP telephony services:** The customer's business applications, support staff and telephony infrastructure are kept in-house and on-site, but operational management of the telephone system (including "moves, adds and changes") is outsourced to a managed services provider.
- **Fully outsourced services:** The telephony infrastructure, associated business applications and support staff are outsourced to a specialist service provider — for example, an offshore call center.

Other options include IP telephony services hosted by other sites within the enterprise, and wireless services provided by a service provider but tightly integrated with the customer's internal switching.

The concept of selective sourcing refers to fact that a single enterprise can use a variety of these options at the same time, and adjust their mix with relative ease.

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Prediction: Selective sourcing of IP telephony will grow in 2004, as more key providers offer hosted and managed services.

IP telephony services can bring significant benefits when applied to the right requirements, and the number of users is growing steadily. These services have strong prospects among four main customer groups:

- Large multisite companies.
- Small and midsize businesses (SMBs) whose operations are far apart, such as franchises.
- SMBs that want to focus on their core business, not on managing telephony infrastructure.
- Mobile workers.

Large multisite companies are likely to relate to having their on-site equipment brought under a managed services contract, perhaps as part of a virtual private network (VPN) deal.

SMBs tend not to have the resources to manage their own telephony solutions. Therefore, hosted IP telephony services — an important aspect of selective sourcing — should appeal to them. The following sections focus on the benefits of these services and the factors that discourage some enterprises from adopting them.

Benefits of using hosted IP telephony services

A key benefit of using hosted IP telephony services is reduced capital expenditure. A company can centralize its telephony services — avoiding the need for site-specific systems — and get an external provider to look after them.

Even if the telephony servers are hosted off-site, the customer can still administer them on-site. This helps overcome any concerns about the service provider's (or central administrator's) responsiveness to localized needs for timely moves, adds and changes. Also, services can be billed per user, which makes for a more direct relation to staffing levels.

IP telephony allows users to be located almost anywhere on the network, but to receive services as if they were at a central site. Similarly, systems can be managed as a single site, whether they are located centrally or spread across many sites. And system managers can access the system from anywhere on the network to make changes and gather reports.

As such, there are multiple ways in which an enterprise's telephony services can be hosted — and this flexibility is at the heart of a selective sourcing approach.

A company could, for example, employ an external provider — a traditional carrier, Internet service provider or independent applications service — to provide services remotely for some sites. Other sites could have communication servers on the premises, but be managed by the service provider (the managed services approach described above). Satellite offices could be served by customer premises equipment at a central site, much as central sites host e-mail services for remote offices today. Traveling employees could use mobile phones to access their company's internal directory, and use the mobile carrier's infrastructure to transfer calls or add colleagues to audio-conferences.

Factors inhibiting adoption of hosted IP telephony services

Hosted IP telephony services — like premises-based IP solutions — claim to reduce customers' total cost of ownership and quickly give a positive return on investment. But without thorough, enterprise-specific benchmarking of costs and service levels, these claims carry little weight with those deciding whether to buy them.

Although nimble, many new service providers lack the financial backing and track record to convince potential clients of their stability and reliability. This makes it hard for companies to feel comfortable placing mission-critical, real-time communications in their hands.

For their part, established local- and long-distance service providers have long failed to distinguish themselves as marketers and provisioners of Centrex services to large enterprises. Inflexible support and management options, slow and costly upgrades, a paucity of features and ineffective marketing meant that traditional Centrex services never fulfilled their promise. New hosted and managed IP telephony offerings will face similar challenges.

Companies are often keener to employ a host provider for IT-centric applications like e-mail — for which some transmission delay between office sites is acceptable — than for real-time services like voice telephony. The latter approach often requires a change in organizational policy.