

## INSIGHT

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### Simply Stated: Speakeasy Brings Hosted VoIP to SMBs

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## IDC OPINION

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The ongoing debate regarding hosted VoIP versus premise solutions is often focused on gaining technology and market share instead of providing the best solution supported by the best customer service. IDC believes that just as hosting of data applications has been able to reduce the expenses associated with enterprise IT, hosted VoIP will do the same for communications. In addition, IDC believes that IP is a disruptive force that has the potential to radically change the manner in which communications services are consumed and distributed. Hosted communications are going to play an increasingly important role at the enterprise level in increasing adoption of hosted VoIP. Carriers should consider the following:

- ☒ **Service taxonomy.** Customers, especially small and medium-sized businesses (SMBs), are being overwhelmed by different terms that describe the same service. For instance, IP Centrex, hosted VoIP, and hosted IP PBX could all be used to describe the same service offering. This creates confusion and an "enough already" mentality in potential customers.
- ☒ **Feature bloat.** Service providers should seek to avoid offering hundreds of features that will likely never be used. Instead, carriers should seek to "amaze and delight" their customers by creating services that solve business problems.
- ☒ **Creating a professional image: "Make me look good."** SMBs are often looking to legitimize themselves when facing the onslaught of competition from chains and category killers. Hosted offerings can help SMBs by giving smaller companies access to services and applications that are often beyond their reach. These include on-demand call center capabilities and simple customer relationship management (CRM) capabilities.

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## IN THIS INSIGHT

This IDC Insight examines Speakeasy's hosted VoIP offering to small businesses. Based in Seattle, Speakeasy originally offered high-speed access including DSL and T1 service to SMBs but has recently expanded its product portfolio to include hosted VoIP services over ADSL SDSL, T1, or bonded T1 to SMB and small office/home office (SOHO) customers.

## SITUATION OVERVIEW

Traditionally, SMB customers have either purchased a PBX/key system or opted for a traditional Centrex solution from a carrier. Although consumer VoIP has attracted the most attention from the press, hosted IP voice holds great promise for business customers. Hosted IP voice services are fundamentally different from PBXs because capital expenditure is avoided, maintenance contracts are unnecessary, and management is fully outsourced to a secure, central location. Furthermore, the customer is assured of instant access to the latest upgrades in both hardware and software. Hosted IP voice is the business model that will deliver next-generation applications to business customers. However, the market is still formative, and several issues will play a critical role in shaping the near-term direction of the market.

Hosted IP voice services are an alternative to premise-based business telephone systems. Hosted IP voice services deliver all business-class telephony features, including an auto-attendant, four-digit extension dialing, three-way conferencing, conference bridge, call transfer, call hold, call park, do not disturb, business-class voicemail, and hunt groups. The service supports standard business lines, direct inward dial (DID) lines, and toll-free numbers without requiring any changes to existing numbers. Service is delivered on a simple per-seat, per-month cost basis, and up-front costs are a fraction of those for traditional PBX equipment. Furthermore, customers can experience a reduction in total cost of ownership (TCO) since there is virtually no hardware to purchase or maintain. Other advantages of a hosted system include federating or collapsing multioffice locations onto a single network, thus simplifying management.

Hosted IP voice services go beyond PBX feature emulation to deliver services that cannot be provided on a PBX. These include:

- ☒ **Visual voicemail.** Users can listen to voice messages through a browser or through email, as well as through the phone. This feature allows voicemail to be handled like email. Voice messages can be viewed and listened to in priority order according to caller ID or a date/time stamp. Voice messages can be forwarded to any mailbox.
- ☒ **Web-based call management.** Users can easily configure and optimize their own calling features via a Web portal. This can be accessed from any Internet location in the office, at home, or on the road. Administrative accounts on the call management portal allow office managers to set up default feature sets for different classes of users. The portal contains a call log that displays a list of dialed, received, and missed calls and provides the ability to click-to-call from the call log or from a directory.
- ☒ **Follow me/find me.** Using the Web portal, users can instruct the service to forward some or all of their calls to any combination of phone numbers (home phone, cellular phone, office phone, or friend or colleague's phone). This feature ensures the reception of important calls and avoids the distraction of low-priority calls. Calls can be directed sequentially (e.g., ring office, then mobile, then home) or simultaneously.

- ☒ **Remote user.** Calls for specific or all employees can be rerouted quickly to satellite offices or their homes, as if they were still receiving and making calls on their normal office extension. This means employees can work from anywhere (remote offices, home, executive suites). This feature saves money because it eliminates the need for telephone expense reporting because all remote calls are made on the company calling plan. The remote user function is an effective disaster recovery solution in the event that power failure or other events knock out the office location. This capability extends to hotdesking and flexible working. Float staff and employees who typically work at different locations can move between different points on the network without having to alter their telephone extension and have full access to their configuration profile. They can do this by moving their own phone from one location to another, and they can also log in at a remote location on another telephone set.
  
- ☒ **Desktop integration.** Many hosted IP services include integration with a PC-based application such as Microsoft Outlook or Lotus Notes. This creates a unified mailbox for voicemail, email, and faxes and enables a centralized directory with click-to-call and click-to-conference functions. Companies are beginning to trial the integration of personal calendars, instant messengers, personal directories, and real-time VoIP communications to create richer collaboration and raise employee productivity.

Hosted voice services are cheaper than PBX equipment and have a fundamentally different economic structure from PBXs because:

- ☒ **Capital expenditure is avoided.** PBX equipment is expensive — a 50- to 75-person office will pay \$40,000–60,000 for a PBX system. PBX installation charges are typically 15% of capital cost.
  
- ☒ **Maintenance and administrative costs are avoided.** Ongoing PBX maintenance is usually contracted to the PBX installer and runs at about 15% of the installed equipment cost per year. The IT staff resources required to administer the PBX may represent another 15% of the purchase price per year.
  
- ☒ **Bandwidth costs are reduced.** Many business locations maintain three or more different networks for long distance calls, local voice service, and Internet access. Because voice travels over the data network in hosted IP telephony and both local and long distance are bundled, significant bandwidth efficiencies are gained by converging three networks to one network. A T1 circuit has enough capacity to deliver both the phone lines and the Internet bandwidth needed by the typical small to medium-sized business location.
  
- ☒ **Long distance charges for calls between company offices are eliminated.** Hosted IP voice services differentiate between on-net and off-net calls. An on-net call originates and terminates on a hosted IP voice site. An off-net call originates on a hosted IP voice site and terminates on the PSTN. All on-net calls are free. Hence, a company with five hosted IP voice sites has free intracompany calling among those sites regardless of geographic location or volume of calls.

- ☒ **Business continuity is ensured.** Since the equipment is located in a carrier's network, disruptions due to weather and other occurrences can be minimized. In addition, if there is a problem, phone calls can be rerouted to another location.

Speakeasy offers a suite of hosted VoIP solutions for small businesses. To ensure the highest level of voice quality, Speakeasy routes its voice traffic over its private nationwide network and utilizes a packet prioritization scheme branded as Voice Quality (VQ) technology. Speakeasy's VQ technology prioritizes VoIP traffic at WAN links between Speakeasy and the customer premises. This is done by smoothing traffic at the traditional bottlenecks of the customer WAN and through use of router prioritization. Application layer gateways (ALGs) are used in a similar way to manage the traffic flow from the customer to the network. To ensure consistent quality voice service, Speakeasy directly connects to all voice network equipment through private interconnects so no voice traffic destined for the PSTN is passed over a third-party network or any public peering points. Understanding the needs of the SMB customer, a dedicated business account manager is assigned to each account. The account manager serves as a go-to person for the client, handling all technical and other customer service-related inquiries.

In differentiating its service from other hosted offers, Speakeasy highlights the following capabilities:

- ☒ Flat rate a la carte pricing is available at all seat levels.
- ☒ Its service is integrated with Microsoft Outlook.
- ☒ Remote office capabilities.
- ☒ As a facilities-based, VoIP-only voice provider, Speakeasy is not distracted with legacy telecom infrastructure, services, and customers.
- ☒ Services are distributed through a nationwide network of 3,200 IT consultants.
- ☒ The customer has a single support contact for the Dedicated Business Manager (DBM) and consultative implementation process, including call flow design, LAN implementation, and project scheduling.
- ☒ Network capillarity and reach: Speakeasy's network reaches 57 million homes and businesses nationwide.

The company offers fully customized plans for smaller businesses, as well as a plan to address the needs of SoHo customers. A range of scenarios are outlined below. Optional add-ons include a reception console, call center, auto attendant, toll-free numbers, and growth reserve numbers. In addition to VoIP services, Speakeasy also offers a full line-up of other related services and products including Web hosting, a private WAN service, and variety of access services including ADSL, SDSL, and full and bonded T1.

- ☒ **SoHO.** \$83.90/month. Includes and requires Speakeasy broadband connection. The service includes inward and outbound dialing, 911 service, voicemail, call waiting, caller ID, three-way calling, call forwarding, last call return, local number

portability, unlimited calling to the United States and 22 international countries, call blocking, message notification, enhanced Web-based features and call control including click-to-dial, remote office, MS Outlook integration, do not disturb, speed dial, sequential ring, simultaneous ring, voicemail as email, online call logs, and contact directory.

- ☒ **Small Office I (5 employees).** \$358/month: The service includes standard phone features (IP and PBX), five-seat phone system, advanced VoIP features such as find me/follow me, Outlook integration, voicemail delivered as email, 1.1Mbps SDSL connection, unlimited local calling, competitive LD rates (unlimited plans available), and on-demand Web and audio conferencing.
- ☒ **Small Office II (15 employees).** This service is available for \$879 per month and includes all the Small Office I features plus a 15-seat phone system and a 1.5Mbps T1 connection.
- ☒ **Medium Office (75 employees).** This service includes all the Small Office I features plus a 75-seat phone system and a 3.0Mbps bonded T1 connection.
- ☒ **Multi-Location (5 offices, 100 employees).** This service includes all the Small Office I features plus a 100-seat phone system, a 1.5Mbps T1 connection in each office, and unlimited free calling between offices with four-digit dialing.

## FUTURE OUTLOOK

The SMB market has historically been underserved by traditional carriers, and IDC believes that hosted VoIP presents a lucrative opportunity for companies that create value and reduce complexity. To succeed in the SMB market, Speakeasy (and others) should keep in mind the needs that are very specific to smaller businesses:

- ☒ **Guidance/consulting.** Most smaller businesses cannot afford an IT department, let alone have the expertise in-house to understand what type of telephony solution would work best for the company. They need a provider that is patient and willing to work through the process with them, step by step.
- ☒ **Ease of use.** Employees of smaller businesses are usually overloaded with work and do not have the time or the inclination to tinker with a phone system to get it working properly. Solutions need to be easy to manage (or managed by the provider) and easy to use.
- ☒ **Cost.** Most SMBs are pinching every penny. They need a telephony solution that is not only cost effective, but also scalable, compatible with hardware already in the company's possession, and so forth. However, playing the cost game is a double-edged sword, and service providers should seek to create offers that are not necessarily the cheapest but rather produce the most bang for the buck. In short, the old saying lead with price but close with features is particularly applicable in selling to SMBs.
- ☒ **CPE choice.** Providers need to ensure that their VoIP services are compatible with a wide range of IP phones, giving subscribers maximum flexibility.

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