



Conference Bridges:

"TO BUY OR NOT TO BUY" Points to Consider

Making the Choice, Between Purchasing Bridges and Outsourcing Conference Communications is Easy once you've weighed all the costs..

One of the driving forces behind increased efficiencies within businesses has been the option to outsource. This includes the ability to outsource conferencing communications rather than purchase and maintain bridging technology. Outsourcing gives a company the ability to stay lean and capable of changing directions without incurring large charges or write-offs of "sunk costs." Many have found that investing in bridging technology simply does not meet their internal required rate of return standards and, therefore, the opportunity costs are too great to make this investment. Another way to look at it is as follows: does the investment increase your EVA? Several of our largest customers have chosen TownHall for this very reason.

One of the greatest advantages of outsourcing is the ability to run your business at maximum utilization. Outsourcing your conference communications is similar to the concept of JIT (Just-in Time) inventory management. It allows you as a company to pay for only what you need at any given time. The challenge in purchasing your own conferencing hardware is that there are great peaks and valleys in utilization rates for this equipment. This fact is often overlooked when determining whether or not to buy conferencing hardware. The decision is one of excess capacity levels. Should you supplement your proposed system with a back-up provider or buy a larger system to meet peak capacity requirements? This decision, if not carefully weighed, could result in a costly outlay for equipment that is rarely used to its full capacity.

More often than not, companies that purchase conferencing bridges change direction and decide to go back to an outsourcing situation. The reasons are plentiful (refer to the hard cost, soft costs and challenges that follow for specifics) but the trigger event usually happens in approximately two years. Around this time, firms are usually faced with a decision to upgrade outdated technology and/or expand current capacity. In either situation, another substantial investment is needed. By contrast, when conferencing is outsourced, it is your provider's responsibility to meet your volume and special conferencing needs such as management reporting and training of your personnel. It is also your provider's responsibility to constantly upgrade capabilities and equipment to insure that you are always receiving the best and latest available technologies. In doing a complete analysis of whether or not to buy conferencing bridges, use the principles of

Activity-Based Costing. This accounting system is a more exact way of analyzing true costs. This method factors in certain activities associated with each alternative, hence, it takes into consideration all relevant and significant hard and soft costs. Examples of the costs involved in this decision follow:

Hard Costs:

- ❖ Purchase of the system. (Sunk cost amount will depend on the bridge size – average cost per port is \$800 to \$1,000. Put on the books to be amortized)
- ❖ Port Cost - Each T1 line can support approximately 20 ports. Depending on volume, this figure may go as high as 30. Each T1 line will cost a minimum of \$1,000/month, plus installation.
- ❖ Long distance costs. (Variable cost usually around \$.04/minute plus 13% in taxes)
- ❖ Maintenance of the Conference system- You should plan for a minimum of approximately \$60/port/year
- ❖ Upgrade of the system. Expect the system to need updating in approximately 2 years.
- ❖ Back-up provider -Variable cost. The only other option is to “over-purchase” on bridges to handle peak times.
- ❖ PBX Integration There is a chance that your PBX will need to be upgraded to support system. If this is the case, expect a fixed sunk cost that will be put on your books to be amortized (Usually \$3,000-5,000)

Soft Costs:

- ❖ Time value of money.
- ❖ Administrative. (Hidden HR cost)
- ❖ Research time needed in both the original purchase and when it is time to upgrade. (Hidden cost)
- ❖ Time spent to integrate the system both initially and when it's time to upgrade. (Hidden cost)
- ❖ Maintaining the system. (Both a hard and hidden soft cost)
- ❖ Rollout and training.
- ❖ Internal scheduling time for leaders who need to hold conferences. (Hidden Cost)
- ❖ Opportunity Costs. (Is this investment greater than your WACC? Will it create positive EVA?)

Challenges:

- ❖ Automated Conferencing Only – Systems do not support advanced features: Operator Assistance, Taping, Q&A, Polling, Transcription, Translation, Roll Call, Participant Screening, Streaming, etc.
- ❖ Scheduling – For capacity reasons, call leaders need to make reservations to use the bridges. Compare that to the TownHall reservationless services.
- ❖ Limited Capacity and Inventory Issues – During peak times (Monday AM), internal systems can max out, sending users looking for overflow provider.
- ❖ Utilization of System – It is difficult, if not impossible, to effectively manage the capacity.
- ❖ Security Issues – Hackers can access system and dial-out from bridge systems. Also, individual conference security is an issue. Compare this to the pass codes and/or Operator screening offered by TownHall's services.
- ❖ Ease of use for external participants.

For additional information about how TownHall's complete conferencing solutions can benefit your firm, please contact me at 703-752-7452 or send an email to info@thtweb.com