

Unified Communications Investments Deliver Positive Financial Returns, \$595 Net Tangible Value per User Over 5 Years

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Invest in Unified Communications Rather Than Maintain a Fully Depreciated Legacy Telephony Infrastructure

In this time of maximum economic uncertainty, companies are looking for ways to reduce their costs. When considering how technology investments can create value, they are increasingly reluctant to base their decisions on financial benefits they cannot directly measure. Productivity and business transformation, while still important, must be accompanied by cost savings. Business decision makers will demand tangible value coming from "hard costs" reduction, such as elements of net P&L or cash cost savings that can be reported externally.

In this context, it may appear cheaper to maintain a fully depreciated legacy communications infrastructure: the telephony equipment, for instance, is "free". **Our analysis shows this is not the case. Investing in Unified Communications actually yields net tangible cost savings of \$595 per user over 5 years.**

Approach In the Context of Cisco's "Five To Thrive" Initiative

This analysis focuses on the value of Cisco Unified Communications (UC) investments for companies and public organizations. It shows the opportunity to save on communications infrastructure costs, while creating a platform that enables future productivity and collaboration enhancements. This paper summarizes the projected financial value of Cisco UC investments, established through 164 customer business value cases delivered by research firm Salire Partners. These value cases compare the total cost of ownership of two communication infrastructures: (1) costs under an existing traditional voice infrastructure including local PBX switching voice transport across the enterprise; (2) current and future investments and costs under a UC infrastructure.

The findings are particularly relevant in the context of Cisco's "Five to Thrive" Initiative, which consists of five imperatives that Cisco's customer should consider to create business value through technology solutions. This Research Insight focuses on the first imperative, "Save To Invest." In the current economic climate cost savings are a necessary condition of further IT solutions investment for Cisco's customers.

Cisco's value framework for Unified Communications includes three benefits categories: Convergence, Employee Productivity, and Business Transformation. This analysis focuses



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on the convergence value. UC creates a foundation platform which pays for itself with IT TCO savings alone, and provides long term tangible cost savings while enabling productivity and transformation benefits.

Unified Communications Deliver \$595 Net Tangible Value Per User Over 5 Years, Based Exclusively On Total Cost of Ownership

For users of IP Communications (IPC), the comparison of financial benefits and costs with a TDM infrastructure shows a lower total cost of ownership when voice cost savings alone are considered. The benefits of IPC result from the toll bypass (users of IPC are not paying for telephony charges), as well as lower network costs, maintenance and equipment operations, more efficient moves, additions, changes, and deletes (MACD), conferencing, and call center costs.

Looking at the value per IP phone, the analysis found that each IP phone provides average net cash value of \$595 over 5 years. In comparing traditional telephony and UC, the cost for UC was consistently lower across industries, returning positive value for most companies surveyed. UC investments offers 15% overall savings versus a TDM infrastructure over 5 years. The average payback period for UC investments is 39 months.

Average cost savings per firm from IPC investments were \$7.8 million over five years. A breakdown of the benefits shows that three value drivers represent over 92% of the total benefits. They are:

- Voice – Avoidance of toll charges from service providers, reduce leased lines costs, and avoidance of call cost. Voice savings is the key value driver for UC.
- Maintenance – Lower equipment maintenance and wiring cost, and cheaper and less complex software upgrades.
- MACD (moves, adds, changes, deletes) - phone moves are "soft" moves that are easily accomplished in a matter of minutes instead of hours. This benefit only takes lower technician support costs into account – not the productivity value of user downtime avoidance.
- Conferencing – Routing over a WAN helps eliminate charges for dedicated ISDN lines/bandwidth. Lower costs and better quality of video conferencing helps drive utilization and consequently lower travel costs.

These findings are consistent across the industries considered in this analysis: financial services, retail, manufacturing, healthcare, public sector, hospitality, and others.

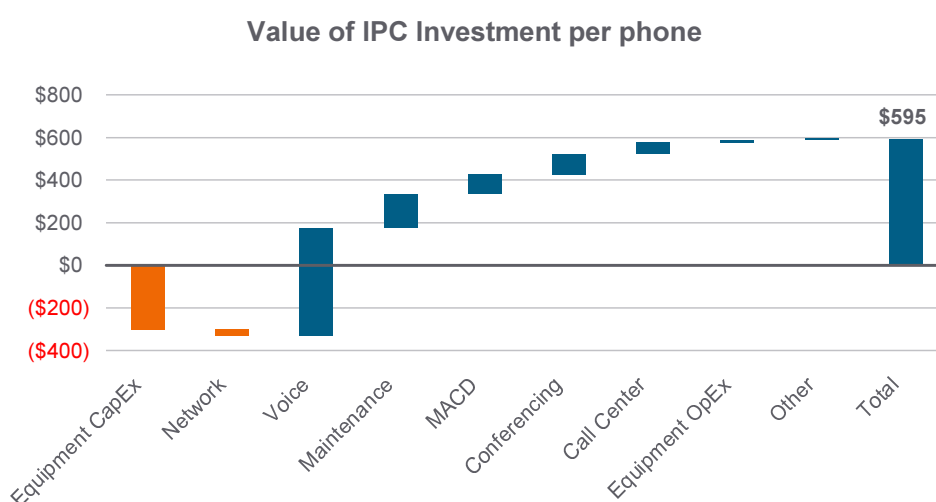
The financial data from Salire Partners provides a large statistical foundation to show evidence of the business value of UC. It can be used to demonstrate the value of UC investments to customers. In particular, this data will be valuable for Cisco Field Sales to engage with customer CIO's and CFO's who are considering investment decisions. It provides a strong reference to accelerate selling opportunities for Unified Communications (UC).

The findings in this analysis validate the market trends reported by Goldman Sachs's 2009 IT survey of 100 IT executives from Fortune 1000 companies. The survey mentions that UC

is now the top IT investment priority. Because UC can achieve a quick return on investment as a result of reduced travel and increased employee productivity in addition to lower voice and related costs, UC has displaced mobility as the top productivity-enhancing technology: 55% of respondents indicated that they plan to invest in UC in 2009, up from 23% a year ago.

Normalizing financial findings on a per IP phone basis, the analysis shows a net free cash value of \$595 over 5 years. Voice benefits alone provide a positive payback with a net benefit of \$505 on a per phone basis. Maintenance, MACD, conferencing, call center, equipment operation expenditure, and other have a combined net benefit of \$419. The analysis also shows that every additional year of net benefits represents \$282 per phone.

Figure 1. Value of UC investments over 5 years. Value is normalized on a per user / phone basis



Source: Cisco IBSG Economics & Research, 2009, Salire Partners, 2008

Figure 2. Comparison of UC and TDM infrastructure costs by type on a per user / phone basis over five years.

Cost Type	TDM	IPC	Difference
Equipment CapEx	\$468	\$769	(\$301)
Network	\$768	\$796	(\$28)
Voice	\$1,596	\$1,091	\$505
Maintenance	\$735	\$578	\$157
MACD	\$159	\$65	\$94
Conferencing	\$165	\$68	\$97
Call Center	\$134	\$80	\$54
Equipment OpEx	\$41	\$29	\$12
Other	\$10	\$4	\$6
Total	\$4,076	\$3,481	\$595

Although not in the scope of this analysis, IBSG findings on the Economics of Collaboration also indicate that a Unified Communications infrastructure can drive for other collaboration applications. Because of synergies among the full spectrum of possible collaboration investments, even higher returns are possible from additional incremental investments.

Conclusion

Our analysis shows that the vast majority of companies investing in a new Unified Communications infrastructure realize net savings within a 5-year timeframe. In fact, our companies will be better off replacing legacy telephony TDM equipment that is not fully depreciated, and realize a positive return on their communications investments, if they deploy a converged telecommunications infrastructure.

Endnotes

1. Salire Partners UC TCO analysis of 164 public and private organizations, 2008
2. Goldman Sachs's 2009 IT survey of 100 IT executives from Fortune 1000 companies

ABSTRACT:

In this time of maximum economic uncertainty, companies are looking for ways to reduce their costs. When considering how technology investments can create value, they are increasingly reluctant to base their decisions on financial benefits they cannot directly measure. Productivity and business transformation, while critical for the business decision makers must come in addition to cost savings. In these tough economic times, decision makers will prefer tangible value coming from "hard costs" reduction - elements of net P&L or cash cost savings that can be reported externally.

In this context, it may appear cheaper to maintain a fully depreciated legacy communications infrastructure: the telephony equipment, for instance, is "free". Not so.

Our analysis shows that the vast majority of companies investing in a new Unified Communications infrastructure realize net savings within a 5-year timeframe. In fact, our conclusions show that companies will still be better off replacing legacy telephony TDM equipment that is not fully depreciated, and realize a positive return on their communications investments, if they deploy a converged telecommunications infrastructure.

Although not in the direct scope of this analysis, IBSG findings on the Economics of Collaboration also indicate that a Unified Communications infrastructure can drive for other collaboration applications. Because of synergies among the full spectrum of possible collaboration investments, even higher returns are possible from additional incremental investments.