IT Services Opportunities in IP Telephony (Executive Summary)

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Publication Date: 12 January 2004
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Introduction

It is widely stated by vendors of network equipment and IT services that IP telephony enables convergence, creating a single network platform for data and voice communications for enterprises to do the following:

- Have ubiquitous access to voice and data services
- Collaborate better
- Increase employee mobility by extending corporate communications services to an enterprise’s distributed environment

This happens at a lower cost by reducing capital and operating expenses.

However, the penetration of IP telephony across enterprises has been relatively shallow and hasn’t offered a significant base sample from which to provide reliable cost and productivity models. A successful IP convergence strategy in the enterprise requires the consolidation of infrastructure, people, process and cost structure to provide the enterprise with a platform for IP business services. Proving the benefits of this migration and internal consolidation has been a difficult case to make.

The IP telephony market has reached an important inflection point. Gartner Dataquest doesn’t see the same market skepticism and inertia to accept IP telephony in the near term. In fact, IP telephony is two to five years away from broad acceptance, as shown in Figure 1.

What enterprises will be faced with in the interim is how to time their migration to IP telephony. Table 1 shows an estimate of migration costs to the enterprise LAN to support IP telephony. The assumption is that the older that the LAN infrastructure is, the more costly the migration to IP telephony will become. This in addition to partial, or wholesale, replacement of the legacy time-division multiplexing (TDM) infrastructure.

The proposition facing enterprises is that IP telephony is assured of wide acceptance, and delaying investments in the near term could prove costlier in the long term. This is not exactly a powerful motivation, but it certainly is a cautionary message to enterprises that not budging could be costly. Those vendors and external service providers (ESPs) that educate, inform and provide pragmatic solutions to enterprises are certain to gain the trust and business of the enterprise customer.
Figure 1
Gartner Hype Cycle for Networks and Communications

Table 1
LAN Upgrade/Replacement Costs for IP Telephony

<table>
<thead>
<tr>
<th>Age of Data Network (Years)</th>
<th>Percentage Requiring Upgrades/Replacement</th>
<th>Percentage Requiring Configuration Changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>More Than 5</td>
<td>80-100</td>
<td>100</td>
</tr>
<tr>
<td>4-5</td>
<td>60-90</td>
<td>100</td>
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<tr>
<td>3-4</td>
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<td>2-3</td>
<td>30-50</td>
<td>100</td>
</tr>
<tr>
<td>1-2</td>
<td>10-15</td>
<td>100</td>
</tr>
<tr>
<td>Less Than 1</td>
<td>Less Than 5</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Gartner Dataquest (December 2003)
Methodology

Conclusions and opinions are based on supply- and demand-side conversations. Interviews and case studies of 20 enterprise clients that have deployed — or are actively pursuing — IP telephony solutions yielded helpful information about what marketing and sales techniques work to ensure end-user buy-in. Discussions with 15 external IT services vendors provided insight to value propositions and financial models that are used in the field. The primary target market of these discussions was North America. The following vendors were interviewed:

- Avaya
- Cisco Systems
- NCR
- Unisys
- IBM
- INS
- ThruPoint
- Calence
- Dimension Data
- EDS
- Nortel Networks
- BearingPoint
- NextiraOne
- Siemens
- Netarx

Additionally, data was taken from a Gartner Dataquest survey of 73 enterprise customers in North America about their plans to deploy IP telephony and how they will leverage ESPs to design, deploy and manage these premises voice solutions.

Lastly, Gartner Dataquest provides a case study that exhibits financial and performance improvements from an IP telephony deployment.

Findings and Recommendations

We have found or recommend the following:

- In North America, the IT services market surrounding IP telephony will grow from $1.6 billion in 2002 to $9.7 billion in 2007, a compound annual growth rate of 43 percent. Management services will lead service segments in terms of market size and growth rates.
- Every respondent to a recent survey indicated that they will deploy some level of IP telephony during the next 18 months.
- Only 11 percent of respondents indicated that they will not use any ESPs to help affect IP telephony solutions.
- Vendors and ESPs must market to internal stakeholders outside of the internal IT shop to re-orient perceptions of "just a network investment." They should create models to illustrate advantages and future functionality that are relevant to different roles in the enterprise. Value propositions must be made relevant to the roles of internal stakeholders in an enterprise.
Vendors and ESPs must identify the most compelling financial metrics when presenting IP telephony: net and cumulative cash flow, payback period, or return on investment (ROI) in terms of net present value (NPV) and internal rate of return (IRR).

When presenting an IP telephony proposal, vendors and ESPs must be sure to base their assumptions on financial benchmarks and technology feature sets that are appropriate to their end-user clients.

An IP telephony migration plan must work to identify any needed upgrades or modifications to the LAN infrastructure in advance of the actual IP telephony migration.

Operational policies and procedures must be reviewed in an IP telephony environment to ensure that the newly converged infrastructure is optimized for support and security.

For the full report, see "IT Services Opportunities in IP Telephony," ITNI-WW-MS-0120.