Hosted PBX Services Cost Analysis
versus
Xorcom Premise Based IP PBX

Numbers don’t lie.

PREMISE BASED IP PBX Solutions

Standard Features Include:
Unlimited Voice Extensions
Unlimited Auto Attendants
Unlimited Voicemail boxes
Unlimited Ring Groups
Unlimited Conference Bridges
Voicemail to Email included
Call Recording
Live Call Monitoring
Unlimited Conference Bridges
FindMe/FollowMe service for all users
Super-easy Web based administration

No Per User License Fees

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A little background on the author of this white paper - William Soto Jr.,

Born in Manhattan New York in 1955, and raised mostly in Franklin Square Long Island NY, I started my telecom career in Newburgh New York with Executone. I have done my share of cold calling and selling phone systems the old fashioned way, hard work.

I have thoroughly enjoyed my 27 year career in telecommunications and have worked for companies such as Executone, Mitel, Centigram, BroadSoft, Citel, Intuitive Voice Technology and now Xorcom. Besides having the opportunity to live abroad in Caracas Venezuela, Ecuador and Singapore, my career has taken me to 53 countries and I have held positions from Senior Account Manager to VP of Sales, but my favorite job is what I am doing right now, Director of Strategic Alliances. My focus is to integrate Xorcom solutions into the strategic growth plans of our partners so we can successfully grow together.

I decided to write this white paper because end users or the market in general, are confused, and rightfully so, on the differences between Hosted PBX versus Premise Based PBX. While there is a good argument for both services I firmly believe in a third solution that can provide the best of both worlds...that being, Bring Your Own Cloud PBX. I hope you enjoy the white paper.

Note to readers:

This white paper will address two different topics:

First, it is meant to be an objective point of view to clarify the differences between Hosted PBX Services versus Premise Based PBX Services. Considering that I have sold literally hundreds if not over a thousand Premise Based PBX’s in my career, and also worked for BroadSoft and sold BroadSoft Hosted solutions to major Tier 1 & 2 Service providers, I have very good insight on both solutions.

Second, this white paper will position a new service I am going to deploy through XorcomUSA called, BYOC PBX or Bring Your Own Cloud PBX. This service is bringing the best of Hosted and Premise PBX services together.

Any screen shots from web sites that are included in this white paper, are being used as “information only” and not to be interpreted as an advertising tool for or against any company.

In addition, this white paper is being written with the end user in mind. Plain English is being used describe features and services and “techy or geeky” expressions are kept to an absolute minimum.

Asterisk is a registered trademark of Digium, Inc.
Hosted PBX Overview

Fundamentally, Hosted PBX is nothing more than the relocation of the core call control or PBX, (Private Branch eXchange), from your office to a data center or Co-location facility. Basically, you’re moving your phone system or phone system functionality, out of your office and to a facility that has a very low probability of ever being out of service for Internet or electricity.

Hosted PBX providers are popping up everywhere! They are all trying to prove that their monthly rentals of PBX services are better and more cost effective than Premise Based PBX solutions. Let’s review some of the average monthly costs from various Hosted PBX providers that are publicly available by just browsing the web.
Hosted VOIP Solution
Customized For Your Growing Business

- Easy to Manage and Affordable
- No Contracts, No Set-up or Hidden Costs
- Professional Functionality and Feature Rich

As low as $24.99*/ Unlimited Extension

Phonebooth

The Phonebooth Online Store
Save money with Phonebooth Business Phone System.

$20 per user / month

- Unlimited Local and Long Distance
- One or Multiple Offices
- Toll Free Number
- Two Local Numbers Included
- 24x7 U.S. Customer Support
- Voicemail
- Auto Attendant
- Call Forwarding
- Conference Calling
- Group your calls

January 2012
Virtual Office Service Plans

8x8 Virtual Office provides these flexible, affordable service plans that you can mix and match to suit the calling needs of your employees.

- **Unlimited Extension**—Our most popular plan. Get unlimited outbound and inbound calls to the US, Canada, and 8 other countries. Call 1.866.928.0720 and get it now for only $29.99 per month!
- **Metered Extension**—Cost-effective choice for businesses or specific employees who make very few outbound calls.
- **Global Extension**—Perfect for businesses or even specific employees who do a lot of international calling to over 40 international destinations
- **Virtual Office IP Phone Annual Plan**—Get our popular Unlimited Extension Plan and save even more by paying for a year up front.

Need a fax line? Or a toll-free number? See our Optional Features.

**SERVICE PLAN DESCRIPTIONS**

**Unlimited Extension**

Unlimited Extension is our most popular extension service for Virtual Office, providing unlimited calling to the US, Canada, Puerto Rico, Guam, US Virgin Islands, France, Ireland, Italy, Spain, and the United Kingdom. An unlimited extension includes unlimited worldwide network calls with any 8x8 customer, business-class voicemail and a unique direct inbound dial (DID) telephone number. Calls to mobile phones, premium, special, and information service numbers are not included in the unlimited international destinations.

**Cost:**

- $39.99 per month. Now only $29.99* per month!
- $39.99 one-time activation
- Applicable Taxes and Regulatory Fees

*Call 1.866.928.0720 to get the special price of only $29.99 per extension!

What’s more, we will match any competitor quote and we also give volume discounts**

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**Sign Up Now!**
I have no problem with the concept of Hosted PBX. Obviously there is plenty of it out there, and it works. However, I am going to challenge some of the sales strategies used to justify the investment in Hosted PBX services because the telecom industry demands them to be challenged.

At a high level, I would like to comment on some of the main points that Hosted PBX providers use to sell their services. Let’s start:

1: **Dramatically lower your overall communication costs with plans starting as low as $19.95 per extension.**

The way you start with Hosted PBX is never the way you finish. **Hosted PBX providers depend on clients growing 5% or 10% year over year.** In addition, they are well trained and will do a good job of upselling you more extensions like a softphone extension on your laptop or smartphone, or even an IP Phone extension for your home so you have an extension from the office at your house.

All these extensions add up quickly and before you know it that $400.00 per month for 20 extensions when you started, just turned into $600.00 per month for 10 more extensions that have been added slowly over the last 12 months. **This is literally the eternal payment that never goes away.** Be very leery of any ROI provided to you by a Hosted PBX provider that does not include growth year over year.

Later in this white paper you will see a very accurate Hosted PBX calculator that will make all these numbers come to life for you.

2: **Eliminate Long Distance Charges.**

This is true, but also available from just about any SIP (Session Initiation Protocol) Trunk provider in the United States of America. SIP Trunking is also known as VoIP phone service.

In other words, whether you have a premise based PBX with SIP Trunks or a Hosted PBX this long distance benefit is equal in either service.

3: **Eliminate up front capital expenditure.**

This is by far one of the biggest misconceptions of signing up for a Hosted PBX service. Whether you are looking to invest in a Hosted PBX solution or Premise Based PBX solution the following components must be purchased for either solution:

- IP Telephones
- Data switches
- Routers or Firewalls
- Installation of any new data wiring

If you are fortunate enough to be the proud owner of all the above, great! Then everything is equal for either service. Hosted PBX does not include any of the above items and **this would be an upfront capital expenditure.** The only item not being purchased in a Hosted PBX solution, in comparison to a Premise Based solution, is the actual core Premise Based PBX. However, and as you will see later on in this white paper, today’s Premise Based PBX is extremely cost effective and ROI models for this solution are very compelling in comparison to Hosted PBX services.
4: Eliminate obsolescence

This perceived benefit is focused on the purchase of the Premise Based PBX and that it will be outdated in 3 years and then you would have to make a major investment all over again in order to upgrade for new features. I would agree with this Hosted PBX benefit if the end user invests in a very proprietary Premise Based PBX. However, when compared to IP PBX's that are based on Asterisk Open Source software, this is not an issue as upgrades to new features are very simple and cost effective.

But buyers beware, some Asterisk PBX companies have also created a very proprietary GUI or Graphical User Interface that overlays Asterisk and is just as proprietary as legacy phone systems from yester-year. Make sure the Asterisk PBX solution you invest in does not lock you out from accessing the database, normally MySQL. This is a critical point when investing in an Asterisk PBX.

Another point to consider, just because the service is “Hosted” does not mean your Hosted PBX provider is upgrading to the latest software available for their platform. Upgrades from Hosted PBX manufacturers are not exactly inexpensive and not all Hosted PBX service providers keep up with their upgrades.

In order to be fair, obsolescence also needs to be applied to the components that affect both services. IP Phones, data switches, routers and firewalls. They don’t last forever either.

5: Look bigger, more professional to prospects and customers

This benefit is really targeted to the very small business with 2 – 5 phones. I am in full agreement that Hosted PBX for the 2 – 5 extension office is a great solution. No argument here and this is a great fit for Hosted PBX.

In my opinion, business owners with 10 or more extensions will find that investing in a Premise Based IP PBX will not only provide them this same benefit, but it will pay for itself within 12 – 18 months depending on what the Hosted PBX per extension fee is that they have been quoted. Basically, after 18 months this business owner will be cash flow positive with a Premise Based PBX versus a Hosted PBX solution and that will be made clearer later on in this paper.

6: Great features that impact multi-location offices.

This is an excellent application for Hosted PBX. The only problem here is the monthly recurring fee. How many extensions are actually included for a multi-site application?

For example, if you have 3 sites with 20 extensions at each location and you are paying $20.00 per extension per month that would be $1,200.00 per month or $14,400 per year or $43,200.00 in 36 months. These monthly charges sneak up over time. Obviously if the multi-site application calls for 5 or 6 extensions at each site then the Hosted PBX solution is more compelling. More on this later.

Other considerations when looking to invest in Hosted PBX:

- Make sure to include all one-time non-recurring costs as well as monthly recurring charges. You need to get the full financial picture and not just the quote for the Hosted PBX service.
- The lower the monthly recurring fee for extensions the more “per feature” or “per use” charges seem to appear. For example, if you need extra IVR’s, aka auto attendants, this would be more money per month. If you need an
extension simply for an after-hours mailbox that would also be a monthly recurring fee. As you drop to rates below $24.95 per extension per month, it is normal for a per minute use fee to be applied for all outbound calls.

- The per extension fee normally includes a phone number which is great. In other words, your extension is also your phone number and your phone service for making and receiving calls. However, it lacks one fundamental component in order for Hosted PBX to work. **Broadband service.**

- An average VoIP phone call uses 80k of bandwidth. So if you want to make 10 concurrent calls that utilizes almost a full Meg of broadband. However, bandwidth is not the only relevant component for good quality VoIP calls. Something called QoS or Quality of Service ([http://en.wikipedia.org/wiki/Quality_of_service#Definitions](http://en.wikipedia.org/wiki/Quality_of_service#Definitions)) is a fundamental requirement within the internal data network of your office and is normally managed within your data switch and router. This applies to either Hosted PBX or Premise Based PBX.

- The other area of concern is the actual broadband service itself. I highly recommend you have dedicated broadband service for voice as well as for data. Keep them separate.

- Shop for a quality broadband provider, wired or wireless, that guarantees MPLS or Multi-Protocol Label Switching ([http://en.wikipedia.org/wiki/Multiprotocol_Label_Switching#Introduction](http://en.wikipedia.org/wiki/Multiprotocol_Label_Switching#Introduction)) on their broadband network. This is by far the best broadband service you can have for VoIP phone calls.

- You also need to consider the additional monthly recurring cost to have the appropriate broadband service in order to have a good Hosted PBX experience. Basic DSL ([http://en.wikipedia.org/wiki/Digital_subscriber_line](http://en.wikipedia.org/wiki/Digital_subscriber_line)) or basic cable Internet ([http://en.wikipedia.org/wiki/Cable_Internet_access](http://en.wikipedia.org/wiki/Cable_Internet_access)) is rarely an optimum service for good quality voice calls unless you are talking about 3 simultaneous calls and under and even that is a maybe. Remember that there is no MPLS over DSL or cable Internet, it is a best effort broadband service.

- Another consideration is that 100% of your phone service is now over broadband. **If you lose your broadband you lose your phone service.** It really is that simple. The good news is that broadband services in the United States are getting better all the time. However, it is tough to beat the reliability of a standard analog telephone line or T1/PRI circuit. ([http://en.wikipedia.org/wiki/T-carrier](http://en.wikipedia.org/wiki/T-carrier))

In summary, Hosted PBX conceptually is a very good service. Having your core PBX service at a facility like a data center or co-location service building is very reliable because these facilities have multiple Internet service providers with a minimum of dual fiber entries and great battery backup. Bottom line, it is really hard for your company to have a complete telephone outage when using Hosted PBX because the core phone service is so well protected. Even if you lose the broadband at your local office for a short while, with services like FindMe/FollowMe, incoming calls would be re-directed to cell phones ensuring you would not lose any incoming calls.

If you happen to have an office with multiple Internet service providers, for example, an MPLS wireless broadband provider, plus Internet from the local cable provider and DSL from the local phone company, plus you have a good battery backup system, then you really don’t require the services of a data center.

So it appears that one of the biggest strengths of a Hosted PBX Solution is continuity of service. Even if there is bad weather in your local area, the probability of the Hosted PBX center going down is very minimal.

**The real weak point of a Hosted PBX offering, for midsize to large Enterprises, is the never ending and ever increasing monthly recurring per extension user fee.**

All that being said, if there was a service available that would provide the PBX in a data center without all the costly per user fees, it would be a very compelling service for midsize to large Enterprises.
Now let’s go over a cost analysis for Hosted PBX services.

**Hosted PBX Cost Analysis**

Let’s start this analysis by first breaking out the Hosted PBX pricing. I have provided an analysis that focuses on the core services for both offerings. Meaning, I am doing a comparison on the main competing services and not what is the same in both services. So items like, IP phones, data wiring, data switches, routers, installation and training are not included in this comparison because they are virtually the same in both solutions.

Below are pricing grids which clearly show the cost of Hosted PBX by quantity of users over 12 to 60 months. I have run in this comparison because the per feature costs increase.

If you are currently paying $30.00 per extension per month for Hosted PBX and you happen to have 10 extensions you could have purchased your own IP PBX and had it paid for within 12 months. However, at $30.00 per month you should be enjoying the benefits of no long distance calls and plenty of features. Just look at how much you have actually paid after 24 months regardless of how many extensions. This is a bundle of money!

I don’t believe I have to comment any further. Just review the cost analysis grids below and keep in mind...the more cost effective the per extension fee is, then minutes of use or MOU and per feature costs increase. These charges are not included in this analysis as they are too difficult to analyze and every company is different, so we will focus on the most tangible charge which is the monthly per extension fee.
So if my analysis is correct and Hosted PBX appears to be very expensive, why is it so successful in several markets? Let me give you my answers.

➢ Perception of lower upfront capital investment versus monthly payment for a phone system.
  o The end user receives two quotes:
    o Quote #1: is from a local vendor selling a premise based PBX solution for 20 IP Phones; installation and training. Price $6,000.00. At $300.00 per extension without cabling, this is an industry standard price. *(I am not going to consider cabling because that is the same for both scenarios)*
    o Quote #2: is from the Hosted PBX provider for 20 extensions at $24.95 per month or $499.00 per month.
      ▪ The Hosted PBX quote however, does not include any IP Telephones. That is still an up-front cost.
  o If the vendor selling the premise based solution would be smart enough to quote a lease it would have come out to: $212.76 over 36 months. That equates to: $10.64 per extension per month. At least after 36 months the payment goes away! *(In my humble opinion, for telephone system leasing, the best in the business is Mark Gallagher from Integrity Leasing. Look him up at: http://www.integrityleasing.com/)*
  o We also need to add phone service for the premise based system so let’s add 7 phones lines at $30.00 per month or $210.00. Adding the two together equals $422.76 per month. But after 36 months the $212.76 goes away and all that is left is the phone service.
Even if the quote for the Hosted PBX came in at $20.00 per extension or $400.00 per month, getting the lease on the phone system is still the better deal.

One more item we cannot forget. There are no per user license fees for the Premise Based PBX from Xorcom, and if you added 5 more extensions over those three years your monthly payment just went up by over $100.00 per month on your Hosted PBX solution. Ouch!

Perception that the service is easier to use and the business owner does not have to concern themselves about anything to do with the phone system.

With Hosted PBX everything is done remotely. You can even purchase your IP phones and router from the Hosted PBX provider and they can send you everything and give you instructions on plugging everything in. That is great!

However, you need to get an IT person to make sure all the data cabling in the office is done properly. This you cannot get away from and I do not recommend you do this yourself.

You also will need an IT person to make sure the router is setup properly.

A Premise based IP PBX solution does the exact same thing!!!! Your premise based IP PBX and router can be pre-programmed at your vendors’ office and shipped to you and the vendor can provide instructions on how to connect it. If you happen to have an IT person on staff or contract one this is a relatively simple task. It is not that difficult but again, let an IT person do the job. Not you.

Once the IP PBX is connected the very user friendly GUI allows you or your vendor to program everything remotely. No need for your vendor to show up. Just like a Hosted PBX.

If you add IP Phones in the future they can be pre-programmed and shipped to your location. But remember, there are no per user license fees with a Xorcom IP PBX.

Perception that on an ongoing basis, it is easier to use than a premise based system.

This is simply not true.

The real problem here is that most vendors of premise based solutions don’t want their clients to know the system because they are stuck in a pricing model from years ago that includes MAC charges or Moves, Adds and Changes fees.

The User Interface on just about every IP PBX is very simple, including Xorcom. End Users would not have a problem in learning it at all.

However, many end users don’t want to know the phone system at all and just want to pick up the phone and place a change order and let the Hosted PBX provider make the change because this is part of the service offered in the monthly fee. This is a significant advantage of Hosted PBX and why most clients are willing to pay a premium for the service. They just want to call and let somebody else manage it. This is where Premise based IP PBX vendors fall on their face, because they want to charge for every little change made and they need to change their pricing model to a small monthly service fee.

“I want a Hosted PBX because I don’t want to hire an IT guy”

This is an actual quote from somebody I met at Charlotte Airport and I actually laughed!

Stop kidding yourself. Both applications require IT expertise. One is not more difficult than the other, just different.
Think about it...with Hosted PBX every single phone call, even desk to desk, are leaving your office through a router connected to the outside world and coming back to your office again.

- In this scenario you can chew up bandwidth on intercom calls!
- Better have a good broadband pipe!

There are other Hosted PBX vendors that the call does not leave the office but only signals the Hosted Provider that you are calling another extension and the voice traffic stays locally within your office LAN. This sounds great as it conserves bandwidth. However, if you want to use the cool call recording feature, then get ready to spend big bucks for a local recording device to sniff out the voice packets from the data switch because in this scenario the Hosted PBX Provider cannot record your calls!

Both Hosted PBX and Premise Based PBX require IT expertise. You cannot get away from it.

Now let’s take a look at a cost analysis of new service being offered by XorcomUSA:

**Bring Your Own Cloud PBX**

In this scenario you purchase the PBX up front for $1,400.00. *(I know... its big money)* We have configured better than industry average for the quantity SIP Trunks per quantity of extensions so you have a more than adequate quantity of phone lines to extension ratio.

This service includes Xorcom creating all your extensions, IVR’s and so forth so you don’t have to. You have no Long Distance fees whatsoever and of course, there are no per user fees for anything!

Each cost analysis grid represents anywhere between 12 to 60 months and 10 to 100 users. Obviously the higher the user count the more cost effective we become.
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<td>$25,764.00</td>
<td>$28,920.80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Users</th>
<th>10 Users</th>
<th>20 Users</th>
<th>30 Users</th>
<th>40 Users</th>
<th>50 Users</th>
<th>60 Users</th>
<th>70 Users</th>
<th>80 Users</th>
<th>80 Users</th>
<th>100 Users</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of Xorcom BYOC PBX One Time Non Recurring</strong></td>
<td>$1,400.00</td>
<td>$1,400.00</td>
<td>$1,400.00</td>
<td>$1,400.00</td>
<td>$1,400.00</td>
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<td>$1,400.00</td>
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<td>$1,400.00</td>
</tr>
<tr>
<td><strong>QTY of SIP Trunks $29.95 Per SIP Trunk Unlimited Minutes</strong></td>
<td>4</td>
<td>7</td>
<td>10</td>
<td>14</td>
<td>17</td>
<td>20</td>
<td>23</td>
<td>26</td>
<td>30</td>
<td>34</td>
</tr>
<tr>
<td><strong>SIP Trunking Charges Per Month</strong></td>
<td>$119.80</td>
<td>$209.65</td>
<td>$299.50</td>
<td>$419.30</td>
<td>$509.15</td>
<td>$599.00</td>
<td>$688.85</td>
<td>$778.70</td>
<td>$898.50</td>
<td>$1,018.30</td>
</tr>
<tr>
<td><strong>Monthly Cost PBX Hosting &amp; Support</strong></td>
<td>$100.00</td>
<td>$100.00</td>
<td>$100.00</td>
<td>$125.00</td>
<td>$125.00</td>
<td>$125.00</td>
<td>$175.00</td>
<td>$175.00</td>
<td>$175.00</td>
<td>$175.00</td>
</tr>
<tr>
<td><strong>Total Monthly Payment Includes Hosting Services; PBX Software Support and SIP Trunks</strong></td>
<td>$219.80</td>
<td>$309.65</td>
<td>$399.50</td>
<td>$544.30</td>
<td>$634.15</td>
<td>$724.00</td>
<td>$863.85</td>
<td>$953.70</td>
<td>$1,073.50</td>
<td>$1,193.30</td>
</tr>
<tr>
<td><strong>36 Month Rental Total</strong></td>
<td>$7,912.80</td>
<td>$11,147.40</td>
<td>$14,382.00</td>
<td>$19,594.80</td>
<td>$22,888.80</td>
<td>$26,126.40</td>
<td>$31,098.60</td>
<td>$34,333.20</td>
<td>$38,646.00</td>
<td>$42,958.80</td>
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<tr>
<td><strong>Total for 36 Months</strong></td>
<td>$9,312.80</td>
<td>$12,547.40</td>
<td>$15,782.00</td>
<td>$20,994.80</td>
<td>$24,229.40</td>
<td>$27,464.00</td>
<td>$32,498.60</td>
<td>$35,733.20</td>
<td>$40,046.00</td>
<td>$44,358.80</td>
</tr>
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<td>$863.85</td>
<td>$953.70</td>
<td>$1,073.50</td>
<td>$1,193.30</td>
</tr>
<tr>
<td><strong>48 Month Rental Total</strong></td>
<td>$10,550.40</td>
<td>$14,863.20</td>
<td>$19,176.00</td>
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<tr>
<td><strong>Total for 48 Months</strong></td>
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<td>$16,263.20</td>
<td>$20,576.00</td>
<td>$27,526.40</td>
<td>$31,839.20</td>
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<td>$42,864.80</td>
<td>$48,777.60</td>
<td>$53,298.00</td>
<td>$58,678.40</td>
</tr>
</tbody>
</table>

Hosted PBX Services Cost Analysis versus Xorcom Premise Based IP PBX. Numbers don’t lie.

January 2012
Now let’s do a side by side of both services: Each cost analysis grid represents different Hosted PBX rates over a period of 12 to 60 months and from 10 to 100 users.

Remember, what this analysis cannot include are the additional MOU and per feature costs as the per extension user fees go down in the Hosted PBX model.

Obviously the higher the Hosted PBX rate is and the higher the quantity of extensions for Hosted PBX, the better Xorcom looks because we have no per extensions fees.
Hosted PBX Services Cost Analysis versus Xorcom Premise Based IP PBX. Numbers don’t lie.

Hosted PBX ($24.95 per user/per month) vs Xorcom "Bring Your Own Cloud" PBX
12 to 60 Month Cost Analysis

Hosted PBX ($19.95 per user/per month) vs Xorcom "Bring Your Own Cloud" PBX
12 to 60 Month Cost Analysis
In closing, the two biggest strengths of a Hosted PBX solution are continuity of service and ease of use for the end user with respect to managing the actual phone service.

Based on this cost analysis it is very cost effective for small business owners with fewer than 10 extensions, but that all depends on the monthly per user rate they are paying.

For business owners above 10 extensions and especially above 20, purchasing a phone system through a lease and hooking up with a really good local vendor is by far the better solution from a financial and customer service standpoint.
I am sure that as a reader of this white paper you may not agree with all my findings but, they are legitimate results with honest comments from real-world experience.

As far as the BYOC PBX service goes. This is a viable alternative so you can have your cake and eat it as well.

If you would like to have the main benefits of a Hosted PBX solution without having to pay the never ending and ever increasing monthly per user fees, then Bring Your Own Cloud PBX by XorcomUSA is your solution.

*Time is a precious commodity. I thank you for taking the time to read this white paper and I would appreciate receiving any comments from you, good and bad. Just drop me an email at: [bill.soto@xorcom.com](mailto:bill.soto@xorcom.com)*