

A Critical Assessment of Premise Based vs.  
Cloud Based Phone Systems | Whitepaper

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*What you need to know*



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***This Whitepaper provides an impartial analysis of On-Premise and Cloud Based Phone Systems. When presented with a phone system need, Digicorp begins by assessing the customer's unique situation. From there, we design a solution that we believe best fits the customer's needs. In this way, each solution is situationally designed from an impartial viewpoint. As an IT and telecommunications company founded in 1976 and serving thousands of customers, we have decades of experience vetting how technology will best serve our customers.***

## **Solution Analysis**

We believe every design is unique. Our challenge is to understand how a system will help our customers better serve their customers, address specific operational challenges and do so in a cost effective way. Having gone through this exercise in many cases, we have discovered several consistencies.

First, customers want a system that is customizable. From small to large, they want call flows to be logical and efficient. The devices ranging from a desk phone to a proxy for a desk phone such as a cell phone/personal computer should address the individual user's needs. Second, they want software that integrates well with complementary applications. AND, Finally, cost does matter.

**And although there are no absolutes, when we settle on a final design recommendation, we find that premise based solutions most often meet our customers' needs best.** Our ground level work reveals the following:

1. Within comparable product categories, there is little feature difference between cloud versus premise solutions.
2. The support experience with cloud based solutions is wildly variable. It may be the developing state of the cloud based industry, but they seem to struggle with carrier issues (even more than the rest of us.) Further, the representation that these systems are self-installable and self-supportable is far different than the user experience would indicate. In reality, an organization will need a partner or a dedicated internal resource to truly support a cloud system.
3. Premise systems cost much less than cloud systems. The representation that you just have to pay monthly for this

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service seems palatable. But when a basic cost of ownership analysis is run, a premise system will be fully paid for in three years or less when compared to the monthly payments for a cloud system. Within a normal 5 year comparative cost of ownership analysis, a cloud based solution will cost almost twice as much as a premise solution. When one considers that the useful life of a phone system is 8-10 years, the cost of a cloud based system is closer to 3 to 4 times higher than a premise solution. Please see the following comparative analysis of a real world pricing of cloud versus premise phone costs.

## Cost Analysis

### EXAMPLE 1

#### Premise Based Solution

- 17 IP Phones, Full Display, GB Interface, Full Duplex Speaker, Soft Keys and Fixed Feature Keys
- 5 Client Mobility Licenses
- 5 Year Manufacturer Hardware Warranty
- 5 Year Software Warranty
- Call Processing Server with Analog Adapters
- Unified Communications Application
- Complete System Installation to Customer Specification
- Complete User and Administrator Training
- UPS

**Total Investment - \$17,505**

Optional – On site full labor warranty with local parts stocking \$850 per year.

### EXAMPLE 2

#### Cloud Based Solution

- 17 IP Phones
- 4 Analog Adapters
- Installation
- UPS

**One Time Investment - \$5,795**

- \$360 per Standard User per Year x 17 users
- \$180 per Basic Analog User per Year x 4 users

**Annual Fees - \$6,840**

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## Simple Break Even Analysis Chart

	Cloud	Premise
Year One Cost	\$12,635	\$17,505
Year One + Two Costs	\$19,475	No additional Cost
Years 1+2+3	\$26,315	No additional Cost
Years 1-4	\$33,155	No additional Cost
Years 1-5	\$39,995	No additional Cost
Total Costs for 5 Years	<b>\$39,995</b>	<b>\$17,505</b>

## Additional Notes:

- Annual telecommunications carrier services are not a perfect comparable. The cloud based solution requires ample Internet bandwidth while the premise system requires SIP trunks, PRI or POTs lines. With a cloud based solution, it is advisable to have a second Internet connection brought in to improve the redundancy of the solution. This would increase the annual cost of a cloud solution by a minimum of \$1,000. A premise based solution would need services to provide line connections outside of the company. The estimated costs for these services would cost the client an estimated \$1,440 annually. These costs are not factored into the example above.
- The standard manufacturer hardware warranty on the cloud solution is 1 year. The hardware and software warranty with the premise solution is 5 years.

## Summary

As a firm with 40 years of experience in delivering telecommunications and IT solutions, we believe, in most cases, customers continue to best be served by premise based phone system solutions. We have come to this conclusion for several reasons. First, we have found that systems in comparable categories provide similar feature sets. This includes products from both the premise and cloud genre. Second, the cloud industry continues to struggle with delivering an ongoing quality support experience. Phone systems are relatively complex and the cloud based providers have not bridged the gap of delivering an acceptable experience.

Third, the cost of cloud based technology is expensive. Normally, a high price is associated with a product of exceptional quality. But in the case of cloud based technology, it appears that a high price is being driven by a confusion as to the comparable cost of other options. In this case, the cloud solutions are simply more expensive.

**We'd love to discuss your unique phone system needs. For more information, please contact us.**

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